ANNUAL REPORT 2018

Trusti

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

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KEY FACTS

INVESTMENT PERFORMANCE FOR THE LAST 10 YEARS

Period	1-Year	2-Years	3-Years	4-Years	5-Years	6-Years	7-Years	8-Years	9-Years	10-Years
Investment return (in Euro)	-84.7m	17.9m	82.4m	112.0m	178.7m	249.8m	304.0m	317.3m	333.8m	380.1m

INVESTMENT	2018	2017
Share price at the end of the year	€1.3875	€1.4648
Share price decrease/increase during the year	-5.3%	6.5%
Gross investment return for the year	-€85,406,464	€102,172,681
Other returns for the year	€700,000	€385,000

ASSETS UNDER MANAGEMENT (AUM)		
Net AUM at the end of the year	€ 1,681,148,925	€1,634,648,056
Increase in net AUM during the year	46,500,870	216,677,182

CONTRIBUTIONS AND CONTRIBUTORS		
Contributions received during the year	€ 173,852,170	€159,757,519
Contributions received since inception	€1,594,824,669	€1,422,168,517
Accounts opened during the year	35,121	49,688
Account-holders at the end of the year	626,687	591,527
Active contributors during the year	344,453	352,849

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 amoun €11.35m (2017: €10.15m), nor adjustment for impairment provisions in the value of €0.59m.

RETIREMENT	2018	2017
Newly withdrawn accounts during the year	5,435	5,173
Value of withdrawals for the year	€31,347,494	€27,739,647
Withdrawn accounts since inception	43,947	38,512
Value of withdrawals since inception	€150,819,961	€119,472,467

FEES AND EXPENSES		
Investment / Operating fees during the year	0.381% / 0.071%	0.393% / 0.081%
Amount of fees charged for the year	€7,660,347	€7,288,684
Investment expenses for the year	€5,743,872	€5,704,214
Operating expenses for the year	€1,158,745	€1,181,697

UNALLOCATED CONTRIBUTIONS AND SERVICES		
Unallocated contributions at the end of the year	€1,293,572	€2,288,327
Number of services provided during the year	161,467	143,218
Number of eTrusti accounts	102,727	79,867

INVESTMENTS IN 2018

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 2018	GROSS INVESTMENT RETURN FOR THE YEAR 2018	GROSS RETURN ON INVESTMENTS SINCE FIRST INVESTMENT
Vanguard Investment Series plc Global Stock Index Fund Euro hedged (ISIN: IE00B03HD316)	€363,676,626	€-36,036,485	€181,552,086
Nordea 1 Stable Return Fund (X) Euro (ISIN: LU0539147214)	€124,005,629	€-7,562,450	€19,005,628
Nordea 1 Global Stable Equity Fund (X) (ISIN: LU0257969260)	€162,607,446	€-5,359,409	€24,607,446
BNY Mellon Real Return Fund (X) (ISIN: IE00B504KX99)	€145,256,365	€-1,683,702	€24,756,365
AXA Global Inflation Linked Bonds (I) Eur (ISIN: LU0227145629)	€97,593,865	€-2,611,784	€19,597,544
AXA Optimal Income I EUR (ISIN: LU0184635471)	€53,906,903	€-8,365,851	€2,546,690
Schroders Global Diversified Growth (I) (ISIN: LU0776411141)	€55,893,343	€-10,406,847	€-3,106,657
Amundi Rendement Plus (I2) (ISIN: FR0011027283)	€102,509,778	€-5,533,651	€-2,613,054
BNP Paribas - PDP Parvest Diversified Dynamic (I) (ISIN: LU0102035119)	€52,220,239	€-8,775,311	€-574,051
Schroders International Strategic Bond Euro Hedged (I) (ISIN: LU0201624265)	€9,812,299	€-462,995	€15,434,580
Amundi 3M - (I) (ISIN: FR000703813)	€59,847,864	€-78,317	€-122,290
Pictet* High Dividend Selection - Z Euro (ISIN: LU0650147423)	--	€-1,664,192	€6,473,453
Treasury securities The Government of the Republic of Kosovo	€209,044,287	€2,353,410	€9,063,229
Term deposits BKT, NLB, TEB, ISB, PCB, RBK, BPB, BEK	€119,403,795	€847,793	€6,926,526
CBK and other receivables Interest expenses on cash at CBK	€126,245,153	€-66,673	€1,790,260
TOTAL	**€1,682,023,592**	**€-85,406,464**	**€305,337,757**

*IN MARCH 2018 THE GOVERNING BOARD HAS FULLY REDEEMED THE ENTIRE INVESTMENT FROM PICTET HDS FUND

INVESTMENTS

2018

The process for selecting an investment broker in ETF was successfully completed. Gradual derisking of the portfolio was initiated.

Net return for the year was -5.3% while assets under management increased by 2.2%.

2017

The investment and risk unit became operational, and the volume of engagement in this area significantly increased. A money market investment fund was engaged.

Net return for the year was 6.5% and assets under management increased by 15.9%.

2016

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%.

ACRONYMS

ASSEMBLY	Assembly of the Republic of Kosovo
CBK	Central Bank of the Republic of Kosovo
DPD	Department for Production of Documents, Ministry of Inernal 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

OPERATIONS

2016

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.

2017

There were 148 thousand statements sent by e-mail. The number of accounts in eTrusti reached just under 80 thousand and roughly 15 thousand contributors follow KPST in social networks.

