

NATIONAL BANK OF SERBIA

**VOLUNTARY PENSION FUND
SECTOR IN SERBIA**

Second Quarter Report 2007

July 2007

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1. Q2 2007 ACTIVITIES

The Law on Voluntary Pension Funds and Pension Schemes, which came into force during 2006, enables the establishment of voluntary pension funds management companies and the organization of voluntary pension funds, and sets the criteria that need to be met in order to protect the interests of the fund members. In addition, the Law and the relevant secondary legislation govern the operation of voluntary pension funds management companies, organization and management of voluntary pension funds, custody bank's activities and obligations, National Bank of Serbia's jurisdiction in the supervision of the voluntary pension funds management companies as well as regulate other matters which are important for the functioning of the voluntary pension funds.

In the second quarter of 2007, three applications for the operating license and license to organize and manage voluntary pension funds were submitted and, based on analysis and estimate of compliance with all prescribed conditions, the operating license was issued to:

- Voluntary pension fund management company **TRIGLAV – PENZIJSKI FONDOVI** a.d. Beograd

During this period, another two voluntary pension funds started its operation:

- **DUNAV** voluntary pension fund
- Voluntary pension fund **NOVA PENZIJA**

By its constant supervision of the voluntary pension fund management companies, the National Bank of Serbia participates in the creation of a safe and stable voluntary pension fund system. For the purpose of strengthening the confidence in the country's financial system and protecting the interest of fund members, National Bank makes secondary regulations, works on the establishment of transparency of both supervision and fund management companies' operation and on strengthening the corporate governance and public education.

2. NEIGHBOURING COUNTRIES' SITUATION

Most of the neighbouring countries have passed the laws that regulate the operation of private pension funds.

Slovenia introduced the system of voluntary pension funds, the so-called “third pillar”, in 2000. This form of saving has been relatively well accepted in Slovenia, so that by the end of 2006 there were around half a million members in 13 pension funds which managed the assets worth little less than EUR 1 million.

Croatian system is an example of a pension system that encompasses all three pillars – mandatory state pension – the first pillar, mandatory private funds – the second pillar, and voluntary private funds – the third pillar. Almost entire active population in Croatia has been included in the system of private funds. This is the main reason for the rapid growth of funds’ assets since the creation of the system in 2002. By the end of 2006, more than one million members were included in the mandatory private funds. The assets of such funds amounted to EUR 2.2 billion. The existence of the second pillar led to decreased amount of funds paid to voluntary pension funds. By the end of 2006 their assets amounted to around EUR 50 million.

The law that regulates the operation of voluntary pension funds in Slovenia is very strict, so the largest part of the assets has been invested in state and corporate bonds, somewhat less in bank deposits and shares, while the share of other financial instruments is almost insignificant. The structure of Croatian funds’ investments is somewhat more aggressive in terms of possibility of larger investments in investment funds’ units/shares.

The largest number of the South East Europe countries has decided on the *defined contribution system*, rather than the *defined benefit system*.

3. VPF MARKET PARTICIPANTS

There are seven VPF management companies operating in the market, six active voluntary pension funds and three custody banks maintaining the accounts of such funds.

DELTA GENERALI, DDOR and DUNAV were engaged in providing pension insurance in the previous period. When the Law on Voluntary Pension Funds and Pension Schemes came into force they transformed into voluntary pension funds and adjusted their operation in line with this Law.

Voluntary Pension Fund	Custody bank
<i>Delta Generali</i>	<i>Unicredit Bank</i>
<i>Raiffeisen Future</i>	<i>Unicredit Bank</i>
NLB Nova Penzija	<i>Unicredit Bank</i>
Garant	Komercijalna Banka
DDOR	<i>Societe Generale Yugoslav bank</i>
Dunav	<i>Societe Generale Yugoslav bank</i>

Table 1: Voluntary pension funds and custody banks

3.1. Ownership Structure of VPF management companies

Two management companies are in domestic ownership – DDOR and Dunav, while the other five management companies are foreign owned.

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

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

4. MEMBERS OF VOLUNTARY PENSION FUNDS

4.1. Number of voluntary pension fund members

At the end of Q2 2007 the number of contracts entered into with VPF management companies was 129,719, while the number of members who have paid contributions in June was 79,531. The main cause for such a discrepancy lies in the fact that a large number of members who have not withdrawn their savings in the process of transformation of voluntary pension insurance actually do not pay the contributions.

In addition, one of the principles on which the voluntary pension funds are based is a voluntary membership, which implies that the members set the frequency of payments themselves and that the funds in their accounts remain in their ownership even if they stop making payments.

