

Press Release



Allianz Global Investors' 2007 report on Central and Eastern Europe reveals deep structural reforms, fuelling a 19% per annum increase in private pension assets

Budapest/London, 23rd July, 2007

Allianz Global Investors, one of the world's largest active asset management companies, today publishes a major study of the pension systems in 11 Central and Eastern European (CEE) countries.

Highlights of the study include:

- CEE countries face comparable demographic problems to those in the West. Currently the fertility rate in these countries is between 1.24 and 1.42 children per woman. To keep the population constant would require a fertility rate of 2.1. As a result, the population of the 11 countries surveyed is expected to shrink by about 15% – that is, 16m people – by 2050, while the old age dependency ratio is expected to grow to 50 in 2050, so that two working people will have to support each pensioner, rather than five, as at present.
- In response to demographic trends and economic transformation, governments have cut state pensions, which are funded by the social security contributions of those in employment. Eight out of the 11 countries analysed in the report have introduced new mandatory individual pension plans to create a capital-funded retirement 'pillar' to diversify retirement income and develop capital markets. These individual plans are managed by external pension funds and are not linked to occupational schemes. Hungary and the Czech Republic have started to eliminate restrictions on asset allocations for pension funds.
- Allianz Global Investors expects pension markets in CEE countries to grow at 19% per annum until 2015, representing an increase in total funds from EUR 51bn to EUR 245bn. Poland is the biggest market, with a 60% share of all CEE markets at present. Together, Poland, Hungary, and the Czech Republic will account for 80% of the expected market volume in 2015, even though they only represent 55% of the population.

While the demographic outlook for CEE countries clearly is very serious, the picture is not homogenous. By 2050 Bulgaria will lose one-third of its population, Romania 20% and Poland 10%. The current 'old-age dependency ratio' in the CEE is about 20, which means that there are 20 pensioners (defined as 65 or over) for every 100 working people (defined as those aged 15-64). This number is expected to grow to 33 in 2035, and to 50 in 2050.

Under the former Communist regimes, pensions were the exclusive responsibility of the state and early retirement was very common. Following the regimes' demise, CEE countries have reformed their state 'pay-as-you-go' systems, typically by increasing the pension age, changing the benefit formula, and increasing the contribution period. 'Second pillar' Western-style occupational pension schemes have hardly existed so far, but are beginning to be introduced as a 'fourth pillar' in several countries. Romania has just established occupational schemes as the third pillar. The introduction of occupational schemes has been partly driven by the EU's Institutions for Occupational Retirement Provision (IORP) directive.

Private pension reform has focused on defined contribution (DC) individual pension accounts – the preferred model advocated by the World Bank. Brigitte Miksa, Head of International Pensions at Allianz Global Investors, says, "By introducing capital-funded mandatory pension accounts, CEE countries have ensured a higher sustainability of their pension systems in terms of public finance and are ahead of many Western European countries in terms of diversification of retirement income."

When mandatory individual pension accounts were first established, CEE countries opted for quantitative restrictions on asset classes as a means of regulation. In many countries there are limits on equity holdings and foreign assets. Minimum-return guarantees are also a common feature, especially in the form of relative guarantees, as is the case in Poland. The Czech Republic is the only country where funds have to provide an absolute return guarantee. Relative and absolute guarantees reduce the ability of a fund to invest in more volatile assets, such as equities, which can be expected to provide a better longer-term return but which might have a negative return in a 12-month period.

Brigitte Miksa says, "CEE governments need to strike a careful balance between the desire to develop national capital markets and the desire to promote efficient pension fund investing. A substantial build-up of capital has started, which makes CEE an attractive market for asset managers and insurance companies."

In this context, an interesting development is the introduction of lifecycle investing strategies that aim to match the asset allocation to the individual's risk profile, based on his or her age. This reduces the proportion of risky assets as the investor ages, making it less likely that financial market fluctuations will have a negative effect on the pension benefits. Some CEE countries have taken the first steps towards this strategy by allowing or requiring providers to offer more than one fund with different combinations of equities, bonds and money market instruments. This enables investors to have their pension fund matched to their age and risk profile.

