

Pension system, Croatia

***13th Belgrade Stock Exchange International
Conference***

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Pension system in Croatia

Investment structure and Net asset value

Pension fund's performance

The future of the Croatian pension system

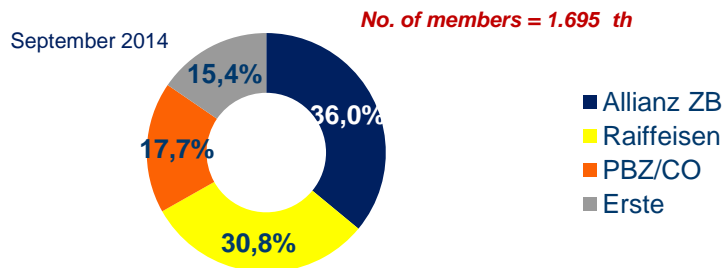
Pension systems in CEE

Pension system in Croatia

The Three-pillar Pension System

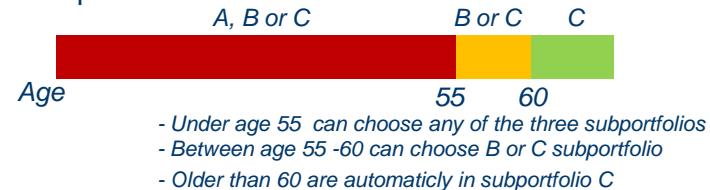
- Pension insurance based on individual capitalised savings is known as the second and third pillar
- The second pillar pension system involves mandatory pension funds and is compulsory for all employees
- The third pillar pension system constitutes voluntary pension insurance and implies individual savings in voluntary pension funds of open-ended or closed-ended type

OPFs' companies shares in total membership

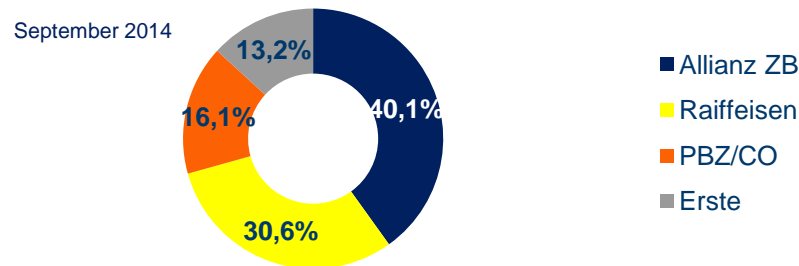


Introduction of 3 sub-portfolios in 2014 (second pillar)

- A, B, and C subportfolios (from Aug/2014), differs according to the investment strategy, investment restrictions and membership limitations

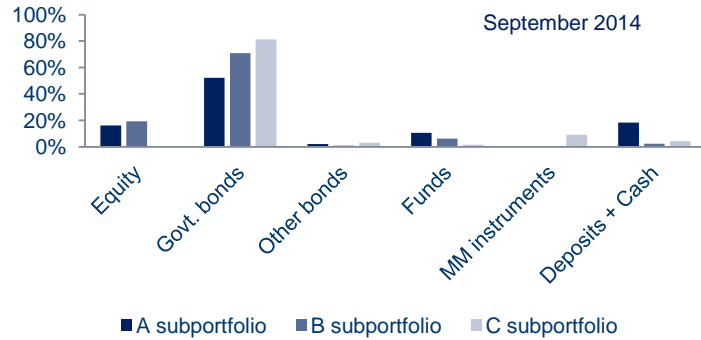


OPFs' companies shares in net assets

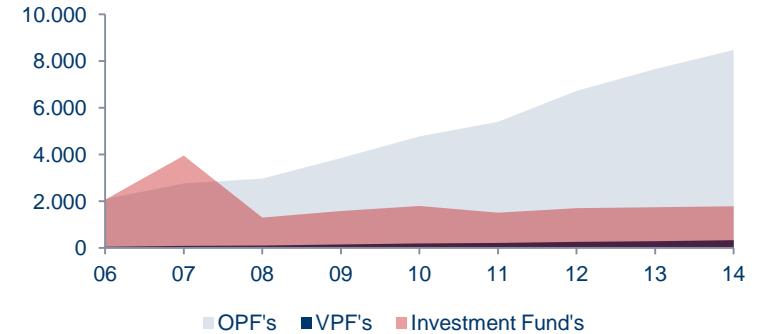


Investment structure and Net asset value

Subportfolio investment structure (aggregated)



