



NATIONAL BANK OF SERBIA

PENSION FUNDS SUPERVISION DEPARTMENT

VOLUNTARY PENSION FUNDS IN SERBIA

Fourth Quarter Report 2012

April 2013

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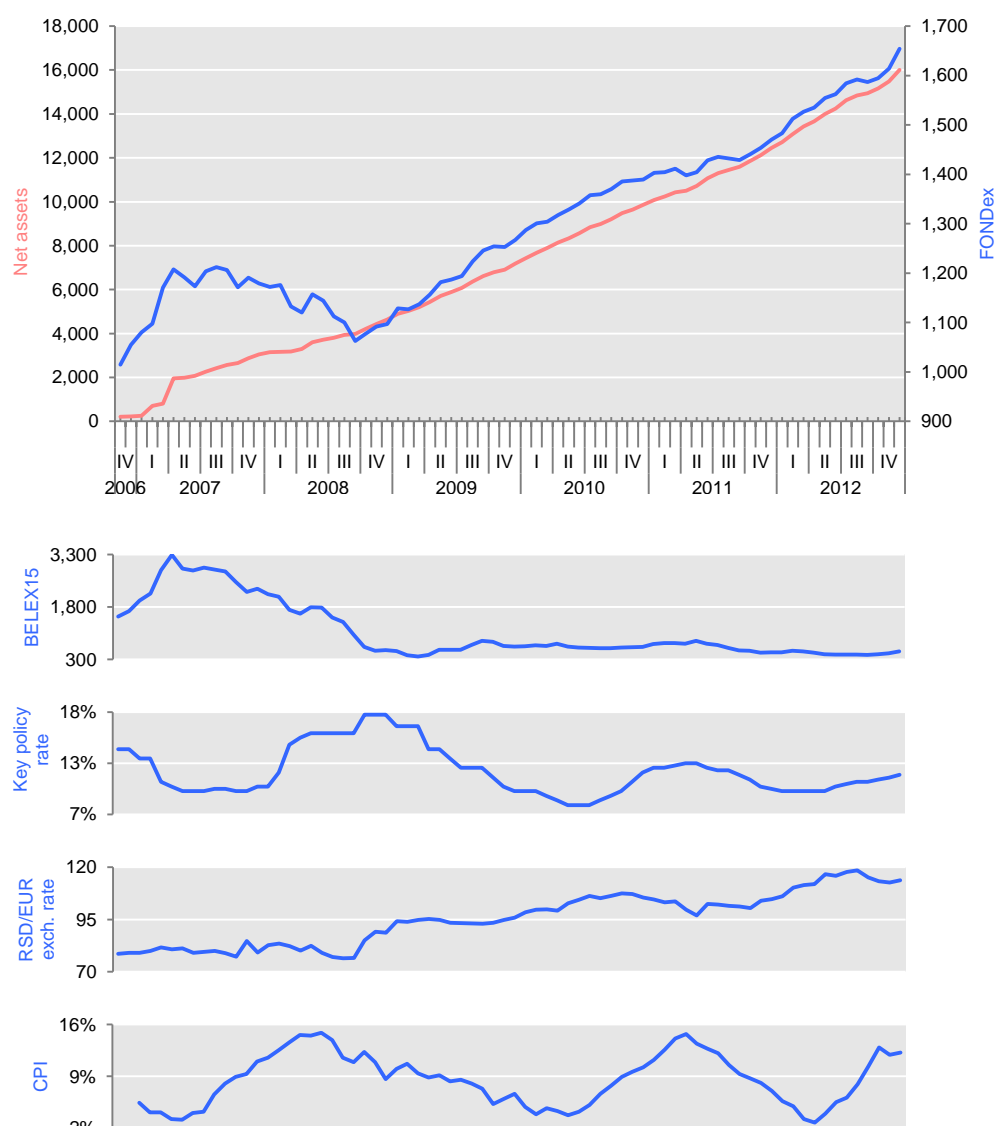
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1. Introduction

Almost six years into their operation, voluntary pension funds (VPFs) have recorded a constant rise in their net assets that reached RSD 16.01 billion by end-Q4 2014, up by 7.1% quarter-on-quarter or 28.6% year-on-year.

Since the start of VPF operation, net assets have been on a continuous rise, reaching over RSD 16 billion in late 2012.

Movements in net assets, FONDex and key indicators since the start of VPF operation
(in RSD mln, units, %)



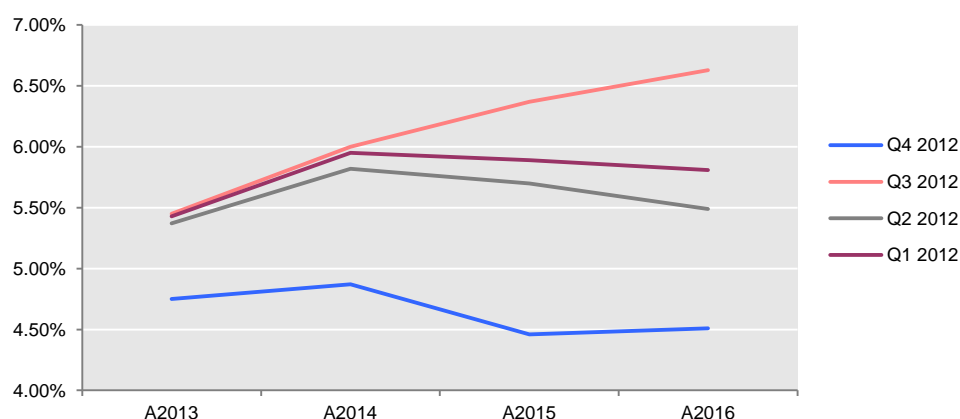
Source: National Bank of Serbia, Belgrade Stock Exchange, Statistical Office.

Throughout the period observed, the return on funds was generally positive. At end-Q4 2012, FONDex¹ reached 1,654.37 points². The return of FONDex, which represents the weighted average return of all funds, came at 4.3%, while the return for the previous year measured 12.5%. Since the start of VPF operation³, the return of FONDEX equals 8.6%.

Prices of Belgrade Stock Exchange (BSE) shares, measured by BELEX15⁴, rose by 21.6% in Q4 (the index value was 523.89 by end-December). However, following a rise in early 2012, BELEX15 entered a downward slope, ending the year at 5%.

BSE liquidity remained low. Trading volumes came at RSD 4.68 billion in Q4, which was at the level of trading volumes recorded in previous periods, excluding Q3 2012 (RSD 11.54 billion) when trading volumes went up on account of block transactions of Bambi Banat a.d. Belgrade. In the year as a whole, trading amounted to around RSD 25 billion. Measured by the number of transactions, BSE activity increased from the previous quarter, with around 130,000 transactions in Q4 or 483,000 in the entire year.

Yield curve on frozen FX savings bonds
(end-of-quarter)



Source: Belgrade Stock Exchange.

At end-2012, the return on frozen FX savings bonds ranged from 4.46% to 4.87% depending on maturity. The yield curve shifted down, while returns contracted by 70 basis points for A2013 series up to 212 basis points for A2016 series. Relative to end-2011, returns also fell by around 1 percentage point on average.

¹ FONDex shows movements in investment units of all VPFs in the market.

² The initial FONDex value of 1000 points was recorded on 15 November 2006 when the first VPF began to operate.

³ Annual rate.

⁴ Of total investment in shares, over 90% were shares covered by BELEX15, which means that BELEX15 is a relevant benchmark for shares in the funds' portfolio.

The primary market of government debt instruments (T-bills and government bonds) experienced a decline in the volume of issues, similarly to Q2 this year. Discount rates decreased for most maturities relative to the previous quarter.

The total market value of dinar-denominated issues came at c. RSD 67.6 billion vs. RSD 81 billion in the previous quarter. Most issued were 1-year (RSD 19.2 billion), 18-month (RSD 16.1 billion) and 3-year bills (RSD 9.9 billion). In the quarter under review, 5-year T-bills were issued again (RSD 4.2 billion).

Return (discount rate) of issued dinar-denominated government debt instruments, by maturity
(in %)

Maturity	Q4 2011	Q1 2012	Q2 2012	Q3 2012	Q4 2012
3M	11.60%	-	-	12.99%	11.25%
6M	10.85%	10.48%	10.48%	13.49%	12.90%
12M	13.00%	12.69%	13.49%	14.59%	11.87%
18M	13.30%	13.10%	13.99%	14.97%	12.90%
24M	13.25%	13.49%	14.45%	14.45%	12.99%
36M	14.89%	14.70%	14.99%	15.99%	13.95%
60M	-	14.70%	15.01%	-	14.74%

Source: Ministry of Finance.

