



National Bank of Serbia

INSURANCE SUPERVISION DEPARTMENT
PENSION FUNDS SUPERVISION DIVISION

**VOLUNTARY PENSION FUNDS
SECTOR IN SERBIA**

Second Quarter Report 2024

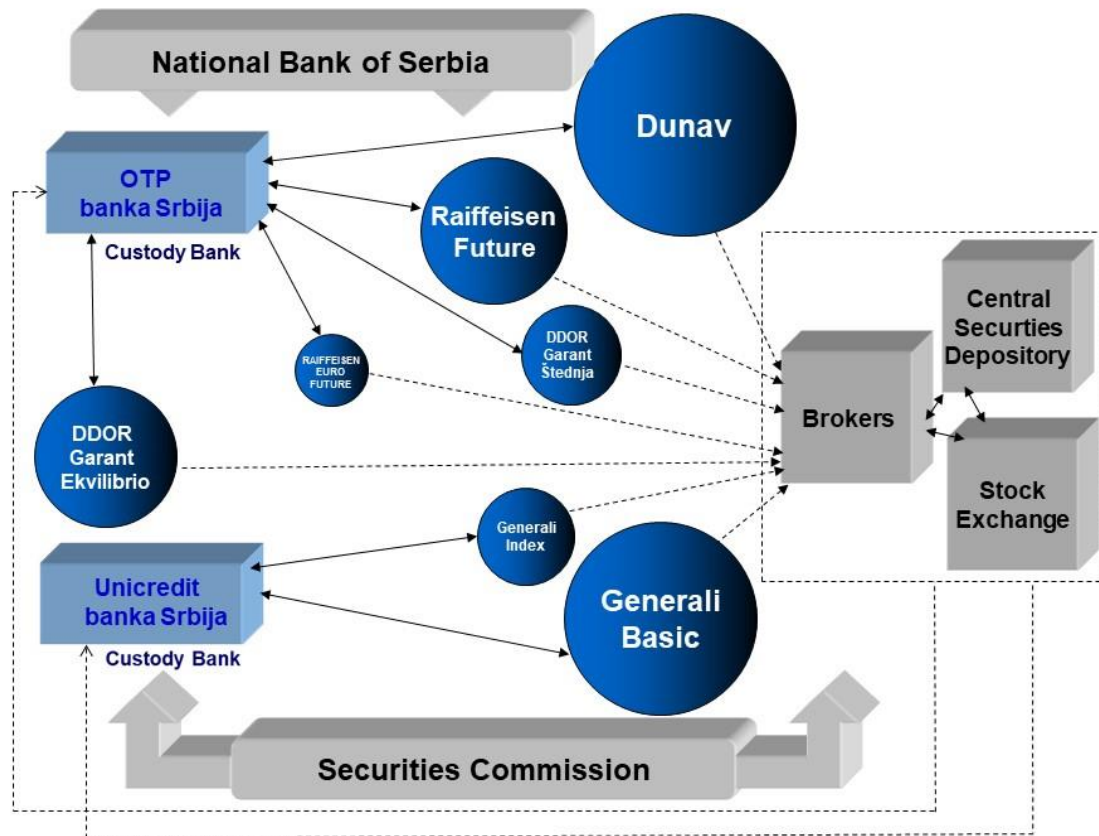
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1 Market participants

At end-Q2 2024, the market of voluntary pension funds (VPFs) included four companies managing seven VPFs, two custody banks, five intermediary banks and one insurance brokerage undertaking.¹

Diagram: VPF market participants



At end-Q2 2024, VPF management companies employed 128 persons, four persons less than at end-Q1 2024.

The NBS licenses sales agents, who passed professional examinations and fulfilled other requirements, to disseminate information about VPF operation. At end-Q2 2024, there were 54 new sales agent licences issued relative to a quarter before (a total of 1139).²

As brokers – management companies, banks and insurance undertakings may engage sales agents. At end-Q2 2024 management companies hired 111 persons, intermediary banks 505 and the insurance undertaking 86 persons as sales agents.

