

OPEN PENSION FUNDS

IN POLAND

2004

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Key information

The Market in Numbers

- 12 million – the number of open pension fund members
- PLN 11.4 billion – the value of contributions transferred by the Social Security Institution (ZUS), including 762 million of contributions overdue and interest received as bonds
- PLN 62.6 billion – Open Pension Funds net asset value
- PLN 7.1 billion – Open Pension Funds financial result, grew by over 50% since 2003
- 14.0% - average increase in accounting unit value
- 13 of the 15 pension societies generate profits. Financial results of some pension societies improved after liquidation of reserve accounts in 2004.

Market Consolidation

- General Pension Society Polsat S.A. took over the management of Kredyt Banku Open Pension Fund. On 10 December 2004, the assets of Kredyt Banku Open Pension Fund were taken over by Polsat Open Pension Fund. This was the first consolidation on the Open Pension Funds market in nearly two years.

Legal Environment

- Entry into force of subsequent regulations set forth by the Act of 27th August 2003 modifying *the Act on the Organization and Operation of Pension Funds and certain other Acts*. The Act came into effect in October 2003 but some of the significant provisions became effective only in 2004.
- Entry into force of the Act of 20th April 2004 on *Individual Pension Accounts*.
- Entry into force of a set of Ordinances to the amended Act *on the Organization and Operation of Pension Funds*.
- Since 1st October, the Ordinance of the Minister of Economy, Labour and Social Policy of 19th March 2004 *on the Return of Resources*

accumulated on the Accounts of Open Pension Fund Members to the State Budget. The Ordinance concerns the return of resources accumulated on the accounts of functionaries of uniformed forces who will choose pension from the pay-as-you-go system.

Market Environment

- The European statistical office Eurostat made a decision, according to which Polish Open Pension Funds are not a segment of social security, thus their assets should not be classified as part of public finance. If this opinion is shared by the European Commission, this will mean e.g. necessity to loosen Open Pension Funds investment limitations (e.g. as concerns investments placed abroad). This will have a negative effect on the basic indices of the Polish public debt. Government representatives oppose Eurostat decision.
- Repayment of Social Security Institution (ZUS) arrears to Open Pension Funds which started in November 2003, has been continued. According to the approach adopted, liabilities have been taken over by the State Treasury and will be covered by transfers of Treasury bonds to Open Pension Funds. According to the plan, ZUS arrears, estimated at approximately PLN 10 billion, shall be repaid by the end of 2006. In 2004 ZUS transferred to Open Pension Funds PLN 762 million of contributions overdue and interest in the form of Treasury bonds. As a reminder: in November and December 2003 PLN 387 million were transferred in this mode.
- The Economic Chamber of Pension Funds (IGTE) decided to change its statute. It changed e.g. the regulations for the Chamber financing. Misunderstandings concerning financial issues caused certain Pension Societies to leave the Chamber. At present, 11 out of 15 Pension Societies belong to IGTE.
- There is an on-going discussion concerning the shape of the system for pension benefits payment from the 2nd pillar. KNUiFE (Insurance and Pension Funds Supervisory Commission) has developed and presented its own report on this topic. The subject will also be dominant in one of the issues of KNUiFE Discussion Forum, where outstanding experts will discuss issues regarding retirement provisions.

Efficiency of the Investment Operations of OFE

Unit value increased on average by 14%

In 2004 weighted average value of an accounting unit increased by 14%. As a reminder: in 2003 this increase did not exceed 11%. It should still be borne in mind that the current inflation ratio is much higher than a year ago. This means that the real rate of return generated by the open pension funds in 2004 was similar to the one of 2003. Results generated by individual funds were a bit more differentiated than a year ago – the difference between the best fund in the rating, Pekao Open Pension Fund and the weakest Allianz Polska Open Pension Fund reached nearly 5 percentage points.

Relatively low position of the two largest funds is worth noting, i.e. Commercial Union and ING Nationale-Nederlanden open pension funds. This seems to confirm the thesis that smaller funds may move more effectively on the Polish market, which is still rather shallow.

