CIG PANNÓNIA
INSURANCE

CIG PANNONIA LIFE INSURANCE PLC.

CONSOLIDATED FINANCIAL STATEMENTS
AND CONSOLIDATED BUSINESS REPORT
FOR THE YEAR 2022, PREPARED
ACCORDING TO THE INTERNATIONAL
FINANCIAL REPORTING STANDARDS
ACCEPTED BY THE EUROPEAN UNION

CIG PANNÓNIA
INSURANCE

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CIG PANNÓNIA
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Consolidated Financial Statements for the year 2022, prepared according to the International Financial Reporting Standards accepted by the European Union

28 March 2023

CIG PANNÓNIA
INSURANCE

Consolidated Statement of Comprehensive Income

Data in THUF

	Notes	2022	2021 (restated)
Gross written premium		32 346 280	22 845 318
Changes in unearned premiums reserve		- 734 265	- 157 355
Earned premiums, gross		31 612 015	22 687 963
Ceded reinsurance premiums		- 3 847 317	- 502 078
Earned premiums, net	**8**	**27 764 698**	**22 185 885**
Premium and commission income from investment contracts	9	105 045	147 397
Commission and profit sharing due from reinsurers	10	1 554 451	60 438
Other investment income	11	482 849	11 615 317
Interest income calculated using the effective interest method	11	1 101 953	475 232
Yield on investment accounted for using equity method(profit)	11	481 663	808 075
Other operating income	12	803 149	1 112 802
Other income		**4 529 110**	**14 219 261**
Total income		**32 293 808**	**36 405 146**
Claim payments and benefits, claim settlement costs	13	- 16 128 623	- 15 464 577
Recoveries, reinsurer's share	13	750 397	146 813
Net changes in value of the life technical reserves and unit-linked life insurance reserves	14	- 1 986 852	- 11 964 327
Investment expenses	11	- 3 059 555	- 240 309
Impairment and impairment reversal of financial assets	11	- 6 319	- 14 036
Change in the fair value of liabilities relating to investment contracts	39	178 470	- 436 814
Investment expenses, changes in reserves and benefits, net		**- 20 252 482**	**- 27 973 250**
Fees, commissions and other acquisition costs	15	- 7 040 064	- 4 153 658
Other operating costs	16	- 2 550 630	- 2 256 014
Other expenses	17	- 1 084 691	- 238 427
Operating costs		**- 10 675 385**	**- 6 648 099**
Result from assets held for sale		**-**	**2 718**
Profit/Loss before taxation		**1 365 941**	**1 786 515**
Tax income/expenses	18	- 275 379	- 192 437
Deferred tax income/expenses	18	117 015	87 797
Profit/Loss after taxation		**1 207 577**	**1 681 875**
Comprehensive income, wouldn't be reclassified to profit or loss in the future	19	- 602 294	- 574 917
Comprehensive income, would be reclassified to profit or loss in the future	19	- 3 206 981	- 1 800 481
Other comprehensive income		**- 3 809 275**	**- 2 375 398**
Total comprehensive income		**- 2 601 698**	**- 693 523**

CIG PANNÓNIA INSURANCE

Consolidated Statement of Comprehensive Income – cont'd

Data in THUF

	Note	2022	2021 (restated)
Profit/loss after taxation attributable to the Company's shareholders		1 207 577	1 675 065
Profit/loss after taxation attributable to NCI		-	6 810
Profit/Loss after taxation		**1 207 577**	**1 681 875**
	Note	**2022**	**2021**
Other comprehensive income attributable to the Company's shareholders		- 3 809 275	- 2 375 398
Other comprehensive income attributable to NCI		-	-
Other comprehensive income		**- 3 809 275**	**- 2 375 398**
Total comprehensive income attributable to the Company's shareholders		- 2 601 698	- 700 333
Total comprehensive income to NCI		-	6 810
Total comprehensive income		**- 2 601 698**	**- 693 523**
Earnings per share			
Basic earnings per share (HUF)	20	12,9	17,8
Diluted earnings per share (HUF)	20	12,8	17,7

CIG PANNÓNIA INSURANCE

Consolidated statement of financial position

Data in THUF

ASSETS	Note	31 December 2022	31 December 2021 (restated)
Intangible Assets	21	992 058	720 063
Property, plant and equipment	22	148 856	179 026
Right-of use assets	23	409 173	494 093
Deferred tax asset	18	590 836	473 820
Deferred acquisition costs	24	1 883 965	1 327 898
Reinsurer's share of technical reserves	36	1 750 835	453 038
Investments accounted for using the equity method	25	660 453	1 013 290
Available-for-sale financial assets	26	-	28 409 074
Fair value of other financial assets	26	24 432 323	-
Investments for policyholders of unit-linked life insurance policies	27-28	86 205 307	85 664 010
Financial assets – investment contracts	27-28	5 167 307	5 237 950
Financial assets – derivatives		58 790	937
Receivables from insurance policy holders	29	2 865 338	1 957 649
Receivables from insurance intermediaries	30	1 008 267	55 980
Receivables from reinsurance	31	369 509	87 679
Other assets and prepayments	32	122 550	76 015
Other receivables	33	184 724	183 396
Cash and cash equivalents	34	3 092 786	1 498 385
Total Assets		**129 943 077**	**127 832 303**
LIABILITIES			
Technical reserves	35	22 246 975	19 319 805
Technical reserves for policyholders of unit-linked life insurance policies	37	86 205 307	85 664 010
Investment contracts	38	5 167 307	5 237 950
Financial liabilities-derivatives		-	11 760
Loans and financial reinsurance	39	6 704	37 739
Liabilities from reinsurance	40	1 499 692	278 926
Liabilities to insurance policy holders	41	922 692	882 408
Liabilities to insurance intermediaries	42	729 183	244 158
Lease liabilities	43	474 892	531 909
Provisions	44	519 968	323 545
Other liabilities	45	3 268 098	2 111 628
Liabilities to shareholders	CF	30 253	19 929
Total Liabilities		**121 071 071**	**114 663 767**
NET ASSETS		**8 872 006**	**13 168 536**
SHAREHOLDERS' EQUITY			
Share capital	46	3 116 133	3 116 133
Capital reserve		1 152 990	1 152 990
Treasury shares	47	- 31 996	- 31 996
Other reserves	48	- 6 890 519	- 3 146 551
Retained earnings		11 525 398	12 077 836
EQUITY ATTRIBUTABLE TO THE COMPANY'S SHAREHOLDERS		**8 872 006**	**13 168 412**
Non-contolling interest		-	124
TOTAL SHAREHOLDER'S EQUITY		**8 872 006**	**13 168 536**

CIG PANNÓNIA INSURANCE

Consolidated Changes in Equity 2022

Data in THUF

	Notes	Share capital	Capital reserve	Share-based payment	Treasury shares	Other reserves	Retained earnings	Equity of the shareholders of the Company	NCI	Total shareholders' equity
Balance on 31 December 2021		**3 116 133**	**1 152 990**	**-**	**- 31 996**	**- 3 146 551**	**12 077 836**	**13 168 412**	**124**	**13 168 536**
IFRS 9 opening effect	**5.2.3**					**65 307**	**- 65 307**			**-**
Balance on 1 January 2022		**3 116 133**	**1 152 990**	**-**	**- 31 996**	**- 3 081 244**	**12 012 529**	**13 168 412**	**124**	**13 168 536**
Total comprehensive income										
Other comprehensive income	19					- 3 809 275		- 3 809 275		- 3 209 275
Profit in reporting year							1 207 577	1 207 577		1 207 577
Tranactions with equity holders recognized directly in Equity										
Dividend payments							- 1 699 708	- 1 699 708		- 1 699 708
Transactions with NCI										
Derecognition of NCI	1						5 000	5 000	- 124	4 876
Balance on 31 December 2022		**3 116 133**	**1 152 990**	**-**	**- 31 996**	**- 6 890 519**	**11 525 398**	**8 872 006**	**-**	**8 872 006**

CIG PANNÓNIA INSURANCE

Consolidated Changes in Equity 2021

Data in THUF

	Notes	Share capital	Capital reserve	Share-based payment	Treasury shares	Other reserves	Retained earnings	Equity of the shareholders of the Company	NCI	Total shareholders' equity
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**
Total comprehensive income										
Other comprehensive income	19	-	-	-	-	- 2 375 398	-	- 2 375 398	-	- 2 375 398
Profit in reporting year		-	-	-	-	-	1 675 065	1 675 065	6 810	1 681 875
Transactions with equity holders recognized directly in Equity										
Treasury shares purchase	47	-	-	-	- 31 996	-	-	- 31 996	-	- 31 996
Recognition/derecognition of share based payments	3.12	-	-	- 8 838	-	-	8 838	-	-	-
Balance on 31 December 2021		**3 116 133**	**1 152 990**	**-**	**- 31 996**	**- 3 146 551**	**12 077 836**	**13 168 412**	**124**	**13 168 536**

CIG PANNÓNIA
INSURANCE

Consolidated Statement of Cash Flows

Data in THUF

	Note	2022	2021 (restated)
Profit/loss after taxation		1 207 577	1 681 875
Modifying items			
Depreciation and amortization	16	410 249	384 303
Derecognized assets	17	-158	- 1 540
Booked impairment	17	- 47 783	15 263
Result of assets sales	11	243 163	48 949
Share based payments	3.12	-	- 6 780
Exchange rate changes	11	- 117 444	- 20 344
Share of the profit or loss of associates accounted for using the equity method	25	- 490 824	- 808 074
Income taxes	18	275 379	192 437
Deferred tax	18	- 117 016	- 87 797
Income on interests	11	- 1 030 666	- 475 971
Result of derivatives	11	- 165 520	- 2 202
Provisions	44	222 626	- 486 618
Derecognition of lease	23	16 404	4 249
Results of minority shares	49	4 876	-
Interest cost	11	3 203	6 630
Increase / decrease of deferred acquisition costs (-/+)	24	- 556 067	- 113 297
Increase / decrease of investments for policyholders of unit-linked life insurance policies (-/+)	27	- 1 672 411	- 11 542 275
Increase / decrease of financial assets – investment contracts (-/+)	28	1 201 758	- 1 007 882
Increase / decrease of receivables from insurance contracts and other receivables (-/+)	29,30, 31,33	- 2 151 071	- 150 298
Increase / decrease of reinsurer's share from technical reserves (-/+)	36	- 1 297 797	169 157
Increase /decrease of other assets and active accrued and deferred items (-/+)	32	- 46 535	- 50 343
Increase / decrease of technical reserves (+/-)	35	2 948 980	3 230 780
Increase / decrease of liabilities from insurance (-/+)	40,41, 42	1 746 075	333 112
Increase / decrease of investment contracts (+/-)	38	- 1 201 758	1 007 882
Increase / decrease of technical reserves due to unit-linked life insurance (+/-)	37	1 672 411	11 542 275
Increase / decrease of other liabilities (+/-)	45	1 156 470	1 042 557
Paid income taxes	18	- 206 479	- 189 158
Increase / decrease of assets held for sale (-/+)	3.33	-	294 409
Increase / decrease of liabilities held for sale (+/-)	3.33	-	- 198 798
Settlement of assets held for sale	3.33	-	- 22 629
NET CASH FLOWS FROM OPERATING ACTIVITIES		**2 007 642**	**4 789 872**

CIG PANNÓNIA INSURANCE

Consolidated Statement of Cash Flows – cont'd

Data in THUF

CASH FLOW FROM INVESTMENT ACTIVITIES	Note	2022	2021 (restated)
Purchase of debt instruments (-)	26	- 17 633 116	- 25 916 385
Sales of debt instruments (+)	26	17 525 440	21 364 305
Sales of equity instruments (+)	26	12 413	-
Purchase of tangible and intangible assets (-)	21, 22	- 496 036	- 572 752
Sales of tangible and intangible assets (-)	21, 22	998	25 722
Result of derivatives	11	95 906	24 131
Interest received	11	1 127 632	703 614
Dividend received	25	843 661	436 156
CASH FLOW FROM INVESTMENT ACTIVITIES		**1 476 898**	**- 3 935 209**

CASH FLOW FROM FINANCING ACTIVITIES	Note		
Lease repayment	43	- 143 364	- 69 451
Lease interest payment	43	- 15 472	- 10 791
Repayment of loans and their interests	39	- 34 656	- 117 862
Purchase / inclusion of treasury shares	40	-	- 31 996
Dividend payment		- 1 701 797	-
CASH FLOW FROM FINANCING ACTIVITIES		**- 1 895 289**	**- 230 100**
Impacts of exchange rate changes	11	5 150	11 567
Net increase / decrease of cash and cash equivalents (+/-)		**1 594 401**	**636 130**
Cash and cash equivalents at the beginning of the period		**1 498 385**	**862 255**
Cash and cash equivalents at the end of the period		**3 092 786**	**1 498 385**

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 property, casco, suretyship and travel- and home insurance. 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 change of the Insurer's operating form a Private Limited Company to 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 publicly traded shares (10,850,000 shares) was registered and the Insurer received a total of HUF 9.3 billion capital.

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. At the same time existing stocks are being managed in Romania, Slovakia 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 similarly the previously acquired portfolio is maintained in Slovakia. The Group carried out cross-border activities in Poland from 2012 until April 2021, and in Italy from 2014. In 2019 sales activity was terminated in Italy. Regarding the cross border activities, the Group has no foreign assets and liabilities.

On 7 October 2016 a contract was signed 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 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. On 30 June 2017, the Court of Registration of Budapest registered the merge of Pannónia Life Insurance cPlc. (previously: MKB Life Insurance cPlc.) into CIG Pannónia Life Insurance Plc. and the merge of Pannónia General Insurance cPlc. (previously: MKB General Insurance cPlc.) into the CIG Pannónia First Hungarian General Insurance Ltd.

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.

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

[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.

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 did 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 were 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 agency responsible for the supervision of gambling in Italy (hereinafter: Beneficiary 1) 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, Beneficiary 1 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. Legal proceedings have been ongoing since.

In addition to the claims related to the gaming concessions, another significant claim has been received by EMABIT. In the fourth quarter of 2019, Beneficiary 1 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 Beneficiary 1 initiating the claim payment, then brought an action for the annulment of the contract.

Related to the events described, 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) exceeds 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.

The HFSA with its resolution No. H-JÉ-II-39/2020 from 1 July 2020 approved EMABIT recovery plan with the condition of an additional capital requirement for the subsidiary with an amount of HUF 500 million. 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.

In connection with the guarantee contracts, in the second quarter of 2020 another claim from an Italian authority (hereinafter: Beneficiary 2) was filed for EUR 5 million in bonds. The insurer found that the claim was outside the maturity of the policy and that the deadline had not been extended by the rules laid down for the Italian COVID situation, and therefore rejected the claim. Beneficiary 2's contrary decision was challenged by EMABIT in an Italian court.

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 János Fedák (the MNB authorized the employment of Dr. István János Fedák as the primary CEO with decision No. H-EN-II-89/2020) to handle the prevailing risks in EMABIT's Italian claims and to change the strategy for ongoing and related legal matters. In connection with the change of strategy, the review of existing claim reserves and regress reserves has been finished and is ongoing since.

Table 1: Key indicators of CIG EMABIT's exposures in Italy by product type as at 31 December 2022

Product type	Contractual limit (exposure) EUR	Number of contracts	Product type share of the exposure	Average maturity (year)
PUBLIC_CONCESSIONS	17 078 598	23	84.2%	2.79
GESTORI_DI_RIFIUTI	3 206 445	20	15.8%	0.48
Total	**20 285 043**	**43**	**100.0%**	**1.72**

Exposures from Italian guarantee products have decreased from EUR 30 million at the end of 2021 to EUR 20 million at the end of 2022.

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 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.

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 the first quarter of 2021, the Company carried out a capital increase in EMABIT. It decided to increase the share capital of EMABIT by HUF 5,000,000 at 26 March 2021. As a result of the capital increase, the new share capital of EMABIT changed to HUF 1,065,000,000. The share capital is increased by 5 dematerialized registered ordinary shares - embodying the same rights as previously issued shares - with a nominal value of HUF 1,000,000 and an issue value of HUF 300,000,000 each by paying a cash contribution. Simultaneously with the share capital increase, the Company placed 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 share capital increase was registered on 14 April 2021.

The HFSA authorized by its decision no. H-EN-II-56/2021. dated on 23 April 2021 that EMABIT transfers the contractual portfolio of Hungarian "Defend GAP", "Defend Warranty" and Polish "Defend GAP", "Defend Warranty" products and casco and extended warranty insurance to Fortegra Europe Insurance Company Ltd. (registered office: Office 13, SOHO Office The Strand, Fawwara Building, Triq l-Imsida, Gzira, GZR 1401, Malta) with effect on 1 May 2021. The transfer has taken place and the financial aspects of the settlement have also been completed by 9 July 2021.

In the autumn of 2021, the Company relaunched its non-life insurance business, entering the market with large enterprise liability insurance, property insurance and motor vehicle fleet casco. It strengthened its product development, claims management, IT, HR support and marketing capacities.

EMABIT entered into a partnership agreement with UNION Vienna Insurance Group Biztosító Zrt. (registered office: 1082 Budapest, Baross u. 1., company registration number: 01-10-041566) on 11 November 2021. Thanks to the agreement EMABIT further expanded its range of non-life insurance as an integral part of the implementation of the Growth Strategy and will offer travel and home insurance to its retail customers from 2022. On the non-life insurance line, EMABIT entered the residential market with its Iránytű passenger and LakóTárs home insurances, moreover, based on the information provided by the Hungarian National Bank on 9 March 2022, it was also awarded the Qualified Consumer-Friendly Home Insurance certification.

The Company decided on 23 December 2021 to increase the share capital of EMABIT by an additional HUF 5,000,000, as a result of which the new share capital of EMABIT increased to HUF 1,070,000,000. Simultaneously with the share capital increase, the Company placed the difference between the issue and the nominal value of the shares, i.e. HUF 1,995,000,000, in the capital reserve of EMABIT. The share capital increase was registered on 23 December 2021.

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 Biztosítási 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 Biztosítási 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 Biztosítási 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 Board of Directors of the Company (with the no. 19/2020. (IV.24.) authorized by a resolution of the Board of Directors within the competence of the General Meeting) for the purpose of providing benefits to the MRP organization, with the help of MKB Bank Plc., on 29 March 2021, purchased 100,000 treasury shares at an average price of HUF 319 (no payment was made from the MRP Organization during the concerned period). The shares provided covers future payments subject to the terms and conditions of the MRP Organization, which are conditional and deferred, as well as maintenance obligations. As a result of the transaction the Company’s treasury shares inventory has increased from 0 pieces to 100,000 pieces, which was 0.10 % of the amount of issued shares. The treasury shares were transferred to the MRP Organization on 6 May 2021.

Hungarikum Biztosítási Alkusz Ltd. (registered office: H-8086 Felcsút, Fő utca 65., company registration nr.: 07 09 028910, tax ID nr.: 13010133-4-07, acting on its behalf: Erik Keszthelyi, managing director) (Acquirer, later: Designated Acquirer) and MKB Bank Public Limited Company (registered office: H-1056 Budapest, Váci u. 38., company registration nr.: 01-10-040952, tax ID nr.: 10011922-4-44) as investment service provider entrusted pursuant to Section 68 (4) of Tpt., for the reason and in order to achieve the goal of gaining influence to the extent specified in Section 68 (1) (b) of the Capital Markets Act CXX of 2001 (Tpt.), have submitted a mandatory public takeover bid for the purchase of registered ordinary shares issued by the Company (ISIN: HU0000180112) with a face value of HUF 33 (i.e. thirty-three forints) each. On June 18, 2021 the aforesaid takeover bid was submitted to the MNB (the Central Bank of Hungary) as Supervisory Authority for approval as well as to the Board of Directors of the Target Company, initiating its immediate publication.

The Board of Directors of the Company – following the information published in a transparent manner, including the disclosure of interim processes – and the Designated Acquirer and the investment service provider informed the Investors on the 7 September 2021 that the Offer had been approved by the HFSA by its decision H-KE-III-529/2021 dated 6 September 2021. The offer period lasted from 09:00 on 10 September 2021 to 12:00 on 11 October 2021. Immediately after receiving the decision of the Supervisor, the Designated Acquirer initiated the publication of the result of the supervision procedure and the approved tender offer, indicating the start and end date of the acceptance deadline (ie. for the period from 10 September 2021 to 11 October 2021), which the Target Company complied with within the legal deadline.

In accordance with the statement sent on 13 October 2021, the Designated Acquirer and the investment service provider informed the investors and other participants of the capital market of the result after the deadline October 13, 2021 for acceptance of the Offer.

During the period open for the acceptance of the mandatory public takeover bid the shareholders have made valid declaration of acceptance regarding a total of 12,592,366 CIGPANNONIA shares. The Designated Offeror took over all validly offered shares, as a result of which the direct influence of the Designated Offeror together with its previous shares changed from 32.96% to 46.30% in the Target Company.

Based on the notification made by VINTON Vagyonkezelő Kft. to the Company on 18 October 2021, VINTON sold 11,140,311 CIG Pannónia shares, representing 11.79% of the Company's shares - it was the subject of the public takeover bid, during and under the conditions set out therein. As a result of the transaction on 18 October 2021, the number of voting shares directly owned by VINTON decreased from 11,140,311 to 0 and thus represents 0% of the total number of shares issued.

All such announcements were immediately communicated by the Company through its announcement at the official publication sites, as well as the fact that the number of shares held by the Hungarikum Biztosítási Alkusz Kft. in the Company changed to 52,397,438 through the acquisition of 8,680,000 shares, bringing the proportion of his voting shares to 55.48% - crossing up the Tpt. threshold value determined in accordance with Section 61 (1) and (3).

In 2021 and 2022, after the above announcement, Hungarikum Biztosítási Alkusz Kft. (named since 01.01.2023: Hungarikum Biztosítási Alkusz Zrt.) further increased its ownership share through shares acquired on the stock exchange, by notifying the Company in a transparent manner of certain acquisitions of ownership in the stock exchange – even those that do not reach the limit value. Thus, the proportion of voting shares changed finally to 54,311,474 shares, bringing the proportion of its voting shares to 57.52%.

In connection with the unified strategy (Growth Strategy), which contains development directions and objectives, narrowed down to organic growth targets - which was published by the Company on 19 July 2021 in the official publication places[2] - it should be emphasized that the Company intends to focus on intensive growth of gross premium income and technical result in its current operations and in the medium term, and to focus besides growth on profitability, which it intends to achieve through new insurance products and by making fuller use of the sales channels.

In the second quarter of 2021, the Company has focused on the development and finalization of a new organizational structure in line with the Growth Strategy, including filling at the group level the launched units of assets and liabilities with experienced professionals and with these professionals to review and revise, and in some cases form products and product groups, as well as to create an operational model tailored to the size of the organization, that accurately reflects responsibilities and tasks within the organization. This work has been successfully completed for the corporate products.

The Company entered into a cooperation agreement with BNP Paribas Cardif Life Insurance Ltd. and BNP Paribas Cardif Insurance Ltd. on 14 October 2021. Pursuant to the agreement, the above contracting parties intend to extend their cooperation in the field of credit insurance previously exclusively related to the mortgage loans of MKB Bank Plc. to a wider range of products and customers. The subject and content of the agreement fit well into the framework of the previously published Growth Strategy, which contains development directions and goals. It should be assessed and contributes to the goal of the CIG Pannonia Insurer becoming a reliable, dominant-sized and stable insurer with a portfolio of life and non-life products in the coming period.

On 22 February 2022, the Company and EMABIT entered into a 20-year framework agreement with MKB Bank Plc. (Registered seat: 1056 Budapest, Váci u. 38.; Reg. no.: 01-10-040952) and Magyar Bankholding Ltd. (1134 Budapest, Kassák Lajos utca 18.; Reg. no.: 01-10-140865). Pursuant to the framework agreement, according to the implementation and timing of its terms, Magyar Bankholding Ltd. undertook to distribute and sell only the products of the CIG Pannónia Group with respect to products belonging to the life and non-life insurance segments through all sales channels of its member banks controlled and managed by a qualified majority, i.e. MKB Bank Plc., Budapest Bank Ltd. and Takarékbank Ltd. (member banks).

The establishment of the framework agreement is expected by the parties to create the long-term conditions for making full use of the synergies inherent in a banking-insurance cooperation, for which the parties have undertaken - specifying the

[2] https://www.bet.hu/site/newkib/hu/2021.07./Strategia_megalkotasa_es_elfogadasa_128587250

detailed rules, modalities, financial terms, rights and obligations of their cooperation - to establish targeted cooperation agreement(s) in a regulated form and manner. All this is embodied on one hand in the banking product sales activities and the related sales promotion activities, on the other hand in the exclusive insurance sales activity and related sales promotion activity by Magyar Bankholding Ltd. and its member banks.

The Company signed a similar strategic agreement with Euroleasing Pénzügyi Szolgáltató Zrt, the largest player in the leasing market, in the second quarter of 2022.

With its decision no. H-EN-II-115/2022 dated 13 July 2022 Magyar Nemzeti Bank also authorized that - likewise based on the referred Agreement with BNP Paribas Cardif insurers - BNP Paribas Cardif Életbiztosító Zrt.'s contract portfolio containing all group life insurance contracts (insurance contracts belonging to the risk group of group credit coverage life insurance) and to which the insurance contracts are contracted by MKB Bank Nyrt., as the legal successor of BUDAPEST Hitel- és Fejlesztési Bank Zártkörűen Működő Részvénytársaság, are transfered to CIG Pannónia Életbiztosító Nyrt. with effect of 1 September 2022. Following the transfer of the portfolio, CIG Pannónia Biztosítók will be the insurer of the portfolio of contracts specified in the license of the Magyar Nemzeti Bank, which will be reinsured by BNP Paribas Cardif Biztosítók.

At the same time the Magyar Nemzeti Bank (Hungarian National Bank, MNB) with its decision no. H-EN-II-115/2022 dated 13 July 2022 also authorized, that BNP Paribas Cardif Biztosító Zrt.'s contract portfolio containing all group non-life insurance contracts (credit coverage insurance resulting from non-life insurance contracts [except residential property insurance with credit coverage clause], insurance against various financial losses, other residential property insurance insurance contracts) and to which the insurance contracts are contracted by MKB Bank Nyrt., as the legal successor of BUDAPEST Hitel- és Fejlesztési Bank Zártkörűen Működő Részvénytársaság, are transfered to CIG Pannónia Első Magyar Áltános Biztosító Zrt. with the effect of 1 September 2022. The portfolio transfer took place on 1 September 2022 for both insurers.

On 15 December 2022, the Company and EMABIT, together as CIG Pannónia Group, and MKB-Pannónia Egészség- és Önsegélyező Pénztár (headquarters: 1056 Budapest, Váci u. 38.; registration number: 01-04-0000198; tax number: 18232761-1-41) (MKB EP) entered into a long-term, fixed-term (for five years and extendable for another five years) strategic cooperation agreement in order to make fuller use of the synergies in the cooperation between the fund and the insurance company - thus providing other insurance services (primarily health insurance services) within the applicable legal framework's possibilities to the fund's membership of more than 200,000 people.

CIG PANNÓNIA INSURANCE

The owners of the Company are Hungarian and foreign private individuals and legal entities, the number of shareholders is 5,753 at 31 December 2022, with a public share ratio of 35.21%.

Pursuant to Article 61 of the Act CXX of 2001 on the capital market, shareholders holding directly and indirectly is above 10% of the voting shares and voting rights are as follows:

Hungarikum Biztosítási Alkusz Kft. (since 01.01.2023: Hungarikum Biztosítási Alkusz Zrt.) has with 54,311,374 shares a 57.52% share.

Dr. Gábor Móricz has a total of 3,365,000 (3.56%) CIGPANNONIA ordinary shares. Kaptár Investment Ltd., which is in close contact with Gábor Móricz, has a total of 3,500,000 (3.71%) 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.

Address of the insurer: 1097, Budapest, Könyves Kálmán krt. 11. B épület

Central fax number: +36-1-247-2021

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

Internet contact: www.cigpannonia.hu

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

Name of subsidiary	Activity	Country	Share at 31.12.2022	Share at 31.12.2021
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 Life Insurance Employee Ownership Programme Organisation	Remuneration	Hungary	-	-

The subsidiary CIG Pannónia Pénzügyi Közvetítő Zrt. "v.a." (under liquidation) was a non-continuing operation in the consolidated financial statements at the end of 2021, its balance in the financial statements after consolidation eliminations was not significant.

CIG Pannónia Financial Intermediation Zrt. prepared the simplified annual accounts closing the liquidation as of 6 December 2021. The deletion of the company from the Commercial Register was ordered by the Court of Registration on 25 April 2022.

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 31.12.2022	Share at 31.12.2021
MKB Fund Manager Ltd.	Fund management; portfolio management	Hungary	7.67%	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 2022.

Auditors of The Group:

- In case of CIG Pannónia Life Insurance Plc.:

  Mazars Ltd.

  1139 Budapest, Váci Greens, Fiastyúk utca 4-8., 2nd floor, Chamber ID: 000220

  Kinga Molnár Andrea, registered auditor, Chamber registration number: 007145

The professional auditor charged the following fees for its services in respect of the business year 2022:

Audit of the annual consolidated and individual financial statements of the Insurer prepared in accordance with International Financial Reporting Standards ('IFRS') and issuance of Auditor's Report thereon (including the audit of report of based on Solvency II) and the issuance of the 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), in addition the verification of the information contained in the remuneration report along the SRD Act: HUF 26,500 thousand + 2% + VAT.

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

  Mazars Ltd.

  1139 Budapest, Váci Greens, Fiastyúk utca 4-8., 2nd floor, Chamber ID: 000220

  Kinga Molnár Andrea, registered auditor, Chamber registration number: 007145

The professional auditor charged the following fees for its audit services in respect of the business year 2022:

Audit of the annual consolidated and individual financial statements of the Insurer prepared in accordance with International Financial Reporting Standards ('IFRS') and issuance of Auditor's Report thereon (including the audit of report of based on Solvency II), in addition the verification of the information contained in the remuneration report along the SRD Act: HUF 6,500 thousand + 2% + VAT.

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

<u>Signatories to the Financial Statements:</u>

Dr István János Fedák
Primary Chief Executive Officer
1026 Budapest, Kükülló street 6.

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.
Registration number: 206 012

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 financial instruments at fair value against other comprehensive result.

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 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 company created with the merger of MKB-Pannónia Fund Management and Budapest Fund Management, announced in early August 2022, will continue to operate under the name MKB Fund Management Ltd., in which the CIG Group's share has been reduced to 7.67%. The distribution of the result of the MKB Fund Management 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. 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 valued at fair value against other comprehensive result, where the impact of the translation is recorded under other comprehensive income.

Foreign exchange rate gains and losses resulting from the year-end revaluation of financial assets denominated in foreign currency valued at amortized cost and valued at fair value against other comprehensive income shall be accounted for as follows:

- amortized cost value determined in foreign currency, converted to the functional currency at the closing exchange rate, less

- amortized cost value determined in functional currency at the beginning of the period, adjusted by: interest calculated using the effective interest method, where applicable, impairment, and payments during the period (adjusting items expressed in functional currency).

3.4 Policy classification – separation of insurance and investment contracts

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

For determining the insurance risk for each contract, it has been determined up to now 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 Group considered risks that reached 5 percent to be significant. Policies with significant insurance risks were 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 were initially separated; the latter were accounted as investment contracts. The Group carried out again the test outlined above for components related to regular/single premium payments. If the test revealed that the insurance risk was significant, the component was accounted as an insurance policy, otherwise as an investment contract.

In the case of portfolios obtained by the acquisition of MKB Life Insurance Ltd., the 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. Investment contracts determined according to this ratio form a run-off portfolio.

The Group treats the contracts taken over from the Dimenzió Mutual Insurance and Self-Help Association as an insurance contract, as customers can choose a life annuity for each product in question and its risk share (payments after 85 years) is higher than 5% of the reserve. The contracts form an expiring portfolio.

As of the second quarter of 2022, the Group clarified its accounting for the separation of the contract's individual components during the separation of insurance and investment contracts. It continues to compare the initial investment and the service payments when determining the significance of insurance risk.

The policyholder's initial investment includes the first regular installment or the single premium, as well as any top-up premiums that they wish to pay together with the first regular installment or the single premium. The initial settled premium is the regular/single or top-up premium credited to the contract up to the date of policy issue.

In the future, the Group classifies a unit-linked contract as an insurance contract if the initial settled premium is positive and the maximum of the sums of the guaranteed insurance, the additional risk service and all the rider insurance related to the contract reaches at least 5% of the initial settled premium or if the initial settled premium premium is zero and the sum of the guaranteed insurance, the additional risk service and all the rider insurance related to the contract is positive.

3.5 Insurance policies

IFRS 4 enables the Company until 01.01.2023 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 until 31.12.2022 (i.e. for the last time for these financial statements) 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.

For unit-linked contracts issued before 1 January 2022, the Group used the contract conclusion and maintenance fees charged in their entirety for the amortization of contract cost accruals. The Group reviewed the amount of other acquisition, operating costs and insurance surcharges incurred in connection with unit-linked contracts (not included in the calculation of acquisition cost accruals).The other costs incurred are significant (their level increased in 2022 due to the introduction of the insurance surtax), therefore, in the case of unit-linked contracts issued from 2022, the contract conclusion and maintenance fee is only partially used for the amortization of contract cost accruals. The validated cost

partly covers the Group's other costs not included in the calculation of the accrual for acquisition costs.

The Group 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 (exception to this are some products taken over from the Dimenzió Mutual Insurance Association (hereafter: Dimenzió), for which the reserve calculation is retrospective according to the product plan). 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.

In 2022, the insurer applied the previous year's expense ratio to eliminate the volatility of the rising portfolio expense ratio, while also continuously valuating the current year's expense ratio, which by the end of the year was slightly lower than in the previous year, but which it - out of prudence - did not adjust to the lower current year value.

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.

The regress reserves for the Italian suretyship claims were formed by the Insurer with an average expected return between 0% - 50% on the basis of the proposal of the entrusted law firms. The amount of the regress reserve was determined on a case-by-case basis, based on a classification

system valuating the recoverability of the claims, unified for each category.

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 6% of earned premiums for the year. Exceptions to the former rule may be made for product groups whose late claim trends differ from the average.

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, calculated together with the cost reserve, is maximum 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.

The IBNR reserve, including the cost reserve, calculated for modalities that have been in operation for no more than three years or on the basis of an individual contract, is at most 6% of the annual earned premium of the portfolio containing these contracts. The Company forms an IBNR reserve on the basis of the earned premium also in the case of Hungarian surety products exceeding three years from the product's launch, but which has a low claim frequency.

For products with a claims experience of at least three years, the Company has calculated the IBNR reserve value using claims experience run-off triangles.

For the Italian suretyship insurance, the Group has set up an IBNR reserve primarily with respect to the extended claim period, in order to cover the cost of losses related to bonds drawn down after the end of the risk-taking period. Similarly to the previous year, the reserve was estimated with the chain-ladder method using the claims experience run-off triangle, which it increased with a safety reserve. 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 a security valued at fair value against other comprehensive result 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 is not reduced.

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 Group 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 premium earned but not paid, for whose part expected to be cancelled the Group forms its cancellation reserve.

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.

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 unit-linked life insurance policies on policy basis where the clients were entitled to a loyalty bonus benefit based on the terms and conditions and the terms of the loyalty bonus exist at the balance sheet date. 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 Group 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.

With regard to the portfolio taken over from the Dimenzió Insurance Association, we form other technical reserves for three reasons:

(1) To cover the expected liability arising from the longevity risk of Dimenzió HNY annuity. We believe that the reserve calculated along to the original (1990) mortality table is not sufficient to meet the annuity payment obligations. Therefore a recalculation of the liability is performed with an adjusted mortality table, so that no technical interest is applied and this is recorded as other reserves.

(2) Cost reserve for acquired stock. During the evaluations prior to the takeover of the Dimenzió portfolio, the Insurer concluded that the cost deductions of the Dimenzió products and the accounting reserves formed on the basis of the product plans do not provide sufficient coverage to cover the maintenance costs of the portfolio. For this reason, of a significant part of the surplus reserve received on the transfer of the stock, the Insurer forms other technical reserves for the expenses expected to arise until the validity of the taken over contracts. The reserve includes the Insurer's administrative, investment and claims settlement costs per contract, as well as the costs of maintaining the contract registration system of the Dimenzió portfolio.

(3) Other reserve for the "Kincsem" product's accident services. The product includes a built-in accident service, for which the coverage until the end of the expected term is formed as other reserves, based on the methodology adopted from Dimenzió.

In case of the "Twilight" product, the Group will offer a discount from the insurance premium due at the last year of the premium payment period, depending on the premium payment period and the age of entry. For this premium discount, the Insurer forms other technical reserve, which is based on the premium payable in the last year. However, when forming the reserve, we also take into account the expected cancellation (due to non-payment of fees, redemption) and the expected mortality until the due date of the given fee.

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 may create 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. The Group used the suretyship reserve formed in previous years to cover losses, no new suretyship reserve was formed in 2022.