Table 2: Number of contracts entered into with VPF management companies

	<i>Delta Generali</i>	<i>Raiffeisen Future</i>	Garant	DDOR Penzija plus	Dunav	NLB Nova penzija	Total
April	25,758	846	872	24,515	59,116	33	111,140
May	30,956	3,708	1,312	26,804	64,009	73	126,862
June	31,079	3,850	1,508	27,540	65,167	575	129,719

Table 3: Number of payments by month

	<i>Delta Generali</i>	<i>Raiffeisen Future</i>	Garant	DDOR Penzija plus	Dunav	NLB Nova penzija	Total
April	17,368	622	501	19,387	22,064	29	59,971
May	16,883	875	786	23,431	25,155	35	67,165
June	22,335	3,659	870	25,824	26,281	562	79,531

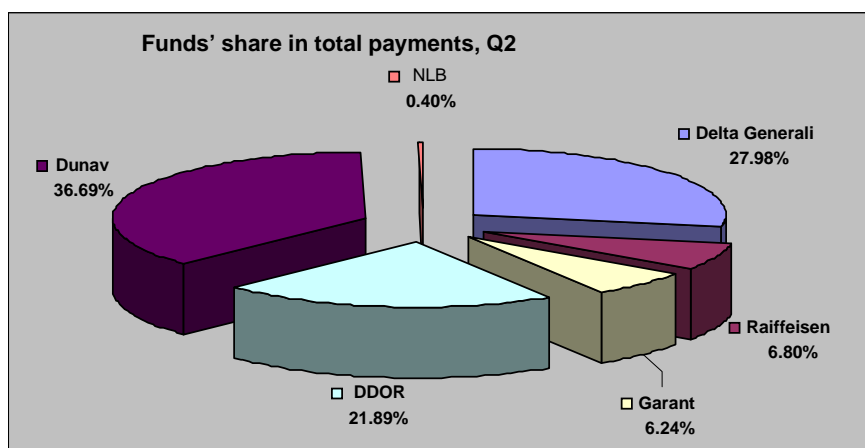
Apart from that, it should be taken into account that one person may be a member of more than one fund and each of such person's payments to different funds should be reviewed separately.

4.2. Payment of contributions to voluntary pension funds

Total member payment is a total amount paid by the members to the account maintained with custody bank. An entry fee is charged on such amount, and it may vary depending on the management company but cannot exceed 3%. Such entry fee is then deducted from the total payment amount and the resulting amount is the amount which is available to the fund and which serves for determining the number of investment units to be distributed to members.

Total member payment has been constantly increasing every month. In January, it amounted to RSD 18,379,665 while in June it equaled RSD 144,795,830.

Figure 1: Total payments by management companies



The largest shares in total payments are held by Dunav (37%), *Delta Generali* (28%) and DDOR (22%).

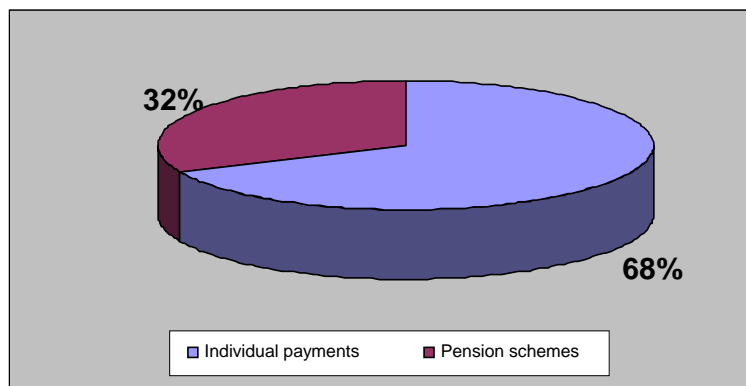
Average payment is calculated by dividing the total member payment with the number of members who paid the contribution in the given month. In June, this average amounted was RSD 1,820.

Table 4: Average payment

	April	May	June
Average payment	1.525	1.358	1.820

In Q2, the total payments amounted to RSD 327,516,893. Of that amount, the individual payments accounted for 68% or RSD 224,115,992, while pension schemes accounted for 32% or RSD 103,400,901.

