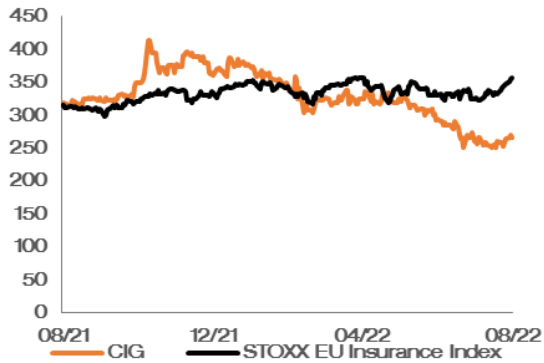
CONCORDE RESEARCH

CEE Equity Research | Insurance | Hungary
29 Augustus 2022

CIG Pannonia

Recommendation: BUY (prev. Neutral)
Target price (e-o-y): HUF 410 (prev. HUF 429)
Share price: HUF 290

Share price as of 26/08/2022	HUF 290
Number of diluted shares [million]	94.4
Market capitalization [HUF bn/EUR mn]	27 384/66.5
Daily turnover 12M [HUF million]	0.08
Bloomberg	PANNONIA HB
Reuters	CIGP.BU
Free float	42.65%
52 week range	HUF 241 – 425



Equity Analyst

Attila Vágó

+361 489 2265

a.vago@con.hu

Alkotas Point

55-61 Alkotás utca,

H-1123 Budapest

www.con.hu

Resilient operation enables Pannonia to withstand economic hardship ahead

- We reiterate CIG Pannonia (Pannonia) as BUY while lowering our 12-m target price to HUF 410 (from HUF 429 previously).
- We have revised down our 2022E/2023E net income forecasts by 20% and 14% to HUF 1.6 bln in 2022 and HUF 2.04 bln in 2023 (previously HUF 2.03 bln and 2.37 bln) after having incorporated the potentially harmful impact of 1) a substantial increase (<+40%) in insurance ("windfall") tax imposed on Hungarian insurers for the period between 1 July 2022 and 31 December, 2023, and 2) a potential recession, which we see approaching as an consequence of the severe energy crisis in Europe.
- Consequently, EPS may decline by 5% to HUF 17 in 2022 and then to grow again by 27% to HUF 22 in 2023 (vs. our previous estimates of HUF 21 for 2022 and HUF 26 for 2023). Dividend will also inevitably drop, albeit from an unsustainably high level, to ca. HUF 11 a share for 2022, implying a DIVY of 3.8% on our estimate.
- We believe that Pannonia's resilient and flexible organization can weather the impending economic slowdown, rather than being overwhelmed by it, while remaining committed to market expansion and product innovation.
- Pannonia seems more expensive than other European insurance carriers (trading at P/BV and P/E of 2.1x and 17.1x, implying more than 100% premium over PZU and WIG's corresponding multiples), noting however that part of the reason might be 1) low market liquidity (the absence of institutional investors), 2) lower sensitivity of CIG Pannonia to economic meltdown and windfall insurance tax (since Pannonia's insurance portfolio is less exposed to relatively more heavily taxed insurance products).) and 3) relatively high growth potential supported by the strategic alliance for 20 years with Bankholding in cross selling of insurance products, portfolio acquisitions (eg. the planned takeover of a multi-billion HUF credit collateral insurance portfolio from BNP Paribas Cardif in H2/22), continuous development of innovative products, IT, actuarial capacities and the sales channels (the engine of

which has so far been expansion of independent broker channels) and a stable reinsurance background.

- Highlighted risk factors include regulatory risk related to the domestic insurance sector, volatility in investment results amid a rising yield environment, rapid cost inflation that takes time to be passed on to customers, deterioration of the combined rate and lifetime margin, the impact of IFRS 17 standard on life-insurance products, slowdown of new business generation in a recession, M&A risk and a change in dividend policy with pay-outs ranging between 50-100%.

