ANNUAL REPORT

2013

AT A GLANCE

	2011	2012	2013
INVESTMENTS	Added funds from BNY Mellon and Aquila Capital to further diversify actively managed asset allocation. A weak year for US securities. Net return for the year was 0.2% with assets under management growing by 20.4%.	First investments in Kosovo debt instruments. Added equities from emerging markets to the portfolio. A good year for all asset classes. Net return for the year was 8.0% with assets under management growing by 25.8%.	Significant improvements to the investment policy. An incredibly good year for equities in developed countries, especially US. Net return for the year was 8.5% with assets under management growing by 23.4%.
OPERATIONS	Utilisation of the Interbank Clearing System of CBK for the allocation of employer contribution payments. Un-allocated contributions reduced to 3.2% of contributions received.	Start of daily unit price calculation and migration to a new software for managing contributor accounts. Un-allocated contributions reduced to 2.4% of contributions received.	Implementation of improved Disaster Recovery Plan and the auto-update of website's key data. Un-allocated contributions reduced to 1.5% of contributions received.

CONTENTS

Net pension assets have grown by

257%

since 2008

Assets managed by KPST have grown to

19.4%

of the GDP of Kosovo

Investments in the last five years have achieved

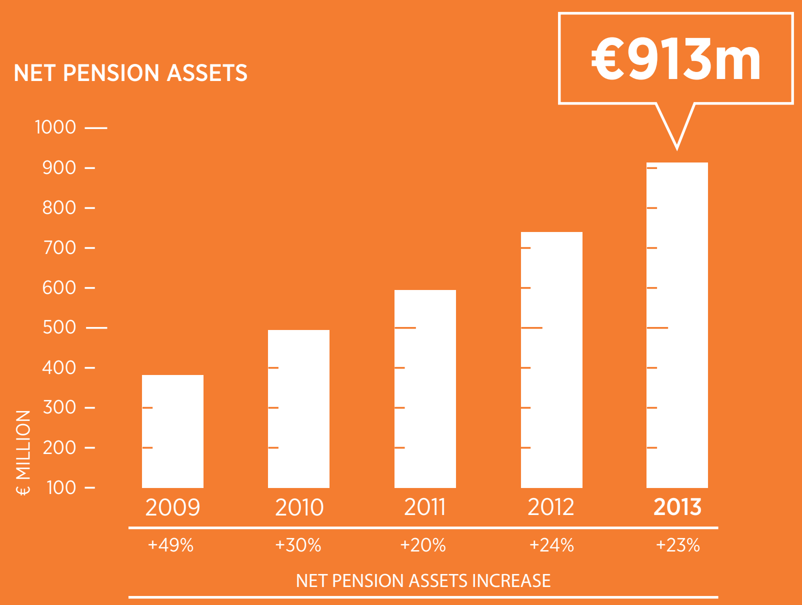
€201.4m

gross investment return with the share price increasing

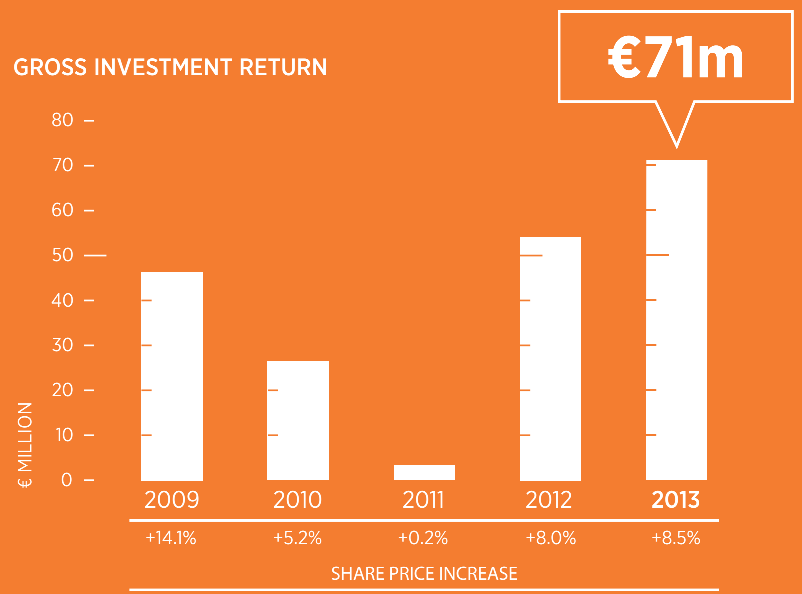
40.8%

during the same period.

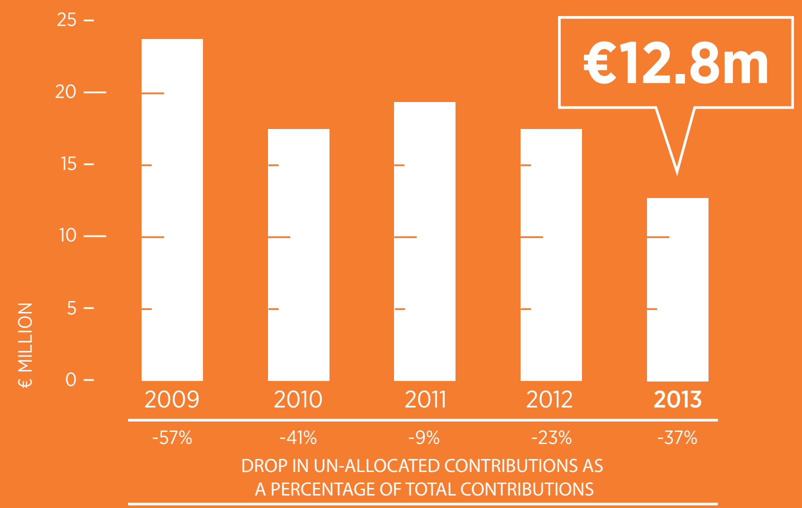
NET PENSION ASSETS



GROSS INVESTMENT RETURN



CUMULATIVE UN-ALLOCATED CONTRIBUTIONS



NOTE: All the values of pension assets in this Annual Report are excluding contributions and other receivables at €7.87m (2012: €7.79m).

KPST, with its office in the capital city of **Prishtina**, is the only pension fund in the Republic of Kosovo managing mandatory pension savings contributions of Kosovo employees.

During 2013 the share price has continued to increase with roughly the same trend as in the previous year.

2013 2012

MISSION AND AMBITION

Our mission is to invest pension savings and to administer the individual accounts of contributors until their retirement. We strive to achieve our mission through prudent investment of assets and effective administrative processes.

Our ambition is to provide the best possible services for contributors and to be the most trusted institution in Kosovo. We strive to achieve our ambition through staff professionalism and integrity and institutional transparency.

GLOSSARY OF TERMS

ASSEMBLY	Assembly of the Republic of Kosovo
CBK	Central Bank of the Republic of Kosovo
DPD	Department for Production of Documents, Ministry of Internal Affairs
GDP	Gross Domestic Product (as published by the Kosovo Agency of Statistics)
GOVERNMENT	Government of the Republic of Kosovo
IFRS	International Financial Reporting Standards
KPST	Kosovo Pension Savings Trust
OECD	Organization for Economic Cooperation and Development
TAK	Tax Administration of Kosovo

FOREWORD BY THE CHAIRMAN AND THE MANAGING DIRECTOR

We are pleased to report that in 2013 the gross investment return of €71.1m was the highest ever nominal return in the history of KPST. The net performance for the year was 8.5% which is the third best annual net performance since the inception of KPST in 2002. The allocation of funds into contributor accounts was the highest ever with €123.1m; with cumulative un-allocated contributions dropping significantly to €12.8m.

Year 2013 marks a number of very important achievements for KPST. The share price at the close of the year was €1.2117, up 8.5% compared to €1.1170 at the close of 2012.

This investment performance marks five consecutive years, as well as eleven out of twelve years since inception, with positive returns for the fund.

Reaching ever closer to €1bn, pension assets under the management of KPST at the end of 2013 were €913.2m. They consisted of: €115.5m (or 12.6%) from investment gains (the value added to the fund through investments) – a historic high; and €797.7m (or 87.4%) from nominal contributions paid in (contributions which are still being managed by KPST).

As in the previous year, a number of records were broken during 2013: Contributions received €119.2m; Contributions allocated €123.1m; Gross investment returns €71.1m; Benefit payments €10.7m. In addition, the level of management fees (i.e. investment and operational fees), was reduced to 0.53% p.a. the lowest level since inception.

Furthermore, towards the end of the year the Board agreed on a new investment policy and framework. These changes shall diversify investments not only across asset classes but also on different investment approaches with the overall aim of providing more protection on the downside yet still being rewarded when markets rise.

The achievements of the Administration during the year should also be highlighted. Especially when it comes to addressing un-allocated contributions from previous years.

The total un-allocated contributions closed at €12.8m, substantially lower than €17.5m at the close of the previous year. This could only be achieved through the commitment of the KPST staff to obtain contribution reports which had not been submitted by employers.

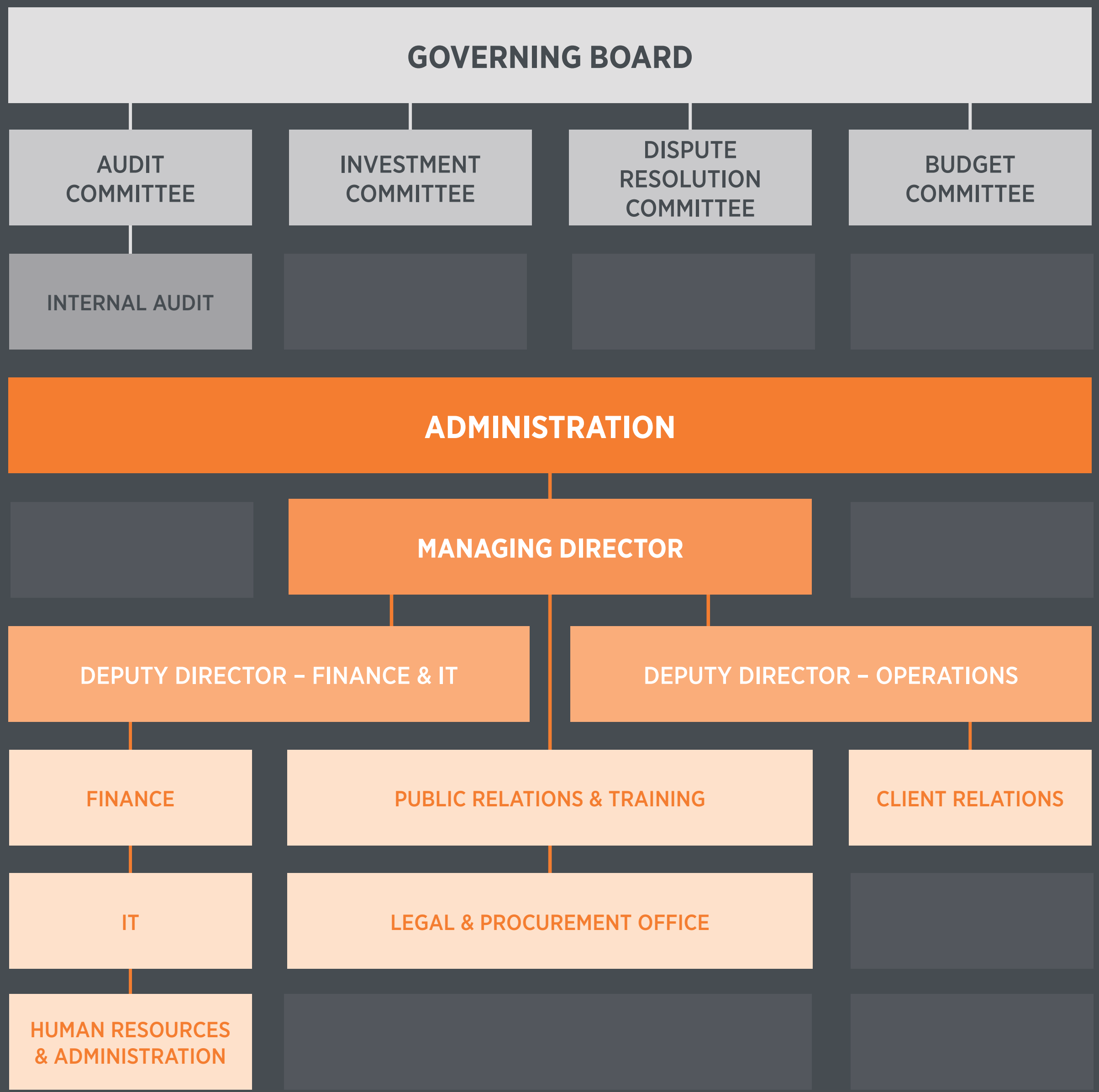
In addition to this, proactive identification of fines and penalties paid together with pension contributions (also referred to as "erroneous contributions"), has been systematic during the year. This was achieved through consulting relevant data from TAK systems and has enabled for faster refunding of such erroneous contributions; thus helping reduce un-allocated contributions.

However, the most important administrative project for the year was the upgrade of the Disaster Recovery Plan and its subsequent implementation. The secondary infrastructure required by this plan (hardware, software and offices), has been fully acquired and implemented, and plan successfully tested during 2013.

We also use this opportunity to thank CBK, TAK and DPD for the continued logistical and procedural support they continue to offer to KPST.

YMER HAVOLLI
Chairman of the Board

ADRIAN ZALLI
Managing Director



02

ORGANISATION AND FINANCES

KPST was established as the sole institution for managing and investing mandatory pension contributions of Kosovo employees and administering their individual pension savings accounts until their retirement.

KPST was established by Law in December 2001 as a not-for-profit institution. As such, the sole objective of KPST is to serve **only** the best interests of its contributor base.

KPST became fully operational with a Board, Administration and processes in place, in August 2002. Then, the Administration numbered 22 staff and had only five departments. Since then, the Administration has evolved organically to 26 staff and seven departments.

August 2002 was also the month when the first contributions from employees in the public sector started to be paid in. In 2003, the self-employed and persons employed in the private sector also joined the scheme.

The first investment of pension assets was made during 2003 in money-market funds. This was followed with investments in indexed equities in 2004 and debt instruments in 2006. Investments were expanded into multi-asset vehicles in 2010, and into risk-targeted vehicles in 2011.

The Board

Fiduciaries of pension assets

KPST is governed by the Board, with Board Members appointed by the Assembly as fiduciaries of pension assets.

The Law No. 04/L-101 of the Republic of Kosovo on Pension funds of Kosovo, and its subsequent amendments, provides for detailed functions and responsibilities of KPST and its Board. The Pension Rules of the CBK provide the secondary legislation in relation to the investment of pension assets, performance measurement, and reporting requirements for KPST, amongst others.

The authorities and responsibilities of the Board include, but are not limited to: the selection or removal of asset managers, custodians, open-end vehicles and other third parties; adopting principles and policy for the investment of pension assets; hiring of the executive personnel of KPST; adopting financial statements of KPST.

The Board can have seven voting members and one non-voting member representing the Government.

The voting members should be comprised of at least five professional members with a minimum of ten years of experience in the field of investments or pension fund management, at least one member with the relevant experience to represent the interests of Kosovo employees, and at least one member with the relevant experience to represent the interests of Kosovo employers.

At the end of 2013 the Board was missing in its composition a member that would represent the interests of Kosovo employers as well as the non-voting member that would represent the Government.

Board members are appointed on three-year mandates and can be re-appointed.

Board members at year end

Employer and Government representative positions were vacant during the year

DR. YMER HAVOLLI
Chairman of the Board and Member of Investment and Budget Committees
An associate professor at the University of Prishtina "Hasan Prishtina" with PhD in economic sciences for HR Management

MR. FREDERICK ARTESANI
Chairman of the Investment Committee and Member of the Audit Committee
An economist and an Independent Financial Advisor registered with the Spanish Financial Markets Commission (CNMV)

MR. ALAN PICKERING
Chairman of the Budget Committee and Member of the Investment Committee
Chairman of *BESTrustees, Life Academy, Plumbing Industry Pension Scheme*. Non-executive director of UK Pensions Regulator

	Dr. Ymer Havolli	Mr. Frederick Artesani	Mr. Alan Pickering
MC	Professional	Professional	Professional
First appointed	May 2009	October 2008	August 2012
Current mandate	2nd	2nd	1st
Mandate expires	July 2015	October 2014	July 2015

MR. LEENDERT VAN DRIEL
Chairman of the Audit Committee and Member of the Investment Committee
Director of a consultancy on strategic risk management. Previously a supervisor at the Dutch Central Bank

DR. DRITON QEHAJA
Member of the Investment and Dispute Resolution Committees
An associate professor at the University of Prishtina "Hasan Prishtina" with PhD in economic and social sciences

MR. SC. RUZHDI MORINA
Chairman of the Dispute Resolution Committee and Member of the Audit Committee
Legal Advisor at Kosovo Railways and associate at the Union of Independent Syndicates of Kosovo

	Mr. Leendert van Driel	Dr. Driton Qehaja	Mr. Sc. Ruzhdi Morina
MC	Professional	Professional	Employee representative
First appointed	August 2012	August 2012	May 2009
Current mandate	1st	1st	2nd
Mandate expires	July 2015	July 2015	July 2015

LEGEND
MC Member Category | First appointed | Current mandate | Mandate expires

Boards appointed by Assembly

1st	2nd	3rd	4th
2002	2005	2009	2012

Committees

Four committees facilitate the functioning and decision-making of the Board

The Investment Committee predominantly reviews the policies, principles and investment strategy of pension assets, as well as the performance of investments and open-end funds through which KPST invests assets. The committee also reviews the compliance of investments with legal and regulatory requirements. The committee makes recommendations to the Board for the investment of pension assets.

The Audit Committee amongst many of its functions reviews regulator and auditor reports, and recommends to the Board the necessary action plan required to address findings and issues. The committee also reviews the adequacy of internal procedures and recommends changes if needed. The committee evaluates the audit plan for both internal and external audit functions, and recommends their adoption to the Board.

	The Investment Committee	The Audit Committee
Chairman	Frederick Artesani	Leendert van Driel
Other members	Ymer Havolli Alan Pickering Leendert van Driel Driton Qehaja	Frederick Artesani Ruzhdi Morina
Meetings held	Five	Four

The Dispute Resolution Committee reviews contributor requests, claims and complaints addressed to the Board or KPST as a whole. The committee presents its recommendations to the Board and ensures that all the cases are responded to within the legal timeframe and in accordance with legal dispositions then in force.

The Budget Committee reviews KPST budgetary needs and accordingly makes recommendations for the level of fees to be charged on pension assets. The committee also recommends to the Board for approval the budget of KPST, or changes to it when needed. The committee also reviews KPST expenditure versus the budget.

	The Dispute Resolution Committee	The Budget Committee
Chairman	Ruzhdi Morina	Alan Pickering
Other members	Driton Qehaja	Ymer Havolli Driton Qehaja
Meetings held	Four	Three

2011 Year in which committees became functional

LEGEND
Chairman | Other members | Meetings held

Administration

KPST Administration is led by the Senior Management consisting of the Managing Director and two Deputy Directors

The Management aims to engage in KPST effective, professional and morally sound individuals, in the belief that only those qualities will lead to greater progress, a healthy work environment, and ultimately, better services for contributors; whilst at the same time maintaining the integrity of the institution of KPST.

To achieve the above objectives, the Board and Management both ensure that the current Administration continues to improve its knowledge and experience, that it remains highly motivated, fully utilising capacities.

Administration is divided into functional departments to ensure effectiveness and efficiency in work. Improvement of administrative processes, aiding the Board in its investment analysis, and the implementation of Board's decisions are the main tasks of the Administration. Its performance is supervised and evaluated by the Board on an ongoing basis.

Increasing staff numbers is considered only as a last resort. Although all the departments and employees have been engaged in full capacity over the last two years, there were no requests to increase staff numbers in 2013.

The 2013 turnover for permanent staff was 0.0% (2012: 7.7%) as there were no additions or terminations of permanent employees.

For year 2013, as in the year before, permanent employees of KPST numbered 25 full-time employees and 1 part-time employee with an FTE of 0.51. Full-time equivalent (FTE) is a standard measurement for the workforce for a given period.

Three out of eight women employees went on maternity leave between March and August of 2013 causing the FTE to drop by 1.69. To ensure continuity in the workplace as their temporary replacement the Management employed three interns – all of them resulting to be females – with an FTE of 1.83.

The overtime for 2013 came to 0.24 FTE taking the total FTE for 2013 to 25.89 (2012: 26.20).

No changes to permanent employees meant that there were no changes in gender or the ethnic mix of employees; however, all the employees aged by one year during this time, and the average age increased by one to 39.3.

KPST takes very seriously its non-discriminatory obligations and is an employer offering equal opportunities. Minority employees formed 8% of the workforce (9% of those that declared their ethnicity).

Women formed 31% of the workforce, 77% of employees were 35 or older, and one staff member (4% of the workforce) was with permanent physical disabilities.

LEGEND

Ethnicity: Albanian, Turkish, Boshnjak, Not declared **Disability:**

7 Total number of audits and inspections per year during 2013 and 2012

Internal Audit Quarterly
CBK Semi-annually
External Audit Annually

Supervision and audit

KPST is supervised by CBK and reports to the Assembly. It is audited from internal and external auditors

KPST as an independent public institution is subject to supervision and audit by public as well as private professional institutions. All of the supervision and financial controls, which have resulted in no serious offenses found, should boost the confidence of the Board in the quality and operations of the Administration. At the same time it can provide the general public with confidence on the work and decisions of the Board as well as the qualitative and modern running of the institution by the Management.

Every quarter KPST notifies CBK, the Assembly and the Government on placements of pension assets, new investments, returns on investment, but also the reconciliation of pension assets. This information is also published on the website of KPST for wider consumption.