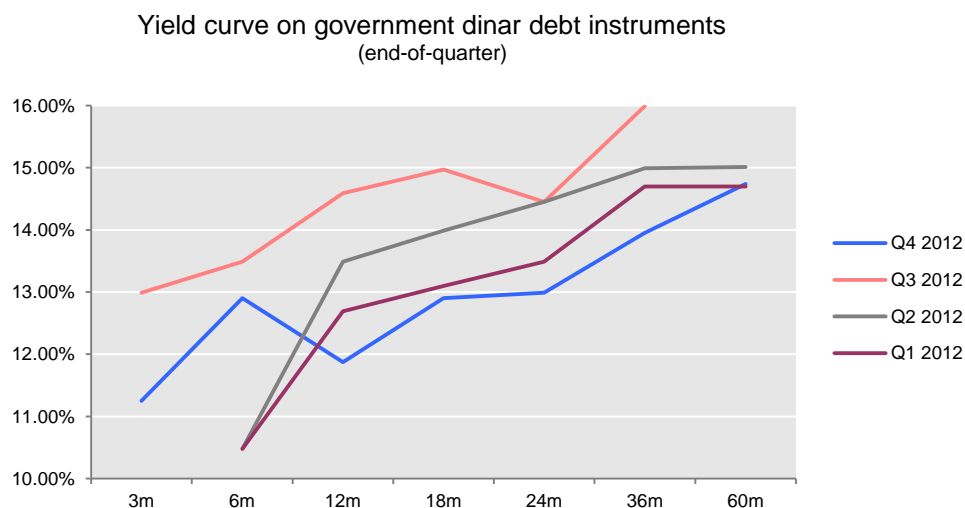
Market value of issued dinar-denominated government debt instruments, by maturity
(in RSD billion)

Maturity	Q4 2011	Q1 2012	Q2 2012	Q3 2012	Q4 2012
3M	3.9	-	-	10.66	6.69
6M	10.9	14.1	4.87	12.11	8.27
12M	8.9	26.3	22.99	16.21	19.20
18M	3.9	5.1	13.21	11.66	16.08
24M	2.1	11.9	8.59	6.68	3.29
36M	1.7	17.1	4.67	23.67	9.89
60M	-	2.3	0.43	-	4.18
Total	31.4	76.7	54.75	80.98	67.61

Source: Ministry of Finance.

The total market value of dinar-denominated issues came at RSD 280.1 billion in 2012. Most issued were 1-year (84.7 billion) and 3-year (55.3 billion) bills.

Returns to maturity for dinar instruments declined significantly from the previous quarter – by around 2 percentage points on average. Returns on 1-year instruments fell by almost 3 percentage points, while returns for other maturities were down by around 1.5 percentage points.



Source: Ministry of Finance.

The period reviewed also saw the issue of euro-denominated government debt instruments worth c. RSD 113.9 million – 1-year (RSD 45 million) at a 5.75% rate and 18-month (RSD 68,9 million) at rates of 5.85% and 5.05%.

The appreciation trend of the dinar against the euro, which started in the quarter earlier, continued in Q4 2012. The dinar gained 1.1% in the quarter under review, while it weakened 8.7% over the last year.

Inflation decelerated in Q4. Annual CPI rose by 12.9% in October, 11.9% in November and 12.2% in December, while monthly rates were up by 2.8%, 0% and -0.4%, respectively.

The key policy rate was raised in Q4, equalling 11.25% by end-December, up by 75 basis points quarter-on-quarter or 150 basis points year-on-year. Mirroring increases in the key policy rate, the interest earned by funds on dinar balances held in custody accounts went up in the same amount for all funds (75 basis points).

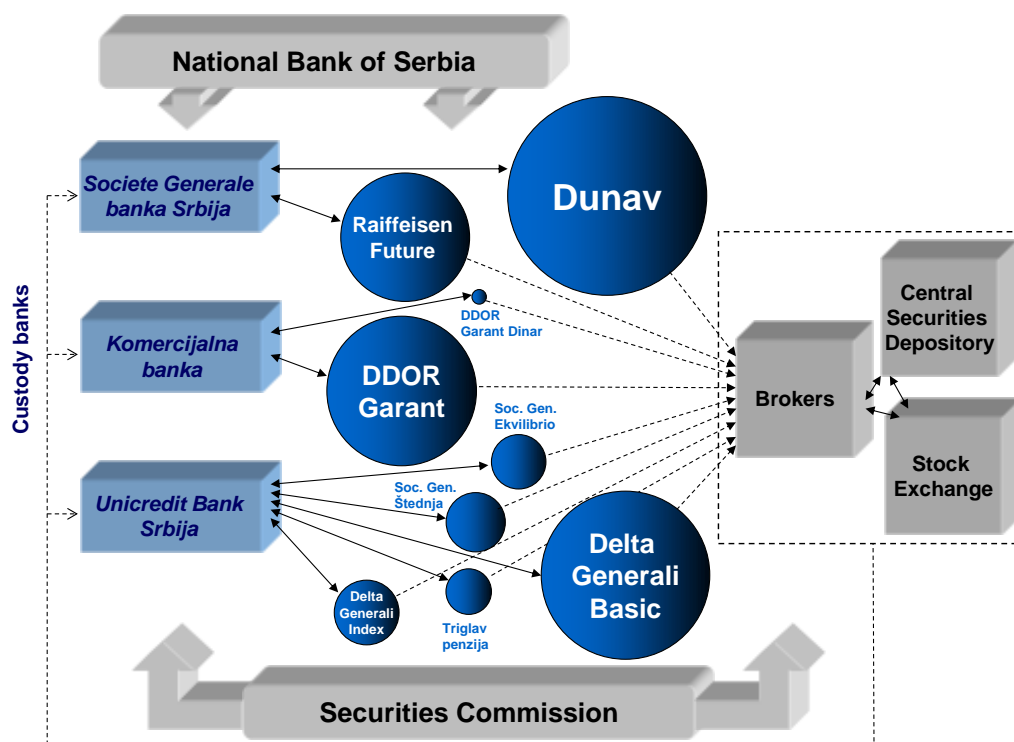
2. VPF operation

2.1. Market participants

At end-Q4 2012, the VPF market comprised five companies managing nine VPFs, three custody banks and four agent banks⁵.

⁵ NLB banka a.d. Beograd, Raiffeisen banka a.d. Beograd, Volksbank a.d. Beograd and Soci t  G n rale Banka Srbija a.d. Beograd.

VPF market participants



At end-Q4, total employment in VPF management companies was 152, down by six quarter-on-quarter.

2.2. VPF net assets

At end-Q4 2012, net assets totalled RSD 16.01 billion, up by 7.1% quarter-on-quarter or 28.6% year-on-year. Return on investment had the strongest impact on a rise in net assets. Furthermore, RSD 647.3 million were paid to members' individual accounts. Total contributions, net of contribution fees, came to RSD 633.1 million, whereas withdrawals amounted to RSD 219.2 million. Total fees charged by companies were RSD 91.46 million.

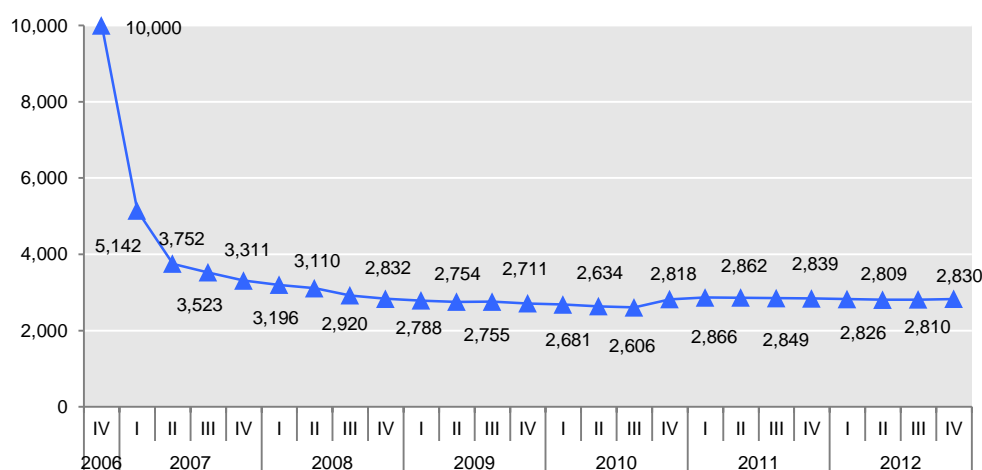
Net assets reached RSD 16.01 billion and contribution payments RSD 647.3 million. Concentration in the sector remained high.