Robust growth in H1/22

- CIG Pannonia (Pannonia) posted consolidated after-tax profit of HUF 579 mln for Q2/2022 (+17% YoY on our estimate). GWP came in at HUF 7.5 bln (+25% YoY). Life insurance segment posted after-tax losses of HUF 1.28 bln compared to profit of HUF 764 mln in Q2/21 due to a significant growth in unit-linked income, while despite the cost of implementing the new growth strategy non-life business could also generate profit of HUF 77 mln as against losses of HUF 266 mln in the same period a year earlier. Other activities went into the red, with after tax losses of HUF 508 mln compared to after-tax losses of HUF 108 mln in Q2/21.
- Total comprehensive loss amounted to HUF 1.3 bln in Q2/22 versus gains of HUF 264 mln in the same period of last year. Other comprehensive losses were HUF 556 mln and included a decrease in the fair value of available-for-sale financial assets, out of which HUF 1.48 bln was the unrealized loss on government securities, while there were unrealized gains to the tune of HUF 148 mln on OPUS shares held by Pannonia.
- In the first six month of the year Pannonia reached net income of HUF 645 mln (+27% YoY) primarily driven by rapid GWP growth (+37% YoY) in UL, CASCO, industrial property insurances, and the positive effect of guaranty and loan collateral products was also visible a result of which the strategic cooperation with Magyar Bankholding. UL products performed weaker amid a rising yield environment, while the considerable increase (+64% YoY) in commission also put a drag on results, which however was partly compensated for by a decrease in reserves for single-fee UL products, and accounting reserves for traditional products.
- With accelerated growth in GWP, cost inflation and high dividend paid not only from annual profit but also from retained earnings, Pannonia's businesses remained financially stable and fundamentally solid: the consolidated solvency II capital adequacy ratio stood at as high as 237% at the end of June, compared with 249% at the end of March, 2022 and 273% at the end of 2021. EMABIT's (non-life segment) standalone solvency II capital adequacy ratio should have remained above National Bank of Hungary's minimum requirement of 150%.
- At the Group level, premium arising from new group life insurance product contracts in H1/22 (+107% YoY) was driven by the sales contracts with larger companies, while unit-linked products saw a moderate 5% increase YoY (mainly on the back of surging top-up and single life premiums:). New traditional life insurance products sales remained broadly flat (+1% YoY), while non-life segment saw a stunning increase in GWP, albeit from a very low base (from HUF 155 mln to HUF 2.4 bln), mainly owing to fleet CASCO and corporate property insurances (both were virtually non-existing activity a year ago). We note that a significant increase in non-life insurance sales is not yet reflected in the net premiums written, as they appear time proportionally over the period covered by the insurance in accordance with the reporting standards in force.
- As a whole, life insurance GWP rose by ca. 17% YoY in H1/22 from HUF 10.8 bln to HUF 12.6 bln. Total unit-linked life insurance amounted to HUF 9.2 bln (thereof 40%,

ie. HUF 3.7 bln was pension insurance policies), HUF 2.9 bln were traditional life products (thereof HUF 0.6 bln came from pension insurance policies), and HUF 0.4 bln were health insurance policies.

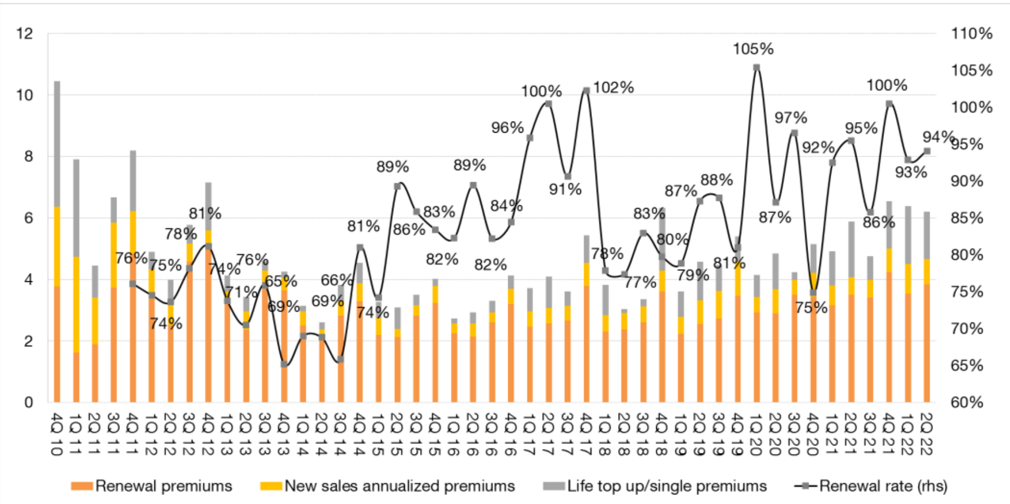
Breakdown of the Group's GWP and after tax profit (HUF mln)