Unallocated contributions were reduced to 0.18% of the contributions received.

2018

Account statements set by e-mail numbered 178 thousand. The number of eTrusti accounts reached 102,000, whereas 10,000 services were provided on social networks.

Unallocated contributions were reduced to 0.08% of the contributions collected.

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.

THE LAST FIVE YEARS IN NUMBERS

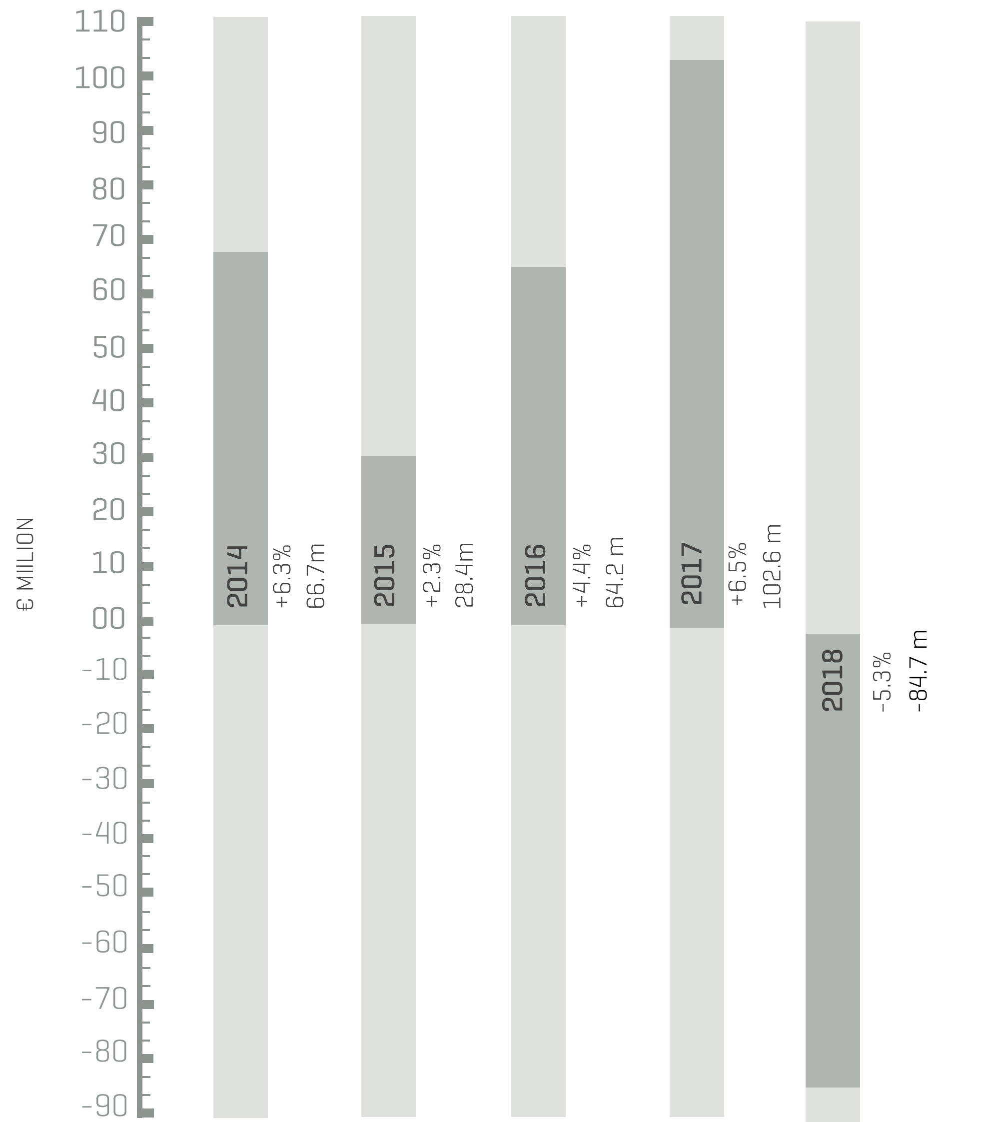
84.1% NET PENSION ASSETS

14.5% SHARE PRICE

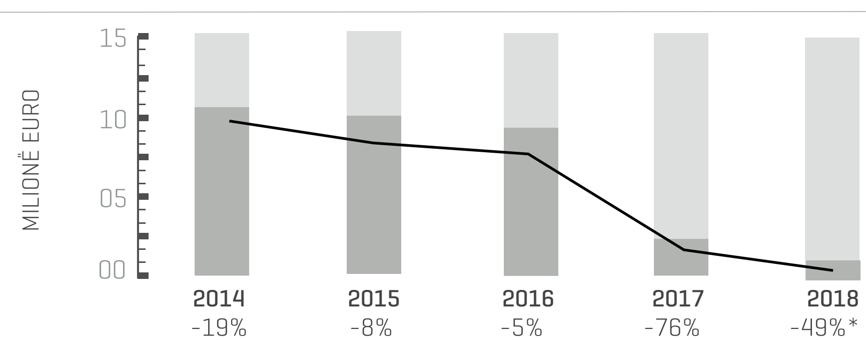
€178.7m GROSS RETURN

GROSS RETURN

UNIT PRICE ANNUAL INCREASE/DECREASE



CUMULATIVE UNALLOCATED CONTRIBUTIONS



DROP IN UNALLOCATED CONTRIBUTIONS AS A PERCENTAGE OF TOTAL CONTRIBUTIONS

*More informacion on this extraordinary fall in the unallocated contributions in 2018 can be found on page 45 of this Annual Report