KPST also reports quarterly to the CBK on the compliance of investments with legal provisions and Pension Rules of CBK. Should investments of KPST, due to movements in financial markets, happen to fall out of compliance with the law, KPST is obliged to immediately notify the CBK and remedy the situation within 180 days. During 2013 there were no such occurrences.

By February 15th of each year, KPST notifies CBK, the Assembly and the Government on previous year's investment expenses. This information is also published on the KPST website.

By May 31st of each year, KPST prepares and sends to the CBK, to the Assembly, and to the Government, the Annual Report for the previous year as well as Financial Statements audited by an independent auditor who is appointed only with the approval of CBK. This information is also published on the KPST website.

During the year CBK finalised the inspection for 2012 where a wide range of documents was reviewed; from minutes of Board and Committee meetings to all administrative matters. CBK normally performs two inspections of KPST per year and reports findings to the Board. In the event of serious findings, CBK must also report to the Assembly, an action that has not yet been needed.

KPST has an employed internal auditor who reports four times a year to the Audit Committee of the Board on all aspects of institution's activities, giving the Board assurance on the quality and progress of activities in KPST.

KPST also notifies the CBK on all decisions of the Board which affect contributors, the fund's governance, and other issues. CBK as a regulatory and supervisory body for Pillar II and III pension funds in Kosovo is at all times informed about the activities of KPST.

The Chairman of the Board also appeared before the Assembly's Committee for Budget & Finance and the Committee for the Supervision of Public Finances; with both Committees fully supporting the Assembly's approval of KPST Annual Report for 2012.

Financing

KPST activities are primarily financed from the fees charged on pension assets

The budget of KPST is approved by the Board based on the recommendations of the Budget Committee.

KPST is financed in a similar manner as all defined contribution pension funds, i.e. by charging fees on assets under management (pension assets).

As a not-for-profit institution, fees charged by KPST should only cover its expenses. The level of fees, based on the recommendations of the Board, is approved by the Assembly; thereby providing the Assembly with an implicit degree of control on KPST spending.

The Law No. 04/L-168 on amending and supplementing Law No. 04/L-101 on Pension funds of Kosovo introduced changes only in relation to KPST fees and their treatment. With this amendment a single management fee which was used to cover both investment and operational expenses of KPST was split in two fees: the investment fee which would cover expenses related to the investment of pension assets; and the operational fee which would cover all the other expenses.

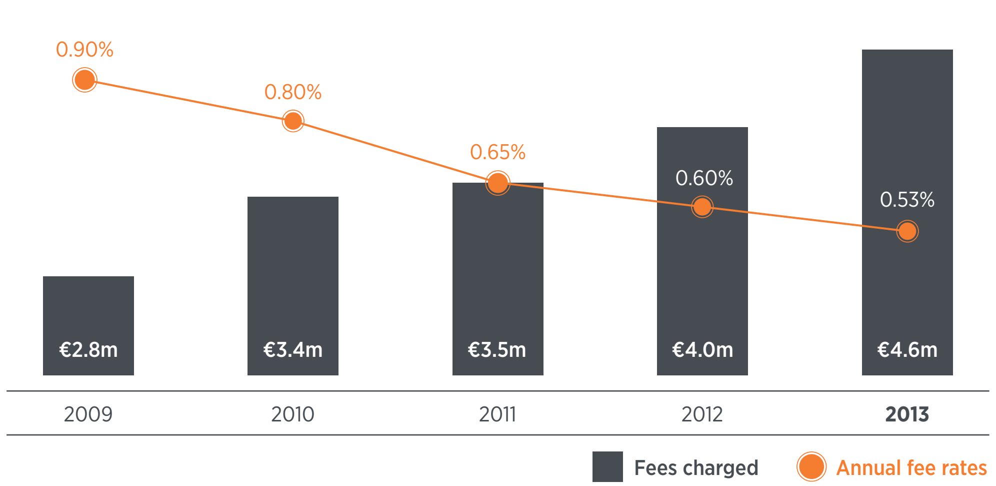
Primarily due to the delays of the Assembly in approving the Law No. 04/L-168, for the first part of the year KPST had to charge the management fee of 0.60% p.a. which had been approved by the Assembly for the year 2012.

From May 20, 2013 – when the Assembly approved the fees according to the amended law – and up to the end of 2013, KPST charged total fees of 0.53% p.a. The total fees consisted of the investment fee of 0.38% p.a. and the operational fee of 0.15% p.a.

KPST fees at 0.53% p.a. continue to be the lowest total fees across similar funds in the region. In Croatia average management fee charged by its pension savings providers was 0.45% p.a. In Macedonia this was 0.54%, in Romania 0.60%, and in Bulgaria 1.00% p.a.

Although at a first glance management fees charged by Croatian providers may seem lower than those of KPST it should be noted that Croatian providers charge fees of between 0.5% and 0.8% for every contribution received (entry fees) which already makes them more expensive than KPST for new contributions.

More importantly, Croatian pension savings providers cover only operational expenses with their management fees (the equivalent fee by KPST for this is 0.15% p.a.), as expenses related to the investment of pension assets are treated as fund expenses and not expenses of the provider. Providers in the other countries mentioned above all levy entry fees and account for expenses related to the investment of pension assets in the same way as providers in Croatia.

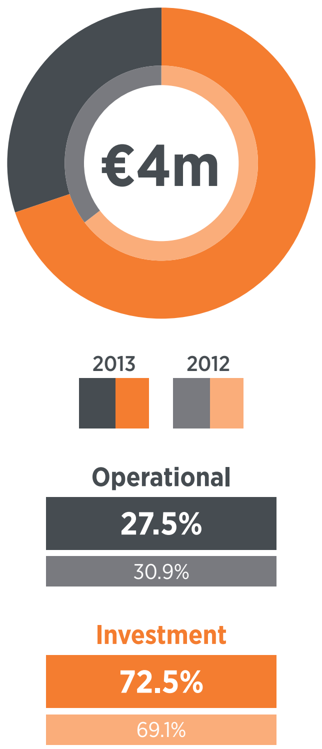


Despite fee levels decreasing year on year, the fees charged by KPST have grown in nominal terms. In 2013 nominal fees charged by KPST have grown by 15% to €4,599,464. This is because assets under management have grown considerably during the year (23%), and with them, so have investment expenses (18.4%).

Non-fee income of KPST, which primarily consists of interests from term deposits of operational assets, came to €314,706 for the year. This meant that the total income of KPST Operations for the year 2013 was €4.9m, or 7% higher than in the previous year (2012: €4.6m).

Expenses

KPST incurs expenses for the investment of pension assets and for its operations



Investment expenses relate to the costs of investing pension assets of contributors in local and global financial markets, and formed 72.5% of KPST expenses (2012: 69.1%).

Investment expenses for 2013 increased by 18.4% to €2,892,868 (2012: €2,442,492). The increase in assets under management, i.e. pension assets invested through open-end funds, is the primary reason for higher investment expenses.

The current legislation in Kosovo, contrary to pension fund legislations around the world, does not permit KPST to exercise its own asset management activity and be a direct investor.

Instead KPST needs to resort to investing funds via open-end funds, an option that carries greater expense; so it is no surprise that fees charged by open-end fund managers form the biggest chunk of investment expenses (98%).

There are also high benefits to investing through open-end funds. A broad diversification of investments is achieved without having to incur multiple transaction charges. In addition, KPST benefits greatly from the vast expertise of fund managers and their infrastructure.

Operational expenses include all the other expenses which typically comprise of compensations, printing account statements, office rent and other operating expenses. For 2013 they came to €1,095,474 (2012: €1,089,814) and formed 27.5% of total expenses (2012: 30.9%).

While the 18.4% increase in investment expenses is positively correlated to increases in pension assets, the same can not be said for operational expenses which increased by only 0.5% compared to the previous year.

Operational expenses have remained roughly the same and services offered have been increased or improved. This was achieved through increased productivity and efficiency.

Board expenses have fallen by 5.8% and comprised 13.5% of operational expenses (2012: 14.4%). Staff basic salaries decreased by 6.1% and comprised 36.2% of operational expenses (2012: 38.8%). Printing of annual account statements is the third highest operational expense at 10.2% (2012: 9.3%), closely followed by depreciation and amortisation at 9.4% (2012: 6.7%).[1]

	2013		2012	
Open-end fund	**Annual fee rate**	**Fees charged**	**Annual fee rate**	**Fees charged**
BNY Mellon – RRF	0.60%–0.70%	€763,930	0.70%	€485,001
Aquila Capital – RP7	0.79%–1.06%	€625,429	0.96%	€633,154
Schroders – ISBF	0.50%	€453,392	0.50%	€312,575
AXA – GILB	0.35%–0.40%	€433,045	0.40%	€385,985
Vanguard – GSIF	0.13%	€396,448	0.15%	€355,924
ECM – DEC	0.50%	€113,244	0.50%	€106,385
State Street – EMEIF	0.20%	€51,450	0.20%	€52,168
BNP Paribas – GLF	–	–	0.20%	€53,264
Total open-end fund fees		**€2,836,938**		**€2,384,456**
CBK charges for transfers, etc.		€30,422		€31,497
Brokers, custodians and pledges		€25,508		€26,539
Total investment expenses		**€2,892,868**		**€2,442,492**

With the overall income and expenses for the year at €4.9m and €4.0m respectively, the surplus for the year was €0.9m (2012: €1.1m). It should be noted that it is difficult to predict the strategic asset allocations that the Board will make during the next year. Because of external factors, it is even more difficult to predict the investment performance, and therefore assets under management, for the next year.

The differences in actual versus budgeted income and expenditure that caused the surplus for the year, are the direct result of those difficulties. In order to lower surpluses that had been accumulated, the Board decided in October 2013 to refund €3m to the fund (pension assets). The refund was executed in December 2013, which left the balance of surplus from operational activities as at December 31, 2013 at €47,380.

[1] For more information please refer to the audited financial statements which, as required by Pension Rules of CBK, are prepared in accordance with IFRS.

"If you always do what you've always done,
you'll always get what you've always got."

Henry Ford (1863–1947)
American founder of the Ford Motor Company

ACTIVITIES

This famous saying by Henry Ford is the biggest source of inspiration for everyone at KPST. But, doing what you've always done is not so bad if you do what we've always done, which is:

IMPROVE!

Activities of the Board

Year 2013 was a year of heavy involvement for Board Members. Four regular meetings were held whilst many decisions were also taken throughout the year outside of these regular meetings.

Most import development regarding the investment[2] of pension assets was the approval by the Board of the Investment Manual as recommended by the Investment Committee. The Manual includes the new Statement of Investment Principles (SIP), the Investment Policy Guideline (IPG), and the benchmark for the performance of the investment of pension assets.

Aided by the Investment Committee and Management, the Board also published a Call for Bids with the aim of engaging new open-end funds that will fit within the new IPG.

Also in the area of investments, the Board invested €190m during the year and redeemed €219m worth of investments in preparation for investing according to the new IPG.

On the other hand, the Audit Committee was primarily involved in reviewing the internal audit and CBK inspection reports and agreeing on the action plans needed. The Committee also agreed on the audit plan for 2014 with the internal auditor.

In April the Board submitted to the Assembly the request for fees to be charged for the remainder of 2013 (see page 12) and in October it submitted the request for fees to be charged for the year 2014.

In addition to the above, the Budget Committee also recommended, and the Board agreed, that €3m accumulated from the operational surplus be returned to the pension assets.

The Dispute Resolution Committee dealt with 35 requests from contributors and institutions. The majority of requests were of contributors asking for the withdrawal of savings prior to reaching retirement age or the withdrawal of savings in lump-sum when in fact they met the criteria for the phased withdrawal of savings.

As recommended by the Dispute Resolution Committee, the Board had written to the CBK requesting a review of the Pension Rules on phased withdrawal of savings. The letter requested that CBK look into the legal possibility of allowing a portion of savings to be paid in lump-sum to participants retiring in the phased withdrawals scheme.

[2] More details on all aspects of the investments of pension assets are provided in Chapter 04/Investment of pension savings.

Account management

412,623 account statements showing individual fees printed

Compared to the previous year 24,124 more account statements were printed. Members for whom KPST did not have addresses were 14,133 (2012: 13,299) and for them account statements were not printed.

With the aim of increasing institutional transparency a novelty in this year's statements was introduced. Fees charged (in Euros) were included as part of the statement, informing every account holder of fees KPST had charged them with. This is very uncommon in the industry, and KPST is very proud to have taken the initiative.

Account statements were also printed for 40,580 employers. They inform employers on contribution payments and reporting they have made, and reconciliation issues, if any.

KPST opened 29,195 new individual accounts (2012: 28,179), taking the total accounts opened since inception to 447,259. Out of these newly opened accounts 29,097 were for 2013's first-time contributors.

Due to contributor retirements (or deaths), 3,567 accounts were marked as 'Withdrawn' during 2013 (2012: 3,264). The cumulative number of withdrawn accounts reached 20,503. Account statements were also not printed for this category of account holders.

There were 21,918 employers and 29,996 self-employed with paid contributions for the year (2012: 20,756 and 30,538, respectively). In addition, there were 1,255 employers and 4,873 self-employed that during 2013 paid contributions for previous years only (2012: 1,377 and 2,053, respectively).

KPST handled and processed 316,242 contribution reports during the year (2012: 183,604). The primary reason for the 72% increase in contribution reports is due to monthly reporting becoming mandatory with effect from October 2012. Prior to this employers had the option of reporting on quarterly basis.

Despite this increase, correction reports dropped to 5.5% of all reports (2012: 6.0%). It is clear that mandatory monthly reporting has improved both the speed and accuracy of reporting by employers.

A new directive on reporting and the payment of pension contributions was issued by TAK in September 2013 and KPST adapted its internal processes to the new directive. The directive prohibited contribution debits of individual pension savings accounts without the prior approval of tax inspectors; the aim being a more objective contribution reporting by employers or their representatives.

In total there were 2.86m transactions posted on member accounts and 410 thousand on employer accounts (2012: 2.58m and 402 thousand, respectively).

Included in employer account transactions are 17,390 transactions for refunds of erroneous contributions, with 76% paid during 2013. In 2012 only 13% of refund transactions had been paid during the year. The pro-active approach adopted by KPST in identifying erroneous contributions meant that their identification and subsequent refunding has become better, quicker and more reliable.

9.6 – Average number of months employers paid contributions

3.4 – Average number of quarters the self-employed paid contributions

Reconciliation

Self-employed payments 100% reconciled

Since 2011 when KPST started utilising the Interbank Clearing System (ICS), processing of contribution payments into employer accounts has improved tremendously. In 2013 the process was monitored daily and any un-reconciled payments were dealt with promptly.

Self-employed contributions were especially bad at reconciling prior to ICS use; but in 2013 self-employed contributions were 100% reconciled for the second year running. Payments by employers were 99.99% allocated to their respective accounts (or refunded). The twenty un-allocated transactions of 2013, worth 0.02% of contributions received, were awaiting a formal refund request from commercial banks.

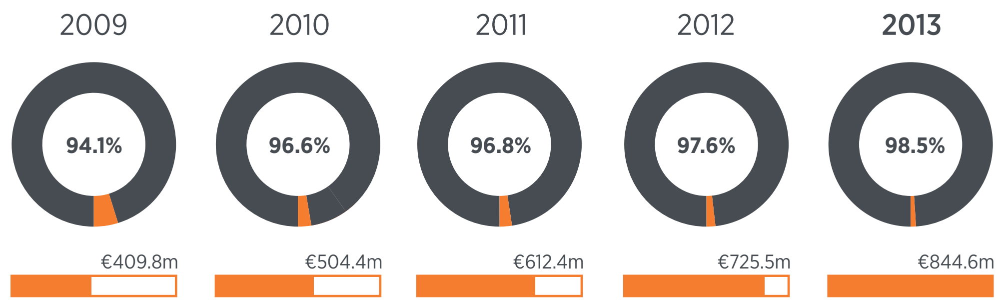
In 2012 close to 2.9% and in 2011 close to 3.5% worth of new contributions received were not allocated at year-end. Year 2013 was the first whole year when the mandatory monthly reporting of contributions was in place; and the results showed. Only 0.48% worth of new contributions were not allocated in individual accounts at year end, exceeding the target of maximum 2.00% set by the Board.

With 1.52% at the end of the year (2012: 2.42%), the Administration exceeded well the other Board reconciliation target of maximum 1.85% worth of cumulative un-allocated contributions. Cumulative un-allocated contributions at the end of 2013 amounted €12.8m (2012: €17.5m).

Reasons for un-allocated funds were: Missing contribution reports at €11.3m; Employer for payment not known at €1.0m; and Employee details not valid (ID/Name) at €0.5m (2012: €15.5m; €1.5m; and €0.5m respectively).

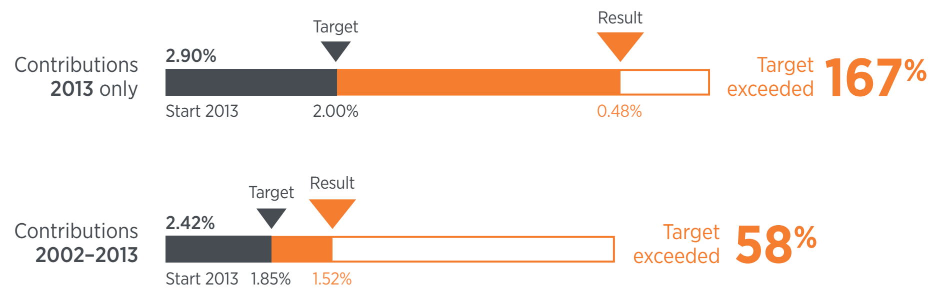
Client Relations staff of KPST played a key role in obtaining contribution reports (for prior years), which had not been submitted by employers. They did this by contacting directly 1,902 employers during the year in the bid to secure the missing information. Their commitment helped allocate the majority of €4.6m worth of contributions which were un-allocated at the end of 2012 but were allocated in 2013.

Cumulative Allocated Contributions



Cumulative Collected contributions

Un-allocated contributions: Results versus Targets



Client services

198 services provided per day

The total number of services performed for individuals and employers in 2013 was 49,486. This marks a 17% increase compared to 42,189 services performed in 2012.

On average 198 services and consultations were performed per working day.

The majority of services (39,839) were performed for clients visiting the KPST office, with the remaining services performed via email, telephone, or other forms of communication and correspondence.

Number of account statements printed (free of charge) for visiting contributors was 31,050. With 63%, this is by far the most popular of the services provided. The visits are mainly triggered thanks to foreign embassies which consider the Trusti account statement as *the* proof of employment; and require the statement as part of standard documents which visa applicants must submit.

A limited number of KPST services are also offered at seven TAK regional offices by TAK Pension Officers. Services performed there, which consisted mainly of printing account statements, numbered 24,740.

Other main services performed by KPST staff were: authorised 5,467 requests for access to the eTrusti portal; updated 4,994 addresses; entered 3,567 benefit applications; and answered 1,119 client enquiries.

The eTrusti portal has grown in popularity, and it is the objective of KPST to have more and more contributors accessing their account online.

Only 50% of persons registering for access were submitting the required proof of identity document to KPST. In a bid to address this, KPST during 2013 started sending email reminders which achieved the desired outcome in 14% of cases.

The services offered in the portal are wide in range. Users can view their account balance and transactions, and unlike the typical e-banking service, these transactions are not limited to the last 3–6 months.

Updates through the portal, which numbered 5,631 in total, consisted of: 2,140 addresses; 1,491 Beneficiary designations; 1,370 phone numbers; 354 email addresses; while the newly launched service in 2013 of online benefit application was completed 6 times.

Number of services performed in house

2012	**2013**
42,189	49,486

17% ▲

INVESTMENT OF PENSION SAVINGS

Security of pension savings; diversity of investments; maximising returns for accepted level of risk; and the maintenance of adequate liquidity; are at the core of the prudent investment principles of KPST

For a fund that in the last five years has on average been growing in assets under management by 29% per year, challenges for new investment ideas and opportunities increase exponentially, and with them so do the responsibilities.

The Board, and in particular its Investment Committee, has had to face these challenges.

Year 2013 was geared towards constituting a new set of investment policies and principles that would strive to make KPST investments less volatile in ever-changing and unstable market conditions.

Investment principles and policy

A shift to a mix of asset classes and investment styles

At the start of 2013 the Investment Policy of KPST was to invest 40% of assets in indexed equity open-end funds and 60% in bond and absolute return open-end funds.

With the share price increasing 40.8%, the above policy has proved very successful since its adoption in 2009. However, in a world full of uncertainty through high national debts, slow growth and low inflation, and with them, slowing emerging markets, the Board has recognised the need to advance and has set new investment principles and policies aimed at serving at least for the next five year horizon.

As the main objective of KPST investments over the long term is first to preserve and second to grow members' capital in both nominal and real terms, the new Statement of Investment Principles of the Board has set the Kosovo's annual Consumer Price Index as the inflation benchmark for measuring the performance of KPST investments.

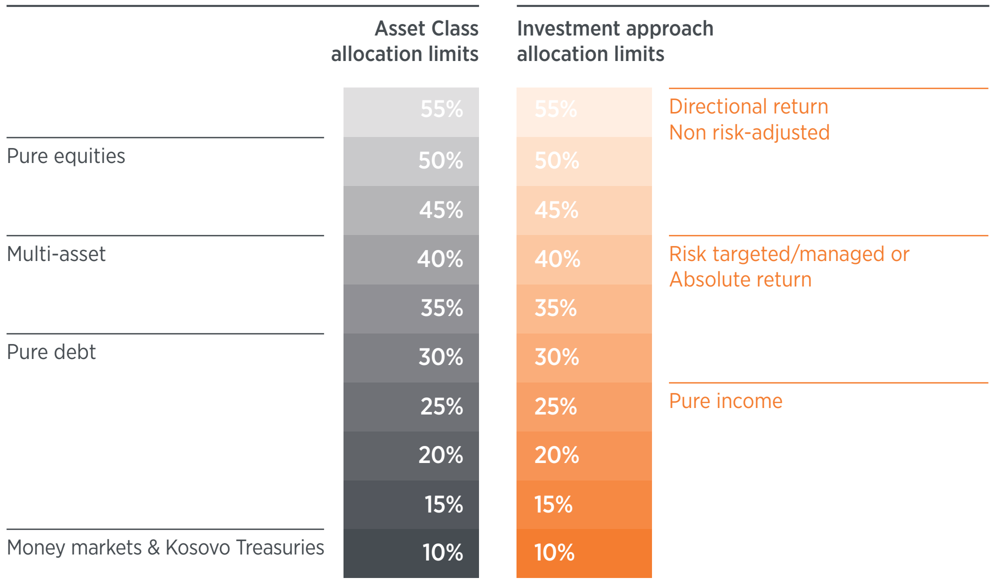
The new Investment Policy Guideline (IPG) recognises that no investment portfolio can achieve return without assuming some market risk, and that no portfolio can wholly or partly, be fully insulated from the market risk.

