

# ANNUAL REPORT

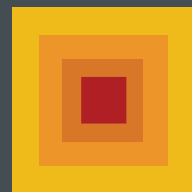
# 2016



**Trusti**

Fondi i Kursimeve Pensionale të Kosovës  
Kosovski Penzijski Štedni Fond  
Kosovo Pension Savings Trust





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## KEY FACTS

INVESTMENTS	2016	2015
Share price at the end of the year	€1.3756	€1.3171
Share price increase during the year	4.4%	2.3%
Gross investment return for the year	€64,120,284	€28,389,646
Other returns for the year	€440,000	€1,165,138

### ASSETS UNDER MANAGEMENT (AUM)

Net AUM at the end of the year	€1,417,970,874	€1,229,333,328
Increase in net AUM during the year	€188,637,546	€141,572,730

### CONTRIBUTIONS AND CONTRIBUTORS

Contributions received during the year	€151,503,736	€137,519,615
Contributions received since inception	1,262,410,998	1,110,907,262
Accounts opened during the year	34,018	31,404
Account-holders at the end of the year	541,923	507,963
Active contributors during the year	312,672	297,466



All the figures in this Annual Report, including but not limited to: net or gross AUM, contributions for the year, changes in AUM; do not include contribution receivables in the amount €9.53m (2015: €8.76m).

RETIREMENT	2016	2015
Newly withdrawn accounts during the year	4,445	4,438
Value of withdrawals for the year	€19,208,575	€19,299,443
Withdrawn accounts since inception	33,386	28,981
Value of withdrawals since inception	€91,732,820	€72,524,248

### FEES AND EXPENSES

Investment / Operating fees during the year	0.400% / 0.085% <sup>1)</sup> - 0.398% / 0.082% <sup>2)</sup>	0.400% / 0.085% <sup>3)</sup> - 0.400% / 0.130% <sup>4)</sup>
Amount of fees charged for the year	€6,323,013	€5,819,478
Investment expenses for the year	€4,780,644	€4,442,773
Operating expenses for the year	€1,216,569	€1,282,483

### UNALLOCATED CONTRIBUTIONS AND SERVICES

Unallocated contributions at the end of the year	€9,445,896	€9,971,270
Number of services provided during the year	85,135	72,266
Number of eTrusti accounts	62,471	48,427

<sup>1)</sup> Jan 1 - Feb 21, 2016

<sup>2)</sup> Feb 22 - Dec 31, 2016

<sup>3)</sup> Jan 1 - Mar 12, 2015

<sup>4)</sup> Mar 13 - Dec 31, 2015

## INVESTMENTS IN 2016

1

The investment was fully redeemed - February 2016.

2

The investment was fully redeemed - June 2016.

NOTE: KPST cannot guarantee that the future performance of its investments will be the same as their past performance. KPST invests assets under its management with the aim of: first preserving the purchasing power of pension savings and second increasing their value further. However, all investments are subjected to a level of risk which varies depending on the returns sought. This is also true for investments of KPST which are subjected but not limited to a number of risks such as: currency risk, interest rate, credit risk, price risk, political risk, counter-party risk, liquidity risk, derivative risk, etc. More details about each risk and their relation to the invested funds are presented in the financial statements attached to this report.

ALLOCATION	VALUE OF INVESTMENTS ON 31 DECEMBER 2016	GROSS INVESTMENT RETURN FOR THE YEAR 2016
<b>Vanguard Investment Series plc</b> Global Stock Index Fund Euro hedged (ISIN: IE00B03HD316)	€395,450,768	€27,328,908
<b>Nordea 1</b> Stable Return Fund (X) Euro (ISIN: LU0539147214)	€232,257,002	€6,607,157
<b>Nordea 1</b> Global Stable Equity Fund (X) (ISIN: LU0257969260)	€170,162,279	€13,467,202
<b>BNY Mellon</b> Real Return Fund (X) (ISIN: IE00B504KX99)	€138,826,337	€3,182,958
<b>AXA</b> Global Inflation Linked Bonds (I) Eur (ISIN: LU0227145629)	€85,653,672	€8,159,752
<b>Treasury securities</b> The Government of the Republic of Kosovo	€78,697,947	€2,108,199
<b>AXA</b> Optimal Income I EUR (ISIN: LU0184635471)	€61,183,827	€3,613,001
<b>Pictet</b> High Dividend Selection - Z Euro (ISIN: LU0650147423)	€58,778,067	€3,821,199
<b>Schroders</b> Global Diversified Growth (I) (ISIN: LU0776411141)	€50,872,418	€872,418
<b>Amundi</b> Rendement Plus (I2) (ISIN: FR0011027283)	€50,255,615	€262,553
<b>BNP Paribas - PDP</b> Parvest Diversified Dynamic (I) (ISIN: LU0102035119)	€50,091,736	€166,042
<b>Term deposits</b> BKT, BPB, and TEB	€20,013,089	€92,002
<b>Schroders</b> International Strategic Bond Euro Hedged (I) (ISIN: LU0201624265)	€10,209,928	-€1,363,500
<b>1 Tobam</b> Anti-benchmark World Equity Fund Euro-Hedged (ISIN: LU1067857836)	--	-€3,522,683
<b>2 Kleinwort Benson Investors</b> Institutional Developed Equity Fund (H) EUR (ISIN: IE00B589V552)	--	-€617,772
<b>CBK and other receivables</b> Interest expenses on cash at CBK	16,193,172	-€57,152
<b>TOTAL</b>	<b>€1,418,645,857</b>	<b>€64,120,284</b>





## ACRONYMS

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
GOVERNMENT	Government of the Republic of Kosovo
GDP	Gross Domestic Product (as published by the Kosovo Agency of Statistics)
IFRS	International Financial Reporting Standards
KAS	Kosovo Agency of Statistics
KPST	Kosovo Pension Savings Trust
OECD	Organization for Economic Cooperation and Development
PWP	Phased Withdrawal Program (of pension savings)
TAK	Tax Administration of Kosovo

## GLOSSARY OF TERMS

EQUITY	Financial instrument that provides ownership in a company, depending on the size of investment.
NOTES OR BONDS	Financial instrument issued by governments or corporations with a designated maturity limit which usually pays a coupon based on a fixed or flexible interest.
MULTI-ASSETS	Investment funds that have in their composition a mix of securities from core asset classes (equities, bonds and cash).
INVESTMENT RISK	Implies the probability or likelihood of occurrence of losses relative to the expected return on any particular investment.
BENCHMARK	A standard reference level of comparing and analysing the investment performance. KPST has set as benchmark Kosovo's Consumer Price Index (CPI), otherwise referred to as the rate of inflation in Kosovo.
DEFINED CONTRIBUTION	In a defined contribution plan, fixed contributions are paid into an individual account by employer and employee. The contributions are then invested and the returns on the investment (positive or negative) are credited to the individual's account. On retirement, the member's account is used to provide retirement benefits, usually through the purchase of an annuity which then provides a regular income.

# AT A GLANCE

## INVESTMENTS

Increased allocation to multi-asset funds which provided for stability in the face of strong market pressures. The number of engaged open-end funds reached 11.

Net performance for the year was 4.4% with assets under management increased by 15.2%.

### 2016

### 2015

### 2014

Investments in Kosovo reach a record high of €96m. A year of positive investment returns for KPST whilst the main global indexes were stuck in negative territory.

Net performance for the year was 2.3% with assets under management increasing by 13.0%.

Substantial diversification of investment funds in portfolio and movement of €332m. A satisfactory year for all assets classes.

Net performance for the year was 6.3% with assets under management increasing by 19.0%.

## OPERATIONS

Over 100 thousand statements sent by email. The number of eTrusti accounts reached 62,471. The number of banks offering the PWP service increased to four.

Unallocated contributions reduced to 0.75% of contributions received.

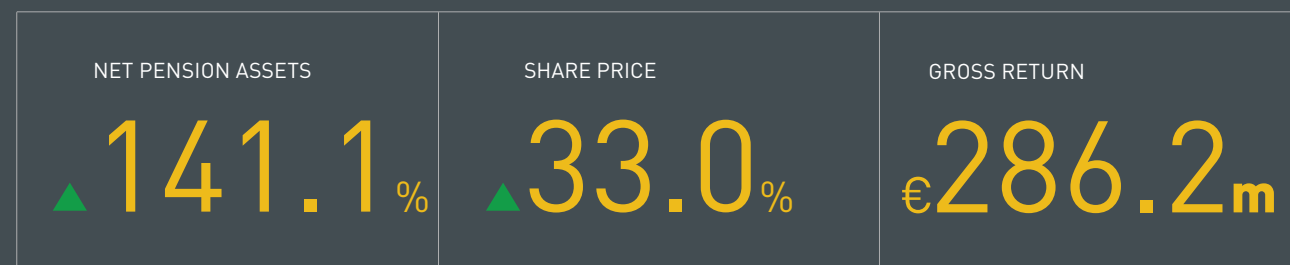
The attempts for the full digitalisation of the institution intensified. eTrusti accounts neared 50 thousand. A number of 3-year strategies are approved.

Unallocated contributions reduced to 0.9% of contributions received.

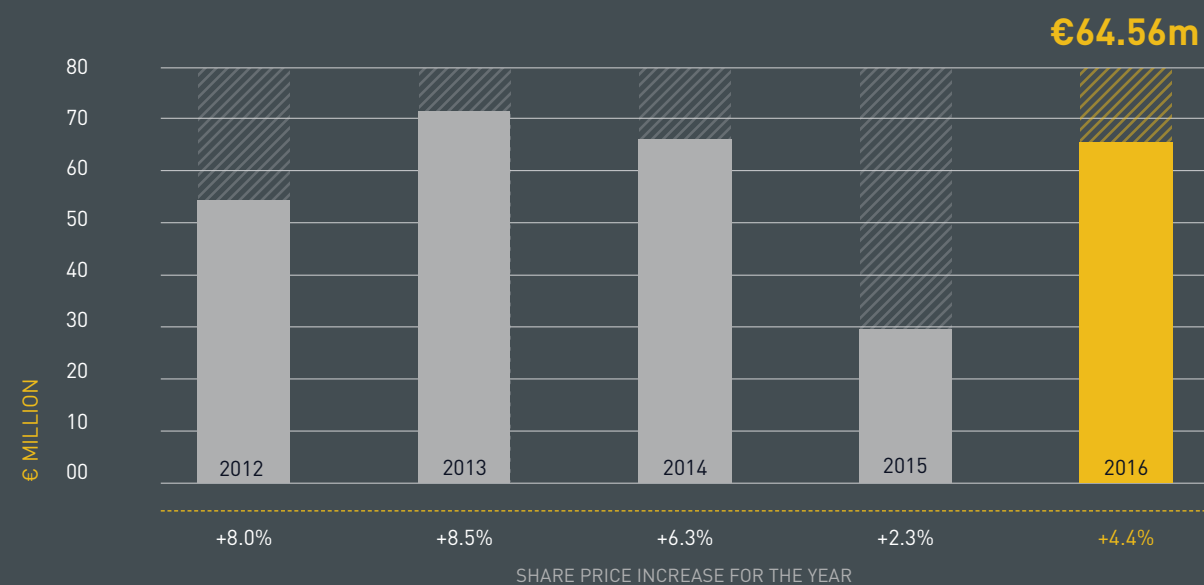
Implementation of amendments in the CBK Regulation for the withdrawal of pension savings, and the selection of the bank for PWP.

Unallocated contributions reduced to 1.1% of contributions received.

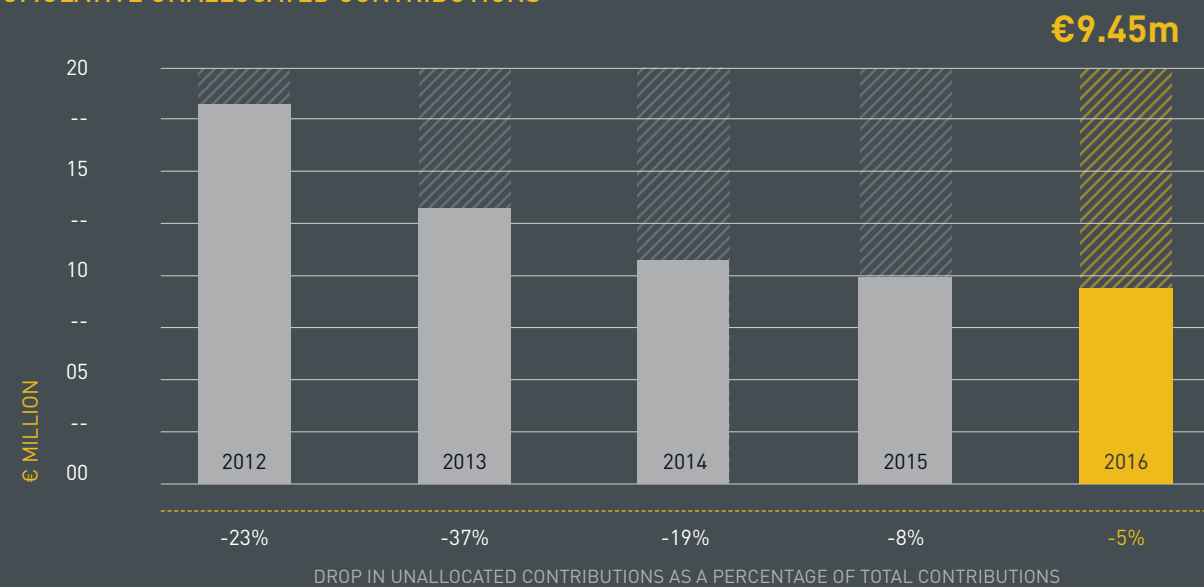
## THE LAST FIVE YEARS IN NUMBERS



### GROSS RETURN



### CUMULATIVE UNALLOCATED CONTRIBUTIONS



### NUMBER OF ACCOUNT-HOLDERS AND ACTIVE CONTRIBUTORS

YEAR	TOTAL ACCOUNTS		MEN		WOMEN		ACTIVE CONTRIBUTORS		MEN		WO	
	(A)	(B)	(B)/(A)	(C)	(C)/(A)	(D)	(E)	(E)/(D)	(F)	(F)/(D)		
2012	418,063	301,081	72.0%	116,982	28.0%	266,069	189,812	71.3%	76,257	28.7%		
2013	447,259	319,987	71.5%	127,272	28.5%	277,305	195,799	70.6%	81,506	29.4%		
2014	476,559	337,819	70.9%	138,740	29.1%	285,914	198,882	69.6%	87,032	30.4%		
2015	507,963	356,990	70.3%	150,973	29.7%	297,466	205,380	69.0%	92,086	31.0%		
2016	541,923	377,192	69.6%	164,371	30.4%	312,672	213,331	68.2%	99,341	31.8%		

### NET AUM VS ANNUAL GDP OF KOSOVO

	2012	2013	2014	2015	2016
Net AUM	€739,753,940	€913,182,738	€1,087,760,598	€1,229,333,328	€1,417,970,874
GDP	€5,058,802,012	€5,326,602,013	€5,567,500,000	€5,771,500,000	€5,984,900,000 <sup>‡</sup>
Net AUM vs GDP	14.6%	17.1%	19.5%	21.3%	23.7%

KPST NET AUM AT THE END OF 2016 REACHED

# 23.7%

OF GDP OF KOSOVO.