NUMBER OF ACCOUNT-HOLDERS AND ACTIVE CONTRIBUTORS

YEAR	TOTAL ACCOUNTS	MEN	%	WOMEN	%	ACTIVE CONTRIBUTORS	MEN	%	WOMEN	%
	[A]	[B]	[B]/[A]	[C]	[C]/[A]	[D]	[E]	[E]/[D]	[F]	[F]/[D]
2014	476,559	337,819	70.9%	138,740	29.1%	285,914	198,882	69.6%	87,032	20.4%
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	69.2%	99,341	31.8%
2017	591,527	406,815	68.8%	184,712	31.2%	352,849	238,005	67.5%	114,844	32.5%
2018	626,687	426,960	67.9%	199,727	32.1%	344,453	229,515	66.6%	114,938	33.4%

NET AUM VS ANNUAL GDP OF KOSOVO

	2014	2015	2016	2017	2018
Net AUM	€1,087,760,598	€1,229,333,328	€1,417,970,874	€1,634,648,056	€1,681,148,926
GDP	€5,567,500,000	€5,807,000,000	€6,070,200,000	€6,282,200,000	6,528,000,000*
Net AUM vs Kosovo GDP	19.5%	21.2%	23.4%	26.0%	25.8%

KPST NET AUM AT THE END OF 2018 REACHED

25.8%

OF GDP OF KOSOVO

* 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,

through the 2018 Annual Report, which is the most important publication of the Kosovo Pension Savings Trust, we have the honour and responsibility to inform you on the most important issues of investments and operations for the year.

While KPST's focus and mission is for the long term, we are neither immune nor indifferent to short-term events affecting global markets and investors. From geopolitical risks, advances of monetary policies, uncertainties about Brexit and up to natural disasters, 2018 brought a considerable number of challenges to our short-term investment performance.

Directing a large institutional investment organization offers the same challenges as directing any other type of growing global business. From the outset, the KPST has continuously developed its investment strategy, shifting from passive management in 2009 to more active since then. The Board has adopted a carefully considered strategic direction by adopting the four fundamental principles set by law : i) the security of Pension Assets, ii) diversity of investments, (iii) maximum return consistent with security of Pension Assets, and (iv) maintenance of adequate liquidity. The implementation of the law and these principles implies the necessity of investing funds in the international financial markets, as long as there are no such conditions in Kosovo. As a result, investments in financial markets are subject to the principle of not guaranteeing a positive return from investment but adjusting the investments according to the risk/return ratio.

The good news is that during 2018, investments in Kosovo were in record figures (around €328 million) or about 20% of the total pension fund. This amount consisted of investments in bonds of the Government of Kosovo (€209 million) and placements with bank deposits (€119 million). We inform you that these two instruments are the only ones that for now are legally allowed investments. Also, this was the first year that the Board did not invest abroad any incoming new funds from contributors. These moves were aimed at amortizing the drop in the KPST portfolio, which was also achieved.

As stated above, KPST invests in a long term basis and since its establishment has a return on investment of +€322 million. The beneficiaries of pension savings, i.e. persons that withdrew their savings, realised average gains of +20.8% during 2018. Despite the performance of 2018, this can serve as a testament to the ability of KPST to generate positive returns over the long term.

Declines in financial markets such as the one during 2018, though worrying, are inevitable occurrences, which are usually overcome if the investment portfolio is well balanced and diversified. As per your information, KPST's gross returns from investments only in the first four months of 2019 was over +€100 million, thus recovering 2018 falls. However, both falls and increases should be seen as they are, short-term moves on a long journey – as was the purpose for which this pension scheme was designed.

While KPST work has been developing in the context of continuous growth of pension assets (now around €1.7 billion), the skills of those managing the fund should also be developed. To ensure operational success, we focus on talent development, tracking performance, and ensuring operational excellence. Until the end of 2019, it is our goal for the KPST to have the Investment Department fully developed.

In addition, customer services also increased and improved this year. For illustration, this year, 161 thousand services were delivered (from 141 thousand in 2017); the number of accounts in eTrusti reached 103 thousand (from 80 thousand last year); new contributors were 35,121 (from 591,527 at the end of 2017) and about 10,000 services were provided through social networks (more than twice than in 2017).

In conclusion, 2018 was a challenging year for investment decision-making in KPST. But at the same time, it will serve as a priority of the newly mandated Governing Board, to establish multiple portfolios (in order to increase the level of protection for contributors closer to retirement), as well as to shape the professional capacities of the institution (for direct participation in investments).

We, as a Board, congratulate the extraordinary efforts of all KPST employees and we express our gratitude to the correct and open cooperation with CBK and the Assembly of Kosovo, which keep under supervision a very sensitive institution for the citizens of the country.

We believe that KPST is on the right track to cope with ongoing changes in the highly dynamic area of investment and financial markets in order to achieve positive results in the long term.