In the entire 2012, contribution payments amounted to RSD 2.7 billion, withdrawals to RSD 751.7 million, while fees were charged at RSD 344 million.

End-of-period net assets of the VPF sector
 (in RSD billion)

2007	2008	2009	2010	2011	2012			
					Q1	Q2	Q3	Q4
3.05	4.64	7.19	9.86	12.45	13.42	14.25	14.95	16.01

Source: National Bank of Serbia.

End-of-quarter sector concentration
 (Herfindahl–Hirschman Index)


Source: National Bank of Serbia.

Measured by HHI, market concentration in the sector⁶ was high – 2,830 points at end-Q4. What also attests to high market concentration were two funds classified as ‘large’ and two as ‘medium’, making up over 96% of the market, while the largest fund accounted for c. 41% of total net assets.

Number of funds by groups divided by market share
 (in units)

Share in net assets (%)	2007	2008	2009	2010	2011	2012			
						Q1	Q2	Q3	Q4
Large (20 and above)	3	2	2	3	2	2	2	2	2
Medium (5 - 19,99)	-	2	3	1	2	2	2	2	2
Small (0 - 4,99)	4	6	5	4	5	5	5	5	5

Source: National Bank of Serbia.

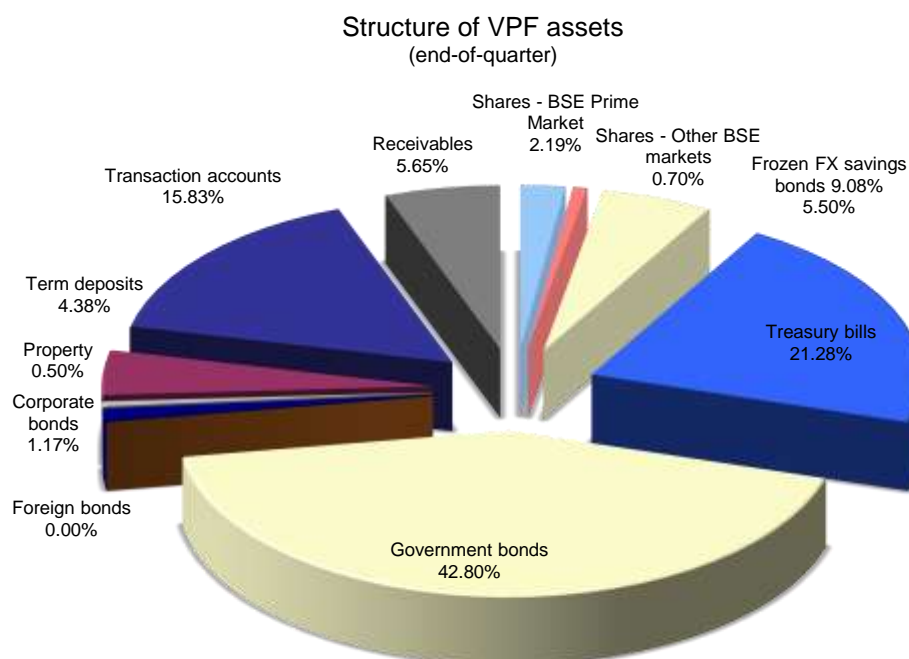
2.3. Structure of VPF assets

In Q4, government debt securities accounted for the major portion of VPF assets – 69.6%, of

Most assets were invested in government instruments – 69.6%, while 22.7% of assets were in foreign currency.

⁶ In terms of the share in total net assets.

which government bonds made up 42.8%, T-bills – 21.3%, frozen FX savings bonds – 5.5%. The share of demand deposits increased by almost 10 percentage points compared to the previous quarter, to 15.8% in Q4. Term deposits, shares and property accounted for 4.4%, 2.9% and 0.5%, respectively.



Source: National Bank of Serbia.

The share of assets denominated in euros was RSD 3.71 billion or 22.7% of total assets, while dinar-denominated assets accounted for RSD 12.65 billion or 77.3%. The share of euro-denominated assets was stable in 2012 – between 1/4 and 1/5 of total assets.

The major part of assets – around 75%, was exposed to interest rate risk, in response to the rising share of debt instruments in the funds' portfolio. Credit risk was also concentrated in investment in government debt instruments.

2.4. VPF trading

VPF trading volumes amounted to RSD 4.56 billion in Q4 2012, close to Q1 2012 levels. The year 2012 saw trading volumes of RSD 13.26 billion, somewhat below the previous period.

Trading volumes came at RSD 4.56 billion. The OTC sale of securities had the largest share.

VPF securities trading (in RSD billion)								
	2008	2009	2010	2011	2012			
					Q1	Q2	Q3	Q4
Securities trading	1.51	12.59	14.92	19.34	4.42	2.71	1.57	4.56
Purchases	1.07	8.12	8.12	10.6	2.95	1.69	0.93	1.50
Belgrade Stock Exchange	0.78	0.40	1.29	0.65	0.06	0.03	0.11	0.11
Unregulated market	0.25	0.38	0.30	1.30	-	0.06	0.01	-
Auctions of government securities	0.03	7.34	6.53	8.64	2.89	1.61	0.81	1.40
Sales	0.39	0.39	0.76	3.81	1.10	0.27	0.22	2.61
Belgrade Stock Exchange	0.09	0.05	0.56	0.43	0.05	0.05	0.08	0.16
Unregulated market	0.30	0.34	0.2	3.38	1.05	0.21	0.14	2.45
Maturity	0.05	4.08	6.05	4.94	0.37	0.75	0.42	0.44
Purchase to sale and maturity ratio	2.42	1.82	1.47	1.21	2.02	1.66	1.44	0.49
Share in total BSE trading (in %)	1.20%	1.10%	7.60%	3.80%	2.10%	2.41%	1.67%	5.72%

Source: National Bank of Serbia, Belgrade Stock Exchange.

On the purchase side, the major part related to auctions of government debt instruments, while the sale in the OTC market was significantly higher compared to the previous quarters. The share of VPFs in BSE trading was around 5.7% in Q4 2012.

2.5. Fees charged by management companies

The Law on Voluntary Pension Funds and Pension Schemes sets out maximum fees that may be charged to fund members. Contribution and management fees may not exceed 3% and 2% respectively, while the account transfer fee may be charged only at the level of real transfer costs.

Management fees will be limited to 1.25% after net assets of all funds reach 0.75% of GDP.

The new Law, adopted in early May 2011, envisages different fees charged by management companies – these fees will be applied once net assets of all funds reach 0.75% of GDP. The maximum management fee is set at 1.25%, while the contribution fee is not capped. VPF net assets currently account for c. 0.49%⁷ of GDP.

Fees are one of the parameters that members should bear in mind when choosing a fund, but should not be observed as an isolated factor. The fee level is contingent on the fund investment strategy and its performance. As a rule, funds actively investing in more complex and riskier instruments are intended for younger persons who pay contributions over a longer horizon. Such funds charge higher fees, but are also

⁷ Source: GDP – database of the Serbian Statistical Office, quarterly GDP at current prices, seasonally non-adjusted data.

expected to post higher return in the long run. On the other hand, a fund investing passively in safe financial instruments should charge lower management fees. Investment policy (scheduled investment by fund members), fees charged by companies, the expected fund return and the risk taken by the fund (and the member) should be accounted for when choosing a fund.

Since the start of operation, companies charged a 2% management fee, while the contribution fee was cut to 2.15% at end-Q4 2012. The relative proportion of the two fees reversed – at the start of VPF operation, contribution fees were dominant by contrast to the current 85% of management fees. This was a result of rising net asset value and an enlarged base to which management fees are applied.

