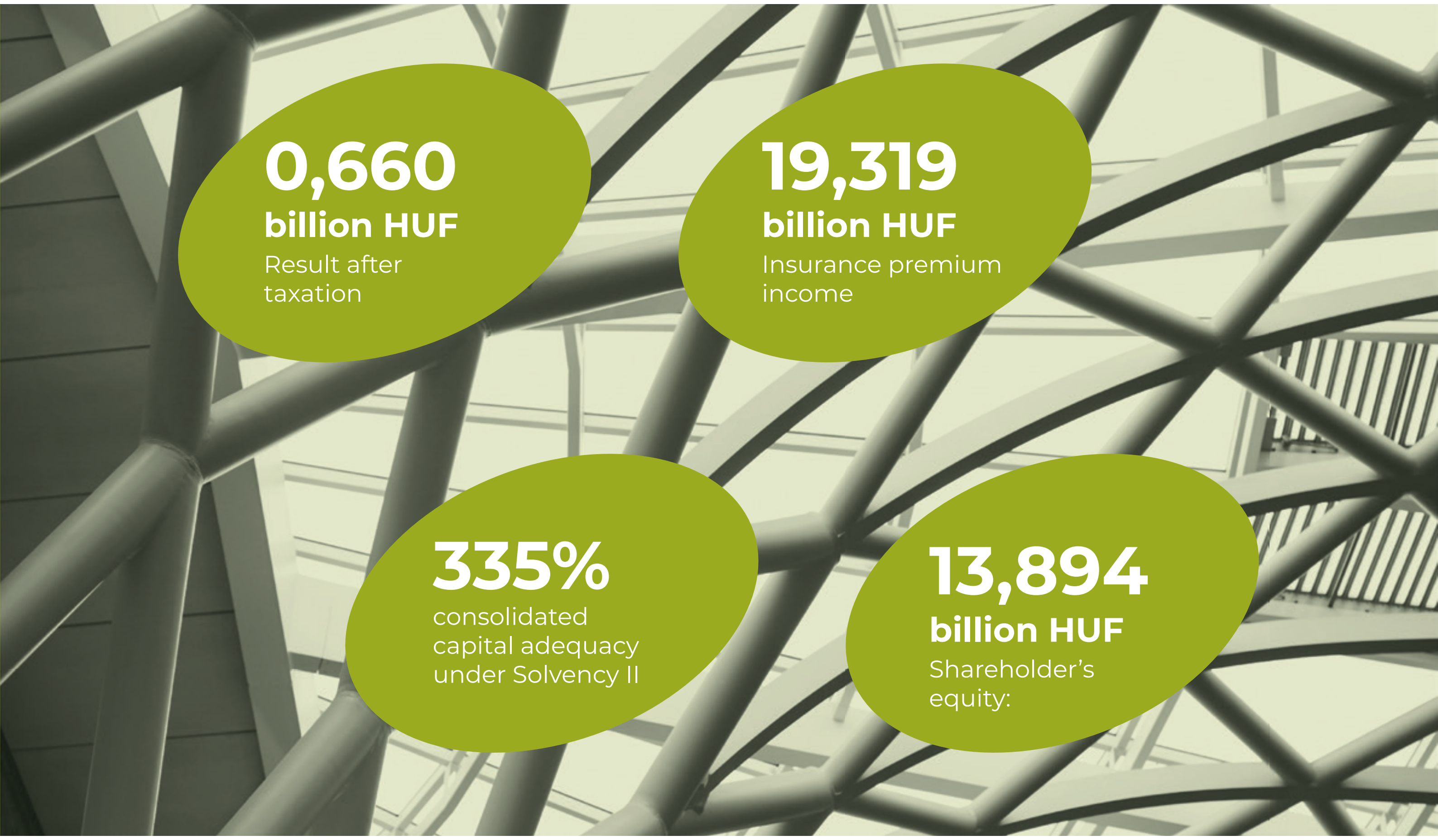
CIG PANNÓNIA
BIZTOSÍTÓ

2020
ANNUAL REPORT

KEY INDICATORS IN 2020



CONTENTS

dr. Fedák István
vezérigazgató

Polányi Zoltán
vezérigazgató

FOREWORD BY THE CHIEF EXECUTIVES

A business year has passed, whose events fundamentally changed our lives. Our real or perceived everyday sense of security was fundamentally shaken by the coronavirus, as we were forced to work from home, had to miss meetings with family and friends, had to give up our domestic and foreign holidays, leisure activities.

Yet we were defined by new, human reactions to all these changes and events, with adapting and responding to them in a way fundamentally characterizing human life and its surviving capacities, as we learned to work from home effectively (and trusted in this as an employer), were able to communicate online with our family members (even if they were living next door or in the same street) and -as in the ”good old days”- we again spent our holiday happily at the Balaton.

Significant changes have also taken place in our lives: the ownership structure of our Company has changed, a new management was appointed to lead the Company, a new strategy is under development, the Company’s employees and intermediaries are being built up along new sales and organizational principles (and we could go on with listing these changes), which are on the one hand rational, human responses to past events or happenings, on the other they are in line and support the achievement of our future growth goals, to ensure the achievement of expectations both in terms of sales and a higher-level, prudential operation.

We could say, that these days we focus on survival as well, but this would not be true, as in the life of our Company we do not talk about survival, but about something new, a strategic and management culture different from the previous one in many aspects, the significant increase of sales results, and that the CIG Pannonia Group wants to become a major player again not only in the UL products market, but also in other areas of the insurance sector.

We are sure that in many-many years people will not talk about the change in CIG Pannonia’s life when they look back at the year 2020, but we are confident that our shareholders, our business partners will remember the moment that brought a decisive change in the lives of our companies.

Budapest, April 7, 2021

Zoltán Polányi	István Fedák dr.
CEO	*CEO*

HISTORY

The Insurer was founded at the end of 2007 by well known and acknowledged Hungarian public figures and insurance experts under the name of CIG Central European Insurance Company Ltd.; the company started operations in 2008. Since the autumn of 2010, when it was first listed on the stock exchange, the Insurer has operated as CIG Pannónia Life Insurance Plc. The intention of the founders was to create an insurance company—run by Hungarian management, focusing on the Hungarian market and supported and privately financed by recognized and credible Hungarian personalities—which was to become, within a short time, a dominant player in the domestic market. The prevalence of the principle of mutuality was an important element of this, i.e. we wanted our shareholders to become clients, and vice versa. This was the rationale behind the public offering of CIGPANNONIA shares in 2010 and their listing on the Budapest Stock Exchange. Of the Company's shareholders, more than 97 percent are Hungarian private individuals or Hungarian enterprises.

Starting operations in 2011, CIG Pannónia First Hungarian General Insurance Company Ltd. is a non-life subsidiary 100% owned by CIG Pannónia Life Insurance Plc. It focuses on Hungarian small and medium-sized enterprises, state- and municipality-owned institutions, companies, trade chambers, associations and societies.

Its Italian cross-border activity, based on its niche market strategy, has resulted in a loss that has also shaken its solvency capital in 2020. Due to the presented strategic goals002C that also affect the future strategic elements of the Group, it is important that the deficiencies (so-called Italian claims) revealed as a result of the proceedings of the Hungarian Financial Supervisory Authority (HFSA) against EMABIT are fully and sustainably remedied. Together with a review of existing claim reserves and regress reserves, a change in strategy was put in place in order to address the risks that remain unchanged in EMABIT's Italian claims cases, including a change in the strategy of ongoing and related legal cases. At the operational level, the Group has taken clear steps to enable EMABIT to restart operations. The Company has a direct intention to provide any guarantees that may be required to restart the supervised activities of EMABIT as a subsidiary, with the aim of strengthening sales and strengthening internal lines of defense and capital position. Thus, in addition to the non-life segment and the remaining portfolio, the operational planning also plans to develop and sell new products from 2021 onwards. Our Insurer realizes certain life-insurance services through the activities of Pannonia PI-ETA Tribute Service Ltd., which is another 100% owned subsidiary of CIG Pannónia Life Insurance Plc. This company basically provides funeral-related services to customers who, in their life insurance contracts, applied for the services necessary for their final rest.

At the end of 2018, the Company established CIG Pannónia Financial Intermediary Ltd. as a subsidiary with the aim of expanding its distribution channels of the insurance activity, thereby increasing the volume of new acquisitions. In 2019, CIG Pannónia Financial Intermediary Ltd. sold insurance with a premium of HUF 443 million, in 2020 HUF 140 million. The Company has closely monitored the intermediary's activities and repeatedly found, that the insurances brokered by the subsidiary have a significantly higher non-payment rate than the average market value. The high non-payment rate resulted in a high commission write-off, and the additional operational cost level could not be met by the declining coverage, thus the pre-tax result of CIG Pannónia Financial Intermediary Ltd. turned into a loss in the 2019 business year. The loss-making operation continued in 2020, causing a loss of HUF 154 million to the Group. The Company repeatedly assessed the operation, which assessment concluded that even in the long run it is not possible to make the operation of the subsidiary profitable. On this basis the Board of Directors of the Company on 9 September 2020 initiated the liquidation of the subsidiary, which was owned by a qualified majority. In accordance with this decision, CIG Pannónia Financial Intermediary Ltd. decided to initiate the liquidation at its general meeting held on 30 September 2020. The commencement date of the liquidation was 1 January 2021. By initiating the liquidation, through strict monitoring and increased customer interaction the Group intends to ensure both the aspects of the insurance profession and the need for shareholder value preservation.

Also at the end of 2018, the CIG Pannónia Employee Stock Ownership Plan Organization (MRP Organization) was founded as a legal entity serving to implement the Company's remuneration guidelines. The aim is that by ensuring their interest, the employees, who are covered by the MRP and have special importance with respect to the Group's ability to generate income, contribute increasingly to the successful and effective operation of the Group. It is worth emphasizing that the Company's renewed management - in order to achieve the growth and transparency goals- unifies its remuneration system fully taking into account the respective legislation, recommendations and supervisory practices, which includes remuneration within the framework of the MRP Organization, also extending to the Company's subsidiaries.

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

INFORMATION FOR SHAREHOLDERS

Registering authority:	Budapest Metropolitan Court as Court of Registration
Registration number:	01-10-045857
Tax number:	14153730-4-44
Registered address:	1097 Budapest, Könyves Kálmán krt. 11, Building B[1]
Mailing address:	1476 Budapest, Pf.: 325.
E-mail address:	info@cig.eu
Fax number:	+36 1 247 2021
Investor relations contact:	Antal Csevár dr., senior lawyer
Auditor:	Ernst & Young Könyvvizsgáló Kft. (registered address: 1132 Budapest, Váci út 20.; company registration number: Cg. 01-09267553; Chamber ID: 001165)
Personally responsible auditor:	Zsuzsanna Nagyváradiné Szépfalvi

SHARE REGISTER

As of November 1, 2010, the Central Securities Depository Private Limited Company (KELER Zrt.) will perform the share register management tasks of the Company (Company registration number: 01-10-042346, Registered office: 1074 Budapest, Rákóczi út 70-72.).

SHAREHOLDER STRUCTURE

SHAREHOLDERS WITH AN OWNERSHIP EXCEEDING 5% IN THE TRADED SERIES

NAME	OWNERSHIP (%)	NUMBER OF SHARES
Hungarikum Insurance Broker Ltd.	32.85	31,025,072
VINTON Property Management Ltd.	11.79	11,140,311
KAPTÁR Investment Ltd.	5.34	5,050,000
Dr. Gábor MÓRICZ	5.29	5,000,000
Free float: 44.73%		

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

1 Company's registered address for the period covered by the current report: 1033 Budapest, Flórián tér 1. https://bet.hu/newkibdata/128511347/sz%C3%A9khely%C3%A1thelyez%C3%A9s_20210111.pdf

Product features

SHARE TYPE:	ORDINARY SHARE
Security type:	Registered
Creation of the securities:	Dematerialized
ISIN code:	HU0000180112
Ticker:	CIGPANNONIA
Face value:	HUF 33
Quantity admitted to trading (pcs):	94,428,260
Stock exchange category:	Prémium

CALENDAR OF CORPORATE EVENTS

The Company's Calendar of Corporate Events[2] for 2020 was modified on a number of occasions[3,4]. For the year 2021 the Company posted its planned events on 21 December 2020, in which the date of publication for the Invitation to the Annual General Meeting previously determined in the Company's Calendar of Corporate Events changed from the 19th of March 2021 to the 26th of March 2021, based on 9 § (2) of the 502/2020 (XI. 16.) Government decree on the reintroduction of different provisions concerning the operation of personal and property unifying organizations during the state of emergency.

Calendar of corporate events 2021

DATE	EVENT
23 February 2021	Quarterly report on the result of CIG Pannónia Life Insurance Plc. achieved in Q1-Q4 2020
19 March 2021	Publication of the General Meeting's notice[5]
19 April 2021	Annual General Meeting of the shareholders
18 May 2021	Quarterly report on the result of CIG Pannónia Life Insurance Plc. achieved in Q1 2021
17 August 2021	Quarterly report on the result of CIG Pannónia Life Insurance Plc. achieved in Q1-Q2 2021
16 November 2021	Quarterly report on the result of CIG Pannónia Life Insurance Plc. achieved in Q1-Q3 2021

2 *https://bet.hu/newkibdata/128339258/2020_eves_esemenynaptar.pdf*

3 *https://bet.hu/newkibdata/128356561/2020_eves_esemenynaptar_modositott.pdf*

4 *https://bet.hu/newkibdata/128448634/2020_eves_esemenynaptar.pdf*

5 *https://bet.hu/newkibdata/128536454/KGY_%20Megh%C3%ADv%C3%B3_%20m%C3%B3d_HU_20210319.pdf*

PRESENCE ON THE REGULATED MARKET

In the Company's judgement the change of management in 2020 and the steps resulting from the consequent assessment of the current situation - despite the COVID-19 epidemic and its impact on domestic and global financial and capital markets, as well as the Group's operational-level actions with respect to the property insurance subsidiary as defined in the recovery plan of CIG Pannónia Első Magyar Általános Biztosító Zrt. (EMABIT) primarily aimed at stabilizing the solvency position - contributed to the stabilization of the price of CIG Pannónia shares and to the resumption of the share price showing strength. This strength is also apparent in regional comparison.

Our Company is committed to providing its shareholders and potential investors with a predictable vision as a stock market player, so that the short- and medium-term tasks ahead of us and our responses to those tasks form a unified system outlining our vision of a predictable growth trajectory for our investment environment.

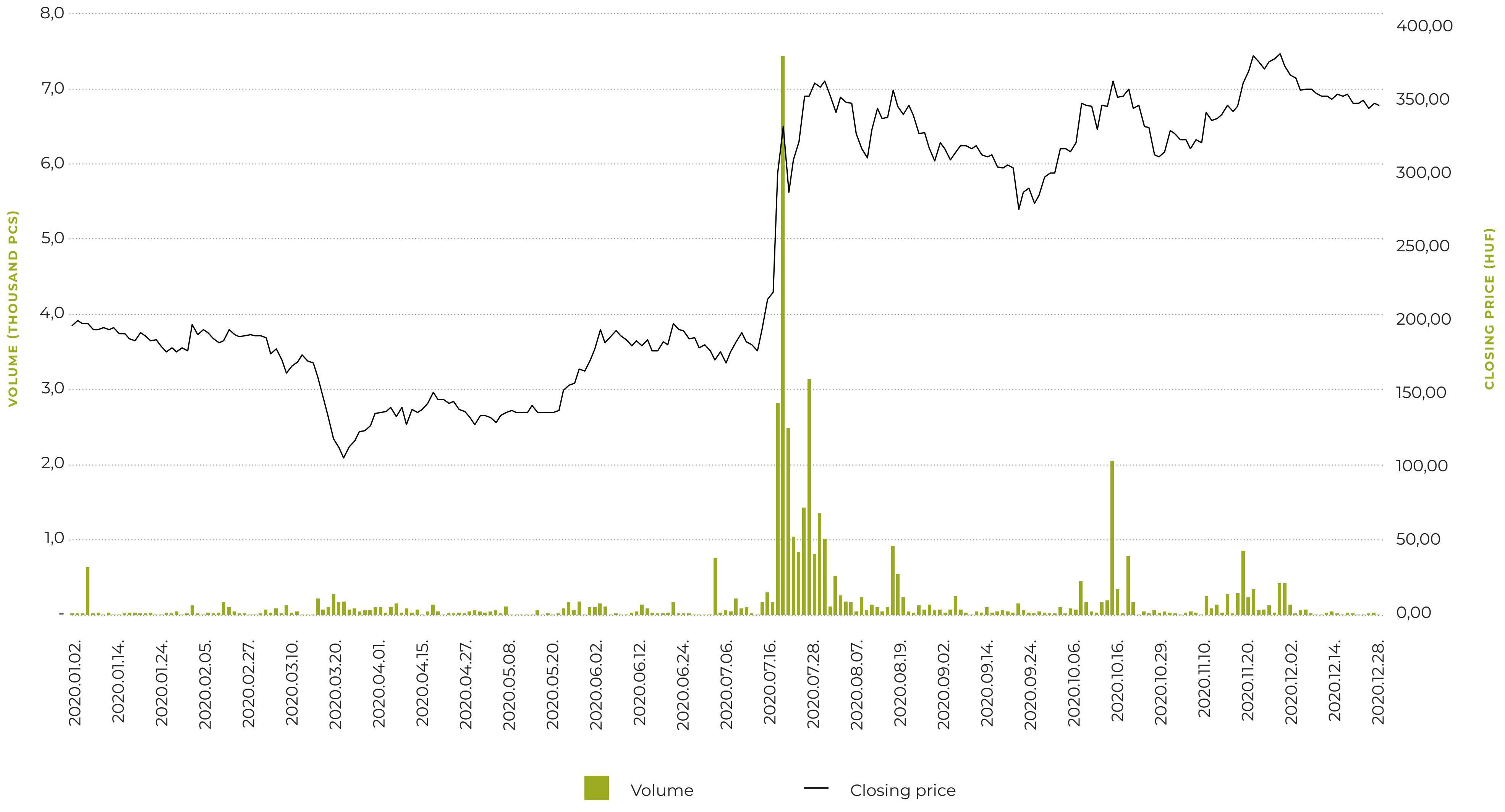
We believe that through our turn to growth in 2021 as **a domestic and the only insurance company present on the domestic regulated market,** and the corresponding compliance with prudential requirements, with the utilization of the opportunities of our capital market presence to the most possible extent, we have -sectoral- growth ahead of us, to be ultimately reflected in our share price.

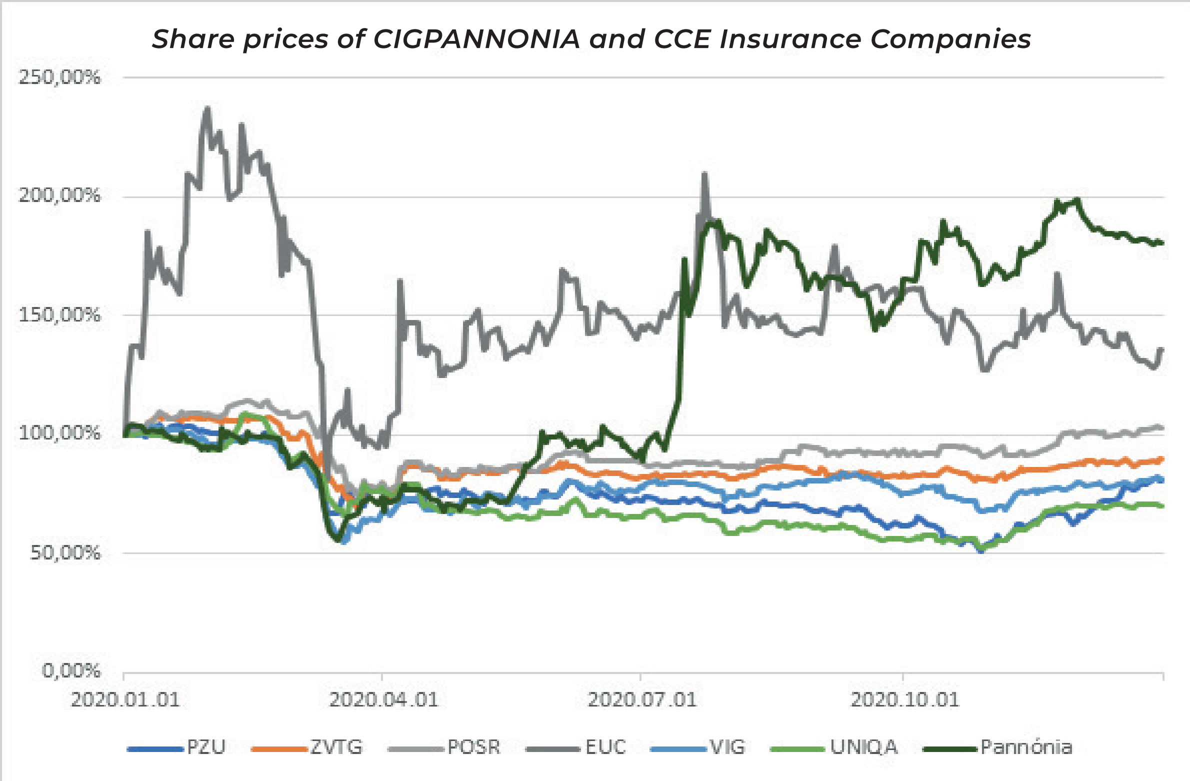
Development of the CIG Pannónia share price in 2020

Trading data of CIG Pannónia shares (values, averages, turnover)

NAME	DATE	OPENING PRICE	LAST PRICE	MINIMUM PRICE	MAXIMUM PRICE	AVERAGE PRICE	CURRENCY	NUMBER OF TRADES	NUMBER OF SHARES	TURNOVER (HUF VALUE)	CAPITALIZATION
CIGPANNONIA	2020.01.	189,8000	178	174	196	189,073	HUF	614	1 131 319	213 901 354,8000	16 808 230 280
CIGPANNONIA	2020.02.	177	160,800	159,200	196,800	181,115	HUF	1 085	1 036 632	187 749 298,0000	15 184 064 208
CIGPANNONIA	2020.03.	161,2000	138	100	173,400	129,244	HUF	1 597	2 043 807	264 150 475,6000	13 031 099 880
CIGPANNONIA	2020.04.	135	135	125	165	137,077	HUF	1 125	1 021 830	140 069 751	12 747 815 100
CIGPANNONIA	2020.05.	138	185	132	194	163,344	HUF	1 135	1 171 630	191 378 886,5000	17 469 228 100
CIGPANNONIA	2020.06.	187,5000	175	166	194,500	174,792	HUF	777	1 569 867	274 400 892	16 524 945 500
CIGPANNONIA	2020.07.	168	344	165	388	323,022	HUF	16 734	24 510 371	7 917 382 156	32 483 321 440
CIGPANNONIA	2020.08.	343	314	297	366	334,648	HUF	3 101	3 400 339	1 137 916 894	29 650 473 640
CIGPANNONIA	2020.09.	314	294	265	327	298,291	HUF	1 580	1 342 096	400 334 569	27 761 908 440
CIGPANNONIA	2020.10.	297	308	294	361	341,783	HUF	2 471	4 994 981	1 707 198 987	29 083 904 080
CIGPANNONIA	2020.11.	317	370	308	379	346,526	HUF	2 125	3 021 408	1 046 997 893	34 938 456 200
CIGPANNONIA	2020.12.	369	339	334	373	360,045	HUF	843	1 422 569	512 189 106	32 011 180 140

Source: BÉT


VOLUME (THOUSAND PCS)
CLOSING PRICE (HUF)
8,0
7,0
6,0
5,0
4,0
3,0
2,0
1,0
-
400,00
350,00
300,00
250,00
200,00
150,00
100,00
50,00
0,00
2020.01.02.
2020.01.14.
2020.01.24.
2020.02.05.
2020.02.27.
2020.03.10.
2020.03.20.
2020.04.01.
2020.04.15.
2020.04.27.
2020.05.08.
2020.05.20.
2020.06.02.
2020.06.12.
2020.06.24.
2020.07.06.
2020.07.16.
2020.07.28.
2020.08.07.
2020.08.19.
2020.09.02.
2020.09.14.
2020.09.24.
2020.10.06.
2020.10.16.
2020.10.29.
2020.11.10.
2020.11.20.
2020.12.02.
2020.12.14.
2020.12.28.
Volume
Closing price



PZU PW Equity: POWSZECHNY ZAKLAD UBEZPIECZE
ZVTG SV Equity: ZAVAROVALNICA TRIGLAV DD
POSR SV Equity: POZAVAROVALNICA SAVA DD
PANNONIA HB Equity: CIG PANNONIA LIFE INSURANC-A
EUC PW Equity: EUCO SA
VIG AV Equity: VIENNA INSURANCE GROUP AG
UQA AV Equity: UNIQA INSURANCE GROUP AG

Disclosure information

We continuously inform the shareholders and interested parties about the events and measures affecting the Group on the website of the Budapest Stock Exchange (list of issuers, under the heading CIG Pannónia Plc. Publications), on the website www.kozzetetelek.hu and on the website of the Company: www.cigpannonia.hu.

As the Stock Exchange contact person, dr. Antal Csevár senior lawyer was responsible personally and through the work organization under his management and supervision for all investment and capital market relation tasks in 2020.

CORPORATE GOVERNANCE

Members of the Board of Directors

Dr. István Fedák, member of the Board of Directors, chair of the Board of Directors

Dr. István Fedák received an MA in Economics from the Budapest University of Economics in 1998 and a law degree from the Pázmány Péter Catholic University, Faculty of Law and Political Sciences in 2002. He started his career as a risk manager at Creditanstalt Rt, then became a business development manager at Magyar Factor Rt., before becoming the company's CRO. After completing his law degree, he joined MFB Development Bank. Between 2010 and 2015, he held financial officer and executive positions at companies of the OT INDUSTRIES Group. Starting in 2016 he was financial and legal deputy CEO of Keszthelyi Holding Ltd., since 2017 he was also Managing Director of Agenta Consulting Ltd. Between 2018-2019 he was Managing Director of Insurance Media Ltd. He is proficient in English and German.

Dr. Péter Bogdánffy, member of the Board of Directors

Dr. Péter Bogdánffy graduated from the Faculty of Law and Political Sciences at the Attila József University in Szeged. In parallel, he completed German and European business law training at the University of Potsdam. He received a Master of Business Administration degree in 2014 at CEU Business School New York's university in Budapest.

He began his professional career as a lawyer at Noerr Law Firm in 2000 and then worked as a colleague of Faludi Wolf Theiss Law Firm. Between 2008 and 2011 he was a member of the Board of Directors of Siemens Ltd.; in addition, as senior lawyer, he directed all legal activities Siemens' companies in Hungary. Starting in 2011, he was member of the Board of Directors and deputy CEO of BROKERNET Investment Holding Ltd., starting in 2012 he was chairman of the Board of Directors of BROKERNET Investment Holding Ltd. and member of the Supervisory Board of Quantis Alpha Ltd.

From 2013 to 2015 he was a member of the Supervisory Board of CIG Pannónia Life Insurance Plc., following which he acted as a self-employed management consultant, and from May 2016 as a lawyer. Since February 2019 he has been a member of the Supervisory Board of Keszthelyi Holding Zrt. In addition to his law degree and his professional examination in law, he speaks German as a mother-tongue, and is proficient in English. He is a member of the Budapest Bar Association and the Hungarian Corporate Compliance Association. His areas of competence include insurance and financial markets, business strategy and business modeling, governance systems, financial analysis, regulatory frameworks and requirements.

Zsuzsanna Ódorné Angyal, member of the Board of Directors

Zsuzsanna Ódorné Angyal graduated from the University of Agricultural Sciences in Gödöllő as an economist with a specialisation in finance and accounting and with a qualification as a certified public accountant, and then graduated as an engineering teacher. At Szent István University, she expanded her professional knowledge with postgraduate studies at faculty of Agricultural Experts of the European Union. She also has the qualifications as a tax consultant, payroll administrator, social security administrator and internal auditor.

She started her professional career in small businesses, then from 2009 she first managed the direct relations of the subsidiaries of OPUS GLOBAL Plc. and then coordinated and supervised the activities of the economic and management (finance, accounting, controlling) and the compliance area. From 2017 for two years she was the CEO of OPUS GLOBAL Plc., then currently, as the company's operational Deputy CEO, she coordinates the day-to-day operations, overall management, consolidation and preparation of the financial statements of the Group. She speaks English and German.

Her areas of competence include financial and equity markets, business strategy and business modeling, setting up and operating governance systems, financial analysis, regulatory frameworks and requirements.

Members of the Supervisory Board:

Erika Vada, member of the Supervisory Board

Erika Vada is an economist, certified public accountant and tax consultant. Her audit qualifications cover the areas of budget, IFRS, issuance, financial institutions and investment companies. She started her professional career at Taurus as an economist, then continued as a senior employee of the APEH. She held the positions of team leader, head of department and managing director at the Ministry of Finance's Compensation Office and ÁPV Rt. She is the majority owner and managing director of PRIM-AUDIT Kft. During her career, she holds elected positions in the supervisory boards of several large companies (Kisalföld Volán Rt., Volánbusz Rt., Bábolna Rt.). Since 2015, she has been a member of the National Board of the Hungarian Chamber of Auditors. She has numerous publications on taxation and accounting. She speaks English.

Her areas of competence include insurance and financial markets, business strategy and business modeling, governance systems, financial and actuarial analysis, regulatory frameworks and requirements.

János Tima, member of the Supervisory Board, chair of the Supervisory Board

János Tima worked in the financial field from 2005 to 2017 at Provident Zrt., Budapest Bank Zrt. and FHB Kereskedelmi Bank Zrt., where he held positions as director of branch operations and CFO. Between 2013 and 2017 he was the CFO of Mészáros és Mészáros Kft. He is currently member of the Supervisory Board of T-Ingatlanfejlesztő 2016 Kft., Agrosystem Zrt., Magyar Sportmárka Zrt., Veszprém Handball Zrt., RÉZ-HEGY Településfejlesztő Kft., MÁTRA ENERGY Holding Zrt., 4IG Nyrt. and Keszthelyi Holding Zrt., and Chairman of the Supervisory Board and Audit Committee of KONZUM Nyrt. and OPUS Globál Nyrt. At the same time, he is the Managing Director of K-Investment Partner Kft., ECHO Penisola Kft., B+T Management Kft. and Wellnesshotel Építő Kft., and member of the Board of Directors of Wamsler SE and Appeninn Vagyonkezelő Nyrt. Since April 2018, he has been a member of the Board of Directors and CEO of Talentis Consulting Zrt. He is a Certified Public Accountant.

His areas of competence include business strategy and business modeling, governance systems.

Ákos Veisz, member of the Supervisory Board

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

His areas of competence include insurance and financial markets, business strategy and business modeling, financial and actuarial analysis.

LIFE INSURANCE PRODUCTS

Our state-of-the-art, individual and grouped products, and the flexible services offered therein provide safe and personalized solutions for the needs arising from the various situations in life. Our product range includes life and pension insurances both with investment and insurance risk components, with one-time or regular premiums, which offer guaranteed returns or the follow customers' investment decisions, as well as accident and sickness insurance.

PENSION INSURANCES

Our pension insurances comply in all respects with the Magyar Nemzeti Bank's 1/2017 (I.12.) recommendations on pension insurances, and tax allowances are available for the payments made for these products.