Figure 2: Share of individual and pension scheme payments

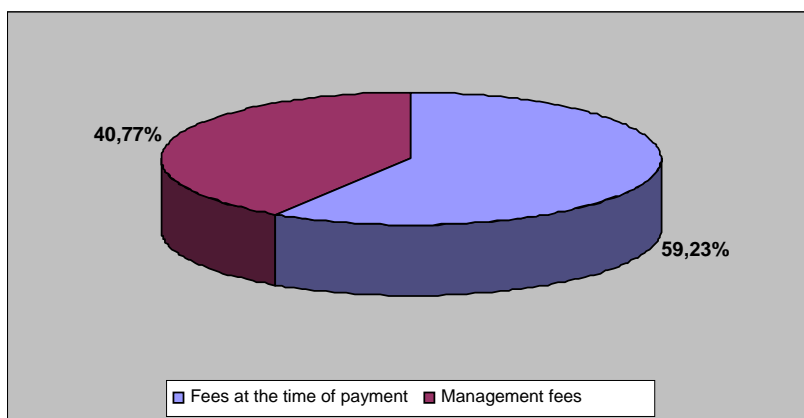


4.3. Fees charged by management companies

In the Q2, the management companies charged two types of fees - fee charged at the time of payment of pension contributions and the management fee, while the actual costs of transferring members' accounts from one pension fund to another represent the custody banks' fees.

Total amount of fees charged by the management companies was RSD 15,453,502, which accounts for 4.72% of the total amount of contributions paid in the second quarter. Of that amount, fees charged at the time of payment of pension contributions account for RSD 9,153,565 (2.8%), while management fees account for RSD 6,299,937.

Figure 3: Share of fees charged at the time of payment and management fees

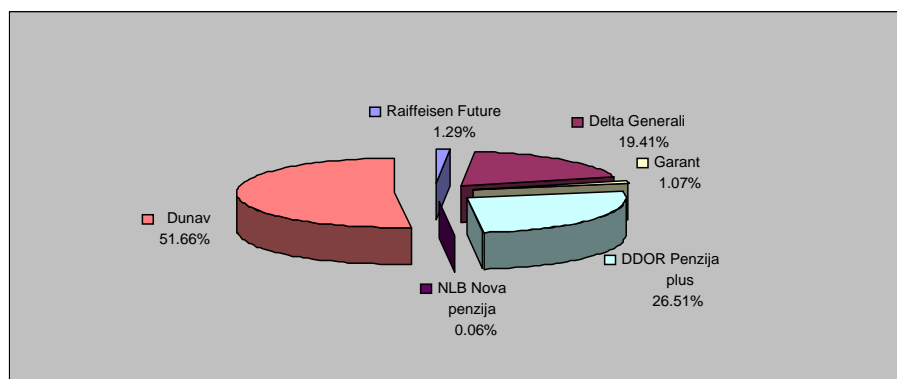


5. NET ASSETS OF VOLUNTARY PENSION FUNDS

5.1. Funds' share in total net assets

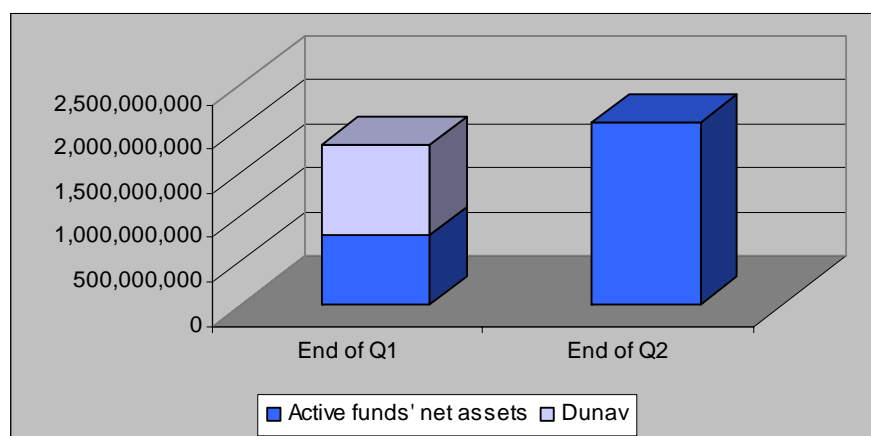
Total net assets of all funds at the end of the Q2 amounted to RSD 2,069,853,776. Of that amount, net assets of the three companies operating in pension insurance accounted for RSD 2,019,885,161 (97.58%), while Dunav's share in total net assets alone exceeded 50%.