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 Division of investment contracts, premiums paid

Contracts that primarily involve the transfer of financial risks (the insurer does not transfer significant insurance risk, such as long-term savings policies) are not accounted for by the Insurer as insurance contracts, but as investment contracts and are divided into two parts:

- to a financial liability, that is accounted for in accordance with IFRS 9, and
- to an investment service contract part, which (the related income) is accounted for in accordance with IFRS 15.

The Group's investment contracts include unit-linked contracts that do not meet the definition of an insurance contract.
Amounts repayable to the investor are accounted for 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 financial liabilities to the investor. For the settlement of liabilities, see point 3.6.4.
For the accounting of premiums charged in the framework of investment contracts as income, see point 3.6.5.

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 (under Premiums, commissions and other acquisition costs).

3.6.4 Liabilities

All investment contract liabilities are designated on initial recognition as held at fair value through profit or loss by the Insurer, since the Insurer manages these

financial liabilities, together with the related assets (investments), on a fair value basis. 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.
In addition, other accounting insurance technical reserves related to investment contracts (other than unit-linked reserves) are reclassified to the provisions balance sheet line.

3.6.5 Premium and commission income from investment contracts

Premium income includes various premiums charged on investment and insurance policies, the amount of which is determined by the product conditions (e.g. administration fee, management fee, fee for changing the asset fund, risk fee). Fees charged for investment management services provided are recognized as revenue in the period when the services are provided, for single premium contracts, the fund-proportional management fee dominating the deductions is a similar amount for each year. In the case of contracts with regular fees, the deduction of the management fee varies in proportion to the managed assets. The contract conclusion and administration fees are charged by the Group at the beginning of the term, at the same time as the service - i.e. registration and creation of the contract in the systems - is incurred. The costs charged to the customer in relation to the payment of the services are recognized when the services are paid for.

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. Interest income calculated using the effective interest rate method is included in a separate line of the comprehensive income statement (Interest income calculated using the effective interest method).

3.8 Other operating income

3.8.1 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.

3.8.2 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.

3.8.3 Recognition of other income related to the acquisition of stock

In parallel with the acquisition of the insurance portfolio of the Dimenzió Insurance Association, the Company is entitled to income from its consortium partner, which is expected to be realized financially within four years. As the Company is entitled to this revenue in connection with the transfer of the portfolio, the two transactions cannot be separated according to the principle of offsetting and matching. As IFRS 4 does not establish a specific set of rules for the recognition of portfolio acquisition income, the Company determines the recognition of other income related to portfolio acquisition in accordance with the principles of matching and IFRS 15 as follows. Revenue recognition is separated from financial realization and the share from the total expected revenue in the given period is resolved into profit or loss parallel to the incurring and expiring of the estimated services related to the acquired stock. The Company recalculates the estimated run-off of the service on a quarterly basis.

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 31.01.2026, the length of the car rental contracts ranges between 22 and 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 the current (valid at the start date) EULIBOR (plus the interest premium used in the 2017 financial reinsurance contract (3.15%)), which represents the market interest rate available to the Company.

3.10 Determining operating costs and expenses

The total of costs and expenses incurred at the Group 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
- insurance surtax expenditures

The insurance surtax (extra profit tax levied on the insurance sector in 2022 and 2023) is calculated by the Group based on the principles of IFRIC 21 in parallel

with the gross written premium, since the tax is payable based on the gross written premium for the given year.

3.11 Income from state subsidies

When presenting state subsidies, the Group examines whether the criteria set as preconditions for financial realization are expected to be met. The subsidy is accounted for in the period when they are recognized by the company in parallel to the related costs it intends to compensate, to ensure systematic adequacy. [IAS 20.12]

Revenue-related subsidies may be reported separately as "other revenue" or can be deducted from related expenditure. [IAS 20.29] The Group has opted for net accounting and will thus deduct from expenses. The cost-reducing item (the amount of subsidy for the costs incurred) is entered in the financial statements in accordance with the principle of matching.

3.12 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.

On 29 November 2018, the Group 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.

During the grant date valuation and the subsequent valuation date valuation of employee share based payments 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 Company took into account the trading data of CIGPANNONIA shares for the last two years.

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. Since 2021, if the bonus targets are met, 70% of the payments through the MRP are due in cash to the employees, while 10-10-10% of the bonus is due in shares in the following years through the MRP. In this case, 70% of the bonus is an employee benefit accounted for under IAS 19. Regardless of the position of the parties, the remaining 30% 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 4 business years to which the bonus agreement applies; however, the performance criteria must be evaluated for the business year to which the agreement applies. A further three-year deferred performance criterion needs to be applied for the payment of the additional 10-10-10%. 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 Group presents this benefit as the fixed amount falling for the given year against the equity, accounted for continuously. In the course of valuation, the Group considers expected changes in performance criteria and vesting conditions using historical data of the previous periods.

With regard to the year 2022, based on the decision of the supervisory board, taking into account the primary goals defined in the Company's Growth Strategy - to the shareholders' expectation that the Company's model based on predictable, conservative dividend payments can be realized in the medium and long term, as well as to the obligation to bear the public burdens acting against this, and the impact of this on the Company's KPIs - the conditions for payment based on the MRP Remuneration do not exist as a whole, i.e. the 2022 report does not contain share-based payments.

In the Group'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.

3.13 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, that is the tax expected to be deductible according to the Group's business plans and the effective tax rate. The Group previously defined ‘medium term’ as 6 years, which was reduced to 4 years in 2022 due to the volatile economic environment. 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.

3.14 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 presented at cost less any impairment losses.

3.15 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	20-33%
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 200 thousand are written off in the year of acquisition.

3.16 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.

3.17 Financial assets

A financial instrument is any contract that creates a financial asset for one economic entity and a financial liability or equity instrument for another economic entity.

3.17.1 Initial recognition

All financial assets are initially diplayed and derecognized on the trade date when the Group becomes a party to the contract creating the financial asset, including when the purchase or sale of a financial asset is under a contract whose terms require delivery of the financial asset within the timeframe established by the market concerned (regular way trade). 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 which are directly attributable to the acquisition of the financial asset.

The fair value of the financial asset at initial recognition is usually the transaction price (i.e. the fair value of the consideration paid). However, if part of the consideration is not given or received for the financial asset, but for something else, the Insurer valuates the fair value of the financial asset and recognizes it at

this value. The part of the consideration paid that exceeds the fair value of the financial asset at the time of acquisition is accounted for by the Group according to the relevant standard. The principles for determining fair value are described in Note 3.19.

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.

3.17.2 Classification and valuation of financial assets

Upon initial recognition, the Group classifies its financial assets into the following three groups based on the business model for managing financial assets and the contractual cash flow characteristics of the financial asset:

- financial assets valued at fair value through profit or loss,
- financial assets valued at fair value against other comprehensive income,
- financial assets valued at the amortised cost.

3.17.2.1 Equity instruments

Equity instruments are instruments that represent the residual interest in the assets of an entity after deducting all of its liabilities.

As a general rule, the valuation of investments in equity instruments (which applies to all investments in equity instruments that do not qualify as equity investments in subsidiaries) must be made at fair value through profit or loss.

However, at the time of initial recognition, the Group may irrevocably decide to present subsequent changes in the fair value of the investment in certain equity instruments, which are otherwise valued at fair value through profit or loss, in other comprehensive income ("FVOCI option"), provided that the equity instrument is not held for trading and is not a contingent consideration recognized by the acquirer of a business combination within the scope of the IFRS 3 standard either. The decision is made by the CEO and the Chief Accounting Officer on an instrument-by-instrument basis, taking into account ALCO's recommendation.

Dividends from equity instruments where the Group used the FVOCI option must be recognized in profit or loss.

3.17.2.2 Debt instruments

When classifying debt instrument financial assets, the Insurer considers two aspects:

- the business model used to manage the financial assets, and
- the contractual cash flow characteristics of the financial instrument.

The Group values its financial assets at amortized cost if both of the following conditions are met and the given financial asset was not irrevocably designated as valued at fair value through profit or loss upon initial recognition:

- the financial asset is held by the Group based on a business model designed to hold financial assets to collect contractual cash flows; and
- the contractual conditions of the financial asset at specified dates result in cash flows that are exclusively payments of principal and interest on the outstanding principal amount.

Debt instruments are valued at fair value against other comprehensive income by the Insurer if both of the following conditions are met and the given financial asset was not irrevocably designated as valued at fair value through profit or loss upon initial recognition:

- the financial asset is held by the Insurer based on a business model that achieves its goal by collecting contractual cash flows and selling the financial assets; and
- the contractual conditions of the financial asset at specified dates result in cash flows that are exclusively payments of principal and interest on the outstanding principal amount.

The Group classifies all other debt instrument-type financial assets in the category valued at fair value through profit or loss.

3.17.3 Business model test

The Group's business models have been defined at a level that reflects how it manages groups of financial assets together in order to achieve a particular business objective. The Insurer's business model is not dependent on the management's intentions regarding specific instruments. Accordingly, this condition does not reflect an instrument-by-instrument classification approach, but was defined at a higher level. Nevertheless, the Group may use several business models to manage its financial assets.

The Group's business model refers to the way in which it manages its financial assets; it determines whether the cash flows from the financial asset arise from the collection of contractual cash flows, the sale of financial assets, or both.

The Group's business model applied to manage financial assets can typically be observed through the activities carried out to achieve the objectives of the business model. When evaluating the business model applied to the management of financial assets, the Group takes into account all relevant evidence. Such relevant evidence includes, but is not limited to, the following:

a) how it evaluates the performance of the business model and the financial assets held under the business model, and how it needs to report these to its key management personnel;
b) risks affecting the performance of the business model (and the financial assets held under the model) and, in particular, how these risks are managed;
c) how business managers are remunerated (for example, whether the remuneration depends on the fair value of the assets under management or on the contractual cash flows collected).

When defining the business model, the Group takes into account the frequency, value and schedule of sales from the given portfolio in previous periods, the reason for the sales and expectations for future sales activity. However, sales alone do not define the business model and therefore cannot be analysed separately. The information related to previous sales and expected future sales are much more evidence of how the Group's objectives related to the management of financial assets are realised, as well as the way cash flows are realised. When evaluating information on previous sales, the Insurer takes into account the reasons for the sales and the conditions valid at the time of the sale (compared to the current conditions).

When defining the business model, the Insurer does not take into account the so-called "worst case" or "stress" scenarios that cannot reasonably be expected. If the cash flows are realized in a different way than expected by the Insurer when evaluating the business model (for example, it sells more or less financial assets than planned), this does not lead to a previous period error, and does not affect the classification of the previously recognized and still existing financial assets held under the same business model. When evaluating the business model, the Group takes into account all relevant information available, as well as the way cash flows were realised in the past.

The individual business model documentations include what, during its business model test, the Group considers to be significant or imminent sales when evaluating the frequency and volume of past and future sales from the given portfolio.

The Group defined the following business models for its portfolio:

Name of business model	**Content and main features of the business model**
Business model for holding financial assets to collect contractual cash flows ("HTC")	It aims to realise the cash flows of the asset by collecting contractual payments made over its lifetime.

	Sales are not an integral part of the business model, but a contingent element of it, although sales are not incompatible with this business model.
Business model to collect and sell contractual cash flows of financial assets ("HTCAS")	Both the collection of the contractual cash flows of the assets and their sale are an integral part of the business model. This business model typically has more sales than the HTC business model.
Other business model	For example: holding for trading or handling on a fair value basis.

In the case of its financial assets, the Group defines the business model at the portfolio level, for which it has identified the following portfolios:

- Financial assets related to life insurance linked to investment units accounted for as insurance contracts
- Financial assets related to investment contracts
- Financial assets serving as collateral for reserves of traditional (non-unit-linked) life insurance and non-life insurance contracts
- Own investments (multiple portfolios)
- Derivatives
- Cash accounts and bank deposits
- Other financial receivables (these include: trade receivables, loans granted, income-type accruals, asset management fee receivables, other financial receivables not mentioned above)

The Insurer manages the portfolios of financial assets related to life insurance linked to investment units accounted for as insurance contracts and financial assets related to investment contracts on a fair value basis (together with the related insurance obligations, and in the case of investment contracts together with the related financial obligations), therefore the Group has established that the business model of these portfolios is Other business model.

The business model of traditional (non-unit-linked) life insurance and non-life insurance contracts with its financial assets serving as collateral for reserves is such, that the Group, in addition to collecting the contractual cash flows from these financial assets, carries out substantial buying and selling activities in this portfolio in order to rebalance the investment portfolio in alignment with movements in the related insurance portfolio, thus ensuring that the related insurance liabilities are covered by the cash flows of the investment portfolio. Therefore, the Group

determined that both the collection of contractual cash flows and sales are an integral part of the business model for this investment portfolio, so the business model for this investment portfolio is HTCAS.

In the case of own investments, the Group defines sub-portfolios and establishes the business model separately for each sub-portfolio.

The business model of derivatives is the Other business model, since they meet the definition of "held for trading" in IFRS 9.

The Group wishes to collect only the contractual cash flows from both the Cash accounts and bank deposits, as well as the Other financial receivables, therefore the business model of this portfolio is HTC.

In the case of the Other financial receivables listed above, the Group's objective, without exception, is exclusively to collect the contractual cash flows, so their business model is HTC in all cases (together, documented as one sub-portfolio).In the case of Other financial receivables not listed above, the Group defines sub-portfolios as necessary and establishes the business model for each sub-portfolio separately.

The Group always documents the performed business model tests by portfolio (or, where applicable, by sub-portfolio). For each financial asset, the Insurer keeps records in such a way that the business model can be determined from the records.

If the Group acquires or creates financial asset(s) that cannot be included in any of the portfolios already documented from a business model perspective, the Group defines a new portfolio and (if necessary) sub-portfolios and prepares the relevant documentation.

If the insurer acquires a portfolio of contracts together with the financial assets related to the contracts, it considers whether its objective is to sell or hold those assets, when determining the business model at the time of initial recognition. If the objective is sales, then the business model for these is Other business model (in addition to documenting a new portfolio for the purpose of business model testing), if it is holding, then the Group classifies these assets in the appropriate portfolio for its insurance or investment contracts and defines the business model accordingly (i.e. a new portfolio is not documented for business model test purposes).

3.17.4 Analysis of contractual cash flows ("SPPI test")

At the time of initial recognition, the Group performs an analysis of the contractual cash flows of the debt instrument-type financial assets, based on which it determines that the contractual conditions of the given financial asset at specified dates result in cash flows that are exclusively payments of principal and interest on the outstanding principal amount ("SPPI test passed") or not ("SPPI test not passed").

When applying the above

- equity is the fair value of the financial asset at the time of initial recognition;
- the interest includes the consideration for the time value of money, the credit risk related to the principal amount outstanding during a specified period, and other basic lending risks and costs, as well as the profit margin.

The Group evaluates in the currency in which the financial asset is denominated, whether the contractual cash flows are solely payments of the principal and the interest due on the outstanding principal amount.

The Group analyses the contractual terms of the financial assets to determine whether they result in cash flows that are solely payments of principal and interest on the outstanding principal amount, i.e. whether they are consistent with the terms of a basic loan agreement. This includes analysing contractual terms that may change the timing or amount of contractual cash flows. When examining contractual cash flows, the Group considers the following:

- the nature of the possible conditional events (triggers) that induce a change in the schedule or amount of the contractual cash flows;
- leverage;
- prepayment and extension conditions;
- modifications related to the time value of money (e.g. periodic revaluation of interest rates)

3.17.5 Financial assets valued at amortized cost

The valuation of financial assets valued at amortized cost is carried out at amortized cost after initial recognition.

The amortized cost of a financial asset is the value of the financial asset determined at initial recognition, reduced by capital repayments, increased or decreased by the cumulative amortization of the difference between the value determined at initial recognition and the value at maturity calculated using the effective interest rate

The amortized cost of a financial asset is the gross book value of the financial asset before adjustment for expected credit losses.

The effective interest rate is the rate at which the estimated future cash payments or cash receipts over the expected life of the financial asset can be discounted exactly to the gross book value of the financial asset.

When determining the effective interest rate of financial assets (except for impaired financial assets acquired or incurred), the Group estimates future cash flows, taking into account all contractual terms of the financial instrument, with the exception of expected credit losses. In the case of impaired financial assets

acquired or incurred, the Group applies a so-called credit-adjusted effective interest rate, which takes into account expected credit losses in addition to the estimated future cash flows.

The calculation of the effective interest rate includes all fees and charges paid by the contracting parties to each other or received from each other, which are an integral part of the effective interest rate, as well as transaction costs and all other premiums or discounts.

Interest income accounted for using the effective interest method is determined by applying the effective interest rate to the gross book value of the financial asset, with these exceptions:

a) for impaired financial assets, the effective interest rate must be applied to the amortized cost,

b) for POCI financial assets, the credit-adjusted effective interest rate must be applied to the amortized cost.

The gross book value of a financial asset is its amortized cost, before adjustment for expected credit losses. In the case of assets valued at amortized cost, the Group considers the related transaction costs, fees and commissions as part of the cost and takes them into account during the calculation of the effective interest rate. Accordingly, interest and amortization costs are accounted for using the effective interest rate method.

The Group evaluates receivables, other receivables, and intercompany receivables at amortized cost.

3.17.6 Financial assets valued at fair value against other comprehensive income

The Group classifies the following instruments in the category of financial assets valued at fair value against other comprehensive income:

- equity instruments that it designated as such during initial recognition
- debt instruments for which, as a result of the business model test, it was determined that the purpose of the business model is to collect the contractual cash flows associated with the debt instrument and at the same time the sale of the financial assets, and as a result of the SPPI test, at specified dates defined by the contractual conditions of the financial asset, the generated cash flows are solely payments of the principal and the interest due on the outstanding principal amount.

Gains and losses on financial assets valued at fair value against other comprehensive income - with the exception of profit or loss due to impairment,

interest according to the effective interest rate method, and exchange rate gains and losses - are recognized by the Group in other comprehensive income until the financial asset is derecognized or reclassified.

The Group recognizes the interest calculated using the effective interest rate method, the loss due to impairment, as well as the exchange rate gain and loss in the result. In this case, the amounts recognized in the result are the same as the amounts that the Group would recognize in the result if the financial asset was valued at amortized cost.

The amounts recognized in other comprehensive income cannot be subsequently transferred to the result in the case of equity instruments valued at fair value against other comprehensive income.

If the Group receives dividend income from equity instruments valued at fair value against other comprehensive income, it is accounted for in the result as dividend income.

There is no impairment requirement for equity instruments valued at fair value against other comprehensive income.

The Group evaluates its financial assets serving as collateral for the reserves of traditional (non-unit-linked) life insurance contracts and the securities in its equity portfolio at fair value against other comprehensive income.

3.17.7 Financial assets valued at fair value through profit or loss

All debt instruments that do not meet the conditions for valuation at amortized cost or at fair value against other comprehensive income are classified as financial assets at fair value through profit or loss, including derivative instruments that qualify as assets, which must later be valued at fair value through profit or loss.

As a general rule, equity instruments are also classified in this category, with the exception of those for which the Insurer chose valuation against other comprehensive income during the initial recognition.

Financial assets valued at fair value through profit or loss also include

- financial assets related to unit-linked life insurance icontracts accounted for as insurance contracts, and
- financial assets related to investment contracts

as in their case the business model is Other business model.

Financial assets valued at fair value through profit or loss also include

- financial assets serving as collateral for the reserves of traditional (non-unit-linked) life insurance and non-life insurance contracts, and
- own investments

which are invested in investment funds. The reason for this is that these investments do not meet the SPPI test and the conditions for being designated as fairly valued against other comprehensive income, as they are by definition not equity instruments.

Financial assets valued at fair value through profit or loss are valued at fair value after initial recognition, changes in fair value - including interest, dividends, exchange rate differences on foreign currency revaluation - are recognized in profit or loss, under other investment income and investment expense.

3.17.8 Reclassification of financial assets

The Group will reclassify affected financial assets if and only if it changes the business model used for the management of financial assets.

These changes are expected to be rare. Such changes are determined by the senior management, as a result of external or internal changes affecting the Group that are material to the operation of the Group. Any change in the business model is documented by the Insurer and the documentation includes the approval of the CEO and the Chief Accounring Officer, a description of the change and the justification of the materiality of the change, which is documented in the ALCO meeting documents.

If the Group reclassifies its financial assets, it must apply the reclassification prospectively from the date of reclassification. The Group may not restate previously recognized profits and losses (including profits and losses due to impairment) and interest.

The date of the reclassification is the first day of the [calendar quarter] period following the date of the documented change of the business model.

3.17.8.1 Reclassification from the category valued at amortized cost

Into the category valued at fair value through profit or loss

If the Group reclassifies a financial asset from the amortized cost valuation category to the fair value against profit or loss category, the fair value of the financial asset must be valued at the time of the reclassification. The gain or loss resulting from the difference between the previous amortized cost and the fair value of the financial asset is recognized in profit or loss.

Into the category valued at fair value against other comprehensive income

If the Group reclassifies a financial asset from the category valued at amortized cost to the category valued at fair value against other comprehensive income, the financial asset must be reclassified at the fair value valid at the time of the reclassification. The gain or loss resulting from the difference between the previous amortized cost of the financial asset and its fair value is recognized in other comprehensive income. The valuation of the effective interest rate and the

expected credit loss will not change as a result of the reclassification. The recognized expected credit loss must be derecognized (i.e. it will no longer be recognized as an adjustment to the gross book value) and from the date of the reclassification (in the same amount) must be recognized and disclosed as an accumulated impairment loss in other comprehensive income.

3.17.8.2 Reclassification from the category valued at fair value against other comprehensive income

Into the category valued at amortized cost

If the Group reclassifies a financial asset from the category valued at fair value against other comprehensive income to the category valued at amortized cost, the financial asset must be reclassified at the fair value valid at the time of the reclassification. The accumulated profit or loss previously recognized in other comprehensive income is removed by the Group from the equity and adjusted against the fair value of the financial asset at the time of reclassification. As a result, the valuation of the financial asset at the time of reclassification is as if it had always been valued by the Group at amortized cost. This modification affects other comprehensive income, but does not affect the profit or loss, so it is not a modification due to reclassification.

If a financial asset is reclassified between the valued at amortized cost category and the valued at fair value against other comprehensive income category, the recognition of interest income does not change, the Group continues to apply the same effective interest rate, and the valuation of expected credit losses does not change, as both valuation categories use the same impairment approach. However, if the Group reclassifies the financial asset from valued at fair value against other comprehensive income category to valued at amortized cost category, the expected credit loss changes the gross book value of the financial asset from the date of the reclassification.

Into the category valued at fair value through profit or loss

If the Group reclassifies a financial asset from the valued at fair value against other comprehensive income category to the valued at fair value through profit or loss category, the financial asset must still be valued at fair value. The accumulated profit or loss previously recognized in other comprehensive income must be reclassified from equity to profit or loss as a reclassification adjustment at the time of reclassification.

3.17.8.3 Reclassification from the category valued at fair value through profit or loss

Into the category valued at amortized cost or valued at fair value against other comprehensive income

If the Group reclassifies a financial asset from the valued at fair value through profit or loss category to the valued at amortized cost category, the fair value of the financial asset at the time of reclassification becomes the new gross book value of the asset and the effective interest rate will be determined based on the fair value of the asset at the date of reclassification.

3.17.9 Derecognition of financial assets

Before assessing whether and to what extent it is appropriate to derecognize a financial asset, the Group determines whether to apply the derecognition requirements to a part or all of a financial asset (or a group of similar financial assets).

The Group derecognizes financial instruments if

- its rights to the contractual cash flows cease or expire, or
- the related contractual rights to collect the cash flows from the asset are transferred by the Group, thereby transferring the essential benefits and risks resulting from ownership, or
- the related contractual rights to collect the cash flows from the asset are transferred by the Group, but it substantially neither transfers nor retains the risks and benefits resulting from ownership, nor does it retain control over the financial asset, or
- the Group writes off the financial asset in whole or in part ("write-off")

The Group also derecoignizes financial assets in the event of significant contractual changes, as the rights to the original contractual cash flows have also expired in this case.

The Group must recognize the rights and obligations arising or retained as a result of the transfer as separate assets or liabilities.

When derecognizing debt instruments valued at fair value against other comprehensive income, the accumulated profit or loss previously recognized in other comprehensive income must be reclassified from other comprehensive income to the profit or loss.

When deregognizing equity instruments valued at fair value against other comprehensive income, the Group reclassifies the profit or loss accumulated in other comprehensive income to the retained earnings.

In the case of financial assets valued at amortized cost, the result on derecognition is determined as the difference between the book value and the consideration received (including any new assets received, less any liabilities assumed) and is shown in profit or loss, under other investment income or investment expenses.

3.17.10 Replacements/modifications of financial assets

As for the rules for accounting of modifications in financial assets, the rules for modifications in financial liabilities are to be applied analogically.

The replacement of debt instruments under significantly different conditions between the current creditor and debtor must be accounted for as the termination of the original financial asset and the recognition of a new financial asset. Similarly, a significant modification of the terms of an existing financial asset, or a part of it (regardless of whether it was caused by the debtor's financial difficulties or not) must be accounted for as the termination of the original financial asset and the recognition of a new financial asset.

In this regard, the Group considers the conditions to be materially different, and the modifications to be material in each case, if the present value of the cash flows under the new conditions - including the premiums paid reduced by the premiums received - calculated on the date of the modification, discounted at the original (or, in the case of a floating rate financial asset, the current) effective interest rate, differs by at least 10 per cent from the gross book value of the original financial asset.

If the original financial asset was impaired, the Group will consider whether it needs to write off a part of it due to the modification and will write it off, if necessary. The gross book value of the original asset is the gross book value after any write-off.

If the above-mentioned values do not differ by 10%, the Group will still consider a modification of the conditions to be material if one of the following qualitative factors applies

- the currency of the instrument changes,
- the instrument's interest rate changes from fixed to floating or vice versa,
- other changes in conditions occur which, according to the management's particular and documented judgment, significantly change the instrument's risks.

With regards to accounting:

- If the replacement of debt instruments takes place under significantly different conditions, or the modification of the existing financial asset is material, the Group derecognizes the financial asset on the date of modification/replacement and recognizes a new financial asset in the books at fair value on the date of derecognition. The difference between the two values is recognized in the profit or loss, under other investment income or investment expenses. Any costs or fees

incurred in connection with the transaction are recognized as a gain or loss related to the termination of the liability.

• If the replacement is not on significantly different conditions, or the modification of the existing financial asset is not material, the Group does not derecognize the original financial asset, but recalculates its gross book value and accounts for the adjustment a gain or loss in the profit or loss under other investment income or investments expenses.

Modification gain or loss is the difference between

- the discounted present value of the cash flow estimated during the expected term of the modified financial instrument at the original interest rate (with the current effective interest rate in the case of a financial asset with a floating interest rate) on the date of the modification and
- the gross book value of the original financial asset (taken after accounting for possible write-offs).

In the above present value calculation, the expected credit losses are not to be taken into account in the cash flows, except in the case of a POCI financial asset, when the discounting must be done not with the effective interest rate, but with the credit-adjusted effective interest rate.

The costs or fees incurred in connection with the transaction modify the book value of the financial asset and are amortized over the remaining term of the modified financial asset using the effective interest method.

3.17.11 Retroactive application

The Group applies the IFRS 9 standard retroactively in accordance with the IAS 8 Accounting policies, changes in accounting estimates and errors standard. The Group applied the modified retroactive transition method with the following exceptions:

Data for the comapartive period have not been restated.

• The differences between the previous book value of financial assets and liabilities and the book value valid at the beginning of the reporting period which includes the date of first application (i.e. on 1 January 2022) were shown by the Insurer in the opening retained earnings of 1 January 2022.

• The Group determined the business model in which the Group holds its financial assets based on the facts and circumstances existing at the time of the initial application of IFRS 9

• If a debt instrument has a low credit risk upon initial application of IFRS 9, the Group assumed that the credit risk of the debt instrument has not increased materially since the initial recognition.

3.18 Impairment of financial assets

The Group accounts for expected credit losses in the case of the following financial assets not valued at fair value through profit or loss:

- financial assets of the debt instrument type valued at fair value against other comprehensive income (for equity instruments, impairment is not disclosed),
- financial asset valued at amortization cost.

3.18.1 General rules of impairment

The Group recognizes the expected credit loss on the reporting date for all financial assets subject to the impairment requirements.

Expected credit losses are probability-weighted estimates of credit losses incurring over the expected life of the financial asset (i.e. the present value of the total expected cash flow shortfall). Estimates of expected credit losses must always reflect the possibility of both the occurrence and non-occurrence of a credit loss, even if the most likely outcome is that no credit loss will occur. Estimates of expected credit losses must reflect an unbiased and probability-weighted amount, which is determined through the evaluation of various possible outcomes.

When determining the credit loss, the Insurer also takes forward-looking information into account.

The Group assumes that the credit risk of a financial asset has not increased significantly since the initial recognition, if it is determined that the credit risk of the financial asset is low on the reporting date.

3.18.2 Settlement of 12-month expected credit loss (Stage 1)

The Group valuates the expected credit loss of a given financial asset (Stage 1) at an amount equal to the 12-month expected credit loss in the following cases:

- the credit risk of the financial asset is low on the reporting date, or
- is the credit risk of the financial asset is not low on the reporting date, but it did not increase significantly from the initial recognition up until the reporting date.
- The 12-month expected credit loss is a portion of the expected lifetime credit loss. It embodies the expected credit loss that may arise in the 12 months after the reporting date, resulting from events of default related to the financial instrument.

3.18.3 Settlement of expected credit losses over the lifetime (Stage 2 and Stage 3)

The Group recognizes the lifetime expected credit loss on each reporting date in the following cases:

- if the credit risk of the financial asset concerned has increased significantly since the initial recognition – taking into account all reasonable and justifiable information, including forward-looking information – but the financial asset is not impaired ("Stage 2 financial assets");
- if the relevant financial asset is impaired on the reporting date ("Stage 3 financial asset");
- in the case of trade receivables (the Insurer uses a simplified model to determine the expected credit loss)

Lifetime expected credit loss is the expected credit loss resulting from all possible events of default over the expected lifetime of the financial instrument.

3.18.4 Impairment (Stage 3) criteria

The Group defines the following as criteria for impairment (Stage 3):

- Overdue payment of more than 90 days for a part of the receivables from a given partner exceeding immateriality (i.e. more than x% of the total receivables) (in this case, all receivables from the same partner are to be classified as Stage 3)
- significant, known financial difficulties of the partner on the reporting date, including the initiation of bankruptcy or liquidation proceedings against the partner (in this case, all receivables from the same partner are to be classified as Stage 3)
- it becomes likely that the partner will go bankrupt or be forced to undergo other financial reorganization (in this case, all receivables from the same partner are to be classified as Stage 3)

3.18.5 Changes in credit risk

For its government securities and externally rated financial assets other than government securities - if they are not low credit risk at the reporting date - the Group considers a deterioration of at least 2 notches in the rating as a significant increase in credit risk.

If, in the previous reporting period, the Group valued the recognized loss of a financial asset at an amount equal to the lifetime credit loss, but decides that the credit risk of the financial asset concerned has not increased significantly since the initial recognition on the current reporting date, the recognized loss on the current

reporting date is recognized at an amount equal to the 12-month expected credit loss (i.e. it is reclassified from Stage 2 to Stage 1).

In the case of financial assets valued at amortized cost and at fair value against other comprehensive income, the Group recognizes in profit or loss as an impairment gain or loss the amount of expected credit losses (or reversals) by which amount the recognised loss needs to be adjusted to the amount determined at the reporting date.

3.18.6 Financial assets with low credit risk

The credit risk of a financial asset is considered low if the default risk of the financial asset is low, the borrower's ability to meet its short-term contractual obligations to pay cash flows is strong, and an unfavorable change in economic or business conditions in the longer term may possibly (but not necessarily) weaken the borrower's ability to meet its contractual obligations to pay cash flows.

The Group considers financial assets with an external rating of BBB- (Standard&Poors rating) or better, recommended for investment ("investment grade") as low credit risk.

3.18.7 Special rules of impairment

3.18.7.1 Impairment of government securities and corporate bonds

In order to determine the impairment of government securities and corporate bonds, he Insurer first determines at each reporting date whether the security is in Stage 1, Stage 2 or Stage 3.

Impairment is calculated using the following formula for government securities and corporate bonds classified as Stage 1 and Stage 2:

$$ECL = PD \cdot LGD \cdot EAD$$

where

ECL:= expected credit loss at the reporting date

PD (probability of default):= 1-year PD if the security was classified as Stage 1 on the reporting date; lifetime PD, if the security was classified as Stage 2 on the reporting date

LGD (loss given default): estimated loss rate at default

EAD (exposure at default): the gross book value of the security on the reporting date

The PD is estimated on the basis of Weibull curves fitted to time series of sovereign or corporate default rates corresponding to the rating category of the latest available Standard & Poor's at the reporting date.

To estimate LGD, the Insurer uses a study on external sovereign debt restructuring cases and approximates LGD by the average of the face value reduction haircut values reported in this study for several countries.

To estimate the LGD of corporate bonds the Insurer applies:

- for bank bonds - a study on the rates of return of European banks;
- for corporate bonds – 45% as agreed in the Basel II framework.

The Group considers forward-looking information in such a way that, in addition to the base scenario ("Base case"), it also considers an optimistic scenario ("Upturn case") and a pessimistic scenario ("Downturn case"). In the Upturn case, it is assumed that the rating of the given government security improves by 1 notch compared to the reporting date (if this improvement is still possible), and that the rating at the reporting date is Stage 1. In the Downturn case, the Group assumes that the rating of the given government security deteriorates by 1 notch compared to the reporting date, and that the rating at the reporting date is Stage 2. In addition to the Base case, the Group calculates the expected credit losses for the Upturn case and the Downturn case using the above method and considers the weighted average of the three results as the credit loss on the reporting date. The weights are determined by the management on each reporting day, as a result of an expert estimate.

The Group valuates its Stage 3 government securities individually. In each case, it performs cash-flow estimates in 2 scenarios. It takes the present value of the estimated cash flows for both scenarios and weights them according to management's judgment. To calculate the present value, the Group uses the original effective interest rate (in the case of a floating interest rate paper, it discounts with the current effective interest rate). The Insurer recognizes the expected credit loss as the difference between the resulting weighted cash-flow present value and the gross book value at the reporting date.

3.18.7.2 Impairment of cash and cash equivalents

The Group determines the expected credit loss of its cash and cash equivalents (bank account balances) on the reporting date as follows

$$ECL = PD \cdot LGD \cdot EAD$$

where

ECL:= expected credit loss at the reporting date

PD (probability of default):= 1-year PD, which the Group takes from the latest available annual Standard&Poors default rate study at the reporting date. Regardless of the rating, the Insurer approximates the 1-year PD with the 1-year default rate for financial institutions determined in the year of the study.

The Group does not have fixed deposits with banks longer than one year, so as a simplification, it does not perform a stage classification, but calculates with a 1-year PD.

LGD (loss given default): estimated loss rate at default, which the Insurer takes from an external study. We used the LGD study "Cruces, J. J., & Trebesch, C. (2013). Sovereign defaults: The price of haircuts. American economic Journal: macroeconomics, 5(3), 85-117", which is the first comprehensive database of investor losses ("haircuts") for foreign banks and bondholders. The database covers 180 cases from 68 countries between 1970 and 2010. For its LGD estimate the Insurer used the weighted average of 19 Central and Eastern European cases found in this study as a basis.

EAD (exposure at default): the bank account balance at the reporting date.

3.18.7.3 Impairment of intercompany receivables

For financial receivables from subsidiaries and associated companies, the Group did not recognize expected credit losses as long as there was no clear indication of a negative change in the financial situation of the company in question. In this case, the Insurer performs an individual cash-flow estimate for the intercompany receivable in at least two scenarios. It takes the present value of the estimated cash flows in both scenarios and weights them according to management's judgment. To calculate the present value, the Group uses the original effective interest rate of the receivable (in the case of a receivable with a floating interest rate, the current effective interest rate). The Group recognizes the expected credit loss as the difference between the resulting weighted cash-flow present value and the gross book value on the reporting date

3.18.7.4 Impairment of trade receivables and other receivables

The Group uses a simplified methodology to determine the expected credit loss for trade receivables and other receivables. Expected credit losses are quantified with the help of a matrix, using past experience of credit losses.

When using the matrix, the Insurer observes the 365 days prior to the valuation date, in which it observes the percentage of trade receivables recognized during the period that have not been paid. The baskets are as follows:

- 0-30 days,
- 31-60 days,
- 61-180 days,
- 181-360 days,
- >360 days.

The loss rates assigned to the individual baskets based on historical data are adjusted by forward-looking information.

3.18.7.5 Impaired financial assets acquired or incurred

POCI financial assets are impaired at the initial recognition.

The Group considers a given financial asset as a POCI asset, if at the time of initial recognition the other party is classified Stage 3 status.

When calculating the credit-adjusted effective interest rate of POCI assets classified as impaired at initial recognition, the Group takes into account the initial estimated credit loss in the estimated cash flows (that is, the lifetime expected credit loss is deducted from the estimated contractual cash flows).

On the reporting date, the Group only recognizes the accumulated changes in the lifetime expected credit loss since the initial recognition in profit or loss as impairment gains or losses on POCI assets.