Pannónia Pension Policy^{E}

To create financial security for the years of retirement, this product offers investments from a 7-year period and is linked to an investment unit with regular premium payment. The client choosing the scheme decides upon the placement of the capital in investment structures (asset funds) with different performance potentials, taking the investment risk in order to achieve the desired goal. The accumulated investments can be increased in addition with occasional payments. Customers who hold on to their long-term objectives are rewarded with a loyalty bonus.

Pannónia Klikk Pension Insurance

This product is designed to serve our customers about to retire. It has all the most important features of the Pannónia Pension PolicyE as listed above, but can be contracted for a maximum of 7 years. It bears moderate cost levels adjusted for the relatively short accumulation period.

Pannónia Értékmegőrző Pension Insurance

This form of pension insurance with traditional reserving, regular premium payments and favorable cost levels can be contracted for a period of at least 5 years, in which the insurer assumes a guaranteed return (thus a guaranteed service) and bears the investment risk. The service guaranteed upon the regular premiums can be increased through occasional payments. The product's loyalty bonus also contributes to the start of the retirement years.

Pannónia Gravis^{E} Pension Insurance

This single premium payment, unit-linked pension insurance offers a very favorable cost structure, available from a period of 5 years. It aims to increase the investments already available with state support at a higher rate than bank deposits. The investment is made through direct investment in asset funds with different risks and expected returns based on the client's decision. The insurance offers a wide range of asset funds, with the help of which it is possible to compile a unique investment portfolio. The capital to be accumulated can be increased with occasional payments and a loyalty bonus.

GENERAL PURPOSE INVESTMENT LIFE INSURANCES

Similar to our pension insurances, our general purpose investment life insurances also meet the requirements for ethical life insurance schemes set out in Magyar Nemzeti Bank's 8/2016. (VI.30.) recommendation and in the relevant provisions of Act LXXXVIII of 2014 on insurance activities.

Pannónia Esszencia^{E} Investment Life Insurance

This form of investments with regular premium payments is available both on HUF and EUR bases, is linked to an investment unit and is available from a period of 7 years. The customer can determine the length of the investment period and the expiration of the contract according to his own accumulation goals. The contractor decides on the investment of its capital in investment structures (asset funds) with different performance potential in order to achieve the desired goal. The capital to be accumulated can be increased by occasional payments. We reward our customers with a loyalty bonus.

Pannónia Klikk Life Insurance

This is a unit-linked life insurance offering flexible access with particularly favorable initial costs. Due to its moderate initial costs, it suits the achievement of not only long-term, but also short- and medium-term investment goals.

Pannónia GravisE Life Insurance

This insurance scheem is available both on HUF and EUR bases, with a single premium payment, linked to an investment unit, with an particularly favorable cost structure, from a period of 5 years. Its aim is to increase the investment already available with a higher return than bank deposits. The investment is made through direct investment in asset funds with different risks and expected returns based on the client's decision. The insurance offers a wide range of asset funds, with the help of which it is possible to compile a unique investment portfolio. The capital to be accumulated can be increased with occasional payments and a loyalty bonus.

Pannónia Mentor Life Insurance

This form of investment includes traditional reserving, regular premium payments and can be contracted for a period of at least 5 years, in which the insurer assumes a guaranteed return (thus a guaranteed service) and bears the investment risk. In addition to its investment element, there is an emphasis on the insurance (death) protection built into the product (providing lump sum and annuity services).

LIFE, ACCIDENT AND HEALTH RISK INSURANCES

Products in this category do not include an investment element and provide financial assistance in the event of unexpected tragedies, accidents and illnesses.

Pannónia Bárka Life-, Accident and Health Insurance

This traditional risk insurance product has regular premium payment and is contracted for a definite duration, providing coverage for death, disability and deared diseases (in both lump sum or annuity payments). Thanks to its modular structure and the available complementary insurances, the scope and level of the insurance coverage can be personalized to the needs of our clients.

Best Doctors® Health Insurances

This service-financing health insurance product family includes individual products that can be contracted independently or as supplementary insurances, as well as group products developed for corporate clients. All three schemes include a second medical opinion service and, in the event of the five dreaded illnesses, the insurer's and service provider's partner organizing abroad treatment, the full cost of which (including travel and accommodation expenses) is covered by the insurance.

GROUP INSURANCES

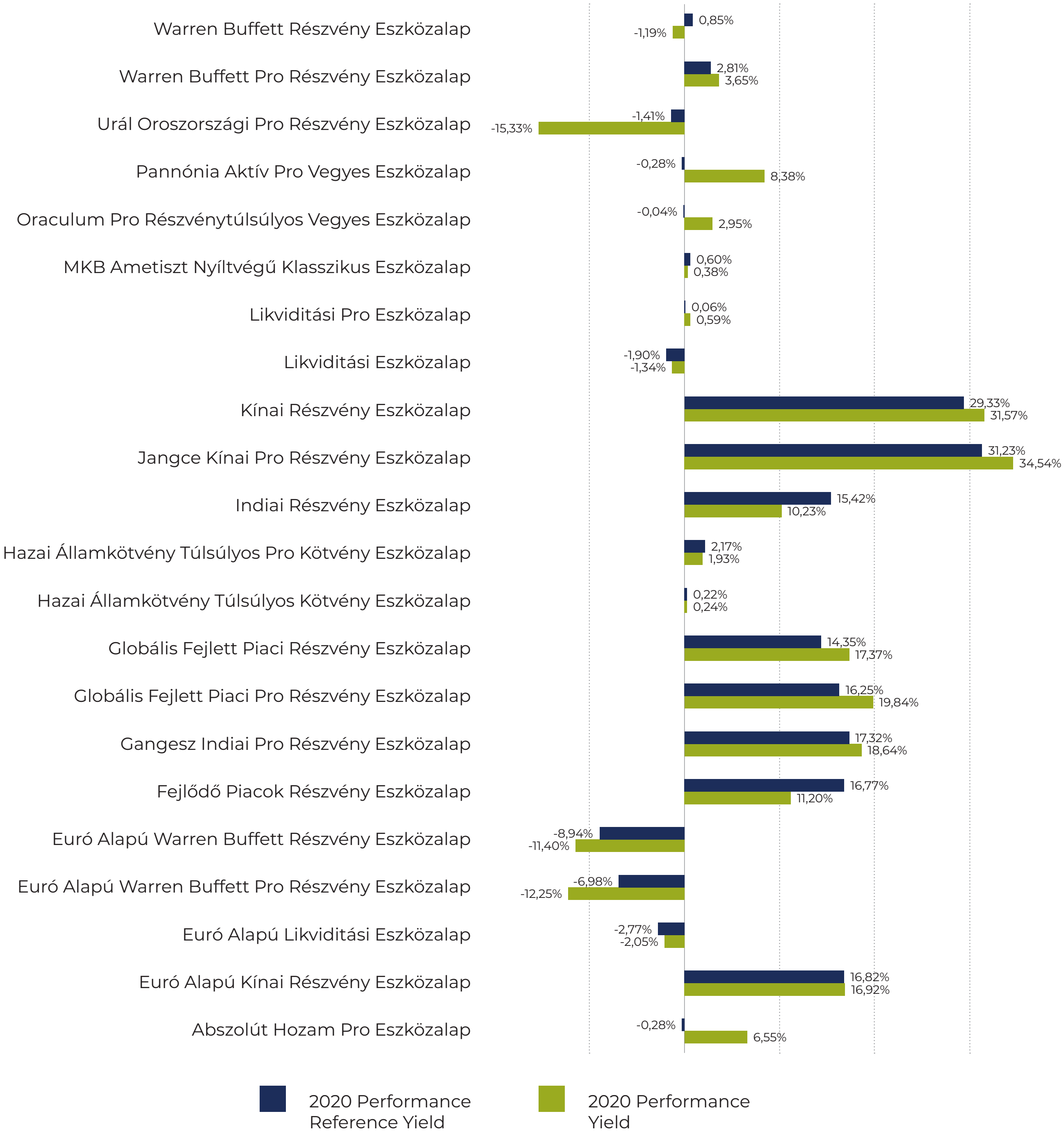
Our group insurances allow employers to provide their employees with life, accident and health insurance protection.

Pannónia Group Life, Accident and Health Insurance

This traditional risk insurance can be customized in a wide range and includes single or regular premium payments. From a range of nearly twenty items for coverage, our corporate clients can tailor their employees' (potentially differentiated) life, accident and health insurance protection to their own needs.

THE PERFORMANCE OF CIG PANNÓNIA LIFE INSURANCE PLC. UNIT-LINKED LIFE INSURANCE'S OPTIONAL ASSET FUNDS* (31.12.2020)

Our business goals for the financial year 2021



OUR BUSINESS GOALS FOR THE FINANCIAL YEAR 2021

Although every department of the Group is undergoing a major transformation in the course of the significant strategic change envisioned and targeted by the Company's management, which will determine the direction and the speed of future progress, the sales area needs to be highlighted (including both the own network and the independent intermediaries), where we expect immediate substantial and large-scale progress as a result of our actions. Our plans not only include the review of our product mix, the review and expansion of the sales channels (possibly with the strengthening or even expansion of the relationships with banks), but also the significant increase in sales revenue from existing business relationships.

In the case of existing (especially the dependent and independent) sales channels, expanding the insufficient sales capacity is the most important task. As for the independent channel, in the past outside of Budapest we did not have supporting capacities, thus only a negligible part of the potential market partners were served. This year the national support network will be set up. To increase the sales results of independent partners, a redesign of the product structure and the building of non-existent webservice relationships is required.

In the dependent agent network, our goal is to expand the available capacities and to build an office network operated by the agents.

This year, we will begin building two essential sales channels: the call center and online sales. The former will play a key role in managing premium receivables, while latter in communicating annual indexations to our customers and in the sales of products with risk components.

In addition to and in parallel with the sales in general, a significant (but beautiful) task is the restitution of EMABIT, the review of processes, staff recruitment, and the mapping and acquisition of a reliable reinsurance background. In the coming years both in the corporate (and SME) and in the retail sales (albeit at different times) we want to not only become a noted domestic insurance player, but also to achieve a stable position ont he market with the customer-centered thinking and a service provision we believe domestic legal and natural persons need.

Naturally, a transformation on this scale cannot be pointless; it cannot lack stable planning and strategic steps and goals that set the exact direction. To this end, with the involvement of external experts, the group's strategy with clear and measurable elements will be completed in the second quarter of this year, the lack of which has been demonstrated by several failures and questionable development ideas in recent years. We are confident that the set goals, the successes and possible failures, their precise evaluation and the corresponding refinement of the strategic directions will be appreciated both by our current owners and future investors, and even the "market" in general as a valuable, measurable and accountable plan directed at the future.

The strengthening of our internal lines of defense and the transformation of the control processes adapted to the organization cannot stop, our tasks are clear based on the events of the past years. We are convinced that all levels of management and all employees of the Company are aware of the fundamental principle that, without a solid background, a tense pace of sales based solely on rapid growth is expected to cause more harm than the benefits which the short-term results can provide.

One of the most significant internal projects of our company is the preparation for IFRS 17, which ruleset will need to be followed starting in the coming years. Although there has been a lack of preparation for the transition in previous years, our dedicated and highly skilled employees, with the help of external support, have made and will make huge efforts to implement the necessary IT and process developments on time. The project is outstanding in the Hungarian insurance market, as we carry out all the tasks necessary for the transition on our own, without an international parent company background.

Continuing and putting the initial steps towards digitalization onto a new foundation, the Company intends to launch its project after it received innovation support, trusting that the developments to be implemented will provide a solid foundation for the challenge of the future: a most automated, IT-based operation.

We consider the implementation of a unique communication, education and product development strategy developed exclusively for the clients of the Hungarian insurance market to be a priority task, in which our CSR activities – in proportion to our resources - play a decisive role.

Last but not least, the Company's management wants to pay special attention to staff training, ensuring market-level remuneration, introducing a performance evaluation acceptable and motivating for everyone, so that we have a dedicated team of employees who trust our goals and identify with them, with which team we can serve our customers and partners accurately, flexibly and quickly (and where the customers and partners do not have to choose two of these conditions...).

Budapest, April 7, 2021

Zoltán Polányi

CEO

István Fedák dr.

CEO

CIG PANNÓNIA
INSURANCE

CIG PANNÓNIA LIFE INSURANCE PUBLIC LIMITED

CONSOLIDATED FINANCIAL STATEMENTS AND CONSOLIDATED BUSINESS REPORT FOR THE YEAR 2020, PREPARED ACCORDING TO THE INTERNATIONAL FINANCIAL REPORTING STANDARDS ACCEPTED BY THE EUROPEAN UNION

APRIL 7, 2021

CIG PANNÓNIA
INSURANCE

CONTENTS

I. CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR 2020, PREPARED ACCORDING TO THE INTERNATIONAL FINANCIAL REPORTING STANDARDS ACCEPTED BY THE EUROPEAN UNION

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

DATA IN THUF

	NOTES	2020	2019 RESTATED
Gross written premium		19 318 768	19 893 569
Changes in unearned premiums reserve		611 047	38 075
Earned premiums, gross		19 929 815	19 931 644
Ceded reinsurance premiums		-462 770	-503 042
Earned premiums, net	8	19 467 045	19 428 602
Premium and commission income from investment contracts	9	159 078	125 214
Commission and profit sharing due from reinsurers	10	73 035	104 228
Investment income	11	4 636 675	10 786 209
Yield on investment accounted for using equity method(profit)	11	436 244	442 301
Other operating income	12	838 068	1 033 856
Other income		**6 143 100**	**12 491 808**
Total income		**25 610 145**	**31 920 410**
Claim payments and benefits, claim settlement costs	13	-13 350 226	-15 787 668
Recoveries, reinsurer’s share	13	48 772	30 899
Net changes in value of the life technical reserves and unit-linked life insurance reserves	14	-5 045 986	-8 171 672
Investment expenses	11	-349 572	-1 584 475
Change in the fair value of liabilities relating to investment contracts	39	-273 975	-458 480
Investment expenses, changes in reserves and benefits, net		**-18 970 987**	**-25 971 396**
Fees, commissions and other acquisition costs	15	-3 834 579	-4 749 046
Other operating costs	16	-2 187 162	-1 982 398
Other expenses	17	-499 484	-712 081
Operating costs		**-6 521 226**	**-7 443 525**
Result from assets held for sale	**19**	**789 952**	**1 150 196**
Profit/Loss before taxation		**907 884**	**-344 315**
Tax income/expenses	18	-218 546	-214 248
Deferred tax income/expenses	18	-29 253	-80 278
Profit/Loss after taxation		**660 085**	**-638 841**
Comprehensive income, wouldn’t be reclassified to profit or loss in the future		-	-
Comprehensive income, would be reclassified to profit or loss in the future	20	-375 949	315 404
Other comprehensive income		**-375 949**	**315 404**
Total comprehensive income		**284 136**	**-323 437**

DATA IN THUF

	NOTES	2020	2019 RESTATED
Profit/loss after taxation attributable to the Company's shareholders		667 799	-634 915
Profit/loss after taxation attributable to NCI		-7 714	-3 926
Profit/Loss after taxation		**660 085**	**-638 841**

	NOTES	2020	2019 RESTATED
Other comprehensive income attributable to the Company's shareholders		-375 949	315 404
Other comprehensive income attributable to NCI		-	-
Other comprehensive income		**-375 949**	**315 404**
Total comprehensive income attributable to the Company's shareholders		291 850	-319 511
Total comprehensive income to NCI		-7 714	-3 926
Total comprehensive income		**284 136**	**-323 437**

EARNINGS PER SHARE			
Basic earnings per share (HUF)	21	7,1	-6,8
Diluted earnings per share (HUF)	21	7,1	-6,8

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

DATA IN THUF

ASSETS	NOTES	31 DECEMBER 2020	31 DECEMBER 2019
Intangible Assets	22	570 251	646 468
Property, plant and equipment	23	58 158	107 664
Right-of use assets	24	58 059	144 787
Deferred tax asset	18	386 022	415 275
Deferred acquisition costs	25	1 214 601	1 532 782
Reinsurer's share of technical reserves	36	622 195	462 713
Investments accounted for using the equity method	26	641 372	565 787
Available-for-sale financial assets	27	27 461 551	24 929 347
Investments for policyholders of unit-linked life insurance policies	28	74 121 735	70 547 706
Financial assets – investment contracts	29	4 230 068	3 984 403
Financial assets – derivatives		11 106	
Receivables from insurance policy holders	30	1 764 661	1 959 845
Receivables from insurance intermediaries	31	77 806	123 197
Receivables from reinsurance	32	56 373	47 360
Other assets and prepayments	33	25 672	63 903
Other receivables	34	240 688	300 510
Cash and cash equivalents	35	862 255	1 773 613
Assets held for sale	19	294 409	6 927 455
Total Assets		**112 696 982**	**114 532 815**

LIABILITIES	NOTES	31 DECEMBER 2020	31 DECEMBER 2019
Technical reserves	36	17 064 222	15 798 047
Technical reserves for policyholders of unit-linked life insurance policies	38	74 121 735	70 547 706
Investment contracts	39	4 230 068	3 984 403
Financial liabilities-derivatives	39	-	4 528
Loans and financial reinsurance	40	149 901	435 613
Liabilities from reinsurance	41	162 238	215 128
Liabilities to insurance policy holders	42	665 081	463 104
Liabilities to insurance intermediaries	43	245 060	505 548
Lease liabilities	44	59 880	152 472
Other liabilities and provisions	45	1 886 015	1 872 233
Liabilites to shareholders	CF	19 929	25 495
Liabilities held for sale	19	198 798	6 927 455
Total Liabilities		**98 802 927**	**100 931 732**
NET ASSETS		**13 894 055**	**13 601 083**

SHAREHOLDERS' EQUITY	NOTES	31 DECEMBER 2020	31 DECEMBER 2019
Share capital	46	3 116 133	3 116 133
Capital reserve	46	1 152 990	7 479 684
Treasury shares	47	-	-
Share-based payment	3	8 838	16 374
Other reserves	48	-771 153	-395 204
Retained earnings		10 393 933	3 383 067
EQUITY ATTRIBUTABLE TO THE COMPANY'S SHAREHOLDERS		**13 900 741**	**13 600 054**
Non-contolling interest		6 686	1 029
TOTAL SHAREHOLDER'S EQUITY		**-13 894 055**	**13 601 083**

CONSOLIDATED CHANGES IN EQUITY 2020

DATA IN THUF

	NOTES	SHARE CAPITAL	CAPITAL RESERVE	SHARE-BASED PAYMENT	OTHER RESERVES	RETAINED EARNINGS	EQUITY OF THE SHAREHOLDERS OF THE COMPANY	NCI	TOTAL SHAREHOLDERS' EQUITY
Balance on 31 December 2019 restated		**3 116 133**	**7 479 684**	**16 374**	**-395 204**	**3 383 067**	**13 600 054**	**1 029**	**13 601 083**
Total comprehensive income									
Other comprehensive income	20	-	-	-	-375 949	-	-375 949	-	-375 949
Profit in reporting year		-	-	-	-	667 798	667 798	-7 715	660 083
Transactions with equity holders recognized directly in Equity									
Share based payments	4.3			8 838			8 838		8 838
Derecognition of share based payments	4.3			-16 374		16 374	-		-
Capital increase from capital reserves	46	6 326 694	-6 326 694				-		-
Capital decrease	46	-6 326 694				6 326 694	-		-
Balance on 31 December 2020		**3 116 133**	**1 152 990**	**8 838**	**-771 153**	**10 393 933**	**13 900 741**	**-6 686**	**13 894 055**

CONSOLIDATED CHANGES IN EQUITY 2019

DATA IN THUF

	NOTES	SHARE CAPITAL	CAPITAL RESERVE	SHARE-BASED PAYMENT	OTHER RESERVES	RETAINED EARNINGS	EQUITY OF THE SHAREHOLDERS OF THE COMPANY	NCI	TOTAL SHAREHOLDERS' EQUITY
Balance on 31 December 2018 restated		**3 777 130**	**9 598 949**	**-**	**-710 608**	**4 101 943**	**16 767 414**	**4 955**	**16 772 369**
IFRS 16 transition	**24**	**-**	**-**	**-**	**-**	**-6 662**	**-6 662**	**-**	**-6 662**
Balance on 1 January 2019 restated		**3 777 130**	**9 598 949**	**-**	**-710 608**	**4 095 281**	**16 760 752**	**4 955**	**16 765 707**
Total comprehensive income									
Other comprehensive income (restated)	20	-	-	-	315 404		315 404		315 404
Profit in reporting year (restated)		-	-	-		-634 915	-634 915	-3 926	-638 841
Transactions with equity holders recognized directly in Equity									
Capital decrease	46	-660 997	-2 194 564	**-**	**-**	-150 412	-3 005 972	**-**	-3 005 972
Equity difference realized on exercise of employee stock option	CF	-	75 299	-	-	73 113	148 412	-	148 412
Share-based payment	4.3	-	-	16 374	-	-	16 374	-	16 374
Balance on 31 December 2019		**3 116 133**	**7 479 684**	**16 374**	**-395 204**	**3 383 067**	**13 600 054**	**1 029**	**13 601 083**

CONSOLIDATED STATEMENT OF CASH FLOWS

DATA IN THUF

	MEGJ.	2020	2019 RESTATED
Profit/loss after taxation		660 085	-638 840
Modifying items			
Depreciation and amortization	16	370 644	403 212
Extraordinary depretiation	17	-28 460	38 623
Booked impairment	17	-72 696	392 526
Result of assets sales	11	193 580	870 803
Share based payments	4.3	3 717	2 218
Exchange rate changes	11	38 384	-10 453
Share of the profit or loss of associates accounted for using the equity method	26	-436 244	-442 314
Income taxes	18	218 546	214 248
Deferred tax	18	29 253	80 278
Income on interests	11	-608 332	-893 279
Result of derivatives	11	-73 549	-3 348
Provisions	17	292 642	-181
Derecognition of lease	23	-7 767	-
Interest cost	11	9 201	25 315
Change of active capital items:			
Increase / decrease of deferred acquisition costs (-/+)	25	318 181	100 765
Increase / decrease of investments for policyholders of unit-linked life insurance policies (-/+)	28	-3 574 028	-5 271 190
Increase / decrease of financial assets – investment contracts (-/+)	29	-245 665	-303 535
Increase / decrease of receivables from insurance contracts and other receivables (-/+)	30, 32, 33, 34	401 092	129 647
Increase / decrease of reinsurer's share from technical reserves (-/+)	36	-159 482	238 931
Increase /decrease of other assets and active accrued and deferred items (-/+)	33	38 230	9 113
Increase / decrease of technical reserves (+/-)	36	1 129 757	2 772 793
Increase / decrease of liabilities from insurance (-/+)	42, 43, 44	-111 401	-345 090
Increase / decrease of investment contracts (+/-)	39	245 665	303 535
Increase / decrease of technical reserves due to unit-linked life insurance (+/-)	38	3 574 028	5 271 190
Increase / decrease of other liabilities (+/-)	45	-288 145	-337 162
Paid income taxes	18	-245 068	-257 283
Increase / decrease of assets held for sale (-/+)	19	6 633 047	-6 927 455
Increase / decrease of liabilities held for sale (+/-)	19	-6 728 657	6 927 455
Settlement of assets held for sale	19	-1 799 744	-
IFRS 2 capital difference	40	8 838	16 374
NET CASH FLOWS FROM OPERATING ACTIVITIES		**-214 348**	**2 366 895**

CASH FLOW FROM INVESTMENT ACTIVITIES	NOTES	2020	2019 RESTATED
Purchase of debt instruments (-)	27	-19 823 956	-23 944 173
Sales of debt instruments (+)	27	18 739 933	24 590 687
Purchase of tangible and intangible assets (-)	22, 23	-177 615	-242 786
Sales of tangible and intangible assets (-)	22, 23	41 654	1 459
Realised gain on derivatives	26	57 916	815
Interest received	11	526 783	845 548
Dividend received	26	360 659	341 904
CASH FLOW FROM INVESTMENT ACTIVITIES		**-274 626**	**1 591 825**

CASH FLOW FROM FINANCING ACTIVITIES	NOTES	2020	2019 RESTATED
Securing loans (financial reinsurance)	41	-	153 937
Lease repayment	40	-40 289	-61 145
Lease interest payment	40	-4 007	-3 693
Capital decrease	47	-	-2 988 225
Repayment of loans and their interests	41	-319 588	-731 759
Equity difference realized on exercise of employee stock option	40	-	148 412
CASH FLOW FROM FINANCING ACTIVITIES		**- 363 884**	**-3 482 473**
Impacts of exchange rate changes	11	-58 500	-2 401
Net increase / decrease of cash and cash equivalents (+/-)		**-911 358**	**473 846**
Cash and cash equivalents at the beginning of the period		**1 773 613**	**1 299 767**
Cash and cash equivalents at the end of the period		**862 255**	**1 773 613**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1. GENERAL INFORMATION

CIG Pannónia Life Insurance Plc. (hereinafter: **Company** or **Insurer**) is a public limited company registered in Hungary, which was established at 26 Oktober 2007 as a private limited company. Registered seat: 11 Könyves Kálmán Krt. Building B, 1097 Budapest, Hungary.

Internet access: www.cigpannonia.hu

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

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

After the new shares were created at KELER, the Company initiated their listing in category "B" on the BSE. Following the successful introduction the first trading day was 8 November 2010. Since 12 April 2012 the Securities of the Insurer can be traded in the BSE Shares Class "A" and now, as the Company continuously complies with the higher level of requirements, in the "premium" category. The shares are included in the BUX index basket, which summarizes the price of the shares with the largest capitalization traded on the BSE.

The Group carries out its activities in Hungary, Romania, Slovakia, Poland and Italy. In Romania until 20 December 2011 the operation was made by a branch office, after that was via cross-border activities, from 2016 the previously acquired portfolio is maintained. In

Slovakia the cross-border activity has been operated since the beginning of operations in 2010, the sales activity is terminated in 2016, from now on the previously acquired portfolio is maintained in Slovakia. The Group launched its cross-border activity during 2012 in Poland and in Italy during 2014. In 2019 sales activity was terminated in Italy. Regarding the cross border activities, the Group has no foreign assets and liabilities.

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

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

CIG Pannónia Life Insurance Plc. concluded a strategic cooperation agreement with MKB Bank cPlc. (after the transformation of the credit institution into a public limited company and its listing on a regulated market, from 17 June 2019 MKB Bank Plc.) on 11 April 2017. According to the agreement, the two companies conclude a long-term cooperation, the pension and life insurance products of CIG Pannónia was sold in the branches of MKB Bank, while the agents of CIG Pannónia is also selling the products of MKB Bank to the clients. With the strategic cooperation of CIG Pannónia and MKB Bank the already mutually beneficial cooperation between the companies continued to strengthen.

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

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

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

At the beginning of 2018, the Insurer entered into a strategic cooperation agreement with KONZUM Investment and Asset Management Public Limited Company (KONZUM

Plc.)[1]. 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 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 at that time.

On 25 April 2018 the Central Bank of Hungary has authorized by its decision No. H-EN-II-38/2018. the acquisition of qualified influence of KONZUM Plc. over CIG Pannonia Life Insurance Public Limited Company based on direct ownership exceeding the 20% limit and over CIG Pannonia First Hungarian General Insurance Public Limited Hungary based on indirect ownership exceeding the 20% limit. By the authorized transaction KONZUM Plc. acquired 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 CIG Pannónia 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 CIG Pannónia 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 was subject to the Company Court Registry with decision of Cg.01-10-045857 / 395. 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 capital injection's payment was HUF 3 billion, HUF 31.96 per share. The Company fulfilled the payment in September 2019.

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

In the case of the above-mentioned insurances, at the end of 2018 and in early 2019 the beneficiary Customs and Monopoly Agency (agency responsible for the supervision of gambling in Italy, ADM) has submitted a request for drawdown of insurance promissory notes (related to products Gaming and Public Concessions) issued to four large clients. The total value of the contractual obligations was approx. EUR 12 million. However, these drawbacks did not provide adequate justification and the primary opinion of Italian experts

1 Konzum Plc. (registered seat: 1062 Budapest, Andrássy út 59.; C nr.: 01-10-049323;) decided on 8 April 2019 to merge into OPUS GLOBAL Plc, finished at 30 June 2019. The general successor of the company is OPUS GLOBAL Plc.

was that the claim lacks legal basis. During the conciliation negotiations in 2019, the beneficiary reduced its claim to almost one quarter of the original amount and provided adequate justification for this remaining amount. EMABIT settled the claim of EUR 3.167 million by the end of November 2019.

In parallel with the above claims settlement process it became evident, that, with regard to Italian suretyship insurance activities, EMABIT's reinsurance contract was a forgery and thus EMABIT's entire respective exposure lacked reinsurance. The reinsurance contract between EMABIT and Africa RE was brokered with the intermediation of a Lloyds broker in 2015 through a broker licensed in Switzerland, with subsequent reinsurance financial settlements (reinsurance premium, reinsurance reimbursement, etc.) all settled through the intermediary . To clarify the existence of the cover, EMABIT contacted Africa RE directly. In a letter dated 16 September 2019, Africa RE informed EMABIT that it had no contact with the intermediaries represented in the submitted documents, that the cover assurance documents were a forgery, and that they did not originate from Africa RE.

As a result, EMABIT was left without reinsurance coverage for an exposure of EUR 379 million (about HUF 125 billion) with respect to the Italian business line, of which it had previously assumed an approx. 95-99% quota share coverage through the Africa RE contract. The exposure to this presumably non-reinsured portfolio decreased to EUR 256 million by the end of 2019. EMABIT filed a demand for the prosecution of the reinsurance brokers involved in concluding the contract and reported the fraud to the respective courts .

In addition to the ADM claims related to the gaming concessions, another significant claim has been received by EMABIT. In the fourth quarter of 2019, ADM claimed damage to bonds issued by EMABIT, related to the excise duty debt of a fuel trading company. The claims for the two EUR 5 million bonds in subject amount to EUR 10 million in total. After investigating the circumstances of the claim, EMABIT declined to launch claim payments, filed a demand for prosecution on fraudulent contracts, and sought legal redress from the courts for ADM initiating the claim payment. Referring to the circumstances of the conclusion of the contract and the claim and the timing thereof, based on the opinion of the legal experts, the Insurer's current best estimate is that it will not pay any claims in the matter.

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

These two above events had a significant negative impact on the subsidiary's solvency capital in 2019. On 5 November 2019, EMABIT notified HFSA, pursuant to Section 267 (1) (c) of Act LXXXVIII of 2014 on Insurance Activities, that the Company's solvency adequacy fell to 102% of the required rate, and that there was a risk that during the next three months it will fall below the statutory level. As a result of the events, HFSA obliged EMABIT to submit a financial recovery plan ("**Recovery Plan**") to HFSA for approval by 4 January 2020 at the latest. The primary objective of the Recovery Plan was for the Company to present specific measures which ensure that the Company's Solvency Capital Requirement (SCR) remains above 100%, with respect to the guidelines of Section 309 (2) of the Act on Insurance Activities.

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

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

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

As part of the Recovery Plan, EMABIT commissioned an international consulting firm to prepare the sale of certain portfolio segments.

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

Pursuant to the decision of the Board of Directors of 7 April 2020 EMABIT sold its casco, Hungarian property and liability, Hungarian compulsory third party insurance and the Hungarian goods in transit and road liability insurance branches within the framework of a portfolio transfer. The portfolio exceeding 100,000 contracts with a portfolio premium of almost HUF 6 billion was sold within the scope of the subsidiary's own funds recovery plan.

On 28 May 2020 the HFSA with its resolution No. H-EN-II-60/2020. approved EMABIT to sell its casco, Hungarian property and liability, Hungarian compulsory third party insurance and the Hungarian goods in transit and road liability insurance branches specified in the application submitted to the HFSA on 22 April 2020, to Aegon Insurance Hungary Plc. ("AEGON") on 1st of June 2020.