Figure 4: Funds' share in sector's total net assets, end of Q2 2007



5.2. Net asset growth rate in Q2

Figure 5: Change in net assets – Q1 and Q2 compared



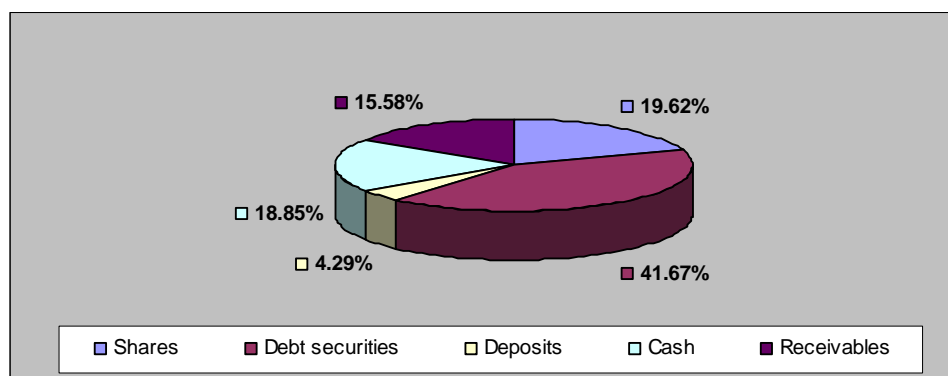
At the beginning of Q2 2007, net assets of active funds equaled RSD 800,880,455, and RSD 2,069,853,776 by the end of the period, so that the net assets at the sector level rose by 158%. However, this is the period when two

more management companies started its operation – Dunav and NLB Nova penzija. Therefore, considering the fact that Dunav has transferred the funds collected on account of pension insurance, the actual growth of net assets for this period is around 14%.

5.3. VPF asset structure

Debt securities account for the largest share of total funds' assets, 41.67%, followed by shares, 19.62%, receivables, 15.58%, and deposits with 4.29%. There are 18.85% of all funds' assets on the transaction accounts. Of all debt securities, foreign exchange savings bonds account for 83%, while Republic of Serbia treasury bills account for 17%. The cause of such structure lies in the insufficiently developed financial market and low supply of debt securities.

Figure 6: Structure of total assets of all funds



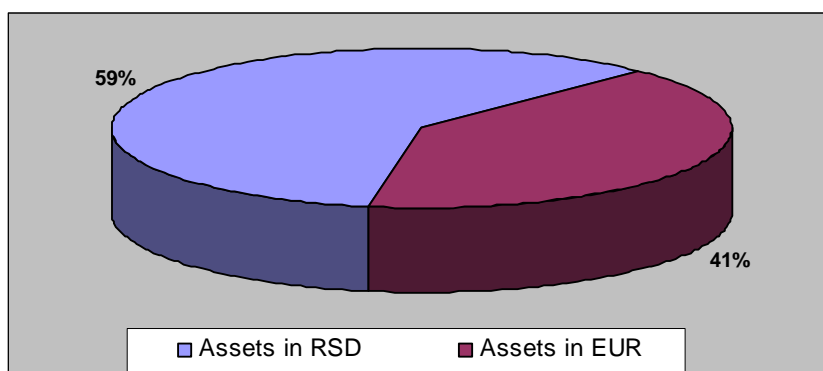
Currently, in our country's financial market, shares, foreign exchange savings bonds and Republic of Serbia treasury bills are the only securities a voluntary pension fund can invest in.

Unlike investing in foreign exchange savings bonds and Republic of Serbia treasury bills, investing in shares is constrained by quality and quantity limits. All shares in the fund's portfolio must fulfil the conditions concerning market capitalization in free trade, stock exchange trading frequency and auditor's positive opinion.

5.4. Currency structure

Currency structure of the funds' total assets shows the share of fund assets in Dinars and in foreign currency.

Figure 7: Total currency structure of all funds



Of the total assets which amount to RSD 2,142,055,066, RSD 869,575,215 is denominated in foreign currency (only in EUR for now), accounting for approximately 41%, and RSD 1,272,479,850 is denominated in RSD, which is approximately 59%. The assets in EUR mainly comprise foreign exchange savings bonds.

6. INVESTMENT UNIT VALUE

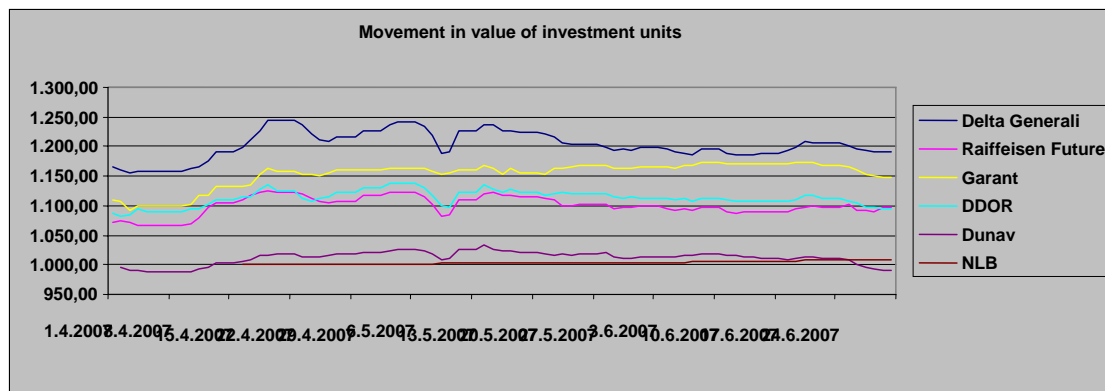
At the end of Q2, the values of investment units of all funds were higher than at the beginning of the period, so it seemed that their value has increased over this period. However, due to severe fluctuations on the stock exchange, the values have changed to such extent that the lowest recorded investment unit values were below the level of initial values (at the beginning of Q2), and the highest recorded ones significantly exceeded the values at the end of the period.