The new IPG, recognising that a balance needs to be struck between contributors close to retirement and those who are not, calls on a policy which contains a reasonable but not excessive allocation in long term assets with expected high returns and high volatility, such as equities; combined with a larger allocation in investments with expected lower volatility than equities and expected steadier returns.

The IPG sets the diversification of investments as a key tool for mitigating the market risk. Further, it calls for the use of risk-managed and risk-targeted absolute return vehicles which are un-correlated to any specific asset class or financial market (bonds, equities, currencies to give some examples), while also aiming to achieve a low correlation between investments held, in order to help dampen extreme variations in market prices, looking for a lower volatility of KPST investments and therefore looking to achieve steadier returns.

With this increased emphasis on risk, the objective of the IPG is to provide more protection on the downside yet still reap the rewards when markets rise.

To this end, the IPG has crucially set a new framework for asset allocation limits (see chart below) based on a mix of asset classes and investment styles (approaches) utilised by fund managers.



The Board must make all strategic allocation decisions within the new framework. What's more, decisions whether to increase or reduce exposure to a certain open-end vehicle must depend on: a) the Board's appraisal of the short and medium term prospects for both the asset class and the investment style of a given vehicle; and b) the vehicle's performance and volatility, its underlying holdings, and its correlation with other vehicles in the portfolio.

A call for bids was issued in November, a process not yet finalised, with the aim of engaging new vehicles that fit the new framework. The funds sought were:

- equity funds with dividend yield approach;
- equity funds with risk targeting, risk management or absolute return approach;
- Multi-asset funds with risk targeting, risk management or absolute return approach.

Asset allocation

€52.8m invested in Kosovo Treasury bills during 2013

KPST invests the majority of funds through open-end vehicles, these being instruments that are managed by specialised companies operating in global financial markets.

The Board requires vehicles to be liquid and well-diversified, to have a satisfactory performance, for their investments to be in compliance with the Law on pension funds of Kosovo as well as Board's investment policy, and that fund managers have sufficient experience in the industry.

From January and up until the adoption of the new IPG the Board invested an additional €137m in global financial markets through open-end vehicles of the following managers: BNY Mellon €45m; Vanguard €42m; Schroders €30m; and AXA and Aquila with €10m each.

In Kosovo, the Board invested a further €52.80m in 6–12 month Treasury bills, displaying its full intention of playing an active part in the consolidation of publicly traded financial instruments in the country. The two investments made in Kosovo Treasury bills during 2012 both matured in 2013 with €13.96m.

Term deposits with Raiffeisen Bank Kosovo worth €16.20m were terminated prematurely by the bank due to its excess liquidity, while deposits with NLB Prishtina worth €16.60m were not re-deposited as funds were directed to investments in Kosovo Treasury bills which were deemed a more prudent alternative.

Upon adopting the IPG in October 2013 the Board had to make strategic allocation decisions to fit the new framework and disinvested €219m from existing open-end vehicles for the following reasons:

- The complete disinvestment from the State Street Emerging Markets Equity Index Fund worth €32m, as the short to medium term opportunities for this asset class in emerging markets were deemed low;
- To redeem €75m from the Vanguard indexed fund, in line with the new framework which called for diversifying pure equity investments between indexed and actively managed funds;
- To redeem €60m from AXA as all the indicators were that the low inflation would last for longer than previously thought, making this product less attractive for the time being; and
- To redeem €52m from Aquila whose risk targeted approach proved to be more correlated with other funds in the portfolio than expected.

The above redemptions realised net gains of €19.4m, but in addition caused the balance at CBK for the year to end at €209.65m.

Year 2013 closed for KPST with €703.9m worth of assets invested in financial markets of which €53.1m in Kosovo and €650.8m globally.

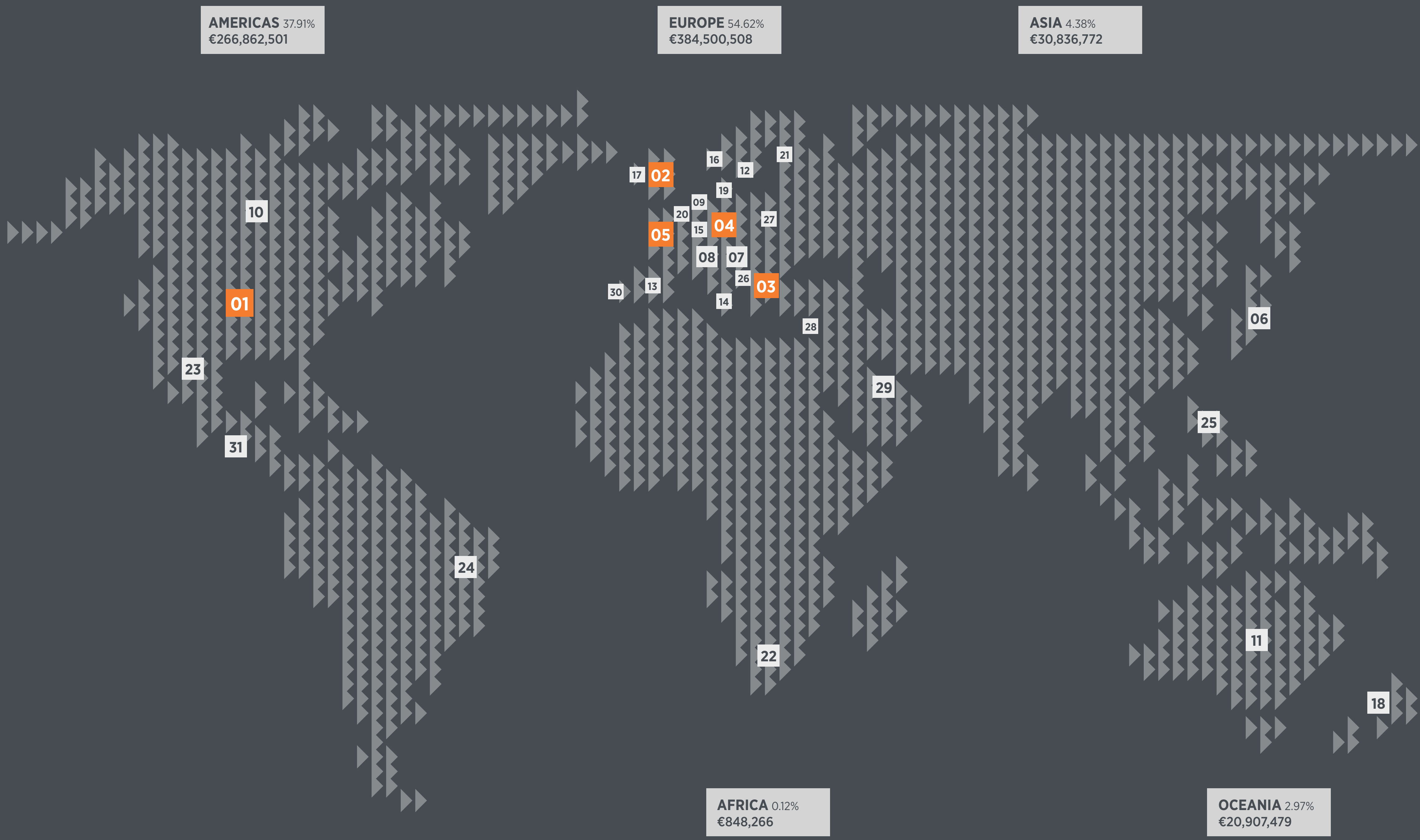
Investment	Asset Class	Assets	Allocation
Vanguard – Global Stock Index Fund	Equities	€313.4m	44.5%
BNY Mellon – Real Return Fund	Multi-asset	€133.1m	18.9%
Schroders – International Strategic Bond Fund	Bonds	€96.4m	13.7%
AXA – Global Inflation Linked Bonds Fund	Bonds	€57.5m	8.2%
Kosovo Treasury	Treasury bills	€53.1m	7.5%
Aquila – Risk Parity 7 Fund	Multi asset	€27.0m	3.8%
ECM – Diversified European Credit	Bonds	€23.4m	3.4%
Total invested assets		**€703.9m**	**100.0%**

But where is the money?

The money invested through open-end funds is invested by the managers of those funds in equities, debt instruments, cash, and other publicly traded financial instruments of global corporations and sovereign treasuries.

KPST was directly and indirectly invested in securities of 1,831 global issuers at year-end. An attempt to give an answer to the question on the left is on the next page.

WHERE IS THE MONEY?



	Country	Allocation	NAV
01	USA	34.97%	€246,173,248
02	United Kingdom	14.27%	€100,454,454
03	Kosovo	7.55%	€53,122,905
04	Germany	6.47%	€45,571,659
05	France	5.96%	€41,955,749
06	Japan	4.27%	€30,058,901
07	Austria	3.84%	€27,031,892
08	Switzerland	3.67%	€25,835,168
09	Holland	3.56%	€25,060,817
10	Canada	2.69%	€18,936,404
11	Australia	2.52%	€17,739,679
12	Sweden	1.73%	€12,178,431
13	Spain	1.57%	€11,052,102
14	Italy	1.39%	€9,784,982
15	Luxembourg	1.42%	€9,996,168
16	Norway	0.82%	€5,772,435
17	Ireland	0.74%	€5,209,271
18	New Zealand	0.45%	€3,167,800
19	Denmark	0.35%	€2,463,844
20	Belgium	0.27%	€1,900,680
21	Finland	0.18%	€1,267,120
22	South Africa	0.12%	€848,266
23	Mexico	0.12%	€841,227
24	Brasil	0.09%	€633,560
25	Philippines	0.07%	€492,769
26	Croatia	0.06%	€422,373
27	Poland	0.05%	€355,498
28	Cyprus	0.05%	€348,458
29	Qatar	0.04%	€285,102
30	Portugal	0.04%	€281,582
31	El Salvador	0.04%	€278,062
32	Non-specific/Others	0.63%	€4,434,920
		100.0%	€703,955,526

Invested all over the World!

No. 1 issuer: Kosovo Treasury

For the first time since inception the No. 1 issuer of securities in which KPST was invested at the end of 2013 was an issuer in Kosovo; indeed it was the Kosovo Treasury taking the No. 1 spot with €53.1m, or 7.55% of invested assets (5.81% of total assets when including cash at CBK).

Normally this spot seems to be reserved for US Treasuries, but the large redemption from AXA GILB fund relegated US Treasury to No. 2. Top 20 issuers listed below held 29% of invested assets of KPST. The other 1,811 issuers shared the remaining 71% with exposures of 0.5% or less.

	Issuer	Assets	Portion of invested assets
01	Kosovo Treasury	€53.1m	7.55%
02	US Treasury	€38.6m	5.49%
03	UK Treasury	€12.2m	1.74%
04	French Treasury	€10.8m	1.53%
05	German Treasury	€9.7m	1.37%
06	Microsoft Corp	€8.7m	1.24%
07	Netherlands Treasury	€7.8m	1.11%
08	HSBC	€6.7m	0.95%
09	GlaxoSmithKline	€6.2m	0.88%
10	Bayer Ag	€5.7m	0.81%

	Issuer	Assets	Portion of invested assets
11	Vodafone Group	€5.3m	0.75%
12	Italian Treasury	€5.0m	0.71%
13	Novartis Ag	€5.0m	0.70%
14	Apple Inc	€4.9m	0.70%
15	Total S.A	€4.9m	0.69%
16	Roche Hldg Ag	€4.8m	0.68%
17	Exxon Mobil Corp	€4.3m	0.61%
18	Norway Treasury	€4.3m	0.61%
19	Sanofi-Aventis	€4.1m	0.58%
20	Citigroup Inc	€3.9m	0.55%

Equities made up 57.4% of invested assets

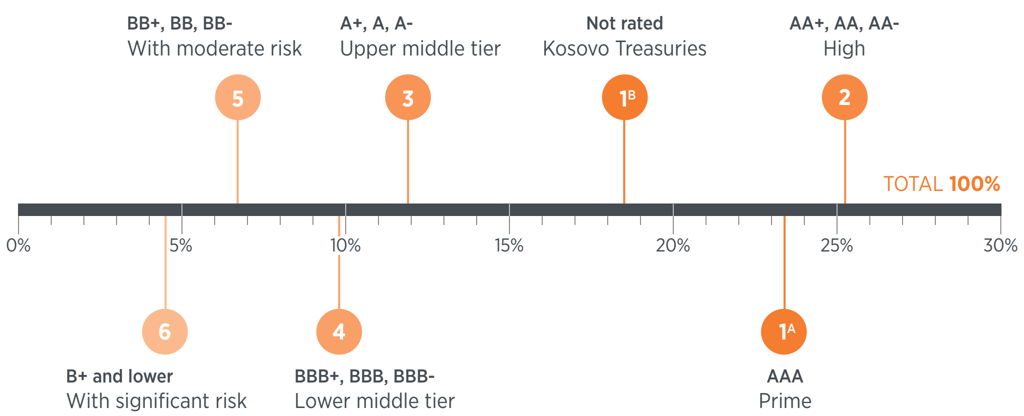
The KPST analysis of direct investments and the indirect holdings through open-end funds at year end revealed that assets were invested in securities denominated in USD 37.1%, EUR 29.1%, GBP 15.8% and others 18.0% (mainly CAD, AUD and JPY).

As the open-end funds all provide EUR hedging for non-EUR part of their respective portfolios, the currency risk is both, managed and indirect.

Further, KPST invested assets consisted of 57.4% equities, 40.4% debt instruments, 0.4% cash, and a net 1.8% in derivatives.

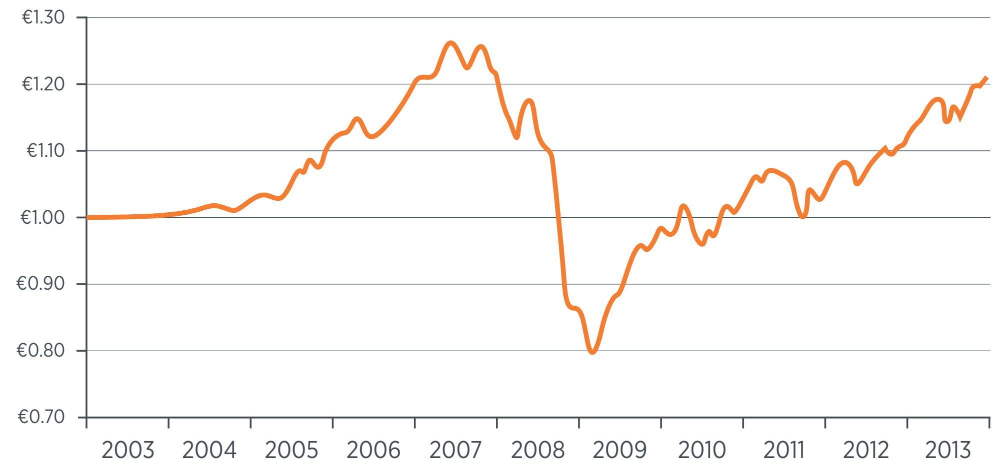
Sovereign debt made up 55.1% of debt instruments; while corporations and other government backed agencies made up the remaining 44.9%. The average interest for these debt instruments, which were 61% of fixed and 39% of a floating rate, was 2.13%; of them, 33% will mature within 12 months.

Percentage of debt instruments (direct and indirect) based on the rank of their rating



1. Rating provided by Standard & Poor's, Moody's or Fitch;
2. The higher the rank of rating the lower the risk of loss to capital and/or interest;
3. The legislation ranks Kosovo Treasury debt as 'Prime'; however, as they are not yet rated they are shown separately from the rest of the 'Prime' rank.

KPST share price since inception



Investment performance

Benefited from the exposure to equities in the developed world

In what was: a very good year for equities with all the major indexes reaching historic highs; a very difficult year for bonds which equities outperformed by the widest margin in the last 50 years; and a year of strengthening economy and falling unemployment in the US; KPST share price rose by 8.5% to €1.2117 (2012: rose 8.0% to €1.1170).

Compared to pension funds in the region KPST did well. It was surpassed only by Romanian funds which on average returned 11.7%. Funds in Macedonia returned 8.3% on average, while those in Bulgaria and Croatia returned 4.7% and 4.5% respectively.

Debt instruments which, excluding Kosovo Treasuries, made up on average 41.6% of assets for the year, mainly suffered during 2013. The value of investments through AXA and Aquila fell by €12.6m, while investments through Schroders and ECM did better only thanks to their increased use of hedging to offset shortcomings in the market.

KPST benefited from its exposure to equities which on average were around 50.1% of assets for the year. More precisely it benefited from the exposure to equities in developed countries; €73.9m through Vanguard's pure equities fund – the main driver behind the gains – and to a lesser degree through BNY Mellon's multi-asset fund which returned €4.2m.

Total returns for the year from investments in Kosovo, which on average made up 3.2% of assets, were €0.6m. The balance of cash with CBK on the other hand, which pays no interest since mid-2012, on average made up 5.1% of the assets.

Total return from investments for the year came to €68.1m. Added to this were €3m which were returned to the fund from accumulated operational surplus, taking the total gross income for the year to €71.1m. The net income, when subtracting the fees charged on the fund, came to €66.5m (2012: €50.2m).

Investment	Gross return	Average allocation
Vanguard – GSIF	€73.9m	36.9%
BNY Mellon – RRF	€4.2m	14.8%
Schroders – ISBF	€1.6m	10.9%
ECM – DEC	€1.4m	2.7%
Kosovo Treasury bills	€0.3m	2.1%
NLB Prishtina	€0.2m	0.6%
Raiffeisen Bank Kosovo	€0.1m	0.5%
State Street – EMEIF	-€0.9m	3.2%
Aquila – RP7	-€5.0m	8.7%
AXA – GILB	-€7.7m	14.5%
Total	**€68.1m**	**94.9%**

14% of first-time employee contributors were 40 years old and above. Is this really their first employment in the last 12 years, or have they simply left the grey economy?

CONTRIBUTIONS AND RETIREMENTS

Annual contributions received have risen by 5.4%. The rate of increase of benefit payments was 23.8%.

Entry and falling dormant

First-time contributors: 10.4% of active contributors

When 14% of active contributors for the "first time" found employment[3] at the age of 40 or older, irrespective of what the right answer to the question is, it can only be perceived as a good thing.

If people are coming out of the grey and entering the formal economy, then this is a good thing for them and for the tax collector. On the other hand, if people are still getting opportunities at 40+, not having worked previously, then this would speak volumes for those that argue about age discrimination being low in Kosovo.

This statistic is all the more impressive considering that more experienced persons of 40 years or older formed 24% of persons re-contributing (i.e. those that re-entered the job market after pausing for a year).

One in ten first-time contributors, same as in 2012, were self-employed. Women are taking an increasing part in first-time contributors with 36.1% of the employed and 21.8% of the self-employed (2012: 32.8% and 20.5%, respectively); meaning there are increasingly more opportunities being offered to women in Kosovo or that they are transferring to the formal economy at slightly higher rates than men.

Most frequently first-time contributors were 21 years old when they entered the formal labour market, their average age was 28, while 50% of them were 25 and younger (2012: 21, 29 and 24 respectively).

The self-employed, as expected, have older averages. As in 2012, most frequently they were 31, their average age was 35, and 50% of them were 33 and younger.

As first-time contributors numbered 29,097 in total, there were 32,354 persons, or 12%, who contributed in 2012 but did not do so in 2013; and the number excludes the 3,264 members that withdrew their savings in 2012.

Women are falling dormant at lower rates than contributing for the first time, with 26.7% of the employed and 16.2% of the self-employed.

Falling dormant is most likely to occur between ages 24–26. In fact, 50% of 2012 contributors that fell dormant were 33 or younger for the employed and 40 or younger for the self-employed (2012: 33 and 39, respectively). This hints at a lower job stability for younger persons. On the plus side, 15.7% of employees who were dormant during 2012, re-contributed in 2013.

Analysing the data for the past 5 years, it transpires that 146,985 employed contributors and 18,495 self-employed contributors have contributed in each of the 5 years.

[3] The term "Employment" is used here loosely. KPST is not in a position to know if contributions are the result of a permanent, termed or one-off employment of a first-time contributor. Analysis however have shown that only 52% of first-time (employee) contributors, ended the year with contributions for December 2013.

Contributions

Out of €844.6m contributions received since inception, €797.7m remain under management

Contributions not under management, or €46.9m, were contributions paid out through benefit payments and refunds, and were no longer part of the fund.

Contributions under management at the end of 2013 made up 87.4% of net assets under management (2012: 93.2%). The remaining 12.6% were made up of net retained gain from investments (2012: 6.8%).

Total contributions received during 2013 were €119.1m (2012: €113.0m), out of which €107.4m were paid by employers and the selfemployed for 2013, €9.4m for 2012, €1.3m for 2011, and €1.0m for 2002–2010.

Contributions that were paid for 2012 are more-or-less expected as employers are allowed up to 15 days after month-end to pay for contributions. There is still however, a significant amount of contributing for periods prior to this. These payments normally come as a result of delayed payments or increases by TAK inspectors of employer's contribution obligations.

