

This is a translation of the Hungarian Report

Independent Auditors' Report

To the Shareholders of
CIG Pannónia Életbiztosító Nyrt.

Opinion

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

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

Basis for opinion

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

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

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

Key audit matters

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

We have fulfilled the responsibilities described in the "Auditor's responsibilities for the audit of the annual financial statements" section of our report, including in

relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the annual financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying annual financial statements.

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

From January 1, 2016 insurance companies are required to calculate their solvency capital and fulfill their regulatory reporting obligations on their solvency capital adequacy based on the new Solvency 2 regulations. In section 2.7.1 of the supplementary notes to the financial statements the Company discloses its solvency capital position in accordance with the new Solvency 2 regulations. The calculation of the solvency capital under Solvency 2 regulations is substantially different and more complex compared to the prior year's Solvency 1 regulatory capital calculations, involves several future assumptions and requires a significant degree of judgment, as the liabilities are based on their best-estimate and investments are valued at their fair value. We therefore consider this as a key audit matter.

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

The actuarial specialists performed independent re-projections on selected examples to those which were used by management to the calculation of the best estimate to assess if cash-flow projections used took account of all of the necessary cash in- and out-flows required to settle the future insurance and reinsurance obligations.

We also assessed the appropriateness of the Company's disclosures in section 2.7.1 in accordance with the Hungarian Accounting Law.

Valuation of life insurance technical provisions

Valuation of life insurance technical provisions involves a significant degree of assumptions and complex judgements. The insurance technical provisions in sections of 2.8, 2.9 and 2.10 of the financial statements represent 87% of the total assets of the Company as at 31 December 2016. A range of methods, including stochastic projections, are used to determine these provisions. Underlying these methods there are various explicit or

We understood and tested the policies and controls underlying the life insurance provisioning process.

We involved actuarial specialists in understanding the methodologies, models, and assumptions used by the Company for the calculation of mathematical reserves. We evaluated and tested the methodologies, models and actuarial assumptions by comparing them to the underlying in-force

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

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

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

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

We performed independent calculations on selected samples of contracts.

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

Strong dependence on information technology (IT) systems

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

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

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

We tested the operating effectiveness of controls over appropriate access

Due to the complexity of IT systems and nature of application controls we consider this as a key audit matter.

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

Other matters

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

Other information

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

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

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

- i) the business report has been prepared in accordance with the Hungarian Accounting Law and other relevant legal requirements, if any.
- ii) the statement on corporate governance, included in the business report, properly describes the main features of the Company's internal control and risk management systems in relation to the financial reporting process
- iii) the statement on corporate governance, included in the business report, properly describes the information required by Paragraphs c), d), f), h) and i) of Section 95/A of the Hungarian Accounting Law.

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

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

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

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

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

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

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

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

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

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

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Hungarian National Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

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

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

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

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

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

Budapest, 13 March 2017

(The original Hungarian language version has been signed.)

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