¹ Raiffeisen Bank a.d. Beograd, OTP banka Srbija a.d. Novi Sad, NLB Komercijalna banka a.d. Beograd, Addiko Bank a.d. Beograd and AIK Banka a.d. Beograd, as well as the joint-stock insurance undertaking DDOR Novi Sad, Novi Sad.

² The licensing exam for disseminating information about VPF operation is organised twice a year, usually in May and December.

2 Net VPF assets

Net VPF assets at end-Q2 2024 came at RSD 57.4 bn, up by 3.2% relative to a quarter before. The change in the value of assets reflects net contributions,³ withdrawals and investment returns. In Q2 2024, total net contributions amounted to RSD 1.2 bn, withdrawals by members who met legal requirements to RSD 621.7 mn and investment returns to RSD 1.2 bn.

At end-Q2 2024, net VPF assets equalled RSD 57.4 bn.

End-of-period net VPF assets

(in RSD bn)

2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	
									Q1	Q2
28.9	32.8	36.2	40.2	45.2	47.0	49.1	48.2	53.8	55.6	57.4

Source: National Bank of Serbia.

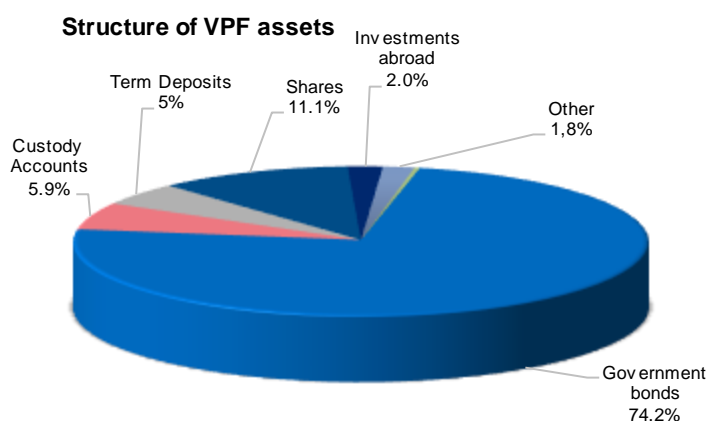
Measured by HHI, market concentration in the sector⁴ at end-Q2 2024 amounted to 2,775 points, indicating the persisting high concentration in the VPF market.

According to the size of VPF assets relative to total net assets of the sector, three largest funds together account for 81%, and the largest fund for 42% of the market share.

3 Structure of VPF assets

At end-Q2 2024, the structure of investment of VPF assets remained broadly unchanged from the previous period. Government bonds accounted for a major part of VPF assets – 74.2%. The shares of domestic legal entities made up 11.1%, balances in custody accounts and time deposits with banks 10.9% and investments abroad 2% of total VPF assets.⁵

The majority of assets were invested in bonds of the Republic of Serbia – 74.2%.



Source: National Bank of Serbia.

³ Net contributions are total contributions minus the front-load fee.

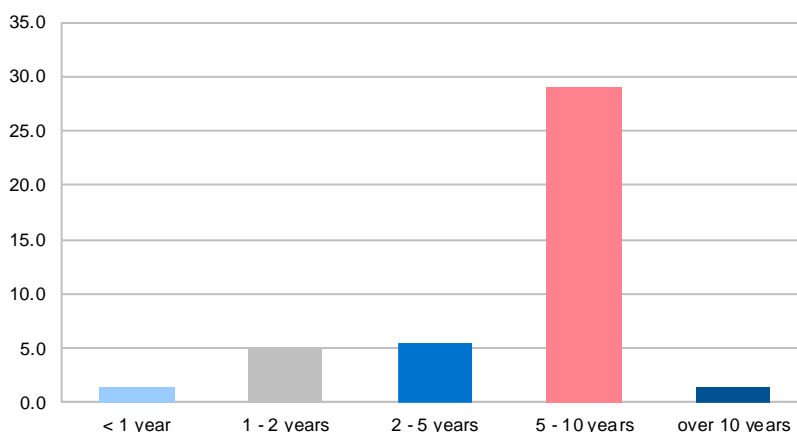
⁴ In terms of the share in total net assets.