OPPORTUNITIES AND RISKS

01

ORGANISATION AND FINANCES

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. The cash market portfolio was reintroduced in 2017 through the engagement of the Amundi - 3M I fund. In 2018, the process of selecting a broker for investment in ETF funds was completed in order to provide more investment opportunities to the institution. KPST has for the first time not made new investments outside the country but has instead withdraw investments.

First investment in Kosovo happened in 2008 through bank deposits. The first investment in securities of the Government of Kosovo was made in 2012 in treasury bills. During 2014/2015, investments in bonds issued by the Government of Kosovo with a maturity of 2-5 years were also made. In 2017, for the first time, KPST invested in the seven-year bonds of the Government of Kosovo.In 2018, a record amount of a total of 300 million were invested in Kosovo's assets, of which about 200 million in Kosovo Government bonds and the remaining part in bank deposits.

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.

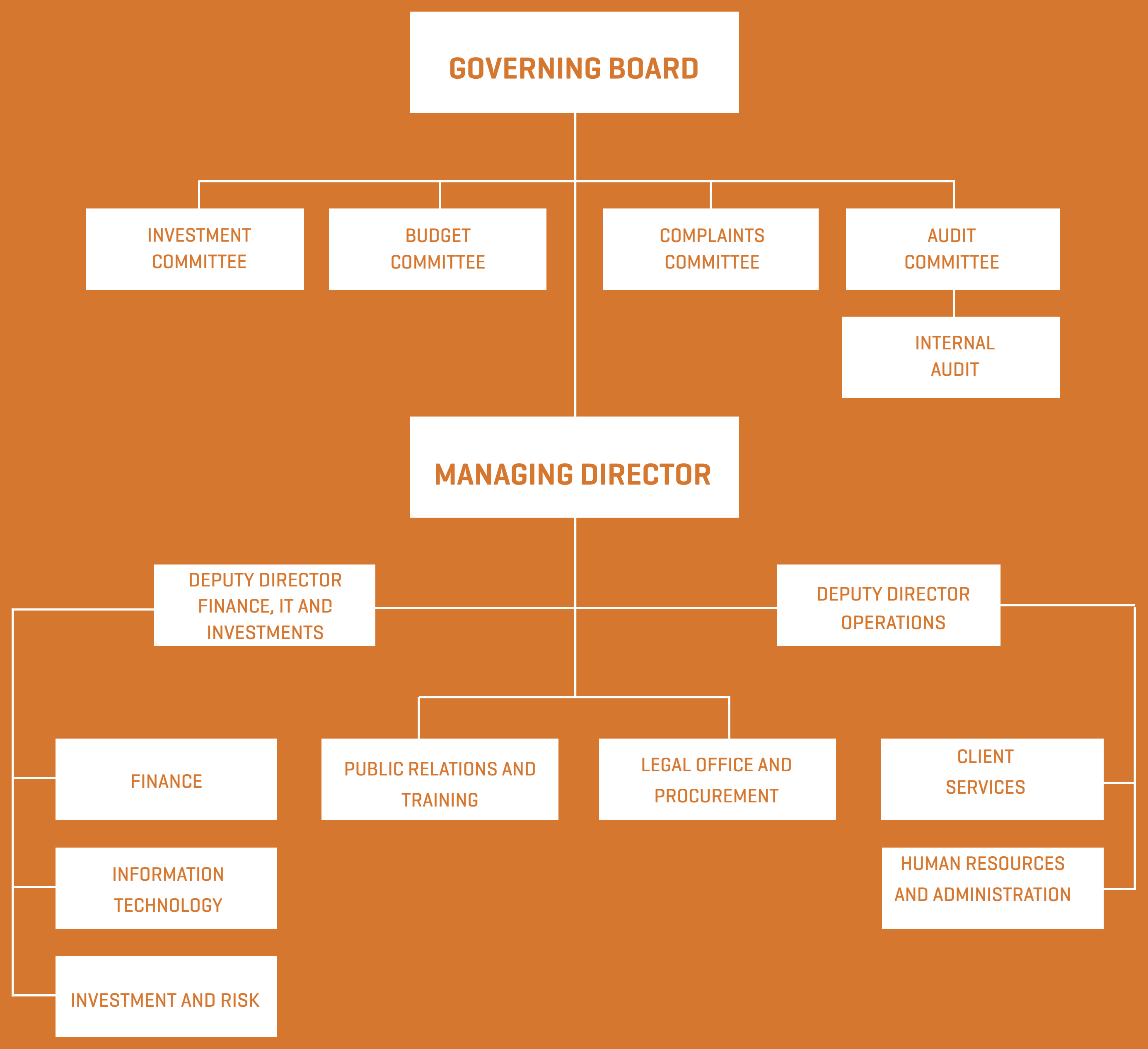
The pension rules of CBK provide the secondary legislation in relation to the investment of pension assets, performance measurement, withdrawal of pension savings and reporting requirements for KPST.

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.

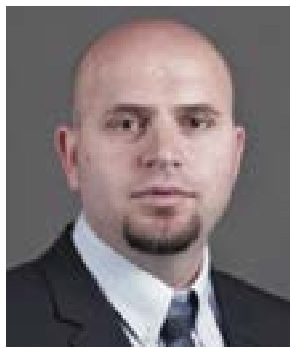
The Board can have seven voting members and one non-voting member representing the Government. The position of Government representative in the Board has continued being vacant also during 2018.

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.

In December 2018, five Board members were appointed by the Kosovo Assembly, of whom four had professional positions and the fifth was a representative of the employees. The appointed persons have a four-year mandate.