On 3 June 2020 the Board of Directors of EMABIT has decided to sell the Polish carrier's professional liability insurance business to AEGON in the context of a transfer of portfolio. The HFSA approved this on 28 July 2020, with the effect of 1 Aug 2020. Both portfolio transfer have taken place.

On 22 June 2020 the Board of Directors of the Group decided that the Company make a commitment to take over the operating costs of EMABIT from 1 Aug 2020 to ensure the solvency of its subsidiary. The maximum amount of the operating cost takeover is HUF 519 million, for a period of three years, as set out in the recovery plan in parallel with the run-off of the portfolio. In addition, the Company undertook an additional capital increase of HUF 500 million in the event that EMABIT's solvency capital would fall below the capital adequacy of 120%. At the same time, the Company authorized the Board of Directors of EMABIT to increase the share capital in its own competence in the event of a call. The authorization to increase the share capital is for a period of 5 years.

The HFSA with its resolution No. H-JÉ-II-39/2020. approved EMABIT recovery plan with the condition of an additional capital requirement for the subsidiary with an amount of HUF 500 million. The resolution does not require extra capital from the Company in addition to the above.

As a result of all these recovery measures, EMABIT's solvency capital adequacy has been restored by increasing to 147% by 30 June 2020, including the additional capital requirement.

On 7 September 2020 the HFSA with its resolutions No. H-EN-15/2020 lifted the ban imposed on EMABIT regarding conclusion of new insurance contracts and the extension of existing contracts in all cultivated sectors in Hungary with a view to restoring the capital adequacy, while for its cross-border activities in Italy decided to maintain the restrictions for another year.

The Company's Board of Directors asked Dr. István Fedák to handle the prevailing risks in EMABIT's Italian claims and to change the strategy for ongoing and related legal matters. The Solvency ratio of the EMABIT fell to 114% at the end of the fourth quarter, mainly due to an increase in claim reserves of the Italian cases. In connection with the change of strategy, the review of existing claim reserves and regress reserves has been finished, and the Insurer increased the outstanding claim reserve by HUF 579 million, compared to the end of 2019. In 2020, the total net claim expenditure on the Italian portfolio was HUF 1,321 million, the earned premium of previously concluded contracts in 2020 was HUF 339 million, and other technical results were HUF 63 million loss. The technical result of the Italian guarantee product in 2020 was a total loss of HUF 1,044 million. Exposures from the Italian guarantee products decreased significantly by the end of 2020 (EUR 68 m) and are steadily declining.

Within EMABIT's portfolios to be sold, the sale of a smaller Hungarian and Polish extended guarantee and the gap casco portfolio are still in progress on the balance sheet date. Following supervisory permission, the transfer is expected to be completed in the first half of 2021. Beyond this, the Group does not plan to sell additional portfolios.

In the fourth quarter of 2020 the Group took steps at the operational level to ensure opportunities for the relaunch of operations – parallel to the intent of insuring guarantee elements at the Group-level as required – after EMABIT implemented the provisions of the recovery plan set by the HFSA, and its solvency position has stabilized, with the aim to strengthen its sales, internal defence lines and capital position following the adoption of EMABIT's strategy. To implement all these objectives, the Company undertook to carry out the necessary capital increases, enabling EMABIT to continue operating in the long term. Thus, in addition to the non-life segment and the remaining portfolios, the operational planning also plans with the development and sale of new products from 2021 onwards. In addition to the finalized business plans and the support of the parent company, the operation is ensured for at least the next 12 months, therefore the principle of business continuity can be maintained.

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

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

At the meeting held on June 29, 2020, the Board of Directors of the Company with its resolution No. 47/2020.06.29. decided to increase of the share capital of the Company (hereinafter: Share Capital Increase). The Share Capital Increase was carried out by the Company in such a way that it increased the nominal value of 94,428,260 dematerialized, series "A" ordinary registered voting shares with a nominal value of HUF 33 each, issued by the Company, to HUF 100 per share. With its announcement on 4 August 2020, the Company postponed the share exchange required in connection with the Share Capital Increase. The share exchange was postponed in order (i) to comply fully with the regulation dated on 17 June 2017 (2017/1129) of the European Parliament and the Council and (ii) in view of the fact that the Extraordinary General Meeting of the Company convened on 14 August 2020 intended to decide on the reduction of the Company's share capital.

Subsequently, the General Meeting of the Company decided on 14 August 2020 to reduce the share capital of the Company with its resolution No. 22/2020 (VIII.14) ("Share Capital Reduction"). As a result, the share capital of the Company decreased from HUF 9,442,826,000 to HUF 3,116,132,580. The share capital reduction was carried out by the Company in such a way as to reduce the nominal value of 94,428,260 dematerialized, series "A" ordinary registered voting shares with a nominal value of HUF 100 each, issued by the Company, to HUF 33 per share. This change was entered in the register of companies by the number Cg.01-10-045857/439. order of the Registry Court of the Metropolitan Court. In view of the registration of the Share Capital Reduction in the meantime, the registration of the Share Capital Increase has become obsolete, so KELER Ltd. will not create registered shares of the "A" series with a nominal value of HUF 100 and issued on the regulated market. However, taking into account the fact that a new series of shares was issued as a result of the Share Capital Decrease, the ISIN identifier of the newly issued series "A" ordinary shares with a nominal value of HUF 33 has changed, therefore the Company has carried out a technical share exchange. The first trading day of the new ordinary shares with a nominal value of HUF 33 (HU0000180112) on the Budapest Stock Exchange was 9 December 2020.

On 27 November 2020, the Board of Directors of the Company amended its dividend policy. According to the Company's new dividend policy, after realistic provisioning -which aims to take advantage of acquisition and non-organic growth opportunities-, dividends should be paid taken into account the Solvency Capital Requirement and the Company's liabilities, financial and management plans; the funds available beyond this and possibly payable as dividends, may be paid as dividends to the stakeholders.

Hungarikum Insurance Broker Ltd. (registered office: 8086 Felcsút, Fő utca 65 .; Company registration number 07-09-028910) made a conditional (with the official authorization) agreement with OPUS GLOBAL Plc. (registered office: 1062 Budapest, Andrássy út 59 .; Company registration number: 01-10-042533) on 24 September 2020 on the acquisition of Company's 23,466,020 series "A" dematerialized ordinary shares with a nominal value of HUF 33, representing 24.85% of the Company's share capital. Subsequently – but before the approval of the HFSA – on 20 October 2020, the Hungarikum Insurance Broker Ltd. purchased an additional 400,000 ordinary shares in a stock exchange transaction, for which reason its direct voting rights in the Company exceeded 5%.

The HFSA authorized Hungarikum Alkusz Ltd to acquire a qualified influence in the Company based on direct ownership exceeding the 20% threshold but not exceeding 33% with its resolution No. H-EN-II-128/ 2020. The HFSA's decision also extended Hungarikum Alkusz Ltd. acquiring a qualifying influence in the Company's subsidiary, CIG Pannónia Első Magyar Általános Biztosító Ltd., based on indirect ownership exceeding the 20% threshold but not reaching 33%. The HFSA authorized Keszthelyi Holding Ltd. and Erik Keszthelyi to acquire a qualifying influence in the Company and in the Company's subsidiary CIG Pannónia Első Magyar Általános Biztosító Ltd. based on direct ownership exceeding the 10% threshold but not exceeding 20% with its resolutions No. H-EN-II-129/2020 and No. H-EN-II-130/2020. The rate of the Hungarikum Alkusz Ltd. direct share hence changed to

31.5%, the number of ordinary shares changed to a total of 29,746,921, which direct share, as found in public data and as known to the Company, amounted to 31,025,072 CIG Pannonia shares at the end of 2020, i.e. an ownership of 32.86%.

Pursuant to the authorization of the Articles of Association, the Board of Directors transferred the registered office of the Company with effect from 1 February 2021; the new registered office is: 1097 Budapest, Könyves Kálmán krt. 11. Building B. The Company also relocated the registered offices of its subsidiaries with the same effect to the indicated location.

The owners of the Company are Hungarian and foreign private individuals and legal entities, the number of shareholders is 6,300 at 31 December 2020, with a public share ratio of 44.73%.

Pursuant to Article 61 of the Act CXX of 2001 on the capital market, shareholders holding directly and indirectly more than 5% of the voting shares and voting rights beyond Hungarikum Insurance Broker Ltd.'s above described share, are as follows:

VINTON Property Management Ltd. owns 11,140,311 shares, which amounts to a shareholding of 11.79 percent. The number of shares owned by the shareholders of VINTON Property Management Ltd. remains unchanged: Dr. József Bayer has 1,500,000 shares, Iván Bayer holds 100 shares, and Zsuzsanna Bayer also holds 100 CIG Pannónia ordinary shares.

Dr. Gábor Móricz has a total of 5,000,000 (5.30%) CIG Pannónia ordinary shares. Kaptár Investment Ltd., which is in close contact with Gábor Móricz, has a total of 5,050,000 (5.35%) ordinary shares. GridLogic Informatic Ltd., in which Kaptár Zrt. has an influential stake, owns 150,000 ordinary shares.

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

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

NAME OF SUBSIDIARY	ACTIVITY	COUNTRY	SHARE AT 31.12.2020.	SHARE AT 31.12.2019.
CIG Pannónia First Hungarian General Insurance Ltd.	Non-life insurance	Hungary	100%	100%
Pannónia PI-ETA Funeral Services Ltd.	Funeral services	Hungary	100%	100%
CIG Pannónia Financial Intermediary Ltd. (under liquidation)	Financial services	Hungary	95%	-
CIG Pannónia Life Insurance Employee Ownership Programme Organisation	Remuneration	Hungary	-	-

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

NAME OF AFFILIATE	ACTIVITY	COUNTRY	SHARE AT 31.12.2020.	SHARE AT 31.12.2019.
MKB-Pannónia Fund Manager Ltd. (earlier: Pannónia CIG Fund Manager Ltd.)	Fund management; portfolio management	Hungary	16%	16%

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

The Company has no other subsidiaries, associated companies or joint ventures on 31 December 2020.

AUDITORS OF THE GROUP:

In case of CIG Pannónia Life Insurance Plc.:

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

Zsuzsanna Nagyváradiné Szépfalvi
registered auditor (from 14.07.2020)
Chamber registration number: 005313

Gabriella Virágh
registered auditor (until 30.04.2020)
Chamber registration number: 004245

The professional auditor charged the following fees for its services in respect of the business year 2020:

- Audit of the annual financial statements of the Insurer prepared in accordance with International Financial Reporting Standards ('IFRS') and issuance of Auditor's Reports thereon (including the audit of report of based on Solvency II) HUF 22,000 thousand plus VAT.

- The issuance of a so-called supplementary report according to subsections 4-7 of section 71 of the Act LXXXVIII of 2014 on the Insurance Business (individual supervisory report): HUF 6,000 thousand plus VAT.

- Audit of the annual consolidated financial statement of the Group prepared in accordance with International Financial Reporting Standars ('IFRS') and issuance of Auditor's Reports thereon (including the audit of annual report of based on Solvency II): HUF 5,500 thousand plus VAT.

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

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

Zsuzsanna Nagyváradiné Szépfalvi
registered auditor (from 14.07.2020)
Chamber registration number: 005313

Gabriella Virágh
registered auditor (until 30.04.2020)
Chamber registration number: 004245

The professional auditor charged the following fees for its audit services in respect of the business year 2020:

- Audit of the annual financial statements of the Insurer prepared for consolidation purposes in accordance with International Financial Reporting Standards ("IFRS") and the year-end surveillance data provision in accordance of Solvency II, and issuing the audit report in Hungarian: HUF 12,900 thousand plus VAT;

- furthermore the investigation of the Insurer according to the laws and regulations, and issuing the supplementary report in Hungarian, HUF 3.500 thousand plus VAT.

In case of CIG Pannónia Pénzügyi Közvetítő Zrt.:

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

Zsolt Szovics
registered auditor
Chamber registration number: 005784

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

Audit of the annual financial statements of the Insurer prepared in accordance with the Hungarian Act on Accounting and issuance of Auditor's Report: HUF 1,350 thousands plus VAT.

In case of MKB-Pannónia Fund Manager Ltd.:

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

Zsolt Szovics
registered auditor
Chamber registration number: 005784

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

SIGNATORIES TO THE FINANCIAL STATEMENTS:

Zoltán Polányi
Primary Chief Executive Officer
2040 Budaörs, Bányász street 18.

Géza Szabó
Chief Actuary
1123 Budapest, Csörsz street 13.

Public data of the person compiling financial statements:

Alexandra Tóth
Chief Accounting Officer
8996 Zalacséb, Ady Endre street 6.

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

2.1. Compliance with the International Financial Reporting Standards

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

2.2. Basis of measurement

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

2.3. Functional and presentation currency

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

2.4. Use of estimates and assumptions

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

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

3.1. Basis of consolidation

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

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

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

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

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

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

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

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

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

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

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

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

- The Fund Manager is a separate company.
- The company's legal form or other contractual arrangements did not provide any rights or obligations on the assets and liabilities of the construction for the owners.
- The owners were entitled for all economic benefits of the construction's assets and the construction did not depend on the fulfilment of obligation of the parties.

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

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

3.3. Foreign currency translation

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

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

3.4. Policy classification – separation of insurance and investment contracts

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

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

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

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

3.5. Insurance policies

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

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

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

b. *its reinsurance contracts.*

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

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

The insurer has the opportunity to continue the following exercises

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

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

3.5.1. Gross written premium

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

3.5.2. Claims and benefits

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

3.5.3. Acquisition costs

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

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

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

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

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

3.5.4. Measurement of technical liabilities

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

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

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

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

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

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

The claim reserves for Italian suretyship claims were determined on the basis of an individual reserve proposal issued by the trusted law firm for each claim. Outstanding claims under our own management that have not been commented on by the trusted law firm, we have reserved the amounts drawn, taking into account the contractual limits. In the RBNS claim reserves, the Insurer also formed the expected claim expenditure related to them.

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

The Group allocates a regress reserve in extent of the expected recover of regressable claims (in this case not considering the Italian suretyship product).

The regress reserves for the Italian suretyship claims were formed by the Insurer with an average expected return of 15% on the basis of the proposal of the entrusted law firms, except where there is no chance of a return on the regress, in which cases we did not create a regress reserve.

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

In the non-life insurance segment, the Group also allocates an IBNR reserve for late claims incurred but not reported by the balance sheet date and for expected related costs. The IBNR reserve is 6% of the earned premium of the current year, with the exception of product-groups which are uncompared to the average, in respect of the late claims.

For the Italian suretyship insurance, the Company has set up an IBNR reserve primarily with respect to the extended claim period, in order to cover for claim expenditure after the end of the risk-taking period. Similarly to the previous year, the reserve was estimated with the chain-ladder method using the claim history's run-off triangle.

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

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

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

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

f. *Cancellation reserve*
A The Group allocates a cancellation reserve in accordance with the local GAAP to provide coverage for the expected cancellations due to non-payment or termination. Regarding the life segment, in view of the product structure at the Group, the impact

of the premium income received to cover refunds due to eliminating, reducing and temporarily suspending risks, as well as written premium receivables to be adjusted for the above reasons is not significant, and therefore the Group does not believe it is necessary to allocate a cancellation reserve on these grounds. In the case of all unit-linked insurance, the Insurer shall constitute a cancellation reserve in respect of non paid premiums. The reserve is 100% of outstanding receivables In case of traditional products, the cancellation reserve is based on the amount of cancellation amount, which is reduced by the amount of the premium paid and with the estimated amount required to create the premium provision. The reserve is the product of the cancellation amount and the cancellation rate.

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

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

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

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

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

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

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

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

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

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

Certain contracts of the "Értékmegörző" product are also eligible for bonus promises. For eligible contracts, the bonus reserve is created continuously, with a 4% probability of cancellation.

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

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

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

3.6. Investment contracts

3.6.1. Premiums paid

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

3.6.2. Benefits

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

3.6.3. Acquisition costs

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

3.6.4. Liabilities

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

3.6.5. Premium and commission income from investment contracts

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

3.7. Income and expenses relating investments

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

3.8. Other operating income

3.8.1. Income from government grants

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

3.8.2. Income from the fund management

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

3.8.3. Income of pending charge

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

3.9. Leases

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

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

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

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

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

- software leasings
- server leasings
- office equipment leasing (e.g. printers)
- office lease
- car 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 makes use of this exemption and treats software leases as operating leases.

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

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

In the case of office rent and car rent (based on IFRS 16: 13-15), components related to a lease agreement, such as operating fees or other service charges, must be separated, these components are eligible as expenses. The office lease contract is terminated at 31.01.2021, the length of the car rental contracts is 60 months.

After the separation of the other components, the lease contract meets the terms of the leasing definition, so the central office leased by the Company is classified as a finance lease in accordance with IFRS 16. The value of the right of use asset will equal the discounted present value of the leasing payments, which were depreciated linearly by the Company over the lifetime of the contract. When discounting the leasing payments, the effective interest rate is defined as equal to the interest rate used in the 2017 financial reinsurance contract (3,42%), which represents the market interest rate available to the Company. In the case of car rental, the EULIBOR interest rate available for 5 years was increased by the interest rate premium for financial reinsurance in 2018 (the Insurer's last available market interest rate premium).

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

3.10. Determining operating costs and expenses

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

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

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

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

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

3.11. Employee benefits

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

Grouping Employee Benefits:

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

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

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

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

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

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

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

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

The main attributes of the benefit are as follows. The date the benefit is granted is the date on which the parties mutually understood the terms of the benefit. This is the date when the parties sign the bonus agreement. The bonus vesting period is the business year to which the bonus agreement applies; the performance criteria must be evaluated for this period. A further three-year deferred performance criterion needs to be applied for the payment of the additional 7-7-7%. IFRS 2 does not lay down specific rules for the valuation of the benefit, but according to IFRS 2 BC106-118 the valuation of a payment principally defined in a fixed amount should not differ whether it is paid in cash or in shares. Based on the above, the Company presents this benefit as the fixed amount's discounted present value against the equity, accounted for continuously for the year of the benefit. In the course of valuation, the Company considers expected changes in performance criteria and vesting conditions using historical data of the previous 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.

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

3.12. Income taxes

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

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

3.13. Intangible assets

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

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

3.14. Property, plant and equipment

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

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

TYPE OF ASSET	DEPRECIATION RATE
Investment on rented property	50%
Motor vehicles	20%
Office and IT equipment	33%
Furniture and other fittings	14,5%

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

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

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

3.15. Impairment of non-financial assets

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

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

3.16. Financial assets

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

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

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

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

3.16.1. Financial instruments measured at fair value through profit or loss

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

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

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

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

3.16.2. Loans and receivables

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

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

3.16.3. Available-for-sale financial assets

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

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

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

3.16.4. Impairment of financial assets

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

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

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

- significant financial difficulties of the Company
- default or delinquency in interest or capital payments
- it is very likely that the Company will undergo bankruptcy or other financial restructuring

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

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

3.17. Determination of fair value

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

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

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

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

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

- Debt securities
    - Debt securities excluding government bonds and treasury bills introduced into the primary distribution system, shall be valued on a unified basis during the valuation period using the last closing net price by adding accrued interest up to the date of financial statements when determining the market value;
    - in the case of fixed or floating-rate debt securities with a mandatory price-fixing, with a remaining period of more than 3 months, in the primary distribution system, or in case of treasury bills, the arithmetic average of the best buy-and-sell net prices issued by the State Debt Management Center (hereinafter ÁKK) on the date of the Financial Statements or on last working day before it and the interest accrued up to the date of Financial Statements should be determined;
    - in case of debt securities and treasury bills with a non-compulsory pricing, with a remaining period of less than 3 months to maturity, with fixed-rate, including state-guaranteed debt securities, the market value should be determined by using the 3-month reference yield published by ÁKK on the closing date or on the last working day before it as the sum of the calculated net price and interest accrued up to date of Financial Statements;
    - If a debt securities listed on a stock exchange – with the exception of government securities issued in the primary distribution system – do not have a price not earlier than 30 days, then the market value is determined by using the last registered traded weighted average net price over-the-counter and the interest accrued up to the balance sheet date if this data is not older than 30 days. The 30-day validity of the prices quoted by OTC is the date of the publication, i.e. the last day of the reference period, even if it falls on a non-working day. The same methodology shall be applied to debt securities not traded on the stock exchange;
- Shares:
    - the shares admitted to the stock exchange have to be valued according to the closing price on the date of financial statements;
    - if there was no trading on that day, the last closing price shall be used if this price is not older than 30 days from the date of the financial statements;
    - in the case of a non-listed share, the valuation price of the asset shall be determined on the basis of the officially published last weighted average OTC price if it is not older than 30 days
    - if none of the methods can be applied, regardless of its antiquity, the lower of the last stock exchange price, the absence thereof the last OTC price and the purchase price should be used.

- Derivative instruments:
    - T day earnings on futures on the Budapest Stock Exchange on the basis of the relevant stock exchange futures regulations if the transactions were opened on T day using the binding price and the T day settlement price if the transactions were closed on T day by the binding price and T-1 daily in the case of transactions opened earlier than T day, using the settlement rate T day and T-1 daily settlement price.
    - Foreign exchange futures contracts are evaluated at forward rate calculated on the basis of the T-day spot rate and interbank rates quoted in the relevant currencies. The interest rates to be used for the calculation are inter-bank interest rates that are closest to the remaining maturity of the forward bond.

3.18. Cash and cash equivalents

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

3.19. Provisions

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

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

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

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

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

3.20. Financial liabilities

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

The Group classifies its liabilities in the following categories:

3.20.1. Liabilities at fair value through profit or loss

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

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

3.20.2. Other financial liabilities

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

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

3.20.3. Liabilities from direct insurance and investment transactions and other liabilities

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

3.20.4. Liabilities from financial reinsurance

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

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

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

3.21. Share capital and capital reserve

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

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

3.22. Other reserves

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

3.23. Treasury shares

According to IAS 32, paragraphs 33 and 34, when a company repurchases its own shares, any paid consideration should be presented directly as an equity decreasing item. No gains or losses can be recognized in the comprehensive income in connection with the purchase, sale, issue or termination of treasury shares, the consideration for the purchase or sale is recognized directly in equity. The amount of repurchased treasury shares as specified in IAS 1 is stated separately by the Group in both the statement of financial position and the notes.

As IFRSs do not set specific disclosure criteria for equity, the Group applies the following presentation. The value of the repurchased treasury shares is presented separately in equity as an equity-reducing item. If the treasury shares are sold or reissued, the value of decreasing treasury shares will reduce this separate amount in equity. In the case of the inclusion of treasury shares, the difference between the par value and the cost is accounted in the capital reserve. Same applies at sale or reissue of the treasury shares the sales price difference from the cost accounted in the capital reserve.

3.24. Earnings per share

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

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

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

- the weighted average number of ordinary shares outstanding is increased by the weighted average number of additional ordinary shares which would have been outstanding assuming the conversion of all dilutive potential ordinary shares.

3.25. Contingent liabilities

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

3.26. Releated parties

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

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

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

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

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

a. *the spouse and children of the individual;*

b. *the children of the individual's spouse; as well as*

c. *dependents of the individual or of the spouse of the individual.*

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

- direct or indirect control: the ability to manage the financial and operating policies of a company in order to obtain benefits from its activities
- Joint control: contractual sharing of control over an economic activity
- Significant influence: the ability to participate in the financial and operational policy decisions of the company, but not the control of these policies. Significant influence can be obtained through share ownership, by law or by contract

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

a. *short-term employee benefits;*

b. *post-employment benefits;*

c. *other long-term benefits;*

d. *severance payments; as well as*

e. *share-based payments.*

Publication of related party transactions (IAS 24 paragraph 17)

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

The information published must include at least:

a. *the amount of transactions;*

b. *the amount of open balances;*

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

    ii. *details of the guarantees provided or received;*

c. *provisions for doubtful debts to the amount of open balances; as well as*

d. *the expense recognized in the period for bad or doubtful receivables from related parties*

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

3.27. Cash flow statement

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

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

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

Cash flow from operating activities:

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

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

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

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

Cash flow from investing activities:

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

- cash flow related to the acquisition, production and sale of fixed assets,
- cash flows for the purchase or sale of equity or debt securities, unless they are considered to be cash equivalents;

- providing and repaying advances or loans;
- cash receipts and cash outflows from forward, option and swap transactions unless they are held for trading or related to financing activities

Cash flow from financing activities

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

Financing cash flows include:

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

3.28. Introduction of IFRS 9

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

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

a. *comply with IFRS 9 requirements that are required for disclosures required by 39B-39J of this Standard; and*

b. *apply all other financial instruments standards except those in paragraphs 20A-20Q, 39B-39J and 46-47 of this Standard.*

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

a. *did not apply any previously published IFRS 9 except for the recognition of gains and losses on financial liabilities designated at fair value through profit or loss that is consistent with IFRS 9 standard 5.7.1 (c), 5.7.7-5.7.9, 7.2.14 and B5.7.5 to B5.7.20;*

b. *as described in section 20D, its activity is predominantly insurance related to the date of its annual report before 1 April 2016 or the date of its subsequent annual report, as provided for in paragraph 20G.*

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

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

i. higher than 90%, or

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

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

3.29. IFRS 15 Revenue from Contracts with Customers

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

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

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

The five-step model is as follows:

Step 1: Identify contracts with buyers
Contracts concluded by the Group may be verbal or written agreements with business content, but standard business practices may also create a contract. It is also a prerequisite for the contract to create enforceable rights and obligations that can not be cancelled without consequences.

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

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

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

Step 2: Determining the separate obligations relating to the performance of the contract
In this step, it is necessary to determine which promised goods or services, or a combination thereof, can be treated as a separate performance obligation on the basis of the contract. In connection with the performance of the contract, the supplier may specify different incentives. A contract may include multiple obligations. All segregated, detachable goods, services or combinations thereof are considered as separate performance obligations. If a performance obligation can not be determined from the contract, revenue can not be booked.

Step 3: Determining the price of the transaction
The transaction price is the amount that the supplier will be entitled to pay for the goods delivered to the buyer or the service provided as expected. The goal is to make the revenue accrued evenly. In order to account for sales, various factors, such as performance incentives, must be taken into account at a sell-off price over a certain period of time. The amount of these sums should be deducted as sales revenue during the incentive period. The turnover of a transaction (which may differ from the invoiced amount) must be determined by estimation.

Step 4: Assigning the transaction price to the individual obligations
The seller must divide the transaction price between each obligation. If individual prices can not be ordered for each commitment, an estimate of the share should be used

Step 5: Revenue recognition at fulfilment
Revenue can be recognized when the control over the purchased asset or service passes from the seller to the buyer. This can happen over a specific time period or at a specific time. Control is passed if the receiver is able to control the use of the device and is entitled to take advantage of the device.

For example:

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

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

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

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

3.30. Business segments

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

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

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

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

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

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

3.31. Going concern principle

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

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

As an effect of the events described in Note 1, management expected the going concern principle to be discontinued in the 2019 separate financial statements of the Group's subsidiary, EMABIT.

Although IFRSs do not prescribe specific rules when the going concern of an enterprise is endangered, EMABIT nevertheless applied the general IFRS principles (frameworks, definition of assets and liabilities, fair value valuation, etc.) and the related IFRSs during the preparation of the 2019 financial statements. In addition, the application of IFRS 5, IAS 36 and IAS 37 received greater emphasis. However, for some of the assets and liabilities presented in its 2019 separate financial statements, EMABIT did not apply the specific IFRS rules.

Although the going concern principle of the subsidiary was harmed in the 2019 financial statements, the consolidated financial statements were prepared on a going concern basis and the subsidiary should be consolidated as long as it is owned by the Group.

In the fourth quarter of 2020 the Group took steps at the operational level to ensure opportunities for the relaunch of operations – parallel to the intent of insuring guarantee elements at the Group-level as required – after EMABIT implemented the provisions of the recovery plan set by the HFSA, and its solvency position has stabilized, with the aim to strengthen its sales, internal defence lines and capital position following the adoption of EMABIT's strategy. To implement all these objectives, the parent company undertook to carry out the necessary capital increases, enabling EMABIT to continue operating in the long term. Thus, in addition to the non-life segment and the remaining portfolios, the operational planning also plans with the development and sale of new products from 2021 onwards.

On February 8, 2021, the Board of Directors of the Company decided to strengthen the capital position of EMABIT, considering the plans and the ORSA report to relaunch EMABIT for the future. The aim is for EMABIT, as a national insurer, to exploit its market potential. These forecasts include calculations for 3 years, until 2023, in the risk assessment the scenarios that have not yet occurred but are probable, as well as possible different situations during the implementation of the plan have been analyzed. In order to relaunch EMABIT's activities in a prudent manner as set out in the plans and in the ORSA report, the company has decided on guarantees to ensure that the conditions for relaunch are met. The necessary capital for this will be provided by the LIFE Insurer to EMABIT at the latest upon resumption of operations.

In parallel with the approval of the 2020 annual report, the Company states in a letter of support to the management of EMABIT, that it will be able to provide the funds necessary to fulfill the above commitments. In this letter of support the Company further declares that it does not intend to terminate EMABIT and continues to have an obligation to ensure financial, legal and operational compliance with the applicable legal requirements with respect to the operation of the Company. In addition to the completed business plans and the support of the Company, the operation is ensured for at least the next 12 months, therefore the principle of going concern can be maintained for EMABIT based on the opinion of the management.

3.32. Discontinued operations

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

4. ESTIMATES AND ASSUMPTIONS

4.1. Estimates of future benefit payments arising from insurance policies

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

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

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

4.2. Liability adequacy test

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

4.2.1. Estimates and assumptions relating to the model

4.2.1.1. Life insurance segment

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

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

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

4.2.1.2. Non-life insurance segment

The Group has examined for each homogeneous product group the adequacy of provisions formed for the balance sheet date and compliance with future obligations related to all contracts concluded by the balance sheet date or which are in a state of renewal, and all non-rejectable bids. It estimated future liabilities using a simplified combined claim and cost ratio model, which assumes that the accumulated claim reserves can provide adequate coverage for future claim payments and costs already incurred.

The cash flow elements taken into account in the calculation are, on the one hand, payments for claims and cost of claims, payments for acquisition costs, other payments for operating expenses related to the maintenance of contracts, taxes and tax expenses on premiums; on the other hand, future premiums of the examined contracts. As a future premium, only unearned premium reserves formed at the end of 2020 are included in the model's analysis at the end of 2020, as the existing portfolio consists mainly of single premium contracts or group contracts for which the future earned premium cannot be clearly derived from the premium parameters of the current group composition. In the calculation, future expenses are based on premiums of future risks estimated on the basis of unearned premiums.

Past experience is the basis for estimating future claims, which for new premiums may be modified by the average rate adjustment at the turn of the year.

In the model the Group estimated the future costs from empirical data and a plan modeling the current product outflow, given that the cost level in future plans considering full portfolio development represents largely a level necessary for the creation of a new portfolio with a different risk composition.

4.2.2. Estimates and assumptions relating to the parameters

4.2.2.1. Life insurance segment

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

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

Distinguished client-options:

Likelihood of non-payment

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

Cancellation requested by the client, surrender

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

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

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

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

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 2020) were used for discounting cash flows.

4.2.2.2. Non-life insurance segment

The small number of longer-term contracts included in the portfolio are mostly single premium contracts, thus the subsequent risk is covered by the unearned premium reserve. The model only calculates with future cancellation of premiums in connection with the Italian suretyship contracts.

