

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 consolidated financial statements

Opinion

We have audited the accompanying 2020 consolidated financial statements of CIG Pannónia Életbiztosító Nyrt. ("the Company") and its subsidiaries (altogether "the Group"), which comprise the consolidated statement of financial position as at 31 December 2020 - showing a balance sheet total of HUF 112,696.982 thousand and a total comprehensive gain for the year of HUF 284,136 thousand -, the related consolidated statement of comprehensive income, consolidated statement of changes in equity, consolidated statement of cash flows for the year then ended and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2020 and of its consolidated financial performance and its consolidated 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 consolidated 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 consolidated financial statements" section of our report.

We are independent of the Group 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 consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated 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 consolidated 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 consolidated 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 consolidated financial statements.

Changes in the accounting of EMABIT in the consolidated financial statements

The Group fully consolidated CIG Pannónia Első Magyar Általános Biztosító Zrt. (“EMABIT”) as a 100% owned subsidiary in its consolidated financial statements in the prior years. 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 Company, the changes in EMABIT 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 as disclosed in Note 1 General information.

Consequently, when preparing its consolidated financial statements, the Group changed the presentation and disclosures of EMABIT as disclosed in

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.

We considered the appropriateness of the application of the relevant EU IFRSs and the presentation used in the Group’s consolidated financial statements.

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. We assessed the effect of this change to the measurement, presentation and disclosures in the consolidated financial statements.

We also assessed the business plan of the Company for 2021-2023 with the

Note 19 Results of the assets held for sale.

Due to the changes in the going concern assumptions compared to prior year EMABIT is now presented as fully consolidated going concern subsidiary.

Due to the significant effects on the presentation and disclosures in the consolidated financial statements and in the comparatives, we consider this topic as a key audit matter.

involvement of business valuation specialists.

We read the report in relation to the reported, but not settled claims managed by external legal specialists and assessment of their evaluations on those reported claims.

We involved actuarial specialists in the audit procedures of other non-life insurance technical provisions, Incurred, but not reported (IBNR) provision, unearned premium provisions, lapse provision and deferred acquisition costs and the liability adequacy test performed by EMABIT. Our audit procedures included assessing the EMABIT's methodology for calculating the non-life insurance technical provisions and insurance liability adequacy tests to assess the effect of change to continued operation to the non-life insurance technical provisions.

We also evaluated the completeness and appropriateness of disclosures included in Note 1 General information and Note 19 Results of the assets held for sale.

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 consolidated financial statements the Group 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

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

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.

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 checked that the correction of error of non-existing reinsurance was properly reflected in Solvency 2 calculations. We also assessed the completeness and appropriateness of the Group's disclosures included in Note 7 Capital adequacy to the consolidated financial statements.

Valuation of life and non-life insurance technical provisions

Valuation of life and non-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 and non-life insurance technical provisions disclosed in Note 3.5.4 Valuation of insurance technical liabilities, Note 36 Technical provisions and re-insurer's share thereof and Note 38 Unit-linked provisions of the consolidated financial statements 81% of the total assets of the Group 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, tail factors, development factors, lapse ratios, future investment yields, mortality, morbidity, longevity, and the frequency and ultimate cost of claims assumptions), which led us together with the relative size of the life and non-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 and non-life insurance technical provisioning processes.

We involved actuarial specialists in understanding the methodologies, models, and assumptions used by the Group for the calculation of life and non-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 Group to assess their consistent application.

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

We also tested the underlying data used

for the calculation of life and non-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 Group's disclosures included in Note 3.5.4 Valuation of insurance technical liabilities, Note 36 Technical provisions and re-insurer's share thereof and Note 38 Unit-linked provisions of the consolidated financial statements.

Other information

Other information consists of the 2020 consolidated business report of the Group which we obtained prior to the date of this auditor's report and the consolidated Annual Report of the Group, which is expected to be made available to us after that date. Management is responsible for the other information, including preparation of the consolidated business report in accordance with the Hungarian Accounting Law and other relevant legal requirements, if any. Our opinion on the consolidated financial statements does not cover the other information.

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

Our opinion on the consolidated 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 consolidated business report of the Group, 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 consolidated financial statements of the Group and the relevant requirements of the Hungarian Accounting Law.

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

We also confirm that the Group 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 Group and its environment in the course of the audit we are required to report whether we have identified any material misstatement in the other information, and if so, the nature of the misstatement in question. We have nothing to report in this regard.

When we read the consolidated Annual Report of the Group, if we conclude that there is a material misstatement therein, we are required to communicate the matter to those charged with governance.

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

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

In preparing the consolidated financial statements, management is responsible for assessing the Group'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 Group or to cease operations, or has no realistic alternative but to do so.

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

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

Our objectives are to obtain reasonable assurance about whether the consolidated 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 consolidated 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 consolidated 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 Group'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 Group'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 consolidated 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 Group to cease to continue as a going concern.
- ▶ Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- ▶ Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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 consolidated 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 consolidated 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 Group in conducting the audit.

In addition to statutory audit services and services disclosed in the consolidated business report and in the consolidated 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.)

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