

## **This is a translation of the Hungarian Report**

### **Independent Auditors' Report**

To the Shareholders of  
CIG Pannónia Életbiztosító Nyrt.

#### **Report on the audit of the annual financial statements**

##### **Opinion**

We have audited the accompanying 2017 annual financial statements of CIG Pannónia Életbiztosító Nyrt. ("the Company"), which comprise the balance sheet as at 31 December 2017 - showing a balance sheet total of HUF 94,994,919 thousand and a profit after tax for the year of HUF 2,079,063 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 the Company as at 31 December 2017 and of the results of its operations for the financial year then ended in accordance with the Act C of 2000 on Accounting ("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, 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 annual 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 for Accountants' Code of Ethics for Professional Accountants (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 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

Insurance companies are required to calculate their solvency capital and fulfill their regulatory reporting obligations on their solvency capital adequacy based on the Solvency 2 regulations. In section 2.7.1 of the notes to the annual 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, 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 included in section 2.7.1.

### Valuation of life insurance technical provisions

Valuation of life insurance technical provisions involves a significant degree of assumptions and complex

We understood and tested the policies and controls underlying the life

judgements. The life insurance technical provisions in sections 2.8, 2.9 and 2.10 of the annual financial statements represent more than 86% of the total assets of the Company as at 31 December 2017. A range of methods, including stochastic projections, are used to determine these provisions. Underlying these methods there are various explicit or implicit assumptions, which led us taking together with the relative size of this life insurance technical provisions to total assets to consider this as a key audit matter.

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 the consistent application of them.

Our audit procedures also included assessing the Company's methodology for calculating the insurance liability adequacy tests and analyzing 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.

We performed independent calculations on selected samples of contracts.

We also assessed the appropriateness of the Company's disclosures included in sections 2.8, 2.9 and 2.10.

### 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

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 adjusted our audit approach based on the financial significance of the system and whether

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.

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

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 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.

#### Acquisition of and merger with MKB Életbiztosító Zrt.

The Company signed a sales-purchase agreement about the purchase of the shares in MKB Életbiztosító Zrt. ("the Subsidiary") on 7 October 2016. The completion date of the sales-purchase transaction was 1 January 2017.

Subsequent to the acquisition the Subsidiary was merged into the Company as of 30 June 2017, so the Subsidiary ceased to be separated legal entity after the merger.

In section I. of the notes to the annual financial statements the Company discloses the acquisition and merger transaction.

The acquisition of the Subsidiary was significant to our audit due to the size of the acquisition and merger transactions. We therefore consider this as a key audit matter.

With respect to the accounting for the acquisition and merger transactions we read the sales-purchase agreement and we reconciled the consideration paid to the agreement.

We assessed that the accounting treatment is in line with the Hungarian Accounting Law.

We also tested the IT migration of the acquired portfolio of assets and liabilities to the Company's IT systems which have been performed.

We also assessed the appropriateness of the Company's disclosures in respect of the merger transaction included in section I.

## **Other information**

Other information consists of the 2017 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 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 business report and, in doing so, consider whether 1) the business report is materially inconsistent with the annual 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 2017 is consistent, in all material respects, with the 2017 annual 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 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. Management is required to apply going concern principle unless the applicability of that principle is precluded by other provisions or there are facts and circumstances that contradict with the continuance of the Company's business activity.

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 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 annual 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 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.

### **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 General Assembly of Shareholders of the Company on 24 April 2017. 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 2 years.

#### Consistency with Additional Report to Audit Committee

Our audit opinion on the annual 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 annual 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 Virágh Gabriella.

Budapest, 13 March 2018

(The original Hungarian language version has been signed.)

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