In the case of claim reserves, the Company assumed that the RBNS and IBNR claim reserves and claim costs provide sufficient coverage for future claim payments and costs of claims already incurred.

The Company calculated its expected claim expense for future risks on the basis of the estimated claim ratio per product. For most product groups, the claim ratio was estimated on the basis of the previous year's aggregate premium and empiric data on claims; in the case of products, where further claims are expected, IBNR-type claim ratio was also taken into account. For the Italian suretyship portfolio, the claim ratio was calculated on the basis of most of the available premiums and data on claims, considering the entire period of operation. Claim expense also includes the IBNR reserve, which covers claims due to the extended claim reporting period after the risk expires. The claim ratios were determined without taking into account the expected settlement results, given that in the case of extended guarantees in the property and GAP casco sectors, risks still alive at the end of the year but do not have a significant effect on the result and for the suretyship claims settlement there is no statistically relevant empiric data yet.

The claim ratio assumptions used in the model for the year-end 2020 calculations:

SECTOR	CLAIM RATIO
Casco	26.78%
Property	16.79%
Guarantee (Hungarian)	20.39%
Guarantee (Italian)	80.26%

The cost expense of the upcoming period's risks was estimated using cost ratios, i.e. the ratio of the total cost of the product groups's products' individual costs, and the earned premiums. The product of the cost ratio and the premiums gives the future cost expense of the particular product group.

Cost ratios, taxes and tax expenses per product group:

SECTOR	COST RATIOS, TAXES AND TAX EXPENSES
Casco	71.34%
Property	82.80%
Suretyship (Hungarian)	88.87%
Suretyship (Italian)	51.77%

Estimates of future acquisition, operating and tax expenses for unearned premiums have been made using acquisition and tax expense cost ratios calculated from the 2020 empiric data. The values of these expenses for 2021 were estimated on the basis of the product of the cost ratio and future fees (unearned premiums at the end of 2020, in the current calculation). The previous 2019 LAT investigation on the Italian suretyship product showed significant losses, therefore the Company released the full amount of deferred acquisition costs related to the portfolio, thus, in the current investigation, future premiums are likewise not subject to acquisition costs.

When estimating the future administrative costs of already concluded contracts, the Insurer examined the cost-bearing capacity of the products in the portfolio belonging to these risks. To this end, it has determined the cost at which existing products can be operated under the current conditions. It is assumed that this cost will be covered together by the new premiums in a portfolio linked to the current products and the unearned premiums examined here. The cost used for the LAT investigation was deducted from the future premiums of the entire portfolio of these products in the proportion of the future premiums to be earned for contracts already concluded. Adjusted to other (claims settlement, acquisition, tax expense) cost ratios in the model, the cost determined this way was calculated by dividing the administrative cost ratio with the unearned premiums. The expected remaining maturity of the portfolios was also taken into account when allocating the cost by business line.

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 owned the option was 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 meant 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 had 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 equaled (average price on the market – HUF 210) x number of options. The share based payment was paid only to employees still in contractual relationship with the company and not under employment termination period.

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

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

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

In October 2017, the share based payment program was expanded. Under the terms and conditions of the Employer's program for additional employees, employees are entitled to buy shares per annum once a year (2018-2019) for a given price after the signing of the new share based payment agreement if 100% of the annual profit plan is performed. 1 share option was 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 was subject to the terms and conditions of the previous share based payment program.

During the grant date valuation and the subsequent valuation date valuation of employee share based payments from 2017 was determined using the Cox-Ross-Rubinstein binomial tree method. To determine the value of the options, the risk-free yield for model calculations was determined by the relevant risk-free yield curves published by EIOPA, and the exchange rate standard deviation was determined using the experimental exchange rate data. In assessing this option, the Group took into account the trading data of CIGPANNONIA shares for the last two years. All existing share based payment programs were closed during the year 2020.

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 Organisation is a separate legal entity, over which the CIG Pannónia Life Insurance Plc., as a final mother company, exercises control along the IFRS 10 criteria, as with the application of the remuneration policy it influences the earnings to be distributed, and defines its revenue and liabilities.

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

The main attributes of the benefit are as follows. The date the benefit is granted is the date on which the parties mutually understood the terms of the benefit. This is the date when the parties sign the bonus agreement. The bonus vesting period is the business year to which the bonus agreement applies; the performance criteria must be evaluated for this period. A further three-year deferred performance criterion needs to be applied for the payment of the additional 7-7-7%. IFRS 2 does not lay down specific rules for the valuation of the benefit, but according to IFRS 2 BC106-118 the valuation of a payment principally defined in a fixed amount should not differ whether it is paid in cash or in shares. Based on the above, the Company presents this benefit as the fixed amount's discounted present value against the equity, accounted for continuously for the year of the benefit. In the course of valuation, the Company considers expected changes in performance criteria and vesting conditions using historical data of the previous 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.

5. CHANGES IN ACCOUNTING POLICIES

5.1. The mandatory used standards – from 1 January 2020 – effects on the consolidated on financial statements

For financial year beginning on 1 January 2020, the following new mandatory used standard became applicable, which have influence to 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 16: Exemption of Covid-19-related rental discounts from leasing change rules

5.2. The effects of the mandatory used standards – from 1 January 2021 – on the financial statements

For annual periods beginning on or after 2021, the following new mandatory standards will become effective, which – with the exception of IFRS 9 and IFRS 17 – are not expected to have a material impact on the financial statements:

- IFRS 9, IAS 39, IFRS 7, IFRS 4 Interest rate reference reform – Stage 2 – use of alternative interest rates

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 having started in 2020.

At the end of 2020, after approval by the Board of Directors, by involving external experts the Company accelerated its preparation to comply with IFRS 17, which – similar to the expectations of other players in the sector – will result in a significant change in the Company's accounting results and comparisons with similar companies.

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

6. MANAGEMENT OF INSURANCE RISK

6.1. Introduction and overview

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

The Group sells the following products:

Life insurances

a. *unit-linked policies*

b. *term life insurance policies*

c. *whole-life insurance policies*

d. *endowment life insurance policies*

e. *term-fix endowment life insurance policies*

f. *traditional pension insurance policies*

g. *accident and medical benefit rider*

h. *waiver of premium rider in case of death*

i. *group life- and accident insurance..*

Health insurance

Non-life insurances (In accordance with EMABIT's Solvency Recovery Plan, the Group sold its portfolio of property, liability, transportation and vehicle insurance as part of a portfolio transfer. It managed the risks of the following types of contracts until the sale of the portfolios and the run-off of the remaining portfolios.)

j. *accident and health group policies*

k. *property insurance policies*

l. *liability insurance policies*

m. *motor third party liability insurance policies* *n. casco insurance policies*

o. freight insurance policies

p. extended guarantee insurance policies

q. suretyship-related insurance policies

r. aircraft casco and liability insurance.

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

In connection with the reinsurance fraud detected in 2019, the Group introduced in its non-life segment strict measures regarding reinsurance matters and minimized its own retention risks.

6.2. General principles and tools of Risk Management

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

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

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

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

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

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

3. Risk of our reinsurances' future adequacy

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

6.3. Underwriting strategy

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

Elements of underwriting strategy:

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

6.3.1. *Definition of underwriting limits*

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

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

6.3.2. *Continuous monitoring of limit compliance*

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

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

6.3.3. *Rules on underwriting procedure*

In the case of life insurances, underwriting is managed through a dedicated independent underwriting department, with formal underwriting limits and appropriate training and development of underwriting staff. The underwriting policy is clearly documented, setting out risks which are unacceptable and the terms applicable for non-standard risks, and also establishing decision points and procedures to be followed.

Assessment of health risks is part of the Group's underwriting procedures, whereby premiums are charged to reflect the health condition and family medical history of the future insured. Pricing is based on assumptions, such as mortality and persistency, which consider past experience and current trends. Policies including specific risks and guarantees are tested for profitability according to predefined procedures before approval.

In the case of non-life insurance policies the managers responsible for the development of the products are also the leaders of underwriting. According to the commitment policy the underwriters decide on the acceptance of risks that cannot be accepted automatically, after the thorough examination of such risks.

6.3.4. Pricing of products and regular pricing reviews

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

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

Both product design specialists and the actuaries monitor and check that these are complied with.

The Group continuously monitors the products profitability. Analyses are performed on earnings and changes in liabilities to understand the source of any material variation in actual results from what was expected. This confirms the appropriateness of assumptions used in underwriting and pricing.

6.3.5. Reinsurance policy

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

The Group deemed the following criteria important when selecting reinsurers:

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

6.4. Concentration of insurance risks

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

Risks can be connected for the following reasons:

6.4.1. Geographical diversification

The Group primarily underwrites insurance risks in the territory of the Hungary, but its operations also cover other countries in the region (Slovakia, Romania, Poland, and Italy).

Geographical concentration risk can be managed by extending the area of operations and by balancing the ratios between the areas somewhat (in terms of underwritten risk and premium income).

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

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

6.4.2. Profession group, risk profile ratios out of kilter

Risk concentration can be caused by certain groups of professions or risk profiles becoming over-represented within the portfolio, since in this case, external changes systematically affecting the exposure of a given sub-group can cause major differences in assumptions used for premium calculations.

The Group manages this risk by conditionally excluding certain groups of professions (and certain insured events within the profession segment) and by monitoring the composition of the portfolio.

6.4.3. Demographic risks

Concentration risk in a wider sense is caused by demographic processes and trends affecting the whole population (and thus all insureds), which cause systematic changes in the probability of occurrence of insured events. The most important of such processes currently underway is the increase in life expectancy, which represents a longevity risk for insurance companies.

However, only very few of the Group's current products contain benefits affected by longevity risk, and so the risk is low. Nonetheless, the impact of this process must be contemplated in the future before accepting any longevity risk.

The Company monitors the demographic outcome of the COVID-19 outbreak which started in 2020, and – with regards to the Company – its direct impact on surplus mortality and surplus morbidity.

6.4.4. Customer options

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

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

With the declaration of the emergency situation due to the COVID-19 epidemic, the Company immediately started monitoring repurchases on a weekly basis, and based on the decision of the HFSA submits data to the authorities on a weekly basis (what is still ongoing).

6.4.5. Personnel concentration

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

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

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

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

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

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

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

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

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

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

6.5.2. Term life insurance (Hungary)

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

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

6.5.3. Whole-life insurance (Hungary)

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

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

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

6.5.4. Endowment life insurance (Hungary and Romania)

Terms and conditions:
Regular premium payment endowment life insurance policies contracts provide benefits for the event of death in the course of the term or if the insured is alive at the end of the term.

The risk coverage can optionally be normal (event of death during the term) or extended (event of death during the term, permanent disability due to accident over the term, serious illness diagnosed over the term). Top-up payments can be made for the policies. The policies can be surrendered.

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

There is also the risk that the investment return on the actuarial reserves allocated from regular premiums will be lower than expected.

6.5.5. *Term-fix endowment life insurance (Hungary)*

Terms and conditions:
For life insurance contracts with regular premiums, the Insurer pays the maturity insurance sum at the end of the term, regardless of whether the insured is alive or not. In the event of the death of the insured within the term, beneficiary receives a pre-defined death service, which is selected from a list when concluding the contract.

Additional payments can be done during the insured fixed period. The policy may be surrendered.

Main factors affecting future cash flows:
Key factors affecting future cash flows: the actual development of mortality compared to the assumed, the cancellation and the costs incurred.

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

6.5.6. *Traditional Pension Insurance (Hungary)*

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

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

Main factors affecting future cash flows:
Key factors affecting future cash flows: the risk of cancellations and costs incurred, and the risk of default on investment returns on mathematical reserves earned from regular fees.

Due to the nature of the construction, the actual development of mortality is not a significant risk as compared to the assumed and the sustained damage to health due to the permanent morbidity of the disease compared to the assumed.

6.5.7. *Accident insurance rider (Hungary and Romania)*

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

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

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

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

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

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

6.5.9. Health insurance including claim exemption bonus (Hungary)

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

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

6.5.10. Health insurance rider (Hungary)

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

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

6.5.11. Group Life, Accident & Health 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 contract. Elements of coverage may include: death, dreaded deasease illness, disability, hospital daily allowance, surgical reimbursement, and accident services: accident-related death, disability, hospital daily allowance, surgical reimbursement, burn injury, bone fracture and reimbursement (and their transport and workplace variations). An important segment of accident insurance is the group-managed but individual-based (typically public utility) insurance. Health insurance based on group service-financing is also an insurance managed in a group, but based on individual entry, in which, in addition to payments made on the basis of insured events, the organization and financing of certain medical services are also part of the insurance services. Group insurance does not offer a repurchase option.

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

6.5.12. Property insurance (Hungary)

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

The Insurer sold a significant part of this portfolio during the year 2020, it had no live portfolio on 31 December 2020.

Key factors affecting future cash flows:
At the end of 2020, the risk-bearing of the property insurance contracts within the Insurer' portfolio ended, no future cash flows are expected in their relation.

6.5.13. Liability insurance (Hungary, Poland)

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

The Insurer sold this portfolio during 2020, it had no portfolio on 31 December 2020.

Key factors affecting future cash flows:
At the end of 2020, the risk-bearing of the liability insurance contracts within the Insurer' portfolio ended, no future cash flows are expected in their relation.

6.5.14. Motor third party liability insurance (Hungary)

Terms and conditions:
In the case of motor third party liability insurances the Group will pay for the damage on behalf of the insured, which the insured caused to third persons relating to the operation of a motor vehicle, and he/she is responsible for the damage according to the rules of Hungarian law. The Insurer sold this portfolio during 2020, it had no portfolio on 31 December 2020.

Key factors affecting future cash flows:
As a result of the transfer, the Insurer does not expect any future cash flows in relation to the product.

6.5.15. Casco insurance (Hungary, Poland)

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

The Insurer sold most of this portfolio during the year 2020.

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

6.5.16. Freight insurance (Hungary)

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

The Insurer sold this portfolio during 2020, it had no portfolio on 31 December 2020.

Key factors affecting future cash flows:
Due to the sale of the portfolio, no future cash flows are expected in relation to the product.

6.5.17. Extended guarantee insurance (Hungary, Poland)

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

The Insurer sold a significant part of this portfolio during 2020.

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

6.5.18. Suretyship-related insurance (Hungary, Italy)

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

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

6.5.19. Aircraft insurance

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

The Insurer sold this portfolio during 2020, it had no portfolio on 31 December 2020.

Key factors affecting future cash flows:
Due to the transfer of the portfolio, the future cash flow of the Insurer is not affected by the risks of the product.

6.5.20. **Group credit coverage and income protection insurance**

Terms and conditions:
The Insurer provides services for the risks of the insured's incapacity to work or unemployment.

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

7. CAPITAL ADEQUACY

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

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

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

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

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

The consolidated available solvency capital of the Group as at 31.12.2020 is more than three times as much as the solvency capital requirement, therefore it significantly exceeds the 150 percent Solvency Capital Requirement of the Supervisory Authority (which contains a 50 percentage volatility puffer).

The value of "Solvency Capital that can be taken into account to cover the Solvency Capital Requirement" as of 31.12.2019 includes the amount established in the annual Solvency II report, which has changed slightly compared to the published report.

DATA IN THUF

	31.12.2020	31.12.2019
Available solvency capital for SCR	17 313 834	17 691 296
Available solvency capital for MCR	17 267 353	17 691 296
Solvency capital requirement (SCR)	5 175 849	6 605 430
Minimal capital requirement (MCR)	2 400 000	2 356 000
Solvency capital adequacy (to SCR)	335%	268%
Solvency capital adequacy (to MCR)	719%	751%

8. NET EARNED PREMIUM

DATA IN THUF

	2020	2019 RESTATED
Regular premiums written	16 093 985	14 359 720
Top-up payments, and single premiums	3 224 784	5 533 849
Gross written premiums	**19 318 768**	**19 893 569**
Change in unearned premiums reserve	611 047	38 075
Earned premium, gross	**19 929 815**	**19 931 644**
Ceded reinsurance premiums	-462 770	-503 042
Earned premium, net	**19 467 045**	**19 428 602**

The reason for the restated value of net insurance premium income in 2019 is that the activities held for sale (and sold during 2020) were separated and presented in the income statement reclassified to one line ("Result from assets held for sale"). *(See Note 19.)*

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

Breakdown of gross written premiums by insurance line of businesses:

DATA IN THUF

	2020	2019 RESTATED
Unit-linked insurance product	14 698 332	14 224 667
Traditional life insurance	3 979 990	3 383 689
Health insurance	425 557	432 202
Suretyship and guarantee	33 584	1 745 096
Other non-life insurance	181 306	107 915
Total	**19 318 768**	**19 893 569**

In 2020, from the amount of unit-linked insurance HUF 5,975,113 thousand is pension insurance which product is sold from 2014 (in 2019: HUF 5,242,129 thousands). The traditional pension insurance income in 2020 was HUF 1,208,708 thousand. The pension insurance was HUF 1,118,278 thousand in 2019.

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

DATA IN THUF

	2020	2019 RESTATED
Hungary	19 163 537	18 428 073
Romania	4 523	9 125
Slovakia	171 766	178 362
Lithuania	-	158
Italy	-21 058	1 274 955
Spain	-	2 896
Total	**19 318 768**	**19 893 569**

9. PREMIUM AND COMMISSION INCOME, INVESTMENT CONTRACTS

DATA IN THUF

	2020	2019 RESTATED
Policy-based premiums	99 309	64 618
Fund management fees	58 583	59 341
Premiums related to services	1 186	1 255
Total premium and commission income	**159 078**	**125 214**

10. COMISSION AND PROFIT SHARE DUE TO REINSURANCE

DATA IN THUF

	2020	2019 RESTATED
Commission and profit share due to reinsurance	73 035	104 228
Commission and profit share due to reinsurance	**73 035**	**104 228**

The reason for the restated value of the commission and profit share due to reinsurance in 2019 is that the activities held for sale (and sold during 2020) were separated and presented in the income statement reclassified to one line ("Result from assets held for sale"). *(See Note 19.)*

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

The majority of reinsurance commissions are the result of the non-life segment's reinsurances. The most significant reinsurance commissions were realized by the Group in the suretyship and guarantee sectors.

11. INCOME FROM AND EXPENSES ON INVESTMENTS

DATA IN THUF

	2020	2019 RESTATED
Effective interest income	608 878	778 153
Gains on investment sales	38 257	590 874
Positive fair value change of the share based payments	-	-4 877
Realised gains on derivatives	57 916	40 234
Fair valuation gains on deivatives	15 633	-3 724
Foreign currency gains	134 341	166 807
Fair value change gain	3 781 650	9 218 742
Income from investments	**4 636 675**	**10 786 209**
Share of the profit of associates accounted for using the equity method	**436 244**	**442 301**
Operation expenses on investments	71 637	70 165
Financial reinsurance interest	6 979	21 417
Realized losses on derivatives	-	41 050
Foreign currency losses	39 325	98 638
Realised foreign exchange losses on investments	229 661	1 345 044
Fair value change of the share based payments	-	2 936
Leasing interests	1 970	5 225
Expense on investments	**349 572**	**1 584 475**
Total income from (expenses on) investments	**4 723 347**	**9 644 035**

The reason for the restated value of the results on investments in 2019 is that the activities held for sale (and sold during 2020) were separated and presented in the income statement reclassified to one line ("Result from assets held for sale"). *(See Note 19.)*

Fair value change gain is the 2020 return on customers' unit-linked investments. As an investor, the best returns in 2020 were achieved in the Chinese and the US stock markets, which is also reflected in the performance of asset funds investing in these areas. Among the unit-linked portfolios, the Global Convertible Bond and the Metallicum Commodity Market asset funds also performed outstandingly.

Undoubtedly, the most significant market-moving event in 2020 was the emergence and global spread of the coronavirus: stock markets showed a collapse unprecedented since the 2008 crisis, causing the S&P500 index plummet by 35 percent to mark the low point of 2020. In addition to the extent of the fall, its dynamics were really surprising, as it all happened within just 23 trading days. The panic in March passed thanks to the coordinated monetary and fiscal response, with stock markets returning to their February levels by the end of the Summer and the production of an effective vaccine bringing additional buyers to the markets starting November. As a result, developed stock markets closed the year with an increase of 16.5 percent, while emerging stocks with an increase of 18.5 percent.

In 2020, the Eastern European regional equity market underperformed global emerging equity markets in terms of their own currency, due to the fact that the stock index representing regional equity markets are predominated by financial and energy sectors, which lost significant in value during the period due to the effect of the coronavirus.

International bond indices also closed the period with a positive performance. Bonds from developed markets outperformed emerging market bonds, with an overall positive movement of around 5-8 percent.

In the domestic bond market, the performance of domestic government securities within one year from the beginning of the calendar year was 0.41%-0.44%, the MAX index, which represents securities longer than one year, achieved an annual performance of 1.41% in the calendar year.

In 2020, of the regional currency pairs the EUR/HUF reacted the most to the challenges caused by the coronavirus, with the forint depreciating by 10.5% against the euro. At the same time, the depreciation of 0.89% against the US dollar is far from drastic, which was due to the likewise weakening of the US dollar.

12. OTHER OPERATING INCOME

DATA IN THUF

	2020	2019 RESTATED
Portfolio management income	578 424	690 744
Other technical income	55 248	72 732
Other income	130 928	77 824
Reversal of extraordinary depreciation	41 021	-
Release of provision	32 447	192 556
Other operating income	**838 068**	**1 033 856**

The reason for the restated value of other operating income in 2019 is that the activities held for sale (and sold during 2020) were separated and presented in the income statement reclassified to one line ("Result from assets held for sale"). *(See Note 19.)*

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

Amongst other income HUF 30 million is attributed to commission income of credits intermediated by CIG Pannónia Pénzügyi Közvetítő Plc.

The reversal of extraordinary depreciation is the reversal of the extraordinary depreciation accounted for last year due to the subsidiary's breach of the going concern principle.

Release of provision is detailed under Note 45.

13. NET CLAIM PAYMENTS AND BENEFITS

	2020	2019 RESTATED
Claim payments and benefits for insurance policy holders	12 642 544	15 585 108
Claim adjustment costs	715 458	267 349
Claim refunds	-7 776	-64 789
Claim refunds from reinsurance	-48 772	-30 899
Total net claim payments and benefits	**13 301 454**	**15 756 769**

The reason for the restated value of net claim payments and benefits in 2019 is that the activities held for sale (and sold during 2020) were separated and presented in the income statement reclassified to one line ("Result from assets held for sale"). *(See Note 19.)*

In 2020, 78.8% of claim payments and benefits related to partial and full surrenders of life insurances (in 2019 85.1%), while payment upon death accounted for 6.8% (in 2019 4.3%), matured services accounted for 12.2% (in 2019 8.4%), and other claim payments 2.3% (in 2019 2.2%).

In 2020, a substantial part of claim payments and benefits in the non-life sector – 94% – related to claim payments related to the Italian suretyship (in 2019 92%).

Claim payments and benefits for insurance policy holders was reduced by the amount of the claim refunds on reinsured policies which is HUF 49 million (in 2019 HUF 30 million).

14. CHANGES ON RESERVES

DATA IN THUF

	2020	2019 RESTATED
Net unit-linked reserves increase/(decrease)	3 574 034	5 273 869
Net RBNS increase/(decrease)	556 157	1 541 597
Net mathematical reserve increase/(decrease)	1 143 664	1 336 312
Other net technical reserves increase/(decrease)	-272 269	19 894
Net expected loss reserves increase/(decrease)	44 401	-
Total	**5 045 986**	**8 171 672**

The reason for the restated value of changes on reserves in 2019 is that the activities held for sale (and sold during 2020) were separated and presented in the income statement reclassified to one line ("Result from assets held for sale"). *(See Note 19.)*

Following 2019 the unit-linked insurances increased significantly in 2020 as well, primarily due to the positive returns, which influenced the change in reserves significantly.

The increase of mathematical reserve can mainly be explained by the payments related to pension products.

Changes in further technical provisions include changes in reserves for premium refunds dependent of the result and independent of the result, other reserves and cancellation reserves. A part of reserve for premium refunds dependent of the result – the portion of the unrealized exchange rate difference of available-for-sale financial assets to policyholders – is shown against other comprehensive income.

The expected loss reserve in the non-life segment is the amount of the reserve determined on the basis of the liability compliance test in the suretyship and guarantee sector.

15. COMMISSIONS AND OTHER ACQUISITION COSTS

DATA IN THUF

	2020	2019 RESTATED
Commissions and fees	2 739 692	3 660 433
Changes in deferred acquisition costs	318 520	128 729
Other acquisition costs	776 367	959 884
Total fees, commissions and other acquisition costs	**3 834 579**	**4 749 046**

The reason for the restated value of commissions and other acquisition costs in 2019 is that the activities held for sale (and sold during 2020) were separated and presented in the income statement reclassified to one line ("Result from assets held for sale"). *(See Note 19.)*

Other acquisition costs include expenses related to the operation of the sales networks (salary, IT, office, operating costs, etc.), the costs of sales promotions and the amount of impairment loss recognized on commission receivables (HUF 60 million in 2020; HUF 66 milion in 2019). The impairment loss recognized amounts to HUF 15 million on the life segment, HUF 8 million on the non-life segment and HUF 37 million on the other segment (primarily the CIG Pannónia Financial Intermediary). The other acquisition cost contains the CIG Pannónia Financial Intermediary as a separate sales channel operating cost either.

While in the life segment the decrease in premiums and commissions is primarily due to the decrease in new acquisitions, with increasing renewal fees, in the non-life segment the decrease in commissions is due to the standstill of most of the sales activity.

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

	2020	2019 RESTATED
Salaries	795 362	568 284
Salary contributions and other personal costs	216 465	220 618
Advisory and consultancy services	219 535	163 927
Training costs	5 757	6 753
Marketing and PR costs	5 362	1 398
Administration costs	56 728	103 736
IT services	308 638	267 067
Office rental and operation	89 918	90 960
Travelling, and car expenses	5 075	14 049
Office supplies, phone, bank costs	92 106	101 582
Depreciation and amortisation	252 056	288 909
Other administration costs	140 160	155 115
Other operating costs total	**2 187 162**	**1 982 398**

The reason for the restated value of other operating costs in 2019 is that the activities held for sale (and sold during 2020) were separated and presented in the income statement reclassified to one line ("Result from assets held for sale"). *(See Note 19.)*

The other operating costs increased by HUF 205 million compared to the previous year. This increase is largely due to the increase of salaries, caused by the significant rise in bonuses and premiums. The amount of share-based payments was HUF 8,838 thousand.

Also a significant increase was experienced in IT costs, one of the main reasons for which is the emergence of new costs related to digital sales. The increase in advisory and consultancy fees stems from legal and business advice in the non-life segment, driven by portfolio sales and Italian cases.

Among salaries there was HUF 438,548 thousand related to salary payments of the Group's management in 2020 (HUF 485,103 thousand in 2019).

The Group's significant lease agreement is the agreement of the office for real estate leasing, effective until 31 January 2021. In 2020, the Company paid for short-term office leasing contracts HUF 15,565 thousand (HUF 29,860 thousand in 2019); while the expenses of low value leasing contracts (water dispenser, printers, dirt carpets) totalled HUF 2,694 thousand (HUF 5,397 thousand in 2019).

17. OTHER EXPENSES

DATA IN THUF

	2020	2019 RESTATED
Net expenditure on pending charges	128 699	113 911
Extraordinary depreciation	-	41 021
Insurance tax	44 518	45 301
Other expenses	99 187	55 668
Fines	32 072	132 322
Impairment	21 121	323 858
Loss due to expected termination of contracts related to exited intermediaries	173 888	-
Total other expenses	**499 485**	**712 081**

The reason for the restated value of other expenses in 2019 is that the activities held for sale (and sold during 2020) were separated and presented in the income statement reclassified to one line (“Result from assets held for sale”). *(See Note 19.)*

The recognition of losses due to the expected termination of contracts related to exited intermediaries contains the created provisions for these contracts.

Among fines, the Group discloses a provision of HUF 30 million for the second Italian cross-border audit.

18. TAX INCOME (EXPENSES)

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

The Group accrued losses before 2014, which can be used against future taxable income. In 2020 the Group decreased deferred tax asset by HUF 29 million because the coverable part of the tax loss carried forward decreased.

In the calculation of the corporate tax, the tax benefit on deferred tax accumulated in previous years (HUF 11 million) continued to increase against taxable profit. Accrued losses up to 2015 can be used at longest till 2030.

Based on the Company strategy plans, there will be taxable income in the future which the Group can offset with the loss carried forward. Deferred tax asset in amount of HUF 386 million set at the end of 2020 is expected to be realized, this is the estimated realizable tax-saving effect of the corporate tax rate and the Insurer's business plan on mid-term basis.

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

DATA IN THUF

	2020	2019 RESTATED
Local business tax, innovation contribution	-183 469	-208 645
Corporation tax expenses in reporting year	-35 077	-5 603
Deferred tax expenses/gains	-29 253	-80 278
Total tax income/(expenses) realised in profit statement	**-247 799**	**-294 526**
Deferred tax liabilities arising from available-for-sale financial assets	-	-
Total tax income/(expenses) realised in other comprehensive income	**-**	**-**

In 2019 and 2020 the following asset typed differences arose in profit or loss/other comprehensive income, whose tax-effects have not been recognized in the financial statements, because it is not probable that future taxable profit will be available against which the Group can use the benefits therefrom.

Changes in unrecognized deferred tax

DATA IN THUF

	31 DECEMBER 2020	CHANGE	31 DECEMBER 2019
Deductible temporary differences	2 189 008	29 620	2 159 388
Loss carried forward	9 722 749	156 692	9 566 057
Total	**11 911 755**	**186 312**	**11 725 445**

HUF 66,385 thousand from the unrecognized deferred tax differences would decrease the other comprehensive income (HUF 32,353 thousand in 2019).

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	2020	2019 RESTATED
Profit/loss before taxation	907 884	-344 315
Calculated tax income/(expenses) (9%)	-65 197	49 766
Recognition of the unrecognized deferred tax assets relating to the losses of prior years	29 253	51 224
Unrecognised deferred tax assets on losses in the actual year	-15 150	283 203
Other unrecognized temporary differences	-2 666	-129 978
Permanent differences	10 569	-340 096
Local business tax, innovation contribution	-183 469	-208 645
Total tax income (expenses)	**-247 799**	**-294 526**

19. RESULT OF ASSETS HELD FOR SALE

As described in Notes 1 and 3.32, the criteria held for sale in relation to EMABIT, i.e. the total non-life segment, were met in accordance with IFRS 5 in parallel with the Group's portfolio transfer decision in early 2020, therefore it classified its entire non-life segment portfolio as held for sale in its 2019 consolidated financial statements. This is because, in the case of the entire non-life segment, the criterion that it was ready for sale in its present condition at that time was met. The Group has commissioned an international consulting firm to sell its entire non-life portfolio, which has begun to identify potential buyers and negotiations have begun between the parties. In accordance with the above accounting policy, the Group has measured the portfolio held for sale at book value, as the expected fair value less costs to sell was higher than the book value. Fair value less costs to sell was the expected purchase price, less legal, consulting and data room service costs.

In the consolidated financial statements for 2019, the Group presented its non-life segment insurance portfolio in accordance with IFRS 5 separated, as a discontinued operation. That is, the full result of the non-life segment appeared on a single line in the consolidated statement of comprehensive income. Similarly, all assets and liabilities of the non-life segment appeared in the consolidated statement of financial position in 2019 as single report lines.