	Life		Non-life		Other		Cons.		Total	
	2022									
	Q2	Q1	Q2	Q1	Q2	Q1	Q2	Q1	Q2	Q1
GWP	6 271	6 310	1 203	1 195	0	0	0	0	7 474	7 505
Reported after-tax profit	1 282	-232	77	-273	-508	-157	-272	728	579	66
After-tax adjustments	0	0	0	0	0	0	0	0	0	0
Adjusted after-tax profit	**1 282**	**-232**	**77**	**-273**	**-508**	**-157**	**-272**	**728**	**579**	**66**
Reported total comprehensive income	-525	-1 372	6	-456	-508	-157	-272	728	-1 299	-1 257
	2021									
	Q2	Q1	Q2	Q1	Q2	Q1	Q2	Q1	Q2	Q1
GWP	5 887	4 906	82	73	0	0	0	0	5 969	4 979
Reported after-tax profit	764	339	-266	-52	-108	-77	79	-173	469	37
After-tax adjustments	0	0	-26	29	0	0	0	0	-26	29
Adjusted after-tax profit	**764**	**339**	**-240**	**-81**	**-108**	**-77**	**79**	**-173**	**495**	**8**
Reported total comprehensive income	547	-84	-284	-79	-108	-77	79	-173	234	-413
	2020									
	Q2	Q1	Q2	Q1	Q2	Q1	Q2	Q1	Q2	Q1
GWP	5 083	4 149	46	22	0	0	0	0	5 129	4 171
Reported after-tax profit	844	271	413	0	141	-116	468	-89	930	244
After-tax adjustments	0	0	-315	315	0	0	0	0	-315	315
Adjusted after-tax profit	**844**	**271**	**-240**	**-315**	**141**	**-116**	**468**	**-89**	**277**	**-71**
Reported total comprehensive income	1 520	-1 038	486	-122	141	-116	468	-89	1 679	-1 187
Change in adj. after-tax profit (YoY)	**68%**	**n.a.**	**n.a.**	**239%**	**370%**	**104%**	**n.a.**	**n.a.**	**17%**	**685%**
Change in GWP (YoY)	**7%**	**29%**	**1367%**	**1537%**	**n.a.**	**n.a.**	**n.a.**	**n.a.**	**25%**	**51%**

Source: CIG Pannonia, Concorde's estimate

- Life segment benefited mostly from the increase in top-up and single premium income as well as growing income from renewals. GWP from renewals amounted to HUF 7.4 bln in H1/22 (+11% YoY), while GWP from the first annual premiums of policies sold was HUF 1.8 bln (+49% YoY), while top-up and single premiums came in at HUF 3.4 bln (+17% YoY), accounting for 28% of total life insurance GWP in H1/22 compared to 56% YoY. Renewal ratio remained stable at 94% QoQ and YoY.

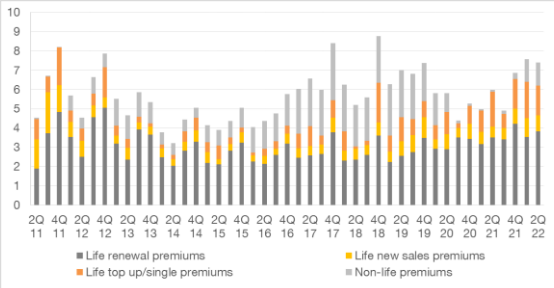
GWP breakdown in the life insurance segment (HUF bln)



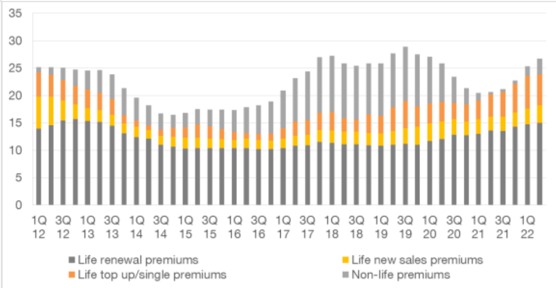
Source: Pannonia, Concorde estimate.

- 12-month rolling GWP appeared to have kept on increasing thanks to the improved renewal ratio, higher top-up income and recuperating non-life business sales.

Quarterly consolidated GWP breakdown (HUF bln)



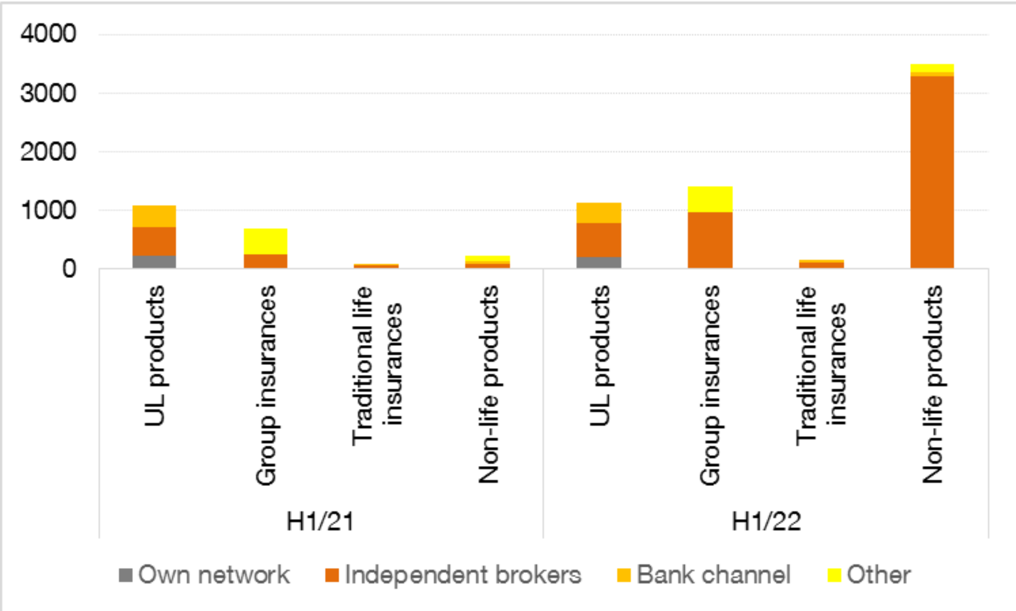
12-m rolling GWP breakdown (HUF bln)