BOARD MEMBERS AT YEAR-END



MR. RUZHDI MORINA

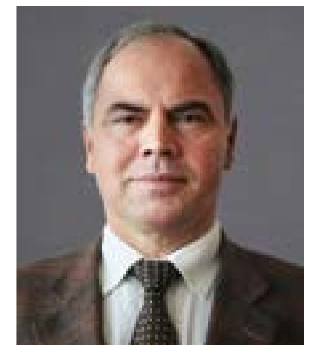
Chairman of the Governing Board, Chairman of the Budget Committee and member of the Investment Committee

Master in Legal sciences in the international field. With long experience as Legal Advisor at the Union of Independent Syndicates of Kosovo, and with proven knowledge of pension schemes.

MR. FREDERICK ARTESANI

Chairman of the Investment Committee and member of the Budget Committee

An economist and an Independent Financial Advisor with over 35 years of experience in financial markets.

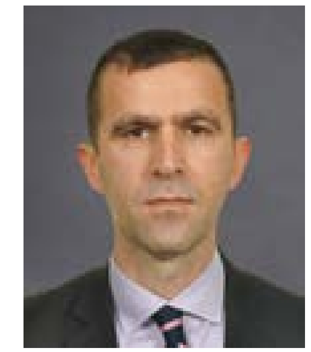


MR. BEHXHET HALITI

Chairman of the Audit Committee and member of the Investment Committee

Economist graduated from the University of Prishtina.

Since 2003 has been involved in drafting and implementing fiscal policies in Kosovo.



MR. HAJDAR KORBI

Member of the Investments and Complaint Committees

Master of Science in Economics, Business Analysis at Staffordshire University in the United Kingdom, and over 10-year experience as a lecturer at the RIT Faculty in Kosovo.

MR. VALDRIN KASUMAJ

Chairman of the Complaints Committee and member of the Audit Committee

Master of Science In Management & Informatics and Master of Science in Mechanical Engineering. Work experience at Kosovo Chamber of Commerce.

MR. DRITON QEHAJA

Member of the Investment and the Budget Committees

An associate professor at the University of Prishtina "Hasan Prishtina" with PhD in economic and social sciences

MR. YMER YMERI

Member of the Audit and the Complaints Committees

Graduated from the Faculty of Mathematical and Natural Sciences and received a master degree in Management. For 15 years he has been a teacher and since 2000 he has been engaged in SBASHK trade union.

	Ruzhdi Morina	Frederick Artesani	Behxhet Haliti	Hajdar Korbi	Valdrin Kasumaj	Driton Qehaja	Ymer Ymeri
ROLE ON THE BOARD:	Professional	Professional	Professional	Professional	Employer representative	Professional	Employee representative
APPOINTED:	May 2009	October 2008	December 2015	November 2017	November 2017	August 2012*	December 2018
CURRENT MANDATE:	Fourth	Fourth	Second	First	First	Second	First

NOTE:
In November 2018, Mr Ymer Havolli (after three mandates) and

Mr Joly Dixon (after one mandate) have completed their service in the Governing Board.

KPST appreciates them, and expresses its gratitute, for their contribution and service!

**Mr. Driton Qehaja served a three-year mandate in the Board (as a professional member) from August 2012 to October 2015. He started his second mandate on 1 December 2018.*

KPST`S INVESTMENT DECISION-MAKING PROCESS OF THE GOVERNING BOARD

THE RIGHTS AND RESPONSIBILITIES
KPST is governed by the Governing Board, whose members are appointed by the Assembly as fiduciaries of pension assets. The rights and responsibilities of the Board include but are not limited to: adopting principles and policy for the investment of pension assets; defining the strategic asset allocation for the funds of KPST as well as determining the nature and amounts of any changes in allocation, strategy and policy; the selection, monitoring and removal of openend vehicles and of asset managers to implement the investment strategy and the established asset allocation; the selection of custodians and other third parties; hiring of the executive personnel of KPST; approving financial statements of KPST.

The primary duty of the Governing Board of KPST is to ensure that the assets are invested in a prudent manner consistent with the requirements of the Law and within the framework of its investment principles and policy. The Governing Board recognises that it has a fiduciary responsibility towards the participants and beneficiaries in KPST, and will only pursue policies which do not violate this responsibility

INFORMING OF GOVERNING BOARD
KPST Management and Staff provides information on regular basis (daily or weekly - as applicable) to the Governing Board members on KPST's investment performance, on status of contributions received and assets not invested, on maturity of investments in Kosovo bonds and bank deposits, on allocation of investment by categories and investment strategies, and all this in light of maintaining the investment limits consistent with legislation in force.

ASSETS INVESTMENT
The Governing Board takes its fiduciary decisions with respect to investing all assets collected (and ongoing contributions): for the withdrawal or the engagement of new investments in selected funds as per the established Investment Principles and Policy, subject to a detailed asset allocation as reflected in its investment matrix, for direct investments, including investments in Kosovo Government bonds and bank deposits.