<sup>‡</sup> AS EVALUATED BY THE KOSOVO AGENCY OF STATISTICS.



## MISSION AND AMBITION

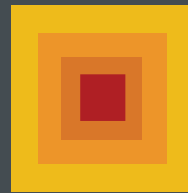
Our mission is to invest pension savings and to administer the individual accounts of contributors until their retirement.

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.







## JOINT FOREWORD

### FROM THE CHAIRMAN OF THE BOARD AND MANAGING DIRECTOR

#### Dear reader,

It is our pleasure to present to you the 2016 Annual Report of the Kosovo Pension Savings Trust. As usual, in it we publish the most important pieces of information for contributors, supervising institutions and the public in general.

KPST recorded another year of positive results in all areas of its operations. Gross return on investments for the year was €64.6m resulting in a 4.4% increase in the unit price. During the year, an average of 87.1% of AUM were invested in global financial markets, while domestic exposure accounted for 12.9%. Investments in global financial markets contributed to 96.6% of gross returns whereas investments in Kosovo contributed to the remaining 3.4% of returns.

In terms of tactical asset allocation year 2016 proved to be the most active in the investment front. The Board placed €512m and redeemed €279m from global financial markets. With the aim of increasing diversification and the overall exposure to multi-asset funds, after a long selection process, BNP Paribas PDP, Schroders GDG and Amundi RPI2 were added to the list of investment funds subscribed to by KPST. Redemptions (in full) from Kleinwort Benson and Tobam were done with the aim of reducing the overall exposure to pure equity funds, whereas the (substantial) redemption from Schroders SB was done with the aim of reducing pure bond funds.

In addition to global markets, KPST placed €74m within Kosovo during the year. KPST placed €20m in term deposits with three domestic banks (BKT, BPB and TEB) and €54 million in Kosovo treasuries.

The positive performance of 2016 was secured in a low interest rate environment, in which low beta assets were not rewarded. There were also uncertainties surrounding the stock market in Europe, triggered by the Brexit outcome, the anticipation of the US presidential elections and the stance of US monetary policy conducted by the FED. On the other hand, the investment performance was helped by a gradual improvement of global economic indicators.

Consequently, the Governing Board is quite satisfied with the investment performance for the year.

The strategy in force, with its high degree of diversification and investment re-balancing, has been validated as sustainable and effective by yielding a combination of stability and return.

On another measurements, there were increases in collected contributions (up 10.2% to €151.5m) as well as in contributors active for the year (up 5.1% to 312,672). By the end of the year the AUM had reached the equivalent of 23.7% of the national GDP.

In its daily administrative activities KPST was focused on the digitalisation of internal processes and also improving the electronic communication with its contributor base. This included securing as many contributor e-mail addresses as possible, as well as reaching out directly to contributors via Facebook and other social media.

By the end of the year a high volume of communication was achieved at a very low expense, due to the fact that 62 thousand contributors had subscribed to eTrusti and thousands of others on Facebook. All this enabled 110 thousand annual account statements to be distributed via e-mail with a very high delivery success rate.

During 2016 the biggest operating hurdle for KPST was that - as an independent institution - its procurement processes had to be handled by the Central Procurement Agency (CPA) upon coming into force of the new public procurement law. The legal change meant there were serious delays and lack of effectiveness in procuring goods and services for the needs of KPST and its contributor base.

The year 2016 also marked changes to the law on pension funds - the reference law for KPST. These changes would come into force in early 2017 and amongst others addressed: limits of investments; the treatment of unallocated funds; audit requirements; and Board member mandates.

During 2016 KPST also celebrated fifteen years of its inception. The Board has every reason to be proud of what this institution has achieved over the last fifteen years; it is grateful and it thanks all those who put or continue to put an effort in helping this unique institution of Kosovo.



**YMER  
HAVOLLI**

CHAIRMAN OF THE BOARD



**ADRIAN  
ZALLI**

MANAGING DIRECTOR

# 1

## ORGANISATION AND FINANCES

- 18-19 Organisation
- 20-21 Board members at year-end
- 22 Governing Board Committees
- 23-25 Administration
- 26-27 Supervision and audit
- 28-29 Financing
- 30-33 Expenses

## ORGANISATION

KPST was established as the sole institution for managing and investing mandatory pension contributions of Kosovo employees, and for 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 contributors.

KPST became fully operational with a Board, Administration and processes in place, in August 2002. At that time the Administration numbered a staff of 22 and had only five units. Since then, the Administration has evolved organically to number 26 staff and eight units.

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 employees from the private sector also joined the scheme.

The first investment of pension assets was made during 2003 in a money-market fund. This was followed with investments in indexed equities in 2004 and with investments in debt instruments in 2006. Investments were expanded further into multi-asset vehicles in 2010 and into risk targeted vehicles in 2011. During 2014, multi-asset funds with managed/targeted risk as well as equity funds with dividend and managed risk, were added to the investment portfolio.

First investment in Kosovo happened in 2008 through bank deposits. The first investment in securities of the Government of Kosovo was made in 2012 through treasury bills. During 2014/2015, investments in bonds issued by the Government of Kosovo with a maturity of 2-5 years were also made.

## THE GOVERNING BOARD

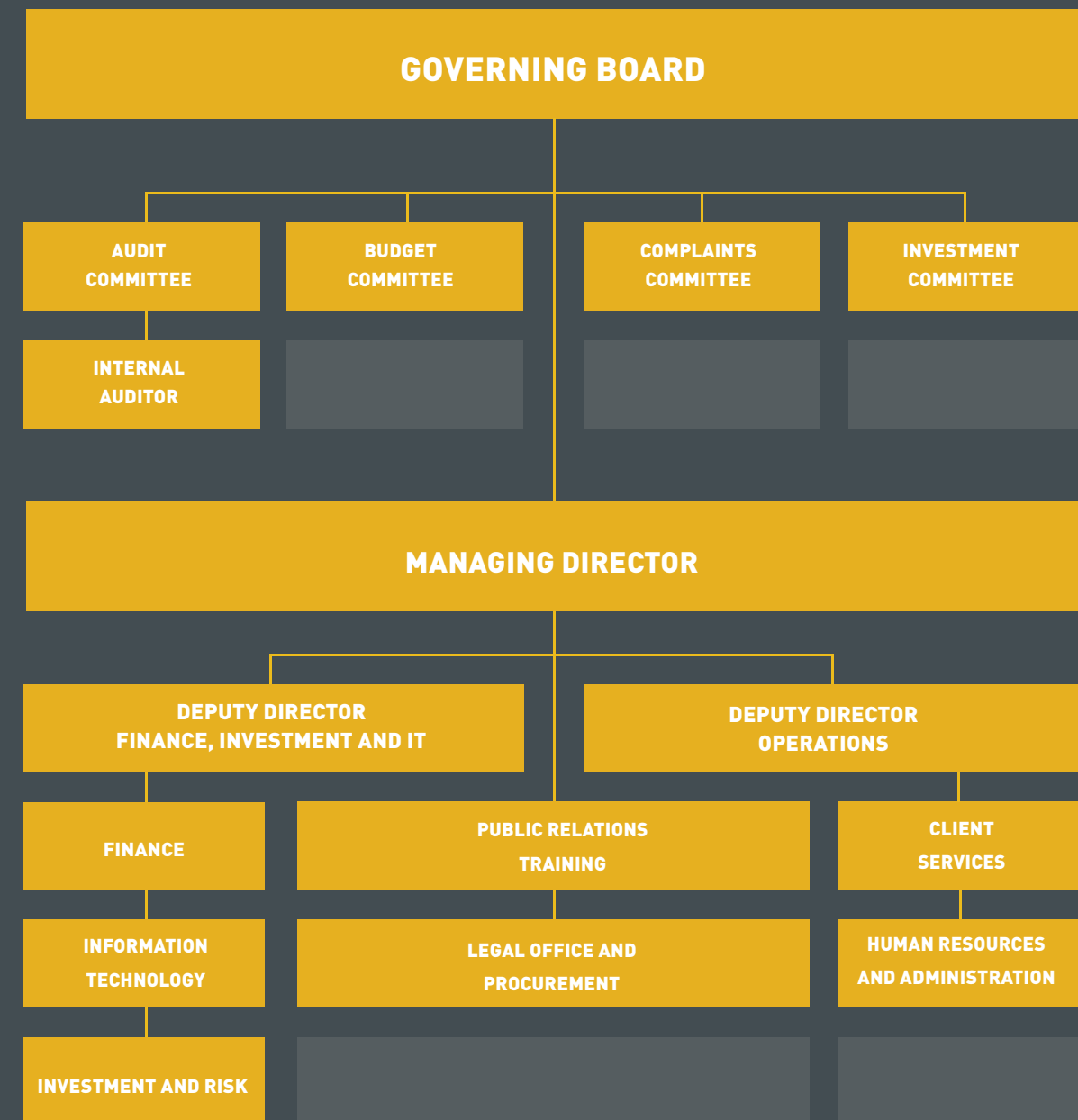
KPST is governed by the Governing Board, whose members are appointed by the Assembly as fiduciaries of pension assets.

The Law No. 04/L-101 of the Republic of Kosovo on Pension funds of Kosovo, and its subsequent amendments (with Law No. 04/L-168 and Law No. 05/L-116), provides for a detailed list of functions and responsibilities of KPST and its Board. The pension rules of CBK provide the secondary legislation in relation to the investment of pension assets, performance measurement, withdrawal of pension savings and reporting requirements for KPST.

The authority 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; approving financial statements of KPST. The Board can have seven voting members and one non-voting member representing the Government.

Members with the right to vote must comprise 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 relevant experience in representing the interests of Kosovo employees; and at least one member with relevant experience in representing the interests of Kosovo employers.

During 2016, the Board of KPST had 6 members in duty, while one professional position continued to remain vacant since January 2015.





## BOARD MEMBERS AT YEAR-END



**PROF.DR. YMER HAVOLLI**

**Chairman of the Board and Chairman of the Budget Committee. Member of Investment and Audit Committees**

An associate professor at the University of Prishtina "Hasan Prishtina" with PhD in economic sciences for HR Management.

**ROLE ON THE BOARD:**

Professional

**APPOINTED:**

May 2009

**CURRENT MANDATE:**

Third



**MR. FREDERICK ARTESANI**

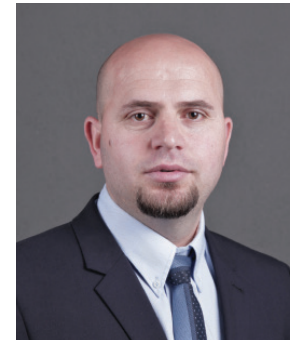
**Chairman of the Investment Committee**

An economist and an Independent Financial Advisor with over 33 years of experience in financial markets.

Professional

October 2008

Third



**MR.SC. RUZHDI MORINA**

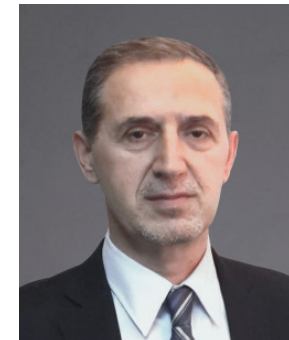
**Chairman of the Complaints Committee and Member of the Budget Committee**

Master in Legal sciences in the international field. With long experience as Legal Advisor at the Union of Independent Syndicates of Kosovo.

Employee representative

May 2009

Third



**MR.SC. FLAMUR KEQA**

**Chairman of the Audit Committee and Member of the Complaints Committee**

Master in economic sciences in banking and finance; with a long experience of supervisory roles at CBK and Kosovo Electro-energetic Corporation.

Employer representative

May 2014

First



**MR. BEHXHET HALITI**

**Member of Investment, Audit and Complaints Committees**

Economist graduated from the University of Prishtina. Since 2003 has been involved in drafting and implementing fiscal policies.

Professional

December 2015

First



**MR. JOLY DIXON**

**Member of Investment and Budget Committees**

An economist with a long experience in policy making. Around 30 years spent in the European Commission and has extended experience in fiscal policy. An honorary citizen of London.

Professional

December 2015

First



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--

A position has been vacant since January 2015.

Professional

--

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THIS POSITION IS CURRENTLY VACANT

## GOVERNING BOARD COMMITTEES

Four permanent committees facilitate the functioning and decisionmaking of the Board

### THE INVESTMENT COMMITTEE

predominantly reviews the policies, principles and the investment strategy of pension assets, as well as the performance of investments and openend funds through which KPST invests its 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.

