



Investment Regulations and Opportunities for Pension Contribution in Russia

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Content

1. What needs to be invested
2. Investment regulations
3. Asset Management principles for pension investments
4. Russian capital market
5. Expectation of foreign market participants
6. Comparison with life insurance
7. Conclusion



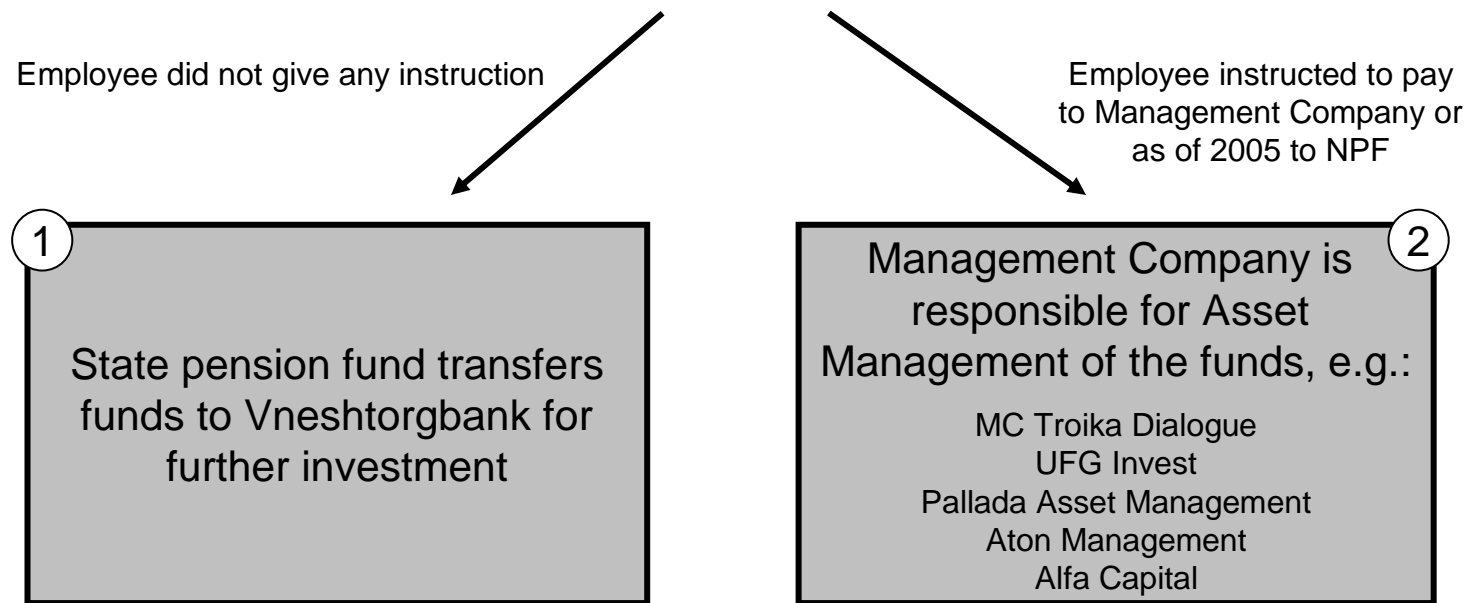
What needs to be invested ? (1)

- Investment for pension is relevant in case of capital accumulation method.
- Distinction between obligatory pension contribution and voluntary contribution.
 - Different investment regulations for obligatory and voluntary contribution.
- For voluntary contribution there is competition between Non-State Pensions Funds (NPF) and Insurance Companies.
 - Again, different investment regulations for NPF's and Life Insurance Companies.



What needs to be invested ? (2)

- There are 3 different scenarios to be considered.
- The obligatory social security contribution (Unified Social Tax, percentage of the salary) has a part of 2-6% of the salary that is for capital accumulation, i.e. has to be invested.





What needs to be invested ? (3)

- Voluntary contribution can also be done to NPF.