A favorable change in lifetime expected credit loss is recognized as an impairment gain even if the amount of the lifetime expected credit loss is less than the amount of the expected credit loss that was included in the estimated cash flow at initial recognition.

3.18.7.6 Recognition of impairment for expected credit losses in the financial statements

The Group recognises impairment for expected credit losses in its financial statements as follows:

- In the case of financial assets valued at amortized cost: the asset is recongized in the statement of financial position by deduction from its gross book value and is recognized in the comprehensive income statement under impairment and reversal of financial assets
- In the case of debt instruments valued at fair value against other comprehensive income: no impairment loss is recognised in the statement of financial position, because the book value of these financial assets is equal to their fair value. The amount of impairment recognized for these financial assets is presented by the Group in the supplementary notes. At the same time, in the comprehensive income statement, the amount of the impairment loss for the given year appears under Financial assets impairment and reversal.

3.18.8 Write-off of financial assets

The Group writes off a financial asset in whole or in part if it is no longer reasonably expected that the financial asset or part of it will be recovered.

Events and circumstances that the Insurer considers to be such that it no longer reasonably expects a return from the asset or part of it are the following:

- a more than insignificant part of the financial asset (>10% of the face value/receivable value) is more than 5 years overdue. In this case, the entire financial asset is written off, unless a part can clearly be identified for which a return can still reasonably be expected.
- based on the outcome or expected outcome of bankruptcy or liquidation or enforcement against the other party, there is no prospect of recovery for all or part of the financial asset.

During the write-off, the Group reduces the gross book value of the financial asset against the amount of expected credit loss recognized.

3.19 Determination of fair values

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 Group 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;

- <u>Shares:</u>
  - the shares traded at the stock exchange have to be valued according to the closing price on the date of financial statements;
  - if there was no trading on that day, the last closing price shall be used if this price is not older than 30 days from the date of the financial statements;
  - in the case of a non-listed share, the valuation price of the asset shall be determined on the basis of the officially published last weighted average OTC price if it is not older than 30 days
  - if none of the methods can be applied, regardless of its antiquity, the lower of the last stock exchange price, the absence thereof the last OTC price and the purchase price should be used.
- <u>Derivative instruments:</u>
  - T day earnings on futures on the Budapest Stock Exchange on the basis of the relevant stock exchange futures regulations if the transactions were opened on T day using the binding price and the T day settlement price if the transactions were closed on T day by the binding price and T-1 daily in the case of transactions opened earlier than T day, using the settlement rate T day and T-1 daily settlement price.
  - Foreign exchange futures contracts are evaluated at forward rate calculated on the basis of the T-day spot rate and interbank rates quoted in the relevant currencies. The interest rates to be used for the calculation are inter-bank interest rates that are closest to the remaining maturity of the forward bond.

Compared to the above valuation methods, among the Insurer's unit-linked investments, the valuation of securities in Russian asset funds is an exception, the characteristics of which are described in detail under Note 27 by the Company.

3.20 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.

3.21 Financial liabilities

The Group recognises financial liabilities in its financial statements with the date when the contractual obligation arises. Financial liabilities are derecognised when the contractual obligation is fulfilled, expires or ceases.

The Group subsequently classifies all financial liabilities at amortized cost, except for the following:

•fFinancial liabilities valued at fair value through profit or loss. These liabilities, including derivative instruments that qualify as liabilities, must subsequently be valued at fair value;

• financial liabilities that arise when the transfer of a financial asset does not meet the derecognition criteria or when the continuing involvement approach is to be applied;

• financial guarantee contracts;

•commitments to grant loans at an interest rate lower than the market interest rate

• contingent consideration recognized by the acquirer in a business combination within the scope of IFRS 3 Business Combinations.

The Group may irrevocably designate a financial liability as valued at fair value through profit or loss upon initial recognition if this results in more relevant information due to one of the following:

- it eliminates or significantly reduces a valuation or recognition inconsistency (also known as an accounting mismatch), which would otherwise have arisen due to the fact that the valuation of assets or liabilities, or the recognition of profits or losses on them is carried out on different bases; or
- the management of a group of financial liabilities or a group of financial assets and financial liabilities, as well as the valuation of its performance is carried out on a fair value basis, in accordance with a documented risk management or investment strategy, and information about the group is provided within the Group on this basis to the key management personnel of the Insurer.

The Group classifies liabilities into the following categories:

3.21.1 Valuation of financial liabilities valued at amortization cost

Financial liabilities valued at amortized cost upon initial recognition are valued by the Group at fair value, increased or decreased by the transaction costs directly attributable to the issuance or acquisition of the financial liability. Subsequent valuation is at amortized cost.

In the case of financial liabilities valued at amortized cost, the Group considers the related transaction costs, fees, commissions as part of the cost and takes them into account when calculating the effective interest rate. Accordingly, interest and amortization costs are accounted for using the effective interest rate method.

The Group valuates received loans, other liabilities, liabilities from financial reinsurance, liabilities to the owner and intercompany liabilities at amortized cost.

3.21.2 Liabilities valued at fair value through profit or loss

The Group presents the profit or loss arising from the financial liability marked as valued at fair value through profit or loss as follows:

a) the amount of the change in the fair value of the financial liability that can be attributed to the change in the credit risk of that liability, in other comprehensive income; and

b) the residual amount of the change in the liability's fair value against profit or loss, unless the treatment of the effects of the change in the credit risk of the liability described in point a) would result in an accounting mismatch or increase it in the profit or loss.

If the Group designates a financial liability as valued at fair value through profit or loss, it determines whether recognizing the effects of changes in the credit risk of that liability in other comprehensive income would result in an accounting mismatch or increase it in profit or loss. An accounting mismatch arises or increases if recognizing the effect of changes in the liability's credit risk in other comprehensive income create a larger accounting mismatch in the profit or loss than if these amounts were recognized in the profit or loss by the Insurer.

To determine this, the Group evaluates whether, according to its expectations, the effects of changes in the liability's credit risk will be offset in the profit or loss by a change in the fair value of another financial instrument valued at fair value through profit or loss. This expectation is based on the economic relationship between the characteristics of the liability and the other financial instrument. The mentioned determination takes place at the initial recognition and cannot be re-valued.

If an accounting mismatch arises or increases, the Group recognizes all changes in the fair value (including the effects of changes in the credit risk of the given obligation) in the profit or loss. If an accounting mismatch does not arise or increase, the Group recognizes the effects of the change in the credit risk of the given liability in other comprehensive income.

The amounts recognized in other comprehensive income cannot be transferred to profit or loss later. The Group may, however, reallocate accumulated profits or losses within its own equity.

The Group initially classifies all liabilities arising from unit-linked life insurance contracts that do not meet the classification criteria of insurance contracts as liabilities valued at fair value through profit or loss. (See: contract classification, investment contracts.) It valuates futures and derivatives at fair value through profit or loss.

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

3.21.3 Derecognition of financial liabilities

The Group derecognizes financial liabilities when contractual obligations

- cease,
- are waived or
- expire.

Typically, the financial liability ceases and is therefore derecognized when the other party no longer has the right to claim amounts from the Group. This is usually the case when:

- the Group settles the liability by redemption, or
- the Group is legally or by the creditor released from the obligation to repay the debt.

The difference between the book value of the financial liability (or part of it) that has ceased or been transferred to a third party, and the consideration paid (including transferred non-monetary assets and assumed liabilities) must be recognized in profit or loss.

3.22 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.

3.23 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 Group 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.

3.24 Other reserves

Under other reserves the Group recognizes the difference between the cost net of impairment and the fair value of securities valued against other comprehensive result, 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.

3.25 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.

3.26 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.

3.27 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.

3.28 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.

3.29 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.

3.30 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. Relevant transactions from the standpoint of the standard are other non-insurance activities, typically the accounting of income from investment contracts, 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.

3.31 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.

3.32 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.

Although IFRSs do not prescribe specific rules when the going concern of an enterprise is endangered, the Company applies the general IFRS principles (frameworks, definition of assets and liabilities, fair value valuation, etc.) and the related IFRSs during the preparation of the financial statements. In addition, the application of IFRS 5, IAS 36 and IAS 37 received greater emphasis.

3.33 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 50-year modelling period, at the end of which all policies are assumed to have been terminated, repurchased. After that period, all of the policies deemed to be terminated. Regarding grace policies lasting a lifetime, the mentioned simplifications aren’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. Cash flow projections are made for fixed-term contracts until maturity.

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. In the simplified model it used past claim payments and the sum of itemized and IBNR claims reserves. To assess, if the accumulated claim reserves can provide adequate coverage for future claim payments and costs already incurred, it compared the claim reserves with the value of reserves calculated with the best estimate.

(Data in tHUF)

Claim reserves	Name of the unit	Casco	Apartment	Property and liabilities	Suretyship	Invoice protection	Colleteral	Passenger
Claim reserves used in LAT		456 294	9 231	171 539	1 585 820	5 101	138 185	20 441
Claim reserve using the best estimate		314 860	1 269	130 750	1 148 171	4 055	115 021	2 265
Run-off using the best estimate	2023	301 556	1 130	108 476	16 431	3 777	110 976	1 893
	2024	5 811	84	11 090	250 380	278	4 045	136
	2025	3 018	26	4 797	448 945	0	0	205
	2026	2 026	14	2 608	432 415	0	0	30
	2027	1 094	7	1 811	0	0	0	1
	>=2028	1 473	7	3 211				1

The Group expects that RBNS claim reserves for individual products' future claims will be paid in the next five years and, based on related assumptions, their volume will not change, which will not affect the claim ratios used in the LAT calculation. The Insurer considers the resulting risk to be negligible. The reserve value used in the LAT assessment is higher than the best estimated reserve value for each business line, so it is expected to provide coverage for future payments.

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, in the 2022 year-end examination, the model includes the unserved premium reserve formed at the end of 2022 and the estimated future written premium until the balance sheet date of the already concluded contracts within the product portfolios starting in the last quarter of 2022. In the calculation, the basis for estimating future risk-related expenses is the premiums to be earned in the future.

For products already in operation in previous years, past experience is the basis for estimating future claims; for the new portfolios, the basis is formed by loss

ratio assumptions in future plans, as the short damage experience of the new products does not allow the use of past data.

In the model, future costs are treated in a differentiated manner by the Group: the estimation of future costs related to unearned premiums is largely based on empirical data, and for future costs related to new premiums, it is based on planned cost data.

The estimation for future acquisition and tax-like costs has been calculated for non-earned fees with the 2022 cost ratios, and for new premiums with the cost ratios planned for 2023. As an administrative cost, all future earned premiums will be charged with an estimated cost based on the planned cost ratio for 2023.

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. 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 the end of the annual period) were used for discounting cash flows.

4.2.2.2 Non-life insurance segment

Insurance contracts can be terminated on the anniversary of the contract, so for continuous premiums, the model includes a maximum premium of one year. 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 fee cancellation parameter is derived from the actual cancellation experience of future fees used in the previous assessment.

The Company calculated its expected claim expense for future risks on the basis of the estimated claim ratio per product group. For product groups of the new products, the claim ratio was estimated on the basis of the assumptions used in the 2023 plans; for products previously sold, 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.

The claim ratio assumptions used in the model for the year-end 2022 calculations:

Sector	Claim ratio
Casco	69%
Home property	55%
Corporate property and liability	21%
Hungarian suretyship	1%
Italian suretyship	65%
Credit coverage insurance	21%

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	36%
Home property	49%
Corporate property and liability	41%
Hungarian suretyship	39%
Italian suretyship	16%
Credit coverage insurance	69%

Estimates of future acquisition and tax expenses for unearned premiums have been made using cost ratios calculated from 2022 empiric data, for new premiums using the planned cost ratios for 2023. As an operating cost, all future premiums will be charged with an estimated cost based on the planned cost ratio for 2023. The previous 2019 LAT investigation on the Italian suretyship product showed significant losses, therefore the Company then released the full amount of deferred acquisition costs related to the portfolio, thus, in the current investigation, future premiums are not subject to acquisition costs.

5 CHANGES IN ACCOUNTING POLICIES

5.1 Effects of the mandatory used standards – from 1 January 2022 – on the consolidated financial statements

For annual periods beginning on or after 2022, the following amended mandatory standards became effective, which - with the exception of IFRS 9 and IFRS 17 - are not expected to have a material impact on the financial statements:

For business years starting from 2022:

- IFRS 16: Lease Concessions Related to COVID-19
- Annual improvements to IFRSs 2018–2020
- IAS 16 Property, Plant and Equipment: Revenue Before Intended Use
- Amendment to IFRS 3 Reference to Framework Principles
- IAS 37 Loss-making Contracts - Cost of Performing a Contract

For business years starting from 2023:

- Amendments to IAS 1 Presentation of Financial Statements: Amendments to the short- or long-term classification of liabilities and to the presentation of accounting policies
- IAS 8: Definition of Accounting Estimates
- Amendments to IAS 12 Income Taxes: The Deferred Tax Effect of Assets and Liabilities Arising on a Transaction

5.2 Changes in accounting policy in 2022

5.2.1 Contract classification – separation of insurance and investment contracts

As of the second quarter of 2022, the Group clarified its accounting for the separation of individual components of the contracts when separating insurance and investment contracts, as presented under Note 3.4. In determining the significance of insurance risk, it continues to compare the initial investment and the service payment.

The initial investment of the policyholder includes the first regular premium instalment or single premium and any top-up premiums that are intended to be paid together with the first regular premium instalment or the single premium. The initial equalised premium is the regular, single or top-up premium credited to the contract up to the date of policy issue.

The Group will hereinafter classify a unit-linked contract as an insurance contract if the initial settled premium is positive and the maximum of the guaranteed sum insured, the additional risk service and the amount of all rider insurances related to the contract is at least 5% of the initial settled

premium or if the initial settled premium is zero and the sum of the guaranteed sum insured, the additional risk service and the amount of all rider insurances related to the contract is positive.

Division of investment contracts, premiums paid

The contracts described above, which primarily involve the transfer of financial risks, are not accounted for by the Group as insurance contracts but as investment contracts and are divided into two parts

- financial liabilities that are accounted for under IFRS 9
- and an investment services contract part, which (the related revenue) is accounted for under IFRS 15.

The Group retroactively modified the change in accounting policy for the comparison period (2021). The change in accounting policy had no impact on the results of the comparative period, it only had presentation effects.

According to point 40 of IAS 1, if the Group changes the presentation or classification of certain items of the financial statements, the comparative data - unless this is not feasible - must be reclassified in order to ensure comparability with the current period, and the nature, amount and reason for any reclassification must be published. The Group retroactively modified the change in accounting policy for the comparison period (2021), however, it did not republish the column of the opening statement of financial position for the comparative period. The change in accounting policy had no impact on the results of the comparative period, it only had presentation effects.

In the Group’s opinion, the republishing of the opening balance sheet would not have provided users of the report with additional information to the extent recovering the cost of its production (IAS 1.42 paragraphs A and B).

5.2.2 Deferred acquisition costs accounting policy amendment

For unit-linked contracts issued prior to 1 January 2022, the Group used the contract conclusion and maintenance fee charged in its entirety for the amortization of contract cost accrual. The Group has reviewed the amount of other acquisition, operating and insurance surtax costs incurred in connection with unit-linked contracts (and not included in the calculation of the acquisition cost accrual). The other costs incurred are significant (their amount increased in 2022 due to the introduction of the insurance surtax) and therefore, for unit-linked contracts that are in force from 2022, the contract conclusion and maintenance fees will only be partially used to amortize the contract cost accrual. The applied cost partly covers the Group's other costs not involved in the accrual calculation of the acquisition cost. The amendment of the accounting policy did not affect the

comparative period, therefore the data of the comparative period remain unchanged as a result of this amendment.

5.2.3 Introduction of IFRS 9 (effective from 01.01.2022)

The Group decided to apply IFRS 9 from 2022. Previously, the introduction of IFRS 9 was postponed until the introduction of IFRS 17 based on the exemption according to point 20K of IFRS4. The introduction of IFRS 17 is effective from 01.01.2023, however, according to the Group's decision at the beginning of 2022, it will apply IFRS 9 from 01.01.2022. One of the reasons for applying IFRS 17 a year earlier is that when IFRS 17 is introduced, the Group shall already have IFRS 9 data for the comparative period as well. In addition, in the opinion of the Group, the impairment principles of IFRS 9 enable a more realistic presentation in the current capital market conditions.

IFRS 9 contains new requirements regarding the classification and valuation of financial assets and liabilities and replaces the IAS 39 Financial Instruments: Classification and Valuation standard. The significant effects of the change in accounting policy on the Group's financial statements are described below.

Classification and valuation

In many respects, IFRS 9 retains the existing principles of IAS 39 in terms of classification and valuation, but at the same time, it applies fewer categories in relation to the classification of financial assets and liabilities, i.e. the categories of financial assets held to maturity, loans and receivables, and assets held for sale will no longer exist. The Group performed the business model tests required for the classification according to the conditions existing on the day of the transition.

Financial assets must be recognized at amortized cost if the Group intends to hold them to collect cash flows from contractual obligations, which typically consist of capital and interest, and does not value them at fair value through profit or loss.

Debt instruments must be valued at fair value against other comprehensive income, if the Group does not value them at fair value through profit or loss and the Group intends to hold them to collect the cash flows from contractual obligations, which typically consist of capital and interest, and to sell them

On initial application, in relation to non-trading equity instruments, the Group may choose - as an irrevocable decision - fair valuation against other comprehensive income. The choice must be made instrument by instrument.

All financial assets that are not valued at amortized cost or fair value against other comprehensive income must be valued at fair value against the

Group's profit or loss, including derivatives. Financial assets (with the exception of trade receivables without significant financing components, which must be valued at the transaction price) must be valued at the initial valuation at fair value increased by direct transaction costs.

The following needs to be applied at the valuation following the initial valuation:

- At fair value in the case of assets valued at fair value against the profit or loss; the related income and expenses (including interest and dividend income) are accounted for in the result.
- Assets valued at amortized cost are valued at amortized cost determined using the effective interest method; interest income, currency revaluations, impairment losses and the result of sales are also accounted for in the result.
- Debt instruments valued at fair value against other comprehensive income must be valued at fair value. Interest income accounted for using the effective interest method, currency revaluations and impairment losses are accounted for in the result, the valuation difference arising from market prices is to be accounted for against other comprehensive income. In the event of a sale, the differences accumulated in the revaluation reserve are reversed against the result.
- Assets embodying ownership interests valued at fair value against other comprehensive income must be valued at fair value. Dividends are accounted for in the result, all valuation differences must be accounted for against other comprehensive income and never return to the result.

In relation to the Group's financial statements, the following effects occur when switching to the IFRS 9 accounting policy.

There was one significant change in the consolidated statement of financial position compared to the presentation according to IAS 39. The financial assets recognized in the Available-for-sale financial assets line will be recognized in the Other financial assets line at fair value from 2022.

In this financial statement line, the Group lists the following assets

- Financial assets serving as collateral for the reserves of traditional (non-unit-linked) life insurance contracts, which typically consist of government securities and corporate bonds. They are valued at fair value against other comprehensive income.
- The financial assets behind the equity, which are also made up of government securities and corporate bonds and are also valued by the Insurer against other comprehensive income.
- The Group valuates its interest in OPUS GLOBAL Plc, acquired as a strategic investment, at fair value against other comprehensive income. With regard to the strategic stake, the Group has applied the

'designation' option according to IFRS 1 in with point 5.7.5 of IFRS 9, which allows for an irrevocable decision to valuate share-type investments against equity, during the transition to individual IFRSs. As a result, all changes in the fair value of the strategic stake are to be recognized against other comprehensive income and not in the profit after tax, except for dividend income. The recognized capital changes do not return to the profit after tax even when they are derecognized.

Due to IFRS 9 compliance, it is necessary to derecognize the line Interest income calculated using the effective interest method from the results previously shown on the Investment income line, which contains the interest income of all financial assets accounted for using the effective interest method. The line Other income from investments includes the income from realized exchange differences recognized in addition to interest income, the positive result of foreign currency revaluations and income from futures instruments.

Impairment and reversal of financial assets were also derecognized from the Investment expenses line, which includes the accounting of impairment losses according to IFRS 9 with respect to financial assets. In addition, the Group continues to recognize interest expenses, negative results of currency revaluations, realized exchange losses, negative foreign exchange results of futures transactions and other expenses incurred in connection with investments in the Investment expenses line.

Impairment effects

Pursuant to IFRS 9, the Group recognizes expected credit losses for financial assets valued at fair value through profit or loss, i.e. for financial assets of the debt instrument type valued at fair value against other comprehensive income (in the case of equity instruments, impairment is not applicable) and for financial assets valued at amortized cost.

Expected credit losses are probability-weighted estimates of credit losses incurring over the expected lifetime of the financial asset (i.e. the present value of all expected cash flow shortfalls). Estimates of expected credit losses must always reflect the possibility of both the occurrence and non-occurrence of a credit loss, even if the most likely outcome is that no credit loss will occur. Estimates of expected credit losses must reflect an unbiased and probability-weighted amount, which is determined by evaluating various possible outcomes. When determining the credit loss, the Insurer also takes forward-looking information into account.

The Group assesses the expected credit loss of the given financial asset at an amount equal to the 12-month expected credit loss (Stage 1), if the credit risk of the financial asset is low or has not increased significantly since

the initial recognition. The 12-month expected credit loss is a portion of the lifetime expected credit loss. It embodies the expected credit loss that may arise in the 12 months after the reporting date, resulting from events of default related to the financial instrument.

The Group recognizes the lifetime expected credit loss (Stage 2 and Stage 3) on each reporting date in the following cases:

- if the credit risk of the financial asset concerned has increased significantly since the initial recognition, but the financial asset is not impaired ("Stage 2 financial assets");
- if the relevant financial asset is impaired on the reporting date ("Stage 3 financial asset");
- in the case of trade receivables and claims against insurance intermediaries (the Group uses a simplified model to determine the expected credit loss).

Lifetime expected credit loss is the expected credit loss resulting from all possible events of default over the expected lifetime of the financial instrument.

The Group considers financial assets with an external rating of BBB- (Standard&Poors rating) or better, recommended for investment ("investment grade") as low credit risk. For its government securities and externally rated financial assets other than government securities - if they are not low credit risk at the reporting date - the Group considers a deterioration of at least 2 notches in the rating as a significant increase in credit risk. The credit rating of government securities is currently BBB.

The Group performed the impairment test of financial instruments on 01.01.2022 as of the date of transition to IFRS 9, as a result of which a HUF 67 million increase in the impairment loss is justified compared to the impairment accounted for by IAS 39. The settlement of this difference, i.e. the effect of the change in accounting policy in the valuation of financial assets and liabilities, is seen as an amendment on 01.01.2022 against retained earnings, as shown in the equity movement table. The Company applies IFRS 9 retrospectively, with the exception (based on point 7.2.15) that republishing the comparative period is not necessary.

The retrospective effect of the accounting policy changes presented in this point 5.2 on the Statement of Comprehensive Income and the Statement of Financial Position of the comparative period can be seen below:

Due to changes in the accounting policy the consolidated comprehensive income statement was modified by the Group as follows.

Statement of consolidated comprehensive income – cumulated data (2021)	Restated	Original	Change	Note
Gross written premium	22 845 318	22 712 923	132 395	5.2.1
Changes in unearned premiums reserve	-157 355	-157 355	-	
Earned premiums, gross	22 687 963	22 555 568	132 395	5.2.1
Ceded reinsurance premiums	-502 078	-502 078	-	
Earned premiums, net	**22 185 885**	**22 053 490**	**132 395**	
Premium and commission income from investment contracts	147 397	223 060	-75 663	5.2.1
Commission and profit sharing due from reinsuresrs	60 438	60 438	-	
Investment income		12 090 549		
Interest income calculated using the efective interest method	475 232	-	-	5.2.3
Other investment income	11 615 317	-		
Yield on joint ventures	808 075	808 075	-	
Other operating income	1 112 802	1 112 802	-	
Other income	**14 219 261**	**14 294 924**	**-75 663**	
Total income	**36 405 146**	**36 348 414**	**56 732**	
Claim payments and benefits, claim settlements costs	-15 464 577	-15 058 689	-405 888	5.2.1
Recoveries, reinsurer's share	146 813	146 813	-	
Net changes in value of the life technical reserves and unit-linked life insurance reserves	-11 964 327	-12 152 678	188 351	5.2.1
Investment expenses	-240 309	-254 345		
Impairment and impairment reversal of financial assets	-14 036	-	-	5.2.3
Change in the fair value of liabilities realting to investment contracts	-436 814	-597 619	160 805	5.2.1
Liabilities and assets related to embedded derivatives at fair value	-	-	-	
Investment expenses, changes in reserves and benefits, net	**-27 973 250**	**-27 916 518**	**-56 732**	
Fees, commissions and other acquisition costs	-4 153 658	-4 153 658	-	
Other operating costs	-2 256 014	-2 256 014	-	
Other expenses	-238 427	-238 427	-	
Operating costs	**-6 648 099**	**-6 648 099**	**-**	
	2 718	2 718		
Profit/Loss before taxation	**1 786 515**	**1 786 515**	**-**	
Tax income/expenses	-192 437	-192 437	-	
Deferred tax income/expenses	87 797	87 797	-	
Profit/Loss after taxation	**1 681 875**	**1 681 875**	**-**	
Comprehensive income, wouldn't be reclassified to profit of loss in the future	-574 917	-	-574 917	5.2.3
Comprehensive income, would be reclassified to profit or loss in the future	-1 800 481	-2 375 398	574 917	5.2.3
Other comprehensive income	**- 2 375 398**	**-2 375 398**	**-**	
Total comprehensive income	**-693 523**	**-693 523**		

CIG PANNÓNIA INSURANCE

Data in THUF

	2021 restated	2021 original		
Consolidated profit/loss after taxation attributable tot he company's shareholders (thousand HUF)	1 675 065	1 675 065	-	
Weighted average number of ordinary shares (thousand unit)	93 978 364	93 978 364	-	
Earnings per share (basic) (HUF) - consolidated	**17,8**	**17,8**		
Modified consolidated profit/loss after taxation attributable tot he company's shareholders (thousand HUF)	1 675 065	1 675 065	-	
Weighted average number of orinary shares (thousand unit)	94 428 260	94 428 260	-	
Calculated earnings per share (diluted) (HUF) – consolidated	17,7	17,7	-	
Earnings per share (diluted) (HUF) - consolidated	**17,7**	**17,7**		

Statement of Financial Position

ASSETS	31 December 2021 (restated)	31 December 2021 (original)	Difference	Notes
Intangible Assets	720 063	720 063	-	
Property, plant and equipment	179 026	179 026	-	
Right-of use assets	494 093	494 093	-	
Deferred tax asset	473 820	473 820	-	
Deferred acquisition costs	1 327 898	1 327 898	-	
Reinsurer's share of technical reserves	453 038	453 038	-	
Investments accounted for using the equity method	1 013 290	1 013 290	-	
Available-for-sale financial assets		28 409 074	-	5.2.3
Fair value of other financial assets	28 409 074	-		5.2.3
Investments for policyholders of unit-linked life insurance policies	85 664 010	84 532 896	1 131 114	5.2.1
Financial assets – investment contracts	5 237 950	6 369 064	- 1 131 114	5.2.1
Financial assets – derivatives	937	937	-	
Receivables from insurance policy holders	1 957 649	1 909 636	48 013	5.2.1
Receivables from insurance intermediaries	55 980	55 980	-	
Receivables from reinsurance	87 679	87 679	-	
Other assets and prepayments	76 015	76 015	-	
Other receivables	183 396	183 396	-	
Cash and cash equivalents	1 498 385	1 498 385	-	
Total Assets	**127 832 303**	**127 784 290**	**48 013**	

LIABILITIES				
Technical reserves	19 319 805	19 297 996	21 809	5.2.1
Technical reserves for policyholders of unit-linked life insurance policies	85 664 010	84 532 896	1 131 114	5.2.1
Investment contracts	5 237 950	6 369 064	- 1 131 114	5.2.1
Financial liabilities-derivatives	11 760	11 760	-	
Loans and financial reinsurance	37 739	37 739	-	
Liabilities from reinsurance	278 926	278 926	-	
Liabilities to insurance policy holders	882 408	882 408	-	
Liabilities to insurance intermediaries	244 158	244 158	-	
Lease liabilities	531 909	531 909	-	
Provisions	323 545	2 408 969	- 2 085 424	5.2.1
Other liabilities	2 111 628	-	2 111 628	5.2.1
Liabilities to shareholders	19 929	19 929	-	
Total Liabilities	**114 663 767**	**114 615 754**	**48 013**	

NET ASSETS	13 168 536	13 168 536	-	

SHAREHOLDERS' EQUITY				
Share capital	3 116 133	3 116 133	-	
Capital reserve	1 152 990	1 152 990	-	
Treasury shares	- 31 996	- 31 996	-	
Share-based compensation	-	-		
Other reserves	- 3 146 551	- 3 146 551	-	
Retained earnings	12 077 836	12 077 836	-	
EQUITY ATTRIBUTABLE TO THE COMPANY'S SHAREHOLDERS	**13 168 412**	**13 168 412**	**-**	
Non-contolling interest	124	124		
TOTAL SHAREHOLDER'S EQUITY	**13 168 536**	**13 168 536**	**-**	

5.3 Transition to IFRS 17 (effective from 01.01.2023)

Since the Group did not take advantage of the option of preliminary application of IFRS 17, it applies IFRS 17 for the first time for the business year starting on 1 January 2023. The date of the first application of IFRS 17 is therefore 1 January 2023, and the date of transition to IFRS 17 - the beginning of the annual reporting period immediately preceding the date of the first application of IFRS 17, hereinafter referred to as "Transition Date" or "Date of Transition" - is 1 January 2022. The Group must already present the 2022 business year, as the comparative year to be included in the 2023 financial year, in accordance with IFRS 17

This means that the comparative data in the 2023 (annual and interim) financial statements will not be the same as the current period data presented in the individual and consolidated (annual and interim) financial statements for the 2022 financial year. (So as the data presented in this report.)

The Group used two of the transition methods listed by IFRS 17, which are

- the full retrospective approach ("FRA", the "default" transition approach of IFRS 17), and

- the fair value approach ("FVA", IFRS 17.C20-24B).

The Group is not using the modified retrospective approach for the transition to IFRS 17.

During the transition to IFRS 17, the Group focused on the preparation of the opening balance sheet for the Transition Date and on ensuring the feasibility of IFRS 17 calculations after the Transition Date and did not aim to create complete financial statements before the Transition Date.

5.3.1 FRA transition approach at the Group

The FRA method means that the Group applies IFRS 17 as if it had always applied it, thus all relevant parts of the accounting policy related to IFRS 17 are to be applied to GICs affected by the FRA transition method.

In the case of both direct insurance and reinsurance contracts, the Group applies the FRA method to those GICs whose initial recognition had to be made in 2016 or subsequent years (the latest in 2021), except in the case of direct insurance contracts for certain (through portfolio acquisition or business combination) acquired contract portfolios.

The reason for the above is that for the periods before the Solvency II regulation (2016), the Group does not have, or would only at a disproportionate cost and effort have access to the essential data required for the full retrospective application of IFRS 17 (e.g. cash-flow runs, risk adjustment, commission and other facts in appropriate breakdowns, etc.). In the case of acquired stocks, the mentioned data are only available for periods after the migration of these stocks to the Group's systems.

The relevant acquired contract portfolios (divided into insurance contract portfolios) and the first year of application of the FRA method to them is the following:

Insurance contract portfolio (direct insurances)	First application of the FRA method for the year (*)
Traditional regular premium pension savings (ex-MKB Portfolio)	2018
Traditional regular premium savings (ex-MKB Portfolio)	2018

(*) the FRA method is first applied by the Group to the GICs initially recognized in the given year (and for the last time to the GICs initially recognized in 2021)

IFRS 17 calculations concerning GICs affected by the FRA method, from their initial recognition to the Transition Date, are performed by the Group in a software purchased for this purpose. For this purpose, it uses annual reporting periods from initial recognition. The necessary cash-flow runs

(predicted cash-flows) contain monthly data in the same way as in the case of IFRS 17 calculations performed after the Transition Date.

5.3.2 FVA transition approach at the Group

Decisions when applying the FVA method

The FVA transition method is applied by the Group - also in the case of direct insurance and reinsurance contracts - to those GICs that had to be initially recognized in 2015 or before (belonging to the cohorts of 2015 or earlier), supplemented by the acquired direct insurance portfolios indicated in the table above, for which the FVA method is applied in the case of contracts belonging to cohorts prior to the first year of the application of the FRA method.

For the reason for applying the FVA method to the above cohorts, see also above.

For the purposes of applying the FVA method, the Group groups the contracts into GICs (especially the profitability classification) on the basis of reasonable and supportable information Group on the Transition Date. In the case of the FVA transition method, the Group uses the option of including contracts issued more than one year apart in the same GIC (grouped cohorts).

The Company grouped the cohorts as follows:

- in the case of stocks acquired through the acquisition of the MKB Groups in 2017 (ex-MKB portfolios), the grouped cohort affected by the FVA transition lasts until 31.12.2017;
- in the case of stocks acquired from Dimenzió (ex-Dimenzió portfolio), the grouped cohort affected by the FVA transition lasts until 31.12.2021;
- in all other cases, the grouped cohort affected by the FVA transition lasts until 31.12.2015.

In the case of (direct) insurance contracts acquired in a business combination or portfolio acquisition before the Transition Day, the Group makes always use of the option to present the obligation to compensate for claims incurred before the acquisition of these contracts as LIC (and not as LRC), in this way not quantifying / calculating CSM / loss component for these (IFRS 17.C22A).

In the case of GICs affected by the FVA method, the Group determines the valuation model based on the insurance contract portfolio - based on the information available on the Transition Date - to which the affected GIC belongs. Accordingly, it identified in the case of direct GICs those valued in the GMM and VFA valuation models after the Transition Date, and in the

case of reinsurance GICs those valued in the GMM valuation model after the Transition Date.

The Group defines the yield curve used for the initial recognition (locked-in yield curve) and the yield curve observed at the claim incurrance, in cases where their definition is relevant, as the yield curve observed on the Date of Transition and not according to its processes after the transition to IFRS 17 (IFRS 17.C23). The relevant cases are GICs valued with the GMM model after the Transition Day, and, in the case of the yield curve observed at the occurance of the claims, those where the Group applies the OCI option.

In the case of GICs affected by the FVA transition method, the Group has not identified commissions related to contract renewals that cross cohorts, which would require it to record an insurance acquisition cash-flow asset at the Transition Date

On the Transition Day, the Group considers the parts of the premium related to the recovery of insurance acquisition cash-flows and which would be settled after the Transition Day, to be 0. The reason for this is that the Group cannot determine these amounts, even at a disproportionate cost and effort, because it does not have the necessary past commission data for GICs affected by FVA and the above amount is expected to be immaterial when calculated on the Transition Date, considering the time elapsed between the last cohort still eligible for FVA GIC and the Transition Date (amortization period).

As the underlying assets are held by the Group in all cases, the Transition Date cumulative OCI, where relevant, is reported consistently with the Transition Date cumulative OCI of the underlying items for the Group's GICs valued in the VFA model and subject to the FVA method after the Transition Date. If the underlying items have a cumulative OCI gain (loss) on the Transition Date, the Group recognizes the same amount of cumulative OCI as a loss (gain) in its insurance liabilities on the Transition Date (IFRS 17.C24(c)).

In the case of all other GICs calculated using the FVA method, the Group recognizes the cumulative OCI on the Transition Date, where relevant, at a value of 0 (IFRS 17.C24(b)).

The essence and calculation of the FVA method in the case of direct GICs at the Group

The focus of the FVA method is the LRC, and in connection to the LRC the determination of the CSM/loss component. After determining the CSM/loss component, the Group has all the data available to calculate the LRC and LIC of the GICs affected by the FVA method on the Transition Date:

- LRC where the GIC is profitable: CSM on the Transition Date according to FVA + the present value of the future (LRC) cash flows on

Transition Date according to IFRS 17 + the RA on Transition Day (LRC) according to IFRS 17.

- LRC where the GIC is loss-making + the present value of the future (LRC) cash flows on Transition Date according to IFRS 17 + the RA on Transition Date (LRC) according to IFRS 17 (and the loss component on the Transition Date according to FVA is recorded separately for the purposes of later IFRS 17 calculations by the Group).
- The present value of the future (LIC) cash-flows on Transition Date according to IFRS 17 for GIC where the LIC is either profitable or loss-making + the RA on Transition Date (LIC) according to IFRS 17.

The CSM/loss component must be defined as follows (IFRS 17.C20):

$$CSM(LC) = FV_{GIC} - FCF_{GIC} = FV_{GIC} - (PVCF_{IFRS\,17} + RA_{IFRS\,17})$$

where

— $CSM(LC)$: the CSM/loss component on Transition Date

— FV_{GIC}: the fair value of the given GIC affected by FVA, determined in accordance with IFRS 13 on the Transition Date (not applying IFRS 13.47, which concerns the on demand nature)

— FCF_{GIC}: the current amount of the performance cash-flows of the given GIC affected by FVA according to IFRS 17 on the Transition Date, i.e. the sum of the value of the forecasted future cash-flows discounted with the current yield curve according to IFRS 17 ($PVCF_{IFRS\,17}$) and the risk adjustment for non-financial risks ($RA_{IFRS\,17}$) on the Transition Date.

