

This is a translation of the Hungarian Report

Independent Auditor's Report

To the Shareholders of
CIG Pannónia Életbiztosító Nyrt.

Report on the audit of the financial statements

Opinion

We have audited the accompanying 2020 financial statements of CIG Pannónia Életbiztosító Nyrt. ("the Company"), which comprise the statement of financial position as at 31 December 2020 - showing a balance sheet total of HUF 108.773.584 thousand and a total comprehensive profit for the year of HUF 384,976 thousand -, the related statement of comprehensive income, statement of changes in equity, statement of cash flows for the year then ended and notes to the financial statements, including a summary of significant accounting policies.

In our opinion the financial statements give a true and fair view of the financial position of the Company as at 31 December 2020 and of its financial performance and its cash flows for the financial year then ended in accordance with International Financial Reporting Standards as adopted by the EU ("EU IFRSs") and have been prepared, in all material respects, in accordance with the supplementary requirements of Act C of 2000 on Accounting ("Hungarian Accounting Law") relevant for annual financial statements prepared in accordance with EU IFRSs.

Basis for opinion

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

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

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

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the 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 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 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 financial statements.

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

Insurance companies are required to calculate their solvency capital and fulfil their regulatory reporting obligations on their solvency capital adequacy based on the Solvency 2 regulations. In Note 7 Capital adequacy of the notes to the financial statements the Company discloses its solvency capital position in accordance with the Solvency 2 regulations. The calculation of the solvency capital under Solvency 2 regulations is complex and involves several future assumptions and requires a significant degree of judgment determining the best estimate insurance liabilities, as the liabilities are based on their best-estimate and investments are valued at their fair value.

We therefore consider this as a key audit matter.

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

We performed completeness check on the contractual data used and checked the mathematical accuracy of the calculations.

We checked the calculations on selected samples used by management for the calculation of the best estimate to assess if cash-flow projections took into account all of the necessary cash in- and out-flows required to settle the future insurance and reinsurance obligations.

We also assessed the appropriateness and completeness of the Company’s disclosures included in Note 7 Capital adequacy to the financial statements.

Valuation of life insurance technical provisions

Valuation of life insurance technical provisions involves a significant degree of assumptions and complex judgements particularly future investment yields, mortality, morbidity, longevity, and the frequency and ultimate cost of claims assumptions. The life insurance technical provisions in Note 3.4.4 Valuation of insurance technical liabilities, Note 36 Technical provisions and re-insurer's share thereof and Note 38 Unit-linked provisions of the financial statements represent more than 81% of the total assets of the Company as at 31 December 2020. A range of methods, including actuarial and statistical projections, are used to determine these provisions. Underlying these methods there are various explicit or implicit assumptions (such as ultimate loss ratio, lapse ratios, future investment yields, mortality, morbidity, longevity, and the frequency of claims assumptions), which led us together with the relative size of these life insurance technical provisions to the total assets to consider this as a key audit matter.

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

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

Our audit procedures also included assessing the Company's methodology for calculating the insurance liability adequacy tests and analysing annual movements in life insurance technical provisions. We assessed whether the annual movements in life 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 life insurance technical provisions to the source documentation on a sample basis.

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

We also assessed the appropriateness and completeness of the Company's disclosures included in Note 3.4.4 Valuation of insurance technical liabilities, Note 36 Technical provisions and re-insurer's share thereof and Note 38 Unit-linked provisions of the financial statements.

Valuation of investment in EMABIT

The Company carries the investment in its subsidiary CIG Pannónia Első Magyar Általános Biztosító Zrt (“EMABIT”) at cost in accordance with IAS 27 and prepares impairment review according to the requirements of IAS 36.

Based on the management’s evaluations and considerations on EMABIT’s ability to continue as a going concern EMABIT has disclosed in its 2020 financial statements that the going concern assumptions changed from non-going concern basis in prior year to going concern basis in the current year. Due to the decision of the shareholder, the changes in the Company’s business activity, the level of capital adequacy, and according to the current business plans the going concern assumption is re-applied in the 2020 financial statements of EMABIT. Due to this EMABIT management changed the valuation of the assets and liabilities compared to prior year. The valuations included among others the revisions of impairments recorded prior year-end in relation to the intangible assets and some tangible assets, reversal of provisions recorded for contingent liabilities in the prior year and assessment of deferred taxes. The valuations also included the remeasurement of deferred acquisition costs, non-life insurance technical provisions, including the update of the Liability Adequacy Test.

In Note 25 Subsidiaries and other equity investments of the financial statements the Company discloses that as a result of impairment review according to the requirements of IAS 36, the management measures the investment in EMABIT as at 31 December 2020 at the lower of its carrying amount and the

Our audit procedures included assessing the Company’s methodology for measurement of the impairment loss is in line with IAS 36.

We assessed management’s evaluations and considerations on EMABIT’s ability to continue as a going concern and the related disclosure which outlines the considerations and conclusion that the going concern assumption is appropriate in case of EMABIT in 2020. Our procedures in response to the change of non-going concern basis in prior year to going concern basis in 2020 included among others, the involvement of IFRS specialists in the assessment of the valuation of assets and liabilities including contingent liabilities of EMABIT.

We also evaluated the business plan of the Company for 2021-2023 with the involvement of business valuation specialists.

We reconciled the net asset value presented in the financial statement of EMABIT to the carrying amount of the investment in the Company’s balance sheet to assess the impairment losses recognized in relation to the EMABIT investment.

We assessed the completeness and appropriateness of disclosures in Note 25 Subsidiaries and other equity investments of the financial statements.

net asset value of the EMABIT included in its 2020 financial statements.

As the measurement of EMABIT investment is based on a going concern basis of accounting in 2020 and due to the significance of the impairment recognized in the books HUF 799 million in 2020 we consider this as a key audit matter.

Other information

Other information consists of the 2020 business report of the Company. 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 financial statements does not cover the business report.

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

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

In our opinion, the business report of the Company, including the information required according to Subsection (2) e) and f) of Section 95/B of the Hungarian Accounting Law for 2020 is consistent, in all material respects, with the 2020 financial statements of the Company and the relevant requirements of the Hungarian Accounting Law.

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

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

Further to the above, based on the knowledge we have obtained about the 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.

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

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

In preparing the 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 financial statements

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

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

- ▶ Identify and assess the risks of material misstatement of the 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 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 financial statements, including the disclosures, and whether the 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, actions taken to eliminate threats or safeguards applied.

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

Report on other legal and regulatory requirements

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

Appointment and Approval of Auditor

We were appointed as the statutory auditor of the Company by the Board of Directors on behalf of the General Assembly of Shareholders of the Company on 24 April 2020. Total uninterrupted engagement period, including previous renewals (extension of the period for which we were originally appointed) and reappointments for the statutory auditor, has lasted for 5 years.

Consistency with Additional Report to Audit Committee

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

Non-audit Services

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

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

The engagement partner on the audit resulting in this independent auditor's report is Nagyváradiné Szépfalvi Zsuzsanna.

Budapest, 7 April 2021

(The original Hungarian language version has been signed.)

Nagyváradiné Szépfalvi Zsuzsanna
engagement partner
Ernst & Young Kft.
1132 Budapest, Váci út 20.
Registration No.: 001165

Nagyváradiné Szépfalvi Zsuzsanna
Registered auditor
Chamber membership No.: 005313