⁵ The remaining assets are invested in open-ended investment fund units, receivables and corporate bonds.

The portfolio of government debt instruments (Republic of Serbia's bonds) kept the dominant position in total VPF assets also at the end of this period, as its share went up from 72.6% at end-Q1 2024, to 74.2%. In the composition of government securities, bonds in the domestic currency accounted for 82%, and those in euros for 18%.

Maturity structure (government fixed income securities)

(in RSD bn)



Source: National Bank of Serbia.

The maturity composition of the portfolio of government debt securities remained broadly unchanged from end-Q1 2024. At end-Q2 2024, 3.2% of government debt securities were with the maturity of up to one year, 12.1% between one and two years, 13% between two and five years, 68.3% between five and ten years, and 3.4% over ten years.

The average maturity of assets⁶ invested in government bonds was 6.6 years at end-Q2 2024 (6.7 years at end-Q1 2024).

Aggregate exposure to the shares of domestic legal entities measured 11.1% of total VPF assets and remained broadly unchanged from the previous period (11.4%).

In Q2 2024 some VPFs continued to invest in the shares of foreign legal entities in international stock exchanges, so this type of investment accounted for 2% of total VPF assets (1.6% at end-Q1).

Relative to the prior period, currency composition of total assets changed mildly due to the higher share of domestic currency in total assets, as shown below.

Currency structure of VPFs

(in %)

	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	
										Q1	Q2
RSD	87%	87%	86%	87%	87%	86%	86%	85%	78%	79%	83%
EUR	13%	13%	13%	12%	13%	14%	14%	15%	22%	19%	15%
USD	-	-	1%	1%	-	-	-	-	-	2%	2%

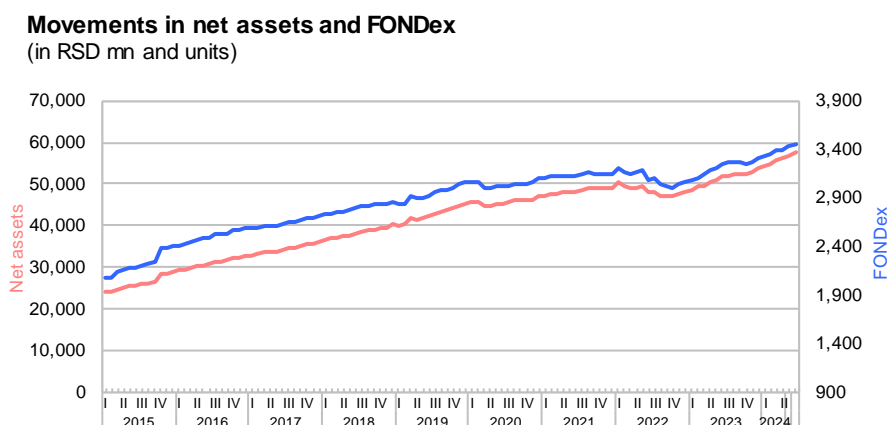
Source: National Bank of Serbia.

⁶ The maturity of instruments weighted by their share in total investment in government debt instruments.

4 Return on investment

At end-Q2 2024, the FONDex⁷ reached 3,459.43 points⁸ (3,384.77 at end-Q1 2024). FONDex return, the weighted average return on all funds, equalled 6.4% over the past year and 3.4% over the past five years. Since the start of VPF operation, FONDex return has equalled 7.3%.

Given the structure of VPF investment, the return is influenced by the change in the value of government debt instruments,⁹ change in the prices of shares, change in the value of investment units of open investment funds, level of the key policy rate, banks' interest rates, and changes in the dinar exchange rate against the euro.



Source: National Bank of Serbia

5 Fees charged by management companies

The Law on Voluntary Pension Funds and Pension Schemes sets out that management companies charge fees for their services and account transfer to fund members, in accordance with their tariff code. Management company fees entail contribution and management fees.