Table 1. Value of Accounting Units of Open Pension Funds (PLN)

Name of the Open Pension Fund	31 st December 2003	31 st December 2004	Rate of Return (%)
AIG	16,28	18,71	14,9
Allianz Polska	16,96	18,98	11,9
Bankowy	17,34	20,10	15,9
Commercial Union	17,59	19,95	13,4
Credit Suisse L&P	16,94	19,66	16,1
DOM	17,74	20,58	16,0
Ergo Hestia	17,44	19,92	14,2
Generali	17,59	20,28	15,3
ING N-N Polska	18,62	21,16	13,6
Kredyt Banku	14,90	-	-
Pekao	16,03	18,71	16,7
Pocztylion	16,21	18,51	14,2
Polsat	18,80	21,42	13,9
PZU Złota Jesień	17,57	20,09	14,3
Sampo	18,37	20,69	12,6
Skarbiec-Emerytura	16,44	18,75	14,1
Weighted Average			14,0

Source: KNUiFE

The value of units of seven funds exceeded PLN 20

It is worth noting that now seven funds reached the value of accounting units exceeding PLN 20. The highest unit value was generated by Polsat Open Pension Fund, which reached PLN 21.42 in the end of December.

As a year ago, the lowest accounting unit value was generated by Kredyt Banku Open Pension Fund. On the last trading day (9th December) its unit value was PLN 16.51. Since 10th December 2004 Kredyt Banku Open Pension Fund assets were taken over by Polsat Open Pension Fund.

Legal rates of return

In 2004, the methodology of statutory rates of return calculation changed

In 2004, the methodology of calculation of Open Pension Funds legal rates of return changed significantly. By March 2005, rates of return had been calculated on a quarterly basis for the period of 24 months. At present, KNUiFE will calculate and announce the rates of return in the end of March and September of each year. Also the period for which the index is calculated has been extended to 36 months. It is worth reminding that when computing the weighted average rate of return of all the funds, the share of an individual Open Pension Fund must not exceed 15% - while there was no such limitation previously.

Table 2. Legal Rates of Return of Open Pension Funds (%)

Name of the Open Pension Fund	29-03-2002 31-03-2004	Per Annum	28-09-2001 30-09-2004	Per Annum
AIG	27,9	13,1	52,4	15,1
Allianz Polska	26,7	12,6	51,2	14,8
Bankowy	31,9	14,9	74,8	20,4
Commercial Union	22,4	10,6	48,5	14,1
Credit Suisse L&P	22,2	10,5	46,9	13,7
DOM	26,5	12,5	54,4	15,6
Ergo Hestia	25,2	11,9	47,5	13,8
Generali	27,0	12,7	55,3	15,8
ING N-N Polska	29,0	13,6	59,1	16,7
Kredyt Banku	24,0	11,4	36,1	10,8
Pekao	22,1	10,5	47,4	13,8
Pocztylion	23,2	11,0	45,5	13,3
Polsat	31,7	14,8	56,5	16,1
PZU Złota Jesień	27,8	13,0	57,0	16,2
SAMPO	26,1	12,3	54,0	15,5
Skarbiec-Emerytura	23,2	11,0	47,7	13,9
Średnia ważona	27,9	13,1	53,8	15,4

Source: KNUiFE

Bankowy Open Pension Fund generated the best result, but to a great extent due to previous subsidies

In 2004, KNUiFE computed and announced the statutory rates of return twice. First, in the end of March for the period of 24 months, and subsequently in the end of September, for the period of 36 months. In both rankings, the top position was taken by Bankowy Open Pension Fund, but to a great extent this was a result of subsidies made by the General Pension Society managing this fund. Thus, it is worth remembering, that the returns generated by the fund are not only a result of its investment operations.

The results presented are less varied than it had been observed within the first years of the system functioning. Also, all of the funds quite significantly exceeded the minimal required rate of return.

Contributions

In 2004 pension funds received over PLN 11.4 from the Social Security Institution

In 2004 over PLN 11.4 billion were transferred to the pension funds in total, which is 11% more than a year ago. This amount also accounts for repayment of part of the arrears of 1999-2002; Open Pension Funds received in this respect approximately PLN 762 million in the period January-December in 2004. Having taken this factor into account, the scale of regular transfers of contributions is smaller than planned.

As compared to the previous year, average value of contributions transferred each month of the year 2004 increased to 900 million. Still, amounts transferred in individual months are clearly differentiated. Like a year ago, most resources (nearly PLN 1.5 billion) were transferred to the funds in July. May turned out to be the weakest month, when the funds received only a little more than PLN 400 million.