Source: Pannonia, Concorde estimate

- Except for the own network all other sales channels increased their sales volume, with independent brokers generating an outstanding 471% growth YoY in H1/22 followed by the banking channels which delivered 15% growth, supported by newly launched products in line with the new growth-driven business strategy. Pannonia concluded a framework agreement with the Hungarian Bankholding Group (Bankholding) for a period of 20 years, according to which Bankholding Group member banks, ie MKB Bank and Takarékbank, will sell exclusively the life and non-life insurance products of the CIG Pannonia Group. Although the sales of the banking channel already improved by 15% YoY, however, the impact of the strategic agreement with Bankholding has not yet fully materialized in H1/22.

New businesses breakdown by sales channels (HUF bln)



Source: Pannonia, Concorde estimate

- Investment results were negative at HUF 3.5 bln in H1/22 (vs. HUF 6.9 bln in H1/21) as a result of rising bond yields and higher volatility in the global stock markets.
- The total operating cost of the Issuer was HUF 4.5 bln, of which HUF 3.2 bln was related to the fees, commissions and other acquisition costs (+64% YoY), and HUF 1.2 bln was related to other operating costs (+8% YoY) and HUF 167 mln is other expenses (+10% YoY). Acquisition costs show a significantly increasing trend overall, while gross earned premiums increased by 37%. This is primarily due to an increase in other acquisition costs than commissions, following the development and recruitment of new business lines, organizations and employees, and the related

implementation of Pannonia's medium-term growth strategy. Life acquisition costs rose by 32% YoY, accounting for 87% of new businesses in Q1/22 vs. 92% YoY, and while in the non-life segment acquisition costs jumped by 433% YoY.

- Net claims and related settlement expenses decreased by 6% YoY in H1/22 mainly due to lower life segment claims expenditures in the wake of the lower number of surrenders of unit-linked products, while traditional and group claims increased, but less than the decrease in unit-linked repurchases.
- The net decrease in insurance reserves was mainly attributed to decrease in reserves for single-fee UL products and accounting reserves for traditional products.

Outlook

- Pannona's new growth strategy aims to achieve HUF 1.2 billion more technical profit and HUF 25.3 billion more GWP by 2023 compared to 2020, based on improving cost efficiency, higher new insurance products, and a more intensive use of digital and banking sales channels. The strategic plan includes investment spending in a value of HUF 1.4 bn. Pannonia has been granted by HUF 800 million of state support from the National Office for Research, Development and Innovation that it intends to use for the development of personalized insurance products based on artificial intelligence.
- The new strategy envisages a total increase of about HUF 38 billion in GWP over the next three years compared to 2020, which we consider as an ambitious objective. Although we do not rule out the possibility of reaching this income goal, we see a number of risks related to the market acceptance of Pannonia's life insurance products in the future, the targeted very low level of cost content associated with new sales (ca. 3%) and new sales through bank channels.
- To this end, it is of paramount importance for Pannonia to maintain high-quality human resources. Pannonia has doubled its workforce to 185 people in the past year and plans to hire additional employees, but in the spirit of efficient operation, they do not plan to increase the number of employees to more than 200 (compared to a medium-sized domestic competitor with more than 300 employees).
- Pannonia's ultimate aim is to build up the composite insurance through two companies (the stock-listed parent company CIG Pannónia and its subsidiary EMABIT), therefore, in addition to life insurance, fleet casco (where more than 11,000 vehicles are already insured), large-scale property and liability insurance has already been created in EMABIT, but in cannot be ruled out the possibility that Pannonia will acquire small-to-medium composite insurance companies in the future. We also note that rebuilding the non-life business will be a time-consuming, costly and capital-intensive process presumably requiring further capital contribution by the parent company in an amount of HUF 0.5-1 bn in order for EMABIT to be able to maintain its capital requirement ratio at around 150-160%.
- Pannonia's market share in the domestic life insurance market was 4.6% at the end of 2021, and on an adjusted premium basis their share in pension insurance market stood at 6.39%. Based on the former Pannonia has a top 10, and on the latter a top 8 ranking, which they strive to continuously improve by growing constantly above the market.
- We have already incorporated potential results from strategic cooperation with Bankholding into our earnings forecasts and valuation model. We are convinced that in the medium term Pannonia has the resources for this new strategic plan and has the opportunity to gain a share of over 5 percent in the domestic insurance market, while its subsidiary (EMABIT) may also remain sound (we note that although the daunting Italian exposure has been significantly reduced over the course of the past

two years but it still continues to pose a risk to EMBAIT's equity position until legal disputes are settled in a reassuring manner). We also believe that the strategic cooperation with Bankholding will work to the mutual benefit of both parties and that Pannonia is well positioned to meet its ambitious strategic objectives with a profound support from strategic cooperation with Bankholding. The acquisition performance of the banking sales channel increased by 11% YoY in the first half of the year, but this is what Pannonia has the highest hopes for, expecting exponential growth from it. From Bankholding's perspective, the strategic partnership with Pannonia gives it room to overcome the challenges that it will end up facing as the economic meltdown is inevitably looming in the wake of rapidly rising energy prices in Europe. Commission income arising from cross-selling insurance products can help Bankholding to offset the adverse impact on its profits resulting from the expected contraction of risk-adjusted NIM, in our view.