Table 5: Values of investment units

Investment unit value	Delta Generali	Raiffeisen future	Garant	DDOR	Dunav	NLB
Beginning of Q2	1165,79	1071,11	1109,84	1086,74	994,71	1000,09
As at 29 June .2007	1189,86	1096,72	1148,59	1094,66	991,80	1008,91
Maximum value	1244,67	1125,48	1174,34	1138,44	1032,61	1009,09
Minimum value	1156,35	1067,22	1092,68	1083,06	986,97	1000,09

Due to increased political risk in Serbia, the period between 7 and 11 May 2007 will be remembered on Belgrade Stock Exchange as the one which has seen first the largest share price adjustment and then the biggest index rise. The continuously traded shares in which the assets of funds were invested saw the largest drop in prices. On 8 and 9 May 2007 *Belex15* recorded the biggest historical lows (8 May – 5,26%, 9.maj - 6,53%). On the following day, after it was announced that the new Government would be formed, the political risk was decreased. On Friday, 11 May 2007, *Belex15* rose by 11.44%. In this period the values of investment units saw less dramatic changes when compared to *Belex15*, due to the fact that the largest share of funds' assets was invested in cash, bank deposits and state securities. On 9 May, the drop in value of investment units fluctuated between -2.41% and -0.51%, while on 11 May the increase was between 0.47% and 2.80%.

Figure 8: Movement in value of investment units, Q2

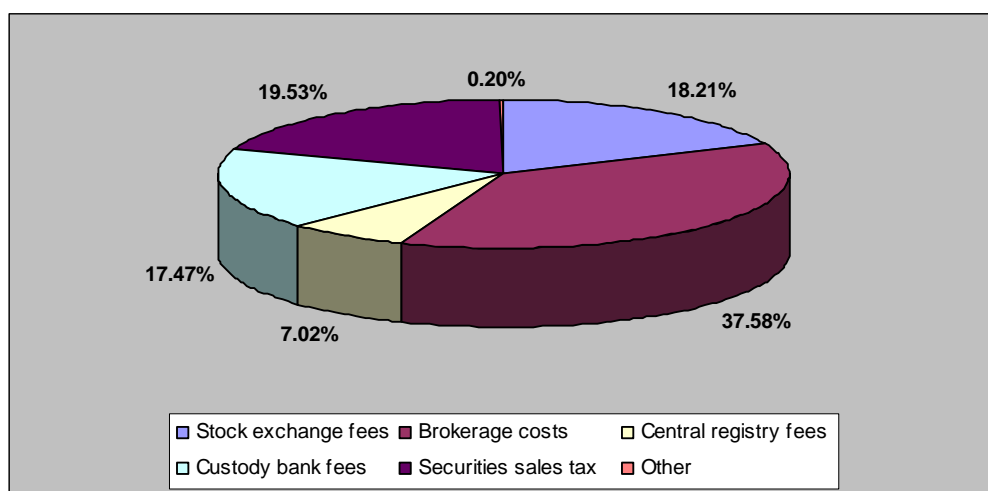


7. TRANSACTION COSTS

Total transaction costs for Q2 2007 were RSD 3,515,818 which is 0.17%.of the funds' net assets of RSD 2.069.853.777¹.

Brokerage costs account for the largest share of the transaction costs, 37.58%, followed by securities sales tax, 19.53%, stock exchange fees, 18.21%, fees charged by custody banks, 17.47%, central registry costs, 7.02%, and other fees with 0.2%.

Figure 9: Structure of transaction costs



In Q1, the transactions costs-to-net assets ratio was 0.08%, and in Q2 0.17%, which points to management companies' slightly increased activity in the market. Garant and *Raiffeisen* have the largest such ratio, about 1%, while the ratio for other funds is below 0.2%.

¹ Net asset amount as at 29 June 2007

(Outsourced Translation)