In 2020, as detailed in Note 1, as a result of the remedial measures, EMABIT's Solvency Capital Requirement increased to 147% by 30 June 2020, including the imposition of the additional capital requirement, its capital position was restored; at the end of 2020 capital adequacy was 114%.

On 7 September 2020 the HFSA with its resolutions No. H-EN-15/2020 lifted the ban imposed on EMABIT regarding conclusion of new insurance contracts and the extension of existing contracts in all sectors of operation in Hungary with a view to restoring the capital adequacy, while for its cross-border activities in Italy decided to maintain the restrictions for another year.

In the fourth quarter of 2020 the Group took steps at the operational level to ensure opportunities for the relaunch of operations – parallel to the intent of insuring guarantee elements at the Group-level as required – after EMABIT implemented the provisions of the recovery plan set by the HFSA, and its solvency position has stabilized, with the aim to strengthen its sales, internal defence lines and capital position following the adoption of EMABIT's strategy. To implement all these objectives, the parent company undertook to carry out the necessary capital increases, enabling EMABIT to continue operating in the long term. Thus, in addition to the non-life segment and the remaining portfolios, the operational planning also plans with the development and sale of new products from 2021 onwards. In addition to the finalized business plans and the support of the parent company, the operation is ensured for at least the next 12 months, therefore the principle of business continuity can be maintained.

As a result of all these steps, the above definition of IFRS 5 for "held for sale" is no longer appropriate for the entire non-life segment at the time of the 2020 financial statements' preparation. For the Italian suretyship portfolio the criteria are no longer valid due to the unlikely scenario of the sale of the portfolio, despite the fact that the Insurer has not accepted new contracts for more than a year. Of the Insurer's existing and unsold portfolios (group credit coverage insurance, group income insurance, Hungarian suretyship insurance, Italian suretyship insurance, Hungarian and Polish extended guarantee and gap casco insurance), "held for sale" is only applicable to the smaller Hungarian and Polish extended guarantee and gap casco portfolio, which are indeed still held for sale.

For this reason, additional current live portfolios will appear as continuing operations in the 2020 separate and consolidated financial statements. According to IFRS 5, the data of the comparative period are included in the consolidated statement of financial position and the consolidated statement of comprehensive income for comparability in such a way that only the effects of the assets actually sold or currently held for sale are shown in the lines of the result of assets held for sale, assets held for sale, and liabilities held for sale.

The following tables show the effects of the reclassification in the consolidated financial statements for 2019 and 2020 and in the consolidated statement of comprehensive income.

DATA IN THUF

ASSETS	CONSOLIDATED DATA BEFORE RECLASSIFICATION	RECLASSIFICATION OF ASSETS HELD FOR SALE	31.12.2020
Intangible Assets	570 251	-	570 251
Property, plant and equipment	58 158	-	58 158
Right of use assets	58 059	-	58 059
Deferred tax asset	386 022	-	386 022
Deferred acquisition costs	1 214 601	-	1 214 601
Reinsurer's share of technical reserves	681 414	-59 219	622 195
Investments accounted for using the equity method	641 372	-	641 372
Available-for-sale financial assets	27 484 180	-22 629	27 461 551
Investments for policyholders of unit-linked life insurance policies	74 121 735	-	74 121 735
Financial assets – investment contracts	4 230 068	-	4 230 068
Financial assets – derivatives	11 106	-	11 106
Receivables from insurance policy holders	1 764 661	-	1 764 661
Receivables from insurance intermediaries	88 955	-11 149	77 806
Receivables from reinsurance	58 673	-2 300	56 373
Other assets and prepayments	224 784	-199 112	25 672
Other receivables	240 688	-	240 688
Cash and cash equivalents	862 255	-	862 255
Assets held for sale	-	294 409	294 409
Total assets	**112 696 982**	**-**	**112 696 982**

LIABILITIES			
Technical reserves	17 258 704	-194 482	17 064 222
Technical reserves for policyholders of unit-linked life insurance policies	74 121 735	-	74 121 735
Investment contracts	4 230 068	-	4 230 068
Financial liabilities-derivatives	-	-	-
Loans and financial reinsurance	149 901	-	149 901
Liabilities from reinsurance	166 276	-4 038	162 238
Liabilities to insurance policy holders	665 081	-	665 081
Liabilities to insurance intermediaries	245 155	-95	245 060
Lease liabilities	59 880	-	59 880
Other liabilities and provisions	1 886 198	-183	1 886 015
Liabilites to shareholders	19 929	-	19 929
Liabilities held for sale	-	198 798	198 798
Total liabilities	**98 802 927**	**-**	**98 802 927**
NET ASSETS	**13 894 055**	**-**	**13 894 055**

DATA IN THUF

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME	CONSOLIDATED DATA BEFORE RECLASSIFICATION	RECLASSIFICATION OF ASSETS HELD FOR SALE	2020
Gross written premium	22 043 883	-2 725 115	19 318 768
Changes in unearned premiums reserve	1 077 019	-465 972	611 047
Earned premiums, gross	23 120 902	-3 191 087	19 929 815
Ceded reinsurance premiums	-2 508 361	2 045 591	-462 770
Earned premiums, net	**20 612 541**	**-1 145 496**	**19 467 045**
Premium and commission income from investment contracts	159 078	-	159 078
Commission and profit sharing due from reinsurers	619 204	-546 169	73 035
Investment income	4 636 675	-	4 636 675
Yield on investment accounted for using equity method	436 244	-	436 244
Other operating income	1 156 213	-318 145	838 068
Other income	**7 007 414**	**-864 314**	**6 143 100**
Total income	**27 619 955**	**-2 009 810**	**25 610 145**
Claim payments and benefits, claim settlement costs	-14 597 528	1 247 302	-13 350 226
Recoveries, reinsurer's share	1 109 017	-1 060 245	48 772
Net changes in value of the life technical reserves and unit-linked life insurance reserves	-4 712 134	-333 852	-5 045 986
Investment expenses	-349 572	-	-349 572
Change in the fair value of liabilities relating to investment contracts	-273 975	-	-273 975
Investment expenses, changes in reserves and benefits, net	**-18 824 192**	**-146 795**	**-18 970 987**
Fees, commissions and other acquisition costs	-4 904 909	1 070 330	-3 834 579
Other operating costs	-2 280 116	92 954	-2 187 162
Other expenses	-702 854	203 369	-499 485
Operating costs	**-7 887 879**	**1 366 653**	**-6 521 226**
Result of assets held for sale	-	**789 952**	**789 952**
Profit/Loss before taxation	**907 884**	**-**	**907 884**
Tax income/expenses	-218 546	-	-218 546
Deferred tax income/expenses	-29 253	-	-29 253
Profit/Loss after taxation	**660 085**	**-**	**660 085**
Comprehensive income, would be reclassified to profit or loss in the future	-375 949	-	-375 949
Other comprehensive income	**-375 949**	**-**	**-375 949**
Total comprehensive income	**284 136**	**-**	**284 136**

Data of the comparative period:

DATA IN THUF

ASSETS	31.12.2019	RECLASSIFICATION OF DISCONTINUED OPERATIONS	RECLASSIFICATION OF ASSETS HELD FOR SALE	31.12.2019 RESTATED
Intangible Assets	614 258	32 210	-	646 468
Property, plant and equipment	97 240	10 424	-	107 664
Right of use assets	119 255	25 532	-	144 787
Deferred tax asset	415 275	-	-	415 275
Deferred acquisition costs	1 373 661	1 128 820	-969 699	1 532 782
Reinsurer's share of technical reserves	243 387	3 666 515	-3 447 189	462 713
Investments accounted for using the equity method	565 787	-	-	565 787
Available-for-sale financial assets	19 710 234	7 018 857	-1 799 744	24 929 347
Investments for policyholders of unit-linked life insurance policies	70 547 706	-	-	70 547 706
Financial assets – investment contracts	3 984 403	-	-	3 984 403
Financial assets – derivatives	-	-	-	-
Receivables from insurance policy holders	1 953 093	299 436	-292 684	1 959 845
Receivables from insurance intermediaries	41 096	198 253	-116 152	123 197
Receivables from reinsurance	8 614	146 218	-107 472	47 360
Other assets and prepayments	13 261	245 157	-194 515	63 903
Other receivables	220 486	80 024	-	300 510
Cash and cash equivalents	1 487 230	286 383	-	1 773 613
Assets held for sale	-	-	6 927 455	6 927 455
Assets of discontinued operations	13 137 389	-13 137 389		
Total assets	**114 532 375**	**440**	**-**	**114 532 815**

LIABILITIES	31.12.2019	RECLASSIFICATION OF DISCONTINUED OPERATIONS	RECLASSIFICATION OF ASSETS HELD FOR SALE	31.12.2019 RESTATED
Technical reserves	13 233 374	8 070 348	-5 505 675	15 798 047
Technical reserves for policyholders of unit-linked life insurance policies	70 547 706	-	-	70 547 706
Investment contracts	3 984 403	-	-	3 984 403
Financial liabilities-derivatives	4 528	-	-	4 528
Loans and financial reinsurance	435 613	-	-	435 613
Liabilities from reinsurance	94 681	1 209 501	-1 089 054	215 128
Liabilities to insurance policy holders	437 585	274 320	-248 801	463 104
Liabilities to insurance intermediaries	268 457	237 091	-	505 548
Lease liabilities	124 438	28 034	-	152 472
Other liabilities and provisions	732 353	1 223 805	-83 925	1 872 233
Liabilites to shareholders	25 495	-	-	25 495
Liabilities held for sale	-	-	6 927 455	6 927 455
Liabilities of discontinued operations	11 042 659	-11 042 659		
Total liabilities	**100 931 292**	**440**	**-**	**100 931 732**
NET ASSETS	**13 601 083**	**-**	**-**	**13 601 083**

DATA IN THUF

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME	2019	RECLASSIFICATION OF DISCONTINUED OPERATIONS	RECLASSIFICATION OF ASSETS HELD FOR SALE	31.12.2019 RESTATED
Gross written premium	18 040 559	9 450 349	-7 597 339	19 893 569
Changes in unearned premiums reserve	-156 943	-61 637	256 655	38 075
Earned premiums, gross	17 883 616	9 388 712	-7 340 684	19 931 644
Ceded reinsurance premiums	-248 899	-4 960 935	4 706 792	-503 042
Earned premiums, net	**17 634 717**	**4 427 777**	**-2 633 892**	19 428 602
Premium and commission income from investment contracts	125 214	-	-	125 214
Commission and profit sharing due from reinsurers	1 708	1 836 712	-1 734 192	104 228
Investment income	10 268 788	517 421	-	10 786 209
Yield on investment accounted for using equity method	442 301	-	-	442 301
Other operating income	874 832	159 024	-	1 033 856
Other income	**11 712 843**	**2 513 157**	**-1 734 192**	**12 491 808**
Total income	**29 347 560**	**6 940 934**	**-4 368 084**	**31 920 410**
Claim payments and benefits, claim settlement costs	-14 459 128	-4 846 842	3 518 302	-15 787 668
Recoveries, reinsurer's share	28 329	2 892 504	-2 889 934	30 899
Net changes in value of the life technical reserves and unit-linked life insurance reserves	-7 092 703	-993 076	-85 893	-8 171 672
Investment expenses	-1 373 869	-210 606	-	-1 584 475
Change in the fair value of liabilities relating to investment contracts	-458 480	-	-	-458 480
Investment expenses, changes in reserves and benefits, net	**-23 355 851**	**-3 158 020**	**542 475**	**-25 971 396**
Fees, commissions and other acquisition costs	-3 585 762	-3 487 263	2 323 979	-4 749 046
Other operating costs	-1 393 247	-589 151	-	-1 982 398
Other expenses	-234 773	-828 742	351 434	-712 081
Operating costs	**-5 213 782**	**-4 905 156**	**2 675 413**	**-7 443 525**
Result of assets held for sale	**-**	**-**	**1 150 196**	**1 150 196**
Profit/Loss before taxation	**777 927**	**-1 122 242**	**-**	**-344 315**

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME	2019	RECLASSIFICATION OF DISCONTINUED OPERATIONS	RECLASSIFICATION OF ASSETS HELD FOR SALE	31.12.2019 RESTATED
Tax income/expenses	-171 587	-42 661	-	-214 248
Deferred tax income/expenses	54 314	-134 592	-	-80 278
Profit/Loss after taxation	**660 654**	**-1 299 495**	**-**	**-638 841**
Profit/Loss after taxation of discontinued operations	**-1 299 495**	**1 299 495**	**-**	**-**
Total Profit/Loss after taxation	**-638 841**	**-**	**-**	**-638 841**
Comprehensive income, would be reclassified to profit or loss in the future	273 397	42 007	-	315 404
Other comprehensive income	**273 397**	**42 007**	**-**	**315 404**
Other comprehensive income of discontinued operations	**42 007**	**-42 007**		**-**
Total other comprehensive income	**315 404**		**-**	**315 404**
Total comprehensive income	**-323 437**		**-**	**-323 437**

20. OTHER COMPREHENSIVE INCOME

DATA IN THUF

	2020	2019 RESTATED
Other comprehensive income which can be reclassified to profit or loss in the future	-375 949	315 404
Total other comprehensive income	**-375 949**	**315 404**

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

21. EARNINGS PER SHARE

DATA IN THUF

	2020	2019 RESTATED
Profit/loss after taxation attributable to the Company's shareholders (HUF thousand)	667 799	-634 915
Weighted average number of ordinary shares (thousand)	94 054 254	93 965 761
Earnings per share (basic) (HUF)	**7,1**	**-6,8**

	2020	2019
Modified profit/loss after taxation attributable to the Company's shareholders (HUF thousand)	667 799	-634 915
Weighted average number of ordinary shares (thousand)	94 428 260	94 242 423
Calculated earnings per share (diluted) (HUF)	7,1	-6,7
Earnings per share (diluted) (HUF)	**7,1**	**-6,8**

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

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

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

Earnings per share was HUF 7.1. According to IFRS, the maximum value of calculated diluted EPS (HUF -6.9) can be maximum equivalent with the amount of the basic EPS. In diluted earnings per share the treasury shares transferred to MRP were trated as dilution effect, because those may increase the average number of outstanding shares if will be called. The dilution effect is less than 0.1 HUF.

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

2020

DATE	ISSUED ORDINARY SHARE (ITEM)	TREASURY SHARES (ITEM)	NUMBER OF SHARES OUTSTANDING (ITEM)	NUMBER OF DAYS*	WEIGHTED AVERAGE
31.12.2019	94 428 260	-374 006	94 054 254	366	94 054 254
31.12.2020	**94 428 260**	**-374 006**	**94 054 254**	**366**	**94 054 254**

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	-374 006	94 054 254	270	69 574 380
31.12.2019	**94 428 260**	**-374 006**	**94 054 254**	**365**	**93 965 761**

22. INTANGIBLE ASSETS

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

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

The decrease in intellectual property is related to intangible assets that the Company no longer uses and has therefore removed from its books.

The reason for the restated value of intangible assets in 2019 is that the activities held for sale (and sold during 2020) were separated and presented in the income statement reclassified to one line ("Assets held for sale"). *(See Note 19.)*

DATA IN THUF

31.12.2020	INTELLECTUAL PROPERTY, ASSETS VALUE RIGHTS	PREMIUM PAID FOR THE TRANSFER OF THE INSURANCE PORTFOLIO	GOODWILL	TOTAL INTANGIBLE ASSETS
Cost				
01.01.2020	3 268 885	-	37 613	3 306 498
Increase	150 332	-	-	150 332
Decrease	-732 148	-	-	732 148
31.12.2020	2 687 069	**-**	**37 613**	**2 724 682**
Accumulated amortization, impairment				
01.01.2020	-2 622 418	-	-37 613	-2 660 031
Increase	-259 885	-	-	-259 885
Decrease	765 485	-	-	765 485
31.12.2020	**-2 116 818**	**-**	**-37 613**	**-2 154 431**
Net book value	**570 251**	**-**	**-**	**570 251**

DATA IN THUF

31.12.2019	INTELLECTUAL PROPERTY, ASSETS VALUE RIGHTS	PREMIUM PAID FOR THE TRANSFER OF THE INSURANCE PORTFOLIO	GOODWILL	TOTAL INTANGIBLE ASSETS
Cost				
01.01.201	3 092 538	30 000	37 613	3 160 151
Increase	176 347	-	-	176 347
Decrease	-	-30 000	-	-30 000
31.12.2019	**3 268 885**	**-**	**37 613**	**3 306 498**
Accumulated amortization, impairment				
01.01.2019	-2 290 346	-30 000	-37 613	-2 357 959
Increase	-332 072	-	-	-332 072
Decrease	-	30 000	-	30 000
31.12.2019	**-2 622 418**	**-**	**-37 613**	**-2 660 031**
Net book value	**646 467**	**-**	**-**	**646 467**

23. PROPERTY, PLANT AND EQUIPMENT

DATA IN THUF

31.12.2020	MOTOR VEHICLES	OFFICE FURNITURE, EQUIPMENT	REAL ESTATES	WORK IN PROGRESS	TOTAL
Cost					
01.01.2020	85 014	241 961	70 719	7 901	405 595
Increase	10 484	15 729	1 070	-	27 283
Decrease	-47 857	-76 275	-5 179	-4 378	-133 689
31.12.2020	**47 641**	**181 415**	**66 610**	**3 523**	**299 189**
Accumulated amortization					
01.01.2020	-35 701	-196 013	-66 218	-	-297 932
Increase	-11 324	-17 733	-1 201	-	-30 258
Decrease	20 558	65 609	992	-	87 159
31.12.2020	**-26 467**	**-148 137**	**-66 427**	**-**	**-241 031**
Net book value	**21 174**	**33 278**	**183**	**3 523**	**58 158**

DATA IN THUF

31.12.2019	MOTOR VEHICLES	OFFICE FURNITURE, EQUIPMENT	REAL ESTATES	WORK IN PROGRESS	TOTAL
Cost					
01.01.2019	67 794	263 810	66 410	5 817	403 831
Increase	22 135	37 911	4 309	2 084	66 439
Decrease	-4 915	-59 760	-	-	-64 675
31.12.2019	**85 014**	**241 961**	**70 719**	**7 901**	**405 595**
Accumulated amortization					
01.01.2019	-26 849	-231 219	-64 777	-	-322 845
Increase	-10 200	-25 656	-1 441	-	-37 297
Decrease	1 348	60 862	-	-	62 210
31.12.2019	**-35 701**	**-196 013**	**-66 218**	**-**	**-297 932**
Net book value	**49 313**	**45 948**	**4 501**	**7 901**	**107 663**

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

In 2020 IT equipments, small value office equipments and furnitures were written off, therefore the office furniture and equipment coloumn decreased.

The reason for the restated value of property, plant and equipment in 2019 is that the activities held for sale (and sold during 2020) were separated and presented in the income statement reclassified to one line ("Assets held for sale"). *(See Note 19.)*

24. RIGHT OF USE ASSETS

DATA IN THUF

31.12.2020	OFFICE LEASING	CAR LEASING	TOTAL
Cost			
01.01.2020 -Adding leased assets	273 298	-	273 298
Increase	39 193	25 729	64 922
Decrease	-94 785	-	-94 785
31.12.2020	217 707	25 729	243 436
Accumulated amortization			
01.01.2020 Adding accumulated amortization of leased assets	-128 511	-	-128 511
Increase	-80 051	-688	-80 739
Decrease	23 873	-	23 873
31.12.2020	-184 689	-688	-185 377
Net book value	**33 018**	**25 041**	**58 059**

DATA IN THUF

31.12.2019	RIGHT OF USE ASSETS	TOTAL
Cost		
01.01.2019. -Adding leased assets	186 065	186 065
Increase	87 233	87 233
Decrease	-	-
31.12.2019	**273 298**	**273 298**
Accumulated amortization		
01.01.2019. Adding accumulated amortization of leased assets	-57 048	-57 048
Increase	-71 462	71 462
Decrease	-	-
31.12.2019	**-128 511**	**-128 511**
Net book value	**144 787**	**144 787**

The reason for the restated value of right of use assets in 2019 is that the activities held for sale (and sold during 2020) were separated and presented in the income statement reclassified to one line ("Assets held for sale"). *(See Note 19.)*

The leased assets are constituted by the property rental of the Company's headquarter building and, since 2020, car rental.

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.

25. DEFERRED ACQUISITION COSTS

DATA IN THUF

DEFERRED ACQUISITION COSTS	31.12.2020	31.12.2019
Balance on 1 January	1 532 782	2 603 245
Net change in deferred acquisition costs	-318 181	-100 765
Assets held-for-sale reclassification	-	-969 698
Balance on 31 December	**1 214 601**	**1 532 782**

The reason for the restated value of deferred acquisition costs in 2019 is that the activities held for sale (and sold during 2020) were separated and presented in the income statement reclassified to one line ("Assets held for sale"). *(See Note 19.)*

In the case of deferred acquisition costs, the Insurer used the valuation method set by its previous accounting policy, taking into account, whether there will be future income against the deferred acquisition costs, which can make up for them. As the LAT calculation for the Italian suretyship portfolio is not expected to recover the deferred acquisition cost, all deferred acquisition costs for Italian products have been eliminated already in 2019. Based on the LAT calculation, a part of the deferred acquisition costs related to the Hungarian suretyship portfolio (in the amount of HUF 19 million) was impaired.

26. INVESTMENTS ACCOUNTED BY EQUITY METHOD

DATA IN THUF

	31.12.2020	31.12.2019
MKB-Pannónia Fund Manager Ltd.	641 372	565 787
Investment accounted by equity method	**641 372**	**565 787**

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

The yearly revenue of MKB-Pannónia Fund Manager Ltd. in 2020 was HUF 5,810 million, while the profit after taxation was HUF 4,252 million, of which HUF 436 million is the Group's share.

The allocation of the profit of MKB-Pannónia Fund Manager Ltd. among its owners based not on their ownership stake, but also the allocation of the profit among the owners is according to their rate of contribution to the results of the Fund Manager. More profit centres were set up at the Fund Manager and the allocation of the results to the profit centres is based on the Profit Centre Allocation Regulation. From 2015 on the Group's part of the result is the result of the insurance profit centre. In 2020, 10.26% percent of the result of the Fund Manager was allocated to the Group.

The Group obtained dividend from jointly controlled company was amount to HUF 342 million in 2019, and HUF 361 million in 2020.

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

The Group's part of the capital of the MKB-Pannónia Fund Manager in 2020 and in 2019:

DATA IN THUF

2019	SHARE CAPITAL	RETAINED EARNINGS OF PREVIOUS YEARS	AFTER TAX PROFIT	SHAREHOLDERS' EQUITY
Fund Manager	306 120	957 498	4 252 498	5 516 116
Group's share	16%	16.32%	10.26%	
Capital per Group	**48 980**	**156 235**	**436 156**	**641 371**

DATA IN THUF

2019	SHARE CAPITAL	RETAINED EARNINGS OF PREVIOUS YEARS	AFTER TAX PROFIT	SHAREHOLDERS' EQUITY
Fund Manager	306 120	456 827	3 854 491	4 617 438
Group's share	16%	16.31%	11.48%	
Capital per Group	**48 980**	**74 492**	**442 314**	**565 786**

MAIN DATA OF THE FINANCIAL STATEMENTS OF MKB-PANNÓNIA FUND MANAGER LTD.*

DATA IN THUF

BALANCE SHEET	31 DECEMBER 2020	31 DECEMBER 2019
Current assets	5 794 296	5 246 005
• of which cash	257 360	100 813
• of which securities	3 286 664	2 931 172
Investments	267 912	248 348
Total Assets	**6 062 208**	**5 494 353**
Short-term liabilities	141 836	75 027
Other liabilities and provisions	404 256	751 888
Provisions	0	50 000
Total Liabilities	**6 062 208**	**5 494 353**
Net assets	**5 516 116**	**4 617 438**
Share capital	306 120	306 120
Retained earnings	5 209 996	4 311 318
Total Shareholder's Equity	**5 516 116**	**4 617 438**

DATA IN THUF

INCOME STATEMENT	31 DECEMBER 2020	31 DECEMBER 2019
Net sales revenue	**5 810 312**	**5 897 796**
Other incomes	64 279	20 844
Material expenses	649 141	606 257
Personal expenses	391 760	890 575
Amortisation and depreciation	44 517	25 857
Costs of (intermediated) services sold	-	-
Other costs	165 391	211 973
Operating profit	**4 623 782**	**4 183 978**
Financial incomes	105 608	58 868
• of which interest income	91 215	49 999
Financial expenses	61 006	2 393
Financial result	**44 602**	**56 475**
Profit before tax	**4 668 384**	**4 240 453**
Corporate tax	415 886	385 962
Profit after tax	**4 252 498**	**3 854 491**

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

27. AVAILABLE-FOR-SALE FINANCIAL ASSETS

DATA IN THUF

	31.12.2020	31.12.2019 RESTATED
Corporate bonds	224 989	-
Equities	1 984 834	2 329 784
Investment funds	514 842	-
Government bonds, discounted T-bills	24 736 886	22 599 563
Total available-for-sale financial assets	**27 461 551**	**24 929 374**

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

The reason for the restated value of available-for-sale financial assets in 2019 is that the activities held for sale (and sold during 2020) were separated and presented in the income statement reclassified to one line (“Assets held for sale”). *(See Note 19.)*

28. INVESTMENTS FOR POLICYHOLDERS OF UNIT-LINKED LIFE INSURANCE POLICIES

DATA IN THUF

	31 DECEMBER 2020	31 DECEMBER 2019
Equities	15 082 652	13 961 060
Government bonds, discounted T-bills	7 319 828	5 115 457
Corporate bonds	-	11 540
Investment funds	48 836 527	47 752 582
Derivative instruments	30 419	-5 304
Cash, and cash equivalent	2 992 216	3 833 462
Other investments	-139 907	-121 092
Total investments for policyholders of unit-linked life insurance policies	**74 121 735**	**70 547 706**

Investments executed for policyholders of unit-linked life insurance policies ensue in separate the Group unit-linked funds in accordance with policy terms and conditions. At the end of 2019 the Group had 79 segregated unit-linked funds, which hasn’t changed in the end of 2020. The executed investments are invested into various financial instruments depending on the investment policy of the unit-linked funds. Cash on account that is not invested – but is part of the unit-linked fund – is recognized within the unit-linked fund as cash. The derivative instruments are currency forward transactions in the unit-linked funds.

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

29. FINANCIAL ASSETS – INVESTMENT CONTRACTS

DATA IN THUF

	31 DECEMBER 2020	31 DECEMBER 2019
Equities	860 755	788 495
State bonds, discounted T-bills	417 737	288 911
Corporate bonds	-	652
Investment funds	2 787 061	2 696 977
Derivative instruments	1 736	-300
Cash and cash equivalents	170 763	216 507
Other investments	-7 984	-6 839
Total financial assets – investment contracts	**4 230 068**	**3 984 403**

Investments for policyholders of unit-linked life insurance policies and Financial assets – investment contracts contain investment funds investing in closed investment funds managed by MKB-Pannónia Fund Manager Ltd. the associate company of the Insurer. Determinative part of these funds (Pannónia CIG Oraculum Alap, Pannónia CIG Hazai Részvény Indexkövető Alap) were owned by the Group at the end of 2020.

The following table shows the asset composition of these funds:

DATA IN THUF

PANNÓNIA CIG FUNDS' UNDERLYING INVESTMENTS	31 DECEMBER 2020	31 DECEMBER 2019
Equities	4 781 091	3 698 030
Government bonds, discounted T-bills	384 511	1 084 516
Corporate bonds	790 048	113 674
Investment funds	1 648 517	976 951
Cash and cash equivalents	314 255	1 883 934
Other investments	634 932	-12 946
Total	**8 553 354**	**7 744 159**

30. INSURANCE RECEIVABLES FROM POLICY HOLDERS

DATA IN THUF

	31 DECEMBER 2020	31 DECEMBER 2019 RESTATED
Insurance premium receivables from policy holders	1 477 346	1 543 831
Pending charge receivables	287 315	416 014
Total of insurance receivables from policy holders	**1 764 661**	**1 959 845**

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

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

The reason for the restated value of insurance receivables from policy holders in 2019 is that the activities held for sale (and sold during 2020) were separated and presented in the income statement reclassified to one line ("Assets held for sale"). *(See Note 19.)*

31. RECEIVABLES FROM INSURANCE INTERMEDIARIES

DATA IN THUF

	31 DECEMBER 2020	31 DECEMBER 2019 RESTATED
Receivables from insurance brokers gross	419 222	578 455
Receivables from insurance brokers-impairment	-341 416	-455 258
Total of receivables from insurance intermediaries	**77 806**	**123 197**

Receivables on insurance intermediaries mainly include claims receivables from the repayment of commission to non-active (discontinued) brokers, which have not changed in net value significantly compared to 2019. In case of the non-life segment the decrease of the receivables from insurance brokers can be explained by decrease of receivables of the net accounting brokers.

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

The reason for the restated value of receivables from insurance intermediaries in 2019 is that the activities held for sale (and sold during 2020) were separated and presented in the income statement reclassified to one line (“Assets held for sale”). *(See Note 19.)*

32. RECEIVABLES FROM REINSURERS

DATA IN THUF

	31 DECEMBER 2020	31 DECEMBER 2019 RESTATED
Receivables from reinsurers	92 686	83 672
Impairment of receivables from reinsurers	-36 312	-36 312
Total of receivables from reinsurers	**56 373**	**47 360**

The reason for the restated value of receivables from reinsurers in 2019 is that the activities held for sale (and sold during 2020) were separated and presented in the income statement reclassified to one line (“Assets held for sale”). *(See Note 19.)*

33. OTHER ASSETS AND PREPAYMENTS

DATA IN THUF

	31 DECEMBER 2020	31 DECEMBER 2019 RESTATED
Prepaid expenses	22 125	54 404
Interest, rental fees, and other accrued income	1 240	2 782
Inventories	2 307	6 717
Total of other assets and prepaid expenses and accrued income	**25 672**	**63 903**

The reason for the restated value of other assets and repayments in 2019 is that the activities held for sale (and sold during 2020) were separated and presented in the income statement reclassified to one line ("Assets held for sale"). *(See Note 19.)*

34. OTHER RECEIVABLES

DATA IN THUF

	31 DECEMBER 2020	31 DECEMBER 2019 RESTATED
Customer receivables	3 639	10 684
Loans granted	27 725	47 490
Receivables from investment fund management	48 138	55 828
Advance payments to suppliers and state	131 325	145 950
Other receivables	4 862	15 556
Purchase of shares advance payment	25 000	25 000
Total of other receivables	**240 688**	**300 510**

Other receivables decreased compared to 2019 mainly due to a decrease in advances and the repayment of specific loans.

The reason for the restated value of other receivables in 2019 is that the activities held for sale (and sold during 2020) were separated and presented in the income statement reclassified to one line ("Assets held for sale"). *(See Note 19.)*

35. CASH AND CASH EQUIVALENTS

DATA IN THUF

	31 DECEMBER 2020	31 DECEMBER 2019
Demand deposits	862 255	1 773 613
Total cash and cash equivalents	**862 255**	**1 773 613**

The reason for the restated value of cash and cash equivalents in 2019 is that the activities held for sale (and sold during 2020) were separated and presented in the income statement reclassified to one line ("Assets held for sale"). *(See Note 19.)*

36. TECHNICAL RESERVES AND RE-INSURER'S SHARE THEREOF

DATA IN THUF

GROSS VALUE OF TECHNICAL RESERVES	31 DECEMBER 2020	31 DECEMBER 2019 RESTATED
Unearned premium reserve	1 020 557	1 630 969
Actuarial reserves	8 732 595	7 589 141
Reserve for premium refunds dependent on profit	1 024 379	1 148 380
Reserve for premium refunds independent of profit	64 892	32 402
Claim reserves:	3 486 662	2 662 288
• RBNS	3 159 889	2 302 960
• IBNR	326 773	359 329
Cancellation reserve	1 100 767	1 264 374
Other reserve	1 634 370	1 470 493
• Reserve for policyholder's loyalty bonuses	1 589 969	1 470 493
• Reserve for expected losses	44 401	-
Total technical reserves	**17 064 222**	**15 798 047**

The reason for the restated value of technical reserves and re-insurer's share thereof in 2019 is that the activities held for sale (and sold during 2020) were separated and presented in the income statement reclassified to one line ("Assets held for sale"). *(See Note 19.)*

In the non-life segment, the majority of the Group's claim reserves formed at the end of 2019 were transferred and released as a result of the portfolio transfer. In terms of run-off results, this results in significant run-off gains. In order to show measurable results with respect to the level of reserves in 2019, the Insurer calculated the run-off results separately for the remaining portfolio.

