

**VOLUNTARY PENSION FUND SECTOR
IN SERBIA**

Third quarter report 2007

October 2007

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1. VOLUNTARY PENSION FUND SECTOR

Market participants

At end-Q2, there were seven voluntary pension fund management companies operating in the market, six active voluntary pension funds and three custody banks maintaining the accounts of such funds. Funds collected in respect of voluntary pension insurance were transferred to three funds – *Delta Generali Beograd*, DDOR Penzija plus and Dunav. Q3 saw the start of operations VPF Triglav penzija, which published its investment unit value for the first time on 11 September 2007.

Table 1: Voluntary pension funds and custody banks

Voluntary pension fund	Custody bank
<i>Delta Generali, Beograd</i>	<i>Unicredit bank</i>
<i>Raiffeisen Future</i>	<i>Unicredit bank</i>
Garant	Komercijalna banka
DDOR Penzija plus	<i>Societe Generale Yugoslav bank</i>
Dunav	<i>Societe Generale Yugoslav bank</i>
NLB Nova penzija	<i>Unicredit bank</i>
Triglav penzija	<i>Unicredit bank</i>

VPF management companies trade in securities through 11 brokerage firms.

Ownership structure of management companies

Of seven management companies, only two are in domestic ownership—DDOR Penzija plus and Dunav, while the remaining five are foreign-owned.

The structure of VPF management companies by the founders' core activity is as follows:

- insurance companies are the majority owners of four management companies
- banks are the majority owners of two management companies
- one foreign VPF management company is the majority owner of one management company.

Organizational network of management companies

Organizational network of VPF management companies is still in the phase of development. Currently, it includes 26 business units, branches and branch offices. The National Bank of Serbia has so far licensed only one bank to provide information on VPF membership and 52 natural persons (out of 100 applicants).

Number of employees in the VPF sector

Seven VPF management companies employ 244 persons, of which 192, or nearly 80%, work in companies set up by way of transformation of voluntary pension insurance companies. Most of the people employed in the VPF sector engage in marketing and sales.

Market share in the VPF sector

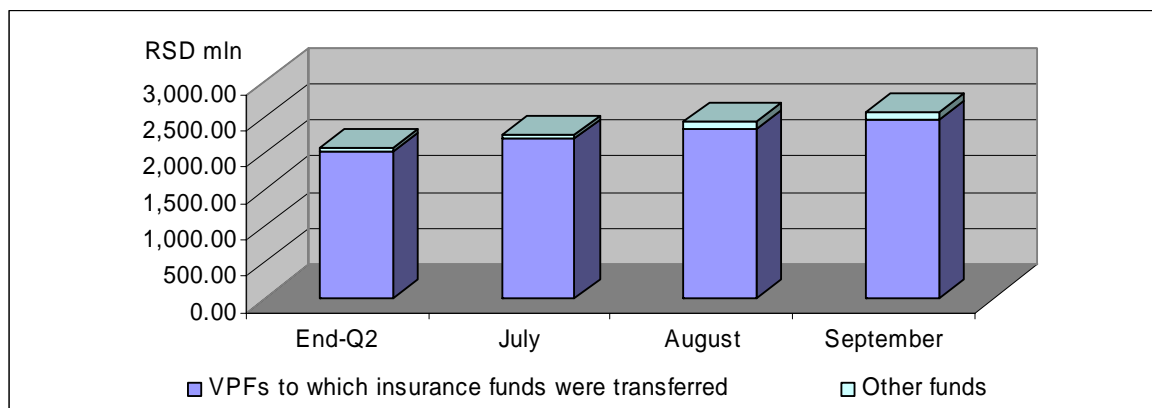
Net VPF assets rise at a steady pace. At end-Q3, VPF assets were by 23.93% higher than a quarter earlier.

