

ASSET MANAGEMENT MARKET IN POLAND 2008-2010



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EXECUTIVE SUMMARY – ASSET MANAGEMENT MARKET IN POLAND 2007

- **Market growth.** 2007 was another successful year for asset managers in Poland. The total value of AuM* surged in 2007 by ~32% to the all-time high of EUR 107bn. The key growth driver was similarly to previous year a favorable climate on equity markets combined with low interest rates, which supported exceptional performance of equity based investments. Apart of strong investment results, also significant inflows of new funds contributed to overall AuM balance increase. The most quickly growing segments in 2007 were: investment fund assets followed by pension assets and investments of insurance companies, recording: 44%, 28% and 24% yoy growth respectively
- **High profitability.** After the solid 2006 year, profitability of most asset managers remained strong in 2007. The last year has been particularly successful for investment funds managers, since the average return on equity for the sector surged to a record 89% ! in H1 2007. The key reasons of this development was a substantial growth of volumes combined with stable margins. In contrary the profitability of pension managers did not change considerably – which was a result of falling margins and growing volumes
- **Innovation.** Responding to the client demand for alternative investment strategies, in 2007 fund managers and insurers introduced multiple new products and innovations. Real estate, hedge, specialty funds and tax friendly umbrella solutions were increasingly popular. Only in the area of investment funds there have been added ~100 new funds and sub-funds during 2007. Also life insurers pushed strongly unit-linked and fund based products, offering various solutions including repackaging of 3rd party funds and long term investment schemes based on funds
- **Future Outlook.** In short-term perspective (FY2008) the asset management market will correct the excessive growth recorded in 2005-2007. Nevertheless the mid-term outlook is still very positive. Increasing wealth of individuals resulting from surging wages and higher employment will ultimately drive assets higher. Intelace Research expects that overall market will reach PLN 492bn in terms of assets until 2010 - more than doubling in value against 2005. The key growth driver will be pension funds business expected to grow ~10% on average through 2010

* Included 3 key categories of AuM in Poland: investment funds assets, pension funds assets and insurance investments (lokaty) + unit-linked assets

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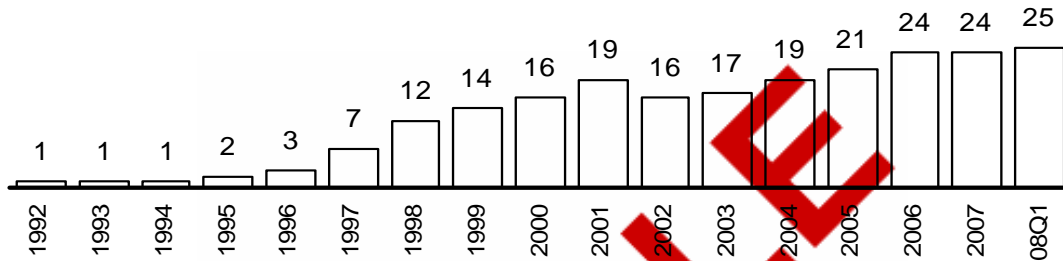
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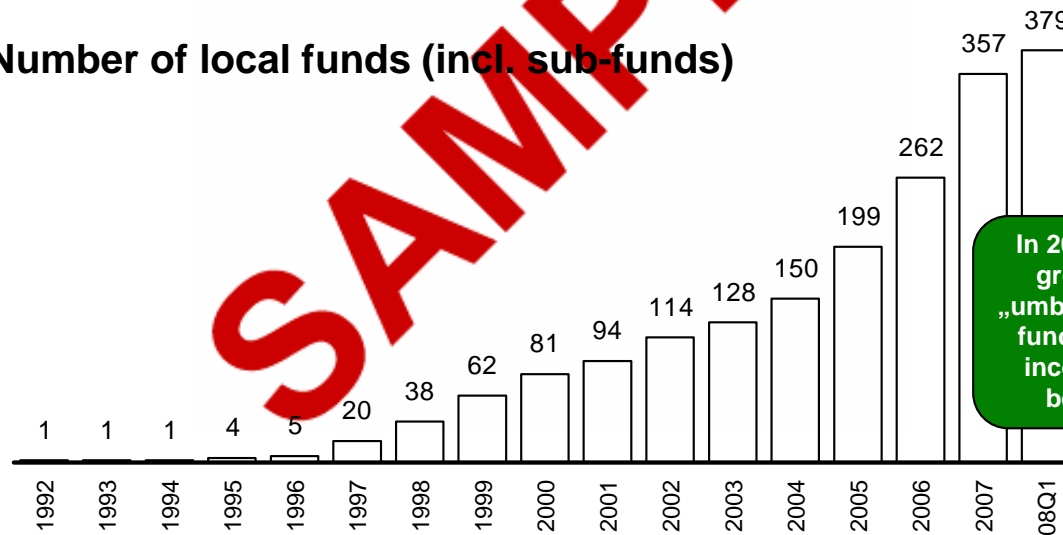
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THE NUMBER OF LOCALLY MANAGED INVESTMENT FUNDS IS CONSTANTLY GROWING