Though visible in the first instance, the contribution fee is not the largest cost incurred by a member. It is paid only once, as a front-load fee. The management fee is charged every day on the calculated value of VPF net assets and is contained directly in the investment unit value, meaning that the calculated and published value is deduced by the amount of the management fee. A further rise in net assets and boosted fund competition may result in gradual lowering of the management fee.

Fees charged by management companies (in RSD million)									
	2007	2008	2009	2010	2011	2012			
						Q1	Q2	Q3	Q4
Contribution fee	43.5	56.9	54.9	59.3	57.9	15.1	16.2	14.7	14.12
Management fee	33.4	72.2	117.2	170.6	220.0	64.2	68.7	73.8	77.34

Source: National Bank of Serbia.

2.6. Transaction costs

Transaction costs are incurred by management companies in securities trading. The new Law envisages that costs arising from the purchase, sale and transfer of securities (Central Securities Depository fees, stock exchange fees, tax charges and costs of the current maintenance of property that fund assets are invested in) are charged against fund assets. Other costs are incurred by the management company – these are mostly brokerage fees.

Brokerage and custody bank fees account for the largest share of transaction costs. Transaction costs are directly related to the volume of management company trading and types of instruments being traded. Most costs are incurred in stock trading on the BSE and the lowest costs in T-bills trading. In Q4 2012, costs incurred by management companies accounted for 74% and those incurred by funds 26% of the total.

In response to relatively high trading volumes at the start of operation, particularly trading on the BSE, transaction costs were the highest at the time. The economic crisis induced contraction in the activity of management companies that directed their investment to safer instruments implying lower cost. In 2009, the costs rose again in

response to reduced balances in transaction accounts, a shift to government T-bills and a gradual increase in shares trading. At the same time, a rise in net assets pushed up the value of VPF transactions in absolute amount. Late 2011 experienced a steep fall in transaction costs. Such trend continued in 2012.

Amount of transaction costs (in RSD million)									
	2007	2008	2009	2010	2011	2012			
						Q1	Q2	Q3	Q4
Total	10.0	5.3	7.4	9.7	7.0	1.3	1.1	0.9	1.4
Brokerage fees	4.5	2.2	3.8	4.5	2.9	0.6	0.4	0.4	0.6
Custody bank fees	1.8	1.5	2.0	2.4	2.2	0.4	0.4	0.3	0.4
Stock exchange fees	1.6	0.8	0.4	1.1	0.8	0.1	0.0	0.1	0.1
Central Securities Depository fees	1.0	0.6	1.2	1.5	1.1	0.2	0.2	0.2	0.3
Other costs	1.1	0.2	-	-	-	-	0.0	-	-

Source: National Bank of Serbia.

VPFs generally invest in long-term debt securities, while the portion of shares is relatively low. Such structure impacts on low transaction costs – c. 0.01% of net assets at end-Q4 2012.

2.7. Number and structure of VPF users

At end-Q4 2012, 179,823⁸ of users were in the accumulation phase⁹. Total membership contracts¹⁰ stood at 240,369. At the same time, 64 users holding 78 membership contracts, who are currently in the withdrawal phase, are receiving scheduled payments. All information from this point onwards, unless specified otherwise, refers to users in the accumulation phase.

Q4 2012 saw 3,137 of new users and 3,277 of new membership contracts.

In the 2008–2011 period, the strongest growth in the number of new users was recorded in 2009 and 2011 (close to 9,000 and 8,000), while 2010 saw a marginal increase. The upward trend continued in 2012, when the number of users rose by around 5,000.

⁸ The number of users is the number of members of one or more VPFs. The number is smaller than the number of membership contracts as a significant number of users have more than one membership contract in one or several funds.

⁹ VPF membership has two phases – the accumulation phase (when contributions are made) and the withdrawal phase (when funds accumulated are withdrawn).

¹⁰ The number of membership contracts is the sum total of individual membership contracts and the number of members of all pension schemes.

Number of contracts and users (in thousand)									
	2007	2008	2009	2010	2011	2012			
						Q1	Q2	Q3	Q4
No. of contracts	158.5	201.6	215.7	220.4	234.4	235.8	236.9	237.1	240.4
No. of use	- ¹¹	156.0	165.2	166.8	174.9	175.8	176.2	176.7	179.8
Percentage of active users (in %) ¹²	-	41.1%	34.9%	33.6%	35.1%	35.5%	32.9%	31.3%	30.5%
Source: National Bank of Serbia.									

As the percentage of active members ranges between 30% and 35% (within a month), and is broadly unchanged since 2009, we can assume that the majority of these users contribute to pension funds each month.

Structure of users by payment dynamics (in units and %)			
	Period	No. of users	Share (%)
Active users	1 month	54,801	30.5%
	3 months	62,766	34.9%
	6 months	67,424	37.5%
	12 months	75,450	42.0%
	From the start of membership	(1) 151,569	84.3%
No holdings	(2)	28,254	15.7%
Total	(1+2)	179,823	
Source: National Bank of Serbia.			

Average accumulated funds per user depend on the amount of contributions, the funds' return and the length of the accumulation phase. All three factors impact on the growth in average funds in members' individual accounts. The average amount of accumulated funds of members who have made at least one contribution is somewhat above RSD 105,000 and is constantly rising.

VPF users in Serbia may be domestic and foreign persons. The number of domestic persons holding fund membership contracts is much higher than that held by foreign nationals who hold on average five times more funds in their accounts.

¹¹ Data on the number of users are available as of June 2008.

¹² The percentage of active users is the average percentage of active users per month in the relevant period.

Average accumulated funds at the period-end (in RSD thousand)								
2007	2008	2009	2010	2011	2012			
					Q1	Q2	Q3	Q4
- ¹³	34.6	52.2	70.5	84.5	90.3	95.5	100.2	105.3
Source: National Bank of Serbia.								

At end-Q4 2012, the number of members of two or more VPFs amounted to 34,879 or around 19% of the total.

Number of users by number of funds in which they are members (in units)	
No. of funds	No. of users
1	144,944
2	24,835
3	9,974
4	58
5	12
Source: National Bank of Serbia.	

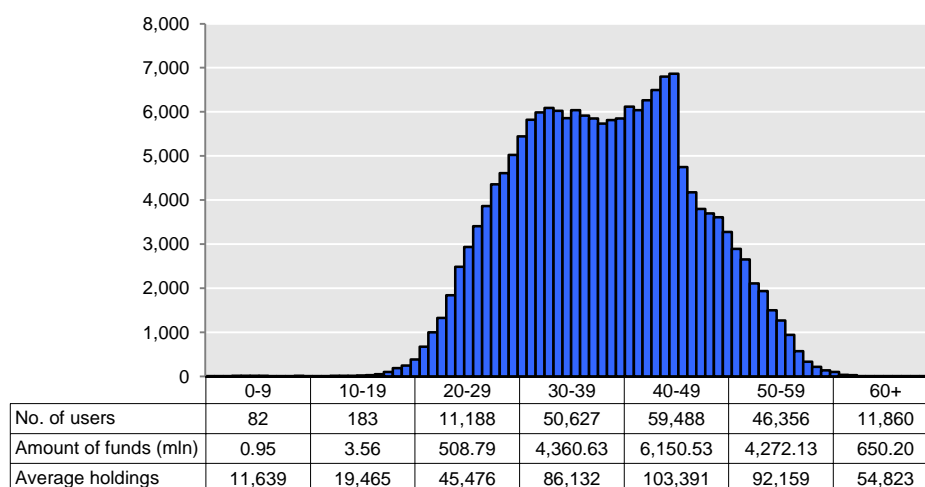
Number of users by membership contract (in units)	
No. of contracts	No. of users
1	133,409
2	34,097
3	10,978
4	968
5	296
6	45
7	30
Source: National Bank of Serbia.	

In terms of gender composition, no significant changes were recorded relative to previous years. Men remained dominant with c. 59%. The gender ratio is slowly changing – among new members, there were over 50% women (41% in Q4 2012).

At end-Q4 2012, the average age of VPF users was close to 44 years, while users aged 30–50 accounted for over 61%. Such structure has not changed since the start of VPF operation. Further, the percentage of users meeting the age requirement for the withdrawal of funds (53 years under the old Law) was largely similar to earlier years and accounted for approximately 21% of the total.

¹³ Data on the average amount of accumulated funds are available as of June 2008.

Distribution of users and accumulated funds by age
(in units, RSD)



Source: National Bank of Serbia.