Contributions received during 2013 mark a 5.4% increase compared to the previous year (2012: 4.6%). For the second year running the rate of increase is not in double digits as was the case for 2003–2011; giving little reason to believe that the rate of increase will pick up pace in the next few years.

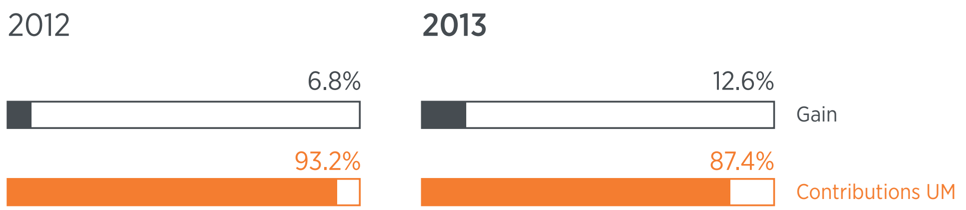
The number of new employers, at 3,269 was lower compared to the previous year (2012: 3,363). KPST considers as new employers those businesses, institutions, etc. which for the first time contribute on behalf of their employees.

On the other hand, the number of employers who fell dormant for the year was 2,900, or 20% higher than in the previous year (2012: 2,417). KPST considers as employers who fall dormant those businesses, institutions, etc. which contributed on behalf of their employees during the previous year, but did not do so for the reporting year.

None-the-less, the number of active employers, those who contributed for the year increased by a net 369 to 21,918 (2012: 946 and 20,972, respectively).

	Contributions	
Years	**Received**	**Under Management**
2002–2010	€504.5m	€487.9m
2011	€108.0m	€99.9m
2012	€113.0m	€101.9m
2013	€119.1m	€108.0m
Total	**€844.6m**	**€797.7m**

Composition of net assets under management



Retirements and benefit payments

On average, gains of 11.1% were realised in 2013 by retirees or beneficiaries. In 2012 this was 3.9%

During 2013, 3,567 new applications for the withdrawal of savings were approved by the Administration (2012: 3,264).

Persons retiring having reached the pension age of 65 were 2,676, or 75.0% of approved applications (2012: 2,483, or 76.1%). Retirements through disability at 151 were 57% higher than last year (2012: 96).

There were 740 cases of benefits paid to the beneficiaries of contributors that died prior to withdrawing their funds from KPST (2012: 685). In 40% of cases contributors were younger than 55 when they died, 23% were 55–59, and 28% were 60–64 years old. With 281 of the deceased contributors being active (contributing) in 2013, this means that 1 in 1000 active contributors died prior to reaching the pension age.

The total of funds that were paid out through benefit payments for 2013 were €10.75m and they consisted of €9.67m worth of nominal contributions.

The total withdrawn accounts since inception reached 20,503. Through their withdrawals €37.96m worth of nominal contributions with a value of €38.95m were paid out from the fund.

If a contributor that is retiring has a balance of €2,000 and above in his pension savings account, the balance on this account is transferred to the Phased Withdrawal Program (PWP); which means they will get a monthly payment until their balance is fully exhausted.

The minimum monthly payment has been increased during 2013 from €100 to €150 with the request of the Board and the approval of CBK; and was applied for all the participants still in the scheme. For persons retiring with a balance above €15,000 the monthly payment was 1% of the balance.

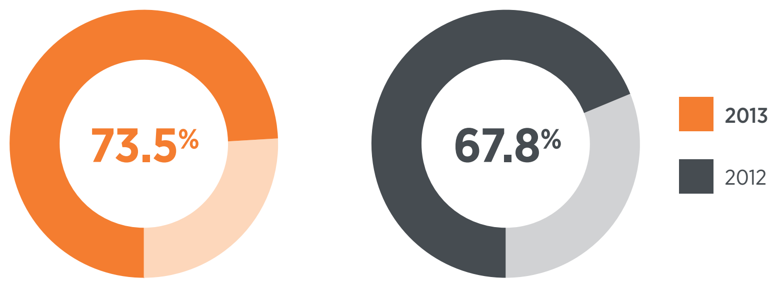
The proceeds directed to PWP were €7.90m, and €2.85m were received by beneficiaries in a single payment. Transfers of funds to PWP, whose administration was entrusted to NLB Prishtina bank since 2011, made up 73.5% of benefit payments for the year (2012: 67.8%).

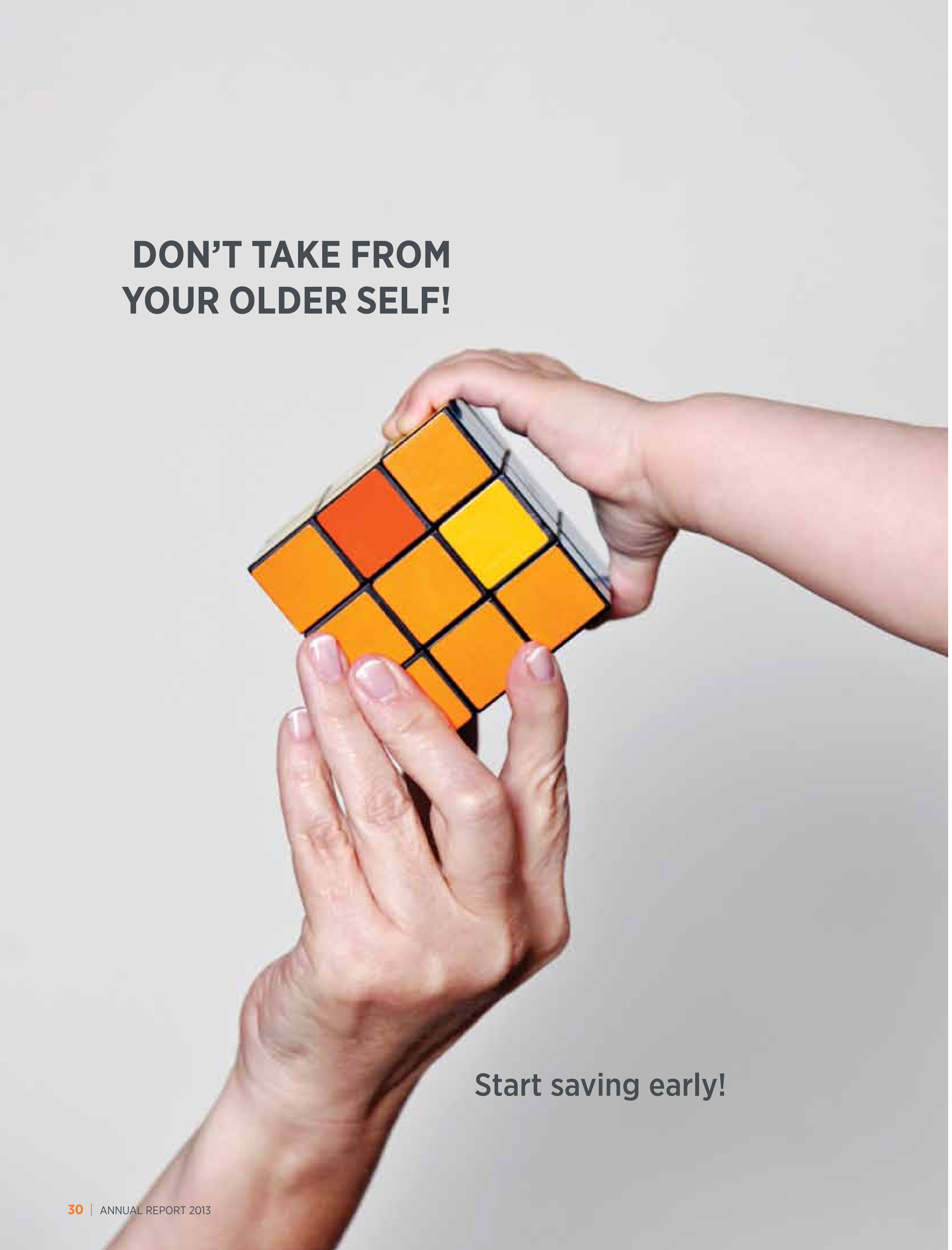
In addition to the growing portion of funds directed to PWP, the portion of retirees directed to PWP for 2013 has also increased to 58.8% (2012: 51.3%); but this is very much expected given the growing balance in members' accounts, whose average at the end of 2013 was €2,107.

It should be noted that there were 2,596 contributors who by the end of 2013 had already reached the pension age but had not applied for the withdrawal of savings. The balance on these accounts was €1.3m.

	Withdrawals	
Years	**Contributions**	**Funds**
2004–2010	€14.2m	€13.8m
2011	€5.7m	€5.7m
2012	€8.4m	€8.7m
2013	€9.7m	€10.7m
Total	**€38.0m**	**€38.9m**

Percentage of withdrawn funds directed to PWP





06

WHO IS CONTRIBUTING?

With mandatory monthly reporting in place for the whole of 2013, the raw data has been more qualitative and more up-to-date than in the previous years. Consequently, the results of analysis included in this Annual Report are more accurate than in previous reports.

It is important to note that this chapter displays results on analyses of active contributors only and not of all 447,259 KPST account-holders.

There were 277,267 active contributors during 2013 (2012: 266,026). Featuring as employed at one point during the year were 251,392 and as self-employed 29,996; Double-counted here are 4,121 contributors that feature as both employed and self-employed during 2013.

The key to saving adequately for the retirement is continued and sufficient contributing. A quarter of all accounts, across all age groups and genders, consisted of very low and/or sporadic contributions.

With the Kosovo population estimated at 1.8 million, it is hard to believe that only 15% of people were active during the year. It begs the question whether this is an issue of compliance being low or of the reliability of unemployment measurements, or both?

KPST is highlighting some of these analyses in the belief that it is fulfilling part of its social responsibility; remembering here that the sole interest of KPST is for every resident of Kosovo to have saved sufficiently for their retirement.

Understanding who, when, how much, and how often has been contributing might help recognise achievements so far and policies which still require improvement in order to make the existing scheme a better scheme. So, with this in mind, let's meet our contributors!

277,267 =

Active contributors

251,392 +

Employed

29,996 +

Self-employed

(4,121)

Both Employed and Self-Employed

What's your name?

Everyone of us will know a Merita or Afërdita, as a friend, daughter, mother, sister, or colleague. Everyone of us will know a Bekim or Agim, as a friend, son, father, brother or colleague. The tables below list the Top 20 most recurring names in females and males that contributed during 2013.

While it is obvious that the names of contributors do not bear any statistical significance, it is a good reminder to us at KPST that people are behind the numbers, as at KPST we wish to stay close to each one of you.

		Contributors
01	Merita	973
02	Afërdita	945
03	Shqipe	926
04	Valbona	911
05	Luljeta	871
06	Teuta	857
07	Shpresa	847
08	Vlora	845
09	Drita	741
10	Lindita	709
11	Vjollca	705
12	Mimoza	696
13	Arta	685
14	Fatime	678
15	Florije	644
16	Fatmire	622
17	Lumnije	610
18	Ganimete	560
19	Blerta	555
20	Emine	554

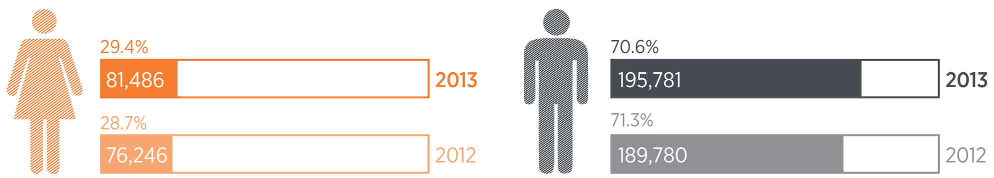
	Contributors
Bekim	2,125
Agim	1,998
Fatmir	1,866
Arben	1,858
Afrim	1,834
Naim	1,796
Besim	1,779
Muhamet	1,707
Blerim	1,682
Agron	1,653
Burim	1,614
Bajram	1,597
Fadil	1,592
Enver	1,577
Besnik	1,525
Avni	1,459
Driton	1,418
Bashkim	1,408
Bujar	1,393
Ismet	1,383

Variations of the same name were grouped. E.g. Merita and Meritë were treated as one.

Are you male or female?

Numbers of both men and women compared to 2012 have increased. The net increase was 11,241 of which women with 5,240 and males with 6,001.

Women's share of active contributors continued the trend of slow year-on-year increases. It came to 29.4% having been 28.7% a year before. The increase was similar in both the employed and the self-employed women.

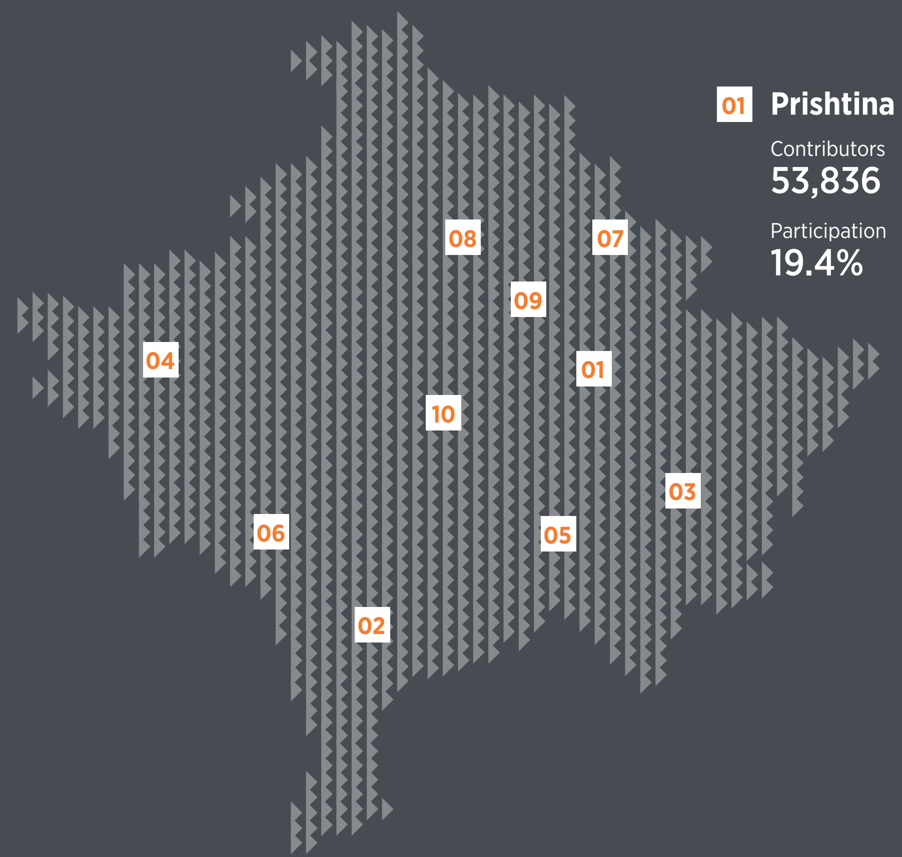


Where do you live?

With a large chunk of contributors being paid through the Ministry of Public Administration, whose registered office is in Prishtina, it is not possible to run analysis on where contributors have worked during the year. This is why KPST only presents analysis based on municipalities of contributors' addresses on KPST records.

Many contributors do not inform KPST when they change addresses, making the results less reliable.

Only Decan and Leposaviq had fewer contributors than in 2012, while five municipalities with the highest increases were: Skenderaj 9.2%; Klina 7.6%; Glogovc 7.6%; Shterpce 7.4%; and Suhareka 7.1%.



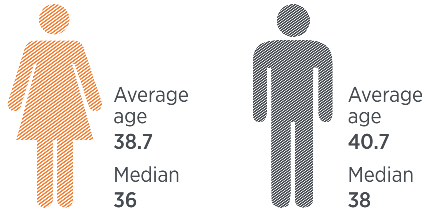
Rank	Municipality	Contributors	Participation
01	Prishtina	53,836	19.4%
02	Prizren	22,705	8.2%
03	Gjilan	16,292	5.9%
04	Peja	16,059	5.8%
05	Ferizaj	15,831	5.7%
06	Gjakova	15,223	5.5%
07	Podujeva	12,909	4.7%
08	South Mitrovica	12,299	4.4%
09	Vushtrri	11,653	4.2%
10	Glogovc	8,876	3.2%
11	Lipjan	8,510	3.1%
12	Suhareka	7,976	2.9%
13	Skenderaj	7,265	2.6%
14	Fushë Kosova	6,437	2.3%
15	Rahovec	6,193	2.2%
16	Istog	5,541	2.0%
17	Vitia	5,389	1.9%
18	Malisheva	5,207	1.9%
19	Kamenica	5,108	1.8%

Rank	Municipality	Contributors	Participation
20	Klina	4,594	1.7%
21	Obilic	4,403	1.6%
22	Decan	4,142	1.5%
23	Kacanik	3,994	1.4%
24	Dragash	3,366	1.2%
25	Shtime	3,344	1.2%
26	Gracanica	1,589	0.6%
27	Shterpce	1,143	0.4%
28	North Mitrovica	1,140	0.4%
29	Hani i Elezit	1,051	0.4%
30	Leposavic	928	0.3%
31	Zubin Potok	687	0.2%
32	Zvecan	599	0.2%
33	Junik	542	0.2%
34	Novoberde	431	0.2%
35	Mamusha	409	0.1%
36	Ranilug	408	0.1%
37	Partesh	383	0.1%
38	Klokot	363	0.1%

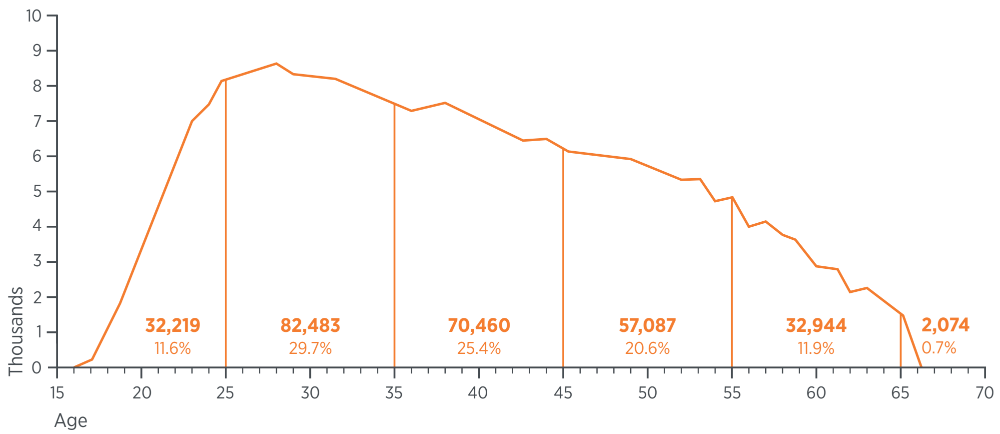
How old are you?

The average age at the end of 2013 of active contributors has dropped to 40.1 years from 40.7 in the previous year. The median has remained the same at 38 years old.

The average age for the self-employed contributors was slightly higher at 42.1 years old, while for the employed contributors it was 39.5 years old.



Active contributors by age-group



Who do you work for?

The number of contributors through NGOs has increased to 13,289 from 10,958 individuals in 2012 (21.3%). However, these individuals were engaged in the equivalent of only 5,939 full-time persons (FTE). The number of contributors through LLCs has increased by 12.8%; their FTE rate was only 65.4%.

The biggest drop in the year is in Public and Social enterprises with 33.0% and 11.3% respectively. With an FTE rate of 93.1% the most stable jobs, as expected, are in budget organisations, which incidentally had a higher increase in number of contributors than in the previous two years.

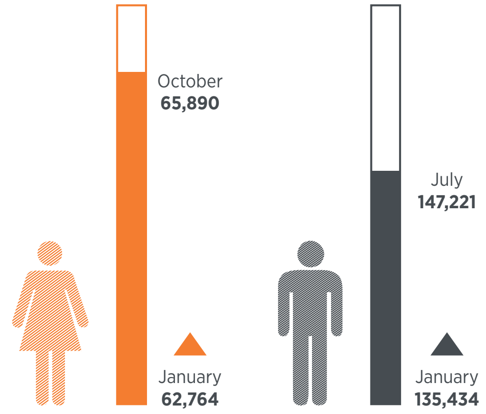
		2012	2013		
	Enterprise	Contributors	Contributors	FTE	FTE Rate
01	Budget organisations	81,927	84,008	78,194	93.1%
02	LLC	63,698	71,832	46,970	65.4%
03	Individual businesses	61,617	65,683	45,758	69.7%
04	Self-employed	30,538	29,996	25,497	85.0%
05	Joint stock companies	28,265	28,368	22,430	79.1%
06	NGOs	10,958	13,289	5,939	44.7%
07	Partnerships	6,379	6,415	4,247	66.2%
08	Social enterprises	3,012	2,672	2,250	84.2%
09	Public enterprises	727	487	375	76.9%
10	Others	7,228	7,457	4,973	66.7%

When do you work?

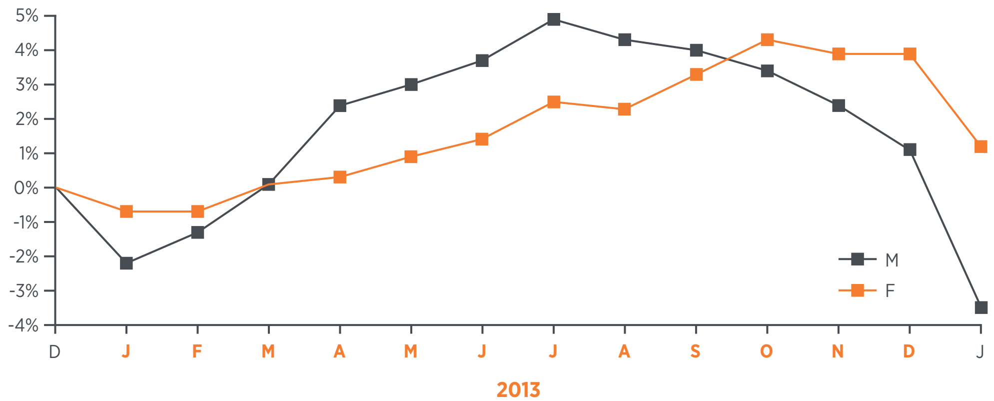
After the lows of January, the number of employee contributors increases until the peak is reached and the cycle starts again. This is true for both male and female contributors.