**CHAIRMAN:** Frederick Artesani

**MEMBERS:** Ymer Havolli  
Behxhet Haliti  
Joly Dixon

**MEETINGS HELD:** Six

### THE COMPLAINTS 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 cases are responded to within the legal timeframe and in accordance with legal dispositions in force.

**CHAIRMAN:** Ruzhdi Morina

**MEMBERS:** Flamur Keqa  
Behxhet Haliti

**MEETINGS HELD:** Four

### 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 the internal audit function, reviews the criteria for the external auditor, and recommends their adoption to the Board.

**CHAIRMAN:** Flamur Keqa

**MEMBERS:** Ymer Havolli  
Behxhet Haliti

**MEETINGS HELD:** Four

### 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 expenditures versus the budget.

**CHAIRMAN:** Ymer Havolli

**MEMBERS:** Ruzhdi Morina  
Joly Dixon

**MEETINGS HELD:** Three

## ADMINISTRATION

KPST Administration is led by the senior management consisting of the Managing Director and two deputy directors: one for finance, investment and IT and the other for operations

Management of KPST aims to engage efficient, professional and morally sound individuals, believing that only these qualities will lead to progress, a healthy work environment, and ultimately, to better services for contributors; while simultaneously preserving the institutional integrity of KPST.

In order to achieve these objectives, the Board and Management ensure that the current Administration continues to improve its knowledge and experience, continues to be highly motivated, and continues to put all its intellectual capacities and skill set to serving the advancing of internal processes and client services.

Administration is divided into functional units which ensure an effective and efficient workplace. Improvement of administrative processes, extending assistance to the Board in analysis for investments, as well as implementation of Board's decisions are the main duties of the Administration. The performance of the latter is continually overseen and reviewed by the Board, with its day-to-day running led by the Management.

The turnover of permanent staff members for 2016 was 0.0% (2015: 0.0%) as there were no additions or employment terminations for permanent positions.


During 2016, as in the previous year, permanent employees of KPST numbered 1 part-time and 25 full-time employees.

KPST takes very seriously its nondiscriminatory obligations and is an equal opportunity employer.

Minority employees made up 8% of the workforce, or 9% of those who voluntarily declared their ethnic background.

Women represented 31% of the workforce, 88% were older than 35, and 4% had permanent disabilities.

The absence of turnover in permanent staff meant there were no changes to the ethnic or gender composition of staff compared to the previous year. However, as a year has gone by, staff members all aged by one year and the average age of employees at the end of 2016 was 42.3 years old.

<b>UNIT</b>  	<b>CLIENT SERVICES</b>	<b>INFORMATION TECHNOLOGY</b>	<b>FINANCE</b>	<b>INVESTMENT AND RISK</b>		<b>HUMAN RESOURCES AND ADMINISTRATION</b>	<b>LEGAL OFFICE AND PROCUREMENT</b>	<b>INTERNAL AUDIT</b>	<b>PUBLIC RELATIONS, TRAININGS, TRANSLATIONS</b>
<b>PERMANENT EMPLOYEES</b>  	<b>9</b>	<b>4</b>	<b>3</b>	<b>1*</b>		<b>3</b>	<b>2</b>	<b>1</b>	<b>1</b>
<b>POSITIONS</b>  	1 manager 7 pension advisors 1 receptionist	1 manager 1 programmer/developer 1 network administrator 1 database administrator	1 certified accountant 2 finance officers	1 investment and risk analyst (* <i>Position filled in January 2017</i> )		1 human resources officer 1 housekeeper 1 security officer	1 legal officer 1 procurement officer	1 internal auditor	1 public relations officer, coordinator for translations and trainings
<b>DESCRIPTION</b>  	<p>Offers client services. Provides information on individual's account such as pension contributions or the balance of savings, and also gives advice to clients on pensions and assistance in applications for the withdrawal of savings.</p> <p>Maintains a relationship with employers with the purpose of improving the information and allocating contributions to individual accounts. In general, staff of this unit are closest to the clients throughout their saving cycle, that is from their first contribution up to their retirement.</p>	<p>Ensure that the whole IT infrastructure operates smoothly and without issues at all times, looking after the hardware, software, licenses, internal and external networks and the security and integrity of KPST data.</p> <p>Ensure that the disaster recovery plan is actionable every day and that the plan is tested on regular basis.</p>	<p>Perform all financial transactions, including investing and redeeming funds in financial markets; bookkeeping and accounting for pension funds and KPST's operations.</p> <p>Calculate the daily share price and prepare financial statements, monthly and quarterly reports and other reports deemed necessary by the Board of KPST, the regulator and the Assembly. Additionally, liaise with fund managers.</p>	<p>Analysis on: performance of investments; investment portfolio risk and volatility; compliance of investments with the Law; maintenance of the investment strategy of the Board; etc.</p>		<p>Ensure health and safety at work, the respect of work schedule and other office rules by staff, and handle the hiring procedures when needed. Responsible for the payroll and other compensation.</p> <p>Additionally responsible for overall office logistics such as: dealing with supplies, vehicles, maintenance and security of the office; support staff and the Governing Board members for training and other trips, in and outside the country.</p>	<p>Legal Office handles legal affairs of the institution, advises the Board and management on legal issues and all new legislation; assists in the preparation of contracts and other agreements with third parties; represents KPST in the judicial system.</p> <p>Procurement Office manages the entire procurement process, from initiation of the procurement activity to signing the contracts with providers of goods and services.</p>	<p>Assures the Board that management's activities and those of the Administration, and all the processes in KPST, comply with: internal procedures; CBK rules; and laws in force.</p> <p>Performs regular quarterly audits and provides recommendations to resolve issues raised. Auditor reports are reviewed by the Audit Committee and the Governing Board.</p>	<p>Maintains the relationship and handles the communication with the media and public institutions, interviews and conference activities, drafting of the annual report and the quarterly bulletin for contributors; manages the website content, and when delegated takes the role of KPST spokesperson; coordinates and facilitates the translation of the all the documents.</p>



## SUPERVISION AND AUDIT

KPST is supervised and inspected by CBK, the regulator of pension funds, and reports to the Assembly, its establisher. It is audited by both internal and external auditors

KPST, as an independent public institution, is subject to supervision by both public institutions and private professional audit firms. All the supervisions and financial controls subjected to, which have resulted in no serious findings (since the inception of KPST in 2002), have continued the confidence of the Board in the management.

Furthermore, the Board believes that these supervisions combined with the performance of investments, have strengthened institutional credibility and increased the confidence of the public in Board's decision making and management's work ethic.

The number of the audits and inspections, as well as their intervals, remained the same in 2016. In terms of reporting, KPST notifies quarterly the CBK, the Assembly and the Government on pension fund placements, new investments, return on investments and the reconciliation of pension assets. These reports are published in the website of KPST for the purpose of informing the public.

Apart from quarterly reports to the CBK on the compliance of investments with the law and CBK rules, with the request of CBK, KPST has also started to submit monthly detailed reports to the supervision department of CBK in relation to all investment aspects and the overall state of pension assets

Should KPST investments, due to movements in financial markets, happen to fall out of compliance with the law, KPST is obliged to notify the CBK and rectify the situation within 180 days. There was one such occurrence at end of September 2016, and had been resolved by the end of 2016.

By May 31st of each year, KPST compiles the Annual Report for the previous year and submits it to the CBK, the Assembly and the Government, together with the Financial Statements audited by an independent auditor who can only be selected with the consent of the CBK. The annual reports are also published on the website.

During the year CBK finalised the inspection of KPST for 2015, where a vast number of documents was reviewed; from minutes of Board and Committee meetings to all other documents related to the administration. CBK normally performs two inspections of KPST during the year, the first an overall inspection and the second a focused one to check on the progress of recommendations, and reports its findings to the Board.

In case of serious findings CBK must also report those to the Assembly, which has not been necessary up to now. In addition to findings, CBK also makes recommendations to the Board.

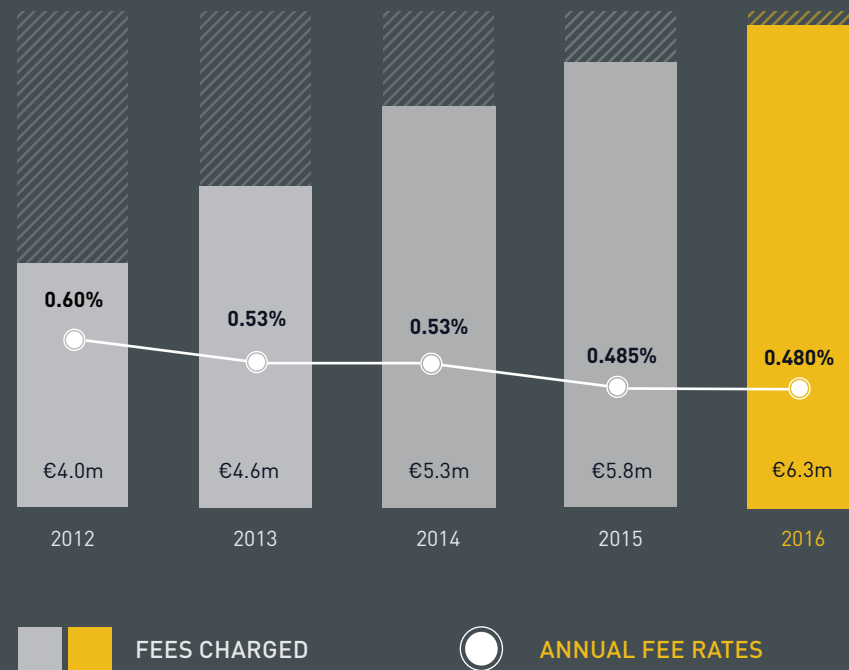
KPST notifies the CBK on all Board decisions dealing with contributors, fund's governance, and other issues for pension assets. KPST has an internal auditor who reports four times a year to the Audit Committee of the Board on all aspects of institution's activities.

According to the Law No. 05/L-116 which amends and supplements the Law No. 04/L-101 on Pension funds of Kosovo, at least one member of the Audit Committee of the Board should be an external expert in the field of accounting or audit, and also independent from the Governing Board and the Management of KPST. As the amendment came into force at the beginning of 2017, fulfilling this legal requirement is expected to be accomplished during 2017.

## ISSUES AND RECOMMENDATIONS RAISED BY EXTERNAL AUDITOR AND INTERNAL AUDITOR FOR 2016 AND THEIR STATUS

AUDITOR	RECOMMENDATION	FOLLOW UP
EXTERNAL AUDITOR	The re-formulation leaning to a more conservative internal procedure for intranet access by KPST staff is recommended.	Despite the fact that KPST has no precedent of any damage or problem caused from the interpretation/formalisation level of internal procedures for access to the network, the External Auditor's recommendations were taken into account and have been fully implemented.
	It is recommended that the management reviews the parameters of password sensitivity for accessing the INVEST2 application, and also set criteria in accordance with the recommended length of password, the validity period, its complexity and track-record.	The Management, as in the above case, has taken into account the recommendation and has implemented it in full.
INTERNAL AUDITOR	To set up an alternative office for disaster recovery outside the region of Prishtina, as client services office in case of any unexpected disastrous event at KPST headquarters.	Management has established the alternative office, in accordance with this recommendation.
	In the future, all asset-managers who might have complaints about the selection process, unsuccessful bids, or the person in charge for receiving the documents and addressing questions and answers, should be arranged to be addressed directly to a specific e-mail, where only the Board members have access to.	The recommendation has been implemented by Management.
	The process of approval for pension applications must be brought back to managerial level, and customer service officers should be held accountable only for the inspection part.	The Management has implemented this recommendation on time.

TOTAL NUMBER OF AUDITS AND INSPECTIONS DURING 2016 (2015: TOTAL 7)



Annual fees charged on pension assets for 2016 were reduced to a total of 0.480% of AUM (2015: 0.485%). Investment fees were decreased from 0.400% to 0.398% whereas operating fees decreased from 0.085% to 0.082%.

In nominal terms fees charged on pension assets increased by 8.7%, or €503,535, due to the increase in AUM. The nominal increase of 8.7% in fees was nevertheless significantly lower than the 15.2% increase in [gross] AUM.

Revenues generated from charging fees equaled €6,323,013 of which €5,239,164 were designated to cover investment expenses, whereas €1,083,849 for operational purposes.

Non-fee revenues of KPST for the year were €227,939 augmenting 2016 revenues of the KPST to €6,550,953 or in percentage terms 10.4% more than a year ago (2015: €5,933,711). Roughly 64.6% of non-fee revenues derive from the difference between refunds and erroneous paid contributions, whereas 34.2% were attributed to investments.

## FINANCING

**On average KPST charged its participants with operating fees of €0.17 per month**

KPST is funded in a similar way as are 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.

As per changes within Law No. 04/L-168 the investment fee charged by KPST must cover expenses relating to the investment of pension assets; whereas the operating fee must cover all other expenses.

Between March 13th of 2015 and February 21st of 2016, the KPST applied an annual fee of 0.485% of assets under management, which consists of 0.400% investment fee and a 0.085% operational fee. Starting from February 22nd of 2016 up to December 31st of 2016, the KPST charged a combined fee of 0.480%, divided into 0.398% investment fee and a 0.082% operational fee.

The annual operating fee of 0.082% charged by KPST continues to be the lowest in comparison to all similar operators in the region, and is also among the lowest globally.

On the other hand, the annual investment fee of 0.398% is not comparative the way it is applied to the other similar pension funds in the region and globally.

The standard treatment of investment expenses, in addition to the operating fee charged for the operations of the managing entity, is for investment expenses to be levied on the pension fund itself; i.e. investment expenses are treated as expenses of the fund and not as they are in Kosovo, where they are treated as expenses of the managing entity.

The current treatment results in discrepancies between what KPST charges as an investment fee (which must be evaluated and budgeted before the year starts), and actual expenses.

It should be noted that some of the Board activities associated with investments, such as interviews and selection of asset managers, are covered by operational fees.