Table 2: Net VPF assets at month-end

End-Q2	July	August	September
2,069,853,776.00	2,260,701,035.05	2,421,653,690.55	2,563,151,721.84

At end-Q2, the three funds set up by way of transfer of assets collected in respect of voluntary pension insurance accounted for 97.59% of total VPF assets. This share is gradually declining as indicated by the July (96.93%), August (96.28%) and September (95.56%) figures.

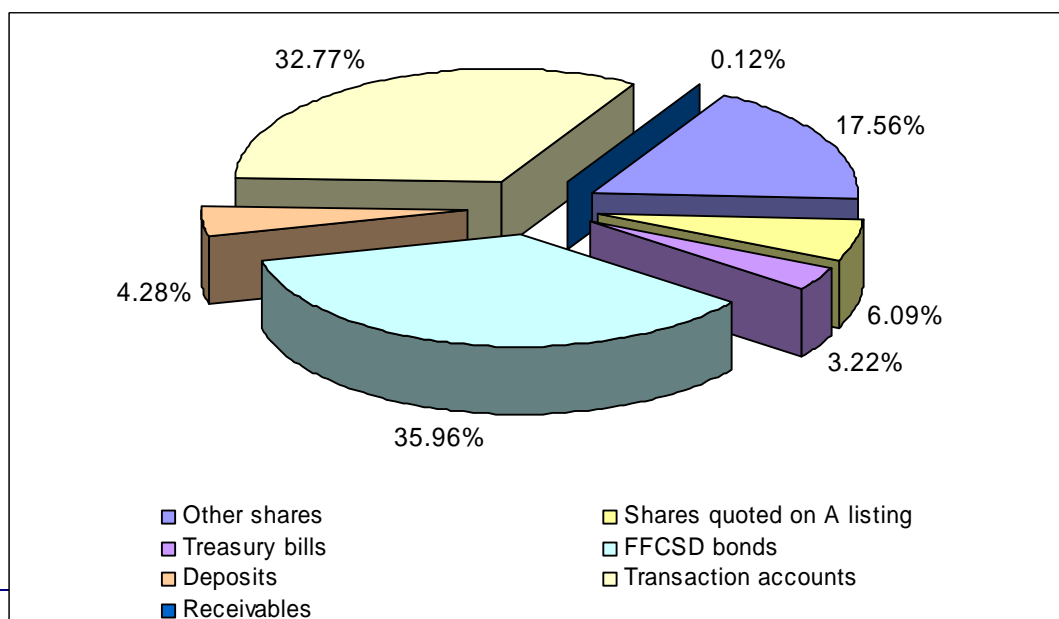
Chart 1: Fund share in total VPF assets at month-end



Composition of VPF assets

Composition of VPF assets remained broadly unchanged from the preceding two quarters. Debt securities continue to account for the major share of VPF assets. July saw enactment of a new decision on the maximum levels of investment of VPF assets, pursuant to which up to 40% of VPF assets may be invested in shares quoted on the A Listing of the Belgrade Stock Exchange. By October, shares of two companies only were quoted on the above listing, i.e. shares of Energoprojekt Holding and Tigar.

Chart 2: Composition of total VPF assets at end-Q3

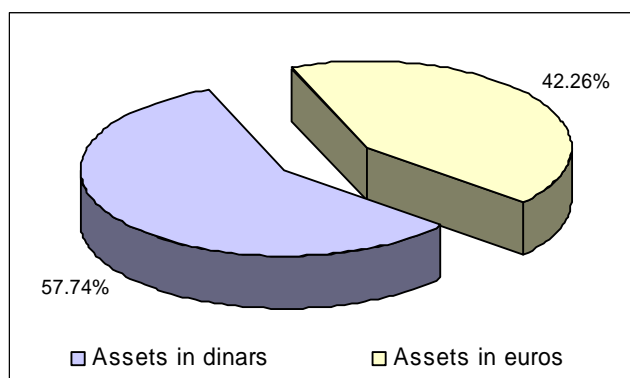


Debt securities account for the largest share of total VPF assets (39.18%), followed by transaction accounts (32.77%), shares (23.65%) and deposits (4.28%). On the last day of the third quarter, receivables participated in total VPF assets with a very small share of 0.12%.