However, the cycle itself is somewhat different for men and women. The number of male employee contributors reaches the peak in July, with women's numbers peaking in October. What's more, the swings in male numbers are much more volatile than in the case of women.

At their peak (in October) 85% of active women contributors had contributed; at their low (in January) 81% contributed. For men the respective percentages were 85% and 79%.



Change in contributor numbers compared to December 2012



How much do you contribute?

Average monthly contributions have increased marginally for the employed compared to 2012. The increase in average contributions is more substantial in the self-employed (16%), as contributions which needed to be linked to the upper minimum wage (€170 for over 35s) were much more in compliance during 2013.

The increase in average contributions for employed males was higher than for females. This would be expected if women were getting more of the opportunities where the pay was low or if fewer pay increases were being offered to women.

Contributions seem to prove the theory that employee income increases with age. Come retirement age, an average person is contributing nearly €47 per month – hinting at an average wage of €470 for that age group.

Compared to 2012, as with each gender, there is an increase in average monthly contributions for each age group.

	2013	2012	Change
Employed	€36.84	€36.68	0.4%
Self-employed	€23.66	€20.33	16.4%
Overall	€36.11	€35.80	0.9%
Employed	€39.88	€39.38	1.3%
Self-employed	€30.88	€26.48	16.6%
Overall	€38.72	€38.08	1.7%
Age-group			
15–24	€25.10	€24.76	1.4%
25–34	€37.23	€37.09	0.4%
35–44	€42.93	€42.08	2.0%
45–54	€41.73	€40.87	2.1%
55–64	€43.87	€43.63	0.6%
65+	€46.94	€45.64	2.8%

Are you paying the minimum?

The law requires that minimum contributions for full-time employees and the self-employed be based on the minimum monthly wages which are: €130 for persons up to 35; and €170 for persons over 35 years old.

Compared to last year the portion of contributors paying below the required minimum has dropped from 10.4% to 6.2% for the self-employed, and from 4.5% to 3.7% for the employed.

With 57.6% (2012: 53.8%), over half the self-employed paid only the minimum contributions required by law; and if they continue to do so, they risk not saving enough for their retirement.

Only 4.2% of the employed contributed the legal minimum (2012: 4.5%); since 92.1% contributed above the legal minimum it could be argued that minimum wages could be raised without major implications for employers.

How much do you need to save?

As an example, assuming that the KPST monthly share price will increase at a constant rate of 4% per annum, a person finding employment on their 25th birthday and contributing the legal minimum every month for 40 years until retirement will have accumulated a balance of €18,142 in their account with KPST.

However, given that inflation erodes the value of money, if the inflation is e.g. 2% per annum, the present value of that balance would be €8,216.

This value, saved through minimum contributions, would be insufficient to purchase an economically favourable life annuity. In today's circumstances, this person would be retiring in the phased withdrawal program, their income from pension savings would be €150 per month for roughly 4.5 years, after which they would be left without income from a savings pension.

Life annuity products are not yet being offered in Kosovo, and without them in place, it is difficult to estimate the balance of savings that will be required to purchase a minimum life annuity.

On the other hand, it is difficult to believe that savings lower than €25,000 (in present value), will suffice to purchase a minimum pension.

With this value as an aim, a person who starts employment at 25 and works up to retirement without receiving any pay increases should contribute €41.50 per month every month (employee and employer together). If however, the same person receives a 1% pay increase every year it means their monthly contributions should be €34.30 to begin with, rising to €74.23 by the time the last contribution is paid on their 65th birthday. The average monthly contribution in the latter case would be €51.74, almost €10 more than in the first case, stressing the importance of starting as early as possible with as high a contribution as possible.

There are, of course, many persons today in Kosovo who are constantly in and out of work, or are latecomers to the scheme with fewer years to save; it will be much more difficult for them to secure a decent retirement only through their mandatory pension savings.

KPST staff are here to help and can be consulted by anyone who wishes to find out how to save for a better pension; while KPST and its Board will do their utmost to increase the value of contributors' savings on the way to their happier retirement.

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07

KOSOVO PENSION SAVINGS TRUST
OPERATIONS

INDEPENDENT AUDITOR'S REPORT AND FINANCIAL STATEMENTS

As at and for the year ended **December 31, 2013**

Independent Auditors' Report

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To the Board of Governors of Kosovo Pension Savings Trust

We have audited the accompanying financial statements of Kosovo Pension Savings Trust – Operations (the "KPST-O"), which comprise the statement of financial position as at December 31, 2013, and the statement of comprehensive income, statement of changes in net assets and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's responsibility for the financial statements
Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility
Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Kosovo Pension Savings Trust – Operations as at December 31, 2013, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Grant Thornton LLC

Pristina, Kosovo
16 April 2014

KOSOVO PENSION SAVINGS TRUST – OPERATIONS

STATEMENT OF FINANCIAL POSITION

AS AT DECEMBER 31, 2013

	Notes	As at December 31 2013	As at December 31 2012
		EUR	EUR
Assets			
Current Assets			
Cash in hand and at banks	4	888,141	736,610
Held to maturity investments	5	4,000,000	6,000,000
Account receivables	6	350,373	547,927
Prepaid expenses		45,151	22,015
		5,283,665	**7,306,552**
Fixed Assets			
Property, plant and equipment	7	159,566	57,805
Intangible assets	8	233,691	240,597
		393,257	**298,402**
Total assets		**5,676,922**	**7,604,954**
Liabilities			
Current Liabilities			
Accounts payable		629,542	483,402
		629,542	**483,402**
Net assets attributable to KPST Operations		5,047,380	7,121,552
		5,047,380	**7,121,552**
Total liabilities		**5,676,922**	**7,604,954**

Authorised for issue by the Governing Board and Management of KPST and signed on their behalf on April 16, 2014.

Dr. Ymer Havolli
Chairman of the Board

Mr. Adrian Zalli
Managing Director

Mr. Vërshim Hatipi
Deputy Director – Finance and IT

The accompanying notes from 1 to 16 form an integral part of these financial statements

STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED DECEMBER 31, 2013

	Notes	Year ended December 31 2013	Year ended December 31 2012
		EUR	EUR
Income			
Fees charged on pension assets	10	4,599,464	3,997,932
Release from grant		–	100,280
Other income	11	314,706	491,677
Total income		**4,914,170**	**4,589,889**
Expenses			
Investment expenses			
Open-end vehicle net fees	12	(2,836,938)	(2,384,456)
CBK transfer and maintenance charges		(30,422)	(31,497)
Brokerage, custody and pledge expenses		(25,508)	(26,539)
		(2,892,868)	**(2,442,492)**
Operational expenses			
Governing Board expenses	13	(147,914)	(156,988)
Staff costs	14	(522,970)	(547,017)
Account statements and correspondence		(112,094)	(101,252)
Office operating expenses		(88,529)	(69,277)
Public education and advertising		(19,901)	(32,721)
Software maintenance		(36,271)	(24,673)
CBK supervision charges		(15,539)	(22,155)
Depreciation and amortisation	7–8	(103,319)	(73,279)
Professional services/Contractors/Consultants	15	(2,920)	(11,256)
External audit		(9,900)	(9,900)
Disaster recovery		(8,616)	(5,777)
Meetings and conferences		(808)	(3,062)
Communication		(8,860)	(8,794)
Bank charges		(3,982)	(5,242)
Other costs		(13,851)	(18,421)
		(1,095,474)	**(1,089,814)**
Total expenses		**(3,988,342)**	**(3,532,306)**
Surplus for the year		**925,828**	**1,057,583**

The accompanying notes from 1 to 16 form an integral part of these financial statements

STATEMENT OF CHANGES IN NET ASSETS OF KPST OPERATIONS

FOR THE YEAR ENDED DECEMBER 31, 2013

	Notes	Surplus	Reserve	Total
		EUR	EUR	EUR
As at January 1, 2012		**6,063,969**	–	**6,063,969**
Surplus for the year		1,057,583	–	1,057,583
As at December 31, 2012		**7,121,552**	–	**7,121,552**
Surplus for the year		925,828	–	925,828
Transfers to reserve	9	(5,000,000)	5,000,000	–
Return of surplus to KPST-PA	9	(3,000,000)	–	(3,000,000)
As at December 31, 2013		**47,380**	**5,000,000**	**5,047,380**

Note: The details related to the Statement of changes in net assets of KPST Operations are described in Notes 9 through to 10 of these Financial Statements.

The accompanying notes from 1 to 16 form an integral part of these financial statements

	Notes	Year ended December 31 2013	Year ended December 31 2012
		EUR	EUR
Cash flows from operating activities			
Surplus for the year		925,828	1,057,583
Adjustments for:			
Depreciation and amortisation	7–8	103,319	73,279
Release from grant		–	(100,280)
		1,029,147	**1,030,582**
Changes in operating assets and liabilities:			
Increase in accounts payable/accruals		146,140	64,876
Decrease in accounts receivable/prepaid expenses		174,418	18,552
Net cash flows from operating activities		**1,349,705**	**1,114,010**
Cash flows from investing activities			
Purchase of equipment		(144,208)	(28,251)
Purchase of software and licenses		(53,966)	(278,981)
Decrease in held to maturity investments		2,000,000	900,000
Net cash flows from investing activities		**1,801,826**	**592,768**
Cash flows from financing activities			
Return of surplus to KPST-PA	9	(3,000,000)	–
Returned grant		–	(1,484,828)
Net cash flows from financing activities		**(3,000,000)**	**(1,484,828)**
Increase in cash and cash equivalents		**151,531**	**221,950**
Cash and cash equivalents at the start of the year		736,610	514,660
Cash and cash equivalents at the end of the year	4	**888,141**	**736,610**

The accompanying notes from 1 to 16 form an integral part of these financial statements

1 GENERAL

The Kosovo Pension Savings Trust (hereinafter “KPST”), registered at address: Rr. Agim Ramadani No. 10, 10000 Prishtina, Republic of Kosovo, with registration number 90000225; was created by UNMIK Regulation 2001/35 on 22 December 2001, later amended to Regulation No. 2005/20, further amended by Law No. 03/L-084 of the Republic of Kosovo, further amended by Law No. 04/L-101 of the Republic of Kosovo, the latter complemented by additions and changes of Law No. 04/L-168; as a not-for-profit, financial institution whose sole and exclusive purpose is to administer and manage individual accounts for savings pensions, assuring the prudent investment and custody of pension assets, and paying the proceeds of individual accounts to purchase annuities for savings pensions, as management trustee acting on behalf of participants' and beneficiaries.

Law No. 04/L-101 provides for a pension savings program, funded by contributions of both employees and their employers, and administered and invested through the KPST. Under this defined contribution system, all employed residents of Kosovo and their employers are required to make pension contributions (except for foreign employees with temporary stay in Kosovo). KPST is maintaining individual accounts for each participant to which contributions as well as investment returns are credited.

The KPST is overseen by a Board of Governors, which is comprised of investment and pension experts, as well as employee and employer representatives from Kosovo. One non-voting member represents the interests of the Government.

A Director and 25 permanent staff members managed the day to day operations of the KPST during 2013 (2012: Director and 25 permanent staff members).

2 BASIS OF PREPARATION OF THE FINANCIAL STATEMENTS

2.1 Statement of compliance

The financial statements of KPST-O have been prepared in accordance with International Financial Reporting Standards (“IFRS”).

2.2 Basis of preparation

KPST-O maintains its accounting records and prepares its statutory financial statements under the historical cost convention as modified by the revaluation of appropriate financial assets, financial liabilities and property, plant and equipment.

2.3 Changes in accounting policies and disclosures

(a) New and revised standards that are effective for annual periods beginning on or after 1 January 2013

A number of new and revised standards are effective for annual periods beginning on or after 1 January 2013. Information on these new standards is presented below.

IFRS 10 ‘Consolidated Financial Statements’ (IFRS 10)

IFRS 10 supersedes IAS 27 ‘Consolidated and Separate Financial Statements’ (IAS 27) and SIC 12 ‘Consolidation-Special Purpose Entities’. IFRS 10 revises the definition of control and provides extensive new guidance on its application. These new requirements have the potential to affect which of the KPST-O investees are considered to be subsidiaries and therefore to change the scope of consolidation. The requirements on consolidation procedures, accounting for changes in non-controlling interests and accounting for loss of control of a subsidiary are unchanged.

Management has reviewed its control assessments in accordance with IFRS 10 and has concluded that there is no effect on the classification (as subsidiaries or otherwise) of any of the KPST-O investees held during the period or comparative periods covered by these financial statements.

IFRS 11 ‘Joint Arrangements’ (IFRS 11)

IFRS 11 supersedes IAS 31 ‘Interests in Joint Ventures’ (IAS 31) and SIC 13 ‘Jointly Controlled Entities- Non-Monetary-Contributions by Venturers’. IFRS 11 revises the categories of joint arrangement, and the criteria for classification into the categories, with the objective of more closely aligning the accounting with the investor's rights and obligations relating to the arrangement. In addition, IAS 31's option of using proportionate consolidation for arrangements classified as jointly controlled entities under that Standard has been eliminated. IFRS 11 now requires the use of the equity method for arrangements classified as joint ventures (as for investments in associates).

The application of IFRS 11 does not impact KPST-O financial statements.

2 BASIS OF PREPARATION OF THE FINANCIAL STATEMENTS (CONTINUED)

2.3 Changes in accounting policies and disclosures (Continued)

(a) New and revised standards that are effective for annual periods beginning on or after 1 January 2013 (Continued)

IFRS 12 'Disclosure of Interests in Other Entities' (IFRS 12)

IFRS 12 integrates and makes consistent the disclosure requirements for various types of investments, including unconsolidated structured entities. It introduces new disclosure requirements about the risks to which an entity is exposed from its involvement with structured entities.

The application of IFRS 12 does not materially impact KPST-O financial statements.

Consequential amendments to IAS 27 'Separate Financial Statements' (IAS 27) and IAS 28 'Investments in Associates and Joint Ventures' (IAS 28)

IAS 27 now only addresses separate financial statements. IAS 28 brings investments in joint ventures into its scope. However, IAS 28's equity accounting methodology remains unchanged.

IFRS 13 'Fair Value Measurement' (IFRS 13)

IFRS 13 clarifies the definition of fair value and provides related guidance and enhanced disclosures about fair value measurements. It does not affect which items are required to be fair-valued. The scope of IFRS 13 is broad and it applies for both financial and non-financial items for which other IFRSs require or permit fair value measurements or disclosures about fair value measurements except in certain circumstances.

IFRS 13 applies prospectively for annual periods beginning on or after 1 January 2013. Its disclosure requirements need not be applied to comparative information in the first year of application. KPST-O has however included as comparative information the IFRS 13 disclosures that were required previously by IFRS 7 'Financial Instruments: Disclosures'.

The KPST-O has applied IFRS 13 for the first time in the current year.

Amendments to IAS 19 'Employee Benefits' (IAS 19)

The amendments to IAS 19 made a number of changes to the accounting for employee benefits, the most significant relating to defined benefit plans. The amendments:

- eliminate the 'corridor method' and requires the recognition of remeasurements (including actuarial gains and losses) arising in the reporting period in other comprehensive income;
- change the measurement and presentation of certain components of the defined benefit cost. The net amount in profit or loss is affected by the removal of the expected return on plan assets and interest cost components and their replacement by a net interest expense or income based on the net defined benefit asset or liability;
- enhance disclosures, including more information about the characteristics of defined benefit plans and related risks.

The application of amendments to IAS 19 does not impact KPST-O financial statements.

(b) Standards, amendments and interpretations to existing standards that are not yet effective and have not been adopted early by KPST

At the date of authorisation of these financial statements, certain new standards, amendments and interpretations to existing standards have been published by the IASB but are not yet effective, and have not been adopted early by KPST-O.

Management anticipates that all of the relevant pronouncements will be adopted in KPST-O accounting policies for the first period beginning after the effective date of the pronouncement. Information on new standards, amendments and interpretations that are expected to be relevant to KPST-O financial statements is provided below. Certain other new standards and interpretations have been issued but are not expected to have a material impact on KPST-O financial statements.

IFRS 9 'Financial Instruments' (IFRS 9)

The IASB aims to replace IAS 39 'Financial Instruments: Recognition and Measurement' (IAS 39) in its entirety with IFRS 9. To date, the chapters dealing with recognition, classification, measurement and derecognition of financial assets and liabilities have been issued. Chapters dealing with impairment methodology are still being developed. Further, in November 2011, the IASB tentatively decided to consider making limited modifications to IFRS 9's financial asset classification model to address application issues. The Management has yet to assess the impact of this new standard on the KPST-O financial statements. Management does not expect to implement IFRS 9 until it has been completed and its overall impact can be assessed.

3 SIGNIFICANT ACCOUNTING POLICIES

3.1 Revenue recognition

Fees are accrued on daily basis by charging specified rates on the gross daily pension assets.

Interest on bank deposits is recognised on accrual basis.

3.2 Government grants

Government grants are recognised at their fair value when there is reasonable assurance that the grant will be received and all attaching conditions will be complied with. When the grant relates to an expense item, it is recognised as income over the periods necessary to match the grant on a systematic basis to the cost that it is intended to compensate. Where the grant relates to an asset, the fair value is credited to a deferred income account and it is released to the statement of comprehensive income over the expected useful life of the relevant asset.

3.3 Property, plant and equipment

Property, plant and equipment of KPST Operations consist of: Computers and related equipment; Furniture, fixtures and related equipment; Other office equipment; and Motor vehicles; which are carried at cost less accumulated depreciation. The carrying value of such assets is reviewed for impairment when events change or changes in circumstances indicate that the carrying value may not be recoverable. If any such indications exist and where the carrying value exceeds the estimated recoverable amount, the assets are written down to their recoverable amount. The recoverable amount of such assets is the greater of the net selling price and the value in use.

In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax-discount rate that reflects current market assessment of the time value of money and the risks specific to the assets.

Impairment losses are recognised in the statement of comprehensive income.

Depreciation is charged on a straight-line basis over the estimated useful lives of the assets using the following rates:

Computer and related equipment – 33%

Furniture, fixtures and equipment – 20%

Other office equipment – 20%

Motor vehicles – 20%.

3.4 Intangible assets

Intangible assets comprise of licensed computer software. These are initially stated at cost and subsequently at their cost less accumulated amortisation and accumulated impairment losses, if any.

Amortisation is recorded when these assets are available for use using straight-line basis whereby the cost of an intangible asset is written off over its estimated useful life using the following rates:

Software – 20%

Licenses are amortised over the term of the license.

3.5 Financial instruments

Financial assets and liabilities carried on the statement of financial position include investments, cash, cash equivalents, receivables, and liabilities. The accounting policies on recognition and measurement of these items are disclosed in the respective accounting policies included in this note. Financial instruments are classified as assets, liabilities or equity in accordance with the substance of the related contractual arrangement. Interest, gains and losses relating to financial instruments classified as assets or liabilities are reported as income or expense. Financial instruments are offset when KPST-O has a legally enforceable right to offset and intends to settle either on a net basis or to realise the asset and settle the liability simultaneously.

3 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.6 Investments

All purchases and sales of securities are recognised at the trade date. Trade date is the date on which KPST-O commits to purchase or sell the asset.

Held to maturity investments
Held to maturity investments are represented by deposits and investments with fixed or determinable payments and fixed maturity which KPST-O has the positive intent and ability to hold to maturity. Term deposits with original maturities of three months or less are classified as cash equivalents for the purpose of cash flow statement, whilst those with original maturities of more than three months are classified as held to maturity investments.

Interest is calculated on a time accrual basis and interest receivable is reflected in other receivables. Government or treasury bills and notes at the time of acquisition are valued at their discounted values with subsequent valuations done at amortised values.

Available for sale investments
Investment securities in the open-end mutual funds held by KPST-O are classified as available for sale. These investments are initially recognised at cost, being the fair value of the consideration given.

After the initial recognition, investments in available for sale securities are re-measured at fair value on the basis of quoted market prices at the close of trading on the reporting date.

Determining fair values
Fair value represents the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

Financial instruments measured at fair value
The financial assets measured according to the fair value in the statement of financial position are presented in accordance with the hierarchy of the fair value. This hierarchy groups the financial assets and liabilities into three levels that are based on the significance of the incoming data used during the measurement of the fair value of the financial assets:

Level 1: quoted prices (not adjusted) on the active markets for identical assets or liabilities;

Level 2: other incoming data, aside from the quoted prices, included in Level 1 which are available for asset or liability observing, directly (i.e. as prices), or indirectly (i.e. made of prices); and

Level 3: incoming data on the asset or liability that are not based on data available for market observing.

As of the reporting dates, there were no financial instruments of KPST-O measured at fair value, be they assets or liabilities. Due to the fact that absolute surplus liquidity of KPST-O is invested only in term deposits or Kosovo Treasury debt instruments, it is not exposed to any financial risks over and above the bankruptcy of banks in which term deposits are placed, or the country of Kosovo.

Impairment of financial assets
Impairment of investments is recognised in the statement of comprehensive income when there is a permanent diminution in their value.

3.7 Cash and cash equivalents

For cash flow purposes, cash and cash equivalents consist of cash with bank, cash in hand and short term deposits with an original maturity of three months or less.

3.8 Taxation

KPST as a trust fund is exempt from the payment of corporate profit taxes.

3.9 Pension costs

KPST-O makes no provision and has no obligation for employees' pensions over and above the contributions paid into the above mentioned pension scheme.