Number of local fund managers (TFI)



Number of local funds (incl. sub-funds)



Average number of funds & sub-funds per TFI



Investment funds business, 1992-2008Q1

- 1992 The first locally managed investment fund set-up by Pioneer
- 1994 A downtrend on the stock market was contributing to market contraction. Many Pioneer clients have lost they money and quit the market for years
- 1997-2001 First wave of rapid market growth driven by the bull equity market
- 2001 Few fund managers disappear due to M&A activity; Introduction of capital gains tax encourages new clients to invest in funds in order to get the tax benefit. Banks aggressively start distribution of funds, converting client deposits into funds
- 2005-2007 Fund managers increase the choice of funds. Alternative investments, real estate, securitization and hedge funds emerge. Extremely good stock market and funds performance attracts new clients. Fund assets reach EUR 37 bn level in 2007, number of clients exceeds 4 million
- 2008 The fund market is correcting, assets drop for the first time since 10 years

FOREIGN ASSETS ARE STILL LESS ATTRACTIVE FOR POLISH INVESTORS

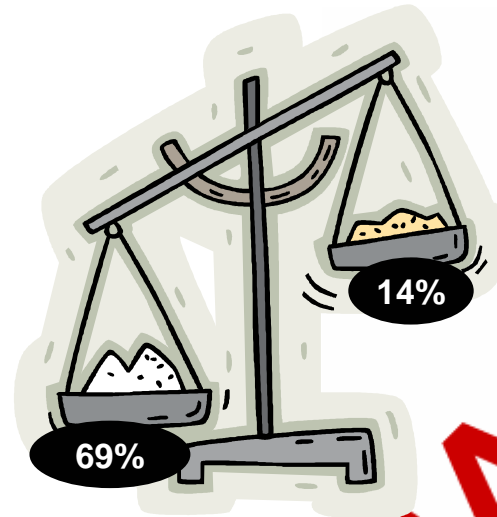
Average annual performance of equity funds available in Poland, performance in PLN (Jun.06-May.07)

x%

Local or foreign assets ?

Funds investing in local assets

- Excellent performance of the local equity market
- No currency risk
- Higher fund transparency from the point of view of the local investor
- No real need for international diversification perceived by an average fund investor



Foreign funds or local funds investing in foreign assets

- Long term appreciation trend (PLN vs. EUR) destroying returns on foreign assets
- Performance of foreign equity markets lower than yields achieved on the local market
- Overall higher risk of foreign investments if not hedged

- For local investors foreign assets will bear an additional exchange rate risk until the Euro adoption* (2012-2014) or at least until the final fixing of EUR/PLN rate (2010-2011)
- Asset managers try to hedge foreign assets against currency appreciation, however this can negatively affect the performance which is in most cases lower than yields achieved on local market

Asset Management Market in Poland 2008-2010

* The final date is still unknown. A currently governing coalition is moderately supporting the adoption of EURO
Source: Press, Intelace Research

Background

- PKO TFI has been created in 1997 as a joint venture of the largest Polish bank PKO with Credit Suisse Asset Management
- In 2006 bank PKO has purchased 25% stake in the management company from Credit Suisse and became majority shareholder of PKO TFI

Products

- PKO TFI has relationships with various types of funds have suffered substantial losses. Some new types of funds have been introduced after company reorganization in 2004
- Company manages various asset funds "S-collect"

Channels:

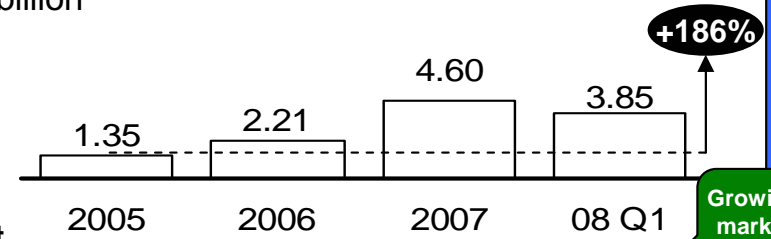
- PKO TFI has a very extensive distribution network in the country, including own retail outlets and brokerage, in total ~1360
- Thanks to a recent cooperation agreement with Polish Post, PKO funds will be distributed in selected post outlets