Going back to the operating fee, which has cost account holders in 2016 an average of €2.04 for the year (2015: €2.28), has made it possible for participants and retirees of KPST to receive:

- |   |   |    |   |
|---|---|----|---|
| 1 | direct service at the office (service, counseling, information) every working day from 08:00 to 16:00;                            | 7  | notice by mail for retirement;  |
| 2 | delivery of account statement at home or via e-mail;  | 8  | free retirement application and no charges by KPST for bank transfers;                              |
| 3 | unlimited printing of account statements at KPST office or TAK regional offices;  | 9  | free maintenance on accounts with local commercial banks for the phased withdrawal of savings;      |
| 4 | complete maintenance of the account;  | 10 | above average interest rate on savings in the phased withdrawal program;                            |
| 5 | standby backup servers in a different location;   | 11 | the most advanced technological services in the pension sector in the region;                       |
| 6 | electronic service on-line access to personal pension account, and the service of direct communication through Facebook platform; | 12 | a portion of the investment costs (selection of asset managers, the Governing Board expenses etc.). |

## EXPENSES

KPST as the managing entity of the fund incurs expenses for the investment of pension assets and for its operations

### INVESTMENT EXPENSES

79.7%  
2016

Investment expenses include: fees that fund managers withhold for access and asset investment in the financial markets; CBK fees for transfer of assets; and other expenses such as brokers and custodians of assets.

The Governing Board during the selection process of investment funds takes into account the fees that managers charge and managers that offer lower fees have priority during such selection.

Also it should be noted that fund managers charge different management fees depending on their investment strategies (active or passive) and amounts placed with them. For example assets invested up to €50m can have a different fee from assets above €50m with the same fund manager, since fund managers can give discounts for larger asset placements.

Investment expenses constituted 79.7% of total KPST expenses for the year (2015: 77.6%). In nominal terms they reached €4,780,644 (2015: €4,442,773) due to record assets invested in global markets which came to €1,245m on average during the year, or 15.5% more than in the previous year (2015: €1,078m).

It should be noted that investment funds in financial markets charge around 1% in average for managing funds, whereas KPST through individual agreements and prudent selection has ensured that fees paid to investment funds - through which it invests its assets - to have the weighted average of around 0.398% of assets for the year 2016.

Investment expenses were reduced to 91.2% of revenues from investment fees (2015: 94.1%), thus leading to a surplus generated by KPST investment activities in 2016. This year's surplus increase was driven by changes made in the investment structure of fund managers, redemption of two investment funds and also the prolonged process of selecting new investment funds.

The Governing Board of KPST decided that the surplus of € 440,000 from investment activities, should be refunded back to contributors. This way, KPST operates at the optimum of the fees charged.

When the investment fee is assessed KPST aims to be as true and precise in evaluating the needs for the same. However, it is extremely difficult to predict both the investment performance and the strategic allocation of assets for the coming year (due to external factors which can affect both markets and Board's investment decisions), which inevitably results in a surplus (or deficit) from investment activities.

77.6%  
2015

## FEES CHARGED BY INVESTMENT FUNDS

Investment funds charge management fees for the investment of pension asset depending (and mainly) on products they offer and their position in the market.

Through the payment of these fees, in some cases, KPST has access to financial markets at a lower costs than it would if it were to invest directly. But, in all the cases, KPST benefits from the investment experts of the fund managers.

Active investment funds, which perform transactions, research and risk management on daily basis, tend to have higher expenses and thereby understandably charge higher fees. Whereas passive investment funds, which follow a particular index in the market, have lower management fees in general, and in the case of KPST this is only the case with Vanguard - GSIF.

Open-end funds	2016		2015	
	Annual net fee rate	Fees charged	Annual fee rate	Fees charged
Vanguard – GSIF	0.13%	€453,822	0.13%	€459,946
BNY Mellon – RRF	0.60%	€1,212,352	0.60%	€1,033,227
AXA - GILB	0.35%	€322,966	0.35%	€312,475
Schroders – SISF	0.50%	€91,476	0.45%-0.50%	€558,529
Schroders - GDG	0.65%	112,627	--	--
Nordea 1 – GSEF	0.43%	€510,394	0.43%	€241,760
Nordea 1 – SRF	0.56%	€1,142,434	0.56%	€676,803
KBI – IDEF	0.73%	€205,573	0.73%	€412,311
AXA - WFOI	0.55%	€306,265	0.55%	€154,565
Pictet - HDS	0.63%	€268,573	0.63%	€209,272
Tobam - ABWEF	0.60%	€22,321	0.60%	€221,342
BNP Paribas – PDP	0.65%	€63,702	--	--
Amundi - RPI2	0.20%	€6,587	--	--
Aquila - RP7	--	--	1.06%	143,518
<b>TOTAL FEES</b>		<b>€4,719,092</b>		<b>€4,423,748</b>
Transfer and other fees by CBK		€52,636		€9,138
Brokers, custodians and pledges		€8,916		€9,887
<b>TOTAL INVESTMENT EXPENDITURE</b>		<b>€4,780,644</b>		<b>€4,442,773</b>



## OPERATING EXPENSES

20.3%  
2016

Operating expenses <sup>(1)</sup> include all other costs that are not direct investment expenses and consist of compensations, printing and mailing of account statements, office rent and other operating expenses. Additionally, operating expenses also include Governing Boards expenses, with investment decision-making being the most important of Board's activities.

For the year 2016 operating expenses amounted to €1,216,569 (2015: €1,282,483), constituting 20.3% of KPST's total expenditures (2015: 22.4%). The operational budget for goods and services was 87.9% realised (2015: 96.6%).

The issue of Central Procurement Agency mentioned in the foreword did play a major part in the lower budget realised rate.

In addition, reduced costs for the physical delivery of statements following the electronic delivery of statements, broadcasting campaigns conducted through social media instead of TV, and the vacant Board member position were major contributors to the reduced expenditure rate.

The budget line for wages and salaries accounted for 47.3% of overall operational expenses being the largest budget line for the year (in 2015: 44.8%). In nominal terms, staff expenses were almost the same as in 2015. During 2016, 9.6% of staff expenses consisted from obligations arising from the collective contract, being a significant factor of the increase in the staff cost.

KPST staff count of 26 permanent employees at the end of 2016 had increased by only 5 since establishment in 2002.

In addition to the budget for operating expenses KPST had the capital expenditure budget (€53,820), which for 2016 was realised at the rate of 95.2% (2015: 90.5%). Most of the capital expenditure was for IT hardware components and software licenses.

22.4%  
2015

## OPERATING EXPENSES

	2016		2015	
Staff costs	€575,672	47.3%	€574,068	44.8%
Governing Board expenses	€171,744	14.1%	€157,403	12.3%
Account statements and correspondence	€134,969	11.1%	€170,387	13.3%
Depreciation and amortisation	€129,952	10.7%	€151,399	11.8%
Office operating expenses	€82,954	6.8%	€82,664	6.4%
Software maintenance	€57,145	4.7%	€44,812	3.5%
CBK supervision charges	€16,258	1.4%	€6,606	0.5%
Public education and advertising	€11,491	1.0%	€41,479	3.2%
External audit	€10,100	0.8%	€9,900	0.7%
Communication	€7,760	0.6%	€8,705	0.7%
Professional services/Contractors/Consultants	€6,011	0.5%	€8,583	0.7%
Bank charges	€2,746	0.2%	€8,141	0.6%
Meetings and conferences	€2,602	0.2%	€1,791	0.1%
Disaster recovery - rent and other associated costs	€550	0.1%	€6,650	0.5%
Other costs	€6,615	0.5%	€9,895	0.8%
<b>TOTAL OPERATING EXPENSES</b>	<b>€1,216,569</b>	<b>100.0%</b>	<b>€1,282,483</b>	<b>100.0%</b>

(1)

For more information please refer to the audited financial statements, which, as required by the Law, are prepared in compliance with International Financial Reporting Standards.

# 2

## ACTIVITIES

- 36** Activities
- 37** Account management
- 38-39** Contribution allocation
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## THE BOARD

### ACTIVITIES

During 2016, the Governing Board consisted of 6 members in total, four professional and two representative members. Since January 2015 a professional member position continues to remain vacant.

The Board's focus was on maintaining sound investments and has reviewed on regular basis the performance of each investment fund and the compliance of investments with legislation in force. The Board has also fine tuned the investment manual document and the investment strategy based on expectations for the developments in financial markets.

During the year the Board fully redeemed investments from KBI IDEF and Tobam AB (pure equity funds), and substantially decreased its investment with Schroders SB (pure bond fund). It added three new funds: Schroders GDG in August; Amundi RPI2 in October; and BNP Paribas PDP in December. The Board shifted and rebalanced a record amount to open-end funds; it invested €512m and redeemed €279m.

As yields on new issues for Kosovo treasuries decreased, KPST found it increasingly difficult to make new placements in this instrument, and this is part of the reason why the Board increased investments in term deposits with commercial banks and placed €20m in three banks.

As every year, Board members held several meetings with leaders of various institutions of Kosovo: Ministry of Finance, CBK, Assembly and the Presidency. The Board has pushed forward the increase in the number of PWP providers, with four banks offering the service from September 2016.

Given the increased volatility in the fixed income markets, which in turn implies that in the current climate no assets can be considered very safe in the conventional sense, the Board has postponed indefinitely any plans to segregate the investment of assets into age cohorts.

All the while, all of the Board's committees have, on regular basis and when necessary, addressed in all aspects investment, budget, audit, complaints, and other issues.

## THE MANAGEMENT

In addition to providing assistance to the Board and implementing its decisions, the management ensured that all daily processes (operations) of KPST function without interruption. These meant the safekeeping of contributor data, offering services of high professional service standards, and the timely payment of withdrawals upon retirement.

The management ensured that periodic reports, including the annual report, were sent to overseeing and other institutions on regular basis or whenever required, and that the investment of funds is realised accurately, and the communication with fund managers is performed in a correct and professional manner.

At the same time, it was ensured that the on-line service eTrusti which numbers over 62 thousand users, and the KPST website, were functioning 24 hours a day; for contributors to be informed about the balance on their accounts whenever they need it; for the communication with the public and third parties to be available every working day.

Above all, the management has ensured that all financial transactions are in full compliance with regulations, laws and standards in force, and that any decision or action is in line with legislation and/or the interest of participants.

During the year the management was focused on: a) facilitating the call for bids process for selecting additional multi-asset funds; b) increasing the number of eTrusti users and collecting contributor email addresses - to improve the direct communication, reducing costs and increasing transparency; c) creating the KPST account on social networks and further developing communication with contributors; d) increasing the number of banks where retirees could withdraw their pension savings; e) further improving of internal information technology and digitalisation; f) treating unallocated contributors accounts due to the lack of accurate reporting data by employers; and g) finding alternatives for professional services in programming, design and production.

### ACCOUNT MANAGEMENT

#### Account statements were for the first time sent by e-mail



In the 2016 cycle 387,869 statements were sent, out of which 278,430 via regular mail and 109,439 by e-mail (2015: 394,160 - all via regular mail). Despite the increase in the number of account-holders, less statements were sent in the 2016 thanks to a provision in the amended law which removes the requirement to mail statements to holders of accounts without any transactions in the last three years. The number of contributors for whom KPST did not have a physical or e-mail address was 15,927 (2015: 14,836) and statements for them were not sent out.

Due to the retirement (or death) of contributors, 4,445 accounts were "withdrawn" anew during 2016 (2015: 4,438). The total number of withdrawn accounts reached 33,386. Account statements also don't get sent for this category of account-holders.

KPST opened 34,018 new individual accounts (2015: 31,404), bringing the total number of accounts opened since establishment to 541,923. Out of the number of accounts opened during the year, first-time contributors numbered 32,055, i.e. participants who started contributing in 2016; with the rest being cases of contributions for prior years for which KPST received either the payment or the information in 2016.

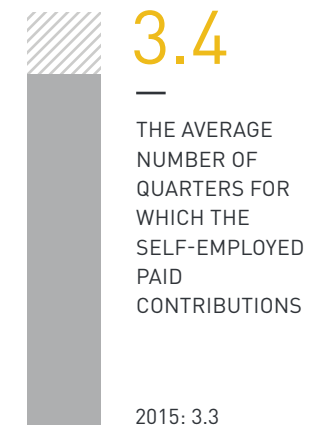
During the year there were 27,051 employers and 31,405 self-employed who paid contributions for the reporting year (2015: 25,178 and 31,405, respectively). In addition, there were 3,741 employers and 4,774 self-employed who paid contributions for prior years only (2015: 3,288 and 4,616, respectively).

In total, for 2016, there were 3.15m transactions posted on participants' accounts and 494 thousand transactions posted on employer accounts (2015: 2.89m, and 423 thousand, respectively).

Included in transactions to employer accounts are 60,127 refund transactions (2015: 26,032 refund transactions) of refunding of: a) contributions paid in error or over payments; or b) fines to TAK. For clarity, fines include fines and interests levied by TAK on employers (and the self-employed) for delays in settlement, or the incorrect reporting, of pension contribution liabilities - and which are subsequently paid by the employer together with pension contributions.

The refund transactions in 56% of cases were based on payments received during the same year, i.e. during 2016. In 2015 they comprised 95% of cases and in 2014 only 89% of cases.

On average employers declared and paid for 9.6 (or 80% of) months of 2016, as the year before; and the self-employed for 3.4 (or 85% of) quarters of 2016, up from 3.3 quarters they year before.





## CONTRIBUTION ALLOCATION

### Unallocated contributions reduced to 0.75% of all the contributions collected

KPST has continued with its efforts to find information in order to identify contributions paid but were not reported.

As a result of the work of the KPST staff, but also with the assistance from TAK, cumulative unallocated contributions fell to €9.45m at the end of 2016 (2015: €9.97m) while in percentage it was 0.75% of collected contributions (2015: 0.90%). The figure of 0.75% exceeded Board's target of 0.76% for 2016.

The acceleration of the liquidation process of the state-owned enterprises by the Privatisation Agency of Kosovo increased the number of contributions belatedly paid for prior years, which resulted in an increase of contributions paid during the reporting year alone and which remained unallocated to 0.28% (2015: 0.22%).