KOSOVO PENSION SAVINGS TRUST – OPERATIONS
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
AS AT AND FOR THE YEAR ENDED DECEMBER 31, 2013

3 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.10 Significant estimates and judgments

The preparation of financial statements requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an on-going basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised and any future periods affected. Information about significant areas of estimation uncertainty and critical judgments in applying accounting policies that have the most significant effect on the amount recognised in the financial statements are described below:

Useful life of amortised assets
Management reviewed the useful lives of amortised assets at 31 December 2013. Management estimates the determined useful life of assets represents the expected usefulness (utility) of assets. The carrying values of such assets are analysed in Note 8. However, the factual results may differ due to the technological obsoleteness.

3.11 Financial risk management

3.11.1 Credit risk

Credit risk is the risk of financial loss to KPST-O if a customer or counterparty to financial instruments fails to meet its contractual obligations, and arises principally from KPST-O deposits with banks, cash and cash equivalents, as well investments in Kosovo Treasury debt instruments with the latter not having any exposure to on reporting date.

3.11.2 Liquidity risk

Prudent liquidity risk management implies maintaining sufficient cash, availability of funds through adequate credit facilities and ability to collect timely – within the terms established – the amounts due from third parties.

The following table presents the remaining contractual maturities of financial assets and liabilities of KPST-O. The table is prepared on the basis of undiscounted cash flows of financial liabilities.

		As at December 31 2013		As at December 31 2012
	Current Up to 1 year	Non-current Over 1 year	Current Up to 1 year	Non-current Over 1 year
	EUR	EUR	EUR	EUR
Financial assets				
Cash in hand and at banks	888,141	–	736,610	–
Held to maturity investments	4,000,000	–	6,000,000	–
Account receivables	350,373	–	547,927	–
	5,238,514	**–**	**7,284,537**	**–**
Financial Liabilities				
Account payables	629,542	–	483,402	–
	629,542	**–**	**483,402**	**–**
Maturity gap	**4,608,972**	**–**	**6,801,135**	**–**

3 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.11 Financial risk management (Continued)

3.11.3 Market risk

Market risk is the risk that changes in market prices, such as foreign exchange rates and interest rates will affect the income of KPST-O or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposure within acceptable parameters, while optimising returns.

Foreign exchange risk
Assets and liabilities of KPST-O are not exposed to the foreign exchange rate movement since all of the transactions are done in local currency.

Interest rate risk
Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. KPST-O management is primarily responsible for monitoring daily the net interest rate risk position and it sets limits to reduce the potential of interest rate mismatch. At the financial position date KPST-O has no interest-bearing assets of a floating interest rate, or funds borrowed from local or foreign financial institutions.

		As at December 31 2013		As at December 31 2012
	Assets	Liabilities	Assets	Liabilities
	EUR	EUR	EUR	EUR
Interest-bearing				
Fixed rate				
Held to maturity investments	4,000,000	–	6,000,000	–
Total	**4,000,000**	**–**	**6,000,000**	**–**

3.11.4 Financial instruments that are not presented at fair value

The following table summarises the carrying amounts and fair values to those financial assets and liabilities that are not presented in the Statement of financial position at their fair value as at December 31, 2013 and 2012.

		As at December 31 2013		As at December 31 2012
	Carrying Value	Fair value	Carrying Value	Fair value
	EUR	EUR	EUR	EUR
Financial assets				
Cash in hand and at banks	888,141	888,141	736,610	736,610
Held to maturity investments	4,000,000	4,000,000	6,000,000	6,000,000
Account receivables	350,373	350,373	547,927	547,927
	5,238,514	**5,238,514**	**7,284,537**	**7,284,537**
Financial Liabilities				
Account payables	629,542	629,542	483,402	483,402
	629,542	**629,542**	**483,402**	**483,402**

4 CASH IN HAND AND AT BANKS

	As at December 31 2013	As at December 31 2012
	EUR	EUR
Raiffeisen Bank Kosovo – Current account	278,688	548,079
ProCredit Bank – Current account	481,482	93,822
NLB Prishtina – Current account	124,782	90,285
Raiffeisen Bank International (Austria) – Current account	2,673	4,391
Cash in hand	516	33
Total cash in hand and at banks	**888,141**	**736,610**

5 HELD TO MATURITY INVESTMENTS

	Notes	As at December 31 2013	As at December 31 2012
		EUR	EUR
Term deposits	5.1	4,000,000	6,000,000
Kosovo Treasury debt instruments	5.2	–	–
Total held to maturity investments		**4,000,000**	**6,000,000**

5.1 Term deposits

Term deposits balance as of December 31, 2013 amounting EUR 4,000,000 (2012: EUR 6,000,000) represent deposits with local banks with original maturity of 12 months. Term deposits carry interest rates in the range of 2.63% – 2.90% p.a. (2012: 4.8% – 5.5% p.a.).

5 HELD TO MATURITY INVESTMENTS (CONTINUED)

5.2 Kosovo Treasury debt instruments

	2013	2012
	EUR	EUR
As at January 1	–	–
Placements		
KV1102320237 T-Bill Mat. 20.11.2013 @0.95%	2,488,114	–
	2,488,114	**–**
Interest		
KV1102320237 T-Bill Mat. 20.11.2013 @0.95%	11,886	–
	11,886	**–**
Redemptions (upon maturity)		
KV1102320237 T-Bill Mat. 20.11.2013 @0.95%	(2,500,000)	–
	(2,500,000)	**–**
As at December 31	**–**	**–**

As of reporting date there were no investments on Kosovo Treasury securities, which are not yet rated. When there are investments in such an instrument, it normally is the intention of the Governing Board to hold to maturity the investments of KPST-O in Kosovo Treasury debt instruments.

6 ACCOUNT RECEIVABLES

	As at December 31 2013	As at December 31 2012
	EUR	EUR
Receivables from KPST-PA	294,010	414,306
Rebates receivable from open-end funds	31,368	–
Other account receivables	24,995	133,621
Total account receivables	**350,373**	**547,927**

As at December 31, 2013 the balance of receivables from KPST-PA amounting EUR 294,010 (2012: EUR 414,306) relates to the fee charged on participants' accounts amounting EUR 292,357 (2012: EUR 290,047), as well as differences from refunds of erroneous contributions amounting EUR 1,653 (2012: EUR 124,259); which were not received as of reporting date.

7 PROPERTY, PLANT AND EQUIPMENT

	Computers and related equipment	Furniture, fixtures and equipment	Other office equipment	Motor Vehicles	Total
	EUR	EUR	EUR	EUR	EUR
Cost					
As at January 1, 2012	**126,135**	**21,468**	**39,270**	**53,365**	**240,238**
Additions for the year	28,251	–	–	–	28,251
Disposals for the year	(34,661)	(1,653)	(3,969)	–	(40,283)
As at December 31, 2012	**119,725**	**19,815**	**35,301**	**53,365**	**228,206**
Additions for the year	128,525	1,639	14,044	–	144,208
Disposals for the year	(5,408)	(738)	(909)	–	(7,055)
As at December 31, 2013	**242,842**	**20,716**	**48,436**	**53,365**	**365,359**
Accumulated depreciation					
As at January 1, 2012	**(106,039)**	**(17,329)**	**(22,239)**	**(35,739)**	**(181,346)**
Charge for the year	(17,639)	(2,253)	(4,848)	(4,598)	(29,338)
Eliminated through disposals	34,661	1,653	3,969	–	40,283
As at December 31, 2012	**(89,017)**	**(17,929)**	**(23,118)**	**(40,337)**	**(170,401)**
Charge for the year	(31,562)	(1,131)	(5,156)	(4,598)	(42,447)
Eliminated through disposals	5,408	738	909	–	7,055
As at December 31, 2013	**(115,171)**	**(18,322)**	**(27,365)**	**(44,935)**	**(205,793)**
Net book value					
As at December 31, 2013	**127,671**	**2,394**	**21,071**	**8,430**	**159,566**
	–	–	–	–	–
As at December 31, 2012	**30,708**	**1,886**	**12,183**	**13,028**	**57,805**

8 INTANGIBLE ASSETS

	Software and Licenses
	EUR
Cost	
As at January 1, 2012	**301,066**
Additions for the year	278,981
Disposals for the year	(294,215)
As at December 31, 2012	**285,832**
Additions for the year	53,966
Disposals for the year	–
As at December 31, 2013	**339,798**
Accumulated amortisation	
As at January 1, 2012	**(295,509)**
Charge for the year	(43,941)
Eliminated through disposals	294,215
As at December 31, 2012	**(45,235)**
Charge for the year	(60,872)
Eliminated through disposals	–
As at December 31, 2013	**(106,107)**
Net book value	
As at December 31, 2013	**233,691**
As at December 31, 2012	**240,597**

9 SURPLUS

	Joint Activities	Operational Activities	Investment Activities	Total
	EUR	EUR	EUR	EUR
Income for the year 2013				
Income from fees charged				
January 1 – May 19, 2013	1,796,645	–	–	1,796,645
May 20 – December 31, 2013	–	793,250	2,009,569	2,802,819
	1,796,645	**793,250**	**2,009,569**	**4,599,464**
Non-fee income				
January 1 – May 19, 2013	138,829	–	–	**138,829**
May 20 – December 31, 2013	–	175,877	–	175,877
	138,829	**175,877**	**–**	**314,706**
Total income for the year 2013	**1,935,474**	**969,127**	**2,009,569**	**4,914,170**
Expenses for the year 2013				
January 1 – May 19, 2013	(1,574,401)	–	–	(1,574,401)
May 20 – December 31, 2013	–	(638,322)	(1,775,619)	(2,413,941)
Total expenses for the year 2013	**(1,574,401)**	**(638,322)**	**(1,775,619)**	**(3,988,342)**
Surplus for the year 2013	**361,073**	**330,805**	**233,950**	**925,828**
Surplus at the start of the year	7,121,552	–	–	7,121,552
Transfer to reserve	(5,000,000)	–	–	(5,000,000)
Return of surplus to KPST–PA	(2,482,625)	(283,425)	(233,950)	(3,000,000)
Surplus at the end of the year	**–**	**47,380**	**–**	**47,380**

During April of 2013 the Governing Board decided to create a reserve, capped at EUR 5,000,000. Funds from the reserve can only be used with the approval of the Board for exceptional events and unforeseen circumstances. The reserve was initially to be financed from the surplus from joint activities. When funds from the reserve are used, the reserve shall be replenished from surpluses from operational activities.

Activities of KPST-O prior to May 20, 2013 in these financial statements are referred to as 'Joint Activities'. Due to changes in the law, details of which are described in Note 10, with effect from May 20, 2013 joint activities were replaced with investment and operational activities which were subsequently accounted for separately. The surplus from joint activities had a balance of EUR 7,482,625 on the last day of its accumulation, i.e. May 19, 2013. Out of this balance, EUR 5,000,000 was used to finance the reserve described above.

The Governing Board subsequently decided to refund EUR 3,000,000 to contributors' pension assets (KPST-PA) from joint, investment and operational activity surpluses, in that order of precedence. The return of surplus to KPST-PA was financed from: i) Joint activity surplus: EUR 2,482,625; ii) Investment activity surplus: EUR 233,950; and iii) Operational activity surplus: EUR 283,425. This resulted in no surplus funds from joint or investment activities, and a balance of EUR 47,380 for the surplus from operational activities, remaining on reporting date.

10 FEES CHARGED ON PENSION ASSETS

	Year ended December 31 2013	Year ended December 31 2012
	EUR	EUR
Fees charged for joint activities	1,796,645	3,997,932
Fees charged for investment activities	2,009,569	–
Fees charged for operational activities	793,250	–
Total fees charged on pension assets	**4,599,464**	**3,997,932**

Fees are accrued on daily basis according to the formula:

Fee = [Gross Participants' Assets] * [Rate]/[Number of calendar days in a year].

Total fees charged on gross participants' assets for the purpose of financing the activities of KPST-O for the year ended December 31, 2013 amounted EUR 4,599,464 (2012: EUR 3,997,932).

Prior to Law Nr. 04/L-168 a single fee (joint management fee) was being charged to cover joint activities, i.e. both investment and operational activities. This law however introduced the charging of two separate fees: (i) fees to cover activities related to the investment of pension assets and (ii) fees to cover operational activities.

From January 1, 2012 and up to May 19, 2013, the joint management fee was charged at the rate of 0.60% p.a. From May 20, 2013 when the Assembly of the Republic of Kosovo – according to the new law – approved fees for investment activities at a rate of 0.38% p.a. as well as fees for operational activities at a rate of 0.15% p.a., KPST-O charged according to these new rates and accounted for investment and operational activities, and their respective surpluses, separately.

11 OTHER INCOME

	Year ended December 31 2013	Year ended December 31 2012
	EUR	EUR
Interest income on held to maturity investments	233,384	354,254
Differences from refunds of erroneous contributions	71,300	126,161
Other income	10,022	11,262
Total other income	**314,706**	**491,677**

12 OPEN-END VEHICLE NET FEES

	Year ended December 31 2013			Year ended December 31 2012		
	Gross fee	Rebate	Net fee	Gross fee	Rebate	Net fee
	EUR	EUR	EUR	EUR	EUR	EUR
Vanguard – GSIF	1,185,522	(789,074)	396,448	949,112	(593,188)	355,924
BNY Mellon – RRF	763,930	–	763,930	485,001	–	485,001
AXA – GILB	472,252	(39,207)	433,045	385,985	–	385,985
Schroders – SISF	453,392	–	453,392	312,575	–	312,575
Aquila – RP7	625,429	–	625,429	633,154	–	633,154
State Street – EMIF	51,450	–	51,450	52,168	–	52,168
ECM – DEC	113,244	–	113,244	106,385	–	106,385
BNP Paribas – GLF	–	–	–	53,264	–	53,264
Total open-end vehicle net fees	**3,665,219**	**(828,281)**	**2,836,938**	**2,977,644**	**(593,188)**	**2,384,456**

13 GOVERNING BOARD EXPENSES

	Year ended December 31 2013	Year ended December 31 2012
	EUR	EUR
Trustees honoraria	90,403	96,250
Fiduciary Insurance	21,503	36,242
Meetings (Travel/Hotel/Other costs)	31,370	21,810
Employer's pension contributions	4,638	2,686
Total Governing Board expenses	**147,914**	**156,988**

14 STAFF COSTS

	Year ended December 31 2013	Year ended December 31 2012
	EUR	EUR
Staff salaries	397,020	422,735
Overtime, bonuses and retention fees	60,619	61,216
Employer's pension contributions	43,444	44,472
Staff training	3,573	5,001
Health insurance	6,225	6,213
Travel and other staff expenses	12,089	7,380
Total staff costs	**522,970**	**547,017**

In financial statements for the year ending December 31, 2012 staff travel and other expenses were shown under Other costs in the statement of comprehensive income.

15 PROFESSIONAL SERVICES/CONTRACTORS/CONSULTANTS

	Year ended December 31 2013	Year ended December 31 2012
	EUR	EUR
Translation and proofreading services	1,688	1,556
Notary/Legal services	1,200	–
Internal audit services	–	8,000
Accounting services	–	1,700
Other	32	–
Total Professional services/Consultants/Contractors	**2,920**	**11,256**

16 EVENTS AFTER THE REPORTING PERIOD

For the first two months of 2014 the KPST-O has following financial data based on unaudited financial statements for those two months.

	As at February 28 2014
	EUR
Total assets	5,600,756
Current liabilities	(293,469)
Net assets attributable to KPST Operations	**5,307,287**

	For the period January 1 to February 28 2014
	EUR
Total income	807,738
Total expenses	(547,831)
Net surplus	**259,907**

There are no subsequent events that require adjustment or further disclosure in the financial statements for the year ended December 31, 2013.

08

KOSOVO PENSION SAVINGS TRUST
PENSION ASSETS

INDEPENDENT AUDITOR'S REPORT AND FINANCIAL STATEMENTS
As at and for the year ended **December 31, 2013**

Independent Auditors' Report

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To the Board of Governors of Kosovo Pension Savings Trust

We have audited the accompanying financial statements of Kosovo Pension Savings Trust –Pension Assets (the "KPST-PA"), which comprise the statement of financial position as at December 31, 2013, and the statement of comprehensive income, statement of changes in net assets and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's responsibility for the financial statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Grant Thornton

Opinion
In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Kosovo Pension Savings Trust – Pension Assets as at December 31, 2013, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Emphasis of matter
We draw attention to note 17 to financial statements which describes that receipts from participants amounting to EUR 12,849,215 were not attributed to individual participant's accounts as at December 31, 2013. As of December 31, 2012 the amount not attributed to individual participant's accounts was EUR 17,544,647. During 2013 KPST attributed the amount of EUR 4,575,373 to individual accounts from the amount outstanding as of December 31, 2012. Our opinion is not qualified in respect of this matter.

Grant Thornton LLC
Pristina, Kosovo
16 April 2014

KOSOVO PENSION SAVINGS TRUST – PENSION ASSETS
STATEMENT OF FINANCIAL POSITION
AS AT DECEMBER 31, 2013

	Notes	As at December 31 2013	As at December 31 2012
		EUR	EUR
Assets			
Cash at bank	4	209,646,903	27,328,138
Contributions and other receivables	5	7,869,239	7,791,087
Available for sale investments	6	650,832,621	666,319,389
Investments in bank deposits	7	–	16,428,599
Held to maturity investments	8	53,122,905	30,048,996
		921,471,668	**747,916,209**
Liabilities			
Liabilities towards KPST-Operations	9	294,010	414,306
Liabilities for repurchased shares	10	112,347	9,324
Non-contributions	11	13,334	4,892
		419,691	**428,522**
Net participants' assets		**921,051,977**	**747,487,687**

Authorised for issue by the Governing Board and Management of KPST and signed on their behalf on April 16, 2014.

FKPK KPSF KPST

Dr. Ymer Havolli
Chairman of the Board

Mr. Adrian Zalli
Managing Director

Mr. Vërshim Hatipi
Deputy Director – Finance and IT

The accompanying notes from 1 to 20 form an integral part of these financial statements

STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED DECEMBER 31, 2013

	Notes	Year ended December 31 2013	Year ended December 31 2012
		EUR	EUR
Income			
Revaluation of available for sale investments – net	12	67,528,194	53,014,121
Interest income from held to maturity investments	13	430,207	588,875
Interest income from bank deposits	7	173,172	573,471
Interest income from current accounts	14	–	7,603
Other income	15	3,000,000	–
		71,131,573	**54,184,070**
Expenses			
Fees charged on participants' accounts	16	(4,599,464)	(3,997,932)
		(4,599,464)	**(3,997,932)**
Increase in net participants' assets		**66,532,109**	**50,186,138**

The accompanying notes from 1 to 20 form an integral part of these financial statements

STATEMENT OF CHANGES IN NET PARTICIPANTS' ASSETS

FOR THE YEAR ENDED DECEMBER 31, 2013

	Participants' Contributions	Retained Earnings	Total
	EUR	EUR	EUR
As at January 1, 2012	**595,037,412**	**346,912**	**595,384,324**
Contributions	113,557,262	–	113,557,262
Repurchases due to withdrawal of savings	(8,351,238)	(329,844)	(8,681,082)
Repurchases due to refunds	(2,832,793)	(126,162)	(2,958,955)
Increase in net participants' assets	–	50,186,138	50,186,138
As at December 31, 2012	**697,410,643**	**50,077,044**	**747,487,687**
Contributions	119,291,741	–	119,291,741
Repurchases due to withdrawal of savings	(9,674,931)	(1,074,936)	(10,749,867)
Repurchases due to refunds	(1,438,393)	(71,300)	(1,509,693)
Increase in net participants' assets	–	66,532,109	66,532,109
As at December 31, 2013	**805,589,060**	**115,462,917**	**921,051,977**

Note. Retained earnings and participants' nominal contributions (received or paid out) have been shown separately in the statement of changes in these financial statements. In the statement of changes in financial statements for the year ending December 31, 2012, the above were presented jointly.

The accompanying notes from 1 to 20 form an integral part of these financial statements

	Notes	Year ended December 31 2013	Year ended December 31 2012
		EUR	EUR
Cash flows from operating activities			
Gain for the year		66,532,109	50,186,138
Movement of working capital:			
Increase in fees payable	9	59,651	1,666
Increase in liabilities for non-contributions	11	8,442	1,921
Net cash flows from operating activities		**66,600,202**	**50,189,725**
Cash flows from investing activities			
Decrease/(Increase) in available for sale investments		15,486,768	(133,352,691)
(Increase) in held to maturity investments		(23,073,909)	(11,204,203)
Decrease/(Increase) in investments in bank deposits		16,428,599	(573,471)
Net cash flows from investing activities		**8,841,458**	**(145,130,365)**
Cash flows from financing activities			
Participants' contributions received		119,156,250	113,038,633
Withdrawal of savings		(10,711,142)	(8,681,081)
Refunds		(1,568,003)	(2,825,372)
Net cash flows from financing activities		**106,877,105**	**101,532,180**
Increase in cash and cash equivalents		**182,318,765**	**6,591,540**
Cash and cash equivalents at the start of the year		27,328,138	20,736,598
Cash and cash equivalents at the end of the year	4	**209,646,903**	**27,328,138**

The accompanying notes from 1 to 20 form an integral part of these financial statements

1 GENERAL

The Kosovo Pension Savings Trust (hereinafter "KPST"), registered at address: Rr. Agim Ramadani No. 10, 10000 Prishtina, Republic of Kosovo, with registration number 90000225; was created by UNMIK Regulation 2001/35 on 22 December 2001, later amended to Regulation No. 2005/20, further amended by Law No. 03/L-084 of the Republic of Kosovo, further amended by Law No. 04/L-101 of the Republic of Kosovo, the latter complemented by additions and changes of Law No. 04/L-168; as a not-for-profit, financial institution whose sole and exclusive purpose is to administer and manage individual accounts for savings pensions, assuring the prudent investment and custody of pension assets, and paying the proceeds of individual accounts to purchase annuities for savings pensions, as management trustee acting on behalf of participants' and beneficiaries.