The contribution fee is paid as a percentage of each executed payment as a front-load fee. In Q2 2024 this fee averaged 2.2% (same as in the quarter before). The total amount of contribution fees paid in Q2 2024 came at RSD 26.7 mn, or 13% of total fees charged.

Fees charged by management companies
(in RSD mn)

	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	
										Q1	Q2
Contribution fee	53.0	56.8	61.0	66.3	71.8	76.2	80.9	85.1	94.5	26.2	26.7
Management fee	514.9	614.4	678.7	474.0	526.7	567.9	599.4	599.0	633.4	168.3	173.5

Source: National Bank of Serbia.

The management fee is calculated daily against the value of net VPF assets, not exceeding 1.25% p.a. and is included directly in the investment unit value, meaning that the calculated and published

⁷ FONDex is the index which indicates movements in investment units of all VPFs in the market.

⁸ The initial FONDex value on the first business day of the first VPF, 15 November 2006, was 1,000.

⁹ A decline in interest rate leads to an increase in the prices of debt instruments and vice versa. The prices of longer-maturity instruments are more sensitive to interest rate changes.

investment unit value is exclusive of the management fee. At end-Q2 2024, the total value of management fees equalled RSD 173.5 mn, which is 87% of the total fees charged.

6 Volume of securities trading and transaction costs

In Q2 2024, the volume of VPF trading in securities came at RSD 7.8 bn and the average share of VPFs in the Belgrade Stock Exchange turnover in the same period was 29.8%.

VPF securities trading

(in RSD bn)

	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	
										Q1	Q2
Securities trading	14.5	11.5	24.2	16.1	48.7	26.3	33.5	11.9	27.9	20.5	7.8
Purchases	7.9	6.4	14.7	9.3	27.1	13.8	18.6	6.0	14.0	12.5	5.3
Belgrade Stock Exchange	0.9	1.1	3.7	2.7	3.2	2.7	1.9	1.6	0.6	0.6	0.9
Unregulated market	1.8	1.1	5.8	3.2	16.7	7.6	13.7	2.3	7.5	3.7	2.7
Foreign markets	-	-	-	-	-	-	-	-	-	0.9	1.3
Auctions of government secur	5.2	4.2	5.1	3.4	7.1	3.6	3.0	2.1	5.9	7.3	0.3
Sales	3.6	3.0	7.4	5.5	19.6	11.2	12.0	3.8	11.5	5.5	2.2
Belgrade Stock Exchange	0.5	1.9	2.7	3.2	1.4	3.1	3.7	0.8	1.1	0.7	0.4
Unregulated market	3.2	1.1	4.7	2.3	18.1	8.1	8.3	3.0	10.3	4.9	1.8
Maturity	2.9	2.1	2.2	1.3	2.1	1.4	3.0	2.1	2.4	2.5	0.3
Purchase to sale and maturity ratio	1.2	7.5	1.5	1.4	1.3	1.1	1.2	1.0	1.0	1.5	1.6
Share in total BSE trading (in%)	6.1%	6.7%	33.0%	9.4%	5.1%	11.9%	13.5%	6.1%	8.5%	16.6%	29.8%

Source: National Bank of Serbia, Belgrade Stock Exchange.

Transaction costs incurred in the purchase, sale and transfer of securities (Central Securities Depository fees, stock exchange fees, tax charges) and the costs of current maintenance of real estate property that fund assets are invested in are charged against fund assets. Other costs are charged against the assets of management companies.

The total transaction costs in Q2 2024 amounted to RSD 1.3 mn (RSD 3.2 mn in the quarter before), with brokerage and custody bank fees accounting for the largest share.

Transaction costs

(in RSD mn)

	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	
										Q1	Q2
Total	5.6	7.3	10.5	8.3	17.2	10.3	4.8	5.9	6.2	3.2	1.3
Brokerage fees	1.3	2.3	4.4	3.0	8.0	3.7	0.7	1.0	1.5	1.6	0.3
Custody bank fees	2.0	2.0	1.9	1.8	3.1	2.3	1.6	1.4	2.4	0.6	0.6
Stock exchange fees	0.8	1.0	1.8	1.3	1.9	1.3	0.5	0.6	0.7	0.1	0.2
Central Securities Depository fees	1.6	2.0	1.8	1.6	3.4	2.2	1.7	2.8	1.7	0.9	0.2
Other fees	-	0.0	0.6	0.6	0.7	0.9	0.0	0.0	0.0	0.0	0.0

Source: National Bank of Serbia.