Table 3. Contributions transferred to Open Pension Funds (million PLN)

Name of the Open Pension Fund	2003	2004	Change (%)
AIG	914,1	1 006,1	10,1
Allianz Polska	284,3	323,1	13,7
Bankowy	309,0	356,4	15,4
Commercial Union	2 925,0	3 134,8	7,2
Credit Suisse L&P	267,7	337,8	26,2
DOM	173,8	183,0	5,3
Ergo Hestia	208,6	242,9	16,5
Generali	324,0	364,7	12,6
ING N-N Polska	2 250,8	2 578,7	14,6
Kredyt Banku	69,6		
Pekao	181,2	201,2	11,1
Pocztylion	247,6	278,6	12,5
Polsat	44,3	120,8*	172,7
PZU Złota Jesień	1 408,1	1 545,9	9,8
SAMPO	297,5	383,5	28,9
Skarbiec-Emerytura	386,7	386,0	-0,2
Total	10 292,5	11 443,6	11,2

Source: ZUS

*including contributions transferred to OFE Kredyt Banku

The repayment of the Social Security Institution's arrears to Open Pension Funds is realized slower than expected. In accordance with the approach adopted, the arrears were assumed by the State Treasury and are settled in the form of bonds. According to forecasts of the Social Security representatives, in the year 2004 pension funds were to receive PLN 2.5 billion in this manner. Finally, it turned out that only PLN 573 million of contributions overdue and PLN 189 million of interest were transferred.

Net Assets

In the end of December 2004 pension funds held net assets of PLN 62.6 billion

The increase in net assets of all the pension funds in 2004 reached PLN 17.8 billion. In the previous year, the assets only grew by PLN 13 billion.

The most important factors influencing the value of assets held by pension funds are new contributions and the generated financial result. Still, asset increase is more influenced by the income of new resources but the significance of the financial result is constantly growing. In 2004, both contributions and the financial result increased as compared to the previous year.

In 2004 net assets of pension funds increased by PLN 17.8 billion

The increase of the total value of net assets in 2004 came close to 40% but the differentiation among individual funds was clearly observable. The assets of Credit Suisse Open Pension Fund increased most, by over 2/3. This fund's acquisition policy is carried out intensively and effectively. This results in a dynamic increase in the number of members, both those changing funds and those enrolling for the first time. Also Sampo Open Pension Fund result is worth noticing, as its assets grew by nearly 60% within a year. In this case the cause of the increase is similar, i.e. intensity of acquisition policy.

Table 4. Net Assets of Open Pension Funds (millions of PLN)

Name of the Open Pension Fund	31st December 2003	31st December 2004	Change (%)
AIG	3 833,9	5 335,0	39,2
Allianz Polska	1 210,8	1 670,5	38,0
Bankowy	1 368,1	1 985,7	45,1
Commercial Union	12 710,5	17 371,1	36,7
Credit Suisse L&P	1 143,9	1 954,1	70,8
DOM	749,7	1 011,2	34,9
Ergo Hestia	915,4	1 343,6	46,8
Generali	1 481,5	2 101,4	41,8
ING N-N Polska	10 046,9	14 079,0	40,1
Kredyt Banku	264,2	-	
Pekao	722,0	1 013,8	40,4
Pocztylion	937,5	1 308,5	39,6
Polsat	181,8	558,8	207,4 (32,9*)
PZU Złota Jesień	6 272,7	8 695,1	38,6
Sampo	1 374,9	2 169,6	57,8
Skarbiec-Emerytura	1 619,5	2 029,6	25,3
Total	44 833,1	62 626,9	39,7

Source: KNUiFE

*without the assets of the OFE Kredyt Banku which was taken over

The assets of Kredyt Banku Open Pension Fund were growing slowest. This fund was taken over by another entity, which made the managing company not undertake practically any acquisition activities, and the investment results of this fund were weak.

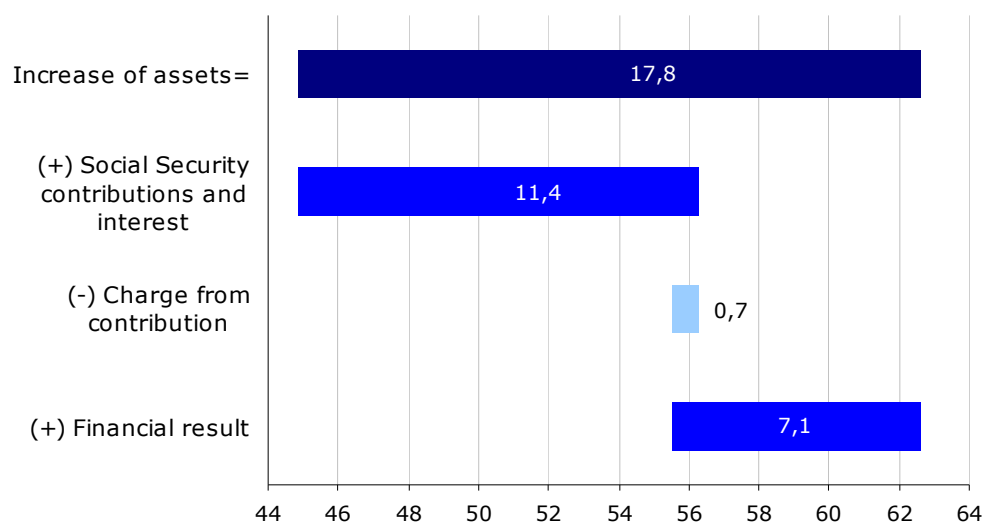
Decomposition of the Increase in Net Assets