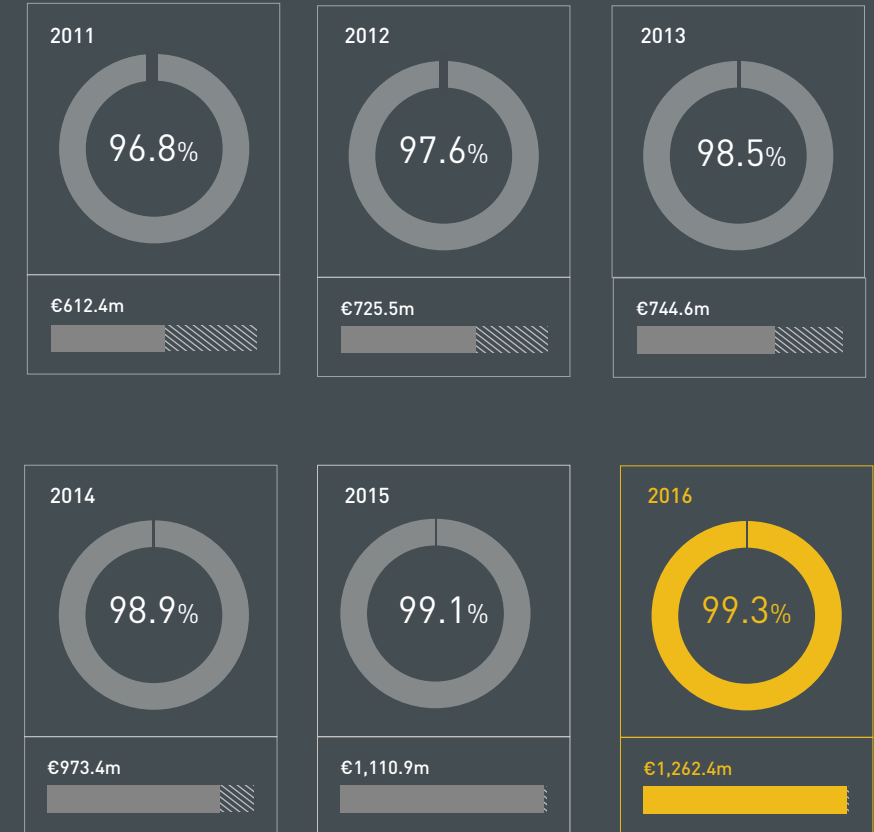
Reasons and amounts for contributions remaining unallocated were: a) €6.12m due to employers not submitting contribution reports; b) €2.17m due to payments not matching contribution reports; c) €0.64m due to payments for which the employer was not identified; and d) €0.52m due to incorrect reporting of contributor's ID and/or name (2015: €6.70m; €2.18m; €0.56m, and €0.53m, respectively).

This year continued with results achieved mainly through contacting employers with the aim of securing missing contribution reports (effect €0.58m).

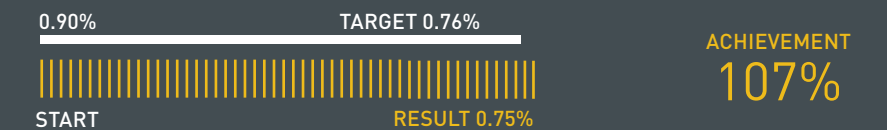
The most significant development for the year in relation to unallocated contributions is legal in nature. The changes to the law authorise KPST to liquidate (to the Consolidated Budget of Kosovo) proceeds from contributions that remain unallocated more than 6 years after being paid to KPST.

KPST has supported this amendment to the law because KPST can - on behalf of contributors - claim back from the state purse funds (including opportunity costs) for which the owner is subsequently identified. Furthermore, KPST had exhausted all possibilities for identifying owners of unallocated contributions paid before 2010.

### CUMULATIVE CONTRIBUTIONS RECONCILED AND COLLECTED



### CONTRIBUTIONS 2002-2016 UNALLOCATED



## CLIENT SERVICES

### 326 services offered daily

The total number of services offered during 2016 for individuals and employers from the KPST office was 85,135. This represents a 18% increase in comparison to 72,266 services provided during 2015.

On average 326 services and consultations were provided every working day (2015: 289 services).

The number of account statements printed (free of charge) for walk-in visitors was 37,286.

With 46%, this continues to be the most frequent service offered by KPST. Visits have increased primarily as foreign embassies, which consider account statements issued by KPST as one of the proofs of employment, require these statements as part of the standard documentation visa applicants must submit.

A limited number of KPST services are also offered at regional TAK offices, through its pension officers. Services offered there, which also consisted predominantly of printing accounts statements, numbered 42,298 (2015: 43,608). KPST continually cooperates with the regional TAK offices and supports them in various forms, including providing training and consultations to pension officers.

Other integral services offered by the staff of KPST were: a) authorised 13,522 requests to access the eTrusti portal; b) sent 9,604 retirement notifications; c) approved 4,445 applications for withdrawal of savings; d) printed and reviewed 4,633 employer statements; and e) modified 4,259 contributor addresses.

KPST continues to treat eTrusti with priority. The number of eTrusti accounts during 2016 rose by 29% to 62,471 (2015: 48,427), which constitutes 12% of KPST account-holders (2015: 10%). The utilisation of social networks contributed mostly to this increase.

The eTrusti portal enables participants to have free and easy access to their savings account, and enables KPST to continually improve services, lower costs and achieve a higher degree of transparency.

The services offered in the on-line portal are numerous. Users of eTrusti can check their account balance and transactions, and unlike many ordinary on-line services, these transactions are not limited only to the last 3-6 months. In it participants can check on the balance of their account, daily unit price, unit balance, all their contributions from every employer since opening the account; and in addition can post questions to KPST staff.

In total, participants were serviced with 137,371 services (2015: 123,820), or 24% more than in the previous year. Of these 63% were provided through the KPST office, 30% through TAK pension officers and 7% were participants' selfservices through eTrusti.

# 37,286

ACCOUNT STATEMENTS PRINTED IN KPST OFFICE



### TOTAL SERVICES OFFERED FROM THE OFFICE FOR CONTRIBUTORS AND EMPLOYERS

2016  
85,135



2015  
72,266



# 29%

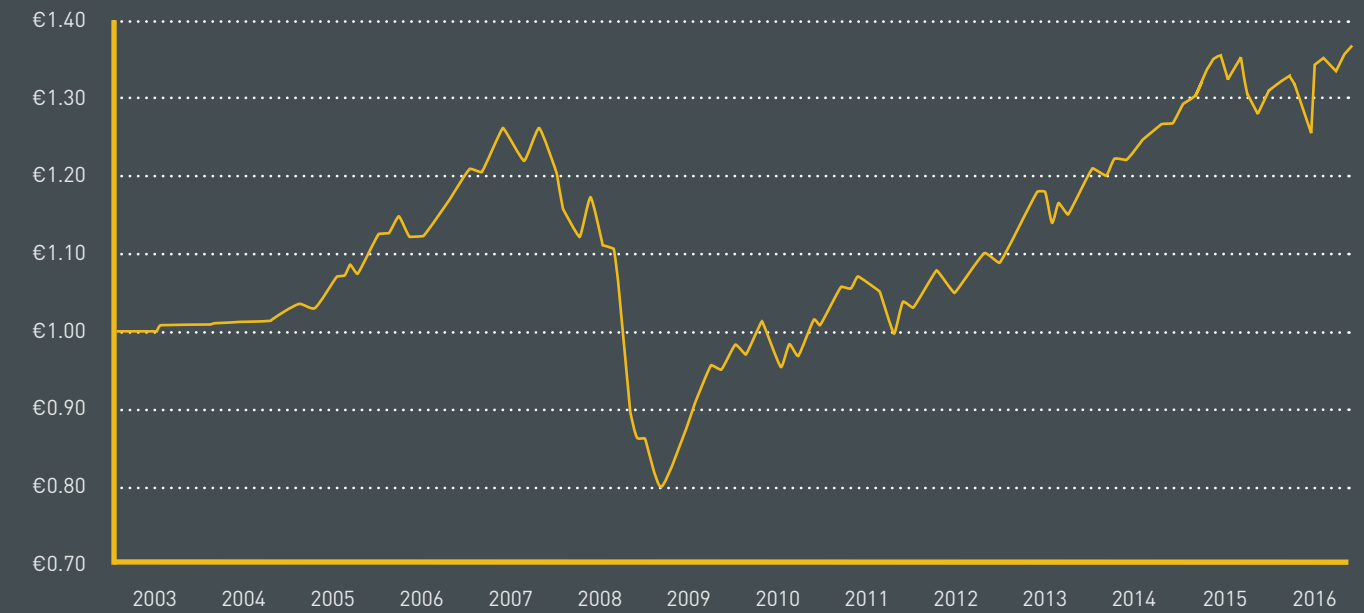
NUMBER OF  
ACCOUNTS IN  
eTRUSTI

## 3



Safety of pension assets, diversification of investments, maximum return for the level of risk taken and the maintenance of appropriate liquidity are the core of prudent investment principles of KPST.

#### UNIT PRICE SINCE INCEPTION



## INVESTMENT OF PENSION ASSETS

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## INVESTMENT PRINCIPLES AND POLICY

And in 2016 KPST adhered fully to the Statement of Investment Principles (SIP) and the Investment Policy Guideline (IPG) set in 2014. The SIP is based on main long-term investment goal of KPST, which is: first to preserve and secondly to increase the contributors' capital in both nominal and real terms. The SIP sets the Consumer Price Index in Kosovo as a benchmark against which the performance of KPST investments is to be measured.

The IPG, recognising there ought to be a balance between contributors who are close to retirement and those who are not, calls for a policy which contains a reasonable and not excessive allocation to long-term instruments from which the expected return and volatility are higher, such as equities; this in turn should be combined with a greater allocation to investments with expected lower volatility and more stable returns than equities.

With an increased emphasis on risk, the objective of the IPG is to offer more protection in downward markets, yet to reap the rewards when markets go upwards. This objective was met also in 2016 when oscillations were quite successfully subdued and protected the value of investments.

The Board has reviewed the strategic allocation and its limits every quarter, the compliance of allocations with the limits for asset classes or the investment strategy adopted by open-end fund managers.

At the same time, through careful analysis, KPST investments were verified if they meet all the provisions of the Law on Pension Funds of Kosovo.

The current investment policy is based on a combination of: a) asset classes - i.e. financial instruments of direct investments as well as those of indirect investments held through open-end funds; and b) investment strategy adopted by individual open-end funds. Each combination of asset classes and strategies has minimum and maximum of investments allowed in them.

It should be emphasised that KPST is using all legal options and financial potential of Kosovo for investing pension funds, and currently there are only two options: investing in Treasury securities and bank deposits.

The table below shows the combination of asset classes and respective strategies, actual allocations as of December 31, 2016 as well as respective limits in force on that day as set by the Governing Board.

ASSET CLASS	STRATEGY	ACTUAL ALLOCATION	LIMITS
Cash/Kosovo T-bills/Deposits	Interest bearing	4.7%	1%-12%
Kosovo T-bonds	Interest bearing	3.4%	0%-9%
Debt Instruments	Directional	6.8%	6%-25%
Multi-assets	Managed/Targeted risk; Absolute return	41.1%	25%-45%
Equities	Dividend	4.1%	2%-8%
Equities	Managed/Targeted risk; Absolute return	12.0%	7%-13%
Equities	Directional	27.9%	25%-35%

Multi-asset funds mean funds that contain both equity and debt instruments of governments and global corporations such as e.g. bonds.

When it comes to the investment strategy, risk managed funds set placements through derivatives (such as futures – agreements for executing financial instruments in the future with a redetermined date and price), in order to protect from markets going into an unwanted direction.

Funds with risk targeting determine a risk level (target) for the volatility of the investment portfolio and on regular basis reallocate assets to restore the expected volatility to that established level of risk.

Absolute return funds aim to select stocks and debt instruments with the perceived greatest potential to generate positive returns, under the general belief that the lower volatility of debt instruments will itself counterbalance the volatility of stocks and reduce the overall risk.

Funds with a dividend investment strategy select in their portfolio only stocks of corporations with regular and stable dividend payments. The "Interest income" is supposed to include direct placements in interest-bearing instruments, such as term deposits and Kosovo debt securities.

The information as to where each direct placement of KPST falls, is provided in the next page.

## ASSET ALLOCATION

### €98.7m was the value of investments in Kosovo: in government debt securities and term deposits

KPST closed 2016 with AUM OF €1,418.6m which were distributed as follows: €1,303.7m were invested in financial markets through open-end funds (2015: €1,084.7m); €78.7m were invested in debt securities of Kosovo (2015: €89.6m); €20.0m were placed in term deposits with BKT, BpB and TEB (2015: €6.0m in BKT and BPB); whereas €15.9m were not invested, in CBK (2015: €50.9m).

Overall, the Board decided there should be a positive tactical shift towards more placements into multi-asset funds. Following a public call for bids process three new multi-asset funds were subscribed to with €50m each. Those funds were BNP Paribas-PDD, Schroders-GDG and Amundi-RPI2. In addition, the Board also directed €80m to Nordea-SRF, and €30m to both AXA-WFOI and BNY Mellon-RRF. Subsequently €65m were redeemed from the BNY Mellon fund, and this made for net new investments into multi-asset funds worth €225m. This meant that the year 2016 ends with 41.1% in multi-asset funds having been only 28.0% the year before.

By contrast, both fixed income funds subscribed to by KPST had funds redeemed from them. The Board redeemed €100m from Schroders-SB as the outlook was bleak for this fund in the short to medium term, and redeemed €18m from AXA-GILB in order to realise part of the exceptional gains of this fund. As such, the allocation to debt instruments of directional style fell to 6.8% from 16.8% the year before. With an additional €99m, the risk managed equity fund of Nordea-GSEF received the most new investments in the equities category. In addition, €22m went to Pictet-HDS, €20m to Vanguard-GSIF and €7m to KBI-IDEF.