2.8. Contribution payments, withdrawals and transfers

Apart from 2007 when most VPFs were set up and when contributions were the lowest, total contributions were stable throughout the years, ranging between RSD 2.2 and 2.5 billion a year. In 2012, contributions equalled c. RSD 2.7 billion.

Total contributions amounted to RSD 2.7 billion in 2012.

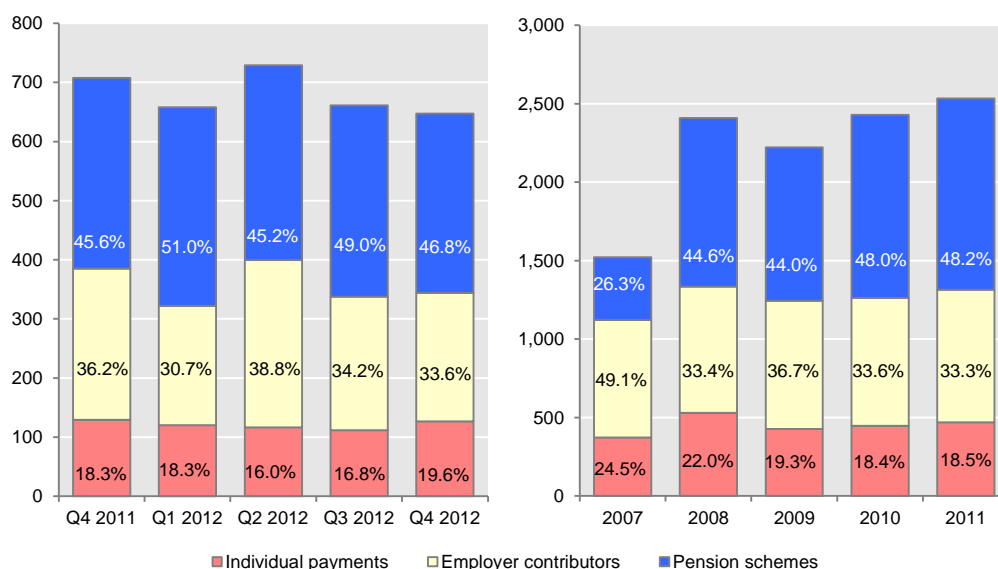
In Q4 2012, contributions amounted to c. RSD 647 million.

Total contributions (in RSD billion)								
2007	2008	2009	2010	2011	2012			
					Q1	Q2	Q3	Q4
1.52	2.41	2.22	2.43	2.53	0.66	0.73	0.66	0.65

Source: National Bank of Serbia.

In Q4 2012, of total contributions, individual payments accounted for 19.57%, employer contributions 33.60% and pension schemes c. 46.83%. This ratio has been broadly unchanged since 2008.

Volume and structure of total contributions
(in RSD mln, %)



Source: National Bank of Serbia.

Though the Law envisages individual payments, most contributions were made through contributors and pension schemes. Employers may contribute on behalf of their employees and thus make saving in the form of tax relief. Ample potential for further growth in the membership base are companies with high staffing levels.

In 2012, withdrawals by eligible members amounted to RSD 751.7 million.

Withdrawals are generally made lump-sum as members entitled to withdrawal usually do not have long membership history and their accumulated sum is therefore relatively small. In the period ahead, we are likely to see an increase in scheduled and other types of withdrawals, in response to an increase in accumulation years and the accumulated sum, particularly after the adoption of the new Law setting the maximum lump-sum withdrawal at 30%.

Total withdrawals (in RSD million)								
2007	2008	2009	2010	2011	2012			
					Q1	Q2	Q3	Q4
141.4	384.6	448.5	458.1	517.6	157.4	206.7	168.4	219.2

Source: National Bank of Serbia.

Withdrawals grow by the year as a result of system development – as contributions and net assets increase, and the years of VPF operation increase, absolute withdrawals will rise as well. In Q4 2012, contributions exceeded withdrawals by around RSD 428 million. However, what is atypical for the nature of VPFs is that withdrawals are made as soon as users meet the retirement conditions, even before they meet the requirement for state pension. One of the reasons is a short contribution period and small accumulated funds.

Transfers concern inter-fund transfers. A member may transfer a part or all of his/her assets from one fund to another, thereby covering only real transfer costs. The largest transfers were recorded in 2008. In H2 2011, average transfers were lower than in earlier years – they amounted to around RSD 27 million. The trend continued in 2012 when inter-fund transfers equalled around RSD 72.4 million.

In 2012, total inter-fund transfers equalled RSD 72.3 million.

Total inter-fund transfers (in RSD million)								
2007	2008	2009	2010	2011	2012			
					Q1	Q2	Q3	Q4
19.5	235.1	141.5	216.1	165.9	3.6	16.4	10.3	42.1
Source: National Bank of Serbia.								

3. Conclusion

In November 2012, the first VPF in Serbia celebrated its sixth anniversary. In the meantime, developments in the global economy, situation in the country and business objectives of VPF founders triggered frequent changes in the VPF market in regard to the number of VPFs and management companies. From H2 2008 to early 2010, the market comprised nine management companies and ten funds, while end-2012 saw nine funds managed by five companies. The number of participants in the VPF system was declining on account of mergers among management companies and among funds, including the takeover of fund management rights following the winding down of individual management companies. Moreover, three management companies established funds of different profiles in terms of the degree of conservativeness of assets investment and the choice of a particular currency, so as to offer to prospective members with different objectives and affinities the possibility to choose.

The number of VPF users is constantly rising, reaching 179,887 by end-2012. The share of VPF users in total population is around 2.5%, with every tenth employee being a VPF member. In light of the above and the fact that companies have set the minimum contribution amount at the level which does not put too much pressure on members' budgets, there seems to be ample room for a considerable increase in the number of VPF users. Apart from the low budget of potential members, which is an indisputably important factor for the future development of the system, there is insufficient information available to citizens about the presence and manner of functioning of VPFs. To overcome these problems, management companies engage in marketing activities aimed at overcoming this issue and attracting prospective members, and hire natural persons to disseminate information about VPF operation. For the time being, there are 429 persons engaged in these activities who were licensed by the NBS after passing professional examination and meeting other eligibility requirements.

Since the start of operation of VPFs, net assets have been constantly rising, at the average annual rate of around 30% over the last three years. In late 2012, net assets reached over RSD 16 billion (by over RSD 3.5 billion relative to end-2011). Assets grew also in periods of the strongest effects of the financial crisis. In 2008 and early 2009, annual returns recorded negative values. In moments when the annual drop in BELEX reached 80%, the return on FONDex did not fall below -12%. VPFs timely adjusted their operation to the situation in the financial market by changing their investment structure and thus limiting and mitigating the crisis effects. To protect members' assets and reduce the exposure to risks, assets were redirected to safer forms, notably government securities and liquid funds, while investment in shares as riskier financial instruments was reduced. From late Q1 2009, the return of funds began to record positive values, whilst at end-2012 FONDEX reached 12.5%.

The structure of VPF assets was under the impact of new types of securities that fund assets may be invested in, such as T-bills, longer-maturity RS bonds, corporate

bonds, and shares of companies NIS a.d. Novi Sad and “Nikola Tesla” Airport. The appearance of new instruments is important for operation of VPFs as this enables wider diversification of assets and more efficient management of market risks.

In 2012, companies upgraded their internal acts defining the basic investment guidelines. The improvement of investment policies, which define funds’ inclination to particular types of assets, is highly important for fund members as they offer the most important information on the method of asset investment, the envisaged structure of assets and, along these lines, the exposure of assets to particular types of risks. This enables a member to opt for a fund whose strategic commitment corresponds with the member’s propensity to take risk and investment objectives.

At the onset of operations, the fees charged by companies did not deviate from the maximum level of fees prescribed by the Law. However, as the number of funds increased and competition strengthened, front-load fees decreased significantly since lower fees represent a competitive advantage in attracting potential members. Currently, only one fund still applies the maximum front-load fee prescribed by the Law, while the fee of other funds is set at 2.7% and 2.8%, with the possibility of a larger decline depending on the contribution amount. The average charged front-load fee equalled around 2.2% of contributions made in 2012. With rising fund assets, the basis against which the management fee is calculated rose as well, including the funds collected in this regard. In 2012, the management fee made up over 80% of total fees charged. Only one company stipulates a lower management fee for one fund, depending on the amount of accumulated assets and the achieved return relative to the industry average. Other companies charge the management fee at 2%, this being the maximum statutory fee.