- With incorporating the potential impact of the 20-year strategic agreement with Bankholding on future GWP, we expect Pannonia's consolidated GWP to increase to HUF 38.5 bn by 2023 (previously HUF 32.5 bln), which is in line with Pannonia's own gross premium income target for 2023, though a recession will certainly reshape the trajectory of premium income growth. Within GWP, the share of the non-life business may be ca. 30 percent in 2023.
- The extension of the sales channels plays a huge role in the growth, of which the independent broker channel was the driving force in the first half of the year. At the beginning of 2021, Pannonia had 20 independent cooperating partners, now they have 217 (representing approx. 80% of the total domestic independent partners).
- As for reinsurance, in the home insurance market, a partnership agreement was concluded with Union (according to which the home insurance products are developed by Pannonia, while Union provides support in the areas of claims settlement and call center services, IT development and actuarial capacity). Swiss Re, DEKRA are the partners in claims settlement, and BNP Paribas Cardif is the partner in the field of credit collateral insurance, from which Pannonia take soon over a multi-billion HUF credit collateral insurance portfolio (PPI) previously concluded with the Bankholding's member Budapest Bank.
- **In an era where .geopolitical risk premium (with protracted military conflicts and economic war taking place) are rising and where supply-side issues are severe (ie. strained global supply chains, lack of sufficient and available raw materials exacerbated by ESG policies, shortage of labour, particularly in the service sector, due to a combination of tougher immigration policies, early retirements and the pandemic, elevated energy and food prices, together with technological sanctions, just mention a few), there is the heightened risk of inflation being structural and staying higher for longer while asset prices tend to remain deflationary. Given this inflation backdrop central banks have no other option but continue their hiking cycle globally, but this time we think it is rather a structural tightening campaign they need to do than just simply a tightening cycle. Demand also needs to be curbed significantly to rein in inflation, and so the main question, in our opinion, is not whether there will be a recession as a consequence, but how depth of the recession is really needed to curb inflation.**
- **Of course, it is difficult to predict how long the energy prices will take hold at elevated levels, but we have no doubt that high energy prices will ultimately cause serious headache to Hungary through the ripple effect of inflation and a decline in the terms of trade. As autumn approaches, all economic participants will increasingly witness their situation worsen. According to our calculations, the deterioration of the energy balance relative to GDP at current energy price levels (assuming unchanged energy consumption) could be over 10% this year and next, which would entail a**

huge real income deterioration. As energy prices rise, there will be more and more businesses that simply won't have access to energy because they cannot afford to use it and cannot pass the energy costs on to their customers. The financing capacity of the corporate and municipality sectors and the state will erode rapidly, the balance of payments and public finance deficit continue to swell, entailing an increase in external debt. As a consequence, the devaluation pressure on the forint becomes permanent due to the greater demand for foreign exchange (especially if the agreement with the EU on the availability of EU funds is delayed), investment activity will decline subdued by high interest rates and a scarcity of capital, while special tax burdens on certain sectors will remain in place further aggravating liquidity problems for numerous companies.

- **The drastic increase in energy prices will cause a necessary and painful adjustment from the Hungarian economy. A large part of the corporate sector has to temporarily curtail or permanently cease its activities (tourism, construction, the energy-intensive part of the manufacturing industry, etc.), the amount of non-performing loans may double, which, together with the increased extra tax imposed recently on banks, may cut away the entire profit of the banking system next year, after which the banks (which act naturally pro-cyclical) may curb their lending activity even more, Higher utility bills and cost shocks drains the purchasing power of the household sector, which also narrows consumption demand. Because of all this, imports will decrease, and the drop in demand will push down energy prices, but by then the economy will already be in recession, according to our expectations. We are very much concerned about the economic slowdown (recession) likely to come in the fourth quarter this year, and have no doubt that the next two quarters will be particularly challenging for both the corporate sector and households.**
- In this context, we are afraid that the volume of new business sales will likely slow down sharply at least for temporarily, irrespective of insurance products but particularly in UL-products where the possible transfer of higher costs onto consumers, ie the increase in the total cost ratio, is closely watched by the regulator, and where there can be stiffer competition from higher risk free rates, so insurers will need to refocus their product mix more towards insurances which can generate profit even in the short term.
- In response to harsh and volatile market conditions, Pannonia aims to increasingly focus on risk products (+10% YoY in volume so far), while also growing in health insurance and maintaining the sale of unit-linked products. It is already visible that the weight of personal insurances has increased in Pannonia's product portfolio, such as risk life insurances ("BajTárs"), home insurances ("LakóTárs MFO") and online travel insurances ("Iránytű"), driving the premium growth.
- Also importantly, Pannonia will have to pay a significantly higher insurance tax this year and the next, after the government increased the insurance tax by HUF 50-60 bln from last year's HUF 115 bln (calculated on the basis of premium income from not only non-life but life insurances as well). Pannonia is expected to pay about HUF 0.57 bln in insurance tax this year, and approx. HUF 1 bln next year. It is worth noting that the serious energy crisis currently taking place in Europe (and thus also in Hungary) will most likely cause massive liquidity problems and a wave of bankruptcies in the corporate sector and be also very burdensome for households in the last quarter this year and the first half of next year, which may affect adversely the development of new businesses. Like other insurance companies, Pannonia has no choice but to adopt dynamic pricing strategy and manage margin leakage by pass-through pricing and commission cuts (eg. for single top-up and single premium products sold through bank channels) in order to mitigate the negative impact on profitability of the