Currency structure

Currency composition of total VPF assets indicates the respective shares of assets in dinars and assets in foreign currency.

Chart 3: Currency composition of total VPF assets at quarter-end



Of total assets, RSD 1,090,271,409.03 is in foreign currency (so far only in euros), and RSD 1,489,690,882.02 in domestic currency. Currency composition slightly changed compared to the preceding quarter in that the share of assets in euros increased relative to the share of assets in dinars. Assets in euros are, for their major part, composed of bonds issued against frozen foreign currency savings.

Volume of pension funds trading in the Stock Exchange

VPF share in the purchase of securities in the Belgrade Stock Exchange is rising. The volume of VPF trade in September was lower than a month earlier, but only due to the fact that overall trade in the Stock Exchange recorded a drop amid weaker foreign investor activity. The most intense sale of securities was recorded in July.

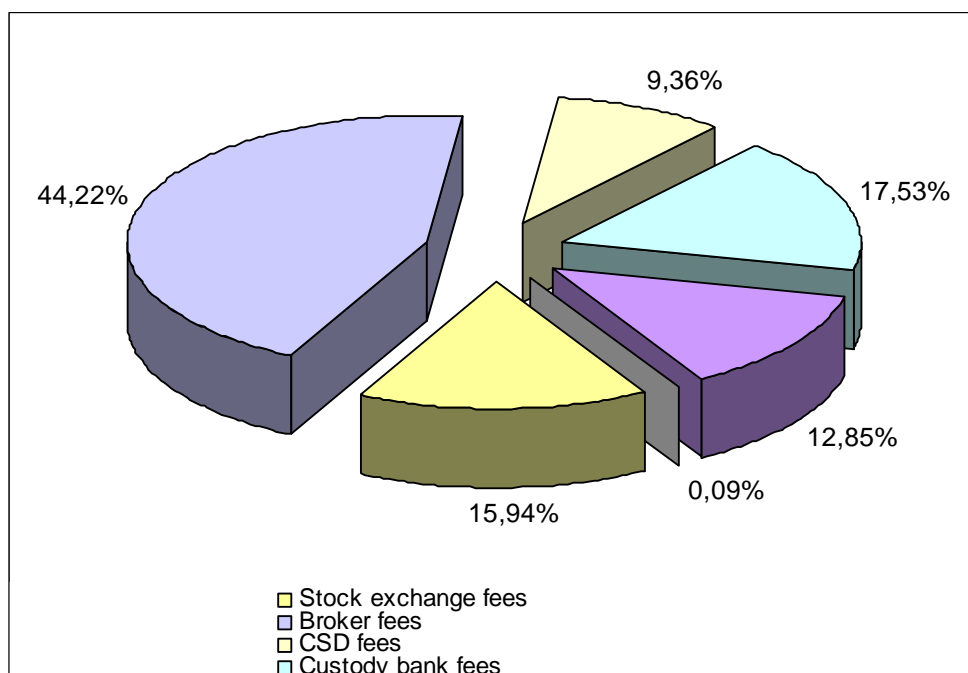
Table 3: VPF share in the Belgrade Stock Exchange trade

	July	August	September
Volume of VPF trade in dinars	176,294,100.66	265,227,667.50	172,011,890.43
Share in the Belgrade Stock Exchange trade	1.55%	2.17%	2.02%
Volume of VPF purchase in dinars	115,606,584.22	217,379,484.92	164,264,730.00
Share in the Belgrade Stock Exchange trade	1.01%	1.78%	1.93%

Transaction costs

Total transaction costs amounted to around 7.5 RSD mln in Q3. Except for a decline in the share of tax on the transfer of absolute rights on securities, composition of transaction costs shows no major changes from the second quarter.

Chart 4: Breakdown of transaction costs



The ratio of transaction costs to securities trade stood at 0.94% in July, 0.65% in August and 0.42% in September.