Employee paid by him-/herself



or employer pays for employee

3

NPF to select a Management Company for asset management or in exceptional cases NPF manages assets by itself.



Investment Regulations (1)

1

- 2-6% of obligatory social security contribution
- Employee did not instruct to pay to any Management Company
- Contribution goes via State Pension Fund to Vneshtorgbank

Allowed Investments:

- Russian Federal government bonds (Rubel denominated)
- Russian Federal government bonds (foreign currency denominated)
- Mortgage bonds which are guaranteed by the government.



Investment Regulations (2)

2

- 2-6% of obligatory social security contribution
- Employee instructed to pay to Management Company
- Asset Management done by this Management Company

Allowed Investments (max. percentages of total portfolio):

- | | |
|---|----------------|
| • Russian Federal government bonds | unlimited |
| • Deposits at banks | unlimited |
| • Regional government bonds | 40% |
| • Municipal bonds | 40 % |
| • Participation in Russian non-listed companies | 50% |
| | 80% as of 2007 |
| • Russian Shares of publicly listed companies | 40% |
| | 65% as of 2007 |
| • Fonds that invest in foreign bonds and shares | 5% |
| | 20% as of 2010 |
| • Mortgage bonds (guaranteed by Russian government) | 40% |



Investment Regulations (3)

3

- Voluntary contribution to NPF either by employer or by employee

Allowed Investments (max. percentages of total portfolio):

- Russian Federal government bonds (incl. Eurobonds) 50%
- Regional and municipal bonds 50%
- Russian corporate shares and bonds 50%
- Promissory notes of Russian entities 50%
- Bank deposits and real estate investments 50%

- No investments in foreign assets allowed. I.e. more restrictive compared to asset management for the 2-6% of obligatory pension contribution.



Asset Management Principles for Pension Investments

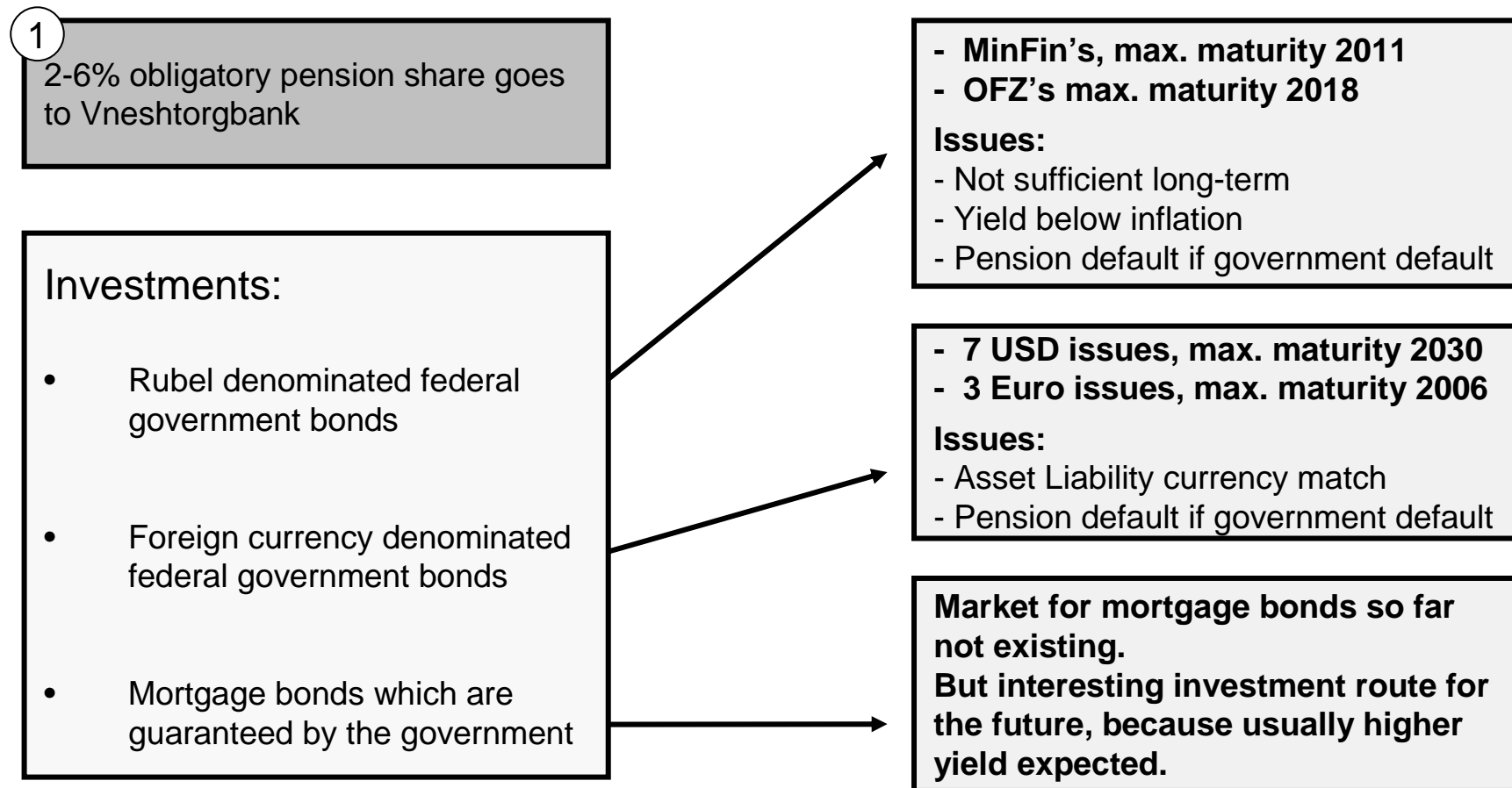
- **Principles:**
 - Asset Liability Currency Match.
 - Asset Liability Maturity Match.
 - Investment policy should be more conservative, if any performance is guaranteed.
 - Investment policy should become more conservative, the closer the employee comes to pension age.