Early in the year the Board redeemed in full €31m from the Tobam-AB fund due to its higher than expected sensitivity to falling markets, and redeemed in full €65m from KBI-IDEF amid the decision to reduce exposure to dividend equity funds. This made for net new investments into equity funds worth €52m and the overall exposure to equity funds of 44.0%, up from 43.3% the year before.

Although €53.9m of new investments into Kosovo Treasuries were made during the year, allocations to them at the end of the year fell from €89.6m to €78.7m, as €65.1m had matured during the year. In percentage terms Kosovo Treasuries were 5.6% of assets, down from 7.5% the year before, and had a weighted average coupon of 1.92%. Primarily thanks to the high liquidity of local banks the competition for this type of instrument remains high; this has resulted in lower yields for each new issue, and as such have made this instrument a less attractive with the interest of contributors in mind.

Term deposits in local banks worth €6m at the end of 2015 matured during 2016, and the Board decided to make fresh one-year deposits worth €20m with three banks: BKT (€8.0m); BPB (€8.0m); and TEB (€4.0m); which have a weighted average rate of 1.50%.

In total the Board invested €512m, redeemed €279m, and had €71m of matured investments, making this a record year in terms of investment activity for KPST.

INVESTMENT	ASSET CLASS / STRATEGY	ASSETS	ALLOCATION
Vanguard - Global Stock Index Fund	Equities / Directional	€395.5m	28.2%
Nordea 1 - Stable Return Fund	Multi-assets / Managed risk	€232.3m	16.6%
Nordea 1 - Global Stable Equity Fund Unhedged	Equities / Managed risk	€170.2m	12.1%
BNY Mellon - Real Return Fund	Multi-assets / Absolute return	€138.8m	9.9%
AXA - Global Inflation Linked Bonds Fund	Debt instruments / Directional	€85.7m	6.1%
AXA - World Fund Optimal Income	Multi-assets / Absolute return	€61.2m	4.4%
Pictet - High Dividend Selection	Equities / Dividend	€58.8m	4.2%
Schroders - Global Diversified Growth Fund	Multi-assets / Managed risk	€50.9m	3.6%
Amundi - Amundi Rendement Plus I2	Multi-assets / Managed risk	€50.3m	3.6%
BNP Paribas IP - Parvest Diversified Dynamic	Multi-assets / Managed risk	€50.1m	3.6%
Schroders - International Strategic Bond Fund	Debt instruments / Directional	€10.3m	0.7%
Kosovo Treasury	Kosovo T-bills / Interest income	€30.4m	2.2%
Kosovo Treasury	Kosovo T-bonds / Interest income	€48.3m	3.4%
BKT, BpB, TEB (banks in Kosovo)	Deposits / Interest income	€20.0m	1.4%
<b>TOTAL INVESTED ASSETS</b>		<b>€1,402.8m</b>	<b>100.0%</b>

Note: More details for each investment fund are presented in the financial statements attached as appendix 7 and 8 of this report

## GEOGRAPHIC ALLOCATION



**2. AMERICAS**  
€605,018,088

43.14%



**1. EUROPE**  
€642,603,820

45.82%



**3. ASIA**  
€112,616,951

8.03%



**5. AFRICA**  
€3,646,377

0.26%



**4. OCEANIA**  
€38,567,449

2.75%

NO.	COUNTRY	%	ASSETS
1.	United States	39.74%	€557,334,697
2.	United Kingdom	8.23%	€115,421,856
3.	France	7.24%	€101,537,574
4.	Kosovo	7.04%	€98,732,669
5.	Japan	5.04%	€70,683,615
6.	Germany	4.75%	€66,616,503
7.	Luxembourg	3.22%	€45,158,976
8.	Canada	2.71%	€38,006,468
9.	Netherlands	2.45%	€34,360,091
10.	Denmark	2.36%	€33,097,883
11.	Australia	2.20%	€30,853,959
12.	Switzerland	2.19%	€30,713,714
13.	Italy	1.78%	€24,963,658
14.	Ireland	1.59%	€22,298,998
15.	Spain	1.32%	€18,512,375
16.	Sweden	0.97%	€13,603,791
17.	Israel	0.77%	€10,798,886
18.	India	0.67%	€9,396,433
19.	Hong Kong	0.62%	€8,695,207
20.	New Zealand	0.54%	€7,573,245
21.	Republic of Korea	0.48%	€6,731,773
22.	China	0.48%	€6,731,773
23.	Belgium	0.41%	€5,750,056
24.	Norway	0.38%	€5,329,320
25.	Singapore	0.34%	€4,768,339
26.	Finland	0.25%	€3,506,132
27.	South Africa	0.22%	€3,085,396
28.	Mexico	0.22%	€3,085,396
29.	Austria	0.19%	€2,664,660
30.	Jersey	0.19%	€2,664,660
31.	Taiwan	0.18%	€2,524,415
32.	British Virgin Islands	0.14%	€1,963,434
33.	Portugal	0.14%	€1,963,434
34.	Brazil	0.11%	€1,542,698
35.	Poland	0.09%	€1,262,207
36.	Turkey	0.09%	€1,262,207
37.	Peru	0.08%	€1,121,962
38.	Malaysia	0.08%	€1,121,962
39.	Indonesia	0.07%	€981,717
40.	Others	0.42%	€5,890,301

Note: Cash assets and funds with CBK were not included in calculations.

Assets invested through open-end funds are invested through managers of these funds in equities, debt instruments, cash/money markets and other corporate and sovereign financial instruments. At the end of year KPST had direct and indirect investments in financial instruments through 2,086 issuers globally (2015: 1,947). The asset allocation by country on reporting date is presented in tabular form as well as according to their global spread.

## MAIN ISSUERS

### US Treasury continues to top the list

The list of Top 25 issuers (out of 2,086 in total) is provided below. KPST is primarily exposed to such issuers indirectly, via open-end funds, whereas placements to Kosovo Treasuries and deposits (with local banks) are direct placements.

US Treasury continued to lead the list with 8.34% of assets, having been 9.97% a year ago. Kosovo Treasury ended the year in the second place with 5.55% of KPST assets, and UK Treasury was third with 1.55%.

Legal limits require that KPST does not exceed placing: a) more than 30% in Kosovo treasuries; b) 10% of assets in debt securities of a single issuer rated AA and above; and c) more than 5% in other issuers. As such KPST was within legal limits for investments in a single issuer on December 31, 2016.

Changes in the law in effect from 2017 allow up to 20% of assets to be invested in debt securities of issuers rated AA and above.

ISSUER	ASSETS	ASSET ALLOCATION
1. US Treasury	€118.26m	8.34%
2. Kosovo Treasury	€78.70m	5.55%
3. United Kingdom Treasury	€22.06m	1.55%
4. Nykredit	€15.26m	1.08%
5. Apple Inc	€13.73m	0.97%
6. France Treasury	€12.86m	0.91%
7. Danske Bank	€12.70m	0.90%
8. Johnson & Johnson	€12.17m	0.86%
9. Roche Hldg Ag	€11.35m	0.80%
10. Verizon Communications Inc	€11.13m	0.78%
11. Alphabet Inc	€10.62m	0.75%
12. Microsoft Corporation	€10.19m	0.72%
13. Italy Treasury	€9.97m	0.70%
14. Pfizer Inc	€9.71m	0.68%
15. German Treasury	€9.58m	0.68%
16. At&T Inc	€9.28m	0.65%
17. Cvs Caremark Corp	€8.91m	0.63%
18. Novartis Ag	€8.72m	0.61%
19. Nippon Tel & Tel Corp Npv	€8.48m	0.60%
20. Cisco Systems Inc	€8.46m	0.60%
21. BpB Bank Kosovo	€8.01m	0.56%
22. BKT Bank Kosovo	€8.01m	0.56%
23. Teva Pharmaceutical Industries	€7.97m	0.56%
24. Australia Treasury	€7.80m	0.55%
25. Walgreens Boots	€7.62m	0.54%

## ASSET CLASSES AND CURRENCIES

### Equities made up 72.5% of invested assets

Invested assets of KPST, both directly and indirectly, at the end of 2016 consisted of equities 72.5%, debt instruments 27.7%, cash and money market instruments 5.5%, and a net -5.7% on derivatives (2015: 64.8%, 37.5%, 2.4%, and net -2.7% respectively).

Out of the 27.7% of investments in debt instruments, 99.9% consisted of instruments which are not classified as high risk.

Investments in Kosovo Treasuries, despite not having a rating, are valued by the law as being of a prime quality.

Placements, both direct and indirect, at the end of the year were in instruments denominated in some of the world's major currencies, as follows: USD 44.5%; EUR 33.7%; GBP 7.9%; JPY 5.0%; DKK 2.9%; CAD 2.4%; CHF 2.3%; and the rest 1.3%.

### INVESTMENTS IN DEBT INSTRUMENTS - RATED

RISK	RATING	QUALITY OF PLACEMENT	PPERCENTAGE OF DEBT INSTRUMENTS
	--	Kosovo Treasury	20.1%
	AAA	Prime	43.4%
	AA	High	20.8%
	A	Upper middle tier	3.1%
	BBB	Lower middle tier	8.0%
	BB	Speculative	2.9%
	B	Highly speculative	1.6%
	C and below	High risk	0.1%
<b>TOTAL</b>			<b>100.0%</b>

## INVESTMENT PERFORMANCE

Gross return from investment and other income was €64.6m and unit price was up by 4.4%

KPST marked another year of positive annual investment returns. Gross returns (including cash at CBK and other income) were €64.6m - equivalent to a gross performance of 4.88%. The gross performance less (investment and operating) fees charged on the fund resulted in a net performance of KPST - and unit price increase - of 4.4% for the year.

This positive result was achieved in a year dominated mostly by political events. Brexit as well as the presidential elections in the US contributed to a high market volatility.

However, the weak economic indicators in China and the falling oil prices were economic factors that played a negative impact on keeping markets under constant pressure during the first half of the year. But once these indicators changed path, along with a growth in corporate earnings, improvement of labour market in the US and EU, solid global economic growth and the fading effect of political risk, pushed the markets towards a rapid growth (especially) in the last quarter of the year.

Except from the external environment, the KPST investment strategy in force, proved viable and effective by providing a combination of stability and returns through investment balance and diversification.

Although this was a positive year for all invested funds, the ones that had more exposure on equities had a better performance. This is due to a stronger global stock market witnessed in Q4, after the elections in the US, as the major indices soared (e.g. Dow Jones was up 13.4% in 2016). This surge in the stock market was reflected in the performance of KPST investment funds. Nordea-GSEF with 11.3% had the best performance for the year, followed by Pictet-HDS up 8.6% and AXA-GILB with 8.5%.

The highest KPST allocation during the year was in Vanguard-GSIF. On average it accounted for 26.5% of assets. Along with its 7.6% increase in the unit price for the year, Vanguard-GSIF contributed 2.08% (or 43%) of the 4.88% gross return of KPST.

Nordea-GSEF contributed 1.02% (or 21%) of the gross return - and thanks to its performance was the best in the contribution vs allocation ratio. Funds redeemed from in the first half of the year, namely Schroders-SB, Tobam-AWEF and KBI-IDEF, were all negative contributors to the gross performance of KPST.

Investments in Kosovo (treasuries and deposits) generated €2.2m (or 3.4%) of the €64.6m gross return for the year. This was achieved having had a combined average allocation of 7.6% of assets.

INVESTMENT	AVERAGE ALLOCATION	GROSS CONTRIBUTION	GROSS RETURN	PERFORMANCE
Vanguard - GSIF	26.5%	2.1%	€27.3m	7.6%
Nordea 1 - SRF	15.5%	0.5%	€6.6m	4.8%
BNY Mellon - RRF	15.4%	0.2%	€3.2m	2.1%
Nordea 1 - GSEF	9.0%	1.0%	€13.5m	11.3%
AXA - GILB	7.0%	0.6%	€8.2m	8.5%
Kosovo T-bonds <sup>1)</sup>	4.6%	0.1%	€1.8m	1.9%
AXA - WFOI	4.2%	0.3%	€3.6m	2.4%
Pictet - HDS	3.1%	0.3%	€3.8m	8.6%
Kosovo T-bills <sup>1)</sup>	2.6%	0.0%	€0.3m	0.9%
KBI - IDEF <sup>2)</sup>	2.3%	0.0%	-€0.6m	-0.3%
Schroders - SB	1.4%	-0.1%	-€1.4m	3.0%
Schroders - GDG	1.3%	0.1%	€0.9m	4.7%
BNP Paribas - PDD	0.7%	0.0%	€0.2m	4.3%
Term deposits (BKT, BPB, TEB) <sup>1)</sup>	0.4%	0.0%	€0.1m	1.6%
Tobam - AWEF <sup>2)</sup>	0.4%	-0.3%	-€3.6m	-6.3%
Amundi - RPI2	0.3%	0.0%	€0.3m	2.2%
Cash at CBK and surplus return	5.3%	0.1%	€0.4m	0.6%
	<b>100.0%</b>	<b>+4.9%</b>	<b>€64.6m</b>	<b>4.4%</b>

<sup>1)</sup> Weighted average.

<sup>2)</sup> Performance for the year up to redemption date.