Contributions transferred by the Social Security Institution and the financial results had a decisive influence on the increase in assets

The increase in net assets in 2004 reached PLN 17.8 billion. Similarly like in previous year, the key role was played by the Social Security Institution which transferred over PLN 11.4 billion contributions to pension funds. This amount includes the repayment of the Social Security Institution's arrears of 1999-2003. The second important factor influencing the increase in net assets were the financial results of the pension funds. In 2004, pension funds earned nearly PLN 7.1 billion.

The most important factor lowering net asset value were, like a year ago, the contribution fees. In 2004, the societies received approximately PLN 700 million by way of fees. The presentation of net asset increase does not include management fee as this is accounted for in the net financial result.

Figure 1. Decomposition of the increase in Open Pension Funds' net assets (billions of PLN)



Source: KNUiFE, ZUS

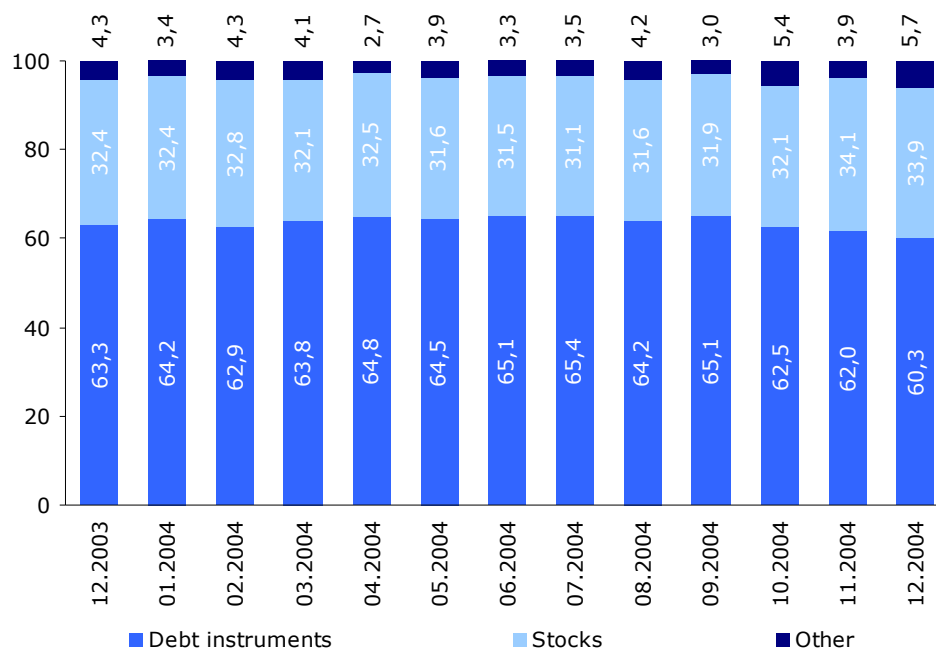
Net asset value of the pension funds was also influenced by the change of the pension system security mechanisms. Before the introduction of the new regulations, one of the elements of the system was the reserve account, constituting 1.5% of the value of resources paid into the funds. In line with the change of law, Pension Societies obtained an opportunity to withdraw a significant part of resources from this account. Part of the societies made this operation still in 2003, but the others did this only in w 2004.

Investment Portfolio

In 2004, Open Pension Funds maintained a high interest in the stock market

The structure of Open Pension Funds investment portfolio in the end of subsequent months of 2004 quite significantly differed from that of 2003. Fund managers placed much more resources in investments on the stock market. This was done at the expense of debt market instruments, mainly Treasury bonds and bills. The growing rates of return in Poland lowered the value of bonds in the funds' portfolios and discouraged further purchases and the improving situation on the Warsaw Stock Exchange in the second half of the year was a strong encouragement to increase investment in stocks.