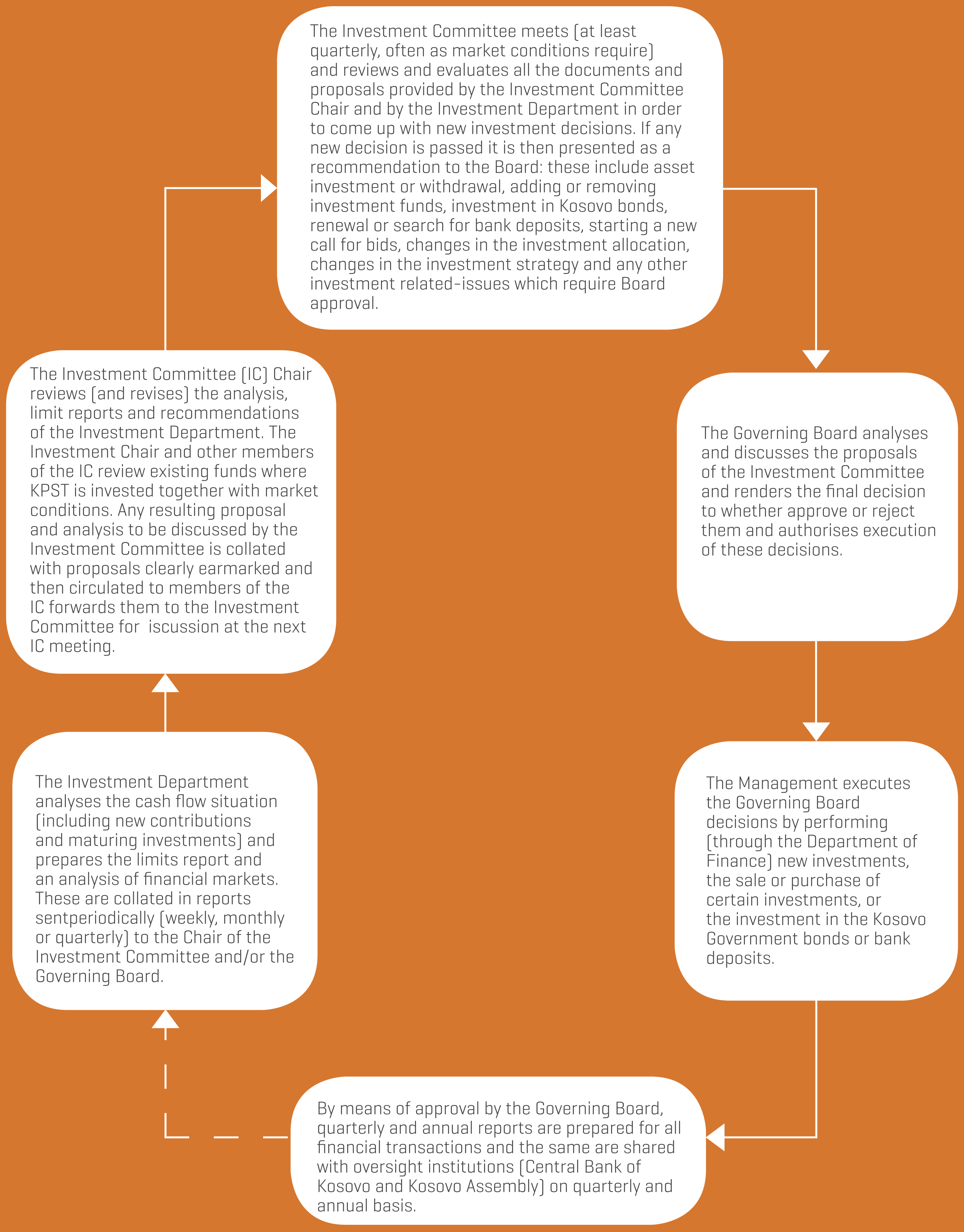
The Governing Board, pursuant to analysis and information provided (through KPST staff and management, but also through professional Board members) issues decisions to add or remove investment from asset classes (shares, multi-assets, money market) by making the necessary balances in line with the analysis of each fund.

Board makes this decisions (thus balancing based on analysis) that the fund's investments being coherent with its stated strategy and aligned with the reasons for which it had been selected, its absolute and relative behaviour (both in return and risk), together with forecasts of macroeconomic variables, geopolitical variables and any other factors which can influence future fluctuations in the financial markets. Such decision-making follows the Investment Manual, which sets out a set of guiding principles and policies. Typically, throughout each year the Governing Board takes decisions related to increasing or decreasing different lines of investments, to the best of its knowledge and capacities, within its mandate and fiduciary responsibilities and always to ensure that the assets are invested in a prudent manner.

Prior to engaging any investment fund, there is a time-consuming process of selection (from the opening of the international call for bids to the detailed study and detailed interviewing of these funds) which includes: a detailed analysis of fund metrics and of investment indicators, as well as a detailed scrutiny of each fund's investing principles and methodology. Such a process typically requires the hiring of third party specialists at a non-negligible cost but in the case of KPST benefits from the qualifications and professional experience of its investment professional members to do it internally. On the other hand, investment in Kosovo (in bonds and bank deposits) is taken within the framework of the prevailing market conditions for sovereign fixed income instruments as well as an assessment of the relative risk of the issuer.

REPORTING AND TRANSPARENCY
The Governing Board publishes on the website all important decisions and those related asset investment, and on a daily basis the investment performance is published on website. The Governing Board forwards detailed quarterly and annual reports to oversight institutions. In addition, members of the Board hold direct meetings with members of functional committees of the Assembly of Kosovo, to present both the investment performance and the institution's needs for the fees it requires. The same applies for the approval of KPST`s annual report. KPST through its Management or Board is expected to respond with transparency to all relevant media requests for information, disclosing in detail the KPST`s performance and investment data

INVESTMENT DECISION-MAKING CYCLE



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 thecompliance of investments with legal and regulatory requirements. The committee makes recommendations to the Board for the investment of pension assets.