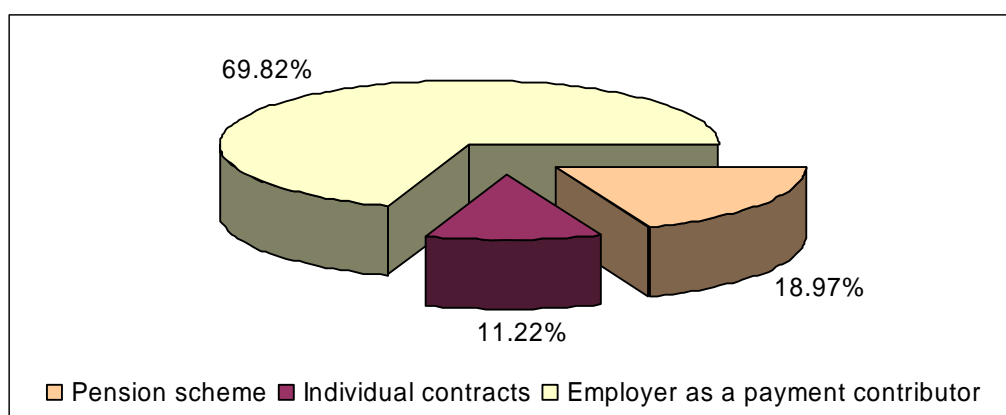
Payment of contributions to voluntary pension funds

At end-Q3, the number of contracts entered into with VPF management companies equaled 143,064. The number of members paying contributions is increasing – it stood at 83,640 in July, 85,825 in August and 88,715 in September.

Total payment represents total amount of fund members' contributions. Rising by 50% on the preceding quarter, it came to RSD 491,371,965 at end-Q3.

Of this amount, individual payments accounted for RSD 55,111,163.07, pension schemes for RSD 93,203,959.05, while the largest portion of total member payment, RSD 343,056,843.26, was accounted for by employer contribution payments.

Chart 5: Individual payments, pension scheme payments and employer contribution payments



Average payment is calculated by dividing total member payment with the

number of members who paid the contribution in a given month. In June, average payment amounted to RSD 1,820 and was much smaller than the Q3 average payment.

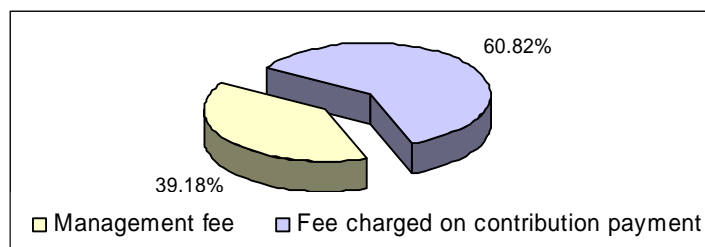
Table 4: Average payment

July	August	September
2,702.07	2,186.28	2,302.01

Fees charged by VPF management companies

Total amount of fees charged by management companies was RSD 22,905,450.39, of which RSD 13,931,478.96 or 2.8% were fees charged on contribution payment and RSD 8,973,971.43 management fees.