Figure 2. The structure of the investment portfolio of Open Pension Funds (%)



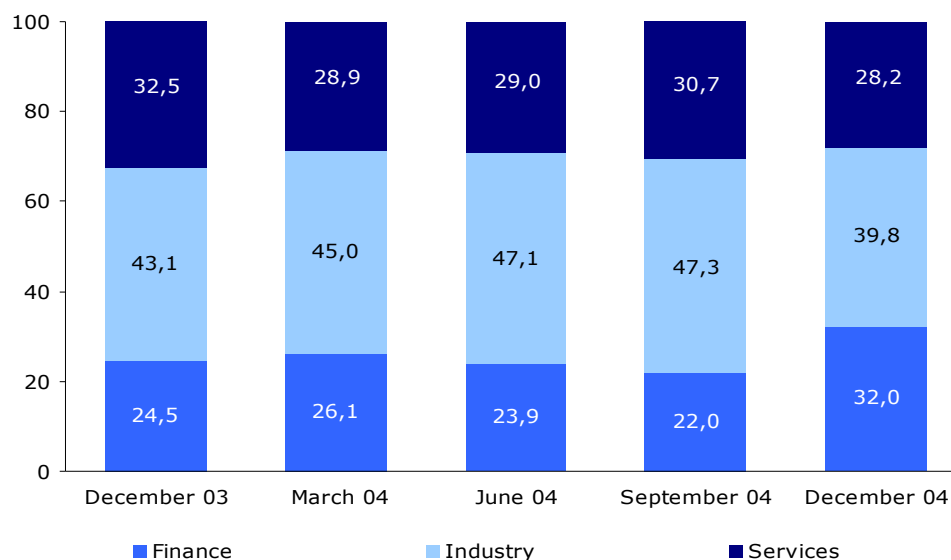
Source: KNUiFE

It can be clearly seen that the institutions managing pension funds take into account the boom on the stock exchange in their investment moves, measured not only by the index value but also by much higher activity of issuers as regards new stock offerings. After a deep recession in the previous years, in 2004 the Securities and Stock Exchange Commission allowed trading of securities issued by nearly 50 new companies, including 36 companies that managed to offer their securities in 2004. Definitely, the most spectacular offering was the privatization of PKO BP. The stocks of this bank enjoyed a great interest among pension funds.

Shares in the portfolio

The significance of the share section of the investment portfolio of pension funds is growing. In 2004, the funds maintained a high – exceeding 30% of the portfolio – involvement in stock instruments. As more important, rates of return achieved by individual pension funds were dependent, to a great extent, on share sub-portfolio efficiency.

Figure 3. Structure of the share portfolio of Open Pension Funds (%)



Source: KNUiFE

PKO BP entry into the stock market significantly changed the structure of pension funds shares portfolios

The position of companies from the industrial sector is worth noting. This sector has always constituted an important part of the share portfolio, and in the end of the 3rd quarter, the shares of industrial companies constituted nearly half of the securities held by the funds. The values of stock exchange companies from this sector were based on the correction of the growth trend from the end of April and beginning of May. At that time, shares of banks or telecommunications companies went significantly down. A critical event turned out to be the entry of PKO BP stocks into the market. This bank radically changed the proportions of pension funds portfolios: the financial sector (banks) gained significantly and in the end of 2004 nearly 1/3 of the shares portfolio was constituted by companies from this sector. A quarter before it was not much than 1/5. The proportion of industrial companies shares in the portfolios dropped significantly. It should be noted that the change discussed was realized through a significant increase (by over PLN 2.5 billion) of nominal involvement in the financial sector, while at the same time no significant changes were made to the other two sectors.

Member Accounts

In the end of December 2004, Open Pension Funds managed over 12.5 million of member accounts

The number of accounts maintained by the Open Pension Funds in the end of 2004 was higher than in the end of 2003 by over 560 thousand and exceeded the level of 12.5 million.

In 2004, the number of accounts grew by over 4.7%. The pace of growth was only a little higher than that of 2003, when it reached 4.3%. This means that the number of accounts is constantly growing and greater changes may only result from radical changes on the labour market, particularly from a quick decrease of unemployment among graduates.

Table 5. Accounts managed by Open Pension Funds

Name of the Open Pension Fund	31st December 2003	31st December 2004	Change (%)
AIG	984 854	1 040 619	5,7
Allianz Polska	254 273	284 738	12,0
Bankowy	419 631	449 468	7,1
Commercial Union	2 557 527	2 598 684	1,6
Credit Suisse L&P	411 296	469 926	14,3
DOM	266 590	263 815	-1,0
Ergo Hestia	464 805	471 546	1,5
Generali	406 348	431 184	6,1
ING N-N Polska	1 996 914	2 146 060	7,5
Kredyt Banku	168 292	-	-
Pekao	298 441	298 297	0,0
Pocztylion	488 385	495 505	1,5
Polsat	151 094	312 977	107,1 (6,9*)
PZU Złota Jesień	1 896 689	1 981 480	4,5
SAMPO	542 519	670 211	23,5
Skarbiec-Emerytura	659 501	618 679	-6,2
Total	11 967 159	12 533 189	4,7