- **Conclusion:**
 - Investments mainly in Rubels, since pensions are guaranteed in Rubels.
 - Mainly long-term instruments required, since pensions are long-term investments.
 - Investment policy should include Axx-rated instruments to guarantee pension payment.

- **Main Problem:**
 - No long-term Rubel instruments available.
 - Regulations almost do not allow foreign investments yet, Russian instruments are rated max. BB.

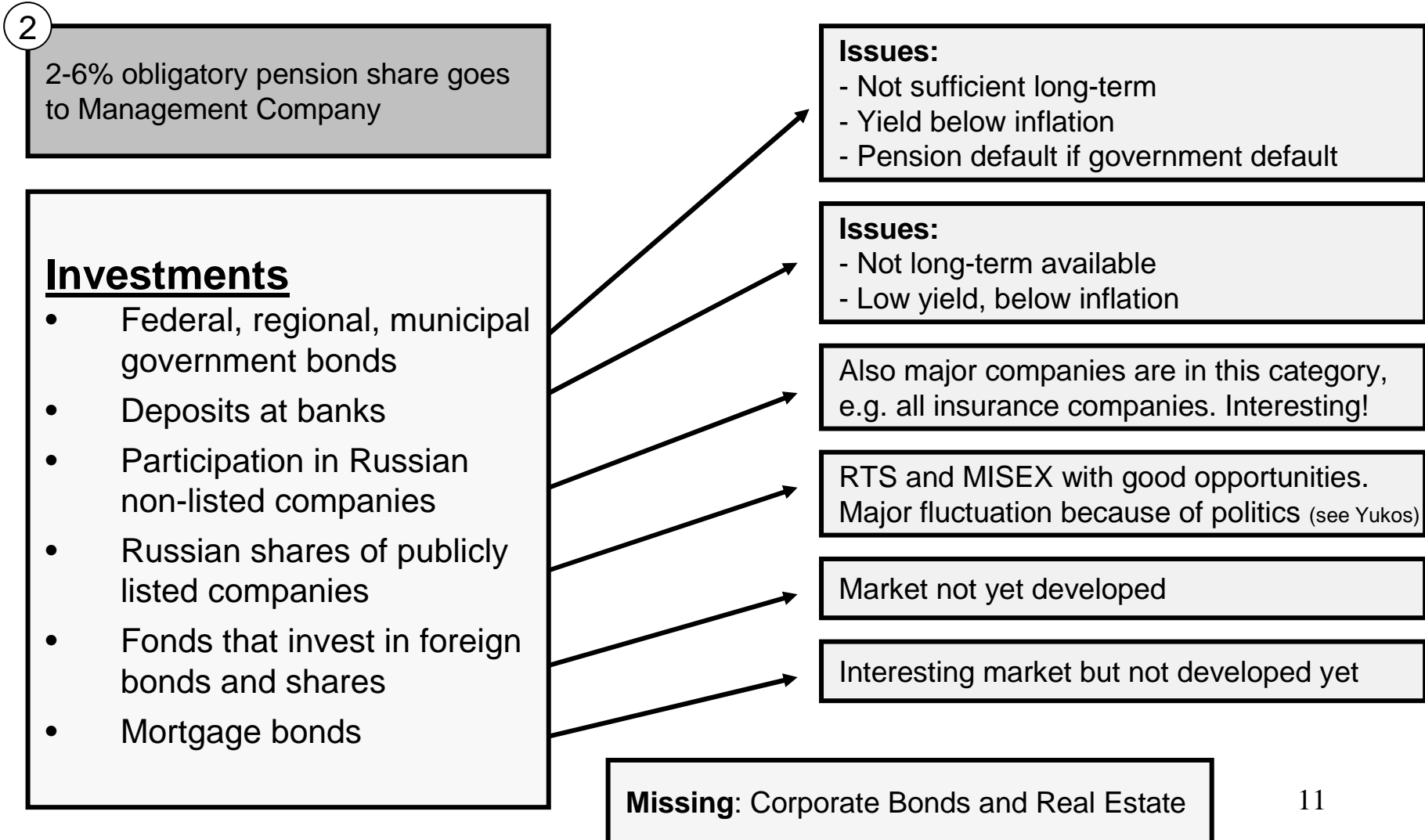


Russian Capital Market (1)