insurance tax hike and the impending recession in a high-inflation environment not seen in generations.

- While we believe that Pannonia's resilient and flexible organization can weather the impending economic slowdown, rather than being overwhelmed by it, while remaining committed to market expansion and product innovation, given the limited room to reduce operating costs, we feel it is appropriate to reduce our net profit forecast for 2022 and 2023 by 20% and 14%, respectively, to HUF 1.6 bln in 2022 and HUF 2.04 bln in 2023 (previously HUF 2.03 bln and 2.37 bln). Consequently, EPS may decline by 5% to HUF 17 in 2022 and then to grow again by 27% to HUF 22 in 2023 (vs. our previous estimates of HUF 21 for 2022 and HUF 26 for 2023). Dividend will also inevitably drop, albeit from an unsustainably high level, to ca. HUF 11 a share for 2022, implying a DIVY of 3.8% on our estimate.

Estimates (IFRS, HUF mln, if not otherwise stated)

	2021	2022E	2023E	2024E	2025E
GWP	22 713	30 171	38 529	42 193	43 604
Own capital	**13 168**	**13 067**	**13 401**	**13 787**	**14 177**
After-tax profit	**1 682**	**1 599**	**2 033**	**3 044**	**3 630**
EPS (HUF)	17.8	16.9	21.5	32.5	38.4
DPS (HUF)**	18.0	10.6	13.5	20.2	29.5
BVPS (HUF)	139.4	138.4	149.3	162.8	175.4
ROE (%)	12.4	8.1	14.9	20.8	22.7

*Note: *Dividends are paid to shareholders by the listed CIG Life Insurance Plc. In addition to its own non-consolidated annual after-tax profit, Pannonia can also use the profit reserve of previous years for paying dividend. EMABIT and the MKB Pannonia Fund Manager may pay dividends to Pannonia out of their profit and profit reserves, which in turn will go to Pannonia only the following year (after approval by the General Meeting of EMABIT and the MKB Pannonia Fund Manager), thereby increasing Pannonia's profits and thus its dividend base.*
Source: CIG Insurance, Concorde estimate

- We note that we leave our after-tax profit estimates intact from the years from 2024 onwards as we believe that insurance tax will be reduced considerably and Pannonia can come out of the upcoming doldrums relatively stronger, possibly gaining an even larger market share benefiting from sales channel expansion, flexible product mix and pricing and a very supportive strategic owner, thereby paving the way for achieving its HUF 4 billion after-tax profit target by the end of 2026 included in its medium-term plan.

- *The IFRS 17 insurance contracts standard is a new international financial reporting standard that domestic insurers will also be required to apply. IFRS 17 replaces the previous IFRS 4 standard. The new standard will fundamentally change the accounting records of insurance companies. The currently effective IFRS 4 standard allows insurance companies to follow the "existing practice principle", thus supporting a number of methods for accounting for premium income and profit of insurance companies. This makes it difficult to compare related financial performances across industries. With the entry into force of IFRS 17, this obstacle will be removed. IFRS 17 is being prepared with the aim of regulating insurance contracts according to consistent accounting principles, facilitating the reconciliation of the insurer's reports within and outside the industry. The IFRS 17 standard enters into force on January 1, 2023.*

- *The presentation of revenue and profit better reflects the performance of insurance products and services provided to customers, that is, the practice that allows insurers to book all expected profits on the insurance contract at the beginning of the insurance contract period (usually in the 2nd or 3rd insurance year) will cease,* *instead, insurers can only account for profits proportional to the provision of the insurance service due in the future. At the same time, IFRS 17 allows insurers to accordingly recalculate the proportional profit on their already existing insurance contracts, i.e. they can spread it over time, which practically means that they can recalculate a book a certain part of it once again (that part which in principle still remains in proportion to the term) in the following years. And this can offset the negative impact of the fact that they can record profit on the new insurance contracts more extended in time.*

- *We believe IFRS 17 should not have a material impact either on Pannnonia's profitability or capital adequacy, because Pannonia has a fast-growing non-life business where repricing takes place every year, and also because the (theoretically) remaining profit content on Pannonia's old UL-portfolio under IFRS standard is still significant to offset the negative impact of new accounting regulation.*

Valuation

- Total return (incl. dividend yield) on Pannonia shares has been a minus 21% YoY in EUR terms similar to return PZU's shares but vastly underperforming its Austrian peers (VIG and Uniqa) and the whole European insurance sector (SXIP).