Source: KNUiFE

*without the accounts of Kredyt Banku Open Pension Fund

In 2004, Polsat Open Pension Fund managed over twice as many accounts as a year before

A radical increase in the number of accounts was noted in Polsat Open Pension Fund (107.1%) but this was connected to the takeover of Kredyt Banku Open Pension Fund. Without this, Polsat Open Pension Fund would have only increased its number of accounts by less than 7%.

Compared to the market, also Sampo Open Pension Fund and Credit Suisse Open Pension Fund noted significant growths. In 2004, these funds increased the number of accounts respectively by: 23.5% and 14.3%.

Similarly as in 2003, the number of accounts maintained by three funds decreased within 12 months in 2004. This was largely connected to corrections of register in the funds and elimination of inactive accounts.

Number of Members

In the end of December 2004, the Open Pension Funds had nearly 12 million members

In addition to a register of accounts held by Open Pension Funds, the Social Security Institution also holds an independent register of members. According to Social Security Institution data, in the end of December 2004, the Open Pension Funds had nearly 12 million members. As compared to the end of 2003, this means an increase by over 500 thousand. Relatively, the increase of the number of members in 2004 reached 4.5% but similarly as in 2003, a significant differentiation among individual funds was observed.

Table 6. Number of members of Open Pension Funds

Name of the Open Pension Fund	31st December 2003	31st December 2004	Change (%)
AIG	938 839	992 401	5,7
Allianz Polska	245 284	274 908	12,1
Bankowy	395 444	424 148	7,3
Commercial Union	2 540 530	2 576 792	1,4
Credit Suisse L&P	367 916	419 339	14,0
DOM	239 793	234 918	-2,0
Ergo Hestia	397 907	405 254	1,8
Generali	380 385	402 407	5,8
ING N-N Polska	1 966 603	2 110 139	7,3
Kredyt Banku	140 816	-	-
Pekao	290 434	289 026	-0,5
Pocztylion	452 376	453 707	0,3
Polsat	123 581	259 847	110,3 (8,9*)
PZU Złota Jesień	1 866 692	1 942 995	4,1
SAMPO	510 090	626 202	22,8
Skarbiec-Emerytura	606 595	567 400	-6,5
Total	11 463 285	11 979 483	4,5

Source: ZUS

* without the members of Kredyt Banku Open Pension Fund

The most new members were acquired by Polsat Open Pension Fund (growth by 110%), but this was mainly due to the takeover of over 120 thousand members of Kredyt Banku Open Pension Fund. Without this, the number of members of Polsat Open Pension Fund would have grown by less than 9%.

Active acquisition policy is a key factor determining the increase of members

Apart from Polsat Open Pension Fund, the most members were acquired by the funds that had an active acquisition policy. This is the cause of a high position held by Sampo Open Pension Fund and Credit Suisse Open Pension Fund (respectively: 22.8% and 14.0%). Also, an increase in the number of Allianz Polska Open Pension Fund members was observable (12.1%).

The funds whose number of members decreased include: Skarbiec-Emerytura Open Pension Fund (drop by 6.5%). Relatively fewer members were lost by Dom Open Pension Fund and Pekao Open Pension Fund (drop respectively by: 2.0% and 0.5%).

Transfers

For a few years, the number of transfers has been stable and equals approximately 300 thousand per annum

The number of transfers in 2004 came close to the level observed in the previous years and reached a little less than 310 thousand. The leading position in the transfer table was held by Sampo Open Pension Fund, which in 2004 took over 86 thousand members of other funds, losing about 9 thousand at that time. It is worth remembering that also last year this fund had the most beneficial balance of transfers, with a net result of approximately 40 thousand members. This proves a consequently realized strategy of active acquisition of members, which allows taking over members from competitors. A clear growth of acquisition activity may also be seen in the case of vice-leader Credit Suisse Open Pension Fund, which gained a net number of over 38 thousand members (10 thousand in 2003).