7 Number and structure of VPF users

At end-Q2 2024,¹⁰ 223,452 users were in the accumulation phase¹¹ (an increase by 899 from end-Q1 2024), with 308,978 membership contracts (1,477 contracts more than at end-Q1 2024).¹²

VPF users make up 9.6% of the total number of employees in the Republic of Serbia.¹³

Number of contracts and users

(in thousands)

	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	
										Q1	Q2
No of contracts	258.1	250.5	253.9	261.7	275.8	279.5	288.7	294.5	304.8	307.5	309.0
No of users	190.5	183.6	185.4	192.3	201.6	205.0	210.7	215.5	220.7	222.6	223.5
Percentage of active users (in %)	25.3%	28.5%	33.6%	33.4%	34.4%	35.3%	35.9%	36.5%	36.1%	36.2%	35.1%

Source: National Bank of Serbia.

The amount of accumulated funds depends on the amount of contributions, return earned by funds, level of fees, and the length of the accumulation phase. As the level of contributions and the period of accumulation increase and funds earn returns, average balances in members' individual accounts go up. The average amount of funds accumulated in the accounts of members who have made at least one contribution payment was RSD 287 thousand at end-Q2 2024.

Average accumulated funds at end-period

2015	2016	2017	2018.0	2019	2020	2021	2022	2023	2024	
									Q1	Q2
179.4	200.6	219.3	235.8	239.9	257.4	260.0	249.6	271.7	278.8	287.0

Source: National Bank of Serbia.

At end-Q2 2024, the number of users who are members of two or more VPFs was 45,090 or 20.2% of the total number of users. The structure of users by sex and the amount of their funds did not change significantly compared to prior periods. Men made up the majority of 57%.

¹⁰ VPF membership has two phases – the accumulation phase (when contributions are made) and the withdrawal phase (when the accumulated funds are withdrawn).

¹¹ The number of users is the number of people who are members of VPF(s). This number is lower than the number of membership contracts, as there is a significant number of users with more than one membership contracts in one or several VPFs.

¹² The number of membership contracts is the sum total of individual membership contracts and the number of members of all pension schemes.

¹³ Source for the number of employees: NBS.

Number of users by number of funds in which they are members
(in units)

No of funds	No of users
1	178,362
2	38,756
3	5,977
4	329
5	20
6	6
7	2
Total	223,452

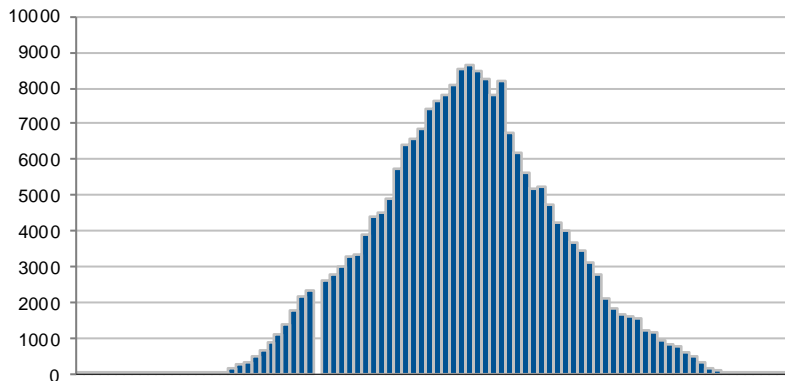
Source: National Bank of Serbia.

Number of users by membership contract
(in units)

No of contracts	No of users
1	159,458
2	49,557
3	9,583
4	3,342
5	1,038
6	295
7	133
8	28
9	6
10	12
Total	223,452

Source: National Bank of Serbia.