The definition of FV_{GIC} in the formula above requires special considerations (beyond IFRS 17).

The Group captures the value of FV_{GIC} as follows

$$FV_{GIC} = PVCF_{IFRS\,13} + FVRA + Adj_{CD}$$

$PVCF_{IFRS\,13}$: the present value of future current cash flows in accordance with IFRS 13 discounted with a risk-free return on the Transition Date. Cash flows according to IFRS 13 differ from IFRS 17 cash flows mainly in the costs to be taken into account. Typically, the range of cash flows to be taken into account in IFRS 13 is wider than in IFRS 17. For example, in IFRS 13 it may include costs that cannot be assigned to GIC in IFRS 17 and are therefore not part of the performance cash flows, but appear as expected costs in the expectations of a market actor. The discounting was done with the EIOPA yield curve published on 31.12.2021 without volatility adjustment.

$FVRA$: Risk adjustment that takes into account both financial and non-financial risks.

Adj_{CD}: Adjustment for the Group's own credit risk (negative number, reduces the value of FV_{GIC}.The Company determines it with the help of default probabilities (PDs) found in Article 199, point 3 of the Solvency II Regulation

$FVRA$ is captured by the Group by quantifying the cost of the capital it has to hold thanks to the given GIC for each year. $FVRA$ is the present value of the estimated capital requirement for each year calculated on the Transition Date.

The essence and calculation of the FVA method in the case of reinsured aGICs at the Group

In the case of its reinsured GICs, the Group determines the Transition Date CSM (loss component is not relevant) based on the FVA calculations performed in the case of direct GICs using the following formula:

$$CSM_{VB} = (PVCF_{VB}^{IFRS\ 13} - PVCF_{VB}^{IFRS\ 17}) + (FVRA_{VB} - RA_{VB}^{IFRS\ 17})$$

and

$$FVRA_{VB} = RA_{VB}^{IFRS\ 17} \cdot \frac{FVRA_{direkt}}{RA_{direkt}^{IFRS\ 17}}$$

In the above fomulas

- CSM, FVRA, RA (IFRS 17), PVCF (IFRS 17), PVCF (IFRS 13) with the subscript "VB" have a similar meaning as above for the FVA calculations used in the case of direct GICs, only that they apply not to direct GIC, but to reinsured GIC.
- CSM, FVRA, RA (IFRS 17), PVCF (IFRS 17), PVCF (IFRS 13) with the "direkt" subscript have a similar meaning as above for the FVA calculations used in the case of direct GICs.

Acquisition and transition of insurance stocks

There are two exemption rules to the general rules of insurance stock acquisitions in the context of transition:

1) Insurance contracts acquired in a business combination before the first application date of IFRS 17 (1 January 2023) are classified as insurance contracts, contrary to the above, on the basis of the contractual terms and conditions existing at the beginning of the contract or at the time of their subsequent amendment (and not at the time of acquisition) (see also the chapter discussing the transition to IFRS 17)
2) For (direct) insurance contracts acquired in a business combination or portfolio acquisition before the Transition Date (1 January 2022), it is possible for the Group to recognize the liability for the settlement of claims

incurred before the acquisition as LIC (and not as LRC), in which way the CSM/loss component does not need to be quantified/accounted for.

The Group classified all insurance (and reinsurance) contract portfolios acquired before the date of first application of IFRS 17 as insurance (reinsurance) contracts based on the contractual terms and conditions valid at the beginning of the acquired insurance (and reinsurance) contracts (or on the date of their subsequent amendment). Of the acquired portfolios, there were none that contained contracts that do not qualify as insurance (reinsurance) contracts according to IFRS 17, except for 57 single-premium contracts, which remained investment contracts as originally classified.

From the point of view of the exemption rule affecting LIC, only the Group has relevant acquired stock, and the Group used the exemption rule for that stock (see also above in the chapter *"Decisions when applying the FVA method"*).

5.4 Summary of IFRS 17 accounting policy

5.4.1 Important issues in IFRS 17

5.4.1.1 Classification of insurance, reinsurance and investment contracts

The contracts under which the Group assumes a significant insurance risk are considered insurance contracts. Reinsurance contracts are those contracts of the Group under which it transfers significant insurance risk of the underlying insurance contracts. Both insurance and reinsurance contracts expose the Group to financial risks.

Some contracts concluded by the Group take the legal form of an insurance contract, but do not transfer a significant insurance risk. These contracts are classified as investment contracts and financial liabilities.

The accounting settlement of investment contracts falls within the scope of IFRS 9.

Contracts that the Group initially recognizes as investment contracts may later become insurance contracts, for example because the insurance risk in the contract becomes significant. With the date when investment contracts that have become insurance contracts are initially recognized in accordance with IFRS 17, the Group derecognizes from the books all previously recognized assets and liabilities related to the investment contract. In cases where the insurance contract has a CSM at the initial recognition, the net effect of said derecognitions will modify this CSM.

According to the rules of IFRS 17, an insurance contract remains an insurance contract until all the rights and obligations included in it cease (that is, they are fulfilled, cancelled or expired), unless, based on the relevant rules of IFRS 17, the contract is derecognized from the books due to the amendment of the contract and the amended contract is recognized in the books (as a new contract). A new contract recognized in the books may be classified as an investment contract based on the criteria mentioned above. The Group does and did not sell investment contracts containing discretionary profit sharing.

The Group applies IFRS 17 with regard to direct contracts, reinsurance held and reinsurance issued by it ("active reinsurance"). The provisions of IFRS 17 for direct insurance contracts also apply to active reinsurance contracts, except that they cannot be valued in the VFA valuation model.

5.4.1.2 Separation of insurance and reinsurance contracts into components

In the case of its insurance contracts, the Group evaluates whether they contain components that, according to the rules of IFRS 17, must be separated from the insurance contract and accounted for based on a different standard. If it identifies such components, it separates them and applies IFRS 17 only to the part that remains after the separation.

The principles and order of separation are as follows:

1. Separating embedded derivatives (IFRS 9)

2. Separation of distinct investment components, i.e. investment components for which it is true that

    a. the investment component and the insurance component are not closely linked; and

    b. insurance policy issuers or other parties separately sell or could sell policies under equivalent terms in the same market or jurisdiction.

The Group accounts for the separate investment components in accordance with IFRS 9.

3. separation of promises that relate to the transfer of individual goods or services other than insurance contract services to the policyholder. These are accounted for in accordance with IFRS 15.

The Group's portfolio does not include any contracts whose contents' presentation requires a set or series of contracts to be treated as a whole, and none of the direct and reinsurance contracts in the Group's portfolio contain an investment component or a component for services other than insurance contract services (or both), therefore the insurance contracts fall fully within the scope of IFRS 17.

With the exception of those listed below, the Group treats the Group policies as one contract, as even though the various contracts could be terminated, but

— on the one hand, their pricing and risk assessment is not done at an individual level,

— on the other hand, the products are not available on group pricing at the individual level

thus, there is no possibility of interpreting them as separate contracts per policyholder.

Group life insurances, for which the Group charges a premium depending on the age of the policyholder and which can be joined individually are treated by the Group as separate contracts for each policyholder, as they are group insurance policies only in terms of their form.

5.4.1.3 Valuation models

The IFRS17 standard permits three measurement methods for the measurement of direct insurance contracts

- general measurement model (GMM) (or BBA/building block approach),
- variable fee approach (VFA),
- premium allocation approach (PAA).

The listed valuation models are applicable to the valuation of both the liability for remaining coverage (LRC) and the liability for incurred claims (LIC), and in the case of reinsurances, the asset for remaining coverage (ARC) and the asset for incurred claims (AIC).

5.4.1.4 Insurance contract portfolios, cohorts, date of initial recognition

For contracts exposed to similar risks and managed together, the Group creates portfolios of contracts, where the individual portfolios are also separated by cohorts (i.e. year of issue). At the Group, the individual cohorts are formed according to calendar years based on the date of issue, and in an analogous way during the quarterly reports.

The Group divides an issued insurance contract portfolio into at least the following portfolios based on profitability

a) the group of contracts which were oneorus at the initial recognition;

b) the group of contracts for which there was no significant probability at the initial recognition to become oneorus later; and

c) the group of remaining contracts in the portfolio.

Profitability is determined at the contract level based on the sum of the present value of the expected future cash flows and the value of the risk adjustment for the given contract (initial profit content). The risk adjustment is determined at the contract level.

Among the categories defined in the standard, the Group uses the following profitability groups for GMM and VFA evaluation models:

- if the initial profit content for the contract is greater than 0 or 0, the contract is not initially unprofitable, but there is a significant chance that it may become unprofitable over its duration, (category c.) above)
- if it is less than 0, the contract is unprofitable (category a.) above)

The Group does not use the profitability category designated by the standard, for which there is no significant chance of becoming oneorus at the time of initial recognition (category b.) above).

In the case of contract groups subject to PAA valuation, it performs the same initial profitability analysis as in the case of GMM, VFA.

The Group applies a uniform treatment regarding the date of the initial recognition. The Group's underwriting procedures ensure that the issue date is the same as the start of the coverage period and that the date of the first payment due from the policyholder does not precede the issue date, except for certain cases.

The Group applies the provisions of the standard for initial recognition in accordance with the relevant principles of IFRS 17, by considering the date of issue as the date used for initial recognition, with the exception of certain group insurances. More specifically, the date of initial recognition according to IFRS 17 is the earlier of the dates of issue without a premium and the date of issue with a premium. In the case of the mentioned group contracts, the date of joining the group for certain products is the initial recognition date, in the case of other products, it is the date when the insured person is included in the data service received from the policyholder for the first time, even if at 0 premium.

The above initial recognition principle is the same for contracts measured with all three valuation models, except that in the case of contract groups valued with PAA for anniversary (and longer duration but also renewable) products, on the anniversary (if the contract is renewed), a new contract is created for IFRS 17. The initial recognition date of the new contract, which also determines the cohort to which it is assigned, is the start date of the renewed contract (the anniversary of the contract).

5.4.1.5 Year to date approach

The Group also prepares interim (condensed) financial statements. For the IFRS 17 calculations it uses the year-to-date approach. This means that when applying the IFRS 17 standard, the Group changes its accounting

estimates in the previous interim financial statements, as if the previous reporting periods did not exist as a separate period. This affects several parts of the IFRS 17 calculations (e.g. determination of the yield curve used for initial recognition, profitability classification, quantification of period variances and estimate change effects).

5.4.1.6 Contract limits (direct and reinsurance)

The valuation of a group of contracts includes all future cash flows within the limits of each contract in the group.

Cash flows are within the limit of the insurance contract if they arise from actual rights and obligations existing in the reporting period in which the entity can require the policyholder to pay premiums or in which the entity has an actual obligation to provide insurance contract services to the policyholder.

Individual life insurance policies consist of a main insurance policy and rider insurance policies. Even though the rider insurances - if sold separately by the Group - could be repriced and canceled annually, the Group does not separate these contracts into their components, because

- the rider insurances in question are typically not sold separately
- if the main insurance is cancelled, the rider insurance is also cancelled, and
- it is not typical for the rider insurances in question to be canceled before the expiry of the main insurances.

Due to the above, the contract limit of the rider insurances is the same as the contract limit established for the main insurance.

In the case of held reinsurance contracts, the Group takes into account contracts not yet recognized from the direct underlying stock of the held reinsurance contract in question, i.e. also the cash flows of these contracts.

The Group assessed its held reinsurance contracts and found that most of the "legal contracts" can be canceled on the calendar anniversary, therefore the limit of these contracts is one year, either in the sense that it provides cover for claims arising in one calendar year (LOD) or in the sense that it provides coverage for risks undertaken in one calendar year (RAD).

For contracts that cannot be canceled at the end of the calendar year, the limits of the contract are the same as those set out in the contract.

5.4.1.7 Cash flows of insurance/reinsurance contracts in general

When valuating a group of insurance contracts, the Group must take into account all future cash flows within the limits of each contract in the group.

The Group distinguishes in accordance with the provisions of IFRS 17:

- cash flows attributable to insurance contracts, and
- cash flows not attributable to insurance contracts.

The projected cash flows are generated by the Group's actuaries at the contract level in the modeling tools and the contract level data is aggregated to the GIC level.

The Group considers the following as insurance acquisition cash flow and costs attributable to insurance contracts:

- direct acquisition costs
- other acquisition costs
- claim settlement costs
- investment and management costs
- administrative and maintenance costs
- other costs charged to the insured/policyholder
- costs related to the provision of services in kind.

The Group considers the following as not attributable to insurance contracts:

- education and training costs
- product development costs that are not directly attributable to the insurance contracts portfolio to which the contract belongs
- costs of individual stock transfer/acquisition projects
- costs incurred in connection with the stock market presence
- other costs related to consultancy services that constitute wasted costs.

The Group immediately recognises these costs as expenses when they incur, outside of IFRS17.

The timing of the projected cash flow:

- insurance premiums and fee-based cash-flow; insurance tax: beginning of the period,
- insurance acquisition cash-flow: beginning of the period,
- costs: end of the period,
- claims and services (investment and insurance component): end of the period.

The Group prepares monthly cash flow estimates.

5.4.1.8 Insurance acquisition cash flows

The Group allocates the insurance acquisition cash flows to the insurance contract groups using a systematic and reasonable method, unless it decides to recognize them as expenses using paragraph 59 (a) of IFRS17

The Group divides acquisition costs into two groups

- direct acquisition costs
- other acquisition costs

Part of the direct acquisition costs and other acquisition costs are available at the contract level. These are directly attributed to the insurance contract group after aggregation from contract level to GIC level.

The acquisition costs available at the company level are separated between the direct GICs created in the current year in proportion to the stock price of the new acquisition.

The Group has reviewed and has currently not identified any products where the insurance acquisition cash flows paid would be associated with a subsequent group of contracts not yet disclosed. Therefore, it does not recognize an insurance acquisition cash flow (hereinafter: IACF) asset according to IFRS 17 28 B. The IACF asset recognition test is reviewed for each new product launched by the Group.

The Group does not classify renewal commissions as insurance acquisition cash-flows, but as administrative and maintenance costs, therefore they are accounted for as insurance technical expenses in the period of occurrence.

5.4.1.9 Management of insurance tax and insurance surtax

Cash flows within the limits of the insurance contract are cash flows directly related to the fulfillment of the contract. This includes transaction-based tax, including insurance tax, which arise directly from existing insurance contracts.

The largest part of the insurance tax affects non-life contracts, the insurance extra profit tax or surtax affects both life and non-life contracts.

The Group does not distinguish between the insurance tax and the extra profit tax in terms of IFRS 17 calculations. Both taxes are considered to be directly related to GICs and are treated in the same way as the insurance premium, as a kind of negative premium and are included in the IFRS 17 calculations as such (e.g. in the case of GMM and VFA valuation models, the related experience variance tamodifies the CSM).

5.4.1.10 Mutualisation (cash-flow transfers between certain contract groups)

Mutualisation is only relevant in the case of the Group, since only the Group has products where mutualisation can be considered and the Group does not use the exemption allowed by the European Union when adopting IFRS 17, according to which - based on the choice of accounting policy - insurance contracts with direct profit sharing which have a cash-flow effect on the cash-flow of other insurance contracts, contracts issued more than one year apart can also be classified in a GIC.

This primarily occurs in the Group's traditional profit-sharing contracts and the reason is that the policyholders' share of the investment returns in these contracts is based on the book returns of investment portfolios ("underlying asset portfolio(s)" or asset management portfolio(s)) in which several GIC-mathematical reserves of the contracts belonging to were invested and the calculation of the policyholders' share of the investment returns is independent of when the initial recognition of the given GIC took place. As a result, the newly created GICs share in the returns of the portfolio(s) of invested assets from which, before the initial recognition of the new GIC, only existing GICs shared. By recognizing the newly created GIC, the share in the return of the underlying asset portfolio(s) is reallocated. If the above reallocation was not taken into account, the CSM or loss component calculated for each GIC would be distorted.

The Group has developed the following systematic allocation method to take mutualisation into account.

In the case of relevant life insurance contracts, the cash flow that is to be allocated from the existing GICs to the newly recognized GICs due to mutualisation is determined for each newly recognized GIC upon its initial recognition. This cash-flow is calculated as the difference in the present value of the various cash-flow runs at the initial recognition of the new GIC.

The cash flow allocated to the newly created GICs is allocated to the previously created GICs (with the opposite sign as the "transferred cash flow" from the previous GICs to the new GIC) based on the average mathematical reserve duration as a driver.

5.4.1.11 Investment component

The investment component represents amounts that the insurer must pay to the policyholder regardless of whether an insured event has occurred.

According to IFRS 17, the (non-separated) investment component cannot be included in the insurance sales revenue under either valuation model. The reason for this is that the standard does not consider these as a consideration for a service, but simply as a paid amount to be returned to the policyholder (similar to a type of deposit). In the GMM and VFA evaluation models, therefore, the amount of the investment component

expected for the period at the beginning of the period is not settled from the LRC against the insurance sales revenue, in contrast to the insurance component of claims (services) and costs. When the investment component occurs, it is transferred from the LRC directly to the LIC and then paid from there. In the PAA evaluation model, the investment component likewise cannot be included in the insurance sales revenue, therefore the investment components are deducted from the total (estimated) consideration to be allocated for the coverage period. Similar to the GMM and VFA valuation models, the investment component is transferred directly from the LRC to the LIC when it occurs and is then paid from there.

The separated investment component is separated from the insurance contracts from the outset, therefore it is already not included in the IFRS 17 calculations.

When determining the investment component, the Group proceeds as follows:

In the case of the projected LRC cash flows, at the beginning of the period, the investment component is the sum of the redemption value and maturity payments expected for the period, as well as the portion of the death payments equal to the redemption or maturity amount, since this is the amount that must be repaid to the policyholder

In the case of current cash flows, the value of the investment component is determined when the claim occurs. This makes it possible for only the insurance component to be included in the income statement, but regardless of this, both components (not separated from each other) are included in the liabilities for the incurred claims. Separation is no longer necessary when the insurance service is provided. In the case of non-life insurance contracts, the EMABIT investment component is currently not identified.

5.4.1.12 Application of yield curves during IFRS 17 calculations

The Group uses a discount rate for many IFRS 17 calculations (various present value determinations, interest calculations) in accordance with the guidance described in point 17.B72 of IFRS

The types of yield curves used are:

- current yield curve (for determining the closing LRC, ARC in the GMM model, for determining the closing LIC, AIC in all valuation models, and for the interest payments of LIC, AIC in the following period)
- yield curve used for initial recognition (in GMM and VFA models for initial recognition, in GMM model for CSM interest payments, in GMM model for measuring CSM adjustment due to changes in the estimate of non-financial conditions, to determine the part of insurance

financial income/expenses to be recognized in the result if the OCI option is chosen)

- yield curve observed at the time of when the claims incur (in the PAA model, to determine the part of insurance financial income/expenses to be recognized in the result if the OCI option is chosen)

In all cases, the applied discount rates are derived from yield curves that contain forward yields for monthly periods. The application of individual points of the yield curve for discounting takes into account the timing of the cash flows to be discounted (beginning of period or end of period cash flows).

In all cases, the applied yield curves are the risk-free yield curves modified with the appropriate illiquidity premium. The illiquidity premiums are determined by the Group at the portfolio level. The current risk-free yield curves modified with the illiquidity premium are therefore determined at the portfolio level, while the yield curves used for the initial recognition (see table below) are at the contract group level due to the linkage of the weighting to the contract group.

The Group uses weighted average discount rates (yield curves) for the initial recognition of *direct* contract groups. The weighting is done for the period of issue of the contracts belonging to the group, i.e. the Group weights yield curves observed at given times during this period The weighting is applied to the period of issue of the contracts in the group, i.e. the Group weights the yield curves observed at specific times during this period. The weights represent the actual stock premiums of contracts issued during the given period.

The Group also uses a weighted average yield curve for the initial recognition of *reinsurance* contract groups. It derives this from the weighted average yield curves used for initial recognition, but not modified by the illiquidity premium, produced for the direct GICs covered by the given reinsurance GIC. The weights are the claim recoveries for the given direct GIC covered by the reinsurance GIC. An illiquidity premium determined separately for the reinsurance GIC is added to the weighted yield curves produced in this way.

The *yield curve observed at the time of claim incurrance* for a given claim year is determined by weighting the yield curves observed in that year. The yield curves to be weighted are the yield curves observed on the first day of the claim year (last day of the previous year) and on the last days of the previous quarters of the claim year. The weights are RBNS reserves for claims that incurred in the given year.

The yield curve used for the initial recognition changes during the year of the GIC's build-up and is then locked in ("locked-in yield curve"). Likewise, if the yield curve observed *at the time of claim incurrance* changes in the

claim year to which it belongs, it will get locked in at the end of the claim year ("locked-in yield curve").

5.4.1.13 Management of foreign exchange insurances

The Group does not separate the currency derivatives embedded in its insurance contracts if they do not contain a leverage and an optional feature, and one of the following is met:

The cash flows of the derivative are denominated in that currency,

a) which is the functional currency of one of the contracting parties; or
b) in which the price of the relevant product or service obtained or delivered is usually determined in international trade, or
c) which is a currency that is generally used in contracts for the sale of non-financial items in the economic environment where the transaction takes place.

When creating contract portfolios, the Group takes the currency into account and groups insurance contracts exposed to different currencies into separate portfolios. Thus, for example, insurance contracts belonging to the same product group but exposed to different currencies are classified in separate portfolios. When classifying portfolios according to currency, the Group classifies those insurance contracts in a single portfolio, in which the premium and/or claim is denominated in the same currency.

The Group considers all contract groups in a given currency portfolio and the entirety of these contract groups (i.e. all future cash flows and risk adjustments) to be denominated in the currency of the portfolio.

In cases where the various cash flows within a given contract group are in reality denominated in different currencies (e.g. in addition to HUF premiums, claims and commissions, there are also costs in EUR), for the purposes of IFRS 17 calculations, the Group expresses these cash flows denominated in different currencies - both planned and actual data - in the currency of the contract group, which is the same as the currency of the portfolio to which the given contract group belongs

In order to convert the projected values of future cash flows into the currency of the portfolio, the Group uses the monthly forward exchange rates calculated between the relevant future cash flow and the currency of the portfolio as at the reference date of the projection, i.e. 1 January of the year in the case of an early projection or the last day of the period in the case of a late (end-of-period) projection.

To convert the actual values of the cash flows into the currency of the portfolio, the Group uses the arithmetic average of the daily MNB exchange rates of the relevant period.

Liability arising from insurance contracts, including CSM, is a monetary item. As a result, they must be revalued on the repotring date if they are denominated in a currency other than HUF. The Group converts the insurance liability denominated in the currency of the given contract group, as well as the transactions of the current period affecting them, into HUF by applying IAS 21

5.4.2 Insurance contracts - liability for remaining coverage (LRC)

5.4.2.1 General measurement model (GMM)

The Group valuates all insurance contract groups within the scope of the IFRS 17 standard using the general measurement method, except for those for which it applies the PAA valuation method or the VFA valuation method.

The Group does not have any contract group to which it would apply the modified GMM measurement model.

Initial recognition

The Group recognizes (prepaid) premiums received before the initial diplay of insurance contract groups as a liability and as part of the liability for remaining coverage (LRC).

When the insurance contract group is initially recognized, these liabilities are derecognized by the Group:

a) if the contract group is profitable at its initial recognition and there is a contractual service margin (hereinafter: CSM) at the time of its initial recognition, the value of the CSM at the time of initial recognition is modified;
b) if the contract group is unprofitable at its initial recognition, it is accounted for in the result (as insurance service expenses)

For all GICs valued according to the GMM and VFA valuation models, the initial recognition requires the calculation of the risk adjustment (hereinafter: RA) for non-financial risks at the time of the initial recognition.

Follow-up valuation

Movements of the LRC

Among the movements of the LRC following are accounted for in the insurance revenue: the cancellation of the RA based on the expectations at the beginning of the period, the release of the CSM, the release of the claims and costs expected for the period at its beginning, excluding amounts allocated to the loss component, the experience variance associated with the premium, if it is not related to future services, as well as the part of premiums related to the return on insurance acquisition cash-flows

allocated to the period. The insurance revenue cannot include any amount related to an investment component.

The Group accounts for the effect of interest settlement and changes in exchange differences under insurance financial income and expenses (except in the case of the OCI option, because then for their accounting the former movements are split between the result and the OCI).

The contractual service margin is modified by the change in the estimate and (related to premium or insurance acquisition cash flow) the experience variance related to the future service, and the experience variance of the investment component.

The release of the loss component is profit-neutral (it appears both as a deduction from the insurance revenue and as a deduction from the expense of insurance services), since the loss component is immediately recognized in profit or loss at the moment the contract becomes unprofitable. The subsequent profit-neutral release is necessary so that, during the coverage period, overall insurance revenue consistent with the premiums received and insurance service expenditure related to the claims and costs paid are included in the profit or loss.

The investment component refers to the amounts that the insurance contract requires the Group to repay to the policyholder in any event, regardless of whether an insured event occurs. The movement of the fact investment component is the movement/transfer from the LRC stage to the LIC stage.

At the beginning of the period, the difference between the cash-flows expected for the period and those related to the actual premium (premiums, insurance tax) and insurance acquisition, the experience variancemay apply to past, current or future insurance services as well. If it relates to past or current services, the experience variance must be accounted for in insurance revenue, if related to premiums; and in insurance service expenses, if related to insurance acquisition cash-flows. If this experience variance is related to future services, then its changes will modify the CSM. The Group currently has not identified any experience variance related to premiums and insurance acquisition cash-flows that is not related to a future service, therefore it currently treats all as related to future service.

CSM/LC transfer of insurance contracts during the follow-up valuation

During the follow-up valuation, the CSM of a given GIC can be reversed into a loss component by the movements that modify it, or vice versa, the loss component for a given GIC can be reversed into the CSM by the said movements.

The mentioned reversals can be in the following directions:

If the existing CSM - i.e. the CSM of the new policies from the opening CSM and the CSM resulting from the settlement of interest on the CSM - decreases to zero and there is a residual portion from movements (estimate changes, experience variance related to future services), this portion is immediately accounted for in the insurance service cost in the given period and the Group follows the accounting for the loss component in the further valuation of the relevant GIC until the loss component reverses back to CSM. The movement that reduces the CSM to 0 is accounted for by the Group as a decrease in the CSM in the period in which it occurs.

If the existing loss component - i.e. the loss component of the new policies from the opening loss component and the part of the interest settlement allocated to the loss component - decreases to zero and there is a residual portion from movements (estimate changes, experience variance related to future services), this portion is accounted for as an increase in CSM in the given period, and the Group follows the accounting for the CSM in the further valuation of that GIC until the CSM reverses back to a loss component. The movement that reduces the loss component to 0 is immediately accounted for by the Group as a decrease in insurance service cost in the period in which it occurs.

CSM release and coverage units

The CSM value on the reporting date must be divided into two parts, the amount affecting the current period is accounted for in profit or loss (insurance revenue) (CSM release), while the remaining part (modified according to estimation changes and experience variances, updated to the last day of the reporting period) is for the period until the end of risk bearing and must be recognized as a liability.

The division is determined based on the coverage units. The coverage unit shows the extent of the contractual insurance service taking into account the duration of this service. From the total CSM, the rate recognized in the current year is the rate at which the coverage units are prorated between the current period and the current period plus all future periods.

CSM release is done as follows

*CSM release = CSM to be released * [Factual coverage units in the current period / (Factual coverage units in the current period + Factual coverage units expected after the current period)]*

The CSM to be released is the CSM updated to the last day of the relevant period, i.e. the new policies, the (relevant) experience variances of the current period, the non-financial estimate changes - including the changes in the risk adjustment estimate for non-financial risks – and, in the case of VFA valuation models, CSM adjusted for the effect of the change in the fair value of the underlying items attributable to the Group

The Group determines the release of its foreign currency GIC CSM in foreign currency, converting the amount of the release into HUF at the average exchange rate for the period. Then, the closing CSM converted to forints at the closing exchange rate is determined, and the exchange rate difference is calculated and accounted for in the profit or loss.

The coverage units are determined by the Group in the value of the maximum insurance amount for all insurances (the higher of the (maximum) insurance service amount and the repurchase service amount).

The Group produces the estimated (planned) values of the cover units every month as part of the cash-flow runs of the plan, estimating the maximum insurance service amount at the end of each month. The Group discounts the planned coverage units. The Group does not discount the factual coverage units in the current period. The Group determines the amount of factual coverage units for the relevant period by multiplying the (factual) maximum insurance service amount determined for the last day of the current period by the number of months of the current period. The reason for the determination in this way is to ensure that the factual coverage units of the current period can be compared with the planned coverage units.

Loss component release

In the GMM and VFA valuation models, at the time of initial recognition, if the performance cash flows embody a net cash outflow, the Group expects a total loss for the given contract, then the amount of the loss - the amount of the performance cash flows at the time of initial recognition - is immediately recognized in profit or loss. A loss component equal to this amount must be formed. The loss component is accounted for separately as part of the liability for remaining coverage (the LRC) and its movements are tracked in accordance with IFRS 17. The loss component shows the amount that is included in the result as reversals of losses on adverse contracts, and therefore cannot be taken into account when determining the insurance revenue.

During subsequent valuation, the loss component's release is profit-neutral (it appears also as reducing insurance revenue, and as reducing insurance services cost). The subsequent profit-neutral release is necessary so that, during the coverage period, overall insurance revenue consistent with the premiums received and insurance service cost consistent with the claims paid and costs incurred are recognized in the profit or loss.

The Group systematically divides the following changes in performance cash flows between the loss component and the liability for the remaining coverage taken without the loss component:

a) estimates of the present value of future cash flows related to claims and expenses that are released from the liabilities of the remaining coverage due to incurred insurance service costs;

b) the changes of the risk adjustment for non-financial risk recognized in profit or loss due to exemption from the risk (RA release)

c) financial income or expenditure on insurance.

The systematic division is achieved by the Group by multiplying the above performance cash flow changes by a so-called loss component release ratio.

Determination of end-of-period risk adjustment

For all GICs valued according to the GMM and VFA valuation models, it is necessary to calculate the risk adjustment (RA) due to non-financial risks at the end of the period, which the Group establishes using the "provision for adverse deviation" method, as the difference in the present value of cash-flow runs.

In the event that a GIC valued in the PAA model is unprofitable or becomes unprofitable in a given period, it becomes necessary to calculate the performance cash-flows for the last day of the period, which also includes the calculation of the end-of-period (closing) RA, which in these cases is done in the same way, like the RA calculation mentioned above.

Release of risk adjustment in the period

During the valuation following the LRC, it must be determined how much of the risk adjustments will be released in the given period. The release is done in proportion to the coverage units. The value to be released is determined according to assumptions made at the beginning of the period. The release of the risk adjustment for the current period is equal to the opening risk adjustment multiplied by the quotient of the sum of the discounted coverage units projected for the period and the sum of the discounted coverage units projected for the entire remaining period (including the current period). The coverage units are discounted using the yield curve valid at the beginning of the period.

The release of the risk adjustment is only relevant for contract groups valued with GMM and VFA, because in the case of the PAA valuation model, risk adjustment is only included in the IFRS17 calculations in the case of unprofitable contracts, even there only as a final risk adjustment (therefore, the release is not relevant).

5.4.2.2 Variable fee approach (VFA)

In the case of the VFA measurement method, application is mandatory if the VFA criteria are met for a contract.

The VFA valuation model must be applied in the case of insurance contracts containing so-called direct profit-sharing, which IFRS 17 essentially considers as investment-related service contracts, in the framework of which the entity promises an investment return based on underlying items.

According to the standard, the VFA valuation model is not applicable to reinsurances.

Initial recognition

The initial recognition of insurance contracts valued in the VFA valuation model does not differ from the initial recognition of contracts valued in the GMM valuation model.

Subsequent valuation

Insurance contracts valued in the VFA valuation model are considered by IFRS 17 primarily as contracts providing investment-related services. This is the main difference between the VFA model and the GMM. Deviations from the GMM model affect the LRC and related settlements, while the LIC is determined and settled according to the same principles as for the GMM and PAA models.

All contracts that meet the criteria defined in IFRS 17 must be valued in the VFA model.

The following are the Group's deviations from GMM affecting LRC:

a) There is no separate interest settlement on the CSM, as the model practically re-evaluates the CSM for the effects of changes in financial risks. In the GMM, there is a separate interest settlement on the CSM and it is recognized among insurance financial expenses (divided between profit or loss and other comprehensive income if the OCI option is applied).

b) Changes in performance cash flows resulting from the time value of money and financial risks, affecting the variable premium, are accounted for in the CSM (thereby allocated to profit or loss on a time-apportioned basis through the release of the CSM as part of the insurance revenue). In the GMM model, all changes resulting from the time value of money and financial risks are shown among the insurance financial expenses (divided between profit or loss and other comprehensive income if the OCI option is applied).
c) When releasing CSM, the coverage units are discounted using the current discount rate (in the case of GMM, with the yield curve used for the initial recognition).
d) For VFA calculations, the Group uses the value of the underlying asset returns allocated to GICs, while this is not necessary for GMM.
e) In the VFA model, the application of the yield curve used for the initial recognition as a locked-in yield curve is not interpreted, while it is interpreted in the GMM. At the same time, for the initial recognition of GICs managed in the VFA model, the Group uses a weighted average yield curve produced in the same way as in the case of GICs managed in the GMM model.
f) In the case of the VFA, the calculation to be followed in the case of the OCI option starts from the underlying assets, in contrast to the calculation followed in the case of the GMM model, which is based on the difference between the values discounted with the locked-in yield curve and the current yield curve.
g) The Group, unlike the GMM valuation model, can choose whether to apply the risk mitigation approach according to paragraph 17.B115 of IFRS. The Group does not use the mentioned approach and the accompanying special accounting - i.e. the recognition of certain effects attributable to changes in the time value of money and changes in financial assumptions not in the CSM, not in the insurance finance income and expenses, as a departure from the main rule of the VFA.

5.4.2.3 Premium allocation approach (PAA)

The premium allocation approachis a simplified method, its use is optional. That is, even if the conditions of applicability are met, it is not compulsory to apply this method. The premium allocation approach is a simplified method compared to the GMM measurement model with the following simplifications:

- no CSM and related accounting
- no risk adjustment for non-financial risks, except when the contract group is unprofitable or becomes unprofitable

- the determination of the remaining coverage liability is simplified;
- the time value of money should only be taken into account if the contract group contains a material financing component or the contract group is unprofitable or becomes unprofitable

Initial recognition

The Group recognizes (prepaid) premiums, received before the recognition of insurance contract groups, as a liability and presents them as part of the liability for remaining coverage (LRC). When the insurance contract group is initially recognized, these liabilities are derecognized by the Group. In the case of the PAA valuation model, if the contract group is not unprofitable at the time of initial recognition, there is no separate accounting step required for the premium liability entered in the books before the initial recognition, as it was already part of the LRC and in the PAA model it remains a part of the LRC. The change with the initial recognition is that the accounting (release) of the LRC as income during the coverage period is interpreted starting from the initial recognition, i.e. the accounting of the liability due to the premiums received before the initial recognition as income is not possible before the initial recognition.

In the case of the PAA valuation model, if the contract group is unprofitable at the time of initial recognition, the Group accounts for the liability due to premiums received before the initial recognition in the profit or loss (among insurance service costs).

Investment component

There is currently no investment component for non-life products.

Financing component

Based on the characteristics of the Group's non-life insurance products, currently no adjustment with a financing component is necessary.

Insurance acquisition costs

After the allocation of the insurance acquisition costs to the contract group, the acquisition costs are activated and then released. The release logic is the same as the logic and schedule of the settlement of the liability through insurance revenue.

Determination of insurance revenue and the logic of acquisition cost release

The Group also releases its insurance acquisition costs allocated to the insurance contract group according to the same pattern as the sales revenue pattern

Unprofitable contracts

The loss component according to the GMM model is not interpreted.

If, at any time during the coverage period, facts and circumstances indicate that the GIC is loss-making (adverse), the value of the LRC under the PAA and the present value of the settlement cash flows at the end of the period according to the GMM model shall be calculated.

If the latter is a larger liability, the difference must be accounted for in the profit or loss, as an insurance service cost.

5.4.3 Insurance contracts – liabilities for incurred claims (LIC)

5.4.3.1 Claim reserves and claim payment obligations

The LIC of the Group at the reporting date consists of the following:

i. the value of future cash flows derived from claims reserves (RBNS and IBNR) and claim cost reserves discounted with the current yield curve on the reporting date and from the related risk adjustment for non-financial risks and
ii. liabilities related to claims and claim costs that have already been approved for payment, but the financial settlement has not yet taken place by the reporting date.

LIC is determined in the same way for PAA, GMM and VFA valuation models.

5.4.3.2 Initial recognition

Liability for incurred claims related to the group of insurance contracts is valued at the value of the future cash-flows related to the incurred claims, adjusted by the time value of money of the future cash-flow and the effect of financial risk. The LIC recognized in relation to the incurred claims also includes the risk adjustment for non-financial risks related to these claims.