Table 7. Changes in membership

Name of the Open Pension fund	New Fund Members	Leaving Members	Balance
AIG	31 933	31 211	722
Allianz Polska	4 271	5 827	-1 556
Bankowy	15 746	9 238	6 508
Commercial Union	8 748	54 508	-45 760
Credit Suisse L&P	52 563	14 298	38 265
DOM	2 194	11 960	-9 766
Ergo Hestia	19 872	17 860	2 012
Generali	16 344	11 677	4 667
ING N-N Polska	34 242	25 018	9 224
Kredyt Banku	52	16 840	-16 788
Pekao	480	9 111	-8 631
Pocztylion	1 362	14 540	-13 178
Polsat	322	3 448	-3 126
PZU Żłota Jesień	34 235	28 816	5 419
SAMPO	85 911	8 987	76 924
Skarbiec-Emerytura	304	45 240	-44 936
Total	308 579	308 579	-

Source: ZUS, KDPW

In 2004, the list was closed by: Commercial Union Open Pension Fund, losing net nearly 46 thousand members and Skarbiec-Emerytura Open Pension Fund, who lost net 45 thousand members. It is worth noting that these funds only exchanged their positions in the table as compared to the previous year and their net losses grew nearly by half. CU Open Pension Fund has the highest number of members and thus a significant number of leaving members is not surprising. At the same time, its acquisition policy is not very active. In the case of Skarbiec-Emerytura Open Pension Fund high losses of members are a result of last year's merger with {ego} Open Pension Fund, which was not supported by an accordingly active acquisition campaign.

Lotteries

Contract with an Open Pension Fund should be concluded within 7 days from the commencement of pension obligation

The person obliged to be a member of an Open Pension Fund should conclude the contract with a selected fund within 7 days from commencement of pension obligation. If they do not do this, they may become member by the lottery carried out by the Social Security Institution.

In 2004 the regulations concerning lotteries changed significantly. Previously, each fund participated in the pool of new members according to their share in the total number of members of all funds. At present, only those funds participate in the lottery which have reached the rates of return higher than appropriate average weighted rates of return of all the funds and whose assets do not exceed 10% of the sum of assets of all the funds. The shares in the pool of new members are equal for all the eligible funds. The Social Security Institution carries out lotteries on the last working day of January and July of each year.

Table 8. Persons obtaining membership as a result of lottery

Name of Open Pension Fund	Number of Open Pension Fund members from lottery of 30-01-2004	Number of Open Pension Fund members from lottery of 30-07-2004
AIG	8 562	11 654
Allianz Polska	2 237	11 654
Bankowy	3 606	11 654
Commercial Union	23 169	0
Credit Suisse L&P	3 355	0
DOM	2 187	0
Ergo Hestia	3 629	0
Generali	3 469	11 654
ING N-N Polska	17 936	0
Kredyt Banku	1 284	0
Pekao	2 649	0
Pocztylion	4 126	0
Polsat	1 127	11 654
PZU Złota Jesień	17 024	0
SAMPO	4 652	11 654
Skarbiec-Emerytura	5 532	0
Total	104 544	69 924

Source: ZUS

In 2004, as a result of lottery, 175 thousand people became members of open pension funds.

In 2004 two lotteries took place. The first one, still according to the former regulations, concerned nearly 105 thousand people. The second one, according to the new regulations, concerned nearly 70 thousand people. In total, as a result of lotteries, the funds gained 175 thousand new members. It is worth remembering that acquiring the new members did not impose any acquisition expenses upon the funds.

Financial Results of Open Pension Funds

In 2004 pension funds generated net profit of approximately PLN 7.1 billion

The total financial result generated by the open pension funds in 2004 exceeded PLN 7 billion. This is by over 75% more than in 2003 but we should bear in mind that this result was achieved with higher assets.

The leading position in terms of profit growth was in 2004 Credit Suisse Open Pension Fund, which increased its net profit by nearly 160%. The net financial result of the second Open Pension Fund in the ranking, Pekao, increased by „only” nearly 120% in 2004.

Table 9. Financial results of Open Pension Funds

Name of the Open Pension Fund	31st December 2003	31st December 2004	Change (%)
AIG	368,8	638,7	73,2
Allianz Polska	106,8	157,7	47,6
Bankowy	121,6	244,7	101,2
Commercial Union	1 050,5	1 911,0	81,9
Credit Suisse L&P	88,5	228,7	158,4
DOM	75,2	130,0	72,9
Ergo Hestia	70,6	151,8	115,0
Generali	143,6	256,3	78,5
ING N-N Polska	916,8	1 561,6	70,3
Kredyt Banku	22,3	-	-
Pekao	61,3	134,1	118,7
Pocztylion	80,6	149,9	86,0
Polsat	23,7	33,9	43,0
PZU Złota Jesień	590,4	1 010,1	71,1
SAMPO	117,8	214,8	82,3
Skarbiec-Emerytura	151,3	241,0	59,3
Razem	3 989,8	7 064,1	77,1

Source: KNUiFE

It should be borne in mind that nominally, all the funds achieved better financial results than in 2003.