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

	Investment Committee	Audit Committee
CHAIRMAN:	Frederick Artesani	Behxhet Haliti
MEMBERS:	Ruzhdi Morina Behxhet Haliti Hajdar Korbi Driton Qehaja	Valdrin Kasumaj Ymer Ymeri ***External member:*** Mirlinda Ahmeti
MEETINGS HELD:	Six	Four

THE COMPLAINTS COMMITTEE reviews contributor requests, claims and complaints addressedto 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.

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

	Complaints Committee	Budget Committee
CHAIRMAN:	Valdrin Kasumaj	Ruzhdi Morina
MEMBERS:	Hajdar Korbi Ymer Ymeri	Frederick Artesani Driton Qehaja
MEETINGS HELD:	Four	Four

ADMINISTRATION

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

During 2018, there were 24 employees with permanent contracts and one part-time employee (in 2017: 24 employees with permanent contracts and one part-time employee).

During 2018, two people were contracted for work and specific tasks (one for programming and one for design) according to the needs of KPST.

In addition to student's internships in the institution, as in the last few years, there were no other staff movements. Meanwhile, at the beginning of 2019, a vacancy for the position of Investment and Risk Analyst was opened.

Minority employees accounted for 8% of the workforce (9% of those who declared ethnicity). Women accounted for 28% of the workforce (2017: 25%); 84% of staff were older than 35 years (2017: 84%), and 4% of the staff were with permanent physical disabilities (similar to 2017). Since there were no changes to staff composition, the average age increased for one year, namely 44.4 years (2017: 43.4 years).

MANAGEMENT	1 MANAGING DIRECTOR			
UNIT	CLIENT SERVICES	INFORMATION TECHNOLOGY	FINANCE	INVESTMENT AND RISK
PERMANENT EMPLOYEES	9	4	3	1
POSITIONS	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
DESCRIPTION	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. 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.	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. Ensure that the disaster recovery plan is actionable every day and that the plan is tested on regular basis.	Perform all financial transactions, including investing and redeeming funds in financial markets; bookkeeping and accounting for pension funds and KPST's operations. 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.	Prepares analysis on: investments performance; risk and oscillation of investment portfolio; compliance of investments with the law; maintaining of Board's investment strategy, and updating the investment section at the website.

MANAGEMENT	2 DEPUTY DIRECTORS			
UNIT	HUMAN RESOURCES AND ADMINISTRATION	LEGAL OFFICE AND PROCUREMENT	INTERNAL AUDIT	PUBLIC RELATIONS, TRAININGS, TRANSLATIONS
PERMANENT EMPLOYEES	3	1	1	1
POSITIONS	1 human resources officer 1 housekeeper 1 security officer	1 legal officer	1 internal auditor	1 public relations officer, coordinator for translations and trainings
DESCRIPTION	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. 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.	The Legal Office examines the overall legality of the institution vis-à-vis applicable legislation and assists in drafting contracts and agreements; provides legal opinions and represents KPST in the judicial system. The Legal Office is currently conducting some of the activities previously performed by the Procurement Officer. However, the process of centralising procurement processes (in CPA) has reduced the workload of internal procurement activity, playing mainly the role of coordinator with CPA.	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. Performs regular quarterly audits and provides recommendations to resolve issues raised. Auditor reports are reviewed by the Audit Committee and the Governing Board.	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.

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 2018. 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.

Until now, historically, each independent auditor that has audited the financial statements of the KPST (operational and pension assets), which are selected through Kosovo public procurement procedures and have been approved as such by the Central Bank of Kosovo, did not provide a qualified opinion on those statements. The External Auditor, through a Management Letter, may also make recommendations for better functioning of KPST processes.

Apart from quarterly reports to the CBK on the compliance of investments with the law and CBK rules, with the request of CBK, KPST continued 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 no such occurrences for the year 2018.

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 2017, 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.

During 2018 CBK performed a general and regular inspection. External Auditor also reviewed IT policies of KPST.

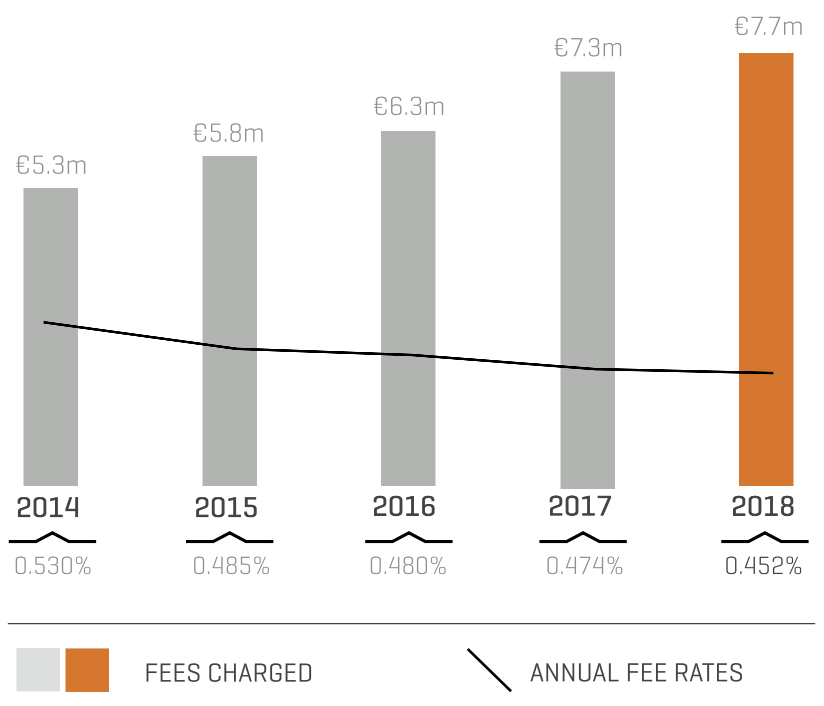
In case of serious findings CBK must also report those to the Assembly, which has not been necessary up to now. In addition to findings, CBK also makes recommendations to the Board.