Law No. 04/L-101 provides for a pension savings program, funded by contributions of both employees and their employers, and administered and invested through the KPST. Under this defined contribution system, all employed residents of Kosovo and their employers are required to make pension contributions (except for foreign employees with temporary stay in Kosovo). KPST is maintaining individual accounts for each participant to which contributions as well as investment returns are credited.

The KPST is overseen by a Board of Governors, which is comprised of investment and pension experts, as well as employee and employer representatives from Kosovo. One non-voting member represents the interests of the Government.

A Director and 25 permanent staff members managed the day-to-day operations of the KPST during 2013 (2012: Director and 25 permanent staff members).

2 BASIS OF PREPARATION OF THE FINANCIAL STATEMENTS

2.1 Statement of compliance

The financial statements of KPST-PA have been prepared in accordance with International Financial Reporting Standards ("IFRS").

2.2 Basis of preparation

KPST-PA maintains its accounting records and prepares its statutory financial statements under the historical cost convention as modified by the revaluation of appropriate financial assets, financial liabilities and property, plant and equipment. Where necessary, comparative figures have been reclassified in order to conform to the current year presentation.

2.3 Changes in accounting policies and disclosures

(a) New and revised standards that are effective for annual periods beginning on or after 1 January 2013

A number of new and revised standards are effective for annual periods beginning on or after 1 January 2013. Information on these new standards is presented below.

IFRS 10 'Consolidated Financial Statements' (IFRS 10)

IFRS 10 supersedes IAS 27 'Consolidated and Separate Financial Statements' (IAS 27) and SIC 12 'Consolidation-Special Purpose Entities'. IFRS 10 revises the definition of control and provides extensive new guidance on its application. These new requirements have the potential to affect which of the KPST-PA investees are considered to be subsidiaries and therefore to change the scope of consolidation. The requirements on consolidation procedures, accounting for changes in non-controlling interests and accounting for loss of control of a subsidiary are unchanged.

Management has reviewed its control assessments in accordance with IFRS 10 and has concluded that there is no effect on the classification (as subsidiaries or otherwise) of any of the KPST-PA investees held during the period or comparative periods covered by these financial statements.

IFRS 11 'Joint Arrangements' (IFRS 11)

IFRS 11 supersedes IAS 31 'Interests in Joint Ventures' (IAS 31) and SIC 13 'Jointly Controlled Entities- Non-Monetary-Contributions by Venturers'. IFRS 11 revises the categories of joint arrangement, and the criteria for classification into the categories, with the objective of more closely aligning the accounting with the investor's rights and obligations relating to the arrangement. In addition, IAS 31's option of using proportionate consolidation for arrangements classified as jointly controlled entities under that Standard has been eliminated. IFRS 11 now requires the use of the equity method for arrangements classified as joint ventures (as for investments in associates).

The application of IFRS 11 does not impact KPST-PA financial statements.

2 BASIS OF PREPARATION OF THE FINANCIAL STATEMENTS (CONTINUED)

2.3 Changes in accounting policies and disclosures (Continued)

(a) New and revised standards that are effective for annual periods beginning on or after 1 January 2013 (Continued)

IFRS 12 'Disclosure of Interests in Other Entities' (IFRS 12)

IFRS 12 integrates and makes consistent the disclosure requirements for various types of investments, including unconsolidated structured entities. It introduces new disclosure requirements about the risks to which an entity is exposed from its involvement with structured entities.

The application of IFRS 12 does not materially impact KPST-PA financial statements.

Consequential amendments to IAS 27 'Separate Financial Statements' (IAS 27) and IAS 28 'Investments in Associates and Joint Ventures' (IAS 28)

IAS 27 now only addresses separate financial statements. IAS 28 brings investments in joint ventures into its scope. However, IAS 28's equity accounting methodology remains unchanged.

IFRS 13 'Fair Value Measurement' (IFRS 13)

IFRS 13 clarifies the definition of fair value and provides related guidance and enhanced disclosures about fair value measurements. It does not affect which items are required to be fair-valued. The scope of IFRS 13 is broad and it applies for both financial and non-financial items for which other IFRSs require or permit fair value measurements or disclosures about fair value measurements except in certain circumstances.

IFRS 13 applies prospectively for annual periods beginning on or after 1 January 2013. Its disclosure requirements need not be applied to comparative information in the first year of application. KPST-PA has however included as comparative information the IFRS 13 disclosures that were required previously by IFRS 7 'Financial Instruments: Disclosures'.

The KPST-PA has applied IFRS 13 for the first time in the current year.

Amendments to IAS 19 'Employee Benefits' (IAS 19)

The amendments to IAS 19 made a number of changes to the accounting for employee benefits, the most significant relating to defined benefit plans. The amendments:

- eliminate the 'corridor method' and requires the recognition of remeasurements (including actuarial gains and losses) arising in the reporting period in other comprehensive income;
- change the measurement and presentation of certain components of the defined benefit cost. The net amount in profit or loss is affected by the removal of the expected return on plan assets and interest cost components and their replacement by a net interest expense or income based on the net defined benefit asset or liability;
- enhance disclosures, including more information about the characteristics of defined benefit plans and related risks.

The application of amendments to IAS 19 does not impact KPST-PA financial statements.

2 BASIS OF PREPARATION OF THE FINANCIAL STATEMENTS (CONTINUED)

2.3 Changes in accounting policies and disclosures (Continued)

(b) Standards, amendments and interpretations to existing standards that are not yet effective and have not been adopted early by KPST

At the date of authorisation of these financial statements, certain new standards, amendments and interpretations to existing standards have been published by the IASB but are not yet effective, and have not been adopted early by KPST-PA.

Management anticipates that all of the relevant pronouncements will be adopted in KPST-PA accounting policies for the first period beginning after the effective date of the pronouncement. Information on new standards, amendments and interpretations that are expected to be relevant to KPST-PA financial statements is provided below. Certain other new standards and interpretations have been issued but are not expected to have a material impact on KPST-PA financial statements.

IFRS 9 'Financial Instruments' (IFRS 9)

The IASB aims to replace IAS 39 'Financial Instruments: Recognition and Measurement' (IAS 39) in its entirety with IFRS 9. To date, the chapters dealing with recognition, classification, measurement and derecognition of financial assets and liabilities have been issued. Chapters dealing with impairment methodology are still being developed. Further, in November 2011, the IASB tentatively decided to consider making limited modifications to IFRS 9's financial asset classification model to address application issues. The Management has yet to assess the impact of this new standard on the KPST-PA financial statements. Management does not expect to implement IFRS 9 until it has been completed and its overall impact can be assessed.

3 SIGNIFICANT ACCOUNTING POLICIES

3.1 Revenue and expense recognition

Revenues consist of gross returns of financial instruments whose recognition and measurement is disclosed in the respective accounting policies included in this note, with interest on bank deposits recognised on accrual basis.

Expenses consist of fees accrued on daily basis by specified rates being charged by KPST Operations on the gross daily pension assets.

3.2 Contributions

Contributions from participants are accounted for on accrual basis.

3.3 Withdrawals of savings and refunds

Withdrawals of savings, or benefit payments, which are payable to members or their successors, as well as refunds of erroneous contributions, are accounted for in the period in which the redemption of respective units occurs.

3.4 Financial instruments

Financial assets and liabilities carried on the statement of financial position include investments, cash, cash equivalents, receivables, and liabilities. The accounting policies on recognition and measurement of these items are disclosed in the respective accounting policies included in this note. Financial instruments are classified as assets, liabilities or equity in accordance with the substance of the related contractual arrangement. Interest, gains and losses relating to financial instruments classified as assets or liabilities are reported as net income. Financial instruments are offset when KPST-PA has a legally enforceable right to offset and intends to settle either on a net basis or to realise the asset and settle the liability simultaneously.

3.5 Investments

All purchases and sales of securities are recognised at the trade date. Trade date is the date on which KPST-PA commits to purchase or sell the asset.

Held to maturity investments
Held to maturity investments are represented by deposits or investments with fixed or determinable payments and fixed maturity which KPST-PA has the positive intent and ability to hold to maturity. Term deposits with original maturities of three months or less are classified as cash equivalents for the purpose of cash flow statement, whilst those with original maturities of more than three months are classified as held to maturity investments.

Interest for deposits is calculated on time accrual basis and the interest receivable is reflected in other receivables. Government or treasury bills and notes at the time of acquisition are valued at their discounted values with subsequent valuations done at amortised costs.

Available for sale investments
Investment securities in the open-end mutual funds held by KPST-PA are classified as available for sale. These investments are initially recognised at cost, being the fair value of the consideration given.

After the initial recognition, investments in available for sale securities are re-measured at fair value on the basis of quoted market prices at the close of trading on the reporting date.

Determining fair values
Fair value represents the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

Financial instruments measured at fair value
The financial assets measured according to the fair value in the statement of financial position are presented in accordance with the hierarchy of the fair value. This hierarchy groups the financial assets and liabilities into three levels that are based on the significance of the incoming data used during the measurement of the fair value of the financial assets:

Level 1: quoted prices (not adjusted) on the active markets for identical assets or liabilities;

Level 2: other incoming data, aside from the quoted prices, included in Level 1 which are available for asset or liability observing, directly (i.e. as prices), or indirectly (i.e. made of prices); and

Level 3: incoming data on the asset or liability that are not based on data available for market observing.

3 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.5 Investments (Continued)

As of the reporting dates, the financial instruments of KPST-PA measured at fair value are explained as follows:

Class of investment	Level	As at December 31 2013	As at December 31 2012
		EUR	EUR
Available for sale investments	1	650,832,621	666,319,389

Fair value measurements listed above are recurring. There were no movements of funds between levels during the year ending December 31, 2013 and 2012.

Impairment
Impairment of investments is recognised in the statement of comprehensive income when there is a permanent diminution in their value.

3.6 Cash and cash equivalents

For cash flow purposes, cash and cash equivalents consist of cash at bank, cash on hand and short term deposits with an original maturity of up to three months. Bank deposits that require a notice to be given prior to their withdrawal, but which the Governing Board has no intentions of redeeming are excluded from cash and cash equivalents.

3.7 Taxation

KPST pension assets are exempt from the payment of corporate profit taxes.

3.8 Financial risk management

The liabilities towards contributors of KPST-PA are always equal to the value of participants' net assets, i.e. no financing gap for future benefits exists, which is why no actuarial valuations are performed by KPST-PA. KPST-PA liabilities do not consist of any financial instruments, e.g. funds borrowed from other financial institutions, which is why risk management for liabilities part of KPST-PA is not deemed necessary.

When it comes to assessing the risk of financial instruments which form part of assets of KPST-PA, the overwhelming majority of investments are through Open-end vehicles, which effectively means that the day-to-day risk management function is outsourced to the providers of Open-end vehicles. As a result the KPST-PA financial assets are directly exposed to only a limited number of risks (namely price risk) and with a limited portion of assets, which the Governing Board seeks to manage through its investment policy.

The investment policy above all requires for invested assets, whether directly or indirectly, to be highly diversified across issuers and asset classes as well as across investment approach of Open-end vehicles themselves. Further, as a way to manage the direct risks the policy sets limits as to the proportion of assets that can be invested in instruments of a given asset class (Pure equity vehicles: 50%; Multi-asset class vehicles: 40%; Pure debt securities vehicles: 30%; and money markets and Kosovo treasury bills and bonds: 10%); as well as limits as to the proportion of assets that can be invested in instruments of a given investment approach (Directional return/Non risk adjusted vehicles: 55%; Risk targeted/Risk managed/Absolute return vehicles: 40%; and Pure income vehicles: 25%). Within this framework the Governing Board makes decisions whether to increase or reduce exposure to a certain Open-end vehicle depending on vehicle's performance, underlying holdings, or its correlation with other Open-end-vehicles, as well as beliefs for the short and medium term prospect for the given asset class and investment style of the Open-end vehicle. KPST itself does not engage in forward contracts, swaps or derivatives in order to manage and control these risks to assets of KPST-PA.

The Finance Department of KPST on quarterly basis analyses the compliance of direct investments, as well as indirect investments through underlying holdings of Open-end vehicles, with the Investment Policy of KPST. The risks and volatility of both direct and indirect holdings are also assessed on quarterly basis. The findings are reviewed by the Investment Committee of the Governing Board of KPST and serve as an aide for investment decisions.

Presented below are standard risks to which KPST-PA financial assets were directly exposed to on reporting date:

3 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.8 Financial risk management (Continued)

3.8.1 Currency risk

As at reporting date the direct investments in Kosovo Treasury debt securities were all EUR denominated. As a way to manage the currency risk through Open-end vehicles, the investment policy of KPST allows only up to 10 percent of KPST-PA assets to be invested in Open-end vehicles which are not denominated in EUR and provide no EUR hedging.

The Open-end vehicles through which KPST was invested on reporting date were all EUR denominated or EUR hedged; whereby managers of Open-end vehicles use currency derivatives to manage and control the currency risk.

		As at December 31 2013		As at December 31 2012
	Assets	Liabilities	Assets	Liabilities
	EUR	EUR	EUR	EUR
Direct currency exposure – not hedged				
USD	–	–	33,028,458	–
Total	**–**	**–**	**33,028,458**	**–**

As a result of there being no direct currency risk exposure on reporting date no sensitivity analysis is performed on the effects of currency shifts on the comprehensive income for the year ended December 31, 2013. However, a 10% increase/decrease in USD versus EUR on the comparative reporting date would have resulted in a EUR 3,302,846 increase or decrease of comprehensive income for the year ended December 31, 2012.

3.8.2 Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. As at reporting date KPST-PA had direct investments in held to maturity instruments which were with a fixed interest rate, whereas there were no direct investments in floating interest rate securities.

		As at December 31 2013		As at December 31 2012
	Assets	Liabilities	Assets	Liabilities
	EUR	EUR	EUR	EUR
Fixed rate				
Held to maturity investments	53,122,905	–	30,048,996	–
Investments in bank deposits	–	–	16,428,599	–
Total	**53,122,905**	**–**	**46,477,595**	**–**

3.8.3 Liquidity risk

The average monthly redemptions from KPST-PA through withdrawals of savings and refunds for the year ended December 31, 2013 amounted EUR 1,021,630 (2012: EUR 970,003). Average monthly incoming contributions for the year amounting EUR 9,940,978 (2012: EUR 9,418,886) continued to be well in excess of monthly outgoings.

Investments through Open-end vehicles can all be redeemed within 1-30 days, and all the investments of KPST-PA assets in Kosovo Treasury debt securities mature less than one year from reporting date.

3 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.8 Financial risk management (Continued)

3.8.4 Price risk

Despite the moderately reduced sensitivity, compared to the previous year, to changes in the fair value of available-for-sale investments through Open-end vehicles, price risk remains the most significant direct risk factor of KPST-PA invested assets. KPST-PA through its investment policy attempts to manage this risk by diversifying investments in uncorrelated Open-end vehicles which in turn hold within their portfolios different classes of assets and have different investment styles and objectives.

Sensitivity Analysis of price changes in Open-end vehicles
Had the prices of Open-end vehicles been 5% higher/lower on reporting date, net participants' assets would have been increased by EUR 32,544,256 or decreased by EUR 32,538,061 respectively (2012: increased by EUR 34,770,707 or decreased by EUR 31,461,440 respectively).

Sensitivity Analysis of price changes of equities within Open-end vehicles
The fair value of equity holdings within Open-end vehicles amounted to EUR 404,325,510, or 44.3%, of KPST-PA assets (2012: EUR 357,202,310 or 48.3%). The price risk of underlying equity holdings within Open-end vehicles is much lower than the direct price risk of Open-end vehicles themselves, whereby a 5% higher/lower valuation of indirect investments in equities on reporting date would cause net participants' assets to increase by EUR 19,305,378 or decrease by EUR 19,301,131 respectively (2012: increase by EUR 18,831,948 or decrease by EUR 16,673,962).

3.8.5 Credit risk

Credit risk is the risk of financial loss to KPST-PA if a customer or counterparty to financial instruments fails to meet its contractual obligations. KPST-PA assets are directly exposed only to Kosovo Treasury debt instruments, which as yet remain unrated; however, as the Law in force classifies Kosovo Treasury debt instruments in the Prime category, so does KPST-PA when analysing the direct, and indirect exposure within portfolios of Open-end vehicles, exposure to credit risk.

KPST-PA considers the credit risk to be very low for KPST-PA investments given the vast diversity of issuers as well as the rating of debt instruments within Open-end vehicles.

Below are the credit ratings of Open-end funds, or the managers of those funds, with whom KPST-PA assets were invested as at December 31, 2013.

Fund	Rating	Rating Description
Vanguard – GSIF	**Not rated**	–
AXA – GILB	**Silver** Fund rating by S&P	The fund demonstrates high standards of quality in its sector based on its investment process and management's consistency of performance as compared to funds with similar objectives
BNY Mellon – RRF	**Platinum** Fund rating by S&P	The fund demonstrates the highest standards of quality in its sector based on its investment process and management's consistency of performance as compared to funds with similar objectives
Aquila – RP7	**Gold** Fund rating by S&P	The fund demonstrates very high standards of quality in its sector based on its investment process and management's consistency of performance as compared to funds with similar objectives
Schroders – SISF	**Superior** Manager rating by Fitch	Asset manager operations demonstrating the lowest vulnerability to operational and investment management failure
ECM – DEC	**BBB-** Fund rating by Fitch	Lower medium grade

4 CASH AT BANK

	As at December 31 2013	As at December 31 2012
	EUR	EUR
At Central Bank of Republic of Kosovo	209,646,903	27,328,138
Total cash at bank	**209,646,903**	**27,328,138**

5 CONTRIBUTION AND OTHER RECEIVABLES

	As at December 31 2013	As at December 31 2012
	EUR	EUR
Contribution receivables	7,869,239	7,733,747
Rebates receivable from Open-end vehicles	–	57,340
Total contribution and other receivables	**7,869,239**	**7,791,087**

Contribution receivables relate to contributions received in collection account up to the 18th of the following month (2012: up to the 18th) and not unitised on reporting date.

6 AVAILABLE FOR SALE INVESTMENTS

	Notes	As at December 31 2013	As at December 31 2012
		EUR	EUR
Vanguard – GSIF	6.1	313,444,532	272,937,641
BNY Mellon – RRF	6.2	133,139,594	83,960,682
AXA – GILB	6.3	57,478,701	115,609,533
Schroders – SISF	6.4	96,379,844	64,758,425
Aquila – RP7	6.5	26,986,630	73,938,085
State Street – EMIF	6.6	–	33,028,458
ECM – DEC	6.7	23,403,320	22,086,565
Total available for sale investments		**650,832,621**	**666,319,389**

6 AVAILABLE FOR SALE INVESTMENTS (CONTINUED)

6.1 Vanguard Investment Series plc – Global Stock Index Fund Euro hedged (ISIN: IE00B03HD316)

	2013		2012	
	Units	EUR	Units	EUR
As at January 1	**25,211,077**	**272,937,641**	**21,477,270**	**203,454,179**
New investments during the year	3,205,132	42,000,000	3,677,726	37,600,000
Redemptions	(5,803,337)	(75,000,000)	–	–
Re-investment of rebates	65,824	818,992	56,081	578,666
Revaluation – Increase	–	73,873,421	–	32,253,908
Fees withheld	–	(1,185,522)	–	(949,112)
As at December 31	**22,678,696**	**313,444,532**	**25,211,077**	**272,937,641**

The fund seeks to provide long term growth of capital by tracking the performance of Morgan Stanley Capital International (MSCI), World Free Index (the "Index"), a market capitalisation weighted index of common stocks of companies in developed countries. Global Stock Index Fund investment policy is to remain substantially invested in common stocks. KPST investments in the fund are subscribed based on the Net Asset Value per share on the relevant business day. The fund does not pay any dividend therefore all gains were reflected in the Net Asset Value of the fund. The net return for the year ended December 31, 2013 was 27.66% p.a. (2012: 14.28% p.a.). The management fee is calculated daily, at an annualised rate of 0.25% of assets (2012: 0.40%; January 1 – December 2, 2013: 0.40%). The fund also gives out a 48.0% rebate on the management fee (2012: 62.5%; January 1 – December 2, 2013: 67.5%) which is reinvested in the following month, making net management fees charged by the fund 0.13% of assets p.a. (2012: 0.15% of assets p.a.). Through redemptions from the fund gains of EUR 15,608,172 were realised during 2013.

6.2 BNY Mellon – Real Return Fund (ISIN IE00B504KX99)

	2013		2012	
	Units	EUR	Units	EUR
As at January 1	**77,533,181**	**83,960,682**	**48,871,078**	**50,361,646**
New investments during the year	39,987,866	45,000,000	28,662,103	30,500,000
Revaluation – Increase	–	4,178,912	–	3,099,036
As at December 31	**117,521,047**	**133,139,594**	**77,533,181**	**83,960,682**

As at December 31, 2013, KPST-PA investments consisted of 117,521,047 shares in BNY Mellon Real Return Fund. The fund is an absolute return vehicle investing the funds in a mixture of bonds and equities. The fund does not pay a dividend therefore all the gains are reflected on the Net Asset Value of the fund. The return for the year ended December 31, 2013 was 4.62% p.a. (2012: 5.08% p.a.). The management fee was calculated daily at an annualised rate of 0.70% of assets and was paid separately through an invoice, i.e. not reducing the net asset value; however, with effect from January 1, 2013 when nominal invested amounts in any given day are EUR 100 million and above the applicable fees fall to 0.60% of assets p.a. Total fees charged by the fund manager for the year ended December 31, 2013 amount to EUR 763,930 (2012: EUR 485,001).