Customers

- Most of customers are retail clients acquired through the own network of PKO bank

Results

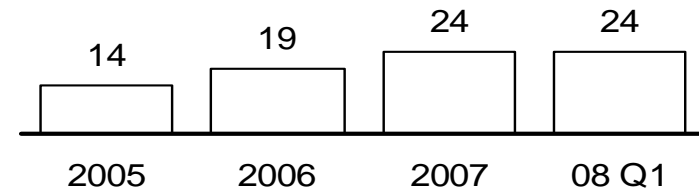
Net Assets PLN billion



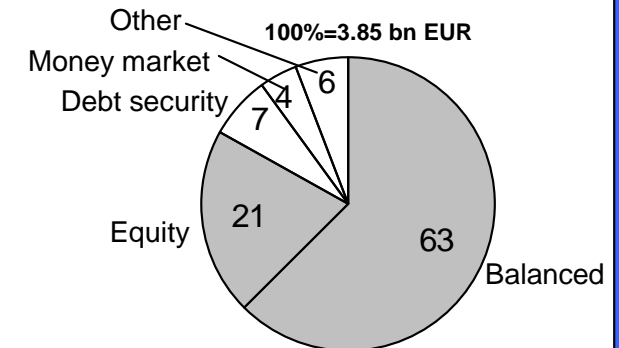
Market share* percent



Number of managed funds & sub-funds



Assets composition 2008 Q1, in percent



Asset Management Market in Poland 2008-2010

* Share by assets

AEGON - EXAMPLE OF FUNDS REPACKAGING UNDER “INVESTMENT PLAN” COVER



CAGR*

Value proposition

Characteristics

- Investment funds repackaged under insurance policy umbrella
- Client benefit is: delayed income tax, free switching between funds and limited life coverage

Product offer

- Selected 55 invest asset managers inc Fidelity, CS, SG an
- Own low risk fund managed in-house

Pricing

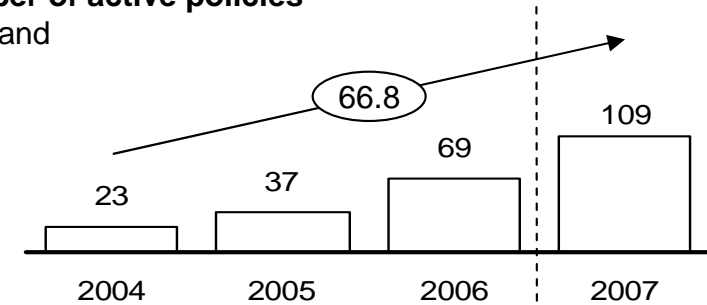
- Company is char (>1.9% annually o
- Investment liquic maturity is subject charges

Distribution

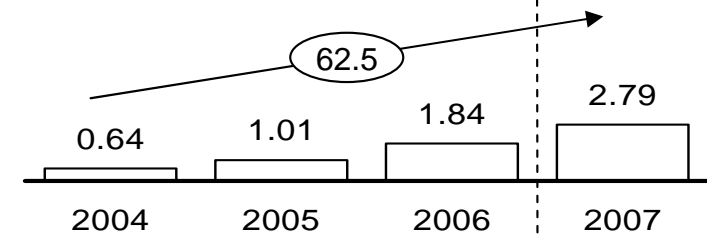
- Product is offered by agents, cooperating banks and financial intermediaries (Expander, Open-Finance)