After the adoption of the Law on Voluntary Pension Funds and Pension Schemes, which came into effect in 2006, a regulatory framework was established, enabling the organisation of Pillar III of the pension system. Five years later, in May 2007, amendments to the Law were adopted, in response to the need to overcome problems detected in the VPF practice that far and the need to harmonise the operation of VPFs with European regulations and best practice. After the Law was adopted and with the aim to ensure harmonisation with its amendments, changes were made to 14 pieces of secondary legislation which defines in more detail particular fields of operation of companies and funds, and upgrades supervisory processes.

In regard to amendments to the Law on Companies, management companies were required to organise their management in accordance with the new Law. In 2012, all companies obtained necessary consents of the NBS for the election of management members, and harmonised their internal acts with the newly arisen changes.

Tax reliefs are an incentive for the development of the VPF industry. Namely, contributions by individuals and employees up to a defined level are exempt from the household income tax and contributions for mandatory social insurance. In 2006, when VPFs began to operate, the non-taxable contribution amount was set at RSD 3,000. This sum is adjusted with inflation recorded in the previous year. The non-taxable contribution amount was set at RSD 4,647 for 2012 and RSD 5,214 for 2013. This

represents an additional incentive to employers to direct a part of contributions for their employees to saving in VPFs.

As only 10.39% of Serbia's employees are VPF beneficiaries, with 3.17% of them regularly (on a monthly basis) paying contributions, it may be concluded that there is great potential for the further development of VPFs in our market. At the same time, there is the need for the presence and development of pension funds¹⁴, bearing in mind the unfavourable ratio of workers to pensioners and the unfavourable demographic structure.

Though accumulation-based pension funds were introduced relatively late (2006/2007) and the circumstances for their development were unfavourable (the economic crisis), significant results have been achieved so far. Clear signals about the need to save for old age, sent to citizens by economic and social policy makers, are likely to bolster the sector development. Further, awareness raising and education about VPFs will certainly enhance citizens' interest in securing additional retirement income. In such circumstances, coupled with the promotion of the dialogue between employers and employees about ensuring additional sources of income after retirement, it is reasonable to expect faster development of VPFs in future years and positive effects associated with their operation.

¹⁴ Comparative practice shows that Serbia has a low share of pension fund assets in GDP (0.45%), while this share in other countries is significantly higher: Poland (15%), Slovakia (8.4%), the Czech Republic (6.5%), Estonia (5.2%), Macedonia (3.6%) or highly developed countries such as the Netherlands (135%), Switzerland (110%), Great Britain (95%), Australia (93%) and the USA (70%).

Appendix: Financial statements of VPF management companies and VPFs

i) Regulatory framework

Management companies keep business books and compile financial statements in accordance with the accounting and auditing law and NBS regulations.

Separately from their VPFs, management companies also keep business books and compile financial statements for VPFs that they manage.

Pursuant to the Law on Voluntary Pension Funds and Pension Schemes, a company is required to submit to the NBS its annual financial statements which contain financial statements of VPFs that it manages and the external auditor's report as at 31 March of the current year for the previous year.

Financial statements with the auditor's opinion are available at the NBS's website, page: List of VPF Management Companies.

NBS decisions regulate the form and content of financial statements of companies and funds, based on which companies are required to submit their balance sheets, income statements, cash flow statements, statements on changes in equity, statistical annex of the management company, including the balance sheet of funds – their statements on net assets, income statements and statements on changes in net assets.

As at 31 December 2012, the market comprised five management companies and nine VPFs.

ii) Financial statements of VPF management companies

As at 31 December 2012, balance sheet total of management companies equalled around RSD 856 million, down by around RSD 74 million relative 31 December 2011 when it stood at around RSD 930 million. A reduction in balance sheet total was due to a decline in the number of management companies after voluntary liquidation of "Triglav" management company in 2012. The asset structure was dominated by current assets which made up around 79% of total assets (87% in 2011), of which most assets were invested in short-term deposits and other financial placements (73%). On the other hand, equity accounted for around 94% of total liabilities (92% in 2011).

Liquidity of management companies was very high. The current liquidity ratio of the industry equalled around 20 (14 at end-2011), which means that each dinar of short-term liabilities was covered with 20 dinars of current assets. The narrow liquidity ratio which shows the coverage of each dinar of short-term liabilities was 0.4 (around 0.5 in late 2011). The ratio of current assets to total liabilities was around 13 (11 in late 2011), i.e. each dinar of liabilities was covered with 13 dinars of current assets.

Liquidity ratios of VPF management companies						
	2007	2008	2009	2010	2011	2012
Current liquidity ratio	19.9	21.3	32.2	38.0	14.2	20.0
Rigorous liquidity ratio	1.1	2.3	1.9	2.8	0.5	0.4
Ratio of current assets to total liabilities	15.9	13.7	17.1	24.3	11.3	13.8
Source: National Bank of Serbia.						

Management companies are required to keep the level of equity above the statutory minimum which equals EUR 1 million in the dinar equivalent. At the industry level, the ratio of total equity to statutory minimum was 1.42 (1.37 in late 2011). This means that companies held on average around 42% more equity than the prescribed minimum.

As the total number of VPF users equalled 179,823, one user accounted for around RSD 4,475 of company's equity (4,906 in 2011).

Total net assets of all funds stood at somewhat more than RSD 16 billion in late 2012. Each dinar of net assets was covered with 0.05 dinars of company's equity (0.07 in 2011). This ratio was declining also on the back of a constant increase in net assets of all funds.

Equity ratios of VPF management companies						
	2007	2008	2009	2010	2011	2012
Total equity ratio	1.27	1.28	1.25	1.71	1.37	1.42
Equity by the number of users	-	6.532	6.517	6.474	4.906	4.475
Ratio of equity to total net assets	0.23	0.22	0.15	0.11	0.07	0.05
Source: National Bank of Serbia.						

Management companies continued to record profit in 2012. Total profit all companies exceeded RSD 95 million (RSD 11 million in 2011). Four companies posted profit in 2012, whilst one company had a negative result. However, the companies' result does not affect the assets of fund members as company assets are separated from fund assets.

In 2012, at the industry level, companies made profit from fund management. Revenue from core activity amounted to RSD 342 million (RSD 278 million 2011) and consisted of fees generated from the payment of contributions and management fees. They made up around 74.6% of all revenue (65.5% in 2011). Total management costs (relating to investment of fund assets, marketing, custody bank and brokerage services and other fund management costs) amounted to around RSD 30 million in 2012. The profit generated from fund management totalled around RSD 312 million (RSD 246 million in 2011).

The structure of revenue was dominated by revenue from fees, followed by financial revenue of around RSD 109 million in 2012 (RSD 133 million in 2011).

The structure of expenditure was dominated by wage costs of around RSD 201 million (RSD 190 million in 2011), costs of depreciation, provisioning, services and other business expenditure of RSD 108 million (RSD 126 million in 2011).

The average monthly gross wage of employees in management companies equalled around RSD 143,590 at the sector level (129,294 in 2011).

In 2012, management companies recorded total ROE of 11.5% (1.2% in 2011), ROA of 10.7% (1.1% in 2011). Also, profit recorded per user and contribution shows an upward tendency relative to previous years.

Profitability indicators of VPF management companies						
	2007	2008	2009	2010	2011	2012
ROE	-51.7%	-29.5%	-15.7%	-3.3%	1.2%	11.5%
POA	-48.7%	-27.6%	-14.8%	-3.2%	1.1%	10.7%
Profit per user	-	-1.626.2	-994.4	-215.6	65.3	530.1
Profit per contribution	-0.16	-0.10	-0.07	-0.01	0.00	0.04
Ratio of fees revenue to total revenue	50.8%	50.7%	53.6%	62.2%	65.5%	74.6%

Source: National Bank of Serbia.

Marketing costs have a significant impact on an increase in the number of members and the amount of contributions made. In this regard, the ratio of marketing costs to the number of new users was 2,001 in 2012, which means that for each new user companies invested 2,001 dinars on average in marketing activities. The ratio of marketing costs to contributions paid in 2012 was 0.004, meaning that for each 1000 dinars of contributions a company invested 4 dinars in marketing activities.