## PERFORMANCE VS BENCHMARK

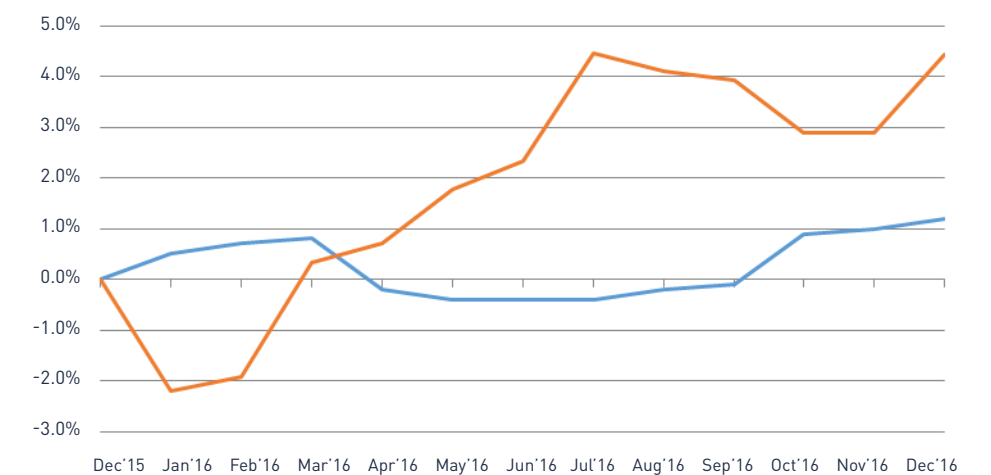
The Board has established the Consumer Price Index in Kosovo (CPI) as published by Kosovo Agency of Statistics as a benchmark for its investment performance.

The Governing Board believes that the outperformance of this benchmark is crucial in order to keep the objective of preserving the real value of long term contributions.

The 4.4% return on KPST investments was three times higher than the CPI rate of 1.3% during 2016.

KPST has managed to marginally outperform its inflation benchmark since it was established in 2002. During this period, KPST has increased the value of the unit price by 37.6% as opposed to 32.8% growth level of CPI in Kosovo.

CPI vs KPST - 12M CUMULATIVE (REBASED)



■ CPI ■ KPST



# 4

## CONTRIBUTION AND RETIREMENT

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## FIRST-TIME CONTRIBUTING AND DORMANCY

**Annual contributions paid in rose by 10.2%. Benefit payments decrease by -0.5%. First-time contributors: 9.6% of active contributors.**

KPST refers to individuals paying contributions for at least one month of the reporting year, in this case year 2016, as active contributors. Whereas, as first-time contributors, or 9.6% of active contributors, KPST refers to individuals that paid contributions for the first time for and during 2016 (2015: 9.6%).

First-time contributors numbered 32,055; while 36,922 members, or 11.8%, fell dormant (persons contributing in 2015 but not doing so in 2016). The number of members falling dormant does not include 4,445 contributors who withdrew their savings during 2016. Meanwhile, 14.0% of first-time contributors were employed<sup>[1]</sup> for the first time at the age of 40+ (2015: 14.6%).

The average age for first-time employed contributors was 28, and 50% were 25 years or younger (2015: 28 and 50% were 24 or younger, respectively).

The self-employed, who made up 3.5% of first-time contributors (2015: 5.0%), were older on average. As in 2015, their average age was 35, and 50% were 33 years old or younger.

Women's share of first-time contributors was: up from 39.0% to 41.0% for the employed; and up from 27.4% to 32.53% for the self-employed.

On the other hand, women's share for falling dormant continues to be lower than their share of first-time contributing, making up 32.4% of the employed and 16.2% of the self-employed who fell dormant (2015: 32.3% and 17.9%, respectively).

Falling dormant this year mostly occurred between the ages 22 and 25 (2015: 24 and 26). In fact, 50% of contributors that fell dormant in 2016 were 31 years old or younger for the employed and 40 years old or younger for the self-employed (2015: 30 and 39, respectively). The figures imply a less stable employment environment for younger ages.

Less encouraging was the fact that the percentage of the employed contributors - excluding here the self-employed - who contributed in the reporting year having fallen dormant the year before, dropped from 18.0% to 16.6%.

Analysis of the data for the last five years reveals that 166,188 of the employed and 19,524 of the self-employed have contributed for at least one month in each of the five years (2015: 161,937 and 19,441).

1

The term "employment" is used in the broadest context possible. KPST is not in a position to know whether contributions of first-time contributors were truly the result of their first employment. Furthermore, KPST can not know if that employment is permanent or for a fixed term, or for a specific task (temping).

## CONTRIBUTIONS

**Out of €1,262.4m contributions received since inception, €1,168.1m remain under management**

Contributions not under management, or €94.3m (2015: €76.6m), represent contributions paid out through benefit payments or refunds and which no longer were part of fund.

Total contributions received during 2016 were €151.5m (2015: €137.5m), and out of this, employers and the self-employed have paid €136.6m for 2016, €11.3m for 2015, €0.9m for 2014, and €2.6m for 2002-2013.

Contributions received during 2016 were up 10.2% compared to the previous year. In 2015 the increase was 6.8%, and in 2014 it was 8.0%.

There were 4,107 new employers, more so than in the previous year (2015: 3,873).

KPST considers as new employers: businesses, institutions, etc. that for the first time contribute on behalf of their employees.

On the other hand the number of employers falling dormant was 3,774, an increase of 14.8% from previous year (2015: 3,288). As employers falling dormant KPST considers: businesses, institutions, etc. that contributed on behalf of their employees during the previous year but did not do so during the reporting year.

The number of active employers, those who contributed for the reporting year, increased by 6.5% and reached 26,784 (2015: 25,161).

At the end of the year, the average balance of pension savings in member's accounts was €2,795 (2015: €2,539).

### CONTRIBUTIONS

PERIOD	RECEIVED	UNDER MANAGEMENT
2002-2012	€725.5m	€689.7m
2013	€119.2m	€108.0m
2014	€128.7m	€115.3m
2015	€137.5m	€121.4m
2016	€151.5m	€133.7m
<b>TOTAL</b>	<b>€1,262.4m</b>	<b>€1,168.1m</b>

### COMPOSITION OF ASSETS UNDER MANAGEMENT

2016

CONTRIBUTIONS UNDER MANAGEMENT

82.5%

GAINS

17.5%

2015

CONTRIBUTIONS UNDER MANAGEMENT

84.3%

GAINS

15.7%

## WHEN AND HOW CAN PENSION SAVINGS BE WITHDRAWN?

**Pension savings can be withdrawn when contributor:**

- a) reaches retirement age (currently defined by law as 65 years);
- b) receives disability benefits from MLSW; or
- c) dies having not withdrawn pension savings, in which case his/her legal beneficiaries inherit the balance.

### Phased Withdrawal Program (PWP)

The PWP is such that, participants in the scheme get proceeds from their savings monthly in the amount of €200<sup>1</sup> (2015: €150<sup>1</sup>) or 1% of the balance at the time of retirement (whichever is lower), until such time as their pension savings are fully depleted. Starting from September 2016 participants can choose one of four banks to offer them the PWP service: TEB, NLB Prishtina, Banka Për Biznes or Banka Ekonomike. Prior to this only one bank at a time offered the service.

### How can pension savings be withdrawn?

Members withdrawing savings due to reaching retirement age, elect whether to receive 0% or 20% of savings in lump-sum, with the remainder of funds directed to PWP.

However, if member has an account balance of less than €3,000<sup>1</sup> savings are withdrawn in total via a lump-sum payment. Members withdrawing savings due to disability shall receive their savings monthly via PWP in the amount of €200<sup>1</sup>: i) up to the period covered by their disability; or ii) until their savings are depleted - whichever occurs first. On the other hand, beneficiaries of a deceased contributor can elect to have receive funds in lump-sum or transfer proceeds to their pension account with KPST.

<sup>1</sup> The minimum monthly amount and the threshold are set by CBK regulations.

## RETIREMENTS AND BENEFIT PAYMENTS

On average gains of 19.9% were realised by retirees and beneficiaries in 2016. In 2015 this figure was 22.3%

During 2016 KPST Administration approved 4,445 new applications for the withdrawal of pension savings (2015: 4,438). The total of funds withdrawn by applicants in 2016 was €19.2m which consisted of nominal contributions in the amount of €16.0m and realised gains of €3.2m (2015: €19.3m, €15.8m and €3.5m, respectively). The total of accounts with withdrawals reached 33,386 since inception.

The decrease in the withdrawn value during 2016 compared to 2015, while the number of retired accounts was almost the same, is associated to: a) the change in average lower earnings in 2016, b) reduction of the number of the accounts of the retirement age, but also c) an increase in the number of death cases.

The number of individuals that withdrew their savings during 2016 as they had reached the retirement age of 65 was 3,433, or 77.2% of approved applications (2015: 3,468, or 78.1%).

There were 175 cases of withdrawals due to the disability of the contributor, or 3.9% of approved applications (2015: 182, or 4.1%).

There were 837 cases of benefits paid to the beneficiaries of contributors that died prior to withdrawing their savings from KPST (2015: 786), and they made up 18.8% of approved applications (2015: 17.7%). In 34.5% of these cases contributors were younger than 55 when they died, 24.7% were 55-59, and 26.8% were 60-64 years. Amounts transferred to the PWP were €11.8m, whereas €7.4m were withdrawn in lumpsum payments (2015: €12.6m and €6.7m, respectively).

From 2,021 members directed to PWP who were in the PWP during the year, 89.0% of them also took the opportunity to withdraw 0% from their balance immediately.

PERIOD	WITHDRAWALS	
	CONTRIBUTIONS	FUNDS
2004-2011	€19.8m	€19.5m
2012	€8.4m	€8.7m
2013	€9.7m	€10.7m
2014	€12.3m	€14.3m
2015	€15.8m	€19.3m
2016	€16.0m	€19.2m
<b>TOTAL</b>	<b>€82.0m</b>	<b>€91.7m</b>

### PERCENTAGE OF WITHDRAWN FUNDS DIRECTED TO PWP

2016

61.6%

2015

65.4%

# 5

## CONTRIBUTOR DEMOGRAPHICS

- 60-61** Contributors
- 62-63** Geographic distribution of contributors
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- 65** Contributors by type of enterprise
- 66-67** Average contributions
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## CONTRIBUTORS

This chapter summarises main demographic data for participants of KPST in 2016 and compares them to the previous year

It is important to note that statistics presented in this chapter relate to active contributors only. They do not represent those of total KPST account-holders which number 541,923 at the end of 2016.

There were 312,672 active contributors during the year (2015: 297,466). With at least one contribution during the year as employed feature 286,848 individuals, whereas as self-employed feature 30,275; these numbers include 4,451 contributors who are double-counted as during 2016 they contributed both as employed and as self-employed.

KPST continues to stress that the key to the adequate saving for retirement is the continuous and sufficient contributing. At least in the last three years there isn't sufficient improvement in contribution amounts, and a quarter of all accounts across all age cohorts and genders is made up of very low and/or sporadic contributions.

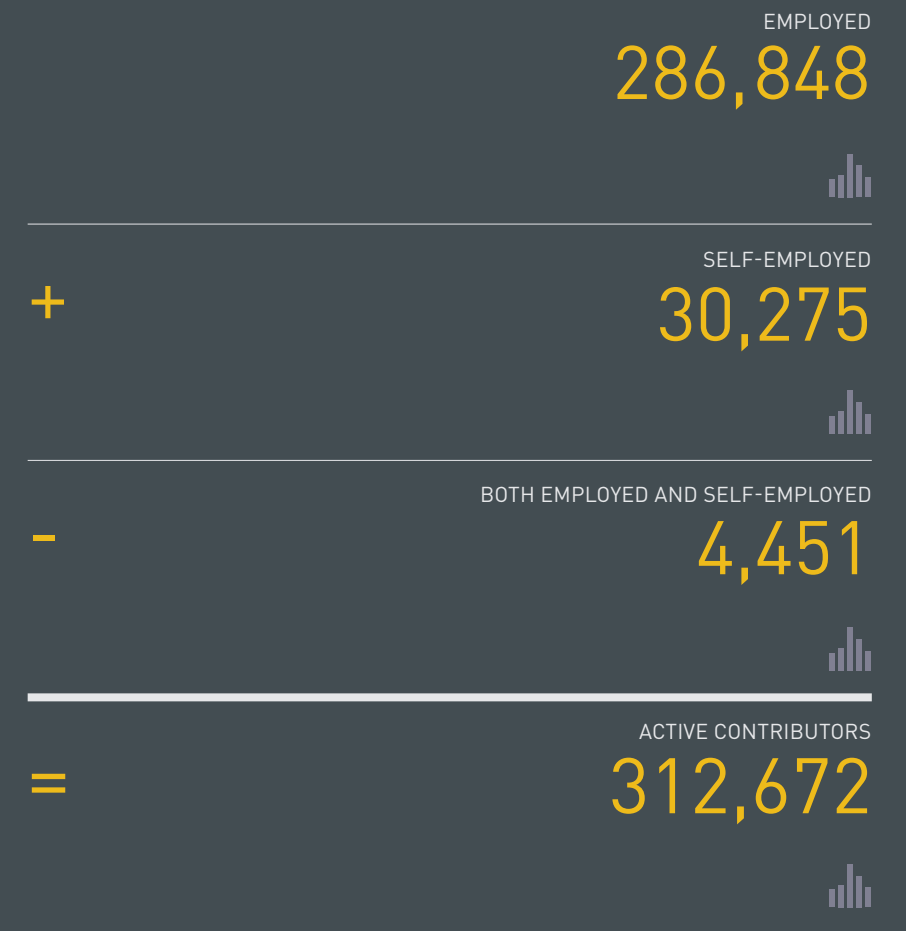
In 2011 according to the Kosovo Agency of Statistics there were 1.31 million inhabitants of ages 15-64 in Kosovo. With 312,672 active contributors in 2016, only 23.9% (2015: 22.7%) of that group had at least one month of some sort of formal engagement in work during the last three years.

Under the assumption that unemployment statistics are correct, then the only reasonable conclusion is that there is a high degree of informality in Kosovo's labour market.

And this appears specifically true for agriculture and construction sectors, in which there is a high degree of disparity between employment statistics and the number of persons contributing.

KPST is highlighting such issues in the belief that it is fulfilling a part of its social obligation: for every Kosovo citizen to have saved enough for his/her retirement.

Understanding who, when, how much and how often contributes, can help assess current achievements and policy improvements needed. All with the final goal of ever improving of the current pension savings scheme.