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



	0-9	10-19	20-29	30-39	40-49	50-59	60+
No of users	220	561	11,570	38,732	76,382	62,241	33,216
Amount of funds (bn)	9.75	23.53	819.34	5,839.48	22,383.23	21,326.93	6,219.94
Average holdings	44,318	41,943	70,816	150,766	293,043	342,651	187,257

Source: National Bank of Serbia.

At end-Q2 2024, the average age of VPF users was around 48 years, with users aged 40–60 making up the dominant share (62%). Also, the percentage of users above the age of 53 was similar as in prior years (31.9%), while the percentage of users above 58 was 18.9%.

8 Contributions, withdrawals and transfers

Total net contributions to VPFs came at around RSD 1.2 bn in Q2 2024.

In Q2 2024, net contributions amounted to around RSD 1.2 bn.

Total contributions

(in RSD bn)

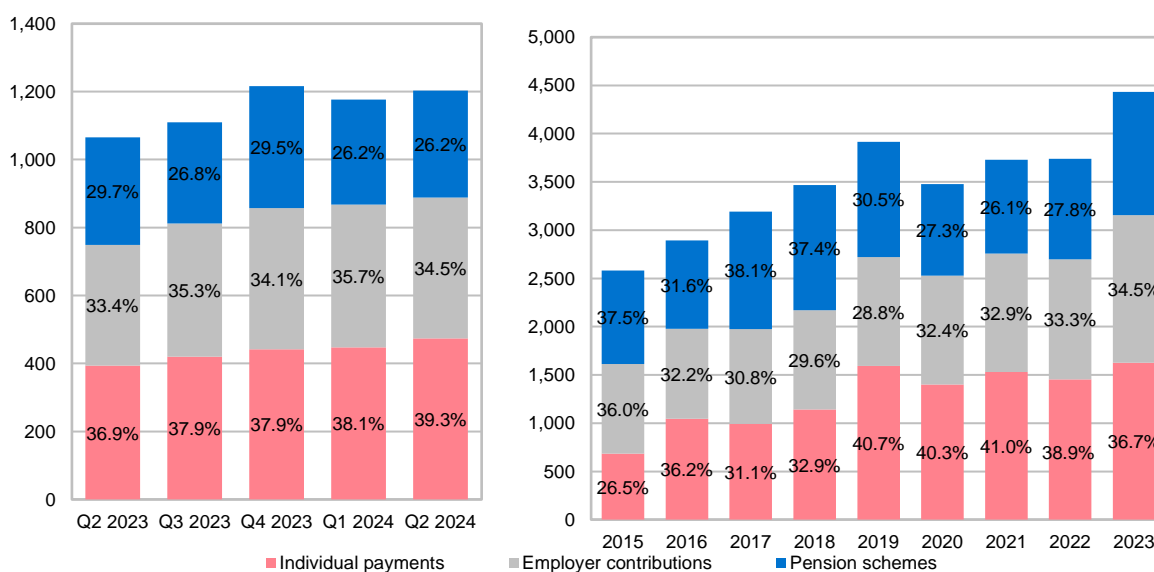
2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	
									Q1	Q2
2.58	2.89	3.19	3.47	3.92	3.48	3.73	3.74	4.43	1.18	1.20

Source: National Bank of Serbia.

Of the total contributions in Q2 2024, individual payments accounted for 39.3%, employer contributions for 34.5% and pension schemes for 26.2%.

Volume and structure of total contributions

(in RSD mn, %)



Source: National Bank of Serbia.

Q2 2024 saw a rise in both individual payments and employer contributions to VPFs for the account of their employees. This way, employees and employers can save up since monthly contributions from employer's funds up to RSD 8,101¹⁴ per employee are exempt from the household income tax and contributions for mandatory social insurance. Payments in the same amount made by the employer through wage garnishment are also tax-exempt. This represents an additional incentive to employees and employers to direct a part of the wage to saving in VPFs.

Withdrawals by members who met the requirements under the law totalled RSD 621.7 mn in Q2 2024.

In Q2 2024, total withdrawals amounted to RSD 621.7 mn.