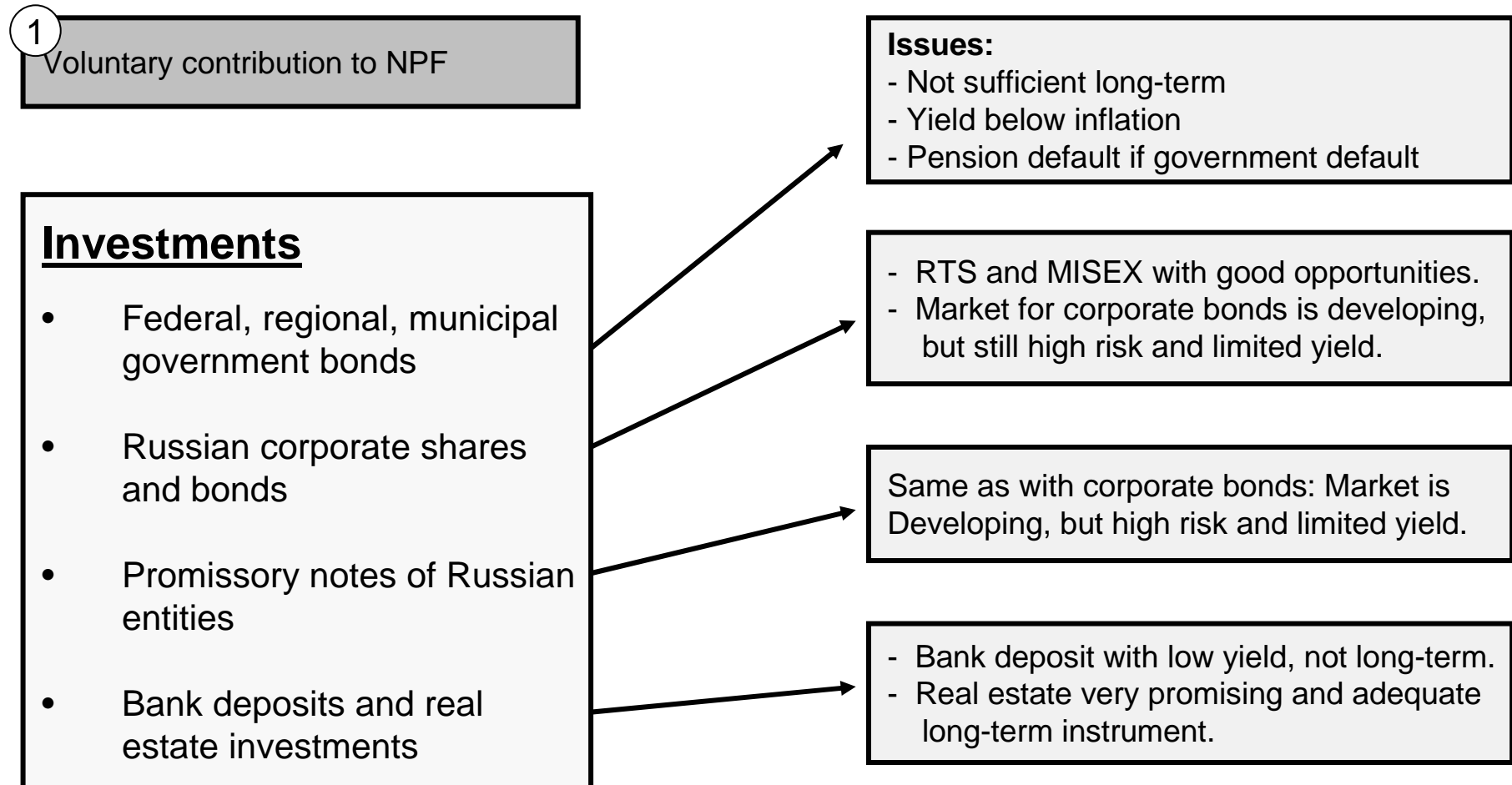


Russian Capital Market (2)





Russian Capital Market (3)





Expectation of Foreign Market Participants

1. Expectation that in future mainly NPF's will play a key role and Management Companies are for administration.
2. So far there is only ING NPF as foreigner active on the NPF market, Allianz has an NPF, but is not active yet.
3. Several Western insurers conduct projects to investigate the NPF market in Russia.
4. Their main expectations and questions are:
 - Can pension policies be denominated only in Rubel?
 - In what assets can be invested, also in Axx rated instruments?
 - Do the allowed investment instruments grant a yield significantly above inflation?
 - Can be results of the pension fund be reflected in the consolidated books of the group.



Comparison with Life Insurance

- For voluntary pension contribution there is competition between NPF's (e.g. ING NPF) and Life Insurers (e.g. AIG, Rosgosstrach, Allianz).
- Asset allocation rules for Insurance Companies:
 - Re-Insurance 60%
 - With foreign re-insurers 30%
 - With one foreign re-insurer 15%
 - Foreign assets 20%
 - Deposits/promissory notes with banks 40%
 - Real Estate and other real assets 20%
- Percentages state max. that is recognized, insurer can invest more into each asset class.
- Rules are more flexible in terms of investments into foreign assets and policies in foreign currency.



Conclusion

1. Asset Management Companies do not consider the pension market in 2004 as significant. Too many bureaucratic problems prevent a quick start.
2. NPF's are expected to play a larger role as of 2005. This might give a push to the market.
3. Allowed investments are very much in favor of Russian government bonds, i.e. pension default it government bonds default.
4. Problems with Asset-Liability Match, in particular no long-term Rubel instruments.
5. Capital market still to be further developed (e.g. Mortgage bonds almost not existing, same with fonds with foreign bonds/shares)