When applying the premium allocation approach, if the cash flows are expected to be settled within one year or less from the date of the claim,

discounting of the cash flows is not required, but the Group does not take advantage of this relief and discounts these cash flows within one year.

For contract groups using the premium allocation approach, the Group uses the yield curve observed at the time of claim incurrance to discount the LIC cash flows.

5.4.3.3 Interest

The interest settlement for the current period is based on the yield curve observed for the opening value of the LIC at the beginning of the period (on the last day of the previous period).

For contract groups using the premium allocation approach, the Group uses the yield curve observed at the time of the claim incurrance to determine insurance financial income or expenses (including interest settlement).

5.4.3.4 Experience variances and risk adjustment change management

Experience variances affecting LIC can be grouped as follows:

- for the period in subject, there is a difference between the cash flow expected at the beginning of the period and the cash flow actually paid.
- the cash-flow estimate at the beginning of the period changes by the end of the period.

Experience variances are recognized by the Group among insurance service costs, separately from the change in the discount rate and from the LIC change due to possible financial risks, which is recognized as part of insurance financial income and expenses.

The change in the risk adjustment for non-financial risk is recognized by the Group as part of the insurance services cost (as a reducing item of the risk adjustment in the event of a decrease in the risk adjustment).

Risk adjustment for non-financial risks on LIC

General

In the case of LIC, it is necessary to calculate the risk adjustment for non-financial risks (hereafter LIC RA) for newly incurred claims, i.e. incurred in the given reporting period, as well as for the last day of the reporting period. For LIC RA, unlike the RA to be calculated in case of LRC section, RA release is not interpreted. The reason for this is that all changes in the LIC RA are accounted for by the Group under insurance service costs (financial results are not accounted for either, as changes in RA are not divided between insurance service results and insurance financial income or expenses), therefore the separate calculation of the RA release is not relevant.

The Group quantifies the LIC RA for claims incurred in a given reporting period by separating the LIC RAs calculated for the last day of the reporting period, generated at a higher (company or SII LoB) level, into GICs and, within these, into claim years. The LIC RA for the given reporting period as a claim year will therefore be the LIC RA for the claims incurred in the given reporting period.

The LIC RA is calculated based on a different methodology for life insurance and non-life insurance, however, within life insurance uniformly for GICs valued according to the GMM, VFA and PAA models, and within non-life insurance also uniformly for GICs assessed according to the PAA and GMM models, except that the Group uses a different calculation methodology for annuity and non-annuity claims LICs.

The Group's LIC for annuity claims is also relevant in the case of life insurance, however, at present, claims are only paid in the form of bank annuities, for which essentially no non-financial risks occur, and the Group considers the risk of changes in costs to be negligible. For this reason, in the case of life insurance policies, it currently does not count with LIC RA for annuity LIC. The Group will review this conclusion in the event of new-type claims to be paid in the form of an annuity.

Calculation of LIC RA for life insurance

In the case of life insurance, the LIC RA is determined by the Group using a quantile approach. It assumes a (normal) distribution for the changes in LIC relative to the present value of LIC cash flow calculated for the last day of the reporting period and considers the difference between 80% and 50% of the quantiles of this distribution as the LIC RA calculated for the end of the reporting period. The Group identifies the changes in LIC with the 1-year transaction results for the past years.

Calculation of LIC RA for non-life insurance

The RA of the non-life insurance LIC is determined by EMABIT using the quantile approach, applying at many points the logic of the S2 Regulation (2015/35 EU Commission Regulation) and the parameters defined there. Basically, EMABIT assumes that the claim reserve follows a lognormal distribution for non-life insurance contract groups on a given reporting date, with its expected value being approx. the value calculated for the reporting date. The lognormal distribution is determined according to this assumption and the values adjusted to the EMABIT confidence level from the relative standard deviation given in Annex 2 of the S2 Regulation (for the given S2 LoB).

The LIC RA calculated by GIC and claim year breakdown is determined through several steps.

1. step: Generating the S2 LOB level 1-year LIC RA

2. step: Generating the company-level ("diversified") 1-year LIC RA (taking into account correlations between different S2 LoBs)
3. step: Extension of company-level 1-year LIC RA to the estimated contract lifetime
4. step: Separation of company-level LIC RA into S2 LoBs
5. step: Separation of S2 LoB-level LIC RA into GICs and claim years

5.4.4 Reinsurance contracts held - asset for remaining coverage (ARC) of reinsurance

The recognition of the held reinsurance contracts is similar to that of direct insurances, therefore only the differences to the Group's current direct insurances are presented here.

The Group does not enter into reinsurance contracts that refer to events that have already occurred, the financial impact of which is still uncertain.

Classification into contract groups

Compared to direct insurance, one of the most important differences is that the Group classifies all held reinsurance contracts according to the definition under IFRS17 into separately held reinsurance contract groups, with the restriction that it classifies contracts resulting from the separation of the same "legal contract" and which can be detected in one year into a single held reinsurance contract group

Absence of oneorus contract groups

Another important difference – which follows from the standard itself – is that the held reinsurance contracts cannot be oneorus.

That is, no Loss component is determined. Which also means that the Contractual Service Margin, which is normally an asset, may even be a liability.

The risk adjustment - in contrast to direct contracts - is an asset and does not express what kind of compensation the Group expects due to uncertain future cash flows, but how much risk it transferred to the reinsurer through the given contract.

Recognition of amounts received from and paid to the reinsurer

The Group recognizes the amounts received from the reinsurer and the allocation of premiums paid to the reinsurer between periods in the income statement separately.

Acquisition costs

For held reinsurance, the Group has no insurance acquisition costs.

Allocated costs

For held reinsurance, the Group has no allocated costs.

Investment component

Unlike direct insurances, held reinsurance contracts have an Investment component. When determining the cash flows, the Group acts on the basis of the following:

Since it presents the amounts received from reinsurance and the allocation of premiums paid separately,

a) it treats reinsurance cash flows depending on the claims of the underlying contracts as part of the claims expected to be recovered based on the held reinsurance contract;
b) it treats the amounts expected from the reinsurer, that do not depend on the claims of the underlying contracts (such as certain types of reinsurance commissions) as a reduction of the fee payable to the reinsurer.

On the other hand, after the allocation of the individual commission items (especially, but not exclusively, the sliding scale, the profit commission), a part of the fee-reducing items is considered an investment component. Both decisions "remove" the item from both the revenue and the expenditure.

In the first step, the Group divides the amounts expected from the reinsurance company into two and then classifies them into the categories of premium reduction or investment component based on whether the given commission item was "only withheld" from the premium or was remitted by the reinsurance company.

The above also means that the amounts actually paid/accounted for as claim recoveries may have to be accounted for as an investment component under IFRS17.

Partner risk

Estimates of the present value of the future cash flows of the reinsurance contract groups held shall take into account the effect of any risk of default by the issuer of the reinsurance contract, including the effects of collateral and litigation losses.

Loss recovery component

If the underlying direct contract groups are oneorus or become oneorus and the reinsurance contract was not concluded for the oneorus contract groups, the Group will create a Loss Recovery component as follows, determining the proportion in which each held reinsurance. Using this loss recovery ratio(s), the Group forms the Loss Recovery component by prorating the loss component/loss components of the oneorus underlying direct contract group(s), when the underlying direct contract group becomes initially oneorus.

In the case of reinsurance GICs valued in the GMM valuation model, the opening value of the Loss Recovery component (which can be 0) is modified during the given period by the following:

- addition to the Loss recovery component due to the inclusion of the underlying direct GICs as new business (calculated as described in the previous paragraph)
- the effect of changes in the cash-flow estimate affecting the underlying adverse direct GICs, modifying their loss component

The Loss Recovery component formed after the above modifications is then released in proportion to the coverage units characteristic of the given reinsurance GIC (with a similar logic to the CSM release in the case of direct GMM GICs).

In the case of reinsurance GICs valued in the PAA valuation model, the Loss Recovery component is modified similarly to the GMM, and the release is made by multiplying the Loss Recovery component formed after the modifications by the release (allocation) ratio of the PAA model income calculated for the relevant period.

In the case of reinsurance GICs valued in the GMM model, the release of the Loss Recovery component has basically the same purpose as the release of the loss component in the case of direct GICs. The release takes place on a profit-neutral basis, reducing both the reinsurance expense allocated to the period in question and the income for the period resulting from reinsurance claim recoveries.

For reinsurance GICs valued in the PAA model, the release of the Loss recovery component modifies the ARC (as does the formation of the loss component for underlying adverse direct GICs).

For reinsurance GICs valued in the GMM model, it is calculated with the weighting of the yield curve used for initial recognition with reference to the direct GICs covered by the given reinsurance GIC.

5.4.5 Reinsurance contracts held – assets for incurred claims (AIC)

In the case of held reinsurance contracts, not the liability for claims incurred, but the assets for claims incurred is reported in the Group's balance sheet. The claim itself is not quantified on the basis of the "legal contract", since

— its accounting may differ from the standard, for example because it only applies to reported claims;

— it does not include the risk adjustment for non-financial risks.

The Group derives the cash flows of the reinsurance contracts held from that of the underlying direct insurances.

In the case of reinsurance GICs for which the Group applies the OCI option, the calculation of the yield curve observed at the time of the claim incurrence becomes relevant (see the chapter discussing yield curves).

5.4.6 Contract amendments, derecognition of contracts

The Group may derecognise an insurance contract under IFRS 17 only if, and only if

a) it ceases, i.e. when the obligation defined in the insurance contract expires, is fulfilled or canceled; or

b) the contract is amended in such a way that it results in derecognition based on IFRS 17 (see below)

If an insurance contract is amended, it must be decided whether it should be derecognized from the books or whether the amendment should be accounted for as a change in the cash-flow estimate (see point b) above)

An amendment to a contract can be any change in the contractual condition (e.g. modification of duration, optionality in the contract) or a change required by the regulator (e.g. MNB or legislator).

It is not to be treated as a contract amendment if the contracting party exercises an option already existing in the original conditions.

Derecognition of the contract and recognition of a new contract into the books is necessary in the following cases:

if the modified contract conditions were agreed upon when the contract was concluded,

- then the contract would not have been within the scope of IFRS 17; or
- then other components would have been separated from the contract, and the remaining insurance contract subject to IFRS 17 would therefore have been different
- the contract limit of the amended contract would have been essentially different from the contract limit of the contract before the amendment
- the amended contract should have been classified in a different GIC than the one before the amendment

In all other cases, the contract amendment does not result in derecognition, and it must be accounted for as a cash-flow estimate

5.4.7 Insurance contracts acquired in a business combination or portfolio transfer

Insurance contracts acquired in a business combination under IFRS 3 or portfolio transfer that does not qualify as a business combination are recognised on the acquisition date.

Insurance contracts acquired in the above ways are classified and valued on the basis of the terms, conditions and information of the contracts existing at the time of acquisition, not on the basis of the conditions, conditions and information existing at the time of the original inception of the contracts.

For the exception rules applicable/to be applied to the portfolio acquisition in the context of the transition, see the chapter discussing the transition to IFRS 17.

For insurance contracts acquired in a business combination under IFRS 3or portfolio transfer that does not qualify as a business combination, the CSM to be recognised on the recognition of the contracts is calculated - for contracts valued in the GMM and VFA models - in accordance with the general rules (IFRS 17.38 for direct insurance contracts and IFRS 17.65 for reinsurance contracts held), with the consideration received or paid for the contracts to be considered as the premium received or paid on initial recognition.

The consideration received or paid for contracts must not include consideration paid by the Group in the same transaction but for other assets (e.g. related investments) or liabilities.

If the contracts were acquired in a business combination according to IFRS 3, the above-mentioned consideration received or paid for the contracts must be considered equal to the fair value of the contracts (according to IFRS 13) at the time of acquisition.

If in the transaction the consideration received for the direct insurance contracts and the performance cash flows together show a net cash outflow, the contract group acquired is unprofitable.

With the amount of this loss (net cash outflow), the Group at the time of the acquisition

- in the case of a contract group acquired in a business combination according to IFRS 3 increases the goodwill or reduces the profit achieved on a beneficial purchase (no loss may arise on the business combination);
- in the case of direct insurance contracts acquired during a portfolio transfer that does not qualify as a business combination, it reduces the result.

In the aforementioned case of loss, the Group identifies a loss component, regardless of whether the direct insurance contracts were acquired in a business combination or a portfolio transfer that does not qualify as such, and later releases it according to the general rules.

If in the transaction the Group acquires held reinsurance GICs that also cover adverse direct GICs, the reinsurance CSM established as above must be adjusted with the loss recovery component, which is determined as follows:

- the loss component of the underlying adverse direct GICs at the time of acquisition, multiplied by
- the percentage of losses of the underlying adverse direct GICs, which the Group is expected to receive as a return from the acquired reinsurance contracts

The Loss recovery component

- is recognized in the result in the case of reinsurance GIC acquired in a portfolio transfer that is not considered a business combination (as income), or
- is recognized as an item that reduces goodwill or increases the profit due to a beneficial purchase in the case of a reinsurance GIC acquired in a business combination.

The Group identifies, records and later accounts for the Loss recovery component on the day of acquisition in the same way as it does in the case of its concluded held reinsurance contracts.

5.4.8 Presentation

The Group presents the following book values separately for the financial position:

— the portfolios of issued insurance contracts that are assets,

— the portfolios of issued insurance contracts that are liabilities,

— the portfolios of held reinsurance contracts that are assets,

— the portfolios of held reinsurance contracts that are liabilities.

Individual components of liabilities and assets arising from insurance contracts (e.g. CSM, loss component, RA) are not included in the balance sheet, they are presented as part of the reconciliation tables required by IFRS 17. In the case of a loss component, the amount of the LRC without

the loss component and the amount of the loss component are published separately in the reconciliation tables.

5.4.8.1 Presentation in the statement of comprehensive income

When choosing the OCI option, the Group presents the part of the insurance financial result accounted for in OCI under the following:

- for insurance contracts under "Financial result from insurance transactions"
- for reinsurance contracts under "Financial result from reinsurance".

5.4.8.2 Insurance revenue

Under insurance revenue the Group recognizes following:

- the release of Risk Adjustment based on the expectations at the beginning of the relevant period,
- the release of CSM,
- the release of claims and costs expected for the period at the beginning of the period (except for their amounts allocated to the loss component),
- experience variance related to the premium (if related to non-future services),
- the part of the premiums related to the reimbursement of insurance acquisition cash-flows, allocated to the relevant period.

The insurance revenue cannot include amounts related to an investment component.

5.4.8.3 Insurance service result (income and expense)

In the case of the GMM and VFA valuation models, if the contract group is unprofitable when it is initially recognized, the Group immediately recognizes the loss in the result under "Insurance services expenses".

The Group accounts for the change in Risk Adjustment in the insurance service result under "Expenses for insurance services" because, in accordance with point 17.81 of IFRS, it does not separate the change in Risk Adjustment between insurance financial income and expense and insurance services result.

This is also where the Group accounts for experience variances (separated from changes in the discount rate and changes due to possible financial risks).

5.4.8.4 Insurance financial result

Under insurance financial income and expense, the Group accounts for the effect of interest settlement and changes in exchange rate differences (except in the case of the OCI option), changes in the discount rate and changes due to possible financial risks.

In all cases, the Group accounts for the exchange rate difference in the income statement in accordance with the IAS 21 standard. In the case of insurance contracts under "Financial result from insurance transactions", in the case of reinsurance contracts under "Financial result from reinsurance", except for the cases when the given group of contracts is valued in the GMM valuation model and the OCI option is applied.

Based on the requirements of the standard, the Group decides for each insurance contract portfolio whether to account for the periodic insurance financial income/expenditure in the result or divided between the result and other comprehensive income (hereafter: OCI option).

In the case of unit-linked contract groups valued in the VFA model, the underlying assets behind the LRC are valued at FVTPL by the Group. In the case of UL contract portfolios, the Group does not apply the OCI option.

In the case of choosing the OCI option for insurance contract groups valued with the GMM valuation model, the Group valuates the effect of the time value of money and its changes, as well as the effect of financial risk and its changes, with the discount rate at the time of initial recognition (at locked in rate) for both LRC and LIC. and also discounts it with the current discount rate.

The value discounted at the locked in rate is accounted for in the result as follows:

- for insurance contracts under "Financial result from insurance transactions"
- for reinsurance contracts under "Financial result from reinsurance"

The difference between the value discounted at the current rate and the value discounted at the locked in rate is accounted for in the other comprehensive income as follows:

- for insurance contracts under "Financial result from insurance transactions"
- for reinsurance contracts under "Financial result from reinsurance"

For portfolios of contracts valued in the VFA model to which the Group applies the OCI option, because the Group holds the underlying items in each case, it must recognize in profit or loss an amount by allocating the periodic insurance finance income or expense that eliminates the accounting

mismatch related to the income or expense recognized in profit or loss for the underlying items held.

If the return allocated to the given GIC affected by the OCI option on the underlying items and accounted for in other comprehensive income is a profit (loss), the Group accounts for the same amount of insurance financial expenditure (income) in other comprehensive income.

For contract groups valued in the PAA model, the Group uses for OCI calculations the discount rates applied at the time of the incurrence of the incurred claim (LIC). The logic of the PAA LIC OCI calculation is otherwise identical to the logic used for the GMM LIC OCI.

When applying the OCI option, the Group divides the exchange rate difference into parts to be recognized in profit or loss and in other comprehensive income. The division is made by the Group calculating the following value:

a) period closing balance converted from the currency of the contract group into forints at the period closing exchange rate, where for the calculation of the closing balance, discounting is performed using the discount rates determined at the time of the initial recognition of the contract group (locked-in discount rates); less
b) the closing balance of the period in forints, calculated from the currency of the contract group converted into forints at the previous period's closing exchange rate, and from the movements of the contract group's currency converted into forints using the exchange rates in the accounting policy. For the calculation of the period opening balance and for the calculation of all period movements, where discounting can be interpreted, the Company uses locked-in discount rates.

The value calculated in the above manner is recognized by the Group in the income statement under Financial result from insurance transactions in the case of insurance contracts and under Financial result from reinsurance in the case of reinsurance contracts.

The difference between the total foreign exchange rate difference and the foreign exchange rate difference accounted for in the result is accounted for by the Group in other comprehensive income, in the case of insurances under Financial result from insurance transactions, in the case of reinsurance under Financial result from reinsurance.

5.4.8.5 Presentation of reinsurance contracts

The Group presents income or expenses from held reinsurance contracts separated from expenses or income from issued insurance contracts. The Group has no active reinsurance.

In the case of reinsurance, the release of the risk adjustment is not an income, but an expense.

Expected reinsurance service returns at the beginning of the period appear under "Claims returns, commission and profit sharing from reinsurer" (not as an item reducing insurance income)

The Group recognizes the premiums paid to reinsurers under "Expenditure due to premiums transferred to reinsurers" among the result of insurance services.

Based on paragraph 86 of IFRS 17, the Group choses to present the amounts received from reinsurers and the allocation of premiums paid separately.

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 insurance
(h) accident and medical benefit rider
(i) waiver of premium rider in case of death
(j) group life- and accident insurance
(k) credit insurance

Health insurance

(l) health insurance and health insurance with claim exemption bonus
(m) health insurance rider

Non-life insurances

(n) property insurance policies
(o) liability insurance policies
(p) casco insurance policies
(q) extended guarantee insurance policies
(r) suretyship-related insurance policies
(s) group credit coverage and account protection policies
(t) home insurance policies
(u) travel insurance policies

(v) insurances for various financial losses

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

6.2 General principles and tools of Risk Management

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

The goal of the establishment of the risk management system is to integrate the aspect of the risk management into the decision making process. The Risk Management Committee of the Group received a special role in identifying the risks. The members of the Risk Management Committee are those persons, who understood the aspects of Group’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:

1. The capital adequacy risk arising from the impact of the Italian operation
2. Technological risk – complexity of process, product and IT
3. Risks resulting from changes in the economic environment
4. Pricing, positioning risk

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

6.3 Underwriting strategy

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

Elements of underwriting strategy:

- definition of underwriting limits,
- continuous controlling and monitoring of limit compliance,
- rules on underwriting procedure, including the continuous monitoring of partner risk

- pricing of options and guarantees embedded in products and regular pricing reviews,
- reinsurance policy.

6.3.1 Definition of underwriting limits

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

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

6.3.2 Continuous monitoring of limit compliance

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

- Redefining the risk pool to segregate the outlying risks 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 regulation 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 regulation 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, 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.

There is a significant longevity risk in the case of the HNY annuity product taken over from the Dimenzió Insurance Association. The Group establishes other technical reserves to manage this risk and monitors the mortality rates of the insured.

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

The Group monitors the demographic outcome of the COVID-19 outbreak which started in 2020, and -with regards to the Group- 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 Group 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 (continuously since May 2020).

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:
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:

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.

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.

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 (Hungary)

Terms and conditions:

Accident insurance makes payment to the beneficiary(ies) based on the insured events that occurred during the risk bearing of the insurance in accordance with the chosen coverage.

Insurance services include accidental death, accidental disability, bone fracture, accidental surgical compensation, accidental hospital daily compensation and burn injuries. The insurance does not offer a repurchase option.

Key factors affecting future cash flows:

Actual accidental mortality compared to assumed mortality, cancellation trends and costs incurred, and the progression of experienced and assumed morbidity due to other services of accidental origin.

6.5.8 Accident insurance rider (Hungary and Romania)

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

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

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

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

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

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

6.5.10 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 actual morbidity compared to the assumed, the evolution of cancellations and the costs incurred.

6.5.11 Credit insurance (Hungary)

Terms and conditions:

Credit insurance in the case of certain risks pays the installments in accordance with the chosen collateral, and in the case of certain risks reimburses the principal debt existing at the time of the insured event. Insurance services are death, disability and incapacity for work.

Key factors affecting future cash flows:

Actual mortality and morbidity compared to the assumed, the evolution of cancellations and the costs incurred.

6.5.12 Health insurance and health insurance with claim exemption bonus (Hungary)

Terms and conditions:

The regular premium payment product is a health insurance policy, which provides customers, under an agreement with an international healthcare service provider (Best Doctors, Further), with second medical opinions and abroad medical treatment services in the event of predefined insurance events.
In certain cases, the product also includes a death service (up to the amount of the fees paid) and, in the case of no arising claims, at the end of the term a refund

of a predefined percentage of the fees paid during the term of the insurance. The contract including the claim exemption bonus offers a repurchase option.

Key factors affecting future cash flows:

Actual mortality and morbidity compared to the assumed, the evolution of cancellations and the fair value of costs incurred (medical-, and other costs).

6.5.13 Health insurance rider (Hungary)

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

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

6.5.14 Property insurance (Hungary)

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

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

6.5.15 Liability insurance

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

its business activities, in connection with any professional fault arising from its breach of its professional obligations, during the policy term.

Key factors affecting future cash flows:

Actual occurrence of events as compared to assumptions, average claims paid and costs incurred as compared to the plans.

6.5.16 Casco insurance (Hungary, Poland)

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

The Insurer sold most of this portfolio during the year 2020, but sales of the fleet casco product relaunched at the end of 2021.

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

6.5.17 Extended guarantee insurance (Hungary, Poland)

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

The Group sold his portfolio during 2021, and as of 31 December 2022, it had no stock.

Key factors affecting future cash flows:
The Group will not have any future cash flows related to the transferred portfolio.

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 Group credit coverage and income protection insurance

Terms and conditions:
The Group 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. Uncertainty of future cash flows is reduced through a 100% reinsurance coverage of the risks.

6.5.20 Home insurances

The Group provides services for the risks of fire and elemental damage and other property damages related to the movable and immovable property of the insured. which also covers assistance and accident insurance services in connection with insurance events.

Main factors affecting future cash flows: The actual incurrence of individual events compared to the expected, the development of the average claim payments and the development of the incurred costs compared to the planned. The uncertainty inherent to the future cash flow is reduced by the 100% reinsurance of the risks.

6.5.21 Travel insurances

The Group provides coverage for the insured for the risks of accident, illness, property and other financial loss arising during travel, staying abroad. The Group also provides assistance and legal settlement services in connection with the insurance events.

Main factors affecting future cash flows: the actual incurrence of individual events compared to the expected, the development of the average claim payments and the development of the incurred costs compared to the planned. The uncertainty inherent to the future cash flow is reduced by the 100% reinsurance of the risks.

6.5.22 Insurances for various financial losses

It provides assistance in the event of the customer losing their job or being unable to work for a longer period of time, or provides coverage to cover the risks inherent in activities related to the use of bank cards, online transactions and our digital presence.

Main factors affecting future cash flows: the actual incurrence of individual events compared to the expected, the development of the average claim payments and the development of the incurred costs compared to the planned. The uncertainty inherent to the future cash flow is reduced by the 100% reinsurance of the risks.

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, which is 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 Group ongoing fulfils and puts a great emphasis on the solvency requirements according to Solvency II. The consolidated available solvency capital of the Group as at 31.12.2022 is more than two 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 31.12.2022 includes the amount established in the annual Solvency II report, which has changed slightly compared to the published report.

Data in THUF / %

	31.12.2022	31.12.2021
Available solvency capital for SCR	16 180 188	17 625 433
Available solvency capital for MCR	16 180 188	17 625 433
Solvency capital requirement (SCR)	8 076 322	7 000 264
Minimal capital requirement (MCR)	3 820 000	3 462 000
Solvency capital adequacy (to SCR)	200%	252%
Solvency capital adequacy (to MCR)	424%	509%

8 NET EARNED PREMIUM

Data in THUF

	2022	2021 (restated)
Regular premiums written	24 055 010	17 197 658
Top-up payments, and single premiums	8 291 270	5 647 660
Gross written premiums	**32 346 280**	**22 845 318**
Change in unearned premiums reserve	- 734 265	- 157 355
Earned premium, gross	**31 612 015**	**22 687 963**
Ceded reinsurance premiums	- 3 847 317	- 502 078
Earned premium, net	**27 764 698**	**22 185 885**

The impact of the modification of the reference period is presented under Note 5.2.

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

The change in the reserve for unearned premiums is a loss of HUF 734 million in 2022 (a gain of HUF 157 million in 2021), which increased mainly due to the releaunch of the non-life segment, the new products of the non-life segment, and the increased sales of life insurance products. At the same time, the amount of earned premiums transferred to reinsurers (HUF 3,847 million loss in 2022, HUF 502 million loss in 2021) also increased significantly, also due to the restart of the non-life segment, but also the group credit coverage portfolio transfer presented under Note 1 played a significant role.

Breakdown of gross written premiums by insurance line of businesses:

Data in THUF

	2022	2021 (restated)
Unit-linked insurance product	19 366 287	16 714 078
Traditional life insurance	5 993 571	4 675 748
Health insurance	957 961	822 636
Suretyship and guarantee	225 759	97 964
Income protection insurance	247 166	199 301
Credit insurance	1 454 739	59 953
Casco insurance	1 781 599	10 753
Property products	2 177 071	264 885
Home insurance	75 976	-
Travel insurance	66 151	-
Total	**32 346 280**	**22 845 318**

In 2022, from the amount of unit-linked insurance HUF 7,453,525 thousand is pension insurance (in 2021: HUF 6,815,111 thousands). The traditional pension insurance income in 2022 was HUF 1,229,326 thousand. The pension insurance was HUF 1,263,474 thousand in 2021.

The Group used an estimate in determining the premium income of the group credit coverage life insurances reported among the traditional life insurance policies, as by the time the report was prepared it had not received all policyholder data provision on the basis of which the due premium income can be accurately determined. In the estimate, it determined the premium income by expanding the data of the existing periods, for which he issued an accurate pro forma invoice only in 2023, thus the estimated and the actual premium income may differ slightly.

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

Data in THUF

	2022	2021 (restated)
Hungary	32 233 004	22 690 941
Romania	3 531	4 305
Slovakia	109 745	151 327
Italy	-	- 1 255
Total	**32 346 280**	**22 845 318**

9 PREMIUM AND COMMISSION INCOME, INVESTMENT CONTRACTS

Data in THUF

	2022	2021 (restated)
Policy-based premiums	27 813	93 618
Fund management fees	73 710	52 008
Premiums related to services	3 522	1 771
Total premium and commission income	**105 045**	**147 397**

The impact of the modification of the reference period is presented under Note 5.2.

10 COMISSION AND PROFIT SHARE DUE TO REINSURANCE

Data in THUF

	2022	2021
Traditional life insurance	730	2 379
Suretyship and guarantee	50 080	23 642
Income protection insurance	17 622	15 907
Credit insurance	942 456	11 632
Casco insurance	116 365	1 032
Property products	354 537	5 846
Home insurance	27 517	-
Travel insurance	45 144	-
Commission and profit share due to reinsurance	**1 554 451**	**60 438**

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. One of the most significant reinsurance commission was realized by the Group in the property sector. In addition, the reinsurance commission and profit share of the credit coverage portfolio acquired through the portfolio transfer is quite significant.

CIG PANNÓNIA
INSURANCE

11 INCOME FROM AND EXPENSES ON INVESTMENTS

Data in THUF

	2022	2021 (restated)
Effective interest income	1 101 953	475 232
Interest income based on effective interest methood	**1 101 953**	**475 232**
Gains on investment sales	107 012	81 944
Realised gains on derivatives	124 653	24 131
Unrealised gains on derivatives	69 613	568
Foregin currency gains	181 571	47 091
Fair value change gain	-	11 461 583
Income from investments	**482 849**	**11 615 317**
Dividend from associate	**481 663**	**808 075**
Operation expenses on investments	78 080	73 754
Financial reinsurance interest	288	1 938
Realised losses on derivatives	28 748	-
Unrealised losses on derivatives	-	22 497
Foreign currency losses	61 364	6 727
Realised foreign exchange losses on investments	394 603	124 601
Impairment of investments	2 481 001	-
Leasing interests	15 471	10 792
Expense on investments	**3 059 555**	**240 309**
Impairment and impairment reversal of financial assets	**6 319**	**14 036**
Total income from (exenses on) investments	**- 999 409**	**12 644 279**

Fair value change gain is the 2022 return on customers' unit-linked investments.

As stock market investors, 2022 was a sad year. With few exceptions, almost all stock markets closed significantly lower compared to the end of 2021. The highest return was achieved with the Latin American, Warren Buffet and Metallicum asset funds, other markets ended the year with a loss. Asset funds with a moderate risk and mixed composition had a mixed performance, the Best Select asset fund closed with the best performance. Money market funds came into focus again in 2022 thanks to interest rate hikes by the MNB, the base interest rate is now 13%, but after one-day deposits, the central bank pays up to 18% to prevent the forint from plummeting.

In 2022, there was a significant turn in the capital markets. Globally, inflation picked up significantly in both developed and developing markets. Inflation was initially fueled by shortages in supply chains, and the situation was further worsened by the RussianUkrainian war, which triggered a surge in the price of oil and, in particular, the price of gas. The rising inflation could not be ignored by the central banks either, so the last year was also the year of the beginning of monetary tightening, thus marking the end of money printing that lasted for almost 15 years. Stock markets went down 20% from their highs. Although countries around the world still had significant restrictions due to the coronavirus at the beginning of last year, the number of Presentation of the Issuer's financial position 37 CIG Pannonia Life Insurance Plc. – Quarterly report Covid cases had already decreased by the second half of the year. At the same time, in China - significantly due to insufficient immunization and the relaxation of the Zero-Covid policy - infection rates jumped by the end of the year.

Inflation turned out to be more persistent, stickier and broader-based than most economic actor expected in 2022. In some regions, purely supply-side shocks (e.g. Western Europe - skyrocketing gas and energy prices due to the war), while in other countries the demandside effects are also significant (e.g. USA, Hungary), and hence the extent of the inflation problem, and the severity of the specific central bank response measures also differs. The peak of inflation is not yet visible in Hungary, whereas the annual average inflation may have been around 14.5%, while we will see its peak in the first months of 2023. In the fight against inflation, the MNB raised the base interest rate to 13% in 2022, which is already an increase of 1,060 basis points - 10.6 percent (!) - since the beginning of last year. At the same time, the effective interest rate, i.e. the one governing the markets, already rose to 18% in the last quarter of last year, which may help to achieve price stability, but may significantly set back economic growth. The ZMAX index, which contains the shortest government securities maturing within 3 months, was the winner of the Hungarian bond market indices of the year, rising by 5.9%, but the RMAX index also rose by 3%, while the benchmarks containing longer papers fell significantly: the CMAX index by 14.8%, and the MAX index by 16.1%.

In 2022, the color „red" dominated the markets: both developed and developing countries achieved returns of around minus 20%. Developed markets narrowly outperformed emerging markets. As a result of the macroeconomic and geopolitical risks in the region, the stock markets of neighboring countries also performed poorly last year. Although regional papers are cheap, they trade on the markets with a significant stock market risk premium due to the previously explained economic and political reasons. Investors also traded Romanian, Polish and Czech papers, but they did not like the domestic stock market, despite its

cheapness. This is still due to the introduced special taxes - which have a negative effect on the results of Hungarian listed companies - and our proximity to the war. The BUX index depreciated by 13.7% in the past year.

The American S&P500 index closed the year with a 19.7% decrease, while the STOXX 600 index, which includes Europe's 600 largest companies, only lost 13.1% of its value. The Japanese market was a bit of an outperformer with its -5.1% performance last year. Developing markets also performed negatively in 2022: Central and Eastern European indices showed a decrease of 11-17%. At the same time, the South American stock market was particularly strong within emerging markets with a zero percent dollar-denominated performance.

In 2022 the Forint found itself in rain – and it poured. Rising energy prices, budgetary imbalances, high inflation (even in regional comparison), political tensions and the effects of the war, as well as the developments during the negotiations with the EU moved the forint exchange rate and overall weakened it against both the dollar and the euro. The devaluation against the dollar was also supported by the US interest rate hike. Taking these into account, the forint was the fourth worst-performing currency among the currencies of developing market countries globally, with a weakening of more than 13% last year. At the time of the low point in October, 445 forints had to be paid for one dollar on the interbank foreign exchange market, but it closed the year at 375.68 forints. Last year, the forint weakened by 8.2% compared to the euro. The peak against the euro was HUF 432 in October, which fell to HUF 400.25 by the end of the year.

The Issuer had HUF 1,000 million yield profit on its own investments in 2022, while in 2021 the profit was HUF 375 million. The significantly higher gain is mainly due to the rising yield environment.

Earnings from the MKB Fund Management Company to the Company appear on "investments accounted for using the equity method", which is a profit of HUF 482 million gain in 2022, while it was HUF 808 million gain in 2021. The high result in 2021 was caused by the success fee realized from the funds' above-benchmark yield, which could not be applied due to the negative yields in 2022.

12 OTHER OPERATING INCOME

Data in THUF

	2022	2021
Portfolio management income	479 748	554 302
Other technical income	133 349	45 892
Other income	111 525	80 789
Release of provision	78 473	431 425
Reversal of claim impairment loss	54	394
Other operating income	**803 149**	**1 112 802**

The portfolio management income is realized fund management fee of unit-linked portfolio and decreased compared to the comparison period, as it is related to the Group's previously sold unit-linked product type with an already declining portfolio.

Release of provision is detailed under Note 45.

13 NET CLAIM PAYMENTS AND BENEFITS

Data in THUF

	2022	2021 (restated)
Claim payments and benefits for insurance policy holders	15 221 528	15 095 914
Claim adjustment costs	528 104	392 953
Claim refunds	- 71 195	- 130 320
Claim refunds from reinsurance	- 750 397	- 146 814
Costs of health insurance services	450 186	106 031
Total net claim payments and benefits	**15 378 226**	**15 317 764**

The impact of the modification of the reference period is presented under Note 5.2.

In 2022, 76% of claim payments and benefits related to partial and full surrenders of life insurances (in 2021 83.7%), while payment upon death accounted for 7.4% (in 2021 6.7%), matured service accounted for 9.8% (in 2021 6.5%), and other claim payments 6.7% (in 2021 3.1%). The costs of health insurance services increased significantly during the year in parallel with the rise of group service financing health insurances.

In 2022, a defining part of claim payments and benefits in the non-life sector – 93% - was related to claim payments in relation to the casco product. In 2021,

two claim payments were made in connection with the Hungarian guarantee, which was 72% of the total claim payments. In 2022, there were no claims payments related to Italian surety products, although a significant part of the claims settlement costs in the segment (56%) were related to this product.

Claim payments and benefits for insurance policy holders was reduced by the amount of the claim refunds on reinsured policies which is HUF 750 million (in 2021 HUF 147 million), which also increased mainly in connection with the products of the non-life segment and the transferred credit coverage portfolio.

14 CHANGES ON RESERVES

Data in THUF

	2022	2021 (restated)
Net unit-linked reserves increase/(decrease)	541 296	10 167 424
Net RBNS increase/(decrease)	- 170 321	373 569
Net mathematical reserve increase/(decrease)	671 778	1 216 559
Other net technical reserves increase/(decrease)	880 384	251 176
Net expected loss reserves increase/(decrease)	63 715	- 44 401
Total	**1 986 852**	**11 964 327**

The impact of the modification of the reference period is presented under Note 5.2.

Following 2021 the reserves of the unit-linked insurances increased slightly in 2022 as well, primarily due to the negative yields, having a significant impact on the change in reserves.