Indicators of marketing activities of VPF management companies						
	2007	2008	2009	2010	2011	2012
Ratio of marketing costs to the number of new users	-	-	2,115	6,711	1,526	2,001
Ratio of marketing costs to contributions	0.058	0.022	0.008	0.003	0.005	0.004

Source: National Bank of Serbia.

iii) Financial statements of VPFs

As at 31 December 2012, total fund assets equalled RSD 16.4 billion, up by 31% from RSD 12.5 billion in late 2011. Government securities, making up around 70% of fund assets (75% at end-2011) still accounted for the major portion of total assets.

Obligations of VPFs include obligations towards their management companies and obligations arising from membership and operation. In late 2012, their obligations amounted to around RSD 354 million, vs. RSD 41 million in late 2011. The significant increase in the value of VPF obligations was prompted primarily by the current increase in obligations in respect of non-settled securities.

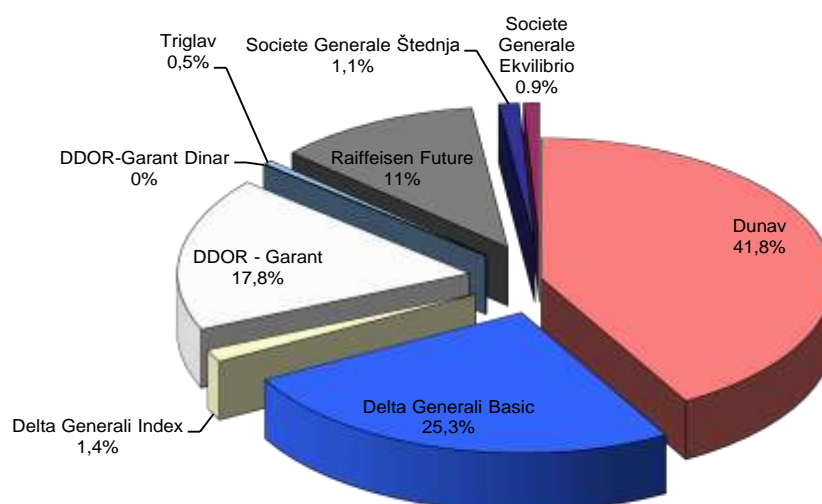
As at 31 December 2012, VPF net assets equalled around RSD 16 billion, up by around 29% from late 2011 (around RSD 12.4 billion). The increase was driven by net contribution payments (RSD 1.9 billion), arising chiefly from employer contributions (75% of the total), and profit achieved in 2012 (RSD 1.7 billion).

Growth rates of VPF sector assets						
	2007	2008	2009	2010	2011	2012
Growth rate of total assets	1250%	53%	55%	37%	26%	31%
Growth rate of net assets	1248%	52%	55%	37%	26%	29%

Source: National Bank of Serbia.

Of total assets, around 67% related to two largest funds, while as much as five months accounted for less than 2% net.

Market share of VPFs measured by net assets
(at the end of 2012)



In the course of 2012, all nine funds recorded positive results and total profit achieved at the sector level reached RSD 1.7 billion, up by 165% relative to 2011 (RSD 633 million).

Total revenue came at RSD 4.5 billion in 2012 (RSD 3.0 billion in 2011). The greatest portion arose from value adjustments of securities in fund portfolios (RSD 2.7 billion), exchange rate gains (RSD 0.9 billion) and interest earnings (RSD 0.7 billion).

Total expenditure came at RSD 2.8 billion in 2012 (RSD 2.4 billion in 2011). The greatest portion was generated by losses from securities value adjustment (RSD 1.7 billion), exchange rate losses (RSD 0.7 billion) and fees to companies (RSD 0.3 billion).

The ratio of profit to total assets was 11.6% in 2012 (5.6% in 2011), which implies that funds recorded average profit of RSD 0,116 per dinar of assets under their management. The ratio of profit to total assets was 11.8% (5.7% in 2011).

VPF profitability indicators						
	2007	2008	2009	2010	2011	2012
Rate of profit and total assets	3.1%	-6.3%	13.9%	7.4%	5.6%	11.6%
Rate of profit and net assets	3.1%	-6.3%	14.0%	7.4%	5.7%	11.8%
Source: National Bank of Serbia.						

iv) Appendices

Financial statements of VPF management companies:

Appendix 1. Balance sheet of management companies as at 31/12/2012

Appendix 2. Income statement of management companies for 2012

Appendix 3. Cash flow statement of VPF management companies for 2012

Financial statements of VPFs:

Appendix 4. Balance sheet of VPFs as at 31/12/2012

Appendix 5. Income statement of VPFs for 2012

Appendix 6. Statement on changes in net assets for 2012

Appendix 1. Balance sheet of management companies as at 31/12/2012

Balance sheet of VPF management companies as at 31/12/2012						
(in RSD thousand)						
ASSETS	Dunav	Delta Generali	DDOR-Garant	Raiffeisen Future	Societe Generale	Sector
Fixed assets	44,086	25,975	107,996	1,002	2,116	181,175
Intangible investment	995	80	5,482	42	1,396	7,995
Property and equipment	7,763	1,819	3,622	178	720	14,102
Investment property						
Long-term securities held to maturity	35,328	24,057	98,702			158,087
Securities available for sale						
Long-term deposits and other financial placements						
Deferred tax assets		19	190	782		991
Fixed assets for sale						
Current assets	146,002	202,640	42,696	159,319	123,996	674,653
Inventories	634					634
Receivables for pre-paid income tax	380					380
Other receivables and prepayments and accrued income	15,844	10,015	5,801	3,717	1,982	37,359
Short-term part of long-term financial placements		117,974				117,974
Short-term deposits and other financial placements	108,595	10,000	7,000	155,602	118,000	399,197
Short-term securities held to maturity	18,710	59,664	26,144			104,518
Securities available for sale	1					1
Securities at fair value through profit or loss	662					662
Cash and cash equivalents	1,176	4,987	3,751		4,014	13,928
Total assets	190,088	228,615	150,692	160,321	126,112	855,828

Balance sheet of VPF management companies as at 31/12/2012 – cont.

(in RSD thousand)

	Dunav	Delta Generali	DDOR- Garant	Raiffeisen Future	Societe Generale	Sector
LIABILITIES						
Core capital	116,742	135,000	138,691	143,200	197,410	731,043
Issue premium				2		2
Legal, statutory and other reserves	18	31,209		3		31,230
Revaluation reserves						
Unrealised gains from securities						
Unrealised losses from securities						
Retained profit	54,626	46,693	7,776	11,307		120,402
Uncovered loss					78,040	78,040
Own shares						
Total capital	171,386	212,902	146,467	154,512	119,370	804,637
Liabilities						
Long-term liabilities	6,687	4,373	2,926	2,834	647	17,467
Long-term provisions	6,687	4,373	2,926	2,834	633	17,453
Long-term liabilities to related persons						
Liabilities in respect of long-term securities						
Long-term loans						
Long-term liabilities in respect of law						
Other long-term financial liabilities						
Deferred tax liabilities					14	14
Short-term liabilities	12,015	11,340	1,299	2,975	6,095	33,724
Short-term financial liabilities	1					1
Liabilities from business operation and accruals and deferred income	1,999	2,216	1,299	2,948	4,289	12,751
Liabilities for salaries and fringe benefits	10,015	8,315			1,806	20,136
Liabilities for fixed assets intended for sale						
Liabilities under current profit tax		809		27		836
Total obligations	18,702	15,713	4,225	5,809	6,742	51,191
Total liabilities	190,088	228,615	150,692	160,321	126,112	855,828

Source: National Bank of Serbia.