## GEOGRAPHIC DISTRIBUTION OF CONTRIBUTORS

Since a large chunk of active contributors (around a third), were employed by the Ministry of Public Administration which is registered in Prishtina, it is not possible to gauge in which municipality contributors worked during the year. This is why KPST presents only data based on the municipality of residence on record for each contributor.

There are still some contributors who do not inform KPST when they change their address, and the possible impact of such cases on data presented is unknown.

Roughly 1 in 5 active contributors again belonged to Prishtina in 2016. Not surprisingly it has the highest increase in the count of contributors (+3,202 persons).

In percentage increase it is Mamusha leading the way with +17.1% - albeit it has a very small headcount. Mamusha is followed by other smaller municipalities Hani i Elezit (+10.9%) and Gracanica (9.0%), and further by bigger cities of Ferizaj (+8.6%) and Prizren (+8.3%).

In contrast, municipalities with a majority of Serb population witnessed a strong decline in contributor numbers, Zvecan (-48.0%), North Mitrovica (-37.5%) and Leposavic (-33.9%).



‡ This is the number of contributors with residence outside of Kosovo or for whom KPST has no information as to which municipality they belong.

NO.	MUNICIPALITY	NUMBER OF CONTRIBUTORS	PARTICIPATION	CHANGE	
				NO.	%
01.	PRISHTINA	60,660	19.4%	3,202	5.6%
02.	PRIZREN	25,733	8.2%	1,978	8.3%
03.	FERIZAJ	18,941	6.1%	1,501	8.6%
04.	GJILAN	17,951	5.7%	772	4.5%
05.	PEJA	17,860	5.7%	547	3.2%
06.	GJAKOVA	16,417	5.3%	459	2.9%
07.	PODUJEVA	14,497	4.6%	1,071	8.0%
08.	SOUTH MITROVICA	13,131	4.3%	531	4.1%
09.	VUSHTRRI	12,529	4.0%	606	5.1%
10.	GLLOGOC	10,611	3.4%	627	6.3%
11.	LIPJAN	9,649	3.1%	540	5.9%
12.	SUHAREKA	8,851	2.8%	394	4.7%
13.	SKENDERAJ	8,077	2.6%	306	3.9%
14.	FUSHË KOSOVË	7,858	2.5%	496	6.7%
15.	RAHOVEC	7,213	2.3%	460	6.8%
16.	ISTOG	6,356	2.0%	373	6.2%
17.	MALISHEVA	6,145	2.0%	397	6.9%
18.	VITIA	5,762	1.8%	168	3.0%
19.	KAMENICA	5,555	1.8%	184	3.4%
20.	KLINA	5,144	1.6%	242	4.9%
21.	OBILIC	4,871	1.6%	212	4.6%
22.	KACANIK	4,533	1.4%	334	8.0%
23.	DECAN	4,467	1.4%	13	0.3%
24.	SHTIME	3,972	1.3%	224	6.0%
25.	DRAGASH	3,439	1.1%	50	1.5%
26.	GRACANICA	1,796	0.6%	148	9.0%
27.	SHTERPCE	1,256	0.4%	62	5.2%
28.	HANI I ELEZIT	1,216	0.4%	120	10.9%
29.	LEPOSAVIC	1,083	0.3%	-556	-33.9%
30.	NORTH MITROVICA	989	0.3%	-593	-37.5%
31.	ZUBIN POTOK	759	0.2%	-116	-13.3%
32.	ZVECAN	573	0.2%	-528	-48.0%
33.	JUNIK	542	0.2%	-12	-2.2%
34.	MAMUSHA	514	0.2%	75	17.1%
35.	NOVOBERDE	481	0.2%	7	1.5%
36.	RANILLUG	401	0.1%	-68	-14.5%
37.	KLLOKOT	360	0.1%	-33	-8.4%
38.	PARTESH	288	0.1%	-69	-19.3%
	OTHERS ‡	1,923	0.6%	1,103	134.5%

## CONTRIBUTOR AGE

Average age of active contributors in 2016 has increased to 40.7 from 40.5 years in the previous year. While the median dropped from 38 to 39 years of age.

Average age for self-employed contributors was 42.4 years, while the average age for the employed was 38.4 years.

AVERAGE - MEN:

41.6



AVERAGE - WOMEN:

39.2



MEDIAN - MEN:

41.0



MEDIAN - WOMEN:

37.0



In general there were no major changes in the participation of age groups as a percentage of active contributors. Close to 2/3 of active contributors (66.9%) were under the age of 45 (2015: 66.4%).

With 13.4% the participation of 15-24 age group increased most (+1.0%), primarily at the expense of the 35-44 and 45-54 age groups

AGE GROUP	2016	2015
15-24	13.4%	12.4%
25-34	29.3%	29.2%
35-44	24.2%	24.8%
45-54	19.3%	20.0%
55-64	12.9%	12.5%
65+	0.9%	0.8%

## CONTRIBUTORS BY TYPE OF ENTERPRISE

The type of enterprise is determined according to their registration in the Kosova Business Registration Agency or in the Ministry of Public Administration. It should be noted that public and social enterprises (e.g. regional water supply or waste companies, Post of Kosovo, or central heating companies, etc.), most of them are registered as joint stock companies; therefore they are presented along with other public and social companies in the joint stock companies group.

Two most vivid increases in the number of contributors were with LLCs and NGOs, which were 16.5% and 15.9%, respectively.

Budget organisations had an increase in the total number of contributors of 2.6%, or 1.4% in total FTE; and with the FTE coefficient of close to 1.0 (0.909) - it means that the job security and continuity is the highest in the public sector.

In contrast, jobs with NGOs show the lowest FTE coefficient.

To illustrate the FTE the following example is used: if two employees have contributed during the year, one for 8 months and the other for 4 months, in number they are counted as two contributors, but in FTE they are calculated as the equivalent of 1.0 contributors for the year.

ENTERPRISE TYPE	CONTRIBUTORS IN NUMBER	COEFICIENT	EQUIVALENT CONTRIBUTORS	CHANGE FROM 2015	
				CONTRIBUTORS IN NUMBER	EQUIVALENT CONTRIBUTORS
1. Budget organisations	87,501	.909	79,538	2.6%	1.4%
2. LLCs	105,419	.609	64,200	16.5%	17.6%
3. Individual businesses	71,941	.650	46,762	0.1%	1.2%
4. Self-employed	30,275	.841	25,219	-0.4%	0.3%
5. Joint stock companies	30,597	.747	22,856	4.8%	-0.5%
6. NGOs	13,888	.465	6,458	15.9%	9.7%
7. Partnerships	5,179	.647	3,351	-8.9%	-7.6%
8. Others	9,438	.603	5,691	32.8%	22.2%

## AVERAGE CONTRIBUTIONS

The average (monthly) contribution for the category of the employed increased to €44.42, or 5.2% compared to the previous year (2015: €42.21 and increased by 2.2%).

For the self-employed the average contribution increased by 2.4% to €32.25 per month (2015: €31.48, increased by 3.5%).

Average contributions increased across all age-groups, with the exception of the self-employed members who were 15-24 or 65+.

Average contributions as in the previous years increased irrespective of gender. The rate of increase for the category of the employed was 1.8% for women and 6.9% for men, having been 1.5% and 2.6% respectively in 2015.



### AVERAGE MONTHLY CONTRIBUTIONS

YEAR	EMPLOYED	SELF-EMPLOYED
2014	€41.29	€30.41
2015	€42.21	€31.48
2016	€44.42	€32.25

### AVERAGE MONTHLY CONTRIBUTIONS BY AGE GROUP

	2016		2015		2014	
	EMPLOYED	SELF-EMPLOYED	EMPLOYED	SELF-EMPLOYED	EMPLOYED	SELF-EMPLOYED
15-24	€25.77	€20.23	€25.49	€21.45	€24.81	€20.01
25-34	€38.68	€25.97	€38.59	€25.38	€38.30	€24.54
35-44	€49.05	€33.64	€47.48	€32.81	€45.75	€31.75
45-54	€49.13	€35.76	€47.17	€34.36	€45.18	€33.55
55-64	€58.91	€36.68	€52.14	€35.21	€48.46	€33.74
65+	€59.12	€32.61	€57.68	€36.22	€51.57	€28.00

### AVERAGE MONTHLY CONTRIBUTIONS BY GENDER

YEAR	 WOMEN		 MEN	
	EMPLOYED	SELF-EMPLOYED	EMPLOYED	SELF-EMPLOYED
2014	€39.37	€24.34	€42.19	€31.52
2015	€39.97	€25.56	€43.28	€32.57
2016	€40.70	€25.61	€46.26	€33.57



## LEVEL OF CONTRIBUTING

The law requires that minimum contribution for employed and self-employed persons be based on the monthly minimum wages in Kosovo, which are: €130 for persons up to 35 years old; and €170 for persons older than 35.

The number of contributions below the minimum wage increased to above 5% for the self-employed. This was more so in the 35+ age group that may not be fully aware of their legal obligation to contribute more than those 35 and below. With the employed under-contributing has remained at roughly the same levels.

### THE LEVEL OF CONTRIBUTING BY THE EMPLOYED

	PAYMENT		
	BELOW MINIMUM	AT MINIMUM	ABOVE MINIMUM
UP TO 35 YEARS OLD	2.17%	0.37%	44.39%
OVER 35 YEARS OLD	1.78%	3.17%	48.13%

### THE LEVEL OF CONTRIBUTING BY THE SELF-EMPLOYED

	PAYMENT		
	BELOW MINIMUM	AT MINIMUM	ABOVE MINIMUM
UP TO 35 YEARS OLD	0.61%	12.33%	15.59%
OVER 35 YEARS OLD	4.87%	36.48%	30.12%

## “HOW MUCH SHOULD YOU SAVE?”

KPST sees it as part of its social responsibility to advise contributors on how much they should save in order to reach a savings balance that would provide security for their retirement.

Therefore presented below are some important suggestions and pieces of advice.

Example: supposing that the KPST share price increases at a constant rate of 4% per annum, a person finding employment on their 25th birthday and contributes only the minimum required contributions for the following 40 years, will have accumulated the balance of €18,142 on their pension savings account.

Nevertheless, knowing that inflation erodes the value of money, supposing that the inflation 2% per annum, the present value of the balance from the above example would be €8,216.

This amount, saved through minimum required contributions, would be insufficient to purchase an economically viable life annuity.

In today's circumstances, such a person would retire through the Phased Withdrawal Program. They would have the possibility of receiving 20% in lump-sum, and monthly withdrawals of €200 per month would last them less than 4 years (more precisely: 41 months).

Life annuities are not yet being offered in Kosovo, and without such products in the market it is difficult to gauge the savings balance required to purchase the minimum life annuity.

On the other hand, it is somewhat difficult to believe that savings below €25,000 (at present value), would suffice to purchase a life annuity.

With this amount as a target, a person getting employed at the age of 25 and who works until retirement without receiving a raise, must contribute €41.50 each month (both employee and employer). But if the same person receives a 1% pay raise each year and have the same target, they would need to start with monthly contributions of €34.30 and on the year preceding their 65th birthday their contributions would need to be €74.23 per month.

In the latter case, average monthly contributions would be €51.74, or €10 more than in the former case. Starting as early and with as high contributions as possible is therefore very important.

As it happens, there are many individuals in Kosovo who are continually in and out of employment, or individuals with low salaries or those that join later in the pension scheme and have less years to save; for these individuals it will be very difficult to secure a sufficient pension only through the mandatory pension savings.

KPST staff are here to help and advise anybody who wishes to know how to save for a better pension; at the same time KPST and its Governing Board will do everything they can to increase the value of contributors' savings for the purpose of securing a happier retirement for them.

# 6

## LEGAL FRAMEWORK

72-73 Framework and changes

## FRAMEWORK AND CHANGES

The Law No. 04/L-101 of the Republic of Kosovo on Pension funds of Kosovo, together with its subsequent amendments (Laws No: 04/L-115; 04/L-168; and 05/L-116), provides for a detailed list of functions and responsibilities of KPST and its Board.

KPST legal framework further is detailed and regulated through the pension rules of CBK as well as directives of TAK for the manner of reporting, contributing, correction and taxation of pension contributions.

During 2015 and 2016 KPST participated in the working group tasked with recommending changes of limited scope to the Law. Amendments were approved by the Government and subsequently by the Assembly in December 2016. A summary of most relevant amendments to the law are presented in the next page.

Furthermore, CBK issued amendments to a series of pension rules and regulations during the year. The most important ones included changes to PWP (including its threshold) and the reporting requirements for KPST.

- |   |  |
|---|--|
| <b>1. LENGTHIER BOARD MEMBER MANDATES</b>               | The mandate of Board members (that shall be appointed after the amendments came into force) has been increased from three to four years.   |
| <b>2. DEADLINES FOR PROPOSING BOARD MEMBERS</b>         | The Selection Committee must now propose to the Assembly candidates for Board member positions at least ninety days before a given member's mandate expires.   |
| <b>3. INFORMING CONTRIBUTORS</b>                        | The use of electronic post (e-mail) as means for sending account statements to contributors is clearly permitted. Furthermore, the requirement to annually inform participants who have no transactions has been reduced to being a requirement only once every three years.   |
| <b>4. LIQUIDATING UNALLOCATED CONTRIBUTIONS</b>         | Contributions paid in to KPST more than 6 years ago - and for whom the owner has not been identified - can now be liquidated by KPST into the Consolidated Budget of Kosovo.<br><br>However, should the owner of any liquidated funds be subsequently identified, the funds including any opportunity costs since liquidation shall be duly claimed back and allocated to owner's pension savings account with KPST. |
| <b>5. FOREIGN CONTRIBUTORS</b>                          | As the basic law prohibits foreign nationals without a permanent right stay in Kosovo to contribute, the amendment now allows such persons to also withdraw any pension savings contributions made by them or on their behalf.   |
| <b>6. VOLUNTARY CONTRIBUTIONS TO BE EXEMPT FROM TAX</b> | Voluntary contributions made to KPST were exempt from tax on personal income. Such a provision has now been extended to voluntary contributions made to all other voluntary pension funds.   |







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