Total withdrawals

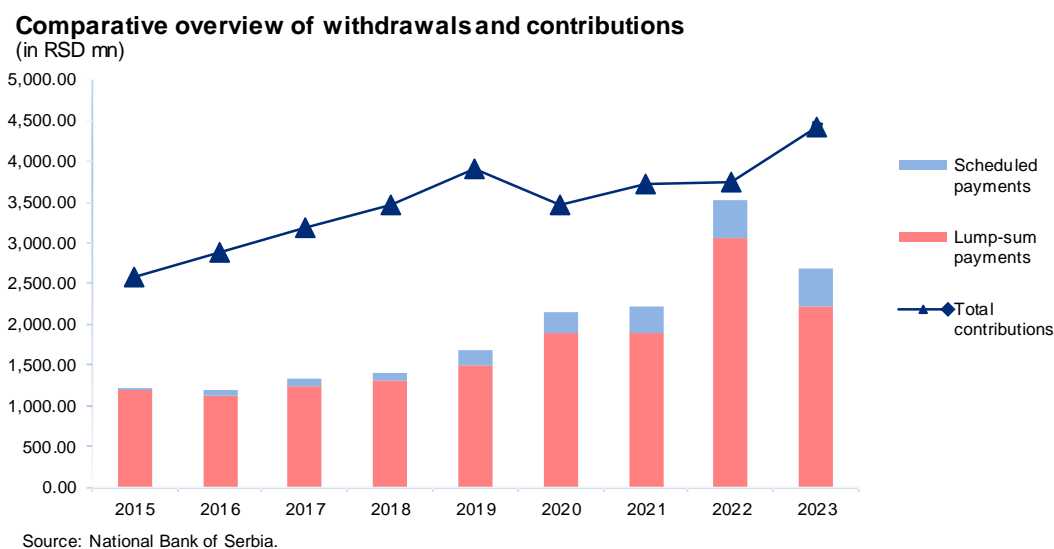
(in RSD mn)

2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	
									Q1	Q2
1226.2	1195.6	1342.4	1412.0	1679.8	2159.6	2223.5	3530.1	2685.6	521.8	621.7

Source: National Bank of Serbia.

¹⁴ Under Government decree, this amount is adjusted for previous-year inflation once a year. Since February 2024, it equals RSD 8,101.

Lump sum withdrawals accounted for 81% of withdrawals and scheduled withdrawals for 19%. As the accumulation period extends and account balances grow, we may expect a rising share of scheduled withdrawals and other types of withdrawals envisaged by the law (e.g. purchase of annuities).



Transfers represent inter-fund transfers. A member may transfer a part or all of his assets from one fund to another, paying only the actual transfer costs to the custody bank. In Q2 2024, the amount of assets transferred to another fund equalled RSD 122.7 mn.

In Q2 2024, transfers came at RSD 122.7 mn.

Total inter-fund transfers
(in RSD mn)

2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	
									Q1	Q2
219.7	267.5	263.0	229.7	210.3	252.6	199.0	748.4	260.0	100.9	122.7

Source: National Bank of Serbia.

9 Financial statements

9.1 Regulatory framework

Voluntary pension fund management companies (hereinafter: management companies) keep business books and compile financial statements in accordance with the accounting and auditing laws and NBS regulations.

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

According to the Law on Voluntary Pension Funds and Pension Schemes, a management company is required to submit to the NBS annual financial statements of the company, within which it separately presents the financial statements of the funds that it manages, with the external auditor's report, until 31 March of the current year for the preceding year.

NBS decisions regulate the content and layout of forms of financial statements of VPF management companies and VPFs, requiring the submission of balance sheet, income statement, cash flow statement, statement of changes in equity, statement of other comprehensive income, and statistical report of a management company, as well as the balance sheet – statement of net assets, income statement, cash flow statement and statement on changes in net assets of a VPF.

9.2 Financial statements of VPF management companies

The balance sheet total of management companies as at 31 December 2023 stood at around RSD 1,265 mn, up by 2.5% from 2022 when the balance sheet total equalled around RSD 1,234 mn.