6 AVAILABLE FOR SALE INVESTMENTS (CONTINUED)

6.3 AXA – Global Inflation Linked Bonds Eur (ISIN LU0227145629)

	2013		2012	
	Units	EUR	Units	EUR
As at January 1	**813,865**	**115,609,533**	**631,954**	**84,909,413**
New investments during the year	68,885	10,000,000	181,911	25,500,000
Redemptions	(449,472)	(60,000,000)	–	–
Re-investment of rebates	262	35,263	–	–
Revaluation – Increase/(Decrease)	–	(7,693,843)	–	5,586,105
Fees withheld	–	(472,252)	–	(385,985)
As at December 31	**433,540**	**57,478,701**	**813,865**	**115,609,533**

As of December 31, 2013, KPST-PA investments consisted of 433,540 shares in the Global Inflation Linked Bond fund of AXA, a leading global asset manager. The fund is an absolute return vehicle investing funds in inflation protected sovereign and corporate bonds. The fund does not pay a dividend, and all the gains were reflected in the Net Asset Value of the fund. The net return for the year ending December 31, 2013 was -6.67% p.a. (2012: 5.72% p.a.). The management fee is calculated daily at an annualised rate of 0.40% of assets (2012: 0.40%); however with effect from May 1, 2013 when value of assets is in excess of EUR 50 million, a rebate at an annualised rate of 5% of assets is accrued daily and reinvested in the following month, making net fees charged by the fund 0.35% of assets p.a. Through redemptions from the fund gains of EUR 3,735,179 were realised.

6.4 Schroders – International Strategic Bond Euro Hedged (ISIN LU0201324265)

	2013		2012	
	Units	EUR	Units	EUR
As at January 1	**438,594**	**64,758,425**	**438,594**	**59,964,591**
New investments during the year	200,445	30,000,000	–	–
Revaluation – Increase	–	1,621,419	–	4,793,834
As at December 31	**639,039**	**96,379,844**	**438,594**	**64,758,425**

Schroders International Strategic Bond fund is a Luxemburg based mutual fund which operates through investments in a portfolio of bonds and other fixed and floating rates securities denominated in various currencies issued by governments, government agencies, supra-national and corporate issuers worldwide. The fund does not pay a dividend therefore all the gains are reflected in the bid price of the fund. The return for the year ended December 31, 2013 was 2.15% p.a. (2012: 7.99% p.a.). The management fee is calculated quarterly, at an annualised rate of 0.50% of assets (2012: 0.50%), and was paid separately through an invoice, i.e. not reducing the net asset value. However, with effect from May 1, 2013 when value of assets is in excess of EUR 100 million, the annualised fee rate shall be reduced to 0.45% of assets; which transpired not to be applicable during 2013. Total fees charged by the fund manager for the year ended December 31, 2013 amount to EUR 453,392 (2012: EUR 312,575).

6 AVAILABLE FOR SALE INVESTMENTS (CONTINUED)

6.5 Aquila – AC Risk Parity 7 Fund (ISIN LU0554703917)

	2013		2012	
	Units	EUR	Units	EUR
As at January 1	**685,082**	**73,938,085**	**493,731**	**50,641,026**
New investments during the year	92,885	10,000,000	191,351	20,000,000
Redemptions	(511,815)	(52,000,000)	–	–
Revaluation – Increase/(Decrease)	–	(4,951,455)	–	3,297,059
As at December 31	**266,152**	**26,986,630**	**685,082**	**73,938,085**

As at December 31, 2013, KPST-PA investments consisted of 266,152 shares in Aquila - AC Risk Parity 7 fund of Alceda Fund Management. The fund is an absolute return vehicle investing the vast majority of the fund in highly rated bonds, with the rest in bond and equity index futures for hedging purposes. The fund does not pay a dividend therefore all the gains were reflected on the Net Asset Value of the fund. The net return for the year ended December 31, 2013 was -6.05% p.a. (2012: 5.22% p.a.). The management fee is calculated daily at an annualised rate of: 1.06% of assets when invested amounts were less than EUR 50,000,000; 0.96% of assets when invested amounts were between EUR 50,000,000 and EUR 79,999,999; and 0.79% of assets when invested amounts were between EUR 80,000,000 and EUR 99,999,999 (2012: 0.96% of assets) and were paid separately through an invoice, i.e. not reducing the net asset value. Total fees charged by the fund manager for the year ended December 31, 2013 amount to EUR 625,429 (2012: EUR 633,154). Through redemptions from the fund losses of EUR 631,016 were realised.

6.6 State Street Global Advisors – Emerging Markets Equity Index Fund (not listed)

	2013		2012	
	Units	EUR	Units	EUR
As at January 1	**1,779,079**	**33,028,458**	**–**	**–**
New investments during the year	–	–	1,779,079	31,400,000
Revaluation – Increase/(Decrease)	–	(930,259)	–	1,628,458
Redemptions	(1,779,079)	(32,098,199)	–	–
As at December 31	**–**	**–**	**1,779,079**	**33,028,458**

As of October 24, 2013, KPST redeemed fully its investment in the State Street Global Advisors (SSGA) Emerging Markets Equity Index Fund which tracks the MSCI Emerging Markets Equity Index Fund. The fund did not pay a dividend therefore all the gains were reflected in the Net Asset Value of the fund. The return for the year up to October 24, 2013 was -2.82% p.a. (2012: 5.34% p.a.). The management fee was accrued daily at an annualised rate of 0.20% of assets (2012: 0.20%), and was paid quarterly via an invoice, i.e. not reducing the net asset value. Total fees charged by the fund manager for the year ended December 31, 2013 amount to EUR 51,450 (2012: EUR 52,168). The overall realised gains from the initial investment up to the full redemption from the fund came to EUR 698,199.

6 AVAILABLE FOR SALE INVESTMENTS (CONTINUED)

6.7 European Credit Management Ltd – Diversified European Credit (ISIN XS0306910752)

	2013		2012	
	Units	EUR	Units	EUR
As at January 1	**252,550**	**22,086,565**	**252,550**	**19,980,969**
Revaluation – Increase	–	1,429,999	–	2,211,981
Fees withheld	–	(113,244)	–	(106,385)
As at December 31	**252,550**	**23,403,320**	**252,550**	**22,086,565**

As of December 31, 2013 KPST-PA investments in the bond and credit markets through the Diversified European Credit portfolio of ECM, a London based asset manager, numbered 252,550 units. This is an active fund that searches for the best deals offered on the bond and credit markets in Europe, and has a slightly higher volatility than other KPST investments. The fund does not pay a dividend therefore all the gains were reflected in the Net Asset Value of the fund. The net return for the year ended December 31, 2013 was 4.85% p.a. (2012: 10.54% p.a.). The management fee is calculated daily, at an annualised rate of 0.50% of assets (2012: 0.50%), plus a variable fee based on the performance of the fund vis-à-vis the benchmark of Euribor.

6.8 Open-end vehicle fees and rebates

		Year ended December 31 2013			Year ended December 31 2012		
		Gross fee	Rebate	Net fee	Gross fee	Rebate	Net fee
		EUR	EUR	EUR	EUR	EUR	EUR
Vanguard – GSIF	6.1	1,185,522	(789,074)	396,448	949,112	(593,188)	355,924
BNY Mellon – RRF	6.2	763,930	–	763,930	485,001	–	485,001
AXA – GILB	6.3	472,252	(39,207)	433,045	385,985	–	385,985
Schroders – SISF	6.4	453,392	–	453,392	312,575	–	312,575
Aquila – RP7	6.5	625,429	–	625,429	633,154	–	633,154
State Street – EMIF	6.6	51,450	–	51,450	52,168	–	52,168
ECM – DEC	6.7	113,244	–	113,244	106,385	–	106,385
BNP Paribas – GLF[1]		–	–	–	53,264	–	53,264
Total open-end vehicle fees and rebates		**3,665,219**	**(828,281)**	**2,836,938**	**2,977,644**	**(593,188)**	**2,384,456**

[1] During 2012 KPST redeemed in full its investment in the BNP Paribas Global Liquidity Fund.

KOSOVO PENSION SAVINGS TRUST – PENSION ASSETS
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
AS AT AND FOR THE YEAR ENDED DECEMBER 31, 2013
AMOUNTS IN EUR UNLESS OTHERWISE SPECIFIED

7 INVESTMENTS IN BANK DEPOSITS

	2013	2012
	EUR	EUR
As at January 1	**16,428,599**	**15,855,128**
Interest	173,172	573,471
Redemption of deposits	(16,601,771)	–
As at December 31	**–**	**16,428,599**

During 2013 KPST redeemed all KPST-PA deposits with NLB Prishtina. The deposits were earning an annual interest rate of 3.50% (2012: 3.50%) compounding monthly, with EUR 16,500,000 guaranteed through pledges of Treasury bills of OECD countries. Interests were paid/reinvested on the last day of each month.

8 HELD TO MATURITY INVESTMENTS

	Notes	As at December 31 2013	As at December 31 2012
		EUR	EUR
Raiffeisen Bank Kosovo	8.1	–	16,120,085
Kosovo Treasury debt instruments	8.2	53,122,905	13,928,911
Total held to maturity investments		**53,122,905**	**30,048,996**

8.1 RaiffeisenBank Kosovo

	2013	2012
	EUR	EUR
As at January 1	**16,120,085**	**18,844,793**
Interest reinvested/accrued	81,895	412,216
Redemption of term deposit	(16,201,980)	(3,136,924)
As at December 31	**–**	**16,120,085**

During 2013, with the request of Raiffeisen Bank Kosovo, the term deposit contract was stopped ahead of the original maturity of June 11, 2013, and all funds were redeemed by KPST. The annual interest rate of the deposit was 2.20% (2012: 2.20%), compounding monthly and with interest reinvested monthly. Term deposits were guaranteed by pledges of Treasury bills of OECD countries.

8 HELD TO MATURITY INVESTMENTS (CONTINUED)

8.2 Kosovo Treasury debt instruments

	2013	2012
	EUR	EUR
As at January 1	**13,928,911**	**–**
Placements		
KV1100820084 T-Bill Mat. 23.01.2013 @3.05%	–	12,487,364
KV1101120114 T-Bill Mat. 20.03.2013 @2.36%	–	1,264,888
KV1102820282 T-Bill Mat.19.02.2014 @1.49%	9,925,301	–
KV1103020305 T-Bill Mat. 19.03.2014 @1.24%	1,719,262	–
KV1102140211 T-Bill Mat. 23.04.2014 @2.26%	11,546,252	–
KV1103420343 T-Bill Mat. 21.05.2014 @1.20%	14,909,512	–
KV1103240327 T-Bill Mat. 22.10.2014 @1.98%	14,705,355	–
	52,805,682	**13,752,252**
Interest		
KV1100820084 T-Bill Mat. 23.01.2013 @3.05%	24,507	168,129
KV1101120114 T-Bill Mat. 20.03.2013 @2.36%	6,582	8,530
KV1102820282 T-Bill Mat.19.02.2014 @1.49%	54,121	–
KV1103020305 T-Bill Mat. 19.03.2014 @1.24%	6,128	–
KV1102140211 T-Bill Mat. 23.04.2014 @2.26%	181,232	–
KV1103420343 T-Bill Mat. 21.05.2014 @1.20%	20,337	–
KV1103240327 T-Bill Mat. 22.10.2014 @1.98%	55,405	–
	348,312	**176,659**
Redemptions (upon maturity)		
KV1100820084 T-Bill Mat. 23.01.2013 @3.05%	(12,680,000)	–
KV1101120114 T-Bill Mat. 20.03.2013 @2.36%	(1,280,000)	–
	(13,960,000)	**–**
As at December 31	**53,122,905**	**13,928,911**

The Kosovo Treasury securities are not yet rated. It is the intention of the Governing Board to hold to maturity its investments of KPST-PA in Kosovo Treasury debt instruments.

9 LIABILITIES TOWARDS KPST OPERATIONS

	As at December 31 2013	As at December 31 2012
	EUR	EUR
Fees charged on participants' accounts – payable	292,357	290,047
Difference from refunds of erroneous contributions – payable	1,653	124,259
Total liabilities towards KPST Operations	**294,010**	**414,306**

As at December 31, 2013 the balance of payable fees amounting EUR 292,357 relates to KPST fees charged to the participants accounts which were not transferred to KPST Operations as of reporting date (December 31, 2012: EUR 290,047 comprised of EUR 232,706 for KPST fees charged and EUR 57,341 for Open-end vehicle accrued rebates).

When a pension contribution is proven to have been paid in error, the nominal amount is refunded to the payer. As per KPST policies in effect from January 1, 2012 the difference of the refunded amount and the value of redeemed shares on the day of the refund, is to be treated as other income (or expense) of KPST Operations. Prior to January 1, 2012 such differences were reflected in the share price of the pension assets fund.

10 LIABILITIES FOR REPURCHASED SHARES

	As at December 31 2013	As at December 31 2012
	EUR	EUR
Liabilities for refunds	73,620	9,324
Liabilities for the withdrawal of savings	38,727	–
Total liabilities for repurchased shares	**112,347**	**9,324**

As at December 31, 2013 the balance of pension assets redeemed through refunds and withdrawal of savings (benefit payments) which were not transferred to respective beneficiaries as of reporting date amounts to EUR 112,347 (2012: EUR 9,324).

11 NON-CONTRIBUTIONS

	As at December 31 2013	As at December 31 2012
	EUR	EUR
Non-contributions	13,334	4,892
Total non-contributions	**13,334**	**4,892**

Incoming transfers to KPST's collection account with CBK, which at the time of processing a bank statement are identified to have been paid in error and are not pension contributions, are classified as non-contributions and are not unitised. In all other cases incoming contribution transfers are unitised, and subsequently redeemed as Refunds when proven to have been made in error. As at December 31, 2013 the balance of non-contributions not yet returned as of reporting date amounts to EUR 13,334 (2012: EUR 4,892).

12 REVALUATION OF AVAILABLE FOR SALE INVESTMENTS – NET

	Notes	Year ended December 31 2013	Year ended December 31 2012
		EUR	EUR
Vanguard – GSIF	6.1	73,873,421	32,253,908
BNY Mellon – RRF	6.2	4,178,912	3,099,036
AXA – GILB	6.3	(7,693,843)	5,586,105
Schroders – SISF	6.4	1,621,419	4,793,834
Aquila – RP7	6.5	(4,951,455)	3,297,059
State Street – EMIF	6.6	(930,259)	1,628,458
ECM – DEC	6.7	1,429,999	2,211,981
BNP Paribas – GLF[1]		–	143,740
Net increase on revaluation of available for sale investments for the year		**67,528,194**	**53,014,121**

[1] During 2012 KPST redeemed in full its investment in the BNP Paribas Global Liquidity Fund.

13 INTEREST INCOME FROM HELD TO MATURITY INVESTMENTS

	Notes	Year ended December 31 2013	Year ended December 31 2012
		EUR	EUR
Raiffeisen Bank Kosovo	8.1	81,895	412,216
Kosovo Treasury debt instruments	8.2	348,312	176,659
Total interest income from held to maturity investments		**430,207**	**588,875**

14 INTEREST INCOME FROM CURRENT ACCOUNTS

	Year ended December 31 2013	Year ended December 31 2012
	EUR	EUR
Central Bank of the Republic of Kosovo	–	7,603
Total interest income from current accounts	**–**	**7,603**

The KPST-PA current (collection) account with CBK has been paying no interest since July 12, 2012. Prior to this date the interest was accrued on daily basis at a rate of 0.10% p.a. from January 1 to April 10, 2012 and a rate of 0.05% p.a. from April 11 to July 11, 2012 on the balance of the account.

15 OTHER INCOME

The Governing Board of KPST decided to refund EUR 3,000,000 from the KPST Operations surplus to pension assets. The transaction took place in December 2013.

16 FEES CHARGED ON PARTICIPANTS' ACCOUNTS

	Year ended December 31 2013	Year ended December 31 2012
	EUR	EUR
Fees for joint activities	1,796,645	3,997,932
Fees for investment activities	2,009,569	–
Fees for operational activities	793,250	–
Total fees charged on participants' accounts	**4,599,464**	**3,997,932**

Fees are accrued on daily basis according to the formula:

Fee = [Gross Participants' Assets] * [Rate]/[Number of calendar days in a year].

Total fees charged on gross participants' assets for the purpose of financing the activities of KPST for the year ended December 31, 2013 amounted EUR 4,599,464 (2012: EUR 3,997,932).

Prior to Law Nr. 04/L-168 a single fee (joint management fee) was being charged to cover joint activities, i.e. both investment and operational activities. This law however introduced the charging of two separate fees: (i) fees to cover activities related to the investment of pension assets and (ii) fees to cover operational activities.

From January 1, 2012 and up to May 19, 2013, the joint management fee was charged at the rate of 0.60% p.a. From May 20, 2013 when the Assembly of the Republic of Kosovo - according to the new law - approved fees for investment activities at a rate of 0.38% p.a. as well as fees for operational activities at a rate of 0.15% p.a., KPST charged according to these new rates and accounted for the investment and operational activities separately.

17 INDIVIDUAL PARTICIPANTS' ACCOUNTS

	As at December 31 2013	As at December 31 2012
	Number of Accounts	Number of Accounts
Accounts with no withdrawals of savings	426,756	401,128
Accounts with withdrawals of savings	20,503	16,936
Total accounts	**447,259**	**418,064**

An account with withdrawals of savings represents accounts from which pension savings have been withdrawn due to: (i) the contributor retiring by reaching the pension age of 65 years old or by becoming permanently disabled; or (ii) successors, deemed as rightful heirs, inheriting the pension savings of a deceased participant. Out of 447,259 contributors for which KPST has opened a pension savings account, 277,305 had contributions belonging to the year ended December 31, 2013 (December 31, 2012: 266,026 out of 418,064 opened accounts).

17 INDIVIDUAL PARTICIPANTS' ACCOUNTS (CONTINUED)

Pension contributions are paid to KPST by employers on behalf of employees who are residents in Kosovo at the rate of at least 5% of total employee gross income for each, employee and employer part of contributions. Together with voluntary contributions, the maximum employee and employer can each contribute 15% of total employee gross income.

Employers are obliged to submit payroll data to TAK web portal in order to obtain the payment document for a given month. The self-employed make payments on quarterly basis. TAK makes the information available to KPST and is also responsible for the compliance by employers and enforcing such compliance by way of fines issued to delinquent employers.

Mainly due to the imperfect nature of collection and reporting process in force prior to the fourth quarter of 2012, when the portal was introduced, funds collected have not been fully allocated to individual participants accounts. Since the portal was introduced the overwhelming majority of contributions are being allocated to individual accounts on the same day as payments are being processed. Predominantly due to employer non-reporting for prior periods, an amount of EUR 12,849,215 was not allocated to individual participants' accounts as at December 31, 2013 (December 31, 2012: EUR 17,544,647).

During 2013 KPST attributed the amount of EUR 4,575,373 to individual accounts from the amount outstanding as of December 31, 2012.

The nature and reason of contributions not allocated to participants' individual accounts is provided below:

Reason	As at December 31 2013	As at December 31 2012
	EUR	EUR
Employers have not submitted contribution reports	11,269,000	15,473,692
Payment not posted to employer account	1,022,564	1,490,817
Invalid contributor ID and Name/Surname combination	557,651	580,138
Total un-allocated contributions	**12,849,215**	**17,544,647**
Cumulative contributions unitised up to reporting date	844,639,632	725,483,382
Un-allocated contributions as percentage of unitised contributions up to reporting date	**1.5%**	**2.4%**

Another way to view the progress of reconciliation process is by comparing allocated funds and net unitised assets under management, as provided below:

	Notes	As at December 31 2013	As at December 31 2012
		Value EUR	Value EUR
Net participants' assets		921,051,977	747,487,687
Contributions receivable not unitised on reporting date	5	(7,869,239)	(7,733,747)
Net unitised participants' assets		**913,182,738**	**739,753,940**
Balance of funds in individual accounts		898,282,029	720,926,504
Percentage of net unitised participants' assets in individual accounts		**98.4%**	**97.5%**

18 PHASED WITHDRAWAL BENEFIT PAYMENTS

As per the administrative instruction issued by CBK on January 2013 participants retiring with balances of above EUR 2,000 in their KPST accounts, must withdraw their savings in phases. Participants receive monthly payments amounting 1% of the balance of their account upon retirement from KPST or EUR 150, whichever greater (2012: 1% of balance or EUR 100, whichever greater, as per administrative instruction issued by CBK on January 2008). The instruction is conditional until such time as annuities shall be available in Kosovo. Upon retirement the complete balance of participants' KPST account is transferred to the commercial bank contracted to provide the phased withdrawal service, and such assets are no longer accounted for as KPST-PA assets. Persons retiring with balances under EUR 2,000 continue to get their proceeds in a lump-sum payment.

19 STATEMENT OF SHARE MOVEMENTS ATTRIBUTABLE TO REDEEMABLE PARTICIPANTS

	Notes	2013	2012
		#	#
As at January 1		**662,262,094**	**568,472,223**
Shares issued for received contributions		101,884,208	104,467,613
Shares redeemed through withdrawal of savings		(9,207,956)	(8,017,929)
Shares redeemed through refunds		(1,287,954)	(2,659,813)
As at December 31		**753,650,392**	**662,262,094**
Net unitised participants' assets	17	913,182,738	739,753,940
NAV per share on reporting date		**EUR 1.2117**	**EUR 1.1170**

20 EVENTS AFTER THE REPORTING PERIOD

For the first two months of 2014 the KPST-PA has the following financial data based on unaudited financial statements for those two months.

	As at February 28 2014
	EUR
Total assets	944,845,835
Total liabilities (short-term)	(431,714)
Net participants' assets	**944,414,121**

	For the period January 1 to February 28 2014
	EUR
Profit and interest on revaluation of investments	8,673,614
Fees charged on participants' accounts	(789,069)
Net increase in net participants' assets	**7,884,545**

There are no subsequent events that require adjustment or further disclosure in the financial statements for the year ended December 31, 2013.

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