Results

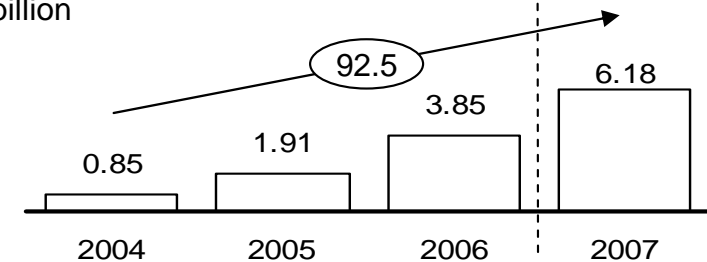
Number of active policies thousand



Gross premium written PLN billion



Technical reserves stock (Unit linked only) PLN billion



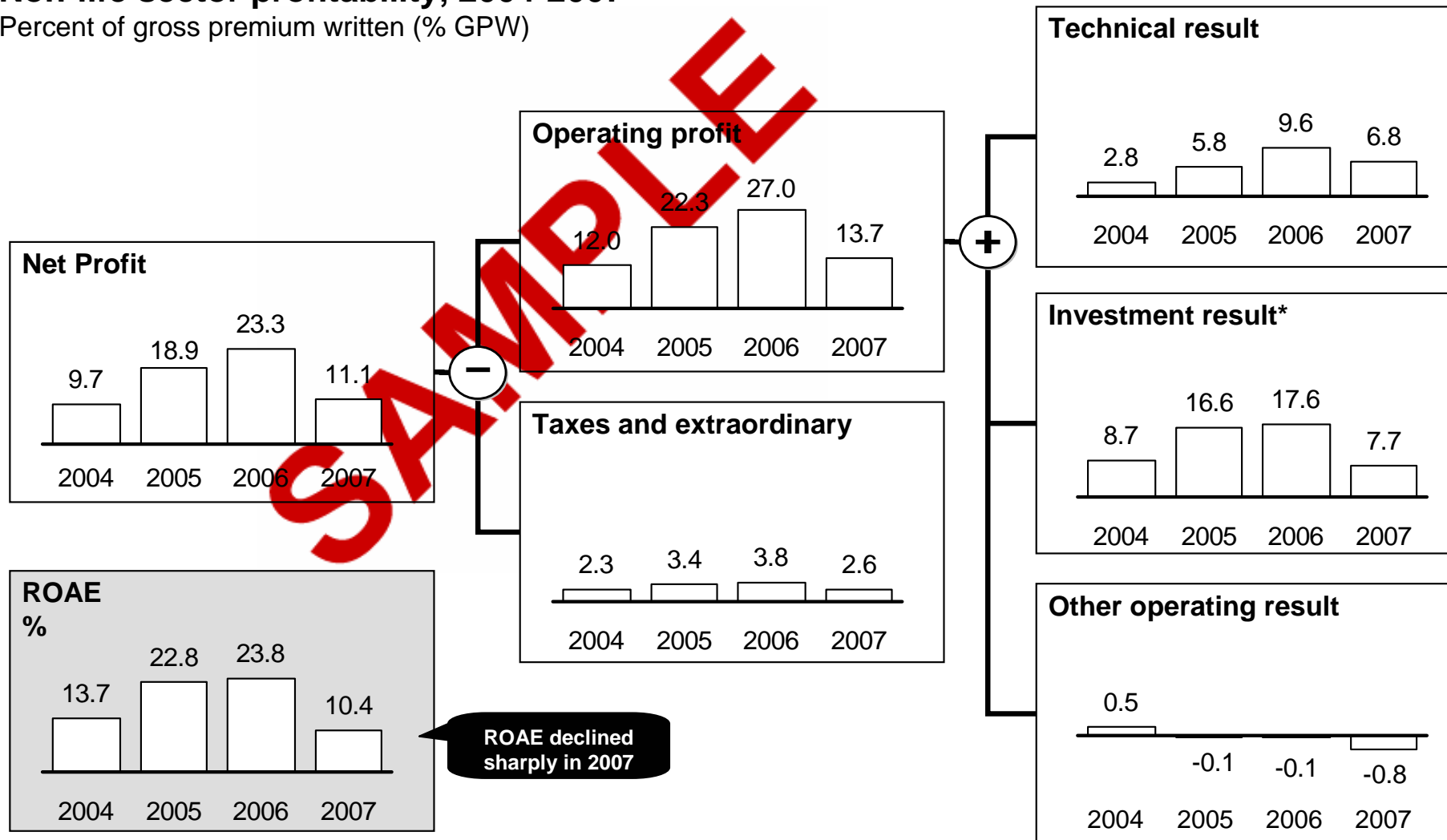
Since 2006 Aegon is profitable

PROFITABILITY IN NON-LIFE BUSINESS DETERIORATED IN 2007. BOTH TECHNICAL AND INVESTMENT RESULT RATIOS DECLINED

NON-LIFE

Non-life sector profitability, 2004-2007

Percent of gross premium written (% GPW)



Asset Management Market in Poland 2008-2010

* Only the part of investment result not included in technical account
Source: Intelace Research, KNF

NOTE ON METHODOLOGY

FX rates:

- As a general rule all “end of year” balances like: assets, deposits, loans and similar volumes have been converted from the local currency into Euro using **end of year** exchange rate
- All results achieved during a period of time like: profits, revenues, new sales etc. have been converted from the local currency into Euro using **average** exchange rate
- Exchange rates used in the report:

EUR / PLN	2000	2001	2002	2003	2004	2005	2006	2007
End of year	3.90	3.53	4.03	4.72	4.09	3.86	3.86	3.63
Average	4.02	3.68	3.85	4.40	4.53	4.03	3.91	3.79

Estimates and Forecasts:

- In some cases, recent or verified data was not available. Therefore, necessary short-term estimations have been done to fill the gaps. Estimates are always indicated with the letter “E”
- When preparing forecasts “F” we have built models using latest observed trends, available forecasts of main economic indicators, seasonal changes observed in the past and other specific factors considered important.

Multiple sources:

- In some cases multiple sources of similar data exist. In this situation we always try to select the most appropriate one /in our view/. The source is indicated in the footer area of each slide. Nevertheless in specific cases, before interpreting the data it is recommended to get a good understanding on the methodology of data collection by contacting the authors.

Institutions mentioned in this report

Narodowy Bank Polski NBP
Komisja Nadzoru Finansowego KNF
Izba Zarządzających Funduszami i Aktywami IZFA
Pioneer Pekao Investment Management
PZU Asset Management
BZ WBK AIB Asset Management
ING Investment Management
Commercial Union (Aviva) Investment Management
Pioneer Pekao TFI
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ING TFI
BPH TFI
KBC TFI
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Union Investment TFI
Millennium TFI
TFI PZU
Lukas FIO
Superfund TFI
Bank Millennium
Commercial Union OFE BPH CU WBK
ING Nationale-Nederlanden Polska OFE
OFE PZU „Złota Jesień”
AIG OFE
AXA OFE
Skandia Życie Towarzystwo Ubezpieczeń S.A.
AEGON Towarzystwo Ubezpieczeń na Życie S.A.

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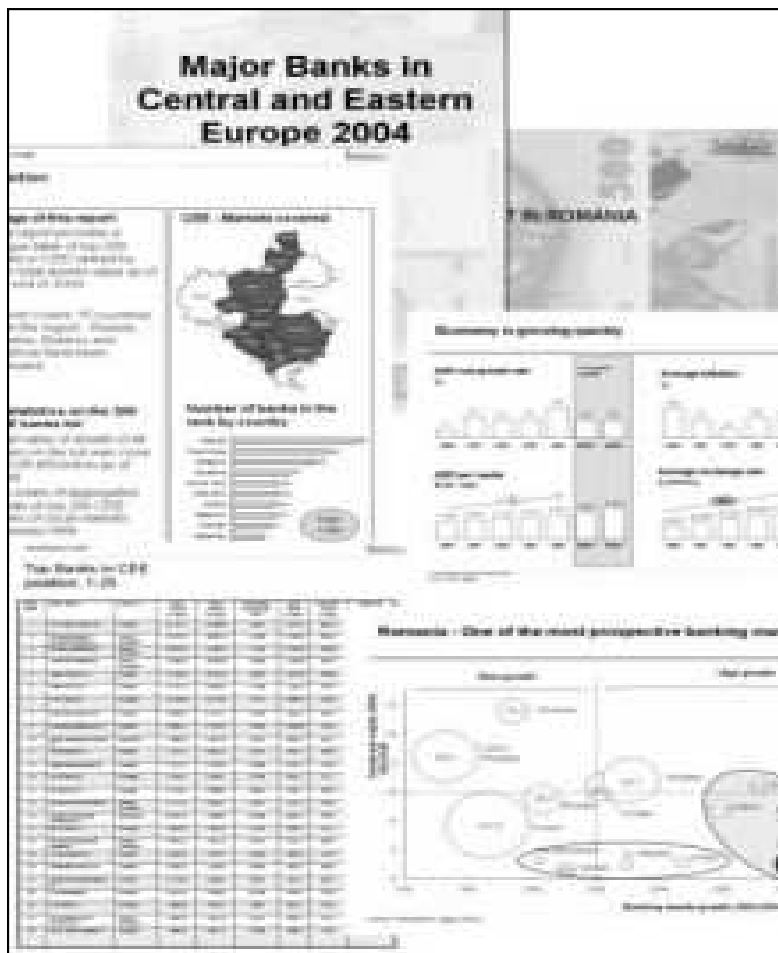
Our company is specializing in value-added research services and tailored business intelligence solutions.

Through our customized research services we help our clients to better understand their consumers, competitors and overall market dynamics.

The lead researcher and founder of Intelace Research is Marcin Mazurek.

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