Chart 6: Fees charged on contribution payment and management fees



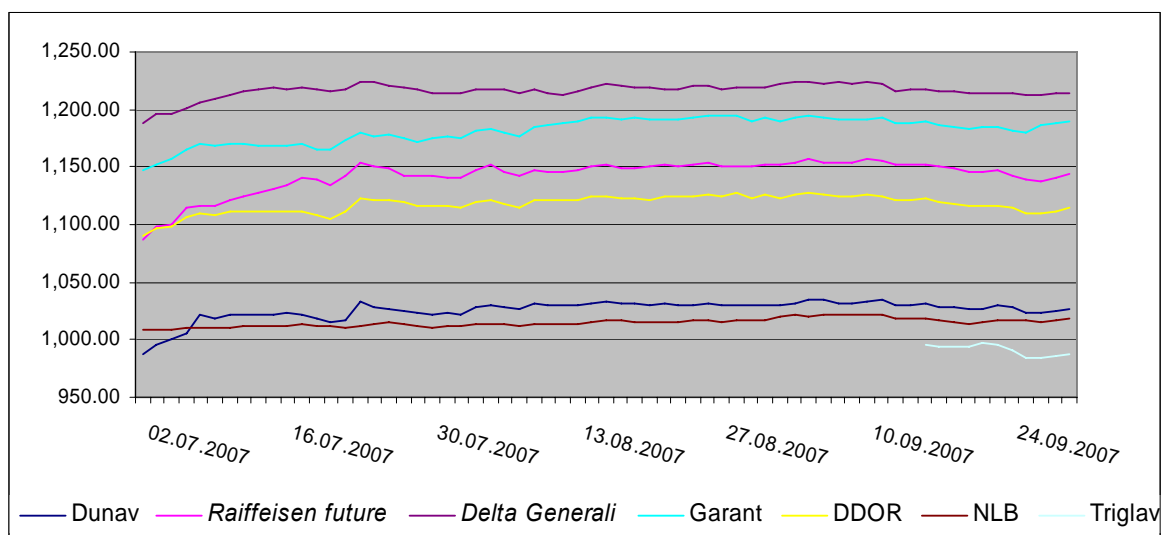
Investment unit value

Movements in the value of investment units were more balanced than in Q2. Their trend is similar to movements in the dinar exchange rate and indexes of the Belgrade Stock Exchange – *Belex15* and *BelexLine*.

Table 5: Investment unit values

Investment unit value	Dunav	<i>Raiffeisen future</i>	<i>Delta Generali</i>	Garant	DDOR	NLB	Triglav
Start of Q3	987.60	1,086.71	1,188.50	1,146.50	1,090.78	1,009.27	1,000.08 ¹
End of Q3	1,026.75	1,143.45	1,214.65	1,190.45	1,114.93	1,017.78	987.15
Maximum value	1,035.06	1,156.34	1,224.39	1,194.48	1,127.68	1,022.54	1,000.28
Minimum value	987.60	1,086.71	1,188.50	1,146.50	1,090.78	1,009.23	984.44

Chart 7: Movements in the value of investment units



The dinar depreciated against the euro in nominal terms by 0.6% in July, while both Stock Exchange indexes recorded an increase despite frequent changes in their trends.

¹ Investment unit value as at 11 September.

August saw a mismatch in the *Belex15* and *BelexLine* movements - the former declined, while the latter recorded an increase. However, by the end of the month, both indexes picked up, the dinar depreciated in nominal terms by 0.5% against the euro, and investment units reached their maximum Q3 values.

As both indexes declined and the dinar appreciated in nominal terms against the euro in September, investment unit values from end-Q3 did not exceed maximum levels recorded in early September, but still remained above the levels recorded at the start of Q3.

Most of the bonds issued against frozen foreign currency savings recorded an increase in their annual yield rates in July, August and September.

2. REGULATORY ACTIVITIES IN Q3

In the course of Q3 2007, the National Bank of Serbia issued the following pieces of secondary legislation in the area of VPF supervision:

- **Decision on Amendments and Supplements to the Decision on Opening, Maintaining and Transfer of Individual Accounts of Voluntary Pension Fund Members**, published in the RS Official Gazette no.60/07 of 29 June 2007, applicable as of Monday, 9 July; introduces a new method for calculating investment unit value – purchase price of the investment unit is unknown.
- **Decision on Maximum Amounts of Voluntary Pension Fund Property and the Conditions and Manner of Investment of Such Property Abroad**, published in the RS Official Gazette no. 63/07 of 9 July 2007; introduces changes to quantitative limitations on investment of VPF assets, as well as changes to the quality features of securities eligible for investment.
- **Decision on Amendments to the Decision on Maximum Amounts of Voluntary Pension Fund Property and the Conditions and Manner of Investment of Such Property Abroad**, published in the RS Official Gazette no.67/2007; stipulates one more quantitative limitation.