Appendix 2. Income statement of management companies for 2012

Income statement of management companies for 2012 (in RSD thousand)						
	Dunav	Delta Generali	DDOR-Garant	Raiffeisen Future	Societe Generale	Sector
Income from contribution fees	21,736	16,082	11,344	8,310	2,277	59,749
Income from management fees	117,499	75,109	52,466	32,126	4,925	282,125
Other income from fund management						
Costs arising from investment of fund assets	1,092	2,152	339	254	593	4,430
Marketing costs	629	4,244	2,211	580	2,249	9,913
Costs of custody bank services	4,570	3,217	2,201	1,120	392	11,500
Intermediation costs	77		8	285	1,843	2,213
Investment research costs						
Other fund management costs	952	1,091				2,043
Gain/loss from fund management	131,915	80,487	59,051	38,197	2,125	311,775
Other business expenses	877	37	9	2,385	142	3450
Net gain from the sale of financial placements	387			274		661
Net loss from the sale of financial placements						
Costs of salaries, fringe benefits and other personal expenditure	75,127	41,769	25,942	30,181	28,396	201,415
Costs of depreciation, provisions, services and other business expenses	36,399	10,918	29,033	16,922	14,234	107,506
Financial income	25,812	25,355	28,385	13,542	16,353	109,447
Financial expenditure	5,300	1,066	12,154	112	53	18,685
Income from assets valuation adjustments				2,661		2,661
Expenditure from assets valuation adjustments						
Pretax gain/loss from regular operation	42,165	52,126	20,316	9,844	-24,063	100,388
Gain from discontinued operation						
Loss from discontinued operation						
Gain from an increase in deferred tax assets and a decrease in deferred tax liabilities		7	35	197	172	411
Loss from a decrease in deferred tax assets and an increase in deferred tax liabilities						
Profit tax		5,440		27		5,467
Gain/loss	42,165	46,693	20,351	10,014	-23,891	95,332
Source: National Bank of Serbia.						

Appendix 3. Cash flow statement of VPF management companies for 2012

Cash flow statement of VPF management companies for 2012 (in RSD thousand)						
	Dunav	Delta Generali	DDOR-Garant	Raiffeisen Future	Societe Generale	Sector
Cash flow from business operation	25,377	-16,715	6,324	-5,977	-35,865	-26,856
Cash inflow from business operation	137,725	92,785	62,884	40,516	9,708	343,618
Cash outflow from business operation	112,348	109,500	56,560	46,493	45,573	370,474
Cash flow from investment	-32,439	10,986	29,107	5,977	38,338	51,969
Cash inflow from investment	104,979	244,220	112,653	59,177	248,938	769,967
Cash outflow from investment	137,418	233,234	83,546	53,200	210,600	717,998
Cash flow from financing activity			-34,984			-34,984
Cash inflow from financing activity						0
Cash outflow from financing activity			34,984			34,984
Net increase/decrease in cash	-7,062	-5,729	447		2,473	-9,871
Stock of cash at the period start	8,291	10,589	2,777		1,541	23,198
Exchange rate gains	15	135	1,448			1,598
Exchange rate losses	68	8	921			997
Stock of cash at the period end	1,176	4,987	3,751		4,014	13,928
Source: National Bank of Serbia.						

Appendix 4. Balance sheet of VPFs as at 31/12/2012

Balance sheet of VPFs as at 31/12/2012

(in RSD thousand)

ASSETS	Dunav	Delta Generali Basic	Delta Generali Index	DDOR- Garant	DDOR- Garant Dinar	Triglav	Raiffeisen Future	Société Générale Štednja	Société Générale Ekvilibrio	Sector
Cash	1,241,602	1,053,200	10,194	4,861	710	27,573	243,447	4,657	3,235	2,589,479
Receivables from management company	39	781	62	16		3	3	31	29	964
Other receivables	185,408	696,585	40,939	1,251	5	66	439		7	924,700
Securities of international financial institutions, governments and central banks	4,561,079	2,386,522	224,579	2,562,396	1,765	49,125	1,353,325	165,165	121,576	11,425,532
Debt securities of companies	52,969	47,060		52,969						152,998
Deposit certificates										
Open-end investment funds				1						1
Shares	370,978	86,696		4,743			3,013		8,518	473,948
Deposits with banks	205,732	62,328		221,906		4,183	207,386	8,282	6,464	716,281
Real estate	81,651									81,651
Total assets	6,699,458	4,333,172	275,774	2,848,143	2,480	80,950	1,807,613	178,135	139,829	16,365,554
LIABILITIES										
Liabilities towards management companies	12,667	7,966	477	5,340	2	149	3,192	452	341	30,586
Other liabilities arising from operation		273,382	45,699	628					814	320,523
Liabilities arising from membership		3,100	11				12			3,123
Total liabilities	12,667	284,448	46,187	5,968	2	149	3,204	452	1,155	354,232
NET ASSETS										
Net contributions	5,025,608	3,136,946	177,596	2,450,480	2,211	62,907	1,401,254	152,819	119,788	12,529,609
Gain of the current year	757,181	427,987	22,058	265,323	222	7,265	166,912	15,774	13,093	1,675,815
Gain of the previous years	1,001,687	562,218	35,046	134,041	45	10,629	236,243	9,090	5,793	1,994,792
Loss of the current year										
Loss of the previous years	97,685	78,427	5,113	7,669						188,894
Net assets available for pensions	6,686,791	4,048,724	229,587	2,842,175	2,478	80,801	1,804,409	177,683	138,674	16,011,322

Source: National Bank of Serbia.

Appendix 5. Income statement of VPFs for 2012

Income statement of VPFs for 2012 (in RSD thousand)										
	Dunav	Delta Generali Basic	Delta Generali Index	DDOR- Garant	DDOR- Garant Dinar	Triglav	Raiffeisen Future	Société Générale Štednja	Société Générale Ekvilibrio	Sector
Gain from sale of securities and open-end investment funds	49,671	32,560	155	37,481		1,448	271	320	106	122,012
Loss from sale of securities and open-end investment funds	142	27		25,286		1,293	264	160	53	27,225
Gain from valuation adjustment of securities and open-end investment funds	1,755,962	312,885	20,751	522,109	178	2,268	73,275	12,829	16,936	2,717,193
Loss from valuation adjustment of securities and open-end investment funds	1,065,391	285,974	16,691	340,544		1,900	8,043	8,813	12,698	1,740,054
Exchange rate gains	110,690	380,176	80,914	292,644		9,829	26,136	11,826	6,023	918,238
Exchange rate losses	45,149	311,636	67,055	250,890		7,974	27,067	9,966	5,157	724,894
Gain from sale of real estate										
Loss from sale of real estate										
Gain from valuation adjustment of real estate	34,584									34,584
Loss from valuation adjustment of real estate	35,893									35,893
Interest income	58,472	369,135	7,936	80,703	44	6,392	134,673	12,586	10,062	680,003
Dividend income	12,834	2,435		1685		31	156		108	17,249
Lease income										
Other income	1			15		2				18
Costs of fees for management company	117,499	71,285	3,824	52,388		1,516	32,126	2,763	2,162	283,563
Costs relating to purchase, sale and transfer of securities	479	282	128	187		22	99	83	70	1,350
Costs of current real estate maintenance										
Other expenditure	480			19				2	2	503
Gain/loss	757,181	427,987	22,058	265,323	222	7,265	166,912	15,774	13,093	1,675,815

Source: National Bank of Serbia.

Appendix 6. Statement on changes in net assets for 2012

Statement on changes in net assets for 2012 (in RSD thousand)										
	Dunav	Delta Generali Basic	Delta Generali Index	DDOR- Garant	DDOR- Garant Динар	Triglav	Raiffeisen Future	Société Générale Štednja	Société Générale Ekvilibrio	Sector
Net assets as at 1 January	5,174,716	3,139,339	161,070	2,317,584	1,766	70,936	1,402,755	103,270	80,905	12,452,341
Gain of the current year	757,181	427,987	22,058	265,323	222	7,265	166,912	15,774	13,093	1,675,815
Loss of the current year										
CONTRIBUTIONS										
Member contributions	140,063	136,301	9,412	97,328	215	3,299	134,352	47,188	34,710	602,868
Employer contributions	893,497	549,236	24,612	344,747	374	7,372	186,213	14,159	11,791	2,032,001
Payments of other funds in respect of change of membership	39,847	4,452	23,527	198			3,473	707	88	72,292
Unallocated payments										
WITHDRAWALS										
Scheduled withdrawals	16,488	555		758			846	91	6	18,744
Payments to insurance companies										
One-off withdrawals	296,555	165,175	6,521	167,182		7,054	76,193	3,312	1,709	723,701
Payments to other funds in respect of change of membership	5,470	42,842	4,571	9,662	99	1,017	8,456	12	198	72,327
Payments on other grounds		19		5,403			3,801			9,223
Net increase/decrease in net assets	1,512,075	909,385	68,517	524,591	712	9,865	401,654	74,413	57,769	3,558,981
Net assets as at 31 December	6,686,791	4,048,724	229,587	2,842,175	2,478	80,801	1,804,409	177,683	138,674	16,011,322
Source: National Bank of Serbia.										