There was a -22% run-off loss (totally HUF 252 million) in case of RBNS, which was mainly due to the negative run-off result (HUF -256 million) of the suretyship, guarantee insurance business line. In other segments, run-off results are below HUF +10 million. The run-off loss is slightly offset by the HUF 2.6 million run-off profit in the other property damage segment and the HUF 1.2 million run-off profit in the casco segment.

The overall high run-off loss was largely due to the run-off loss of the suretyship, guarantee insurance segment, to which an important contribution was, that the Insurer revaluated its open claims and regress reserves at the end of 2020.

The run-off result of the opening IBNR reserve shows a loss of -35%, HUF -79.6 million, of which significant run-off loss (-64%) is HUF -118 million in the suretyship, guarantee insurance segment; HUF +17 million (+98%) is present at the other property claims. In the suretyship, guarantee insurance segment the Insurer followed the approach already used last year regarding the IBNR reserves, which also bears on the previous period's expected use of claims. In other segments, run-off results are below HUF 10 million.

In addition to claim reserves, the Insurer formed a non-performing premium reserve, a reserve independent of profit and an expected loss reserve as of the balance sheet date of 31 December 2020.

In compiling the current year's reserves, the Insurer took into account the experience of previous years' run-off results; in the case of RBNS by reviewing the losses and updating the expected payments according to the expected payments, setting regress reserves and revising the basic data used for estimating IBNR reserves. The insurer mainly seeks to clarify the estimation of reserves by reviewing RBNS.

In the life segment, we experienced a significant performance result in the case of the traditional portfolio RBNS reserve, which was caused in part by the non-release of previously closed claims, in part by the rejection of reported claims and by the adjustment of the amount of previous claim estimates.

The positive result on traditional individual contracts' claims is 17% (HUF 25 million) and on group contracts 40% (HUF 63 million).

DATA IN THUF

REINSURER'S SHARE OF TECHNICAL RESERVES	31 DECEMBER 2020	31 DECEMBER 2019 RESTATED
Unearned premium reserve	161 765	271 105
Claim reserves:	460 430	191 608
• RBNR	393 111	134 750
• IBNR	67 319	56 858
Total reinsurer's share of technical reserve	**622 195**	**462 713**

The Company's loss of passive reinsurance was HUF 216,719 thousand in 2020 and a loss of HUF 625,612 thousand in 2019.

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

DATA IN THUF

RESERVES ALLOCATION AS PER MAIN LINE OF BUSINESS (2019)	UNIT-LINKED	TRADITIONAL LIFE INSURANCE	OTHER PROPERTY CLAIMS	GENERAL LIABILITY	SURETYSHIP AND GUARANTEE INSURANCE	OTHER NON-LIFE INSURANCES	TOTAL
Unearned premium reserve	32 239	638 383	-	-	349 935	1	1 020 558
Actuarial reserves (premium reserve of life insurance)	0	8 732 595	-	-	-	-	8 732 595
Outstanding claim reserves (RBNS, IBNR)	367 018	851 071	436	10	2 658 385	15 614	3 892 534
Reserve for premium refunds	0	1 081 821	-	-	-	7 450	1 089 271
of which: reserve for result-dependent premium refunds	0	1 024 379	-	-	-	-	1 024 379
of which: reserve for premium refunds independent of profit	0	57 442	-	-	-	7 450	64 892
Gross cancellation reserves	1 066 448	34 320	-	-	-	-	1 100 768
Gross regress reserves	0		-	-	-405 874	-	-405 874
Other technical reserves	1 476 222	113 747	-	-	44 401	-	1 634 370
Total	**2 941 927**	**11 451 937**	**436**	**10**	**2 646 847**	**23 065**	**17 064 222**

RESERVES ALLOCATION AS PER MAIN LINE OF BUSINESS (2019) (RESTATED)	UNIT-LINKED	TRADITIONAL LIFE INSURANCE	SURETYSHIP INSURANCE	OTHER NON-LIFE INSURANCES	TOTAL
Unearned premium reserve	28 880	635 548	964 931	1 610	1 630 969
Actuarial reserves	0	7 589 141	-	-	7 589 141
Outstanding claim reserves (RBNS, IBNR)	485 916	580 587	2 040 851	11 974	3 119 328
Reserve for premium refunds	0	1 178 434	-	2 348	1 180 782
of which: reserve for result-dependent premium refunds	0	1 148 380	-	-	1 148 380
of which: reserve for premium refunds independent of profit	0	30 056	-	2 346	32 402
Gross cancellation reserves	1 220 756	43 618	-		1 264 374
Gross regress reserves	0	0	-457 040	-	-457 040
Other technical reserves	1 393 667	76 826	-	-	1 470 493
Total	**3 129 219**	**10 104 154**	**2 548 742**	**15 932**	**15 798 047**

37. RESULTS OF LIABILITY ADEQUACY TEST (LAT)

Life segment

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

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

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	50 452	4 559	15 597	294	43 220	4 574	14 880	324
- Death insurance benefits	-3 073	-537	-1 670	-8	-2 970	-485	-1 714	-11
- Surrender	-79 164	-15 324	-6 083	-165	-76 284	-15 089	-5 163	-143
- Endowment	-23 050	-1 064	-11 254	-52	-15 573	-539	-11 780	-44
- Sickness service	-	-	-715	-69	-	-	-136	-77
- Costs	-7 202	-1 148	-1 098	-35	-6 288	-1 008	-1 022	-35
- First-year commission	-138	-3	-13	-2	-62	-1	-20	-4
- Renewal commission	-1 007	-114	-899	-10	-877	-121	-264	-10
+ Commission reversal	80	9	61	1	168	24	47	3
Total CF	**-63 102**	**-13 623**	**-6 073**	**-46**	**-58 666**	**-12 646**	**-5 172**	**2**
Current assets	-	-	-	-	-	-	-	-
Unit-linked reserve	63 999	13 965	-	-	57 160	11 797	-	-
+ Actuarial reserve	-	-	8 153	86	-	-	5 724	39
+ Loyalty bonus reserve	65 289	14 183	8 734	236	62 463	13 387	7 183	223
- DAC	-628	-32	-457	-13	-967	-50	-226	-23
Net reserves	**64 661**	**14 151**	**8 277**	**222**	**61 497**	**13 337**	**6 956**	**199**
Surplus / deficit	**1 559**	**528**	**2 204**	**176**	**2 831**	**691**	**1 784**	**202**

** BD TRAD means Best Doctors products of the Insurer*

At the end of 2020 each product had a positive result, i.e. the reserves –reduced by the amount of DAC-exceed the present value of the projected cash-flows in all cases, therefore no impairment of deferred acquisition costs had to be booked because of the examination (however, the run-off results relating to deferred acquisition costs influenced the value of these acquisition costs at the end of the year).

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

In the LAT calculations, the Company assumed a value 16% higher than the premium non-payment and cancellation ratios used to calculate technical reserves and 5% higher than the mortality rates used to calculate 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 decrease of the future sales has a negative effect on the surplus, because ceteris paribus the existing portfolio will get more costs. A 20% decrease of the amount of the future sales compared to the accepted budget will cause a 22% decrease in the surplus of the portfolio.

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

Non-life segment

The results of the Insurer's liability analysis related to its contracts in its portfolio at the end of 2020 are shown in the table below, by product group:

DATA IN THUF

	CASCO	PRPOERTY	SURETYSHIP – HUNGARIAN	SURETYSHIP – ITALIAN
Future premium income to be earned	100 047	70 300	201 073	138 620
Payments total	98 170	70 013	219 688	183 021
Claim payments	26 797	11 805	41 000	111 258
Administrative costs	17 265	9 099	104 095	71 763
Acquisition costs	49 968	49 110	66 274	0
Taxes	4 139	0	8 319	0
CF Total	**1 877**	**286**	**-18 615**	**-44 401**

The future cash flow of the Insurer's liabilities in the suretyship business units shows a negative result. Based on the results, unearned premiums for future risks do not cover the expected payments, additional provisioning is required.

Based on the calculation results, the insurer reduces the cost accrual of the Hungarian suretyship business by the amount of the loss shown here, and creates a reserve for expected losses in the Italian suretyship business.

The calculated results of non-life insurance product groups may be significantly affected by the estimation-based parameters used. In order to properly evaluate the results, it is necessary to examine the sensitivity of the model to parameters.

The sensitivity analysis of the model to the assumptions related to the claim ratio and the cost ratio, taking into account the size of the examined portfolios, shows that the Italian suretyship and the Hungarian products are equally sensitive to the assumptions. In the case of Italian risks, it was the high level of the estimated claim ratio, in the Hungarian suretyship portfolio, it was the amount of the cost ratio (acquisition and administrative cost ratios combined) that had a greater impact on the results.

In the case of the Hungarian suretyship portfolio, three times the claim ratio (i.e. a 60% claim ratio) is needed for a loss of 100 million. On the current portfolio three average claims can cause such a loss. The cost applied here alone represents a high proportion compared to the market averages, however, this level, in addition to the Insurer's current narrow portfolio, represents in absolute terms the required minimum in terms of operation. Future growth is expected to reduce this cost level in the long run.

The sensitivity analysis also shows that, in addition to the claim expenses and cost ratios taken into account in the current estimate, the loss as a result of future cash flows will reach at 150% of the claim ratio the magnitude of 100 million in the Italian portfolio. Such a significant increase in future claims is unlikely, given that the model already estimates future claims based on a high past basis, which includes all large claims, expected unresolved claims and the legal costs of multiple claim reviews.

In terms of cost expenditure, the general cost level applied to the Hungarian business is also applied to the Italian business. If this increases to 150%, the loss will increase to 180%; to achieve a negative result of the magnitude of 100 million, the cost ratio will have to increase to 180%.

In addition to the suretyship business, other contracts in the portfolio are also sensitive to deviations from claim ratio and cost ratio estimates, but in absolute terms this cannot cause significant losses. On the other hand, these products have been operating at a stable claim- and cost ratio for years.

Overall, the liability adequacy analysis also points to the Italian suretyship's risks, which are sensitive to the future cash flows of the contracts in the portfolio and which the Insurer is constantly striving to reduce, as well as the need to increase the portfolio in terms of cost-bearing capacity.

38. TECHNICAL RESERVES OF POLICYHOLDERS OF UNIT–LIKED LIFE INSURANCE POLICIES

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

DATA IN THUF

	2020	2019
Opening balance on 1 January	70 547 706	65 276 526
Written premium	14 90 573	14 356 994
Fees deducted	-3 869 153	-3 746 382
Release of reserves due to claim payments and benefits	-11 080 700	-14 078 105
Investment result	3 566 204	8 768 775
Reclassification between deemed and real initial units	-34 272	-133 131
Other changes	201 376	103 039
Balance on 31 December	**74 121 735**	**70 547 706**

39. INVESTMENT CONTRACTS

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

DATA IN THUF

	2020	2019
Opening balance on 1 January	3 984 403	3 680 869
Written premium	1 197 766	750 862
Fees deducted	-255 297	-254 582
Release of reserves due to claim payments and benefits	-970 061	-650 735
Investment result	251 693	457 754
Reclassification between deemed and real initial units	-724	-3 168
Other changes	22 288	3 403
Balance on 31 December	**4 230 068**	**3 984 403**

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

40. BORROWINGS AND FINANCIAL REINSURANCE

At the launch of operations the Company entered a financial reinsurance agreement with the purpose of obtaining finance for the acquisition costs of its unit-linked policies during the start-up period of the Company. At the beginning of the operations, the Group contracted with two reinsurer companies (Hannover Re, Mapfre Re). In 2012 two additional reinsurer companies were involved (VIG Re, Partner), and in case of the new generation of policies Mapfre Re isn't affected. From 2015 the two new reinsurance partners entered in 2012 did not renewed the reinsurance contract, their share is covered by Mapfre rejoining in 2015. The agreement covers unit-linked policies with regular premium payments sold between 2008 and 2018; its territorial scope includes Hungary and Romania and from 2011, Slovakia as well. Reinsurers provide financing for the first year commissions paid by the Company and adjusted for reversed commissions. The available amount is determined based on the number and value of policies sold. Settlements between the parties are carried out on a quarterly basis by generations of policies.

Since the repayment of the loan is covered by the cash-flow of the insurance policies, therefore the timing of the repayments is in accordance with the premiums received. The policies for the new generations of 2012, has been amended in respect of the reinsurance regular premiums, increased from 60% to 85%. In the first year – from 2012 – (before 2012, 35-37%) the Company obtained liquidity surplus amounting to 50-52% of the gross premium written, which could finance the 38% of the acquisition costs (before 2012, 27%). In the second year, 40% of the gross written premiums is repayable (relating to the generations before 2012, 27,6%), and in the further years – until the full repayments – yearly 3-6% of the gross written premiums is repayable (relating to the generations before 2012, 3,6%). The outstanding balance bears interest at a fixed rate of between 3.38% and 7.91% depending on the given generation of policies.

In 2018, the Company decided not to renew its financial reinsurance contract in respect of the generations starting in 2019, ie it will repay the financing and interest so far in the following years.

Changes in 2019 and 2018 are presented below:

DATA IN THUF

	31 DECEMBER 2020	31 DECEMBER 2019
Opening balance of loans and financial reinsurance	435 613	968 463
Loan received	-	153 937
Repayments (capital and capitalized interest)	-319 587	-731 760
Other changes	33 875	44 972
Closing balance of loans and financial reinsurance	**149 901**	**435 613**

From the other changes of the balance in 2020, HUF 26,029 thousand (HUF 23,555 thousand in 2019) is relating to exchange rate difference, HUF 6,979 thousand is relating to capitalized interest charge in 2020 (in 2019 HUF 21,417 thousand).

IFRS 7 disclosures for financing cash flow

DATA IN THUF

	01.01.2020	CASH FLOWS	RECLASSIFI-CATION	CURRENCY DIFFERENCES	OTHER	31.12.2020
Financial liablilities - derivatives	152 472	-44 297	-13 994	-34 301	-	59 880
Loans and financial reinsurance	435 613	-319 587	-	24 674	9 201	149 901
Total financing liabilities	**588 085**	**-363 884**	**-13 994**	**-9 627**	**9 201**	**209 781**

DATA IN THUF

	01.01.2019	CASH FLOWS	RECLASSIFI-CATION	CURRENCY DIFFERENCES	OTHER	31.12.2019
Lease repayment and interests	-	-64 838	222 912	-5 602	-	152 472
Liabilities to shareholders	7 746	-2 988 225	3 005 974	-	-	25 495
Sale of treasury shares in share based payment program	-	148 412	-148 412	-	-	-
Financial liablilities - derivatives	7 875	-	-	-	-	4 528
Loans and financial reinsurance	968 463	-577 823	-	21 418	23 555	435 613
Total financing liabilities	**984 084**	**-3 482 474**	**3 080 474**	**15 816**	**23 555**	**618 108**

41. LIABILITIES TO REINSURERS

DATA IN THUF

	31 DECEMBER 2020	31 DECEMBER 2019 (RESTATED)
Liabilities to reinsurers	112 384	105 831
Unearned part of reinsurance commission	49 854	109 297
Total liabilities related to reinsurers	**162 238**	**215 128**

Reinsurers' unearned part of the reinsurance commissions represented the unearned portion of reinsurance commissions and profit participation as an obligation. However, this non-life segment obligation has no cash-flow implications, and over time, it is earned and not actually paid.

The reason for the restated value of liabilities to reinsurers in 2019 is that the activities held for sale (and sold during 2020) were separated and presented in the income statement reclassified to one line ("Assets held for sale"). *(See Note 19.)*

42. LIABILITIES TO POLICY HOLDERS

DATA IN THUF

	31 DECEMBER 2020	31 DECEMBER 2019 (RESTATED)
Liabilities to policy holders	665 081	463 104
Total liabilities to policy holders	**665 081**	**463 104**

Liabilities to insurance policy holders partly contain premium advances on insurance policies which were still at the proposal status on the reporting date. If the proposal becomes a policy after the reporting date, the relevant amount is invested (in life segment) and booked as premium income or an investment contract liability. Should the proposal be rejected, the amount concerned is repaid to the policy holder. In the life segment, the value of prepaid premiums is significant at the end of 2019 and 2020.

The reason for the restated value of liabilities to policy holders in 2019 is that the activities held for sale (and sold during 2020) were separated and presented in the income statement reclassified to one line ("Assets held for sale"). *(See Note 19.)*

43. LIABILITIES RELATED TO INSURANCE INTERMEDIARIES

DATA IN THUF

	31 DECEMBER 2020	31 DECEMBER 2019 (RESTATED)
Liabilities related to insurance intermediaries	245 060	505 548
Liabilities related to insurance intermediaries	**245 060**	**505 548**

Liabilities to insurance intermediaries include such commission liabilities which were invoiced by the brokers in December, however the Group paid them only in 2021, furthermore commission which shall fall due in December according to the accounting, nevertheless the invoicing took place in January. The decrease compared to 2019 is mainly due to portfolio transfers and declining sales.

The reason for the restated value of liabilities related to insurance intermediaries in 2019 is that the activities held for sale (and sold during 2020) were separated and presented in the income statement reclassified to one line ("Assets held for sale"). *(See Note 19.)*

44. LEASE LIABILITIES

DATA IN THUF

	2020	2019
Balance on 1 January	152 472	133 447
Increase	39 193	87 233
Paid leasing fees	94 530	79 209
Of which: Interest rate	4 622	3 693
Decrease of liabilities	142 108	73 379
Difference due to exchange rate	10 323	5 170
Balance on 31 December	**59 880**	**152 472**

The reason for the restated value of lease liabilities in 2019 is that the activities held for sale (and sold during 2020) were separated and presented in the income statement reclassified to one line ("Assets held for sale"). *(See Note 19.)*

45. OTHER LIABILITIES AND PROVISIONS

DATA IN THUF

	31 DECEMBER 2020	31 DECEMBER 2019 (RESTATED)
Trade payables	160 438	82 118
Liabilities to fund managers	36 644	117 037
Liabilities to employees	36 716	42 604
Social contribution and taxes	92 586	140 737
Other liabilities	23 591	43 381
Accrued expenses and deferred income	351 803	329 163
Provisions	783 959	491 317
Collateral obligation	393 497	622 815
Obligations arising from an employee share based program	6 780	3 063
Other liabilities and provision total	**1 886 015**	**1 872 233**

The reason for the restated value of other liabilities and provisions in 2019 is that the activities held for sale (and sold during 2020) were separated and presented in the income statement reclassified to one line ("Assets held for sale"). *(See Note 19.)*

Liabilities to fund managers represent amounts relating to unit-linked investments settled with the respective fund managers subsequent to the reporting date. Also on this line are the obligations arising from securities purchased before the end of the year but financially settled only after the balance sheet date.

Accrued expenses include bonuses, commissions and other costs due before but not invoiced by the reporting date.

The employee's share-based program liability results from the share-based program presented in the notes 4.3. The most important data on the program is summarized in the following table.

2020

GRANT DATE YEAR	GRANTED (NR)	CALLED UP (NO)	CALLABLE (NR)	CALLABLE (FROM DATE)	EXPIRY (TILL DATE)	SHARE PRICE	PRICE	OPTION VALUE (THOU-SAND FORINT)
2017	10 000	-	10 000	31.12.2020	30.06.2021	339.00	-	3 390
2017	10 000	-	10 000	31.12.2020	30.06.2021	339.00	-	3 390
Total	**1 415 000**	**0**	**20 000**					**6 780**

2019

GRANT DATE YEAR	GRANTED (NR)	CALLED UP (NO)	CALLABLE (NR)	CALLABLE (FROM DATE)	EXPIRY (TILL DATE)	OPTION PRICE PCS	PRICE	OPTION VALUE (THOUSAND FORINT)
2014	270 000	270 000	-	01.05.2015	30.04.2018		210	-
2015	350 000	350 000	-	01.05.2016	30.04.2019		210	-
2016	350 000	350 000	-	01.05.2017	30.04.2020		210	-
2015	5 000	-	-	31.12.2018	30.06.2019		-	-
2017	10 000	-	10 000	31.12.2020	30.06.2021	187.20	-	1 532
2017	10 000	-	10 000	31.12.2020	30.06.2021	187.20	-	1 531
2017	210 000	210 000	-	30.04.2019	31.12.2020	-	210	-
2017	210 000	-	210 000	30.04.2020	31.12.2020	5.24	210	-
Total	**1 415 000**	**1 180 000**	**230 000**					**3 063**

In respect of provisions, the following changes were made during 2020:

DATA IN THUF

	2020	2019
Provision on 1 January	491 317	446 498
Provision release	-312 522	209 486
Provision allocation	605 164	254 304
Provision on 31 December	**783 959**	**491 317**

The Group made provisions for the following items in 2020 and 2019:

DATA IN THUF

PROVISION FOR EXPECTED LIABILITIES	EXPECTED PAYMENT PERIOD	31 DECEMBER 2020	31 DECEMBER 2019
Provision for losses due to expected termination of contracts	1-2 years	173 888	-
Provision for legal fees	1-2 years	296 097	101 356
Provision for litigation	1-2 years	82 524	74 319
Provision for expected liabilities	within 1 year	54 118	155 118
Provision for expected other costs	within 1-2 years	177 332	160 524
Total provisions		**783 959**	**491 317**

Amounts set as provisions are prepared along the best estimate made by the Group on the basis of available information.

The most significant item is the provision for legal fees (HUF 296 million), which includes legal expenses of which the fulfillment is disputed by the insurer.

Provision for expected other costs is HUF 177 million, which is an obligation arising from an already terminated IT service contract, where the consideration of the performance is contested by the Group. When estimating the amount set as the provision, the Group has taken the level of fees paid in previous years, reducing it in 2019 to the amount considered justified.

The need for a provision for losses due to expected termination of contracts is explained by the expected loss on contracts sold by exiting insurance intermediaries, where the Company expects that a significant portion of life insurance contracts previously entered into by the insurance intermediary will be canceled. One of the insurance intermediaries involved is Pannónia Financial Intermediary Ltd., a subsidiary of the Company, where the Company set aside a provision of HUF 94 million to cover losses at the end of 2020, which is, however, significantly lower than previously expected due to strict monitoring and increased contact with customers.

In the passive lawsuit against the Company, in which a provision of HUF 23,571 thousand was formed, the value of the lawsuit is HUF 238 million.

46. SHARE CAPITAL AND CAPITAL RESERVE

As of December 31, 2020 the nominal value and the number of shares issued were as follows:

SHARE SERIES	PAR VALUE (FORINT/ SHARE)	NUMBER OF SHARE ISSUED	NOMINAL VALUE (FORINT)
“A” series	33	94 428 260	3 116 132 580
Share capital	**-**	**-**	**3 116 132 580**

The number of issued ordinary share is different from outstanding number of shares because of the treasury shares, which are shown in Note 47.

The 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 2019.

At the meeting held on June 29, 2020, the Board of Directors of the Company with its resolution No. 47/2020.06.29. decided to increase of the share capital of the Company (hereinafter: Share Capital Increase). The Share Capital Increase was carried out by the Company in such a way that it increased the nominal value of 94,428,260 dematerialized, series “A” ordinary registered voting shares with a nominal value of HUF 33 each, issued by the Company, to HUF 100 per share. With its announcement on 4 August 2020, the Company postponed the share exchange required in connection with the Share Capital Increase. The share exchange was postponed in order (i) to comply fully with the regulation dated on 17 June 2017 (2017/1129) of the European Parliament and the Council and (ii) in view of the fact that the Extraordinary General Meeting of the Company convened on 14 August 2020 intended to decide on the reduction of the Company’s share capital.

Subsequently, the General Meeting of the Company decided on 14 August 2020 to reduce the share capital of the Company with its resolution No. 22/2020 (VIII.14) (“Share Capital Reduction”). As a result, the share capital of the Company decreased from HUF 9,442,826,000 to HUF 3,116,132,580. The share capital reduction was carried out by the Company in such a way as to reduce the nominal value of 94,428,260 dematerialized, series “A” ordinary registered voting shares with a nominal value of HUF 100 each, issued by the Company, to HUF 33 per share. This change was entered in the register of companies by the number Cg.01-10-045857/439. order of the Registry Court of the Metropolitan Court. In view of the registration of the Share Capital Reduction in the meantime, the registration of the Share Capital Increase has become obsolete, so KELER Ltd. will not create registered shares of the “A” series with a nominal value of HUF 100 and issued on the regulated market. However, taking into account the fact that a new series of shares was issued as a result of the Share Capital Decrease, the ISIN identifier of the newly issued series "A" ordinary shares with a nominal value of HUF 33 has changed, therefore the Company has carried out a technical share exchange. The first trading day of the new ordinary shares with a nominal value of HUF 33 (HU0000180112) on the Budapest Stock Exchange was 9 December 2020.

Summary of nominal value of issued shares in 2020 and 2019:

2020

SHARE SERIES	NOMINAL VALUE (HUF/SHARE)	ISSUED SHARES	TOTAL NOMINAL VALUE (THUF)
"A" series	33	94 428 260	3 116 132
Amount of share capital			**3 116 132**

2019

SHARE SERIES	NOMINAL VALUE (HUF/SHARE)	ISSUED SHARES	TOTAL NOMINAL VALUE (THUF)
"A" series	33	94 428 260	3 116 132
Amount of share capital			**3 116 132**

47. TREASURY SHARES

DESCRIPTION	DATE OF AQUIRING	NUMBER OF OWN SHARES	PAR VALUE OF TREASURY SHARES (THUF)	COST OF TREASURY SHARES (THUF)
Transfer of "A" series ordinary shares to MKB Bank as consideration for a minority interest	11.05.2014	1 196 750	47 870	-
Repurchase and conversion of "B" series of interest bearing shares	04.07.2017	-92 744	-3 710	-
Of which: employee share based payment program	15.10.2018	-230 000	-9 200	-
Of which: employee share based payment program	07.11.2018	-160 000	-6 400	-
Of which: ransfer of treasury shares to MRP	05.04.2019	-374 006	-14 960	-
31.12.2020		**-**	**-**	**-**

On May 22, 2014, the former Senior Officer of the Insurance Company transferred to CIG Pannónia Life Insurance Plc. a total of 1,196,074 750 CIGPANNONIA dematerialized ordinary shares with a nominal value of HUF 40 each, which previously acquired under the Employee Share Based Program of the Company. According to 22/2014. Annual Meeting declaration the employee shares will have a management incentive function in the future in accordance with their original purpose. The shares are recorded among the treasury shares of CIG Pannónia Life Insurance Plc., which do not bear its voting rights. Acquisitions of treasury shares were made free of charge by gifting, hence the acquisition of own shares did not affect the amount of the Company's equity. The market value of the treasury shares at the time of acquisition was 215 HUF/share.

The number of treasury shares decreased by HUF 19,940 thousand in 2017, as MKB Bank Zrt. became a holder of 92,744 ordinary shares of CIG Pannónia Life Insurance Plc. In connection with the merger agreement as part of the merger agreement for the merger of Pannónia Life Insurance Company. Exchange shares were secured by CIG Pannónia Life Insurance Plc. from its own shares, transferring the shares by transferring to the owner's securities account on July 6th.

In October and November 2018, two members of the Board of Directors of the Company and two other non-executive employees were purchased by an OTC deal in the employee stock option program as a total of 390,000 CIG Pannonia ordinary shares of CIG Pannonia Life Insurance Plc. at 210 HUF/pcs. Shares were covered by the Company's own treasury shares, the number of which was reduced to 714,006 as a result of the transaction. As a result of the transaction, the capital reserve increased by HUF 82 million.

At the beginning of April 2019, a member of the Board of Directors of the Company puchased 100,000 CIGPANNONIA ordinary shares and a member of the Board of Directors of CIG Pannónia First Hungarian General Insurance cPlc. puchased 50,000 CIGPANNONIA ordinary shares as a participant of Executive Share Option Program at 210 HUF/pcs price. In addition, under the Employee Share Option Program, 190,000 CIGPANNONIA ordinary shares were purchased from CIG Pannónia Life Insurance Plc. by seven non-executive directors employee of the Company and EMABIT. Purchases of shares happened outside of stock exchange trading at a price of HUF 230.52/piece. As a result of the purchase of a total of 340,000 CIGPANNONIA shares subscribed under the Employee Share Option Program, the number of treasury shares held by the Company decreased to 374,006.

Based on the decision of the Board of Directors on April 5, the Company transferred to the CIG Pannonia MRP a total of 374,006 CIGPANNONIA ordinary shares held by the Company as non-cash contributions to cover performance rewards through the MRP. Following the transfer of shares, the Company does not hold CIGPANNONIA shares anymore. Meanwhile according to Note 3.12 the Company has control over MRP, in consolidated financial statements the transferred shares are treated as treasury shares with a 0 cost value.

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

48. OTHER RESERVES

DATA IN THUF

	31 DECEMBER 2020	31 DECEMBER 2019
Difference in fair value of available-for-sale financial assets	-771 153	-395 204
Other reserves	**-771 153**	**-395 204**

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 1,066 million, while the silent reserve of government bond portfolios explain HUF 285 million.