Polsat Open Pension Fund result is rather surprising as it was this fund that achieved the highest increase in profit in the previous year (reminder: 125%). In 2004, the discussed fund’s managers did not even generate a net financial result that would have exceeded that of 2003 by half. This is the lowest profit increase on the Open Pension Fund market in 2004.

General Pension Societies' Equities

In the end of December 2004, Pension Societies equities exceeded PLN 1.7 billion

The value of General Pension Societies' equities in the end of 2004 exceeded PLN 1.7 billion and increased by nearly 16% as compared to the same time of the previous year. Pension societies' equities are growing, to a great extent due to their positive financial results. Pension Societies' financial situation was also improved by the change in the legal regulations, concerning the reserve account. The system security mechanism functioning at present is much less costly to the Pension Societies and freeing the resources from the reserve accounts has much improved their current financial situation.

Table 10. General Pension Societies' Equities (millions of PLN)

Name of the General Pension Society	31st December 2003	31st December 2004*	Change (%)
AIG	182,6	223,0	22,2
Allianz Polska	32,1	51,4	60,0
Bankowy	32,1	53,9	68,0
Commercial Union	305,9	277,7	-9,2
Credit Suisse L&P	169,8	176,1	3,7
DOM	17,0	17,9	5,2
Generali	84,2	101,7	20,8
Ergo Hestia	61,7	80,0	29,7
ING N-N Polska	266,3	370,4	39,1
Kredyt Banku	13,8		
Pekao Pioneer	19,9	28,2	41,5
Pocztylion-Arka	12,2	30,5	149,2
POLSAT	10,8	17,0	57,8
PZU	157,6	203,8	29,4
Sampo	31,8	14,2	-55,3
Skarbiec-Emerytura	111,2	99,4	-10,6
Total	1 508,9	1 745,1	15,7

Source: KNUiFE

*non-audited data

ING Nationale-Nederlanden PTE S.A. has the highest equity

In the end of December 2004, highest equity was held by ING Nationale-Nederlanden Pension Society (PLN 370 million). The group of societies with highest equities would also include: CU (PLN 278 million), AIG (PLN 223 million), PZU (PLN 204 million) and Credit Suisse (PLN 176 million). The lowest level of equities was noted in the end of December 2004 by the following Pension Societies: Sampo (PLN 14.2 million), Polsat (PLN 17 million) and DOM (PLN 17.9 million).

Financial Results of General Pension Societies

Total net financial result of Pension Societies reached PLN 385 million in 2004

In the end of December 2004, the total of financial results generated by all Pension Societies reached PLN 385 million. In 2003, Pension Societies earned PLN 450 million but this was to a great extent due to the termination of reserve accounts in the end of the previous year. The resources incoming from these accounts improved Pension Societies' financial results in 2003 but this was a single and non-repeated operation, thus incomparable to the profits of 2004.

Table 11. Financial results of General Pension Societies (millions of PLN)

Name of the General Pension Society	31st December 2003	31st December 2004*
AIG	12,1	24,3
Allianz Polska	5,4	19,3
Bankowy	-0,5	22,3
Commercial Union	160,9	119,6
Credit Suisse L&P	3,5	9,8
DOM	4,7	0,4
Generali	48,6	17,3
Ergo Hestia	-1,2	18,3
ING N-N Polska	117,5	125,3
Kredyt Banku	1,8	-
Pekao Pioneer	7,9	5,6
Pocztylion-Arka	0,6	14,9
POLSAT	2,1	-18,8
PZU	66,6	45,6
Sampo	1,5	-22,6
Skarbiec-Emerytura	17,8	3,3
Total	449,2	384,6

Source: KNUiFE

*non-audited data

Highest profits were generated by ING N-N and CU Pension Companies

The highest net profits were observed in the financial reports of ING Nationale-Nederlanden Pension Society (PLN 125 million) and Commercial Union Pension Society (PLN 120 million). It is worth noting that also societies managing medium-sized pension funds started generating profits. This is partly due to freeing of resources from the reserve account, shown by some Pension Societies in their reports for 2004. Still, the fundamental reason is such that the boards of Pension Societies decided to consequently reduce operational costs and in this way ensure appropriate profitability to their companies. The improving financial standing of Pension Societies may be a very positive phenomenon also from the point of view of Open Pension Funds' members. This will however happen provided that the good results achieved by the Pension Societies result in higher quality of services provided by pension funds, and in particular their investment results.