The study includes a Pension Reform Pressure Gauge developed by Allianz Dresdner Economic Research, which illustrates the ability of state pensions across Europe to cope with demographic change. "As most CEE countries have introduced a strong capital-funded pillar they are, in the logic of this index, on the right track", Brigitte Miksa comments. While voluntary pension savings are underdeveloped, due to modest financial wealth, this may change as personal wealth increases. Currently, the appetite for investment risk is comparatively low in CEE, where individuals tend to prefer investing in property and in bank deposits. Where they hold shares, these tend to be a consequence of the privatisation process of the 1990s.

This is the second report on CEE pension systems published by Allianz Global Investors. The first was published in 2004. The countries covered in this second report are: Bulgaria, Croatia, the Czech Republic, Estonia, Hungary, Latvia, Lithuania, Poland, Romania, Slovenia, and Slovakia. The

countries, which have not introduced mandatory individual private pensions, are the Czech Republic, Lithuania and Slovenia, which have implemented alternative reforms.

For further information please contact:

Claudia Mohr-Calliet, Phone: +49 89 1220 7435, Email: Claudia.mohr-calliet@allianzgi.com

Farhad Dilmaghani, Phone: +49 89 1220 7803, Email: Farhad.dilmaghani@allianzgi.com

Henrietta Guthrie, Phone: +44 20 7294 3612, Email: henrietta@lansons.com

Amy Butler, Phone: +44 20 7566 9709, Email: amyb@lansons.com

About Allianz Global Investors

Allianz Global Investors AG (AllianzGI) is a management holding company for a network of investment specialists in the most important institutional and retail markets around the world. Through PIMCO, RCM, Oppenheimer Capital, NFJ, Nicholas-Applegate and several other specialist firms AllianzGI offers its clients a broad variety of investment competencies, covering all equity and fixed income investment styles as well as balanced products and alternative investments. With 971 billion Euro Assets under Management (2006), AllianzGI ranks amongst the top investment management companies worldwide. Through its network of more than 4500 employees around the globe, including more than 900 investment professionals, AllianzGI is able to leverage local expertise and market knowledge to its clients all over the world.

Cautionary note regarding forward-looking statements:

Certain of the statements contained herein are, or may be deemed to be, forward-looking statements within the meaning of the United States Private Litigation Reform Act of 1995. These forward-looking statements and other statements of future expectations are based on management's current views, intentions, expectations and assumptions and, by their nature, involve known and unknown risks and uncertainties that could cause actual results, performance or events to differ materially from those expressed or implied in such statements. These forward-looking statements include all matters that are not historical facts. In addition to statements which are forward-looking by reason of context, the words 'may, will, would, could, should, expects, plans, goal, target, aim intends, anticipates, believes, estimates, predicts, potential, or continue' or in each case their negative or other variations and similar expressions identify forward-looking statements. Forward-looking statements are not guarantees of future performance. Actual results, performance or events may differ materially from the impression created by such statements due to, without limitation, (i) general economic and business conditions, including in particular economic conditions in the Allianz Group's core business and core markets, (ii) performance of financial markets, including emerging markets, (iii) the frequency and severity of insured loss events, (iv) mortality and morbidity levels and trends, (v) persistency levels, (vi) the extent of credit defaults (vii) interest rate levels, (viii) currency exchange rates including the Euro-U.S. Dollar exchange rate, (ix) changing levels of competition, (x) changes in laws and government and other regulations, including monetary convergence and the European Monetary Union, (xi) changes in the policies of central banks and/or foreign governments, (xii) the impact of acquisitions, including related integration issues, (xiii) reorganization measures, (xiv) industry trends, (xv) changes in political and economic stability, and (xvi) general competitive factors, in each case on a local, regional, national and/or global basis. Many of these factors may be more likely to occur, or more pronounced, as a result of terrorist activities and their consequences.

The matters discussed herein may also involve risks and uncertainties described in Allianz SE's Form 20-F and from time to time in Allianz SE's other periodic filings with the U.S. Securities and Exchange Commission.

Forward-looking statements speak only as of the date they are made. Other than in accordance with our legal and regulatory obligations, **the company assumes no obligation to update or revise publicly any forward-looking information contained herein, whether as a result of new information, future events or otherwise.**