

Report for the year 2019, prepared by the Audit Committee of CIG Pannonia Life Insurance Plc, on the individual and consolidated financial statements made in accordance with the international financial reporting standards accepted by the European Union

Currently a three-member Audit Committee operates at CIG Pannonia Life Insurance Plc. (1033 Budapest, Flórián tér 1., hereinafter: the Company”) and performs the tasks of the audit committee at the Company and at its subsidiary, CIG Pannonia First Hungarian General Insurance Company Ltd. (hereinafter: “EMABIT”). By complying its obligations based on effective laws, the Audit Committee have examined and expressed opinion on the individual and consolidated financial statements of the Company for 2019, made in accordance with the international financial reporting standards (IFRS) adopted by the European Union. The key experience and findings made by the Audit Committee for this period may be summarised as follows.

The Audit Committee has relied in its opinion on the proposal from the Board and the auditor’s report, and the auditor’s additional report to the Audit Committee under Article 11 of Regulation (EU) 537/2014, furthermore its experience gained on the reporting system during the year.

The Audit Committee followed up the auditing process, expressed opinion on the auditor’s task and its remuneration, checked the enforcement of professional requirement and conflict of interest standards for the auditor and have found it satisfactory. Furthermore, in assisting the work done by the Supervisory Board, it have continuously monitored and evaluated the operation of internal lines of defence, in particular the efficiency of the internal audit and risk management system.

In the development of the Audit Committee’s opinion, the professional relationship established with the Company management, broad information obtained at committee meetings, also covering the implementation of the business strategy, as well as the regular interim checks related to the quarterly Company reporting requirements. The division of tasks and cooperation with the Supervisory Board, as part of the corporate governance system’s operation also contributed to the Audit Committee’s tasks’ performance.

The objectives and tasks of the Company according to its prior strategy for 2019 have been changed due to the material loss of the Italian business line of EMABIT. Sales and new business had been decreased in line with the plan, but instead of the expected profitable operation EMABIT had not only lost more than 50% of its capital by the end of 2019, but due to the recognition of value loss of 3,330 million HUF to its investment the parent company has also suffered material loss.

The work of the Audit Committee – giving it high priority in the second semester – had focused on the risks and financial effects of the Italian business line. Information from the Board, and a contact with the auditor more intense than before proved helpful in that.

In the meanwhile suretyship and guarantee insurances in Italy had been suspended according to the audit and decision of the Supervisory Authority, and in order to mitigate the damages a recovery plan has been prepared, that includes not only the sales of the Italian, but also the Hungarian and Polish portfolio. Therefore the financial reports of EMABIT had not been made upon the plan to continue its business.

The main financial risk is the exposure due to the open Italian cases. The rate of the claims outstanding means a material uncertainty despite the reserves. Further uncertainty has to be taken into consideration due to the effects of the outbreak of the epidemic of COVID-19 to the economy, that still cannot be foreseen.

The approval of the recovery plan is still pending.

The individual and the consolidated financial statements describe data and comments related to the presentation of the financial statements in detail in accordance with the International Financial Reporting Standards and the Audit Committee recommends them for adoption in view of the auditor's opinion. Audit Committee is not in the position to provide opinion on the forecasts included in the written description of the financial statements that are based on assumptions.

The Audit Committee have reviewed, discussed, and expressed opinion on the Company's individual and consolidated financial statements in accordance with the IFRS, and in view of the report the auditor's opinion, it recommends them for adoption by the annual General Meeting as follows:

- the Company's 2019 individual financial statements in accordance with the International Financial Reporting Standards adopted by the European Union, where assets and liabilities total is 102,917,696 HUF thousand, profit after tax 1,571,701 HUF thousand loss, the total comprehensive income is 1.298.305 HUF thousand loss,
- and the Company's 2019 consolidated financial statements in accordance with the International Financial Reporting Standards adopted by the European Union, where assets and liabilities total is 114.532.375 HUF thousand, profit after tax 638.841 HUF thousand loss, the total comprehensive income is 323.437 HUF thousand loss.

Budapest, 15 April 2020

On behalf of the Audit Committee
Imréné Fekete
Chairwoman