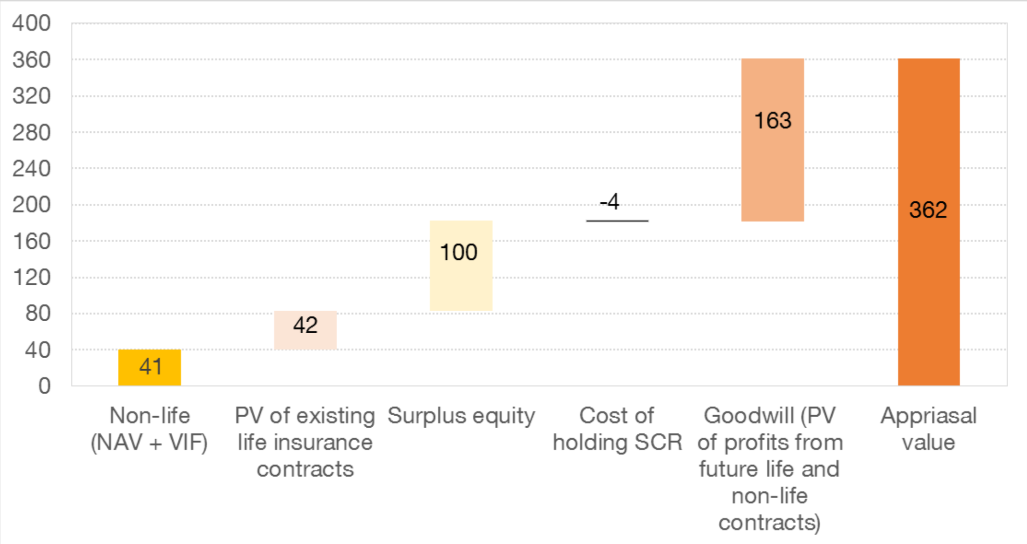
Pannonia's shares relative performance

Source: Bloomberg, Concorde Securities

Pannonia's shares are currently trading at 17.1 times 2022 EPS and 2.1 times P/BV using the 2021 yearend book value, which corresponds to a premium of more than 100% compared to the average of corresponding ratios for PZU and VIG. Pannonia's reach relative valuation can be attributed to investor's high expectations for a substantial increase in earnings, and the confidence in the new management's ability to steer Pannonia's ship in the right direction even during economic hardship ahead. In fact, Pannonia has smaller exposures in every main market segment relative to its foreign-owned insurance competitors. Nevertheless, it seems reasonable to expect that the current huge gap in valuation will narrow over time if Pannonia's future results more or less confirm the rate of income growth that can be assumed based on the current valuation.

- Earlier we held the view that if Pannonia was able to meet its ambitious strategic objectives, our TP would be HUF 446 (best case scenario) Now that strategic cooperation has been established between Bankholding but there is a large possibility to witness recession in the coming quarters we lower our estimate for the intrinsic value of Pannonia's shares from HUF 380 to HUF 362, implying a 12-m TP of HUF 410 (previously HUF 429).

Pannonia's estimated per-share appraisal value (HUF)



Source: CIG Insurance, Concorde estimate

Although insurance carriers should be pleased with the rise in yields as it helps them to deliver on yields promised to insurance policy holders and fulfil capital requirements, while also make it possible for them to earn more asset management fees, the new "inflationary regime", and particularly the skyrocketing energy prices, which may stay with us for quite a while, is certainly negative for overall equity market. Even so, our new TP leaves a 41 percent upside potential from the current share price and also 25% higher than the price (HUF 327) offered by HUNGARICUM Alkusz for the free float last year in the framework of a public offer, respectively.

Disclaimer

Concorde Securities Ltd. does and seeks to do business with companies covered in its research reports. As a result, investors should be aware that the firm may have a conflict of interests that could affect the objectivity of this report. Investors should consider this report as only a single factor in making their investment decision. For analysts' certification and other important disclosures, please refer to the "Disclaimer" section at the end of this report.

DISCLAIMER I.

This research report has been prepared by Concorde Securities Ltd., a full-service Hungarian investment banking, investment management and brokerage firm. Concorde Securities Ltd. is under the supervision of the National Bank of Hungary in its capacity as financial supervisory authority.