The increase of mathematical reserve can mainly be explained by the payments related to pension products and the formation of reserves. The net increase / (decrease) in mathematical reserve also includes the change in the result-dependent reversed premium reserves (excluding the shadow reserve).

The change in further technical provisions includes the changes in the shadow reserve of the change in the result-independent reserves, the other reserves and the cancellation reserves. The significant gain of the result-independent reversed premium reserves is primarily due to the credit coverage products.

A part of the result-dependet reversed premium reserves - which is the unrealized exchange rate difference of financial assets attributable to insurance policyholders and valued at fair value against other comprehensive result - is recognized against other comprehensive income. As the unrealized exchange rate difference on

financial assets valued at fair value against other comprehensive result is a loss at the end of 2021 and 2022, it will not have anything to attribute to policy holders, i.e. the reserve at the end of the year is 0.

In the non-life segment, the reason for the increase in RBNS claim reserves is the relaunched operation, the increase in net reserves can be observed primarily in the casco product. The Insurer released HUF 110 million in claim reserves in connection with a lawsuit win on the Hungarian surety product. There was also a significant decrease in reserves in the amount of HUF 499 million for Italian surety products. Thus overall RBNS claim reserves decreased.

Reserves for expected losses affect the casco product

15 COMMISSIONS AND OTHER ACQUISITION COSTS

Data in THUF

	2022	2021
Commissions and fees	5 866 097	3 418 915
Changes in deferred acquisition costs	- 556 067	- 113 297
Other acquisition costs	1 730 034	848 040
Total fees, commissions and other acquisition costs	**7 040 064**	**4 153 658**

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, which in 2022 is a write-back of HUF 57 million, i.e. a cost-cutting item in its entirety in the life segment (a HUF 4 million impairment in 2021). The other acquisition costs in 2021 also contained the operating cost of the CIG Pannónia Financial Intermediary as a separate sales channel, which ceased with the deletion of the company in 2022. The increase in other acquisition costs above the commission is significant, as it includes the development of new business branches, organizational units and the hiring of new employees related to the implementation of the growth strategy.

Fees and commissions, including deferred acquisition costs, show an increasing trend (+61%), while gross earned fees increased by 39%. This is mainly due to the change in the product mix with the relaunch of the non-life segment, where the increase in earned premiums and commissions is more than eight times that of the previous year.

16 OTHER OPERATING COSTS

Data in THUF

	2022	2021 (restated)
Salaries and salary contributions	1 330 760	1 095 321
Other personal costs	49 929	25 327
Advisory and consultancy services	179 031	177 164
Training costs	2 327	3 072
Marketing and PR costs	291	5 721
Administration costs	12 978	101 700
IT services	356 364	239 883
Office rental and operation	86 563	79 062
Travelling, and car expenses	31 738	24 718
Office supplies, phone, bank costs	102 752	85 705
Depreciation and amortisation	234 082	247 852
Other administration costs	163 815	170 489
Other operating costs total	**2 550 630**	**2 256 014**

The other operating costs increased by HUF 295 million compared to the previous year. This increase is mainly due to the increase of salaries, benefits and other personal costs caused by dynamic growth of the staff count. The level of operating costs in relation to gross premium income decreased from 9.9% in 2021 to 7.9%.

Among salaries in 2022 there was HUF 325,402 thousand (HUF 246 037 thousand in 2021) related to salary, bonus and other payments of the Group’s directors according to the SRD Act.

The Group's significant lease agreement is the agreement of the office for real estate leasing, effective until 31 January 2026. In addition, in 2021 car leasing contracts with a significant value emerged, with various maturities, averaging 22-60 months. In 2022, the Company paid for short-term office leasing contracts HUF 19,279 thousand (HUF 7,880 thousand in 2021); while the expenses of low value leasing contracts (water dispenser, printers, dirt carpets) totalled HUF 2,335 thousand (HUF 1,304 thousand in 2021).

17 OTHER EXPENSES

Data in THUF

	2022	2021
Net expenditure on pending charges	9 040	107 700
Extraordinary deprication	-	12 710
Insurance tax	316 785	60 068
Additional insurance tax	599 100	-
Other expenses	152 596	55 117
Fines	7 170	1 997
Impairment	-	835
Total other expenses	**1 084 691**	**238 427**

Among other expenses, the most significant change is the appearance of the extra-profit tax, which reduced the group's results by HUF 599 million. The insurance tax increased significantly as well, due to the growth of the non-life segment and group insurances.

Based on the provisions of IFRS 3, the Group examined whether the portfolio classifies as a transfer or a business combination in relation to the group credit coverage portfolio transfer and the related reinsurance contract presented in Note 1. The stock transfer is a portfolio transfer, since through it the insurance company took over only insurance contracts (and entered into a reinsurance agreement), but at the same time did not take over employees or finished processes. It outsourced the administration and claims settlement of the received products, but integrated the products into its own systems and its internal and external reporting and closing processes.

The fair value of the transferred assets and liabilities was determined by the Company at the date of the transfer (01.09.2022) using a discounted cash flow model, where for the discounting it used the expected return calculated by the CAPM model at 01.09.2022. In the discounted cash-flow model, the Company also took into account the additional risk value, which was used to express the alternative cost of the additional capital associated with the portfolio transfer. Based on this, the Company's assessment of the fair value of the portfolio transfer is 0 overall. According to the provisions of IFRS 4, the difference between the consideration paid and the fair value must be accounted for in the result, the value of which is HUF 49 million under other expenses.

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 (and in 2019), which can be used against future taxable income. In 2022 the Group increased deferred tax asset by HUF 117 million because the coverable part of the tax loss carried forward increased.

In the calculation of the corporate tax, the tax benefit on deferred tax accumulated in previous years (HUF 52 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 591 million set at the end of 2022 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

	2022	2021
Local business tax, innovation contribution	- 238 837	- 167 327
Corporation tax expenses in reporting year	- 36 542	- 25 110
Deferred tax expenses/gains	117 015	87 797
Total tax income/(expenses) realised in profit statement	**- 158 364**	**- 104 640**
Deferred tax liabilities arising from financial assets valued at fair value against other comprehensive result	-	-
Total tax income/(expenses) realised in other comprehensive income	**-**	**-**

In 2022 and 2021 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 2022	Change	31 December 2021
Deductible temporary differences	7 209 306	3 492 915	3 716 391
Loss carried forward	9 979 654	- 722 443	10 702 097
Total	**17 188 959**	**2 770 472**	**14 418 487**

HUF 617,746 thousand from the unrecognized deferred tax differences would decrease the other comprehensive income (HUF 281,031 thousand in 2021).

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	2022	2021
Profit/loss before taxation	1 365 941	1 786 515
Calculated tax income/(expenses) (9%)	- 101 439	-145 727
Recognition of the unrecognized deferred tax assets relating to the losses of prior years	117 015	87 797
Unrecognised deferred tax assets on losses in the actual year	- 51 996	- 98 326
Other unrecognized temporary differences	-314 362	- 137 464
Permanent differences	431 256	356 408
Local business tax, innovation contribution	- 238 837	- 167 327
Total tax income (expenses)	**- 158 364**	**- 104 640**

19 OTHER COMPREHENSIVE INCOME

Data in THUF

	2022	2021 (restated)
Other comprehensive income which cannot be reclassified to profit or loss in the future	- 602 294	- 574 917
Other comprehensive income which can be reclassified to profit or loss in the future	- 3 206 981	- 1 800 481
Total other comprehensive income	**- 3 809 275**	**- 2 375 398**

Other comprehensive income includes the change in the fair value of financial assets that are valued at fair value against other comprehensive income shown under other comprehensive income that can be reclassified to the profit or loss in the future. Other comprehensive income that cannot be reclassified to profit or loss in the future includes the unrealized exchange rate difference of the Company's strategic stake in Opus Global.

20 EARNINGS PER SHARE

Data in THUF

	2022	2021
Consolidated Profit/loss after taxation attributable to the Company's shareholders (HUF thousand)	1 207 577	1 675 065
Weighted average number of ordinary shares (thousand)	93 954 254	93 978 364
Earnings per share (basic) (HUF)	**12.9**	**17.8**

	2022	2021
Modified consolidated profit/loss after taxation attributable to the Company's shareholders (HUF thousand)	1 207 577	1 675 065
Weighted average number of ordinary shares (thousand)	94 428 260	94 428 260
Calculated earnings per share (diluted) (HUF) - consolidated	12.8	17.7
Earnings per share (diluted) (HUF)	**12.8**	**17.7**

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. From an accounting point of view, the company included in the MRP consolidation and the dividend received from it have been consolidated in accordance with Note 3.12.

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 12.9. According to IFRS, the maximum value of calculated diluted EPS (HUF 12.8) can be maximum equivalent with the amount of the basic EPS. In diluted earnings per share the treasury shares transferred to MRP were trated as dilution effect, because those may increase the average number of outstanding shares if will be called. The dilution effect is less than 0.1 HUF.

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

2022

Date	Issued ordinary share (item)	Treasury shares (item)	Number of shares outstanding (item)	Number of days*	Weighted average
31.12.2021	94 428 260	474 006	93 954 254	365	93 954 254
31.12.2022	**94 428 260**	**474 006**	**93 954 254**	**365**	**93 954 254**

2021

Date	Issued ordinary share (item)	Treasury shares (item)	Number of shares outstanding (item)	Number of days*	Weighted average
31.12.2020	94 428 260	374 006	94 054 254	88	22 676 094
29.03.2021	94 428 260	474 006	93 954 254	277	71 302 269
31.12.2021	**94 428 260**	**474 006**	**93 954 254**	**365**	**93 978 364**

CIG PANNÓNIA INSURANCE

21 INTANGIBLE ASSETS

Intellectual property includes purchased and externally developed software. The increase in intellectual property is related to the improvement of the portfolio administration system and the data consolidation system under development in IFRS 17. The amount of intangible assets under development is HUF 498,169 thousand, which the Group activates from January 2023.

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

Data in THUF

31.12.2022	Intellectual property, assets value rights	Goodwill	Total intangible assets
Cost			
01.01.2022	3 064 007	37 613	3 101 620
Increase	479 632		479 632
Decrease	- 210 724		- 210 724
31.12.2022	3 332 915	37 613	3 370 528
Accumulated amortization, impairment			
01.01.2022	- 2 343 944	- 37 613	- 2 381 557
Increase	- 207 332		- 207 332
Decrease	210 419		210 419
31.12.2022	- 2 340 857	- 37 613	- 2 378 470
Net book value	**992 058**	**-**	**992 058**

Data in THUF

31.12.2021	Intellectual property, assets value rights	Goodwill	Total intangible assets
Cost			
01.01.2021	2 687 069	37 613	2 724 682
Increase	379 405	-	379 405
Decrease	-2 467	-	- 2 467
31.12.2021	3 064 007	37 613	3 101 620
Accumulated amortization, impairment			
01.01.2021	- 2 116 818	- 37 613	- 2 154 431
Increase	- 228 260	-	- 228 260
Decrease	1 134	-	1 134
31.12.2021	- 2 343 944	- 37 613	- 2 381 557
Net book value	**720 063**	**-**	**720 063**

CIG PANNÓNIA INSURANCE

22 PROPERTY, PLANT AND EQUIPMENT

Data in THUF

31.12.2022	Motor vehicles	Office furniture, equipment	Real estates	Work in progress	Total
Cost					
01.01.2022	-	226 150	119 759	8 440	354 349
Increase	-	17 311	6 979	-	24 290
Decrease	-	- 6 810	-	- 7 885	- 14 695
31.12.2022	**-**	**236 651**	**126 738**	**555**	**363 944**
Accumulated amortization					
01.01.2022	-	- 165 240	- 10 083	-	- 175 323
Increase	-	- 19 598	- 26 441	-	- 46 039
Decrease	-	6 274	-	-	6 274
31.12.2022	**-**	**- 178 564**	**- 36 524**	**-**	**- 215 088**
Net book value	**-**	**58 087**	**90 214**	**555**	**148 856**

Data in THUF

31.12.2021	Motor vehicles	Office furniture, equipment	Real estates	Work in progress	Total
Cost					
01.01.2021	47 641	181 415	66 610	3 523	299 189
Increase		60 231	128 200	4 917	193 348
Decrease	- 47 641	- 15 496	- 75 051		- 138 188
31.12.2021	**-**	**226 150**	**119 759**	**8 440**	**354 349**
Accumulated amortization					
01.01.2021	- 26 467	- 148 137	- 66 427	-	- 241 031
Increase	-1 434	- 29 491	- 18 707	-	- 49 632
Decrease	27 901	12 388	75 051	-	115 340
31.12.2021	**-**	**- 165 240**	**- 10 083**	**-**	**- 175 323**
Net book value	**-**	**60 910**	**109 676**	**8 440**	**179 026**

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

Among the properties, plant and equipment, the Insurer no longer registers its own vehicles, as it has sold them and replaced them with long-term leases from 2021 onwards.

In 2022 and 2021 IT equipments, small value office equipments and furnitures were written off, therefore the office furniture and equipment coloumn decreased.

23 RIGHT OF USE ASSETS

Data in THUF

31.12.2022	Office leasing	Car leasing	Total
Cost			
01.01.2022 - Adding leased assets	306 026	293 180	599 206
Increase	9 120	97 291	106 441
Decrease	- 2 246	- 58 379	- 60 625
31.12.2022	**312 900**	**332 092**	**644 992**
Accumulated amortization			
01.01.2022 Adding accumulated amortization of leased assets	- 63 872	- 41 241	- 105 113
Increase	-56 157	- 100 722	- 165 118
Decrease	5 043	21 128	34 412
31.12.2022	- 114 984	- 120 835	- 235 819
Net book value	**197 916**	**211 257**	**409 173**

Data in THUF

31.12.2021	Office leasing	Car leasing	Total
Cost			
01.01.2021 - Adding leased assets	217 707	25 729	243 436
Increase	292 741	267 451	560 192
Decrease	- 204 422	-	- 204 422
31.12.2021	**306 026**	**293 180**	**599 206**
Accumulated amortization			
01.01.2021 Adding accumulated amortization of leased assets	- 184 689	- 688	- 185 377
Increase	- 65 860	- 40 553	- 106 413
Decrease	186 676	-	186 676
31.12.2021	- 63 872	- 41 241	- 105 113
Net book value	**242 154**	**251 939**	**494 093**

The leased assets are constituted by the property rental of the Company's headquarter building and, since the end of 2020, car rental. In connection with the change of the registered office, the previous office leasing asset was derecognised in early 2021.

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.

24 DEFERRED ACQUISITION COSTS

Data in THUF

Deferred acquisition costs	31.12.2022	31.12.2021
Balance on 1 January	1 327 898	1 214 601
Net change in deferred acquisition costs	556 067	113 297
Balance on 31 December	**1 883 965**	**1 327 898**

In the case of deferred acquisition costs, the Group changed its accounting policy for the life segment as described in Note 5.2.2.

In the non-life segment the LAT calculation for the Italian suretyship portfolio is not expected to recover the deferred acquisition cost, thus all deferred acquisition costs for Italian products have been eliminated already in 2019. Based on the LAT calculation, the amount of the deferred acquisition costs related to the casco and home products (in the amount of HUF 16 million) was impaired.

25 INVESTMENTS ACCOUNTED BY EQUITY METHOD

Data in THUF

	31.12.2022	31.12.2021
MKB Fund Manager Ltd.	660 453	1 013 289
Investment accounted by equity method	**660 453**	**1 013 289**

The revenue of the MKB Fund Manager Ltd. in 2022 was HUF 5,962 million, its profit after tax was HUF 4,641 million, of which HUF 491 million went to the Insurer.

MKB Fund Manager Ltd.'s Articles of Association declares rights of the owners of the preference shares, which is embodied in the Company owners' rights to control and manage the Company. Due to the preference shares, the CIG Pannónia Life Insurance Plc. delegated 1 member to the Board of Directors of MKB Fund Manager Ltd.

The allocation of the profit of MKB 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 2022, 10.6% percent of the result of the Fund Manager was allocated to the Group.

The Group obtained dividend from its associated company in the amount to HUF 843 million in 2022, and HUF 436 million in 2021.

The Group has not identified any significant credit, interest rate, foreign exchange rate or liquidation risk in connection with the MKB 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 Fund Manager in 2021 and in 2022 (data in thousand HUF):

2022	Share capital	Retained earnings of previous years	Evaluation reserve	After tax profit	Shareholders' equity
Fund Manager	806 120	3 386 419	- 151 281	4 607 092	8 648 349
Group's share	7,67%	3,53%	7,67%	10,65%	
Kibocsátóra jutó tőke	**61 829**	**119 661**	**- 11 603**	**490 565**	**660 453**

2021	Share capital	Retained earnings of previous years	Evaluation reserve	After tax profit	Shareholders' equity
Fund Manager	306 120	957 498	-	6 026 826	7 290 444
Group's share	16%	16,32%	-	13,41%	
Capital per Group	**48 979**	**156 235**	**-**	**808 076**	**1 013 290**

26 OTHER FINANCIAL ASSETS AT FAIR VALUE

Data in THUF

	31 December 2022	31 December 2021
Corporate bond		1 551 652
Equities		1 409 917
Investment funds		234 382
Govermnet bonds, discontinued T-bills		25 213 123
Total available-for-sale financial assets	**-**	**28 409 074**
Corporate bond	4 009 853	
Equities	807 622	
Government bonds, dicounted T-bills	19 614 848	
Other financial assets at fair value	**24 432 323**	

Among equities, the Company records its holdings in Opus Global Plc. Parallel to the introduction of IFRS 9, available-for-sale financial assets ceased to exist. The Group shows its investments under other financial assets at fair value.

27 INVESTMENTS FOR POLICYHOLDERS OF UNIT-LINKED LIFE INSURANCE POLICIES

Data in THUF

	31 December 2022	31 December 2021
Equities	22 705 779	23 266 700
Government bonds, discounted T-bills	3 098 696	7 155 198
Corporate bonds	525 121	-
Investment funds	43 905 707	49 930 842
Derivative instruments	22 003	- 61 762
Cash, and cash equivalent	15 667 005	5 764 765
Other investments	280 995	- 391 733
Total investments for policyholders of unit-linked life insurance policies	**86 205 307**	**85 664 010**

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 2022 the Group had 99 segregated unit-linked funds. 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.

The modification of the reference period is presented under Note 5.2.

Due to the impact of the war in Ukraine on the capital market, from 1 March 2022 the Company suspended to market the asset funds listed below in its unit-linked life insurance products (i.e. to sell and purchase investment units of the following asset funds) due to the developed situation and the circumstances beyond the control of the Company based on Act LXXXVIII of 2014 (hereinafter: "Bit.") Section 127 (1):

- Urál Oroszországi Részvény Eszközalap
- Urál Oroszországi Pro Részvény Eszközalap
- Euró Alapú Urál Oroszországi Részvény Eszközalap
- Euró Alapú Urál Oroszországi Pro Részvény Eszközalap

(hereafter referring to these asset funds together as: "**Affected Asset Funds**").
The net asset value of the Affected Asset Funds and, at the same time, the price of the investment units cannot be determined because the underlying financial assets of the Affected Asset Funds have become partially or completely illiquid, i.e. non-marketable assets.
Due to the armed conflict between Russia and Ukraine, the Moscow Stock Exchange suspended trading in all of its markets indefinitely starting 28 February 2022. As a result, the Amundi Russia investment fund (ISIN code: LU1883868579), which is part of the underlying assets of the Affected Asset Funds and purchases investment instruments on the Moscow Stock Exchange, has become illiquid and therefore untradeable; the manager of the foreign investment fund does not disclose a price, as a result of which the price of the Affected Asset Funds couldn't be calculated either.
From 1 March 2022, the Company does not calculate or publish prices and net asset values for the Affected Asset Funds. As a result, the transactions in units of the Affected Asset Funds (e.g. payments, exchange of assets, repurchases, provisions of death and maturity services) for whose fulfillment price applicable under the terms of the insurance contract falls on or after 28 February 2022, CIG did not fulfil, or did not fulfil according to the standard procedure.
All costs specified in the special contractual terms and conditions, which are enforced before the investment of the insurance premium according to the rules set out therein (in particular the contract and maintenance fee, the administration fee, the allocation fee and, in some cases, the risk premium), will be deducted also during the suspension. The insurer also applies the

risk premium to products for which it is deducted by reducing the number of investment units.
In addition to the risk premium referred to in the previous paragraph, the insurer shall not charge the costs and fees for the period of suspension of the asset fund and for the units registered in the suspended asset fund, which are charged under the special contractual terms and conditions after the investment of the premiums by reducing the number of investment units (in particular the part of the initial costs and the management fees falling on the investment units of the suspended asset funds). Furthermore, the insurer waives the deduction of the asset management fee to be applied to the net asset value of the suspended asset funds.
The portfolio manager of the asset funds will not deduct the portfolio management fee applicable to the net asset value of the suspended asset funds for the period of suspension. The depositary of the asset funds will continue to deduct the custody fee applicable to the net asset value of the suspended asset funds for the period of suspension.
Pursuant to the provisions of the Bit., on 31 March 2022, the insurer separated the assets of the suspended asset funds that had become illiquid and the other non- illiquid assets of the suspended asset funds, i.e. the suspended asset funds were separated into successor asset funds containing illiquid and liquid assets (hereinafter "separation"). As a result of the separation, the original asset funds suspended on 1 March 2022 ceased to exist on 31 March 2022.
The liquid successor funds at the date of separation contained only cash (cash on account). At the same time as the separation was carried out, the suspension of the asset fund was lifted in relation to the successor asset funds containing liquid assets, and they continued to operate as independent asset funds. The insurance company first calculated the exchange rate (for the valuation date of March 30) and net asset value for the liquid successor asset funds on March 31. Given that the liquid successor asset funds contained only cash (account money), they were obviously not able to fulfill the commitments made in the investment policy, according to which the asset funds invest in collective investment forms whose primary target is the Russian capital market. As the funds of the liquid successor asset funds were not suitable for the realization of the goals set out in the investment policy, the insurance company decided to close and terminate the liquid successor asset funds with effect from 19 April 2022.
The operating procedures of the illiquid successor asset funds, which are also registered as independent asset funds, are governed by the above-mentioned rules published on 1 March and 3 March, i.e. the insurer acts in the same way for the illiquid successor asset funds as for the originally suspended asset funds. For the illiquid successor funds the suspension remains in force as described in Bit. 127 (1) to (8), with the starting date of the suspension of the asset fund being the starting date of the suspension of the original asset fund. Illiquid successor asset funds likewise inherit the

investment policy of the suspended asset funds. According to Bit. 127(7), the maximum period of suspension of the asset fund is one year, which may be extended by the insurer for a further total of one year in justified cases. In view of the fact that the underlying investment assets of the successor funds listed above are currently still unmarketable and non-tradable, CIG Pannónia Life Insurance Plc. has extended the suspension period of the successor funds until the underlying financial assets of the successor funds become marketable, but for a maximum of one year (until 28 February 2024).
The Insurer considers the value of the illiquid Russian successor asset funds to be 0 for the purposes of the annual report, on the grounds of illiquidity and non-tradability.As a consequence, in the annual report, these asset funds are included under Investments for policyholders of unit-linked life insurance policies and Financial assets - investment contracts and, consequently, under Technical provisions and Financial liabilities - investment contracts, with a value of 0, as they do not meet the asset and liability criteria of the IFRS Framework. As a result, the assets value of the asset funds calculated at the last valuation price reduced the return on assets and, to the same extent, the change in reserves, by a total of HUF 1,232 million

28 FINANCIAL ASSETS – INVESTMENT CONTRACTS

Data in THUF

	31 December 2022	31 December 2021 (restated)
Equities	1 361 027	1 422 649
State bonds, discounted T-bills	185 742	437 507
Corporate bonds	31 477	-
Investment funds	2 631 790	3 053 035
Derivative instruments	1 319	- 3 776
Cash and cash equivalents	939 110	352 488
Other investments	16 843	- 23 953
Total financial assets – investment contracts	**5 167 307**	**5 237 950**

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 were owned by the Group at the end of 2022.

The following table shows the asset composition of these funds:

Data in THUF

MKB Funds' underlying investments	31 December 2022	31 December 2021
Equities	3 912 863	5 988 746
Government bonds, discounted T-bills	4 675 218	2 051 053
Corporate bonds	990 896	590 017
Investment funds	533 326	1 205 364
Cash and cash equivalents	4 216 778	1 281 144
Other investments	2 879 658	1 051 914
Total	**17 208 738**	**12 168 238**

29 INSURANCE RECEIVABLES FROM POLICY HOLDERS

Data in THUF

	31 December 2022	31 December 2021 (restated)
Insurance premium receivables from policy holders	2 694 763	1 778 034
Pending charge receivables	170 575	179 615
Total of insurance receivables from policy holders	**2 865 338**	**1 957 649**

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 modification of the reference period is presented under Note 5.2.

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

30 RECEIVABLES FROM INSURANCE INTERMEDIARIES

Data in THUF

	31 December 2022	31 December 2021
Receivables from insurance brokers gross	1 199 548	302 497
Receivables from insurance brokers-impairment	- 191 281	- 246 517
Total of receivables from insurance intermediaries	**1 008 267**	**55 980**

Receivables on insurance intermediaries mainly include claims receivables from reversed commission to non-active (discontinued) brokers, which have not changed in net value significantly compared to 2021.

In the non-life segment, a part of the impairments (HUF 14 million) is the impairment associated with claims against Italian insurance intermediaries, as well as the impairment associated with previously given commission advances (HUF 11 million). The net value of these claims is HUF 0.

The remaining receivables from technical insurance intermediaries are receivables from insurance intermediaries related to currently actively sold products in the non-life segment. The largest part of the claim is related to the receivables of the transferred group credit coverage portfolio, where the policyholder has not settled the insurance premiums by the end of the contract year.

31 RECEIVABLES FROM REINSURERS

Data in THUF

	31 December 2022	31 December 2021
Receivables from reinsurers	405 821	123 991
Impairment of receivables from reinsurers	- 36 312	- 36 312
Total of receivables from reinsurers	**369 509**	**87 679**

The increase of receivables from reinsurers is primarily due to the transfer of the credit coverage policy portfolio.

32 OTHER ASSETS AND PREPAYMENTS

Data in THUF

	31 December 2022	31 December 2021
Prepaid expenses and accrued income	83 070	59 579
Interest rental premium, and other premium related prepayment	33 797	13 442
Inventories	5 683	2 994
Total of other assets and prepaid expenses and accrued income	**122 550**	**76 015**

The decisive part of accruals of other income is due to the accounting of the income related to the portfolio transfer explained in Note 3.8.3.

33 OTHER RECEIVABLES

Data in THUF

	31 December 2022	31 December 2021
Trade receivables	288	638
Loans granted	604	1 179
Receivables from investment fund management	62 365	44 262
Advance payments to suppliers and state	108 190	134 497
Other receivables	13 277	2 820
Total of other receivables	**184 724**	**183 396**

34 CASH AND CASH EQUIVALENTS

Data in THUF

	31 December 2022	31 December 2021
Demand deposits	3 092 786	1 498 385
Total cash and cash equivalents	**3 092 786**	**1 498 385**

35 TECHNICAL RESERVES AND RE-INSURER'S SHARE THEREOF

Data in THUF

Gross value of technical reserves	31 December 2022	31 December 2021 (restated)
Unearned premium reserve	1 912 517	1 178 252
Actuarial reserves	11 475 048	10 733 569
Claim reserves (RBNS, IBNR)	4 406 947	3 896 477
Reserve for premium	350 716	261 072
- refunds dependent on profit	33 050	103 363
- refunds independent of profit	317 666	157 709
Cancellation reserve	1 394 454	1 130 577
Recourse reserve	- 293 441	- 345 916
Other reserve	3 000 734	2 465 774
- reserve for policyholder's loyalty bonuses	2 367 128	1 771 049
- reserve for other reasons	527 414	694 725
- reserve for expected losses	106 192	0
Total technical reserves	**22 246 975**	**19 319 805**

The impact of the modification of the reference period is presented under Note 5.2.

In the life segment, in the case of the itemized RBNS claims reserve, we experienced a significant settlement result, which was mostly caused by the release of reserves due to the expiration of the claims (HUF 123 million). On the claims of the CIG Health visa product group policies there was a positive result of 39% (HUF 29 million). In the case of insurance services related to the CIG Health visa product group, 90% of the risk is taken over by the Company's reinsurance partners, so the net impact of the positive result on the profit or loss is HUF 2.9 million. Claims on group contracts (corporate and MVM accident) show a positive result of 11% (HUF 18 million).

In the Group's non-life segment, the provisions formed in 2021 adequately covered the risks relating to the prior period for which expenses incurred for the Insurer in 2022. For the itemized reserves, there was an overall operating profit of 16% (HUF 152 million), which is the effect of the operating profit of the suretyshio business line. Here, the operating result was due to a decrease in previously formed reserves, partly due to the release of a Hungarian surety reserve without payment and partly due to the revision of the reserve adjustments by Italian and Hungarian legal experts. Although the operating results of the accident, sickness and other financial losses branches are more significant in percentage terms, due to their low level of opening reserves, the amount of their operating results is not significant, in absolute terms none of them exceeds HUF 550 thousand.

The IBNR reserves of the non-life segment show a high settlement result in all sectors, but in total, the transaction profit of the suretyship business line of HUF 88 million accounts for the majority of the total IBNR transaction result (total HUF 93 million). The reserve formed for the Italian surety risks due to the extended claims was not used, because no claim was reported in 2022 that applied to the extended risk bearing period after the end of the risk bearing. An additional HUF 10 million in transaction gains will come from the IBNR reserve for the account protection product classified as other financial loss risk. Here, the insurer used to form reserves based on earned premiums, but in 2022 it switched to run-off triangular reserving, which has significantly reduced the previous level of reserves. The reserve formed on the basis of earned premiums of the property and liability insurance business lines shows a settlement result of HUF 2,380,000 in total, with high settlement percentages due to the low opening reserve (values between -53% and 100%), there is still little empirical data available to the insurer regarding the IBNR of products launched in 2021.

The itemized and IBNR run-off results shown here are largely due to the revalued reserves. Payout values over the past year have contributed much more modestly to the result. In addition to the claim reserves, the Insurer formed an unearned premium reserve, a cancellation reserve and an expected claim reserve independent of the profit or loss for the reporting date of 31 December 2022.

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.

Data in THUF

Reinsurer's share of technical reserves	31 December 2022	31 December 2021
Unearned premium reserve	787 836	301 793
Claim reserves:	888 987	150 760
- of which RBNS	630 219	78 149
- of which IBNR	258 768	72 611
Cancellation reserve	31 535	485
Other reserve	42 477	-
- reserve for expected losses	42 477	-
Reinsurer's total share of technical reserves	**1 750 835**	**453 038**

The Company's loss of passive reinsurance was HUF 730,715 thousand in 2022 and a loss of HUF 307,222 thousand in 2021.

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

Data in THUF

Reserves allocation as per main line of business (2021)	Unit-linked	Traditional health and accident insurance	Land vehicles	Other property claims	General liability	Suretyship insurance	Other non-life insurances	Total
Unearned premium reserve	33 079	708 095	5 448	198 522	4 981	228 127	-	1 178 252
Actuarial reserves	-	10 733 569	-	-	-	-	-	10 733 569
Outstanding claim reserves (RBNS, IBNR)	635 076	685 188	2 418	1 433	2 285	2 550 376	19 702	3 896 477
Reserve for premium refunds	1 238	241 663	-	-	-	-	18 171	261 072
of which: reserve for result-dependent premium refunds	1 238	102 124	-	-	-	-	-	103 363
of which: reserve for premium refunds independent of profit	-	139 538	-	-	-	-	18 171	157 709
Gross cancellation reserves	1 086 996	42 583	997	-	-	-	-	1 130 577
Gross regress reserves	-	-	-	-	-	- 345 916	-	- 345 916
Other technical reserves	1 633 852	831 922	-	-	-	-	-	2 465 774
Total	**3 390 241**	**13 243 020**	**8 863**	**199 955**	**7 266**	**2 432 587**	**37 873**	**19 319 805**

Reserves allocation as per main line of business (2022)	Unit-linked	Traditional health and accident insurance	Land vehicles	Fire and elemental damage	Other property claims	Land vehicle liability	General liability	Suretyship and guarantee	Total
Unearned premium reserve	30 072	765 510	46 043	974 881	-	1 131	50 547	44 333	1 912 517
Actuarial reserves	-	11 475 048	-	-	-	-	-	-	11 475 048
Outstanding claim reserves (RBNS, IBNR)	523 313	1 195 984	549 516	1 912 666	27 695	116 999	29 154	51 620	4 406 947
Reserve for premium refunds	1 238	243 424	-	-	63 565	12 774	29 714	-	350 715
of which: reserve for result-dependent premium refunds	1 238	31 812	-	-		-	-	-	33 050
of which: reserve for premium refunds independent of profit	-	211 612	-	-	63 565	12 774	29 714	-	317 666
Gross cancellation reserves	1 277 503	59 474	16 408	36 878	-	30	2 566	1 595	1 394 454
Gross regress reserves	-	-	- 64 076	- 229 365	-	-	-	-	- 293 441
Other technical reserves	2 192 065	702 477	106 192	-	-	-	-	-	3 000 734
Total	**4 024 192**	**14 441 916**	**654 083**	**2 695 061**	**91 261**	**130 934**	**111 981**	**97 548**	**22 246 975**

CIG PANNÓNIA INSURANCE

36 Results of liability adequacy test (LAT)

Life segment

The results of the model presented by product groups (unit-linked, traditional and Health visa 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 Health visa (previously Best Doctors) insurance products.

Data in million HUF, and thousand euro	2022				2021			
	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	34 684	2 869	17 173	289	51 771	3 961	15 896	277
- Death insurance benefits	- 3 649	- 784	- 3 728	- 9	- 3 565	- 647	- 5 549	- 180
- Surrender	- 73 839	- 14 801	- 4 549	- 202	- 86 783	- 16 487	- 2 006	- 9
- Endowment	- 22 503	- 2 092	- 9 427	- 85	- 25 768	- 1 742	- 11 589	- 62
- Sickness service	-	-	- 636	- 23	-	-	- 798	- 63
- Costs	- 4 665	- 512	- 1 582	- 14	-6 411	- 675	- 2 056	- 42
- First-year commission	- 113	- 16	- 199	- 32	-175	-6	- 24	- 1
- Renewal commission	- 1 047	- 113	- 3 518	- 1	- 1 198	- 112	- 1 336	- 10
+ commission reversal	213	22	60	-	94	9	57	0
Total CF	**- 70 919**	**- 15 427**	**- 6 407**	**- 77**	**- 72 034**	**- 15 699**	**- 7 405**	**- 90**
Accounting technical reserves	76 678	16 549	11 970	286	75 770	16 714	11 150	249
- DAC	- 864	- 82	- 468	- 11	- 774	- 31	- 426	- 14
Net reserves	**75 814**	**16 467**	**11 502**	**275**	**74 995**	**16 682**	**10 724**	**235**
Surplus / deficit	**4 895**	**1 040**	**5 095**	**198**	**2 962**	**983**	**3 320**	**145**

*BD TRAD means Health visa (previously Best Doctors) products of the Insurer

At the end of 2022 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 LAT surplus of the Company increased significantly compared to the end of the previous year. The main reason for the increase is the increase in the risk-free yield curve. Due to the increase in risk-free yield, future liabilities are taken into

account at a higher discount rate (which reduces the discounted present value of liabilities).

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 assumption related to the cost was 3.3% higher cost-level than the non-acquisition cost in the budget accepted by the management of the Company.

Non-life segment

The results of the Group's liability analysis related to its non-life segment contracts in its portfolio at the end of 2022 are shown in the table below, by product group:

Data in THUF

	CASCO	Home insurance	Property products	Suretyship - Hungarian	Suretyship - Italian	Credit insurance
Future premium income to be earned	2 255 444	73 673	1 909 457	221 800	42 774	9 998 288
Payments total	2 373 452	76 701	1 182 032	87 991	34 614	8 967 974
Claim payments	1 553 737	40 610	396 833	2 440	27 945	2 053 007
Administrative costs	203 009	9 688	152 606	19 964	3 859	900 052
Acquisition costs	299 523	18 978	451 778	51 014	-	4 999 144
Taxes	317 183	7 425	180 815	14 572	2 810	1 015 771
CF Total	**- 118 009**	**- 3 028**	**727 425**	**133 810**	**8 159**	**1 030 314**

The future cash flow of the Insurer's liabilities in the CASCO and home product groups shows a negative result. Based on the results, unearned premiums for future risks do not cover the expected payments, additional provisioning or the modification of the accrual of acquisition commissions was required.

Based on the calculation results, the insurer reduced the cost and tax accrual of the casco business line to zero, and formed a HUF 109 million reserve for the remaining part of the expected loss. The loss of 3 million in home insurance was largely managed by reducing cost accruals.

The recognized expected loss reserve was formed on a product with a proportional quota share reinsurance coverage, on the basis of which the reinsurance company covers the risks at a rate of 40%. The insurer formed a reserve of HUF 43.7 million as an asset, which is the reinsurer’s proportional part of the expected loss.

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 casco -having a large premium volume and high combined ratio- is the most sensitive to the assumptions. The high tax burden, the surtax on future premiums that further increases the already high insurance tax rate, contributes greatly to the expected loss of the casco product in the future.