The bulk of assets of management companies in 2023 was invested in deposits and other financial assets (51.2% vs. 52.7% in 2022), as well as in securities (27%), while the share of cash and cash equivalents increased by almost 80% compared to 2022. On the other hand, there was no significant change in the share of equity capital in total liabilities, so at end-2023 total capital made up around 88.6% of liabilities (88% in 2022). The liquidity of management companies was high.

Capital level indicators

Indicator / Year	2019	2020	2021	2022	2023
Total equity ratio	2.43	2.36	2.40	2.31	2.39
Equity per user	5,679	4,966	4,822	4,481	4,490
Equity to total net assets ratio	0.03	0.03	0.03	0.03	0.03

Management companies are required to keep equity above the statutory minimum which equals EUR 1 mn in the dinar equivalent. At the industry level, the ratio of total equity to statutory minimum was 2.39 (2.31 at end-2022). In 2023, the equity per user ratio increased from RSD 4,481 at end-2022 to RSD 4,490 owing to a sharper rise in the total capital compared to the growth of the number of users in the sector. At end-2023 every dinar of net VPF assets was covered by RSD 0.03 of VPF equity, as in the prior year.

In 2023, management companies continued to post a positive result, their total profit amounting to around RSD 228 mn, up by around 12.3% relative to 2022 when total profit of all companies amounted to around RSD 203 mn. It should be kept in mind that **the management company's result does not affect fund members' assets, because the assets of a management company are separated from VPF assets.**

In 2023 management companies generated profit from VPF management in the amount of RSD 639 mn (RSD 603 mn in 2022). Income from core activity of management companies (fee income) in 2023 equalled RSD 726 mn (RSD 682 mn in 2022), making up around 92% of all income of management companies in 2023 (94% in 2022).

Fee income consists of contribution fees (RSD 95 mn), which rose by 11.4% from a year earlier, and management fees (RSD 631 mn), which increased by 5.7% relative to the year before.

In 2023 total VPF management expenses (relating to the investment of VPF assets, marketing expenses, custody bank charges, brokerage fees and other fund management expenses) increased by 10.1% y-o-y, equalling around RSD 87 mn (RSD 79 mn in 2022).

Profitability indicators

Indicator / Year	2019	2020	2021	2022	2023
ROE	16.70%	19.81%	20.67%	18.32%	20.70%
ROA	15.58%	18.30%	18.42%	15.94%	18.27%
Company's profit per user	994.42	884.09	898.13	769.15	847.67
Company's profit per contribution	0.05	0.06	0.06	0.04	0.05
Ratio of fee income to number of users	3,031.20	2,544.38	2,631.61	2,585.46	2,694.89
Ratio of fee income to total income	90.30%	93.08%	93.06%	94.18%	92.31%

In the structure of expenses, salary expenses of around RSD 283 mn (RSD 265 mn in 2022) were dominant, accounting for a 55% share.

In 2023, management companies posted total ROE of 20.70% (18.32% in 2022), while total ROA was 18.27% (15.94% in 2022).

9.3 Financial statements of VPFs

Total VPF assets as at 31 December 2023 amounted to RSD 53.8 bn (RSD 48.2 bn at end-2022), up by around 11.4% relative to 2022. Government securities remained dominant, making up around 70.1% of total VPF assets, which is a decrease relative to end-2022 (76.6%).

VPF liabilities, comprising liabilities to the management company, liabilities under membership and other operating liabilities amounted to around RSD 68 mn at end-2023 (RSD 61 mn in 2022).

Net VPF assets (as the difference between the funds' total assets and liabilities) as at 31 December 2023 equalled around RSD 53.8 bn, up by around RSD 5.6 bn or 11.6% from end-2022.

Total VPF income generated in 2023 amounted to around RSD 12.2 bn (RSD 13.7 bn in 2022), and total expenses to around RSD 8.3 bn (RSD 14.9 bn in 2022).

At end-2023 all funds realised a positive result, so the total profit generated at sector level was around RSD 3.9 bn.