Concorde Securities Ltd. is registered in Hungary and does not have any subsidiaries, branches or offices outside of Hungary. Therefore we are not allowed to provide direct investment banking services to US investors and restrictions may apply to our potential investment banking services according to your country's jurisdiction.

Our salespeople, traders and other professionals may provide oral or written market commentary or trading strategies to our clients that reflect opinions that are their own and may be contrary to the opinions expressed in our research products, and our proprietary trading and investing businesses may make investment decisions that are inconsistent with the recommendations expressed by our analysts or traders.

Our research, sales and trading professionals are paid based on the profitability of the respective divisions of Concorde Securities Ltd., which from time-to-time may include revenues from the firm's capital market activity. Concorde Securities Ltd. does not prohibit analysts, salespeople and traders from maintaining a financial interest in the securities or futures of any companies that they cover or trade on their clients' behalf in strict compliance with the Hungarian Capital Markets Act.

ANALYSTS CERTIFICATION

The research analysts undersigned and responsible for the preparation of this report hereby certify that (i) the views expressed in this research report accurately reflect their personal views about any and all of the securities or issuers referred to in this research report; (ii) no part of the analysts' compensation was, is or will be directly or indirectly related to the specific recommendation or views expressed in this report and (iii) no part of their compensation is tied to any specific investment transactions performed by Concorde Securities Ltd.

Name and job title of individuals involved in the production of this report are disclosed at the end of this report.

Concorde Securities Ltd. is a leading manager and underwriter of Hungarian equity offerings. We have investment banking and other business relations with a substantial percentage of the companies traded on the Budapest Stock Exchange and covered by our research department. Concorde Securities Ltd, its directors and employees may have a position in these securities, which may change at any time.

Concorde Securities Ltd. acted as Lead Manager of the private and public share placement of the shares of FHB in 2003, Masterplast in 2012 and Duna House in 2016. Concorde Securities Ltd. acted as the Co-lead Manager of Gedeon Richter's exchangeable bond issue in September 2004. Concorde Securities Ltd. has provided financial advice to Magyar Telekom.

EXPLANATION OF RATINGS AND METHODOLOGY

Rating	Trigger
Buy	Total return is expected to exceed 20% in the next 12 months
Accumulate	Total return is expected to be in the range of 10-20%
Neutral	Total return is expected to be in the range of 10%-(-10%)
Reduce	Total return is expected to be in the range of -10-(-20%)
Sell	Total return is expected to be lower than -20%
Under Revision	The stock is put Under Revision if the covering analyst considers new information may change the valuation materially and if this may take more time.

Coverage in transition	Coverage in transition rating is assigned to a stock if there is a change in analyst.

Securities prices:

Prices are taken as of the previous day's close on the home market unless otherwise stated.

Valuations and risks:

Analysis of specific risks to set stock target prices highlighted in our investment case(s) are outlined throughout the report. For details of methodologies used to determine our price targets and risks related to the achievement of the targets referred to in the main body of the report or at Rating Methodology on our website, visit (https://www.con.hu/wp-content/uploads/2016/04/Methodology_concorde_research.pdf?tstamp=201710021038)

Research disclosures:

Concorde Securities Ltd. may have published other investment recommendations in respect of the same securities/instruments recommended in this report during the preceding 12 months. Disclosure of previous investment recommendations produced by Concorde Securities Ltd. in the previous 12 months can be found at Rating history. (https://www.con.hu/wp-content/uploads/2016/04/Rating-history.pdf?tstamp=201710021038)

GENERAL

This report is provided for information purposes only and does not represent an offer for sale, or the solicitation of any offer to buy or sell any securities.

The information, and any opinions, estimates and forecast have been obtained from sources believed by us to be reliable, but no representation or warranty, express or implied is made by us as to their accuracy or completeness. The information, opinions, estimates and forecasts may well be affected by subsequent changes in market conditions. This document may not be reproduced in whole or in part, or published for any purpose.

DISCLAIMER II.

This research/commentary was prepared by the assignment of Budapest Stock Exchange Ltd. (registered seat: 1054 Budapest, Szabadság tér 7. Platina torony I. ép. IV. emelet; company registration number: 01-10-044764, hereinafter: BSE) under the agreement which was concluded by and between BSE and Concorde Securities Ltd. (registered seat: H-1123 Budapest Alkotás utca 50., company registration number: 01-10-043521, hereinafter: Investment Service Provider)

BSE shall not be liable for the content of this research/commentary, especially for the accuracy and completeness of the information therein and for the forecasts and conclusions; the Service Provider shall be solely liable for these. The Service Provider is entitled to all copyrights regarding this research/commentary however BSE is entitled to use and advertise/spread it but BSE shall not modify its content.

This research/commentary shall not be qualified as investment advice specified in Point 9 Section 4 (2) of Act No. CXXXVIII of 2007 on Investment Firms and Commodity Dealers and on the Regulations Governing their Activities. Furthermore, this document shall not be qualified as an offer or call to tenders for the purchase, sale or hold of the financial instrument(s) concerned by the research/commentary.