The future stock of the casco product would, with an additional 57% increase in the claim ratio, incur in a loss in the order of billions, and the increase in the cost ratio would also cause a loss in the order of 100 millions.

In the case of home insurance, an increase in the claim and cost ratio parameter increases the loss to a lesser extent than in the case of the casco product.

In the case of suretyship insurance, an increase in the claim ratio of at least 30% would lead to a loss of the expected result on future risks. Within the product group, compared to previous years, the Italian suretyship unearned premiums, which measure future risks, have decreased significantly, the Hungarian suretyship product shows a low claim ratio.

The sensitivity analysis of the Italian suretyship product 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 a fivefold claim ratio the scale of 100 million. 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 according to our current knowledge all large claims, expected unresolved claims and the legal costs of multiple claim reviews.

In terms of cost expenditure, the cost ratio in the case of the Italian business line is the smallest due to the release of accrued commission in previous years and the tax burden incurred in previous years, which is smaller than in the case of domestic risks, thus its change, which can be interpreted only for the administrative costs, does not cause sensitive losses in future risks.

In addition to casco and home product portfolios, other contracts in the property and liability portfolio are also sensitive to deviations from claim ratio and cost ratio estimates, but in absolute terms this cannot cause significant losses.

Overall, the liability adequacy analysis also points to the casco risks, which are sensitive to the future cash flows of the policies in the portfolio and where, in addition to the 2023 cost ratio increased by the surtax, a change in the claim ratio (projected to be lower than in the previous year) could lead to significant losses.

37 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

	2022	2021 (restated)
Opening balance on 1 January	85 664 010	75 440 940
Written premium	19 152 258	16 780 424
Fees deducted	- 4 629 152	- 4 275 004
Release of reserves due to claim payments and benefits	- 11 942 351	- 13 650 401
Investment result	- 2 339 789	11 032 390
Reclassification between deemed and real initial units	- 22 151	- 28 106
Effect of acquisition (Dimenzió)	-	55 391
Other changes	322 481	308 376
Balance on 31 December	**86 205 307**	**85 664 010**

The modification of the reference period is presented under Note 5.2.

38 INVESTMENT CONTRACTS

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

Data in THUF

	2022	2021 (restated)
Opening balance on 1 January	5 237 951	2 910 863
Written premium	819 359	2 527 593
Fees deducted	- 104 940	- 147 627
Release of reserves due to claim payments and benefits	- 606 488	- 489 494
Investment result	- 136 548	435 782
Reclassification between deemed and real initial units	- 105	- 199
Other changes	- 41 922	1 033
Balance on 31 December	**5 167 307**	**5 237 951**

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.). The modification of the reference period is presented under Note 5.2.

39 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. Reinsurers provided financing for the first year commissions paid by the Company and adjusted for reversed commissions. The available amount was 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 percentage ratio for regular insurance premium of the reinsurance stock specified in the policiy has changed several times during the lifetime of the policy so far. The outstanding balance bears interest at a fixed rate of between 3.38% and 7.91% depending on the given generation of policies.

In 2018, the Company decided not to renew its financial reinsurance contract in respect of the generations starting in 2019, i.e. it repays in the following years the used financing and its interest. At the beginning of 2023, the financial reinsurance will be repaid in full.

Changes in 2022 and 2021 are presented below:

Data in THUF

	31 December 2022	31 December 2021
Opening balance of loans and financial reinsurance	37 739	149 901
Repayments (capital and capitalized interest)	- 34 656	- 117 861
Other changes	3 621	5 699
Closing balance of loans and financial reinsurance	**6 704**	**37 739**

IFRS 7 disclosures for financing cash flow

	2022.01.01	Cash flow-k	Átsorolás tőkébe	Devizás külöbözet	Egyéb	2022.12.31
Lease payment and interest	531 909	-158 836	88 362	13 456	-	474 892
Loans and financial reinsurance	37 739	-34 656	-	417	3 204	6 704
Payables to shareholders	19 929	-1 686 470	1 696 794	-	-	30 253
Treasury shares	-31 996	-	-	-	-	31 996
Total financing liabilities	**557 581**	**-1 879 962**	**1 785 156**	**13 874**	**3 204**	**479 853**

Data in THUF

	01.01.2021	Cash flows	Reclassifi-cation	Currency differences	Other	31.12.2021
Lease repayment and interests	59 880	- 80 242	546 696	5 576	-	531 909
Loans and financial reinsurance	149 901	- 117 862	-	- 931	6 631	37 739
Purchase / inclusion of treasury shares	-	- 31 996	-	-	-	- 31 996
Total financing liabilities	**209 781**	**- 230 099**	**546 696**	**4 645**	**6 631**	**537 653**

40 LIABILITIES TO REINSURERS

Data in THUF

	31 December 2022	31 December 2021
Liabilities to reinsurers	1 200 826	193 547
Unearned part of reinsurance commission	262 851	85 379
Liabilities arising from co-insurance	36 014	-
Total liabilities related to reinsurers	**1 499 692**	**278 926**

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 significant increase in reinsurance liabilities is due to the restart of the non-life segment and the transfer of the credit coverage portfolio.

41 LIABILITIES TO POLICY HOLDERS

Data in THUF

	31 December 2022	31 December 2021
Liabilities arising from services	58 783	61 476
Liabilities arising from premiums	863 909	820 932
Total liabilities to policy holders	**922 692**	**882 408**

Liabilities to insurance policy holders mainly 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. From the amount on the contingent account, the Insurer will pay the current premium with the next written premium. In the life segment, the value of prepaid premiums is significant at the end of 2021 and 2022.

42 LIABILITIES RELATED TO INSURANCE INTERMEDIARIES

Data in THUF

	31 December 2022	31 December 2021
Liabilities related to insurance intermediaries	729 183	244 158
Liabilities related to insurance intermediaries	**729 183**	**244 158**

Liabilities to insurance intermediaries include such commission liabilities which were invoiced by the brokers in December, however the Group paid them only in January 2023, furthermore commission which shall fall due in December according to the accounting, nevertheless the invoicing took place in the next year.

43 LEASE LIABILITIES

Data in THUF

	2022	2021
Balance on 1 January	531 909	59 880
Increase	106 411	560 192
Derecognition	-18 049	- 13 497
Paid leasing fees	179 495	91 033
Of which: Interest rate	20 659	10 791
Decrease of liabilities	158 836	80 242
Difference due to exchange rate	13 457	5 576
Balance on 31 December	**474 892**	**531 909**

The reason for the increase in lease liabilities is primarily the lease of new cars.

44 OTHER LIABILITIES

Data in THUF

	31 December 2022	31 December 2021 (restated)
Trade payables	199 430	143 910
Liabilities to fund managers	118 891	110 960
Liabilities to employees	119 371	98 106
Social contribution and taxes	372 524	149 812
Other liabilities	66 919	24 656
Accrued expenses and deferred income	726 530	503 212
Collateral obligation	1 225 580	568 724
Advance payments of state subsidies	438 853	512 248
Other liabilities total	**3 268 098**	**2 111 628**

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.

The collateral obligation increased due to the restart of the non-life business, mainly due to the new contracts of the Hungarian surety sector.

Accrued expenses include costs due before but not invoiced by the reporting date.

On 13 February 2021, the Company reported in an extraordinary report that the National Office for Research, Development and Innovation has issued an eligible professional opinion, based on which the Company and EMABIT receive HUF 799,977,189 in support in the field of "Development of personalizable insurance products with the help of artificial intelligence". The first installment of the subsidy (HUF 512,248 thousand) was called by the end of 2021.

For our project 2020-1.1.2-PIACI-KFI-2021-00267 the implementation period is 01.12.2022. - 31.12.2024. After the completion of the Project, we are obliged to maintain and operate the capacities, products and services developed within the framework of the Project until 31 December 2027 (maintenance period). Mandatory commitment until the end of the maintenance period: business utilisation in the amount of HUF 275,182 thousand.

The Company divided the balance sheet line of other liabilities and provisions in two in the statement of financial position for the purpose of clearer presentation.

45 PROVISIONS

In respect of provisions, the following changes were made during 2022 and 2021:

Data in THUF

	2022	2021 (restated)
Provision on 1 January	323 545	783 959
Provision release	-106 726	- 553 207
Provision allocation	303 149	92 793
Provision on 31 December	**519 968**	**323 545**

The Group formed provisions for the following items in 2022 and 2021:

Data in THUF

Provision for expected liabilities	Expected payment period	2022.12.31	2021.12.31 (restated)
Provision for losses due to expected termination of contracts	1-2 years	-	17 525
Provision for legal fees	1-2 years	185 763	237 885
Provision for litigation	1-2 years	17 332	34 300
Provision for expected liabilities	1-2 years	7 632	7 632
Other reserves of investment contract	1-2 years	42 594	26 203
Provision for personal expenses related to reorganization	1-2 years	266 647	-
Total provisions		**519 968**	**323 545**

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 186 million), which includes legal expenses of which the fulfillment is disputed by the insurer.

The provision for losses related to the termination of contracts is due to the expected loss on contracts sold by exited insurance intermediaries, where the Company expected that a significant portion of life insurance contracts previously entered into by the insurance intermediary will be canceled. The receivables of the insurance intermediaries involved were repaid during 2021 and 2022, thus the provision was released.

The reserve for investment contracts is the sum of the claim reserves and bonus reserves related to the investment contracts, which the Company reclassified during 2022 from the insurance technical reserves to the provisions balance sheet line. The reclassification was also done retroactively.

The provision for restructuring costs is the total of the costs related to organizational changes

46 SHARE CAPITAL AND CAPITAL RESERVE

As of 31 December 2022 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.

Summary of nominal value of issued shares in 2022 and 2021:

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

Megnevezés	Date of aquiring	Number of own shares	Par value of treasury shares (THUF)	Cost of treasury shares (THUF)
Series „A" shares – as a gift for free	2014.05.22	1 196 750	47 870	-
Transfer of series "A" ordinary shares to MKB Bank as consideration for a minority interest	2017.07.06	- 92 744	- 3 710	-
of which: sales in employee share-based payment program	2018.10.15	- 230 000	- 9 200	-
of which: sales in employee share-based payment program	2018.11.07	- 160 000	- 6 400	-
of which: sales in employee share-based payment program	2019.04.05	- 340 000	- 13 600	-
Conversion of shares	2020.12.09	- 374 006	- 14 960	
Conversion of shares	2020.12.09	374 006	12 342	
Purchase of series "A" shares	2021.03.30	100 000	3 300	31 996
2022.12.31		**474 006**	**15 642**	**31 996**

Based on the decision of the Board of Directors on 5 April 2019, 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 Board of Directors of the Company (with the no. 19/2020. (IV.24.) authorized by a resolution of the Board of Directors within the competence of the General Meeting) for the purpose of providing benefits to the MRP organization, with the help of MKB Bank Plc., on 29 March 2021, purchased 100,000 treasury shares at an average price of HUF 319. The shares provided will cover future payments subject to the terms and conditions of the MRP Organization, which are conditional and deferred, as well as maintenance obligations. As a result of the transaction the Company's treasury shares inventory has increased from 0 pieces to 100,000 pieces, which was 0,10 % of the amount of issued shares. The treasury shares were transferred to the MRP Organization on 6 May 2021.

Following the transfer of the shares, the Company did not own any CIGPANNONIA shares.

However, as the Company exercises control over the MRP organization as described in Note 3.12, the shares transferred to MRP are treasury shares in the consolidated financial statements with a cost of HUF 32 million.

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 2022	31 December 2021
Difference in fair value of financial assets at fair value against other comprehensive result	- 6 890 519	- 3 146 551
Other reserves	**- 6 890 519**	**- 3 146 551**

Other reserves include the difference between the fair value of financial assets valued at fair value against other comprehensive result recognized directly in equity, of which the negative evaluation difference of OPUS explain HUF -2,242 million, while the negative valuation difference of government bond portfolios explain HUF -4,649 million.

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49 FINANCIAL INFORMATION BY SEGMENTS

2022 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	730 572	261 486	-	-	992 058
Property, plant and equipment	132 659	16 197	-	-	148 856
Right-of use assets	276 579	132 594	-	-	409 173
Deferred tax asset	590 836	-	-	-	590 836
Deferred acquisition costs	1 434 785	449 180	-	-	1 883 965
Reinsurer’s share of technical reserves	457 684	1 293 151	-	-	1 750 835
Subsidiaries	4 200 772	-	-	-4 200 772	-
Investments accounted for using the equity method	51 753	-	-	608 700	660 453
Fair value of other financial assets	16 413 265	8 019 058	-	-	24 432 323
Investments for policyholders of unit-linked life insurance policies	86 205 307	-	-	-	86 205 307
Financial assets – investment contracts	5 167 307	-	-	-	5 167 307
Financial assets – derivatives	34 467	24 323	-	-	58 790
Receivables from insurance policy holders	2 707 548	157 790	-	-	2 865 338
Receivables from insurance intermediaries	123 577	884 690	-	-	1 008 267
Receivables from reinsurance	363 675	5 834	-	-	369 509
Own stock		-	111 865	-111 865	-
Other assets and prepayments	64 380	58 170	-	-	122 550
Other receivables	100 253	81 642	57	2 772	184 724
Cash and cash equivalents	2 588 804	485 936	18 046	-	3 092 786
Intercompany receivables	111 972	29 772	358 704	-500 448	-
Assets held for sale	-	-	-	-	-
Total Assets	**121 756 195**	**11 899 823**	**488 672**	**-4 201 613**	**129 943 077**

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	18 466 108	3 780 867	-	-	22 246 975
Technical reserves for policyholders of unit-linked life insurance policies	86 205 307	-	-	-	86 205 307
Investment contracts	5 167 307	-	-	-	5 167 307
Loans and financial reinsurance	6 704	-	-	-	6 704
Liabilities from reinsurance	647 539	852 153	-	-	1 499 692
Liabilities to insurance policy holders	846 590	76 102	-	-	922 692
Liabilities to insurance intermediaries	218 088	511 095	-	-	729 183
Intercompany liabilities	30 372	111 485	20	-141 877	-
Lease liabilities	318 780	156 112	-	-	474 892
Provisions	196 134	323 834	-	-	519 968
Other liabilities	1 375 322	1 891 204	1 572	-	3 268 098
Liabilities to shareholders	30 253	-	-	-	30 253
Kötelezettségek összesen	**113 508 504**	**7 702 852**	**1 592**	**-141 877**	**121 071 071**

NET ASSETS	8 247 691	4 196 971	487 080	-4 059 736	8 872 006

SHAREHOLDERS' EQUITY					
Share capital	3 116 133	1 075 000	275 730	-1 350 730	3 116 133
Capital reserve	4 019 111	7 620 236	-	-10 486 357	1 152 990
Treasury shares	-31 996	-	-	-	-31 996
Other reserves	-6 636 383	-254 136	-	-	-6 890 519
Retained earnings	7 780 826	-4 244 129	211 350	7 777 351	11 525 398
Equity attributable to minority interests	-	-	-	-	-
TOTAL SHAREHOLDER'S EQUITY	**8 247 691**	**4 196 971**	**487 080**	**-4 059 736**	**8 872 006**

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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	26 833 916	5 512 364	-	-	32 346 280
Changes in unearned premiums reserve	-54 408	-679 857	-	-	-734 265
Earned premiums, gross	26 779 508	4 832 507	-	-	31 612 015
Ceded reinsurance premiums	-843 647	-3 003 670	-	-	-3 847 317
Earned premiums, net	25 935 861	1 828 837	-	-	27 764 698
Premium and commission income from investment contracts	105 045	-	-	-	105 045
Commission and profit sharing due from reinsurers	313 302	1 241 149	-	-	1 554 451
Interest income calculated using the effective interest method	770 141	331 812	-	-	1 101 953
Other income of Investments	234 246	223 917	396 726	-372 040	482 849
Share of the profit of associates and joint ventures accounted for using the equity method	834 500	-	-	-352 837	481 663
Other operating income	876 341	114 780	16 642	-204 614	803 149
Other income	3 133 575	1 911 658	413 368	-929 491	4 529 110
Bevételek összesen	**29 069 436**	**3 740 495**	**413 368**	**-929 491**	**32 293 808**
Claim payments and benefits, claim settlement costs	-14 718 137	-1 410 486	-	-	-16 128 623
Recoveries, reinsurer’s share	124 314	626 083	-	-	750 397
Net changes in value of the life technical reserves and unit-linked life insurance reserves	-2 104 825	117 973	-	-	-1 986 852
Investment expenses	-3 608 753	-318 953	-758 327	1 626 478	-3 059 555
Impairment and impairment reversal of financial assets	-7 072	753	-	-	-6 319
Change in the fair value of liabilities relating to investment contracts	178 470	-	-	-	178 470
Investment expenses, changes in reserves and benefits, net	**-20 136 003**	**-984 630**	**-758 327**	**1 626 478**	**-20 252 482**
Fees, commissions and other acquisition costs	-4 883 218	-2 156 846	-	-	-7 040 064
Other operating costs	- 1 712 780	-833 318	-16 279	11 747	-2 550 630
Other expenses	-757 366	-520 816	-	193 491	-1 084 691
Operating costs	**-7 353 364**	**-3 510 980**	**-16 279**	**205 238**	**-10 675 385**
Profit/Loss before taxation	**1 580 069**	**-755 115**	**-361 238**	**902 225**	**1 365 941**
Tax income/expenses	-240 028	-35 335	-16	-	-275 379
Deferred tax income/expenses	117 015	-	-	-	117 015
Profit/Loss after taxation	**1 457 056**	**-790 450**	**-361 254**	**902 225**	**1 207 577**
Other comprehensive income	-3 731 575	-77 700	-	-	-3 809 275
Total comprehensive income	**-2 274 519**	**-868 150**	**-361 254**	**902 225**	**-2 601 698**

CIG PANNÓNIA INSURANCE

2021 (restated) 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	615 124	104 939	-	-	720 063
Property, plant and equipment	159 823	19 203	-	-	179 026
Right-of use assets	385 461	108 632	-	-	494 093
Deferred tax asset	473 820	-	-	-	473 820
Deferred acquisition costs	1 251 601	76 297	-	-	1 327 898
Reinsurer’s share of technical reserves	178 930	274 108	-	-	453 038
Subsidiaries	4 068 923	-	-	-4 068 923	-
Investments accounted for using the equity method	51 753	-	-	961 537	1 013 290
Fair value of other financial assets	21 507 124	6 901 950	-	-	28 409 074
Investments for policyholders of unit-linked life insurance policies	85 664 010	-	-	-	85 664 010
Financial assets – investment contracts	5 237 950	-	-	-	5 237 950
Financial assets – derivatives	937	-	-	-	937
Receivables from insurance policy holders	1 832 689	124 960	-	-	1 957 649
Receivables from insurance intermediaries	32 481	23 499	-	-	55 980
Receivables from reinsurance	15 663	72 016	-	-	87 679
Other assets and prepayments	-	-	183 677	-183 677	-
Other receivables	43 796	32 219	-	-	76 015
Cash and cash equivalents	69 828	110 440	426	2 702	183 396
Other assets and prepayments	741 831	745 112	11 442	-	1 498 385
Intercompany receivables	70 617	10 777	627 226	-708 620	-
Total Assets	**122 402 361**	**8 604 152**	**822 771**	**- 3 996 981**	**127 832 303**

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	16 633 261	2 686 544	-	-	19 319 805
Technical reserves for policyholders of unit-linked insurance	85 664 010	-	-	-	85 664 010
Investment contracts	5 237 950	-	-	-	5 237 950
Financial liabilities – derivatives	-	11 760	-	-	11 760
Loans and financial reinsurance	37 739	-	-	-	37 739
Liabilities from reinsurance	85 013	193 913	-	-	278 926
Liabilities to insurance policy holders	833 437	48 971	-	-	882 408
Liabilities to insurance intermediaries	156 728	87 430	-	-	244 158
Intercompany liabilities	11 577	69 826	90	- 81 493	-
Lease liabilities	414 318	117 591	-	-	531 909
Provisions	43 728	279 817	-	-	323 545
Other liabilities	1 042 756	1 043 177	1 873	23 822	2 111 628
Liabilities to shareholders	19 929	-	-	-	19 929
Total liabilities	**110 180 446**	**4 539 029**	**1 963**	**- 57 671**	**114 663 767**

NET ASSETS	**12 221 915**	**4 065 123**	**820 808**	**-3 939 310**	**13 168 536**

SHAREHOLDERS' EQUITY					
Registered capital	3 116 133	1 070 000	265 730	-1 335 730	3 116 133
Capital reserve	4 019 111	6 625 236	80 000	-9 571 357	1 152 990
Treasury shares	-31 996	-	-	-	-31 996
Other reserves	-2 971 872	-174 679	-	-	-3 146 551
Profit reserve	8 090 539	-3 455 434	475 078	6 967 653	12 077 836
NCI	-	-	-	124	124
Total shareholders' equity	**12 221 915**	**4 065 123**	**820 808**	**-3 939 310**	**13 168 536**

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	22 212 463	632 855	-	-	22 845 318
Changes in unearned premiums reserve	-70 210	-87 145	-	-	-157 355
Earned premiums, gross	22 142 253	545 710	-	-	22 687 963
Ceded reinsurance premiums	-276 242	-225 836	0	0	-502 078
Earned premiums, net	**21 866 011**	**319 874**	**0**	**0**	**22 185 885**
Premium and commission income from investment contracts	147 397	-	-	-	147 397
Other investment income	11 578 103	41 511	215 816	-220 113	11 615 317
Interest income calculated using the effective interest method	428 866	46 366	-	-	475 232
Change in capital of joint ventures and associates (profit)	448 109	-	-	359 966	808 075
Other operating income	937 423	246 621	165 973	-237 215	1 112 802
Commission and profit sharing from reinsurance	2 380	58 058	-	-	60 438
Other income	**13 542 278**	**392 556**	**381 789**	**-97 362**	**14 219 261**
Total income	**35 408 289**	**712 430**	**381 789**	**-97 362**	**36 405 146**
Claim payments and benefits, and claim settlement costs	-14 947 760	-516 817	-	-	-15 464 577
Claim refunds from reinsurance	64 081	82 732	-	-	146 813
Net change in the value of life technical reserves and unit-linked life insurance reserves	-12 009 477	45 150	-	-	-11 964 327
Investment expenditure	-1 059 904	-67 672	-219 418	1 106 685	-240 309
Impairment and impairment reversal of financial assets	-6 258	-7 778	-	-	-14 036
Change in the fair value of liabilities relating to investment contracts	-436 814	-	-	-	-436 814
Investment expenses, changes in reserves and benefits, net	**-28 396 132**	**-464 385**	**-219 418**	**1 106 685**	**-27 973 250**
Fees, commissions and other acquisition costs	-3 763 252	-372 277	10 855	-28 984	-4 153 658
Other operating costs	-1 707 811	-556 682	-23 908	32 387	-2 256 014
Other expenses	-307 791	-23 756	-3 048	96 168	-238 427
Operating costs	**-5 778 854**	**-952 715**	**-16 101**	**99 571**	**-6 648 099**
Result of assets held for sale	**-**	**2 718**	**-**	**-**	**2 718**
Profit/loss before taxation	**1 233 303**	**-701 952**	**146 270**	**1 108 894**	**1 786 515**
Tax income / (expenses)	-184 214	-1 523	-6 700	-	-192 437
Deferred tax income / (expenses)	87 797	-	-	-	87 797
Profit/loss after taxation	**1 136 886**	**-703 475**	**139 570**	**1 108 894**	**1 681 875**
Other comprehensive income	-2 184 796	-183 793	-	-6 809	-2 375 398
Comprehensive income	**-1 047 910**	**-887 268**	**139 570**	**1 102 085**	**-693 523**

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. An indirect effect may occur on the financial risks of unit-linked life insurances through costs deducted from the reserve (asset fund management fee and management fee). This rate is a maximum of 1.95% of the net asset value, i.e. significantly limited.

Financial assets are classified into different categories depending on the type of asset and the purpose for which it is acquired (see Notes 3.17 and 3.21).

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 and corporate bonds.

The 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). The financial risks affecting the Group are assessed independently of each other, as their combined effect, according to Solvency II analyses and calculations, is in all cases smaller than the sum of the individual effects. Due to the diversification effect between risks, the sum of the individual risks results in an upper estimate compared to the aggregate financial risk.

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 2022	31 December 2021 (restated)
Government bonds	22 899 285	32 805 829
Corporate bonds	4 566 451	1 551 652
Equity	24 874 428	26 099 260
Investment notes	46 537 498	53 218 264
Cash	19 698 901	7 615 638
Receivables	7 711 932	2 431 348
Other financial assets	- 2 904 144	- 626 930
Reinsurance share of the technical results	1 750 835	453 038

In case of the government bonds, which are the most significant financial assets, the credit risk exposure is not significant, due to this bonds are guaranteed by the state.
Claims on reinsurers are not considered to be material from a credit risk perspective as our reinsurance partners have ratings of at least A- or their Solvency II compliance is at least 100%.

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

	2022	2021
Opening balance on 1 January	1 799 763	1 880 481
Derecognition of impairment on irrecoverable receivables	- 77 092	- 28 898
Impairment of assigned receivables	1 575	-
Impairment booked to income statement	133 042	19 448
Impairment recognized against the release of provision	-	- 67 072
Derecognition of impairment	- 53	- 4 196
Closing balance on 31 December	**1 857 236**	**1 799 763**

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

Data in THUF

	31.12.2022		31.12.2021	
	Gross	Impairment	Gross	Impairment
Not overdue	2 184 838	-	654 387	-
between 0 and 30 days overdue	1 462	-	975 547	-
between 31 and 120 days overdue	384 289	-	389 654	-
between 121 and 360 days overdue	153 074	-	63 595	-
Overdue by more than a year	2 159 054	- 1 857 236	2 002 221	- 1 799 764
Total	**6 343 863**	**- 1 857 236**	**4 085 404**	**-1 799 764**

On 31 December 2022, The Group does not have any not overdue and not impaired receivables those return is uncertain. 100% of receivables due between 121 and 360 days, and non-impaired receivables overdue for more than one year are receivables from policyholders for which the Company forms 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:

31.12.2022 Data in THUF	Book value	Contractual cash flow	6 months or less	6-12 months	1-2 years	2-5 years	More than 5 years
Liabilities *	**12 618 790**	**12 179 937**	**10 341 280**	**424 117**	**946 827**	**327 875**	**139 838**
of which: leasing liabilities	**474 893**	**474 893**	**71 714**	**71 714**	**143 428**	**188 037**	
Government bonds	7 354 890	8 220 297	1 665 187	3 064 545	946 916	2 407 163	136 487
Corporate bonds	2 420 779	2 630 344	435 087	370 278	1 111 754	84 833	628 393
Equity	2 168 649	-	-	-	-	-	-
Investment notes	2 631 790	-	-	-	-	-	-
Cash	3 621 107	3 621 107	3 621 107	-	-	-	-
Receivables	4 856 445	5 460 089	5 194 840	265 249	-	-	-
Other financial assets	- 4 592	-4 592	-4 592	-	-	-	-
Derivatives	60 109	60 109	60 109	-	-	-	-
Total assets * *	**23 109 177**	**19 987 355**	**10 971 738**	**3 700 072**	**2 058 670**	**2 491 996**	**764 880**

* 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.

31.12.2021 Data in THUF	Book value	Contractual cash flow	6 months or less	6-12 months	1-2 years	2-5 years	More than 5 years
Liabilities *	**9 568 369**	**9 570 791**	**8 566 481**	**243 186**	**476 240**	**284 884**	**-**
of which: leasing liabilities	**531 909**	**531 909**	**76 443**	**76 443**	**152 886**	**226 137**	**-**

Government bonds	10 453 131	10 818 909	2 274 235	3 170 604	3 464 164	1 704 696	205 210
Corporate bonds	301 169	374 904	-	13 284	13 284	39 852	308 484
Equity	3 139 781	-	-	-	-	-	-
Investment notes	3 946 708	-	-	-	-	-	-
Cash	1 795 312	1 795 312	1 795 312	-	-	-	-
Receivables	2 246 966	2 246 966	2 246 126	339	501	-	-
Other financial assets	- 43 992	- 43 992	- 43 992	-	-	-	-
Total assets * *	**21 839 075**	**15 142 080**	**6 221 662**	**3 184 227**	**3 477 949**	**1 744 548**	**513 694**

* 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 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. For derivatives, foreign exchange exposure represents the total foreign exchange exposure of the underlying transaction.

The table below presents the foreign exchange exposures of financial assets and liabilities by currency as at the end of 2022 and 2021:

Data in THUF

31.12.2022	HUF	EUR	USD	DKK	RON	PLN
State bonds, discounted T-bills	20 498 392	2 400 893				
Corporate shares	1 946 149	2 620 302	-	-	-	
Equity	1 859 217	218 426	22 796 810	-	-	
Investment notes	17 867 310	1 791 612	26 878 624	-	-	
Cash	10 197 497	7 786 424	1 685 952	28 378	230	421
Receivables	5 907 911	1 566 471	237 550	-	-	
Derivative instruments		-3 101 029	-	-	-	
Other UL assets	- 1 040 929	- 644 242	- 1 301 085	-	-	
Loans and financial reinsurance	-	6 704	-	-	-	
Insurance and other liabilities	- 6 473 954	- 495 932	-	-	-	
Other financial liabilities	- 216 640	- 258 252	-	-	-	
Investment contracts	- 4 220 232	- 947 075	-	-	-	

Data in THUF

31.12.2021	HUF	EUR	USD	DKK	RON	PLN
State bonds, discounted T-bills	32 805 829	-	-	-	-	-
Corporate shares	983 196	568 456	-	-	-	-
Equity	2 755 079	277 139	23 034 969	32 073	-	-
Investment notes	18 074 814	3 302 286	31 841 164	-	-	-
Cash	4 373 282	2 327 499	907 893	884	6 080	398
Receivables	2 089 842	324 437	17 070	-	- 2	-
Derivative instruments	-	- 64 602	-	-	-	-
Other UL assets	- 398 357	- 107 774	- 56 193	-	-	-
Loans and financial reinsurance	-	- 531 909	-	-	-	-
Insurance and other liabilities	- 3 386 850	- 473 744	-	-	-	-
Other financial liabilities	- 255 808	- 276 100	-	-	-	-
Investment contracts	- 5 303 211	- 1 065 854	-	-	-	-

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 2022 and 2021 would have the following impact on the Group's profit/loss and equity:

Data in THUF

31.12.2022	EUR	USD	RON	DKK	PLN
Year-end FX rate	400.25	375.68	80.88	53.83	85.35
Possible change (+)	10%	10%	5%	5%	5%
Possible change (-)	10%	10%	5%	5%	5%
The impact of the increase of the FX rate on the profit or loss / shareholders' capital	**199 578**	**-**	**12**	**-**	**21**
The impact of the decrease of the FX rate on the profit or loss / shareholders' capital	**- 199 578**	**-**	**- 12**	**-**	**- 21**

Data in THUF

31.12.2021	EUR	USD	RON	DKK	PLN
Year-end FX rate	369	325.71	74.56	49.61	80.30
Possible change (+)	10%	10%	5%	5%	5%
Possible change (-)	10%	10%	5%	5%	5%
The impact of the increase of the FX rate on the profit or loss / shareholders' capital	**5 852**	**40**	**304**	**-**	**20**
The impact of the decrease of the FX rate on the profit or loss / shareholders' capital	**- 5 852**	**- 40**	**- 304**	**-**	**- 20**

50.4 Interest rate risk

The Group's interest payment liability from financial reinsurance was determined alongside an interest agreement fixed per reinsurance generation. For this reason, the existing reinsured generations carry no interest risk anymore.

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 2022 and 2021 year-end:

Data in THUF

	31 December 2022	31 December 2021
Fixed-interest	27 465 742	34 444 018
Floating-interest	-	-
Interest-bearing assets	**27 465 742**	**34 444 018**
Fixed-interest	481 596	569 648
Floating-interest	-	-
Interest-bearing liabilities	**481 596**	**569 648**

For fixed-interest financial assets valued at fair value against other comprehensive result a possible change in the interest rate (30 basis points in the case of HUF investments and 20 basis points in the case of the EUR investments in 2022) would alter the Company's equity by HUF -290,284 thousand in annual terms. (30 basis points in the case of HUF investments and -20 basis points in the case of EUR

investments in 2021, which would have altered the Company's profit/loss and equity by HUF -405,375 thousand in annual terms.)

The Group's interest-bearing assets and liabilities bore the following interest rates as of the end of 2021 and 2022:

	31.12.2022		31.12.2021	
	HUF	EUR	HUF	EUR
Government bonds	0,05%-6,75%	1,25%	0,01%-7,0%	-
Corporate bonds	2%-14%	2,5%-8,75%	3,25%	4,5%
Cash and cash equivalents	12,79%	-	-	-
Loans, and financial reinsurance	n/a	3,38% - 7,91%	n/a	3,38% - 7,91%
Leasing liabilities	2,65%-3%	2,7%-2,8%	2,65%-2,88%	2,7%-2,8%

50.5 Accounting classification and fair values

The carrying values of loans and receivables, financial instruments valued at fair value against other comprehensive result 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 December 2022	Financial assets at fair value through profit or loss	Financial assets measured at amortized cost	Fair value financial assets through other comprehensive income	Financial liabilities at fair value through profit or loss	Financial liabilities measured at amortized costs
Government bonds	3 098 696	-	19 614 848	-	-
Corporate bonds	525 121	-	4 009 853	-	-
Equity	22 705 779	-	807 622	-	-
Investment notes units	43 905 707	-	-	-	-
Cash (unit-linked & own)	15 667 005	3 092 786	-	-	-
Receivables	3 098 367	4 427 838	-	-	-
Other UL assets	- 2 817 372	-	-	-	-
Stocks bearing interests	-	-	-	-	-
Loans, financial reinsurance, other liabilities and provisions, liabilities from insurance, leasing liabilities, intercompany liabilities	-	-	-	-	7 451 482
Investement contracts	-	-	-	5 167 307	-
Derivative instruments	80 794				
Total:	**86 264 097**	**7 520 624**	**24 432 323**	**5 167 307**	**7 451 482**

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Data in THUF

31 December 2021 (restated)	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	7 155 198	-	25 213 123	-	-
Corporate bonds	-	-	1 551 652	-	-
Equity	23 266 700	-	1 409 917	-	-
Investment notes units	49 930 842	-	234 382	-	-
Cash (unit-linked & own)	5 764 765	1 498 385	-	-	-
Receivables	136 369	2 285 640	-	-	-
Other UL assets	- 529 976	-	-	-	-
Stocks bearing interests	-	-	-	-	-
Loans, financial reinsurance, other liabilities and provisions, liabilities from insurance, leasing liabilities, intercompany liabilities	-	-	-	-	4 430 242
Investment contracts	-	-	-	5 237 950	-
Derivative instruments	-59 887			11 760	
Total:	**85 664 011**	**3 784 025**	**28 409 074**	**5 249 710**	**4 430 242**

The Group’s determination of the fair value of assets and liabilities is presented in Note 3.19.

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

Data in THUF

31.12.2022	Level 1	Level 2	Level 3	Total
Government bonds	20 312 650	-	2 400 893	22 713 544
Corporate bonds	283 030	-	4 251 944	4 534 974
Equity	23 513 401	-	-	23 513 401
Investment notes	43 905 707	-	-	43 905 707
Unit-linked cash	15 667 005	-	-	15 667 005
Receivables and other unit-linked financial assets	280 995	-	-	280 995
Derivative instruments	22 979	57 815	-	80 794
Total assets:	**103 985 767**	**57 815**	**6 652 837**	**110 696 420**
Liabilities measured on fair value	5 167 307	-	-	5 167 307
Total Liabilities:	**5 167 307**	**-**	**-**	**5 167 307**

Data in THUF

31.12.2021 (restated)	Level 1	Level 2	Level 3	Total
Government bonds	32 368 321	-	-	32 368 321
Corporate bonds	-	-	1 551 652	1 551 652
Equity	24 676 617	-	-	24 676 617
Investment notes	50 165 224	-	-	50 165 224
Unit-linked cash	5 764 765	-	-	5 764 765
Receivables and other unit-linked financial assets	- 393 607	-	-	- 393 607
Derivative instruments	-	- 59 887	-	- 59 887
Total assets:	**112 581 320**	**-59 887**	**1 551 652**	**114 073 085**
Liabilities measured on fair value	5 237 950	-	-	5 237 950
Total Liabilities:	**5 237 950**	**-**	**-**	**5 237 950**

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 agency responsible for the supervision of gambling in Italy (hereafter: Beneficiary 1) 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, Beneficiary 1 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 EUR 3,167 million by the end of November 2019. No written document was prepared on the agreement closing the claim.

In addition to the claims related to the gaming concessions, three significant claims have been received by EMABIT. In the fourth quarter of 2019, Beneficiary 1 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 Beneficiary 1 initiating the claim payment, and then brought an action for declaring the contract invalid.

In connection with the guarantee contracts, a claim from another Italian authority (hereafter: Beneficiary 2) for EUR 5 million in bonds was received in the second quarter of 2020. The Insurer found that the claim was outside the maturity of the policy and that the deadline had not been extended by the rules laid down for the Italian COVID situation, and therefore rejected the claim. The Beneficiary 2's contrary decision was challenged by EMABIT in an Italian court.