49. FINANCIAL INFORMATION BY SEGMENTS

2020 segment data

ASSETS (DATA IN THUF)	CIG LIFE INSURANCE SEGMENT	CIG NON-LIFE INSURANCE SEGMENT	OTHER	ADJUSTING ENTRIES FOR CALCULATIONS IN THE FINANCIAL STATEMENTS (CONSOLIDATION)	TOTAL
Intangible assets	539 878	30 373	0	0	570 251
Property, plant and equipment	52 233	5 925	0	0	58 158
Right of use assets	53 019	5 040	0	0	58 059
Deferred tax assets	386 022	0	0	0	386 022
Deferred acquisition costs	1 136 074	78 527	0	0	1 214 601
Reinsurer's share of technical reserves	467 763	154 432	0	0	622 195
Subsidiaries	1 456 191	0	0	-1 456 191	0
Investments in companies consolidated by equity method	51 753	0	0	589 619	641 372
Available-for-sale financial assets	22 991 881	4 469 670	0	0	27 461 551
Investments for policyholders of unit-linked life insurance policies	74 121 735	0	0	0	74 121 735
Financial assets - investment contracts	4 230 068	0	0	0	4 230 068
Financial assets - derivatives	11 106	0	0	0	11 106
Receivables from insurance policyholders	1 763 771	890	0	0	1 764 661
Receivables from intermediaries	40 251	35 981	1 574	0	77 806
Reinsurance receivables	11 312	45 061	0	0	56 373
Treasury shares	0	0	126 788	-126 788	0
Other assets and prepayments	11 143	14 529	0	0	25 672
Other receivables	149 203	86 403	2 310	2 772	240 688
Cash and cash equivalents	449 401	384 173	28 681	0	862 255
Intercompany receivables	850 780	51 581	643 490	-1 545 851	0
Assets held for sale	0	294 409	0	0	294 409
Total assets	**108 773 584**	**5 656 994**	**802 843**	**-2 536 439**	**112 696 982**

LIABILITIES (DATA IN THUF)	CIG LIFE INSURANCE SEGMENT	CIG NON-LIFE INSURANCE SEGMENT	OTHER	ADJUSTING ENTRIES FOR CALCULATIONS IN THE FINANCIAL STATEMENTS (CONSOLIDATION)	TOTAL
Technical reserves	14 393 864	2 670 358	0	0	17 064 222
Technical reserves for policyholders of unit-linked insurance	74 121 735	0	0	0	74 121 735
Investment contracts	4 230 068	0	0	0	4 230 068
Loans and financial reinsurance	149 901	0	0	0	149 901
Liabilities from reinsurance	94 600	67 638	0	0	162 238
Liabilities from insurance policyholders	642 098	22 983	0	0	665 081
Liabilities from intermediaries	176 460	62 291	6 309	0	245 060
Intercompany liabilities	686 498	89 375	136 647	-912 520	0
Lease liabilities	53 399	6 481	0	0	59 880
Other liabilities and provisions	769 513	1 086 681	6 724	23 097	1 886 015
Liabilities from equity owners	19 929	0	0	0	19 929
Liabilities held for sale	0	198 798	0	0	198 798
Total liabilities	**95 338 065**	**4 204 605**	**149 680**	**-889 423**	**98 802 927**
NET ASSETS	**13 435 518**	**1 452 391**	**653 161**	**-1 647 015**	**13 894 055**

SHAREHOLDERS' EQUITY					
Registered capital	3 116 133	1 060 000	245 730	-1 305 730	3 116 133
Capital reserve	4 019 111	3 135 236	80 000	-6 081 357	1 152 990
Share-based payment	8 838	0	0	0	8 838
Other reserves	-780 267	9 114	0	0	-771 153
Profit reserve	7 071 703	-2 751 959	327 431	5 746 758	10 393 933
NCI	0	0	0	-6 686	-6 686
Total shareholders' equity	**13 435 518**	**1 452 391**	**653 161**	**-1 647 015**	**13 894 055**

COMPREHENSIVE INCOME STATEMENT (DATA IN THUF)	CIG LIFE INSURANCE SEGMENT	CIG NON-LIFE INSURANCE SEGMENT	OTHER	ADJUSTING ENTRIES FOR CALCULATIONS IN THE FINANCIAL STATEMENTS (CONSOLIDATION)	TOTAL
Gross written premium	19 103 878	214 890	0	0	19 318 768
Changes in unearned premiums reserve	-6 196	617 243	0	0	611 047
Earned premiums, gross	**19 097 682**	**832 133**	**0**	**0**	**19 929 815**
Ceded reinsurance premiums	-260 862	-201 908	0	0	-462 770
Earned premiums, net	**18 836 820**	**630 225**	**0**	**0**	**19 467 045**
Premium and commission income from investment contracts	159 078	0	0	0	159 078
Investment income	4 357 922	335 161	532 577	-588 985	4 636 675
Share of the profit of associates and joint ventures accounted for using the equity method	360 660	0	0	75 584	436 244
Other operating income	818 145	530 450	138 525	-649 052	838 068
Commission and profit sharing from reinsurance	1 257	71 778	0	0	73 035
Other income	**5 697 062**	**937 389**	**671 102**	**-1 162 453**	**6 143 100**
Total income	**24 533 882**	**1 567 614**	**671 102**	**-1 162 453**	**25 610 145**

Claim payments and benefits, and claim settlement costs	-12 598 130	-752 096	0	0	-13 350 226
Claim refunds from reinsurance	40 151	8 621	0	0	48 772
Net change in the value of life technical reserves and unit-linked life insurance reserves	-4 363 322	-682 664	0	0	-5 045 986
Investment expenditure	-922 128	-243 379	-3 158	819 093	-349 572
Change in the fair value of liabilities relating to investment contracts	-273 975	0	0	0	-273 975
Investment expenses, changes in reserves and benefits, net	**-18 117 404**	**-1 669 518**	**-3 158**	**819 093**	**-18 970 987**
Fees, commissions and other acquisition costs	-3 396 826	-249 542	-208 652	20 441	-3 834 579
Other operating costs	-1 451 211	-683 432	-28 034	-24 485	-2 187 162
Other expenses	-633 686	-84 594	-51 199	269 995	-499 484
Operating costs	**-5 481 723**	**-1 017 568**	**-287 885**	**265 951**	**-6 521 225**
Result of assets held for sale	**0**	**391 302**	**0**	**398 650**	**789 952**
Profit/loss before taxation	**934 755**	**-728 170**	**380 059**	**321 241**	**907 885**
Tax income / (expenses)	**-187 232**	**-29 818**	**-1 496**	**0**	**-218 546**
Deferred tax income / (expenses)	-29 253	0	0	0	-29 253
Profit/loss after taxation	**718 271**	**-757 989**	**378 563**	**321 241**	**660 086**
Other comprehensive income	-333 295	-42 655	0	0	-375 950
Comprehensive income	**384 976**	**-800 644**	**378 563**	**321 241**	**284 136**

2019 segment data (restated)

ASSETS (DATA IN THUF)	CIG LIFE INSURANCE SEGMENT	CIG NON-LIFE INSURANCE SEGMENT	OTHER	ADJUSTING ENTRIES FOR CALCULATIONS IN THE FINANCIAL STATEMENTS (CONSOLIDATION)	TOTAL
Intangible assets	609 391	32 209	4 868	0	646 468
Property, plant and equipment	65 277	10 424	31 963	0	107 664
Right of use assets	42 291	25 532	76 964	0	144 787
Deferred tax assets	415 275	0	0	0	415 275
Deferred acquisition costs	1 373 661	159 121	0	0	1 532 782
Reinsurer's share of technical reserves	243 387	219 326	0	0	462 713
Subsidiaries	1 978 958	0	0	-1 978 958	0
Investments in companies consolidated by equity method	51 753	0	0	514 034	565 787
Available-for-sale financial assets	19 710 234	5 219 113	0	0	24 929 347
Investments for policyholders of unit-linked life insurance policies	70 547 706	0	0	0	70 547 706
Financial assets - investment contracts	3 984 403	0	0	0	3 984 403
Treasury shares	0	0	70 014	-70 014	0
Receivables from insurance policyholders	1 953 094	6 751	0	0	1 959 845
Receivables from intermediaries	32 315	82 101	8 781	0	123 197
Reinsurance receivables	8 614	38 746	0	0	47 360
Other assets and prepayments	21 756	50 641	506	-9 000	63 903
Other receivables	198 630	80 027	19 081	2 772	300 510
Cash and cash equivalents	1 440 475	286 383	46 755	0	1 773 613
Intercompany receivables	240 480	13 097	137 403	-390 980	0
Assets held for sale	0	7 326 105	0	-398 650	6 927 455
Total assets	**102 917 700**	**13 549 576**	**396 335**	**-2 330 796**	**114 532 815**

LIABILITIES (DATA IN THUF)	CIG LIFE INSURANCE SEGMENT	CIG NON-LIFE INSURANCE SEGMENT	OTHER	ADJUSTING ENTRIES FOR CALCULATIONS IN THE FINANCIAL STATEMENTS (CONSOLIDATION)	TOTAL
Technical reserves	13 233 374	2 564 673	0	0	15 798 047
Technical reserves for policyholders of unit-linked insurance	70 547 706	0	0	0	70 547 706
Investment contracts	3 984 403	0	0	0	3 984 403
Financial liabilitites - derivatives	4 528	0	0	0	4 528
Loans and financial reinsurance	435 613	0	0	0	435 613
Liabilities from reinsurance	94 681	120 447	0	0	215 128
Liabilities from insurance policyholders	437 585	25 519	0	0	463 104
Liabilities from intermediaries	233 773	237 091	34 684	0	505 548
Lease liabilities	46 406	28 034	78 032	0	152 472
Intercompany liabilities	150 451	30 180	2 581	-183 212	0
Other liabilities and provisions	681 978	1 659 469	35 599	-504 813	1 872 233
Liabilities from equity owners	25 495	0	0	0	25 495
Liabilities from assets held for sale	0	6 927 457	0	0	6 927 457
Total liabilities	**89 875 993**	**11 592 870**	**150 896**	**-688 025**	**100 931 734**
NET ASSETS	**13 041 707**	**1 956 706**	**245 439**	**-1 642 771**	**13 601 081**

SHAREHOLDERS' EQUITY					
Registered capital	3 116 133	1 060 000	215 730	-1 275 730	3 116 133
Capital reserve	10 345 805	2 838 910	80 000	-5 785 031	7 479 684
Share-based payment	11 183	5 191	-	-	16 374
Other reserves	-446 974	51 770	-	-	-395 204
Profit reserve	15 561	-1 999 166	-50 291	5 416 961	3 383 065
NCI	-	-	-	1 029	1 029
Total shareholders' equity	**13 041 707**	**1 956 706**	**245 439**	**-1 642 771**	**13 601 081**

COMPREHENSIVE INCOME STATEMENT (DATA IN THUF)	CIG LIFE INSURANCE SEGMENT	CIG NON-LIFE INSURANCE SEGMENT	OTHER	ADJUSTING ENTRIES FOR CALCULATIONS IN THE FINANCIAL STATEMENTS (CONSOLIDATION)	TOTAL
Gross written premium	18 040 559	1 853 010	0	0	19 893 569
Changes in unearned premiums reserve	-156 943	195 018	0	0	38 075
Earned premiums, gross	**17 883 616**	**2 048 028**	**0**	**0**	**19 931 644**
Ceded reinsurance premiums	-248 899	-254 143	0	0	-503 042
Earned premiums, net	**17 634 717**	**1 793 885**	**0**	**0**	**19 428 602**
Premium and commission income from investment contracts	125 214	0	0	0	125 214
Investment income	11 465 838	517 422	11 953	-1 209 004	10 786 209
Share of the profit of associates and joint ventures accounted for using the equity method	341 892	0	0	100 409	442 301
Other operating income	953 089	159 023	477 341	-555 597	1 033 856
Commission and profit sharing from reinsurance	1 708	102 520	0	0	104 228
Other income	**12 887 741**	**778 965**	**489 294**	**-1 664 192**	**12 491 808**
Total income	**30 522 458**	**2 572 850**	**489 294**	**-1 664 192**	**31 920 410**
Claim payments and benefits, and claim settlement costs	-14 478 350	-1 328 540	0	19 222	-15 787 668
Claim refunds from reinsurance	28 329	2 570	0	0	30 899
Net change in the value of life technical reserves and unit-linked life insurance reserves	-7 092 703	-1 078 969	0	0	-8 171 672
Investment expenditure	-4 777 180	-210 606	-365 716	3 769 027	-1 584 475
Change in the fair value of liabilities relating to investment contracts	-458 480	0	0	0	-458 480
Investment expenses, changes in reserves and benefits, net	**-26 778 384**	**-2 615 545**	**-365 716**	**3 788 249**	**-25 971 396**

COMPREHENSIVE INCOME STATEMENT (DATA IN THUF)	CIG LIFE INSURANCE SEGMENT	CIG NON-LIFE INSURANCE SEGMENT	OTHER	ADJUSTING ENTRIES FOR CALCULATIONS IN THE FINANCIAL STATEMENTS (CONSOLIDATION)	TOTAL
Fees, commissions and other acquisition costs	-3 465 988	-1 163 284	-505 589	385 815	-4 749 046
Other operating costs	-1 371 850	-1 108 740	-23 483	521 675	-1 982 398
Other expenses	-369 826	-477 308	-15 618	150 671	-712 081
Operating costs	**-5 207 664**	**-2 749 332**	**-544 690**	**1 058 161**	**-7 443 525**
Result of assets held for sale	**0**	**1 548 846**	**0**	**-398 650**	**1 150 196**
Profit/loss before taxation	**-1 463 590**	**-1 243 181**	**-421 112**	**2 783 568**	**-344 315**
Tax income / (expenses)	-162 425	-42 661	-9 162	0	-214 248
Deferred tax income / (expenses)	54 314	-134 592	0	0	-80 278
Profit/loss after taxation	**-1 571 701**	**-1 420 434**	**-430 274**	**2 783 568**	**-638 841**
Other comprehensive income	273 396	42 007	0	0	315 403
Comprehensive income	**-1 298 305**	**-1 378 427**	**-430 274**	**2 783 568**	**-323 438**

The recognized commission impairment of the life segment was HUF 15 million, that of the non-life segment was HUF 8 million, and that of the other segment (primarily CIG Pannónia Financial Intermediary Ltd.) was HUF 37 million in 2020. In 2019, the recognized impairment loss of the life segment related to commissions was HUF 60 million, while that of the other segment was HUF 6 million.

The consolidated financial statements of the Group and the information presented separately by segments are different for the following reasons:

1. Shareholdings between the segments have been eliminated during consolidation.

2. Receivables and liabilities between the segments have been eliminated during consolidation.

3. Income and expenses between the segments have been eliminated during consolidation. The following type of transactions appeared between the segments, which were treated according to the IFRSs adopted by the EU:
   - administration services, claim management, IT services
   - business advisory services
   - cross-invoicing, sale of assets
   - obligation assumption
   - cash transferred free of charge

4. Interim profit or loss arising from a transaction between the segments, which has been eliminated during consolidation

5. The differences between Hungarian Accounting Laws and EU IFRS also cause adjustments in the consolidated financial statement.

50. FINANCIAL RISK

Financial instruments presented in the consolidated statement of financial position include investments and receivables connected to investment and insurance policies, other receivables, cash and cash equivalents, borrowings, trade and other liabilities.

The main insurance risks and the risk management policy are presented in Note 6.

Under the current reserve-allocation rules the unit-linked insurance reserve of the Company and the assigned asset coverage response to an interest shock in the same way, i.e. an asset revaluation caused by a shift in the yield curve means the reserve is revalued to the same extent and at the same time. Similarly, the Group's reserves change to the same degree in the case of currency fluctuations as when changing due to asset revaluations; consequently, the unit-linked insurance reserve, the liabilities from investment policies and the associated asset coverage overall carry no direct interest, currency or lending risk for the Group; changes in interest rates and exchange rates have no direct impact on the Group's results and equity.

Financial assets are classified into different categories depending on the type of asset and the purpose for which it is acquired. Currently three asset and two liability categories are used, which are the following: financial assets measured at fair value through profit or loss, loans and receivables, and available-for-sale financial instruments; and financial liabilities measured at fair value through profit or loss and other financial liabilities.

The Group is exposed to many financial risks through its financial assets and financial liabilities (investment contracts and borrowings). The most important components of financial risks include interest risk, liquidity risk, foreign exchange risk and credit risk. In the Insurer's opinion the concentration risk of financial assets is not significant – it can only affects government securities.

These risks arise from open positions in interest rate, currency and securities products, all of which are exposed to general and specific market movements.

The Group manages these positions as part of Assets-Liability Management, with the objective of achieving returns on its financial assets which in the long run exceed liabilities from investment and insurance policies. The basic technical method of the Group's Assets-Liability Management is matching insurance and investment contracts from an asset and liability side based on their nature.

The Group's financial risk assessment made independently for each risk, since the combined effect of those aren't significant (according to the opinion of the management).

These risks are presented below.

50.1. Credit risk exposure

The Group's credit risk exposure arises primarily on premium receivables from insurance policy holders, receivables from insurance brokers due to commission clawbacks, bank deposits, given loans and on debt securities. The Group allocates a cancellation reserve under local accounting rules for the part of receivables from policyholders, that is not expected to be recovered (cf. note 3.5 (iv)).

Some of the commission receivables are from active insurance brokers, others are from former brokers no longer in contact with the Group. The Group recorded impairment on receivables not likely to be recovered.

The book value of financial assets, due to these factors, adequately represents the maximum credit exposure of the Group. The maximum exposure to credit risk at the reporting date was as follows:

DATA IN THUF

	31 DECEMBER 2020	31 DECEMBER 2019
Government bonds	32 474 450	28 003 932
Corporate bonds	224 989	12 192
Equity	17 928 241	17 079 339
Investment notes	52 138 430	50 449 558
Cash	4 025 234	5 823 582
Receivables	2 150 634	2 430 912
Other financial assets	-115 736	-133 534
Reinsurance share of the technical results	622 195	462 713

In case of the government bonds, which are the most significant financial assets, the credit risk exposure is not significant (Baa3), due to this bonds are guaranteed by the state.

Claims on reinsurers are not considered to be material from a credit risk perspective as our reinsurance partners have ratings from international rating agencies of at least B+ / BBB or higher or, if unrated, at least 100% solvency adequacy at the time of the decision.

Impairment

Of the receivables from direct insurance and other receivables the Group allocated impairment in respect of the receivables from insurance brokers. Ageing of receivables from direct insurance transactions, other receivables and booked impairment is presented below:

DATA IN THUF

	2020	2019 RESTATED
Opening balance on 1 January	1 831 636	1 643 427
Derecognition of impairment on irrecoverable receivables	-135 344	-194 427
Derecognition of impairment	106	-3 181
Impairment booked to income statement	184 083	385 817
Closing balance on 31 December	**1 880 481**	**1 831 636**

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

DATA IN THUF

	31.12.2020.		31.12.2019.	
	GROSS	IMPAIRMENT	GROSS	IMPAIRMENT
Not overdue	717 866		911 242	-
between 0 and 30 days overdue	730 348		477 214	-5 736
between 31 and 120 days overdue	573 256	-42 827	93 721	-18 734
between 121 and 360 days overdue	52 988		1 178 460	-301 298
Overdue by more than a year	1 945 551	-1 837 654	1 601 910	-1 505 868
Total	**4 020 009**	**-1 880 481**	**4 262 547**	**-1 831 636**

On 31.12.2020, The Group does not have any not overdue and not impaired receivables those return is uncertain. A significant part of receivables due between 121 and 360 days are receivables from policyholders for which the Company has a cancellation reserve.

50.2. Liquidity risk

Liquidity risk is the risk that the Group is unable to meet its obligations when they fall due as a result of claims of policyholders, contract commitments or other cash outflows. Such outflows would deplete available cash for operating and investment activities. In extreme circumstances, lack of liquidity could result in sales of assets or potentially an inability to fulfil contract commitments. The risk that the Group will be unable to meet the above obligations is inherent in all insurance operations and can be affected by a range of institution-specific and market events.

The Group's liquidity management process, as carried out and monitored by management, includes day-to-day funding, managed by monitoring future cash flows to ensure the requirements can be met; maintaining a portfolio of easily marketable assets that can easily be liquidated as protection against any unforeseen interruption to cash flow, and monitoring the liquidity ratios calculated based on the consolidated financial statements to ensure compliance with internal and regulatory requirements.

Monitoring and reporting take on the form of cash flow projections and measurements for future periods that are key to liquidity management. The table below presents policy cash flows payable and receivable by the Group as at the reporting date of the statement of financial position:

31.12.2020 DATA IN THUF	BOOK VALUE	CONTRACTUAL CASH FLOW	6 MONTHS OR LESS	6-12 MONTHS	1-2 YEARS	2-5 YEARS	MORE THAN FIVE YEARS
Liabilities*	**7 418 172**	**7 422 429**	**7 184 824**	**43 954**	**123 893**	**69 757**	**-**
of which: leasing liabilities	**59 880**	**59 880**	**12 063**	**5 583**	**22 334**	**19 899**	**-**
Government bonds	10 776 160	10 744 309	2 108 717	1 226 847	1 748 526	5 213 494	446 725
Corporate bonds	-	-	-	-	-	-	-
Equity	2 845 589	-	-	-	-	-	-
Investment notes	3 301 903	-	-	-	-	-	-
Cash	986 163	986 163	986 163	-	-	-	-
Receivables	2 145 099	2 117 374	2 115 891	339	678	466	-
Other financial assets	-714	-714	-714	-	-	-	-
Total assets * *	**20 054 201**	**13 847 133**	**5 210 057**	**1 227 186**	**1 749 204**	**5 213 960**	**446 725**

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

** *As the investments covering technical reserves and unit-linked reserves aren't available for settling financial obligations, therefore the table's amounts do not contain them.*

31.12.2019 DATA IN THUF	BOOK VALUE	CONTRACTUAL CASH FLOW	6 MONTHS OR LESS	6-12 MONTHS	1-2 YEARS	2-5 YEARS	MORE THAN FIVE YEARS
Liabilities *	**5 830 740**	**6 702 121**	**5 820 620**	**128 373**	**283 150**	**469 978**	**-**
of which: leasing liabilities	**152 472**	**152 472**	**59 206**	**31 172**	**23 078**	**39 016**	**-**
Government bonds	16 324 064	16 150 806	4 481 215	1 121 745	267 991	8 722 339	1 557 517
Corporate bonds	652	1 240	18	-	18	55	1 148
Equity	2 330	-	-	-	-	-	-
Investment notes	-	-	-	-	-	-	-
Cash	1 764 046	1 764 046	1 764 046	-	-	-	-
Receivables	217 225	217 225	162 936	14 616	14 048	25 625	-
Other financial assets	-16 440	-16 440	-16 440	-	-	-	-
Total assets * *	**18 291 877**	**18 116 877**	**6 391 776**	**1 136 361**	**282 058**	**8 748 019**	**1 558 665**

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

** *As the investments covering technical reserves and unit-linked reserves aren't available for settling financial obligations, therefore the table's amounts do not contain them.*

50.3. Foreign exchange risk

The Group underwrites insurance and investment contracts denominated in euro and forint. The Group invests in assets denominated in the same currencies as their related liabilities, which reduces foreign currency exchange risks. Another factor reducing the risk is that the acquisition costs related to the policies generally arise in the currency that the income arises in.

The Group is exposed to foreign currency exchange risk by the fact that a significant financial liability, financing including interest received as part of financial reinsurance and not yet repaid, is determined in Euros, and the annual repayment amount is defined one year in advance at a set exchange rate.

Since the cash flows from the technical reserve that cover the repayments generally arise in forints, any change in the EUR/HUF exchange rate constitutes a risk both for the coverage of the repayment instalments due based on the policy and from the perspective of a revaluation of the existing debt.

However, this risk is mitigated by the average remaining term expected for a policy in a reinsured generation being less than two years.

The Group constantly monitors its positions with reinsurers, and it believes that the foreign currency risk of all reinsured generations is manageable. In case of the treatment of foreign exchange risk, the Group applies forwards.

The table below presents the foreign exchange exposures of financial assets and liabilities by currency as at the end of 2020 and 2019:

DATA IN THUF

31.12.2020.	HUF	EUR	USD	DKK	RON	PLN
State bonds, discounted T-bills	32 474 451	-	-	-	-	
Corporate shares		224 989	-	-	-	
Equity	2 428 972	465 685	14 954 182	79 402	-	
Investment notes	15 556 509	5 543 321	31 038 600	-	-	
Cash	2 110 884	1 707 493	200 766	-	6 092	1 180
Receivables	1 6897 711	449 887	3 039	-	-2	
Derivative instruments	43 261	-	-	-	-	
Other UL assets	-174 408	-62 364	-14 308	-	-	
Loans and financial reinsurance	-	-59 880	-	-	-	
Insurance and other liabilities	-2 841 736	-136 586	-	-	-	
Other financial liabilities	-25 324	-34 556	-	-	-	
Investment contracts	-3 488 731	-741 337	-	-	-	

DATA IN THUF

31.12.2019.	HUF	EUR	USD	RON	PLN
State bonds, discounted T-bills	28 003 932	-	-	-	-
Corporate shares	-	12 192	-	-	-
Equity	2 613 086	-	14 466 253	-	-
Investment notes	20 163 701	4 287 623	25 998 234	-	-
Cash	3 230 897	1 301 841	1 277 135	5 589	8 117
Receivables	2 181 736	408 496	20 276	-2	-
Derivative instruments	-10 132	-	-	-	-
Other UL assets	-225 495	-52 631	-29 393	-	-
Loans and financial reinsurance	-	-435 613	-	-	-
Insurance and other liabilities	-2 768 494	-43 801	-	-	-
Other financial liabilities	-	-152 472	-	-	-
Investment contracts	-3 216 823	-767 580	-	-	-

The table shows the sensitivity of the Group’s profit/loss and equity to foreign exchange risk. Possible fluctuations in exchange rates at the end of 2020 and 2019 would have the following impact on the Group’s profit/loss and equity:

DATA IN THUF

31.12.2020	EUR	USD	RON	DKK
Year-end FX rate	365,13	297,36	74,99	49,08
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	**117 103**	**118**	**305**	**59**
The impact of the decrease of the FX rate on the profit or loss / shareholders’ capital	**-117 103**	**-118**	**-305**	**-59**

DATA IN THUF

31.12.2019	EUR	USD	RON	PLN
Year-end FX rate	330,52	294,74	69,08	77,59
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	**19 197**	**-**	**279**	**812**
The impact of the decrease of the FX rate on the profit or loss / shareholders’ capital	**-19 197**	**-**	**-279**	**-812**

50.4. Interest rate risk

The Group's interest payment liability from financial reinsurance is determined alongside an interest agreement fixed per reinsurance generation. For this reason, the existing reinsured generations carry no interest risk, while in the case of policies for which reinsurance is needed in the future, one source of uncertainty is the interest subsequently imposed based on the agreement.

The Group determines the value of life insurance premium reserves prospectively using a technical interest rate; under the current reserve-allocation rules the reserves do not revalue on account of a shift in the yield curve. However, a shift in the yield curve can affect the value of assets assigned to the life insurance premium reserves, which is why there is an interest risk for these assets. The Group counters the interest risk by selecting assets which are not overly sensitive to changes in interest rates. Risk management is also supported by the continuous monitoring of asset-liability matching.

The following table presents the Group's interest-bearing assets and liabilities as of 2020 and 2019 year-end:

DATA IN THUF

	31 DECEMBER 2020	31 DECEMBER 2019
Fixed-interest	33 003 059	27 387 064
Floating-interest	65 170	556 159
Interest-bearing assets	**33 068 229**	**27 943 223**
Fixed-interest	209 780	588 084
Floating-interest	-	-
Interest-bearing liabilities	**209 780**	**588 084**

For fixed-interest available-for-sale financial assets a possible change in the interest rate (30 basis points in the case of HUF and PLN investments and 20 basis points in the case of the EUR investments in 2020) would alter the Company's equity by HUF -468,043 thousand in annual terms. (30 basis points in the case of HUF and PLN investments and -20 basis points in the case of EUR investments in 2019, which would have altered the Company's profit/loss and equity by HUF -437,909 thousand in annual terms.)

The Group's interest-bearing assets and liabilities bore the following interest rates as of the end of 2020 and 2019:

	31.12.2020		31.12.2019	
	HUF	EUR	HUF	EUR
Government bonds	0.01%-7.0%	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

50.5. Accounting classification and fair values

The carrying values of loans and receivables, available-for-sale financial instruments and other financial liabilities do not differ significantly from their fair values.

The following table presents the Group's assets and liabilities as classified into financial asset and liability categories:

DATA IN THUF

31.12.2020	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	7 319 828	-	24 736 886	-	-
Corporate bonds	-	-	224 989	-	-
Equity	15 082 652	-	1 984 834	-	-
Investment notes units	48 836 527	-	514 842	-	-
Cash (unit-linked & own)	2 992 216	862 255	-	-	-
Receivables	97 623	2 139 528	-	-	-
Other UL assets	-237 529	-	-	-	-
Loans, financial reinsurance, other liabilities and provisions, liabilities from insurance, leasing liabilities, intercompany liabilities	-	-	-	-	3 188 104
Investment contracts	-	-	-	4 230 068	-
Derivative instruments	41 525	-	-	-	-
Total	**74 132 841**	**3 001 783**	**27 461 551**	**4 230 068**	**3 188 104**

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	-	22 599 563	-	-
Corporate bonds	11 540	-	-	-	-
Equity	13 961 060	-	2 329 784	-	-
Investment notes units	47 752 582	-	-	-	-
Cash (unit-linked & own)	3 833 462	1 773 613	-	-	-
Receivables	169 992	2 430 913	-	-	-
Other UL assets	-291 084	-	-	-	-
Loans, financial reinsurance, other liabilities and provisions, liabilities from insurance, leasing liabilities, intercompany liabilities	-	-	-	-	3 669 593
Investment contracts	-	-	-	3 984 403	-
Derivative instruments	-5 304	-	-	-	4 528
Total	**70 547 705**	**4 204 526**	**24 929 347**	**3 984 403**	**3 674 121**

The Group applies the following three measurement levels when determining the fair value of assets and liabilities:

- Level 1: price quoted on active market for asset/liability
- Level 2: Based on input information that differs from level 1, which can be directly or indirectly observed for the given asset/liability
- Level 3: Inputs for assets and liabilities which are not based on observable market data

In the case of loans and receivables, the Group estimates that the book value approximates the fair value of assets and therefore no separate presentation of the fair value is required.

In case of the various financial instruments, the fair value of the assets determined by the following methods:

- Debt securities
    - except the government bonds, and discounted T-bills issued into the primary dealership system, the last net exchange price of the evaluation period shall be used with the accumulated interest until the reporting date added (in case of the determination of the fair value);
    - the fair value in the case of the T-bills and government bonds (both with fixed and floating interest payments), which: mandatory quoted, have more than 3 months remaining maturity and issued into the primary dealership system, is determined by the average of the best net bid/ask price (published by ÁKK- Government Debt Management Agency, at the reporting date, and the last workday before the reporting date) plus the accumulated interest at the reporting date;
    - the fair value in case of the T-bills and government bonds (only the securities with fixed interest payments), including securities guaranteed by the state, which: non-mandatory quoted in the primary dealership system, have less than 3 months remaining maturity, is determined by the net exchange rate published by ÁKK at the reporting date, and the last workday before the reporting date, calculated based on 3 monthly benchmark yield, plus the accumulated interest;
    - if there is no more recent information than 30 days about the price of the debt security, which listed on the stock exchange (excluded the securities issued into the primary dealership system), then the fair value of the asset shall be determined by the published, average net price of the registered OTC trade, weighted with turnover, plus the accumulated interest at the reporting date, unless this price is older than 30 days. The validity of the registered prices of the OTC trading is the marked period in the publication, in other words, it shall be calculated from the last day of the reference period even if it isn't a workday. The same method shall be applied in case of the unlisted debt securities.
- Shares:
    - shares listed on the stock exchange shall be evaluated on the closing price of the reporting date;
    - if no trading was occurred at the reporting date, then the last closing price of the share shall be used, unless this price is older than 30 days;

- in case of the unlisted share, the valuation price shall base on the OTC trading price and the last weighted average price, unless the last weighted average price is older than 30 days;
- if none of the mentioned valuation method is applicable, then the lower of the last exchange price or the purchase price shall be used, independently from the date of the data.

- Derivative instruments:
  - according to the Regulation of the T-daily results of the forward transactions of the Budapest Stock Exchange, if the transactions opened at “T day” than by using the strike price and the stock exchange settlement price of “T day”, if the transactions closed at “T-day” than by using the strike price and the stock exchange settlement price of “T-1 day”, and in case of the transactions opened before “T day”, then by using stock exchange settlement price of “T day” and “T-1 day”;
  - in case of the foreign currency forward transactions over the counter, the valuation based on the prompt exchange rate and forward exchange rate based on the interbank interest rates denominated in the relating foreign currencies. The interest rates applied in the calculation, are the interbank interest rates, with the closest term to the remaining maturity of the future contract.