Net asset value in EUR mn



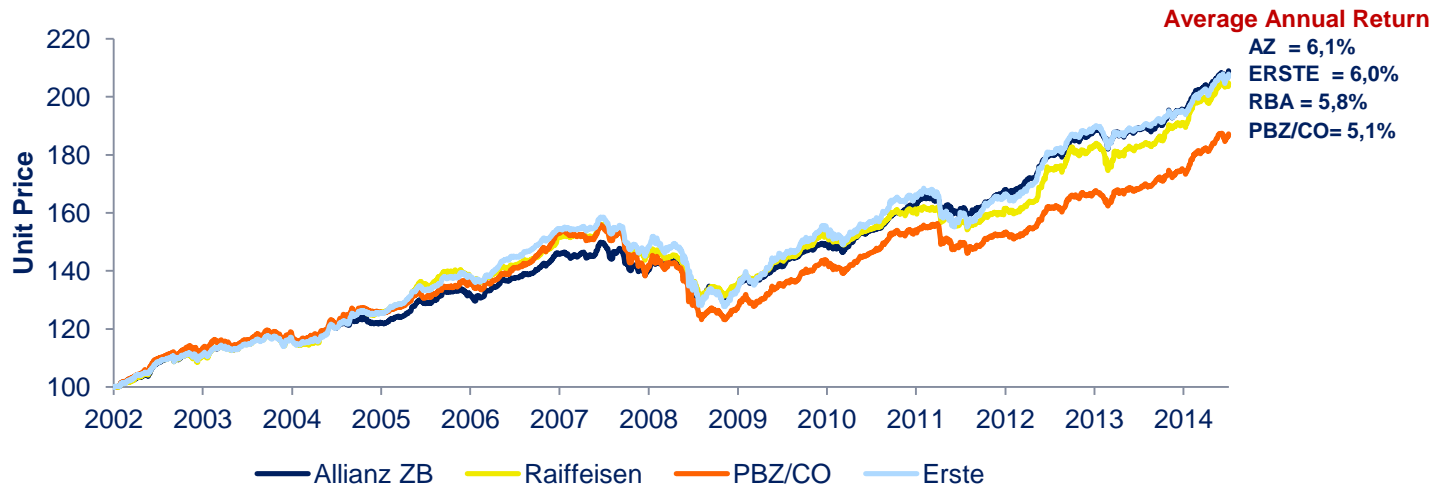
By far, OPF's are largest market participant with net asset value above EUR 8 bn

Almost EUR 1 bn invested in domestic equity and EUR 6 bn in domestic government bonds

Still relatively large amount of Deposits and Cash position in subportfolio A is due to ongoing portfolio adjustment

Pension fund's performance

Unit price doubled since inception (subportfolio B)



The other two subportfolios (A and C) have had very good start in terms of performance

Performance of A subportfolio from Aug-Nov 2014 on average 2,8%

Performance of C subportfolio from Aug-Nov 2014 on average 1,9%

The future of the Croatian pension system

Legislative changes have brought the necessary changes of the restrictions subject to OPF's investments

- The size of pension funds and capitalization of Croatian companies required a change in the investment restrictions
- New legislative opens up the possibility for stronger engagement in the management of companies
- Investing in domestic economy has multiple positive effects over investing abroad



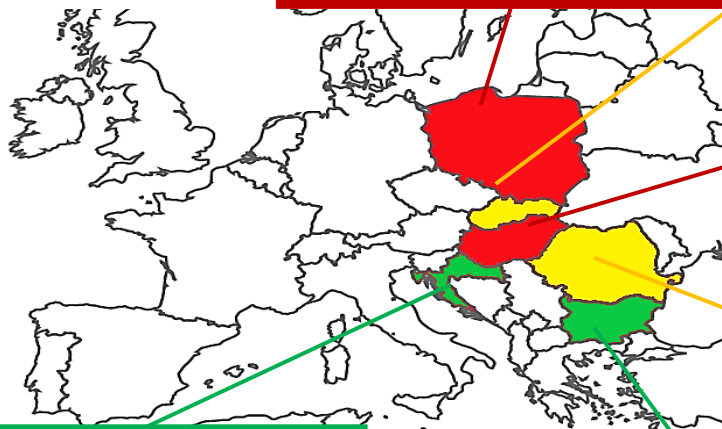
But for the sustainability of the system, contribution rate (current 5%) should be increased

Pension companies proposed legislative solution, in which the contribution rate is increased for 1 percentage point in each year which would be preceded by year with GDP growth of more than 2%

Pension systems in CEE

Second pillar AuM, as of 31 Dec 2013:

	EUR 72,6 bn (EUR 34 bn after reform)
	EUR 7,5 bn
	EUR 5,8 bn
	EUR 3,5 bn
	EUR 2,9 bn



- Contributions reduced from 7,3% to 2,3% of gross wages
- All sovereign and state holdings transferred to Polish Social Insurance Institution (approximately 51,5% of AuM)
- In essence mandatory pension system becomes voluntary

- Second pillar is recovering from so-called „third opening” – allowing members to return to the state system. Almost 90 th members left the second pillar
- Cut in contribution rate from 9% to 4% of gross wages

- In order to reduce its budget deficit, Hungary collapsed it's second pillar
- So now, in Hungary, not only there is no second pillar pension system, also there is little trust among the average consumer in saving at all

- During the first year of operation, contributions to the second pillar amount to 2% of gross earnings. They will increase by 0.5% each year until they reach 6%
- Contribution rate increased by 50bps to 4,5% of gross wages in 2014

- Contributions rate is 5% of gross wages
- Changes in legislation created possibility for the pensions funds to acquire larger stakes in companies and contribute more to Croatia's economy
- Regardless of the current economic situation and the slow economic recovery the pension system remains intact
- Only employees with accelerated retirement plan had the right to transfer funds from second to first pillar

- There are two types of pension schemes in Bulgaria's second pillar: occupational and universal pension funds
- UPF's; 5% of participants' social security contributions are redirected to the funded pillar, members chooses their provider
- OPF's are targeted to employees working in hazardous environments and are meant to make early retirement possible. They are fully-funded, defined contribution schemes with individual accounts