At the end of 2020, the Insurer involved new legal experts to review all outstanding claims in its Italian suretyship-guarantee insurance portfolio and significantly increased its reserves for outstanding claims. The Insurer has re-examined the reserves for the 2021 and also for the 2022 financial statements. 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 21.490 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 3.950 million. Considering the experience of regress procedures, EMABIT modified the amount of regress reserves to EUR 584 thousand. If the amount of the claims to be paid will differ, the difference will change the Insurer's future result and equity.

Table 1: Main characteristics of CIG EMABIT's exposures in Italy by product type, as of 31 December 2022

Product type	Contractual limit (exposure) EUR	Number of contracts	Product type share of the exposure	Average maturity
PUBLIC_CONCESSIONS	17 078 598	23	84,2%	2,79
GESTORI_DI_RIFIUTI	3 206 445	20	15,8%	0,48
Total	**20 285 043**	**43**	**100,0%**	**1,72**

The effect of contingent liabilities to consolidated financial statement can be the maximum of HUF 4,197 million, the equity of EMABIT.

52 COMMITMENTS FOR CAPITAL EXPENDITURE

The Company had no commitments for capital expenditure as at 31 December 2021 and 31 December 2022.

CIG PANNÓNIA INSURANCE

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 2022 the members of the Board and Supervisory Board received HUF 14,300 thousand (in 2021 HUF 18,850 thousand) honorarium. No advances or loans were provided to them.

Contracted services:

The Insurer did not use services of companies under the control of the members of the Board of Directors and the Supervisory Board.

53.2 Transactions with intercompanies

MKB Fund Manager Ltd. invoiced the followings to the Group in 2022:

- HUF 376,875 thousand unit-linked portfolio management fee[3] (in 2021 HUF 374,073 thousand), and HUF 17,495 thousand unit-linked fund management fee[1] (in 2021 HUF 404,986 thousand)
- HUF 52,661 thousand portfolio management fee relating to own portfolio (turnover with CIG Pannonia Life Insurance Plc was HUF 39,321 thousand and HUF 13,340 thousand with CIG Pannonia First Hungarian General Insurance Ltd), in 2021 the own portfolio management fee was HUF 47,103 thousand.

CIG Pannónia Life Insurance Plc. invoiced services in an amount of HUF 283 thousand to MKB Fund Manager Ltd. in 2022 (in 2021 HUF 462 thousand).

53.3 Transactions with other related parties

The Company used mainly insurance intermediation activities from its other related parties in the following annual amounts:

- from Hungarikum Biztosítási Alkusz Kft. in the amount of HUF 940,445 thousand (in 2021: HUF 181,189 thousand),
- from HUNBankbiztosítás Kft. in the amount of HUF 58,653 thousand and EUR 566 (in 2021: HUF 188,635 thousand),

[3] Unit-linked portfolio management and fund management fee is charged directly to unit-linked investment fund's net asset value

- from HUNPénzügyi Tervező Kft. in the amount of HUF 145,385 thousand and EUR 10,008 (in 2021: HUF 200,547 thousand),
- from HUNInsurance Kft. in the amount of HUF 92,743 thousand (in 2021: HUF 3,581 thousand), and
- from HUNPartner Kft. in the amount of HUF 58,745 thousand (in 2021: HUF 17,777 thousand).

All services were provided at market prices.

On 31 December 2022, the Group has the following obligations with other related parties (companies related since 2021), which Insurer presented under the line *Liabilities to insurance intermediaries*:

- towards Hungarikum Biztosítási Alkusz Kft. in the amount of HUF 30,444 thousand (in 2021: HUF 4,059 thousand). The Group also recognizes a receivable from Hungarikum Biztosítási Alkusz Kft for paid commission advances in the amount of HUF 121,628 thousand on the balance sheet date.
- towards HUNBankbiztosítás Kft. in the amount of HUF 1,644 thousand (in 2021: HUF 7,013 thousand),
- towards HUNPénzügyi Tervező Kft. in the amount of HUF 12,964 thousand and EUR 3,108 (in 2021: HUF 9,176 thousand),
- towards HUNInsurance Kft. in the amount of HUF 2,790 thousand (in 2021: HUF 3,269 thousand),
- towards HUNPartner Kft. in the amount of HUF 2,868 thousand (in 2021: HUF 1,376 thousand).

The Group purchased used tangible assets from HUNInsurtech Kft. in the amount of HUF 909 thousand (in 2021: 5,828 thousand).

In 2021 the Group supported the publication of the Insurance Almanac with HUF 4,445 thousand, which was published by HUNMédia Kft. In 2022, the Company concluded a marketing agency framework contract with HUNMédia Kft. and in 2022 its turnover amounted to HUF 115,473 thousand. The Group has a liability of HUF 22,838 thousand towards the partner on the balance sheet date.

HUNService Kft. provided the Group with customer management, electronic data processing, claims administration, reconciliation and support services related to its group insurance policies in 2022 for a total amount of HUF 107,053 thousand. The Group has a liability of HUF 19,607 thousand towards HUNService Kft. at the balance sheet date.

No transactions occurred with other related parties.

54 SUBSEQUENT EVENTS

On 16 January 2023, the Company gave an immediate information that the employment of CEO Zoltán Polányi in CIG Pannónia Insurers was terminated by mutual agreement, and that the CEO also resigned from his position on the boards of both companies on the same day, as a result of which from that day the position of CEO of the companies is held by Dr. István Fedák acting as the sole CEO. Due to the changes, the Board of Directors of CIG Pannónia Életbiztosító Nyrt. elected a new President in the person of Board member Dr. Péter Bogdánffy[4], and the transformation of the organizational structure adopted by the Board has begun. On 1 February 2023, the Board of Directors of the Company - in order to determine for itself the basic guidelines and system of operation adapted to the changed management structure – entered into force a new organizational structure and, because of this, a new organizational and operational regulation (Regulations) that follows the changes in all respects and determines the levels of management and responsibility for both the Life Insurance Company and EMABIT.

With the entry into force of the Regulations, the senior management levels of the Company’s operation and the areas belonging to them were established as follows, adapted to the tasks:

The heads of the Company’s work organization: Management		
	CEO	dr. István Fedák
	Deputy CEO responsible for corporate governance and prudential compliance	dr. Gábor Dakó
	Chief Financial Officer	Árpád Szűcs
	Deputy CEO Sales Division	Zoltán Kőrösi
	Deputy CEO Retail Division	Antal Kóka
	Deputy CEO for Legal and Business Support	dr. Dávid Kozma

In its Information the Company stressed, that when defining management responsibilities and forming its own internal organization - according to other expected internal regulations, relevant recommendations, and all requirements of transparency and regulated market presence -, the Company kept in mind the criteria for the implementation of the Company’s unified, organic growth strategy containing development directions and goals (Growth Strategy).

In connection with the aforementioned reorganization, the conditions for provisioning already existed on the reporting date, therefore the Company created a provision for the amount of the expected wage payments, which appears among the salary costs. Furthermore, there was no other significant subsequent event in the life of the Company.

[4] https://bet.hu/newkibdata/128834222/BP_IG_ELN_HU_20230118.pdf

CIG PANNÓNIA
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55 STATEMENT

Consolidated Financial Statements and Consolidated Business Report of CIG Pannónia Life Insurance Plc. for the year 2022, 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 28 March 2023 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: after the business year 2022, if the conditions are available, it plans to pay a total dividend of HUF 1,700 million. Thus, the proposal of the Board of Directors for the use of the 2022 after-tax profit is to pay a dividend of HUF 18 per share to the shareholders and to transfer the additional required amount from the profit reserve.

Budapest, 28 March 2023

dr. István Fedák	Alexandra Tóth	Géza Szabó
Chief Executive Officer	*Chief Accounting Officer*	*Chief Actuary*

CIG PANNÓNIA
INSURANCE

CIG PANNÓNIA LIFE INSURANCE PLC.

CONSOLIDATED BUSINESS REPORT FOR THE YEAR 2022

28 March 2023

Report on the development and business performance of the Group

We increased our consolidated profit excluding extra profit tax by 7% from last year's HUF 1,682 million to HUF 1,807 million, despite the economic challenges of 2022 (14.5% inflation, 15% weakening of the forint against the euro).

However, our reported result, taking all items into account, has decreased from the HUF 1,682 million mentioned above to HUF 1,208 million in one year. This 28% decrease is primarily due to one-off items, and is not a result of organic business processes.

The extra profit tax was a burden of HUF 599 million over 2022. An important element in the evaluation of our Group's results is that the annual growth of all tax items - 940 million HUF - was essentially twice the value of our annual profit growth without taxes of 476 million HUF. Despite the fact that our business growth is outstanding, tax rates rising with an even higher growth rate have significantly reduced our reported profit.

Another significant item that reduced our result was the annual change in provisions due to international accounting rules, which reduced our profit from two aspects in 2022 (as compared to 2021). Our result for 2021 was improved by the provisions formed in previous years for the debts of our partners, which was then released due to the successful recovery activity. This HUF 335 million profit-enhancing item did not reappear this year. In addition, in order to provide the necessary financial coverage for some of our projects starting in 2022, laying the foundation of our future, we had to create provisions on the principle of prudence. We evaluate both effects as one-off items that do not directly affect business growth or the implementation of our strategy.

Our company is following its designated strategy, which is clearly visible in the growth of premiums and new acquisitions. Our insurance premium revenues in 2022 increased by HUF 49.6 billion, thus by 42% when compared to 2021. All of our portfolios participated in this growth. Thanks to unit-linked, industrial property, casco fleet and our strategic agreement with MBH (Magyar Bankholding), the increase in premium revenue from our group life insurance products was more than one-one billion forints each.

The dynamics in growth is also shown by the fact that compared to last year, the insurance premium income of each of our quarters was higher compared to the respective quarter from a year ago. The premium income of the fourth quarter was already close to ten billion forints, and our annual premium income exceeded thirty billion forints.

The increase in our premium revenue is driven by new sales. The industrial property and fleet casco products of the non-life sector increased significantly, by HUF 1.91 and HUF 1.77 billion resp. compared to 2021 / the last quarter. New acquisitions of group life products almost doubled in a year, while the acquisition of other non-life products increased almost threefold. New acquisitions of traditional products also increased, albeit by a more modest extent.

The drastic rise in yields on the market and the increase in inflation in the last quarter of 2022 erased the competitive advantage of unit-linked products, resulting in a small year-on-year decline in their sales.

Our extensive, strong sales network is behind the increase in new sales. Among the performance of our sales channels, the independent sales network stands out. The banking channel continued its growth, which intermediaries' written premium from their new aqcuisitions increased more than threefold compared to 2021. This very significant increase also had an indirect effect on the performance of the own network, as the new acquisition stock of this channel decreased by 8% compared to last year. The banking channel continued its increase in the last quarter as well, doubling the value of new acquisitions, which is a significant result of our strategic agreement with Magyar Bankholding and its member companies. The 13% growth of other business development is driven by the group insurances concluded with MVM and the agreements on the conclusions of individual property insurances with Euroleasing.

The increase in yields due to rising inflation had a negative impact on the valuation of our securities. According to the relevant International Financial Reporting Standards (IFRS), unrealised exchange losses do not reduce our profit after tax, but they do reduce the sales reserve in equity and thus the value of equity. Consolidated unrealised exchange losses reached HUF 3.8 billion by the end of the quarter. This loss could affect our profit after tax in two cases: if we sell our securities, or if the Hungarian sovereign rating is downgraded by international credit rating agencies.

Our insurer's capital position is stable, with a capital adequacy ratio of 200%.

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 in 2021, and and also hedged its own foreign exchange risks in this way.
- the Insurer has price risk mainly its own investments. The market value of the securities is continuously monitored by the ALM activity.

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Presentation of the Group’s financial situation in 2022

In 2022, the Group’s gross written premium was HUF 32,346 million, which is 142 percent of the revenues generated in the same period of 2021. Of this HUF 19,366 million are revenue from the gross written premium of unit-linked life insurance (of this HUF 7,412 million of pension insurance policies), HUF 6,510 million from traditional life products (of this HUF 1,229 million from pension insurance policies), HUF 958 million from health insurance policies and HUF 5,512 million from non-life insurance.

Non-life insurance generated premium income of HUF 5,512 million in 2022, which is an 771 percent increase to the comparative period. The non-life segment restarted in the third quarter of 2021, and the Group expects dynamic growth in the future in the segment. In the life segment the gross written premium from the first annual premiums of policies sold was HUF 4,530 million, which is a 72% increase compared to the previous year (HUF 2,636 million). The gross written premium income from renewals was HUF 15,745 million in 2022 in contrast to HUF 14,466 million in the the previous year, so the renewal premiums increased by 9%. Top-up and single premiums (HUF 6,559 million) were 28% higher as the premiums in the same period of the previous year, mainly relating to unit-linked life insurance policies. According to IFRS, within the total life insurance premium income of HUF 26,834 million, the rate of top-up and single premiums is 24 percent, which somewhat exceeds the 23 percent rate of the previous year.

The significant increase in premium income in the life segment is therefore caused by the increase in the sale of top-up and single premiums and the growing stock of regular premium (primarily group life and health insurance) policies.

The change in unearned premium reserve in 2022 was a loss of HUF 734 million (in 2021 a loss of HUF 157 million), which increase is mainly due to the increase in the stock of new products in the non-life segment and the rising group stock in the life segment. At the same time, the amount of ceded reinsurance premiums (a HUF 3,847 million loss in 2022 and a loss of HUF 502 million in 2021) increased significantly, also due to the restart of the non-life segment. From the reinsurance "result" point of view, the Companies are interested in increasing the sales volume as much as possible, given the specificities of the agreed scheme.

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 105 million in total during the reporting period, HUF 42 million less, than in the comparative period. The change in the fair value of liabilities related to investment contracts was a profit of HUF 178 million in 2022 due to the negative unit-linked returns.

The most significant item of other operating income (HUF 803 million) was the income from the Issuer's fund management (HUF 480 million), which is HUF 75 million less compared to 2021, as it is linked to the Group's previously sold unit-linked product type with a declining portfolio. In addition, the release of provisions, where the Group no longer expects future payments, increased other operating income by HUF 106 million, while in 2021 provision release was HUF 431 million.

The defining item among expenses are claim payments and benefits and claim settlement costs (together HUF 16,129 million), which expenditure is decreased by the recoveries from reinsurers (HUF 750 million).

Claims incurred increased by HUF 664 million compared to 2021, as a result of opposite effects. In the life segment the claims and repurchases of unit-linked products decreased significantly when compared to the comparative period, however, traditional and group payments increased, but to a lesser extent than the decrease of unit-linked product repurchases. Claim payments in the non-life segment increased as a result of the portfolio expansion.

The amount of net change in reserves is a loss of HUF 1,987 million, which is made up of mainly the following changes in reserves. The unit-linked life insurance reserve amount increased by HUF 541 million, which is due to two opposite effects, the increase in premiums and the negative unit-linked returns. The actuarial reserves increased by HUF 672 million, the technical reserves for the bonus payment of the life insurance clients increased by HUF 440 million, the reserve for premium refunds independent of profit increased by HUF 160 million. The outstanding net claim reserves decreased by HUF 170 million, while the cancellation reserves increased by HUF 281 million concurrently parallel to the decrease of the premium receivables.

The total operating cost of the Issuer was HUF 10,675 million in 2022, of which HUF 7,040 million is related to the fees, commissions and other acquisition costs, HUF 2,551 million to other operating costs and HUF 1,085 million to other expenses. Acquisition costs show a significantly growing trend (+69%), while gross earned premiums increased by 39%. This is mainly due to an increase in other acquisition costs above commissions, following the establishment of new businesses, organizations and the recruitment of new employees and related to the implementation of the growth strategy. The other operating costs increased by HUF 295 million compared to the same period of the previous year (HUF 2,256

million in 2021), primarily duean increase in personnel expenses. The volume of other expenses (HUF 1,085 million) is HUF 846 million more than the comparative period (HUF 239 million).

The main reason for the increase in other expenses was the newly introduced insurance surtax, which reduced the Group's annual result by HUF 599 million. Also, the existing insurance tax increased with the growth of non-life portfolios and group insurance (HUF 63 million in 2021, while HUF 317 million in 2022).

The investment result in 2022 is a loss of HUF 1,481 million, compared to a profit of HUF 11,837 million in the comparative period. The quite significant change was caused by the development of unit-linked yields.

As stock market investors, 2022 was a tough and complicated year. With few exceptions, almost all stock markets closed significantly lower compared to the end of 2021. The highest return was achieved with the Latin American, Warren Buffet and Metallicum asset funds, other markets ended the year with a loss. Asset funds with a moderate risk and mixed composition had a mixed performance, the Best Select asset fund closed with the best performance. Money market funds came into focus again in 2022 thanks to interest rate hikes by the MNB, the base interest rate is now 13%, but after one-day deposits, the central bank pays up to 18% to prevent the forint from plummeting.

In 2022, there was a significant turn in the capital markets. Globally, inflation picked up significantly in both developed and developing markets. Inflation was initially fueled by shortages in supply chains, and the situation was further worsened by the RussianUkrainian war, which triggered a surge in the price of oil and, in particular, the price of gas. The rising inflation could not be ignored by the central banks either, so the last year was also the year of the beginning of monetary tightening, thus marking the end of money printing that lasted for almost 15 years. Stock markets went down 20% from their highs. Although countries around the world still had significant restrictions due to the coronavirus at the beginning of last year, the number of Presentation of the Issuer's financial position 37 CIG Pannonia Life Insurance Plc. – Quarterly report Covid cases had already decreased by the second half of the year. At the same time, in China - significantly due to insufficient immunization and the relaxation of the Zero-Covid policy - infection rates jumped by the end of the year.

Inflation turned out to be more persistent, stickier and broader-based than most economic actor expected in 2022. In some regions, purely supply-side shocks (e.g. Western Europe - skyrocketing gas and energy prices due to the war), while in other countries the demandside effects are also significant (e.g. USA, Hungary), and hence the extent of the inflation problem, and the severity of the specific

central bank response measures also differs. The peak of inflation is not yet visible in Hungary, whereas the annual average inflation may have been around 14.5%, while we will see its peak in the first months of 2023. In the fight against inflation, the MNB raised the base interest rate to 13% in 2022, which is already an increase of 1,060 basis points - 10.6 percent (!) - since the beginning of last year. At the same time, the effective interest rate, i.e. the one governing the markets, already rose to 18% in the last quarter of last year, which may help to achieve price stability, but may significantly set back economic growth. The ZMAX index, which contains the shortest government securities maturing within 3 months, was the winner of the Hungarian bond market indices of the year, rising by 5.9%, but the RMAX index also rose by 3%, while the benchmarks containing longer papers fell significantly: the CMAX index by 14.8%, and the MAX index by 16.1%.

In 2022, the color „red" dominated the markets: both developed and developing countries achieved returns of around minus 20%. Developed markets narrowly outperformed emerging markets. As a result of the macroeconomic and geopolitical risks in the region, the stock markets of neighboring countries also performed poorly last year. Although regional papers are cheap, they trade on the markets with a significant stock market risk premium due to the previously explained economic and political reasons. Investors also traded Romanian, Polish and Czech papers, but they did not like the domestic stock market, despite its cheapness. This is still due to the introduced special taxes - which have a negative effect on the results of Hungarian listed companies - and our proximity to the war. The BUX index depreciated by 13.7% in the past year.

The American S&P500 index closed the year with a 19.7% decrease, while the STOXX 600 index, which includes Europe's 600 largest companies, only lost 13.1% of its value. The Japanese market was a bit of an outperformer with its -5.1% performance last year. Developing markets also performed negatively in 2022: Central and Eastern European indices showed a decrease of 11-17%. At the same time, the South American stock market was particularly strong within emerging markets with a zero percent dollar-denominated performance.

In 2022 the Forint found itself in rain – and it poured. Rising energy prices, budgetary imbalances, high inflation (even in regional comparison), political tensions and the effects of the war, as well as the developments during the negotiations with the EU moved the forint exchange rate and overall weakened it against both the dollar and the euro. The devaluation against the dollar was also supported by the US interest rate hike. Taking these into account, the forint was the fourth worst-performing currency among the currencies of developing market countries globally, with a weakening of more than 13% last year. At the time of

the low point in October, 445 forints had to be paid for one dollar on the interbank foreign exchange market, but it closed the year at 375.68 forints. Last year, the forint weakened by 8.2% compared to the euro. The peak against the euro was HUF 432 in October, which fell to HUF 400.25 by the end of the year.

The Issuer had HUF 966 million yield profit on its own investments in 2022, while in 2021 the profit was HUF 371 million. The increasing gain is due to the rising yield environment.

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 482 million gain in 2022, while it was HUF 808 million gain in 2021. The decrease is caused by a decrease in the portfolio management success fee, due to mostly negative unit-linked returns.

The result of assets held-for-sale no longer arose in 2022, as the Company no longer had any assets held-for-sale, while in 2021 it was HUF 3 million.

As a result of all of the above, the profit before tax amounted to HUF 1,366 million profit (in 2021 the profit before taxation was HUF 1,787 million), that was reduced by HUF 275 million tax liability and increased deferred tax revenue of HUF 117 million. The overall profit after tax is HUF 1,208 million, that is HUF 474 million, 28% less than the profit after tax in 2021, primarily due the negative effect of the insurance surtax on the result (-599 million forints). The other comprehensive income contains the decrease in the fair value of financial assets valued at fair value against other comprehensive result, amounting to HUF 3,809 million, of which HUF 602 million is the unrealized loss on OPUS shares owned by the Group, while the remaining loss (HUF 3,207 million) arose from the unrealized loss on government bonds caused by rising yields on the government securities market. The total comprehensive income represents a loss of HUF 2,602 million in 2022.

The Issuer's balance sheet total was HUF 129,943 million; its financial position is stable; the company has met its liabilities in full. On 31 December 2022 the shareholders' equity was HUF 8,872 million.

CIG PANNÓNIA
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Implementation of business policy goals in 2022

For the CIG Pannónia group, the year 2022 was of outstanding importance in the implementation of the Growth Strategy announced in 2021, which included development directions and goals and was narrowed down to organic growth goals, as it was our first full economic year following the relaunch of our non-life insurance products in 2021.

Relaunching our industrial property, fleet casco, and guarantor products and operating them with the demand and specific elements of growth, creating and securing the necessary capital position for this was an important element of our strategy in the past year.

We have become known and even acknowledged in the insurance market, and have managed to achieve substantial market participation in a very short period of time, with annual growth in industrial property and fleet casco premiums of HUF 1.9 billion and HUF 1.8 billion, respectively, during 2022

Our other priority task to achieve our strategic goals was to exploit synergies in the bank-insurer cooperation more fully, through a strategic agreement with Magyar Bankholding (MBH) and its member companies, MKB Bank Nyrt., Takarékbank Zrt. and Budapest Bank Zrt., which on the one hand has been embodied in the bank product sales and related sales support activities, on the other hand in the exclusive insurance sales and related sales support activities of Magyar Bankholding Zrt. and its member banks on the other, contributing to enhancing the customer experience. Thus we have started to realize our goals, and we are stepping up the pace of implementation, so that we are present with a wide range of products in 2022 in MBH, which implements the first stage of the banking merger. We offer our customers group life insurance, credit coverage insurance, home and travel insurance, regular and single premium savings and accident insurance. We have learned a lot about the possibilities of banking cooperation, and our goal is to further exploit and develop these. We are proud to have entered the home insurance market with our certified consumer-friendly home insurance product in the spring.

We also set the goal of starting agricultural insurance in 2022. Last year was extraordinary not only from the political and security aspect, but also from the climate change aspect. However, the record drought year of 2022 has warned us to be cautious in terms of the development and market introduction of products in this area, but we have not given up on our goal, i.e. our successful market presence in this area, we only want to devote more energy to developing the details of our agricultural insurance product, ensuring the best possible timing for the product launch.

An advanced, modern insurer cannot operate without advanced partner networks. We did a lot to develop our independent network relationships, thus the number of brokers and agents cooperating with us amounted to nearly 220 partners by the end of the year. Modern operation also includes the use of advanced twenty-first century techniques. We have started planning our Innovation Project, clarifying the requirements to implement a modern, end-to-end system, with the goal to increase our customers' satisfaction.

IFRS 17 has been implemented on schedule and our staff are already working on converting the 2022 numbers to be used for comparison. A huge effort has been made over the past year to get the new system up and running. This year, it will be an important task to convey the rules of the new regime, the features of the system and related knowledge to the owners, our investors, and even the market participants who analyze us. Understanding the transition results will now be essential to interpreting the results of the CIG Pannónia Group and comparing them with its past results, as in reality CIG Pannónia Life Insurance Plc. is currently the only insurance company in Hungary whose reports must be prepared in accordance to this set of rules.

As last year, this year too we believe that our employees are behind many of our successes. The number of our employees reached two hundred by the end of the year, which number requires a structured HR operation. Our aim was to introduce a well-thought-out performance evaluation system, which we are already using when taking stock of personal achievements for the year 2022.

The topic of sustainability is becoming more and more important these days. Our goal was to incorporate this approach into our processes as an insurance company. We are at the beginning of this journey, and we have taken the first steps to be able to report in a transparent way to our customers, shareholders and the whole society on all elements of the environmental, social and governance (ESG) framework that affect our company and impact our operations. Our aim is to incorporate the most modern principles and methodologies from the ESG framework into our daily operations in a scheduled and thus transparent way, so that our operations can be measured and evaluated in an integrated way with our financial data for our investors, and so that we can take a fuller advantage of the benefits the framework provides.

Overall, the year 2022 has been remarkable in that it has brought sharp political, economic, security, and climate changes at the same time. Our keyword was change management once again. We have tried to recognize and take advantage of their inherent potential and thus become an active, proactive player in the process of change. Due to our size, we are able to offer our partners the kind of flexibility and speed that, in our view, has become an expectation, but also our value in the accelerated world of the recent years.

Business policy goals of CIG Pannónia Life Insurance Plc. for 2023

We believe that the impact of the global changes of 2022 will be felt in 2023 as well, and their management, the appropriate restructuring of our operations will be key in this year.

Like all companies, the companies of the CIG Pannónia Group are interested in increasing premium income and profit, maximising shareholder value at the consolidated level, providing better service to their customers and partners, and we could go on and on with listing the goals that will make us better, more efficient, bigger at the corporate and the group level. This year, the focus of this is on our own employees, who we treat as the key to achieving our plans.

At the beginning of this year, we rationalized and shaped the organizational units to the upcoming year's plans, introduced a shorter, even faster response customer relationship structure and risk-taking process. We did all this in order to ensure that the group could meet the expectations of a smaller number of employees both at the organizational level and at the employee level. Our internal objectives in this area are to develop a remuneration structure that is more responsive to the rising expectations and more reflective of individual performance, besides increasing regional and individual responsibility, we launched a mentoring programme for our employees representing the younger generation, we introduced, introduce a program for leadership, coaching and other programs that put the focus on the personal development of employees.

We can’t stress enough the importance of the cooperation launched with Magyar Bankholding and its subsidiaries. After the start of last year and concluding the lessons learnt, our most important task is to support the Bank's sales force in everything, so that in this year – a year full of challenges for the financial sector - it can provide the best possible service to its customers when selling insurance products, both in the retail and the business areas. It is important to highlight our integrated casco product developed for Euroleasing Zrt., the introduction of which this year followed true teamwork.

Our Innovation Project continues; not only are we over the survey, but the ideas are also being concretized, which could finally mean a turn towards the actual implementation of the project this year.

Following the relaunch of EMABIT, it is a priority goal this year to increase our market share in the industrial property and fleet casco sector, to reach as many partners as possible and to serve our cooperating partners better and faster. In the non-life business, this year we aim to further strengthen our retail products - sold through the network of independent intermediaries - and in the corporate property sector we are working on launching new products that reflect market needs and international trends.

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Subsequent events in accordance with supplementary notes

On 16 January 2023, the Company gave an immediate information that the employment of CEO Zoltán Polányi in CIG Pannónia Insurers was terminated by mutual agreement, and that the CEO also resigned from his position on the boards of both companies on the same day, as a result of which from that day the position of CEO of the companies is held by Dr. István Fedák acting as the sole CEO. Due to the changes, the Board of Directors of CIG Pannónia Életbiztosító Nyrt. elected a new President in the person of Board member Dr. Péter Bogdánffy[5], and the transformation of the organizational structure adopted by the Board has begun. On 1 February 2023, the Board of Directors of the Company - in order to determine for itself the basic guidelines and system of operation adapted to the changed management structure – entered into force a new organizational structure and, because of this, a new organizational and operational regulation (Regulations) that follows the changes in all respects and determines the levels of management and responsibility for both the Life Insurance Company and EMABIT.

With the entry into force of the Regulations, the senior management levels of the Company's operation and the areas belonging to them were established as follows, adapted to the tasks:

The heads of the Company's work organization: Management		
	CEO	dr. István Fedák
	Deputy CEO responsible for corporate governance and prudential compliance	dr. Gábor Dakó
	Chief Financial Officer	Árpád Szűcs
	Deputy CEO Sales Division	Zoltán Kőrösi
	Deputy CEO Retail Division	Antal Kóka
	Deputy CEO for Legal and Business Support	dr. Dávid Kozma

In its Information the Company stressed, that when defining management responsibilities and forming its own internal organization - according to other expected internal regulations, relevant recommendations, and all requirements of transparency and regulated market presence -, the Company kept in mind the criteria for the implementation of the Company's unified, organic growth strategy containing development directions and goals (Growth Strategy).

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

[5] https://bet.hu/newkibdata/128834222/BP_IG_ELN_HU_20230118.pdf

CIG PANNÓNIA
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Ownership structure, rights attaching to shares

The ownership structure of CIG Pannónia Life Insurance Plc. (31 December 2022)

Owners description	Number of shares	Ownership ratio	Voting right
Domestic private individual	29 723 593	31.47%	31.48%
Domestic institution	63 328 431	67.07%	67.07%
Foreign private individual	137 037	0.15%	0.15%
Foreign institution	22 540	0.02%	0.02%
Nominee, domestic individual	1 158 518	1.23%	1.23%
Nominee, foreign individual	18 100	0.02%	0.02%
Nominee, foreign institution	32 726	0.03%	0.03%
Unidentified item	7 315	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 "unidentifiable item" in the shareholders' register.

The owners of the Company are private and legal persons residing in Hungary and abroad, as of 31 December 2022 the number of owners is 5,753. Over 10 percent ownership is present at Hungarikum Insurance Broker Ltd., who has a 57.52 percent stake with 54,311,374 shares, Dr. Gábor Móricz has a total of 3,365,000 (3.56%) CIGPANNONIA ordinary shares. Kaptár Investment Ltd., which is in close contact with Gábor Móricz, has a total of 3,500,000 (3.71%) ordinary shares.

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 (**Recommendations**) issued by the Budapest Stock Exchange Zrt. Is to formulate guidelines to facilitate the operation of publicly traded companies (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, which show to what extent and with what deviations each issuer complies with the Recommendations.

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 Company hereby declares that the responsible corporate governance practice operated by it complies in all respects with the requirements of the current regulatory environment.

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. The Company fulfills its obligation in this respect continuously.

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 – and thus it is also expected from the Company – 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 Company's Reports for a given business year are available on the Company's official website in a transparent and retrievable manner.

The Recommendations forming the basis of the Report were significantly amended first on 23 July 2018, then on 08 December 2020 by the Responsible Corporate Governance Committee acting beside the BSE. The amendment was made in relation to remuneration, due to the fact that certain requirements for remuneration, previously included in the Recommendation, have been delegated

to legal Acts, therefore the Company hereby also states that its practice complies in all aspects with Act LXVII of 2019 promoting long-term shareholder participation and amending certain acts for legal harmonization. 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 its 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. In connection with this requirement, we would like to note that the Company publishes on its website its policy on the management of market abuse, as well as, in a separate document, the trading prohibition periods for persons performing managerial and executive duties.

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 Report in a separate document to the General Meeting and, if accepted, shall publish it immediately and in full at the official places of publication, i.e. on the website of the BSE, at the place of publication operated by the Magyar Nemzeti Bank, and on the Company's own website.

In order to comply as much as possible – practically in full – with the legal and regulatory obligations, expectations and recommendations within the scope of responsible corporate governance - and thus the Report -, the Company has established a competence center at the level of Deputy CEO, which aims to ensure the coherence of diversified regulations and to create and ensure the development and maintenance of “best practices” tailored at the Company.

In this context, the Company applies guidelines regarding the establishment and composition of the management and supervisory bodies and the selection of key personnel in the work organization.

The selection criteria are transparent, accessible to everyone, the personnel selection processes, the competencies, their potential changes, the continuous compliance with them, the compliance with the conditions of professional duty and business reliability are ensured in a documented manner.

The guidelines, which also cover the application of diversity policies, have been published on the Company's website, their review and the compliance with them are ensured, a review is performed on an annual basis.

The Company's Articles of Association regulate the rules for the appointment and removal of senior officials, as well as for amending the articles of association. Among other things, the General Meeting has the exclusive competence to elect and recall the members of the Board of Directors and the Supervisory Board (and also the auditor) and determine their remuneration. The decision requires a qualified majority. The Company has a Board of Directors consisting of at least three and at most seven members, who are elected or recalled by the General Meeting. The list of the members of the Board of Directors is included in Annex 2, an inseparable part of the Articles of Association. The Company has a Supervisory Board consisting of at least three and at most ten members, who are elected (for a maximum period of five years) or recalled by the General Meeting. Members of the Supervisory Board - with the exception of persons representing employees - may not be employed by the Company. The Supervisory Board elects its chairman from among its members.

Establishing and amending the Articles of Association is also the exclusive competence of the General Meeting and also requires a qualified majority decision. According to the Articles of Association, the General Meeting decides (Chapter VIII points g, h, i, j, k):

g) on the conversion of a printed share into a dematerialized share;

(h) on changing the rights attached to certain series of shares, or transforming certain types and classes of shares (if several series, types and/or classes of shares are issued);

(i) on the issuance of a convertible bond or a bond with subscription rights, unless otherwise provided for in the Civil Code;

(j) on the increase of the share capital (with the exceptions provided for in the Articles of Association);

(k) on the reduction of the share capital (qualified majority), unless otherwise provided for in the Civil Code.

The rules for raising and lowering the share capital are regulated in detail in Article XII of the Articles of Association.

(i) the powers of the senior officers, in particular their power to issue and repurchase shares

The rules for issuing shares are based on the principles contained in the Articles of Association. A repurchase - i.e. the purchase of own shares - is possible only and exclusively according to the rules of the Civil Code. Pursuant to Paragraph (1) of Article 3:223 [Decision on the acquisition of own shares] of Act V of 2013 on the

Civil Code, the acquisition of own shares is subject to the prior authorization of the Board of Directors to acquire the own shares by the General Meeting, while also determining the shares' type, class, number, nominal value and, in the case of acquisition for consideration, the minimum and maximum amount of the consideration. The authorization is for a period of eighteen months.

Employment policy

Our colleagues are behind the growth and success of the Company as presented in the report and statements. Our headcount increased significantly in 2022, reaching two hundred people by the end of the year. This number of employees and the complexity of the business processes require an advanced, supportive approach to human resource management.

The first element of this was the finalization of our remuneration system, which was regulated and published in accordance with the relevant regulations. 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 the SRD Act[6] Section 2.§ (2);
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.

We spent last year putting these key rules into practice. The drawing of lessons and the identification of the necessary changes are currently underway.

The employment policy of our company is, was significantly affected by the exceptionally unique nature of the year 2022. The global economic, security, and climate changes occurred all within a short period of time, simultaneously. As a responsible employer, we perceive the pressure caused by the change in the economic situation on the financial situation of our colleagues. In addition, as a company with a responsibility to shareholders, increasing shareholder value is also at the heart of our decisions.

In order to meet both expectations, we aim to develop a remuneration structure in 2023 that is more responsive to the rising expectations and more reflective of

[6] Act LXVII of 2019 on the promotion of long-term shareholder participation and the amendment of certain laws for the purpose of legal harmonization

individual performance, besides increasing regional and individual responsibility. We launched a mentoring programme for our employees representing the younger generation, we introduced, introduce a program for leadership, coaching and other programs that put the focus on the personal development of employees.

Our company aims to comply with the regulatory environment in all respects. Consideration of the environmental, social and governance (ESG) framework has a direct impact on redefining the role of our workers as employees. Our aim is to incorporate the most modern principles and methodologies into our day-to-day operations in a scheduled and thus transparent way. These changes, process and attitudinal changes also affect our employment policy.

In order to ensure equal opportunities and the protection of human rights, the Company has appropriate rules and regulation in place, compliance with which is an important element of the employment policy.

The Company's risk management policy provides for the handling of fraud and fraud prevention activities, and the application of the compliance policy is an important tool in the fight against corruption and bribery.

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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 launched its research and experimental development activities in 2022 in the topic of "Development of personalised insurance products using artificial intelligence", as explained in more detail under Note 45.

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, 28 March 2023

dr. István Fedák	Alexandra Tóth	Géza Szabó
Chief Executive Officer	*Chief Accounting Officer*	*Chief Actuary*

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