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

DATA IN THUF

31.12.2020	LEVEL 1	LEVEL 2	LEVEL 3	TOTAL
Government bonds	32 056 714	-	-	32 056 714
Corporate bonds	224 989	-	-	224 989
Equity	17 067 486	-	-	17 067 486
Investment notes	49 351 369	-	-	49 351 369
Unit-linked cash	2 992 216	-	-	2 992 216
Receivables and other unit-linked financial assets	-139 907	-	-	-139 907
Derivative instruments	-	41 525	-	41 525
Total assets:	**101 552 867**	**41 525**	**-**	**101 594 392**
Liabilities measured on fair value	4 230 068	-	-	4 230 068
Total Liabilities:	**4 230 068**	**-**	**-**	**4 230 068**

DATA IN THUF

31.12.2019	LEVEL 1	LEVEL 2	LEVEL 3	TOTAL
Government bonds	27 715 020	-	-	27 715 020
Corporate bonds	11 540	-	-	11 540
Equity	16 290 844	-	-	16 290 844
Investment notes	47 752 582	-	-	47 752 582
Unit-linked cash	3 833 462	-	-	3 833 462
Receivables and other unit-linked financial assets	-121 092	-	-	-121 092
Derivative instruments	-	-5 304	-	-5 304
Total assets:	**95 482 357**	**-5 304**	**-**	**95 477 053**
Liabilities measured on fair value	3 984 403	-	-	3 984 403
Total Liabilities:	**3 984 403**	**-**	**-**	**3 984 403**

51. CONTINGENT LIABILITIES

The Group is subject to insurance solvency regulations and it has complied with all regulatory requirements either in accordance with EU Directives or with Hungarian regulations.

As described in Note 1, regarding the Italian suretyship-guarantee insurances, at the end of 2018 and in early 2019 the beneficiary Customs and Monopoly Agency (agency responsible for the supervision of gambling in Italy, ADM) has submitted a request for drawdown of insurance promissory notes (related to products Gaming and Public Concessions) issued to four large clients. The total value of the contractual obligations was approx. EUR 12 million. However, these drawbacks did not provide adequate justification and the primary opinion of Italian experts was that the claim lacks legal basis. During the conciliation negotiations in 2019, the beneficiary reduced its claim to almost one quarter of the original amount and provided adequate justification for this remaining amount. Further expert opinion requested in the case proposed the settlement of claims amounting to approx. EUR 3,167 million and estimated the recoverable amount from regress and commission reversals to be HUF 537 million. EMABIT settled the claim of HUF 3,167 million by the end of November 2019.

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

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

At the end of 2020, the Insurer reviewed all outstanding claims in its Italian suretyship-guarantee insurance portfolio with the involvement of new legal experts and significantly increased its reserves for outstanding claims. In this report, the total amount of claims reported to the Insurer, taking into account the damage related to the above excise tax liability, is EUR 24.026 million, of which the Insurer has, taking into account the opinion of legal experts, established a reserve for RBNS claims in the amount of EUR 5.917 million and a regress reserve of EUR 1.111 million. If the amount of the claims to be paid will differ, the difference will change the Insurer’s future result and equity.

The effect of contingent liabilities to consolidated financial statement can be the maximum of HUF 1,452 thousands, the equity of EMABIT.

52. COMMITMENTS FOR CAPITAL EXPENDITURE

The Company had no commitments for capital expenditure as at 31 December 2020 and 31 December 2019.

53. RELATED PARTY DISCLOSURES

Related party transactions, as defined by the Group, are business events between the Group and operations of the members of the Board of Directors and the Supervisory Board, beside the transactions with the associates.

53.1. Related party transactions between the Company and the members of the Board of Directors and the Supervisory Board

Benefits to the members of the Board of Directors and the Supervisory Board:

In 2020 the members of the Board and Supervisory Board received HUF 27,550 thousand (in 2019 HUF 25,800 thousand) honorarium. No advances or loans were provided to them.

Contracted services:

In 2020 the Company obtained insurance intermediary services from Hungarikum Insurance Broker Ltd. on market prices, amounting to HUF 119,252 thousand.

53.2. Transactions with intercompanies

MKB-Pannónia Fund Manager Ltd. invoiced the followings to the Group in 2020:

- HUF 374,953 thousand unit-linked portfolio management fee**2** (in 2019 HUF 457,744 thousand), and HUF 111,220 thousand unit-linked fund management fee1 (in 2019 HUF 82,857 thousand)
- HUF 46 236 thousand portfolio management fee relating to own portfolio (turnover with CIG Pannonia Life Insurance Plc was HUF 34,145 thousand and HUF 12,091 thousand with CIG Pannonia First Hungarian General Insurance Ltd), in 2019 the own portfolio management fee was HUF 48,898 thousand.

CIG Pannónia Life Insurance Plc. invoiced services in an amount of HUF 948 thousand to Pannónia CIG Fund Manager Ltd. in 2020 (in 2019 HUF 574 thousand).

2 Unit-linked portfolio management and fund management fee is charged directly to unit-linked investment fund's net asset value

54. SUBSEQUENT EVENTS

Pursuant to the authorization of the Articles of Association, the Board of Directors transferred the registered office of the Company with effect from 1 February 2021; the new registered office is: 1097 Budapest, Könyves Kálmán krt. 11. Building B. The Company also relocated the registered offices of its subsidiaries with the same effect to the indicated location.

During the change of the registered office of the Company, the Company paid special attention to enforcing the system of requirements set out in the legislation and HFRS recommendations necessary for the performance of its supervised activities. The selection of the registered office and the area for front-end customer services at the registered office were motivated primarily by the mentioned official requirements and the realization of future strategic goals.

The Company reported in an extraordinary announcement that the National Office for Research, Development and Innovation has issued a professional opinion on eligibility, based on which the Company will receive HUF 799,977,189 support in the field of “Development of customizeable insurance products with the help of artificial intelligence”.

The HFRS resolution No. H-EN-II-9/2021, dated 24 February 2021, authorized to employ senior employee Zoltán Polányi as the primary CEO. Furthermore, at the request of EMABIT, HFRS authorized in its resolution No. H-EN-II-8/2021 Zoltán Polányi to perform the duties of EMABIT’s number one deputy head.

On 25 March 2021 the Company decided to increase the share capital of EMABIT by HUF 5,000,000. As a result of the capital increase, the new share capital of EMABIT is HUF 1,065,000,000. The share capital will be increased by the private placement of 5 (five) new dematerialized registered ordinary shares with a nominal value of HUF 1,000,000 (one million) and an issue value of HUF 300,000,000 (three hundred million) by paying a cash contribution. The shares represent the same rights as the shares previously issued. The entire share capital increase will be carried out by CIG Pannónia Life Insurance Plc., as the sole owner of EMABIT. All shares will be taken over by the Company. Simultaneously with the share capital increase, the Company places the difference between the issue and the nominal value of the shares, i.e. HUF 1,495,000,000 in the capital reserve of EMABIT. The capital increase and the capital reserve were established in accordance with the new strategic ideas of the Company in order to finance the operation of the newly established domestic-focused property insurance business lines. The direct intention of the Company and an important element of its new strategy - by strengthening sales and internal lines of defense and capital position - is to relaunch and operate EMABIT’s activities in a transparent manner with the need for growth and certain elements.

Furthermore, there was no other significant subsequent event in the life of the Company.

55. STATEMENT

Consolidated Financial Statements and Consolidated Business Report of CIG Pannónia Life Insurance Plc. for the year 2020, prepared according to the international financial reporting standards accepted by the European Union provides a true and fair view of the assets, liabilities, financial position and profit/loss of the Insurer furthermore the consolidated business report provides a fair view of the position, development and achievement of the Insurer indicating the main risks and uncertainties. On 7 April 2021 the Company's Board of Directors accepted the submission of the Company's consolidated financial statement to the shareholder's annual general meeting.

The Board of Directors of CIG Pannónia Life Insurance Plc. made the following decision regarding the dividend policy: for the business year 2020, the whole profit shall be transfered to the retained earnings.

Budapest, April 7, 2021

Zoltán Polányi	Alexandra Tóth	Géza Szabó
Primary Chief Executive Officer	*Chief Accounting Officer*	*Chief Actuary*

CIG PANNÓNIA LIFE INSURANCE PUBLIC LIMITED

CONSOLIDATED BUSINESS REPORT FOR THE YEAR 2020

APRIL 7, 2021

REPORT ON THE DEVELOPMENT AND BUSINESS PERFORMANCE OF THE GROUP

In 2020 CIG Pannónia Group has a profit after tax of HUF 660 million. The gross written premium is HUF 19,319 million, the earings per share is HUF 7.1.

The Group's written premium reached the 97% of the level of 2019. The Issuer's shareholders' equity was HUF 13,601 million at the end of 2019 which increased to HUF 13,894 million, that is a 2% increase in 2020, primarily due to total comprehensive income.

The total amount of new acquisitions in the life segment was HUF 3,102 million, which is a 28% decrease compared to the new acquisition in 2019. The decrease in sales is mainly explained by the effects of COVID-19.

The available solvency capital of the Group is 335% at the end of 2020, which significantly exceeds the 150 percent Solvency Capital Requirement of the Supervisory Authority (which contains a 50 percentage volatility puffer)

MAIN RISKS ARISING DURING THE GROUP'S INVESTING ACTIVITY

In addition to investing technical reserves, the Group invested its own investments held for trading – with particular attention to liquidity and risk aspects – mostly in Hungarian T-bills and state bonds because this ensured the risk management and flexibility that was appropriate for dynamic business growth and stable operation.

In addition to managing insurance risks, the Group pays close attention to financial risk management:

- credit risk exposure primarily arises on premium receivables from insurance policy holders, receivables from reversed commissions, on debt securities and bank deposits, which are managed using both financial and legal means;
- liquidity and cash-flow risk management are based on daily monitoring, to which the updating of the portfolio of easy-to-sell, marketable securities and the management of unforeseeable cash-flow problems are aligned;
- interest risks principally arise with financial reinsurance liabilities, where the level of uncertainty is low given the fixed interest agreements. Risk management is also supported by the continuous monitoring of asset-liability matching.
- the Insurer hedged its portfolio in unit-linked investments, and its own investments.
- the Insurer has price risk mainly its own investments. The market value of the securities is continuously monitored by the ALM activity.

PRESENTATION OF THE GROUP'S FINANCIAL SITUATION IN 2020

In 2020, the Group's gross written premium was HUF 19,319 million, which is 97 percent of the revenues generated in the same period of the previous year. Of this HUF 14,698 million are revenue from the gross written premium of unit-linked life insurance (of this HUF 5,969 million of pension insurance policies), HUF 3,980 million from traditional life products (of this HUF 1,209 million from pension insurance policies), HUF 426 million from health insurance policies and HUF 215 million from non-life insurance.

Non-life insurance generated premium income of HUF 215 million in 2020, which is an 88 percent decrease to the comparative period, as a significant part of its portfolio with written premiums was sold by the Group in 2020, and the written premiums of the portfolios held for sale no longer appear among the Group's "earned premiums". In the life segment the gross written premium from the first annual premiums of policies sold was HUF 3,276 million, which is a 1% decrease compared to the same period of the previous year (HUF 3,321 million). The gross written premium income from renewals was HUF 12,756 million in 2020 in contrast to HUF 10,986 million in the same period of the previous year, so the renewal premiums increased by 16%. Top-up and single premiums (HUF 3,071 million) were 18% lower as the premiums in the same period of the previous year, mainly relating to unit-linked life insurance policies. Within the total life insurance premium income – according to IFRS – of HUF 19,103 million, the rate of top-up and single premiums is 16 percent.

The change in unearned premium reserve in 2020 was a profit of HUF 611 million (in 2019 a profit of HUF 38 million), while the amount of ceded reinsurance premiums in 2020 was a loss of HUF 463 million (in 2019 a loss of HUF 503 million). The change in the provision for unearned premiums increased mainly due to the non-life segment's suretyship portfolio, as the unearned premium reserve of the previous portfolio is continuously decreasing.

Unit-linked life insurance policies sold by the Group that do not qualify as insurance policies under IFRS are classified by the Group as investment contracts. In connection with the investment contracts, the Issuer generated a premium and commission income of HUF 159 million in total during the reporting period. The change in the fair value of liabilities related to investment contracts was a loss of HUF 274 million in the four quarters due to the unit-linked returns.

The most significant item of other operating income (HUF 838 million) was the income from the Issuer's fund management (HUF 578 million), which decreased by HUF 112 million compared to 2019, as it is linked to the Group's previously sold unit-linked product type with a declining portfolio.

The defining item among expenses are claim payments and benefits and claim settlement costs (together HUF 13,350 million), which expenditure is decreased by the recoveries from reinsurers (HUF 49 million). Claims incurred decreased by HUF 2,438 million compared to 2019, of which HUF 577 million was due to a decrease in non-life segment expenses (primarily on the Italian suretyship portfolio) and HUF 1,861 million was due to the decrease in life segment claims incurred mainly due to the repurchases of unit-linked products.

The amount of net change in reserves is a loss of HUF 5,046 million, which is made up of mainly the following changes in reserves. The unit-linked life insurance reserve amount increased by HUF 3,574 million, which is due to the positive unit-linked returns at the end of the year (although the returns were unfavorable at the beginning of the year). The actuarial reserves increased by HUF 1,144 million, the technical reserves for the bonus payment of the life insurance clients increased by HUF +119 million, the reserve for premium refunds independent of profit increased by HUF 22 million, while the reserve for premium refunds dependent of profit decreased by HUF 260 million. The outstanding net claim reserves increased by HUF 556 million, while the cancellation reserves decreased by HUF 164 million concurrently parallel to the decrease of the premium receivables.

The total operating cost of the Issuer was HUF 6,251 million in 2020, of which HUF 3,833 million is related to the fees, commissions and other acquisition costs, HUF 2,188 million to other operating costs and HUF 499 million to other expenses. Acquisition costs show a decreasing trend, while gross earned premiums remained at the same level. In the life segment this is primarily due to the decrease in new acquisitions, with increasing renewal fees, while in the non-life segment it is due to the standstill of most of the sales activity. The other operating costs increased by HUF 205 million compared to the same period of the previous year (HUF 1,983 million in 2019), primarily duean increase in personnel and IT expenses. The volume of other expenses (HUF 499 million) is HUF 213 million less than the comparative period (HUF 712 million). The largest part of the increase is explained by the expected loss on contracts sold by the Pannonia Financial Intermediary and other exited insurance intermediaries (totaling HUF 174 million), however, no impairment losses related to the Italian products occurred in 2020, which reduced expenses by HUF 291 million.

The investment result in 2020 is a profit of HUF 4,287 million, which is due to the aggregated effect of the following issues.

Unit-linked returns amount to a profit of HUF 3,278 million. As an investor, the best returns in 2020 were achieved in the Chinese and the US stock markets, which is also reflected in the performance of asset funds investing in these areas. Among the unit-linked portfolios, the Global Convertible Bond and the Metallicum Commodity Market asset funds also performed outstandingly.

Undoubtedly, the most significant market-moving event in 2020 was the emergence and global spread of the coronavirus: stock markets showed a collapse unprecedented since the 2008 crisis, causing the S&P500 index plummet by 35 percent to mark the low point of 2020. In addition to the extent of the fall, its dynamics were really surprising, as it all happened within just 23 trading days. The panic in March passed thanks to the coordinated monetary and fiscal response, with stock markets returning to their February levels by the end of the Summer and the production of an effective vaccine bringing additional buyers to the markets starting November. As a result, developed stock markets closed the year with an increase of 16.5 percent, while emerging stocks with an increase of 18.5 percent.

In 2020, the Eastern European regional equity market underperformed global emerging equity markets in terms of their own currency, due to the fact that the stock index representing regional equity markets are predominated by financial and energy sectors, which lost significant in value during the period due to the effect of the coronavirus.

International bond indices also closed the period with a positive performance. Bonds from developed markets outperformed emerging market bonds, with an overall positive movement of around 5-8 percent.

In the domestic bond market, the performance of domestic government securities within one year from the beginning of the calendar year was 0.41%-0.44%, the MAX index, which represents securities longer than one year, achieved an annual performance of 1.41% in the calendar year.

In 2020, of the regional currency pairs the EUR/HUF reacted the most to the challenges caused by the coronavirus, with the forint depreciating by 10.5% against the euro. At the same time, the depreciation of 0.89% against the US dollar is far from drastic, which was due to the likewise weakening of the US dollar.

The Issuer had HUF 505 million yield profit on its own investments in 2020, compared to the HUF 732 million in 2019.

Earnings from the MKB-Pannónia Fund Management Company to the Company appear on "investments accounted for using the equity method", which is a profit of HUF 436 million in 2020, which is almost the same as the amount of the comparative period.

The result on assets held for sale was HUF 790 million in 2020, while it was HUF 1,150 million in 2019.

As a result of all of the above, the profit before tax amounted to HUF 908 million profit (in 2019 the result before taxation was a loss of HUF 345 million), that was reduced by the HUF 2019 million tax liability. The overall profit after tax is HUF 660 million, that is HUF 1,299 million higher than the profit after tax of 2019. The other comprehensive income contains the decrease in the fair value of available-for-sale financial assets amounting to HUF 376 million, of which HUF 345 million is the unrealized foreign exchange loss on OPUS shares owned by the Group and the remaining HUF 31 million is unrealized loss on government securities. Thus, the total comprehensive income represents a profit of HUF 284 million in 2020.

The Issuer's balance sheet total was HUF 112,697 million; its financial position is stable; the company has met its liabilities in full. On 31 December 2020 the shareholders' equity was HUF 13,894 million.

IMPLEMENTATION OF BUSINESS POLICY GOALS IN 2020

When evaluating our sales activities we must consider the effects of the COVID-19 epidemic defining 2020: in the first half of the year the epidemic had a significant impact on the life insurance market, which was previously defined by personal encounters and strictly in-person dealmaking. Although both insurers and customers reacted with flexibility to the new situation, the macroeconomic environment, the significant insecurity of living, and in many cases the uncertainty of the future, all of which were caused by the uncertainty of the overall situation, had a significant effect on the volume of new sales. Given that we have not encountered such a situation before, and that for a significant proportion of life insurance contracts the insistence of policyholders was apparent, and that the increase in redemption requests charachterizing the first days of the epidemic has soon come to a standstill and has not exceeded the average level, the decline in new sales was adequately offset by the stability of ongoing fee payments.

In the fields of digitalisation and IT developments we successfully introduced our IT system for remote identification, which by the end of the year made it possible in practice to identify our customers for the conclusion of transactions without personal presence, using electronic means of communication.

Given that digitalisation alone offers many additional opportunities in both the back office and front office, we submitted an application for long-term developments, with which we managed to obtain nearly HUF 800 million in external funding, for which an additional HUF 650 million in internal development investment funding will be provided.

In the second half of the 2020 business year, we began to restructure the employee remuneration structure to ensure long-term employee engagement and the achievement of market remuneration levels. The first phase of educational development ideas aimed at the development of an agile organizational and project operation has been realized, and we have laid the foundations for documented project-based operation, which along the development of the current employee team are suitable in the long run for the successful adoption of an organizational and project hierarchy, which is in line with the 21st century operating models.

BUSINESS POLICY GOALS OF CIG PANNÓNIA LIFE INSURANCE PLC. FOR 2021

The Company set the following targets for business year 2021:

In 2021 our Company – in addition to increasing internal transparency and developing and operating a flexible and prudent operating model to meet the increased expectations – intends to significantly increase its sales activities, substantially increasing both the number of intermediaries employed in the internal sales network and their activity and recognition in the insurance intermediation market. Our goal is to double the members of the sales chain in the short term, significantly increasing the volume of products sold.

In order to strengthen our digital footprint, we are embarking on a multi-year project aimed at incorporating artificial intelligence into the sales process, while also implementing background activities to achieve the best possible customer experience. The continuing uncertainties related to the epidemic alone call for the further strengthening of distance sales and electronic means of communication; to meet these challenges we also intend to develop our existing systems.

By restructuring our organizational structure, we not only want to strengthen the expansion of our sales activities, but also strengthen our control lines, both by expanding our headcount and by significantly tightening internal control and compliance activities, primarily in process-based regulation and control, building upon the experience of previous years. We intend to continue and complete the remuneration policies and regulations started in the 2020 business year by incorporating the regulation into the processes in full compliance with the HFSA's expectations, in order to ensure that the model contributes clearly and transparently to the Company's and the Group's business strategy, long-term interests and sustainability both as regards the regulated market presence and the remuneration system of the insurers.

We pay special attention and resources to the introduction of IFRS 17 and its successful implementation by the deadline with regards to both the Company and EMABIT (primarily the Company, due to its activities). Utilizing our previous experience in agile project-based operations, we organize the activities of implementation in this form as well.

Our company also intends to devote significant resources to relaunching (in other words: continue operating) EMABIT, both in terms of financial and human resources. This is a direct intention to provide any guarantees that may be required to restart EMABIT's supervised activities with the aim of strengthening sales and strengthening internal lines of defence and capital position, considering also that EMABIT has implemented the impositions of the recovery plan set out by the HFSA.

In order to achieve the strategic goals set out above (sustainable growth and transparency), a fact-based strategic work is underway to shift the Group's operations into a new dimension and to exploit within this new framework as a national insurer the growth potential of operations from 2021 onwards, the foundations of which the Company intends to assure from the professional and the capital market side of insurance as well, following the closure of the 2020 business year.

SUBSEQUENT EVENTS IN ACCORDANCE WITH SUPPLEMENTARY NOTES

Pursuant to the authorization of the Articles of Association, the Board of Directors transferred the registered office of the Company with effect from 1 February 2021; the new registered office is: 1097 Budapest, Könyves Kálmán krt. 11. Building B. The Company also relocated the registered offices of its subsidiaries with the same effect to the indicated location.

During the change of the registered office of the Company, the Company paid special attention to enforcing the system of requirements set out in the legislation and HFRS recommendations necessary for the performance of its supervised activities. The selection of the registered office and the area for front-end customer services at the registered office were motivated primarily by the mentioned official requirements and the realization of future strategic goals.

The Company reported in an extraordinary announcement that the National Office for Research, Development and Innovation has issued a professional opinion on eligibility, based on which the Company will receive HUF 799,977,189 support in the field of "Development of customizeable insurance products with the help of artificial intelligence".

The HFRS resolution No. H-EN-II-9/2021, dated 24 February 2021, authorized to employ senior employee Zoltán Polányi as the primary CEO. Furthermore, at the request of EMABIT, HFRS authorized in its resolution No. H-EN-II-8/2021 Zoltán Polányi to perform the duties of EMABIT's number one deputy head.

On 25 March 2021 the Company decided to increase the share capital of EMABIT by HUF 5,000,000. As a result of the capital increase, the new share capital of EMABIT is HUF 1,065,000,000. The share capital will be increased by the private placement of 5 (five) new dematerialized registered ordinary shares with a nominal value of HUF 1,000,000 (one million) and an issue value of HUF 300,000,000 (three hundred million) by paying a cash contribution. The shares represent the same rights as the shares previously issued. The entire share capital increase will be carried out by CIG Pannónia Life Insurance Plc., as the sole owner of EMABIT. All shares will be taken over by the Company. Simultaneously with the share capital increase, the Company places the difference between the issue and the nominal value of the shares, i.e. HUF 1,495,000,000 in the capital reserve of EMABIT. The capital increase and the capital reserve were established in accordance with the new strategic ideas of the Company in order to finance the operation of the newly established domestic-focused property insurance business lines. The direct intention of the Company and an important element of its new strategy - by strengthening sales and internal lines of defense and capital position - is to relaunch and operate EMABIT's activities in a transparent manner with the need for growth and certain elements.

Furthermore, there was no other significant subsequent event in the life of the Company.

OWNERSHIP STRUCTURE, RIGHTS ATTACHING TO SHARES

The ownership structure of CIG Pannónia Life Insurance Plc. (31 December 2020)

OWNERS DESCRIPTION	NUMBER OF SHARES	OWNERSHIP RATIO	VOTING RIGHT
Domestic private individual	37 778 376	40.01%	40.01%
Domestic institution	54 478 869	57.69%	57.69%
Foreign private individual	203 415	0.22%	0.22%
Foreign institution	593 733	0.63%	0.63%
Nominee, domestic individual	1 178 518	1.25%	1.25%
Nominee, foreign individual	148 900	0.16%	0.16%
Nominee, foreign institution	32 512	0.03%	0.03%
Unidentified item	13 937	0.01%	0.01%
Total	**94 428 260**	**100%**	**100%**

The Group engaged KELER Ltd. with keeping the shareholders' register. If, during the ownership verification, an account manager with clients holding CIGPANNONIA shares does not provide data regarding the shareholders, the owners of the unidentified shares are recorded as "unidentified item" in the shareholders' register.

Over 10 percent ownership is present at Hungarikum Insurance Broker Ltd., who has a 32.86 percent stake with 23,466,020 shares, and VINTON Property Management Ltd. , who has a 11.80 percent stake with 11,140,311 shares. Beyond this, the share number of owners of VINTON Property Management Ltd. remained unchanged: Dr. József Bayer with 1,500,000 ordinary shares, Iván Bayer with 100 ordinary shares and Zsuzsanna Csilla Bayer likewise with 100 ordinary shares of CIGPANNONIA.

The Group did not issue shares embodying special management rights or other preference shares.

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

The Group has no agreements between the Group and its managers or employees that prescribes compensation if the given manager or employee resigns, if the employment of the manager or employee is terminated illegally, or if the employment relationship is terminated on account of a public purchase offer.

The registered capital consists of 94.428.260 dematerialized registered voting series "A" common shares of thirty-three Hungarian Forints of nominal value each.

There are no limitations or dispose rights relating to the shares recorded in the articles of association of CIG Pannónia Life Insurance Plc.

CORPORATE GOVERNANCE REPORT

The purpose of the Corporate Governance Recommendations (hereinafter referred to as the Recommendations) issued by the Budapest Stock Exchange Zrt. Is to formulate guidelines to facilitate the operation of publicly traded companies (hereinafter referred to as issuers) in compliance with internationally recognized rules and standards of good corporate governance. The Annual General Meeting is responsible for accepting the corporate governance report.

The Recommendations can be considered as an addition to Hungarian legislation.

The Company should also take into account relevant legislation when evaluating responsible corporate governance practices. Compliance with the Recommendations also requires compliance with the law, as well as ethical, self-responsibility and business practices.

The basis of the Hungarian regulation is Act V of 2013 on the Civil Code. 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 responsible corporate governance report (the 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 of the referred Article, 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 and other official places of publication. Issuers are expected to apply the Recommendations specified by the BSE and, in this context, they must provide information on the extent to which they follow them.

The Recommendations for Responsible Corporate Governance (the Recommendations) were significantly amended first on 23 July 2018, then on 08 December 2020 by the Responsible Corporate Governance Committee acting beside the BSE. The amended Recommendations contain, in part, binding recommendations for all issuers and partly non-binding recommendations. Issuers may differ from both binding recommendations and non-binding proposals. In the event of a deviation from the recommendations, the issuers are required to disclose the discrepancy in the corporate governance report and to justify it. This allows issuers to take into account sector-specific and company-specific needs. Accordingly, an issuer other than the recommendations may, where appropriate, meet the requirements of corporate governance. In the case of proposals, issuers should indicate whether or not they apply the Directive and have the possibility to justify deviations from the proposals.

The Company has two ways to declare its responsible corporate governance practices. The Company must report on the responsible corporate governance practices of the business year in question in a responsible corporate governance report to be compiled and submitted to the Annual General Meeting on the one hand. In doing so, we must address the corporate governance policy and the description of any special circumstances in terms of the aspects set out in the Recommendations.

These aspects:

Brief description of the board of directors / board of directors, responsibilities and responsibilities of the board of directors and management.

Presentation of the members of the Board of Directors, the Supervisory Board and the Management (including the status of the individual members for the members of the Board), the structure of the committees.

Presentation of the number of meetings of the Managing Body, the Supervisory Board and the Committees held during a given period, giving the participation rate.

Presentation of the aspects taken into account in evaluating the work of the Managing Body, the Supervisory Board, the management and the individual members. Indication of whether the evaluation performed during the given period resulted in any change.

Report on the functioning of each committee, including the professional presentation of committee members, the meetings held and the attendance rate and the main topics discussed at the meetings and the general functioning of the committee. When presenting the functioning of the Audit Committee, it should be noted that the Board of Directors / Board of Directors has decided on a matter contrary to the proposal of the Board (including the reasons for the Managing Body). It is advisable to refer to the company's website, where the tasks delegated to the committees and the time of the appointment of members should be made public. (If this information is not found on the Company's website, they must be included in the Corporate Governance Report.)

Presentation of the system of internal controls, evaluation of the activity of the given period. Report on the effectiveness and efficiency of risk management procedures. (Information on where shareholders can view the report of the Board of Directors / Board of Directors on the operation of internal controls.)

Information on whether the auditor has performed an activity that is not related to the audit.

An overview of the company's publishing policy and insider trading policy.

In addition to the above description, the Corporate Governance Report details the answers to the questions in the recommendation, indicating the points in which the Company is not continuing the recommended practice, indicating the reason for the deviation and the intention to comply with it in the future.

The Company distributes the detailed Corporate Governance Report in a separate document to the General Meeting.

EMPLOYMENT POLICY

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

Market positioning of salaries for each job is regularly carried out by the 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 incentive and thus the Company's remuneration system was reconsidered this year along a thought-through strategy. There are three regulatory pillars of the Company's remuneration that are transparent to both the public and employees:

a. *the Company's Remuneration Policy with respect to the personnel as defined in Section 2.§ (2) of the Act LXVII of 2019 on the promotion of long-term shareholder participation and the amendment of certain laws for the purpose of legal harmonization;*

b. *regulation adopted by the Board of Directors of the Company containing the principles and rules for determining the general performance-oriented remuneration for all employees of the Company;*

c. *the Company's MRP Remuneration Policy.*

The purpose of the remuneration system is to ensure that the Company has a sufficiently detailed remuneration system which, given the Company's presence on the regulated market, takes into consideration the regulatory environment's impositions in all aspects – its relevant remuneration principles, rules and recommendations –, and which is in line with the Remuneration Regulation of the Commission Delegated Regulation (EU) 2015/35 supplementing Directive 2009/138/EC of the European Parliament and of the Council on the taking-up and pursuit of the business of Insurance and Reinsurance (Solvency II).

The Company is convinced that workforce needs continuous motivation, therefore – taking into account the framework described above – it supports and initiates programs, which improve the employees' 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.

OTHER DISCLOSURES

In December 2011 the Group established a business location in Debrecen in order to ensure a prominent role for its product innovation development and to be able to improve its activity in Eastern Hungary. Effective from 2015 the Group relocated the branch office to Miskolc.

Environmental protection is not directly linked to the Group's core activities, nevertheless, in the development of working environment, using paperless processes and outsourcing, the Group contributes to an energy-efficient, healthy and environmentally friendly workplace. Environmental protection is strongly supported by the widespread use of electronic procedures, so the MNB licensing system, in addition to court proceedings, paperless solutions have become decisive in communicating with customers. The Group does not engage in research and experimental development activities.

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

Budapest, April 7, 2021

Zoltán Polányi	Alexandra Tóth	Géza Szabó
Primary Chief Executive Officer	*Chief Accounting Officer*	*Chief Actuary*

Disclaimer: All information contained within this document is for information purposes only, and shall not be considered an official translation of the official communication referred to herein. This document does not include the integral wording of the official communication referred to herein, the original Hungarian language version of it remains to be the solely legally binding material in the subject matter. For further information, please do not hesitate to contact us.