KPST has an internal auditor who reports four times a year to the Audit Committee of the Board on all aspects of institution's activities. In addition, in 2018, an external member of the Audit Committee has started work in the Audit Committee, as requested by CBK. This was done in accordance to Law no. 05/L-116 on amending and supplementing the Law No. 04/L-101 on Pension Funds of Kosovo which states that at least one audit committee member shall be an external expert in the field of accounting or auditing, and shall be independent from the KPST Management and Governing Board.

During 2018, KPST has also engaged one internal auditor, with a specific task of auditing information technology.

ISSUES AND RECOMMENDATIONS RAISED BY EXTERNAL AUDITOR AND INTERNAL AUDITOR FOR 2018 AND THEIR STATUS

	RECOMMENDATION	FOLLOW UP/COMMENT
EXTERNAL AUDITOR	The Governing Board should make efforts to fill the vacant position of the representative of the Government of Kosovo on the Governing Board (non-voting member).	The Governing Board will make the required efforts,.
	During the audit process we noticed that KPST did not renew the maintenance contract for the main accounting software for the period August to December 2018 and onwards. At the time of our review the contract had not yet been signed.	Due to the delay by the CPA for procurement processes, this contract was not signed until March 2019, despite the fact that the Management and the KPST Board have requested several times for this to be done.
INTERNAL AUDITOR	Contributors without a personal number should equip themselves with a personal number from the Ministry of Internal Affairs or with a temporary tax payer number from the Tax Administration of Kosovo. If this does not occur, the same should not have contributions allocated nor paid any proceeds of pension savings.	Management has taken into account the recommendation and requested from TAK to equip such individuals (of which there are only a handful) with identification numbers.
	In the Accounting books should be recognized contingent liabilities under the requirements of the International Accounting Standard (IAS 37) for claims that may arise as a consequence of decisions of the Supreme Court of the Republic of Kosovo for PAK's rejected creditors. The case relates to the parcel purchased for the building of the KPST office building.	The recommendation is addressed and will be implemented as such.
	When reviewing the implementation of phased withdrawals by banks, in addition to the checking the monthly payments the management should also confirm that interest calculation, as well as debit / credit accounts. When reports received from banks are themselves not accurate, the bank concerned should be contacted and confirmations, including verifications via bank statements, should be obtained.	The issue was rimplemented upon after the recommendation.



The annual fees charged on pension assets for 2018 decreased to a total of 0.452% of the funds (2017: 0.474%). The investment fee decreased from 0.393% to 0.381% whereas the operating fee decreased from 0.081% to 0.071%.

But at nominal value, the fees charged on pension assets increased by 5.1%, or by €371,664, due to the increase of assets under management.

However, KPST did not spend all the revenues generated from these fees and the surplus of €700,000 has been returned to the contributor's fund.

Charged fees generated revenues of €7,660,347 of which €6,447,812 were intended to cover investment expenses and the remaining €1,212,535 were intended to cover operational costs.

The non-fee revenues of KPST for the year were €97,919 and thus, the total KPST revenues for 2018 amounted to €7,758,266 or 5.1% higher than the revenues of the previous year (2017: €7,381,255).

About 84.0% of non-fee other revenues from operating activities, and 16.0% were other revenues from investment activities.

FINANCING

On average KPST charged its participants with operating fees of €0.16 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.

Compared to 2017, KPST has reduced the fees charged during 2018 (in percentage) for both investment and operational activities.

The KPST's operational tariff of 0.071% per annum continues to be the lowest compared to all similar operators in the region but is also among the lowest at the global level.

On the other hand, the annual investment fee of 0.381% 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.

It should be noted that for 2018, the operational cost of KPST, on average, cost €1.93 (2017: €2.20) to account holders of KPST.

1 direct service at the office (service, counseling, information) every working day from 08:00 to 16:00;

2 delivery of account statement at home or via e-mail;

3 unlimited printing of account statements at KPST office or TAK regional offices;

4 complete maintenance of the pension savings account;

5 standby backup servers in a different location;

6 electronic service on-line access to personal pension account, and the service of direct communication through Facebook platform;

7 notice by mail for retirement;

8 free retirement application and no charges by KPST for bank transfers;

9 free maintenance on accounts with local commercial banks for the phased withdrawal of savings;

10 above average interest rate on savings in the phased withdrawal program;

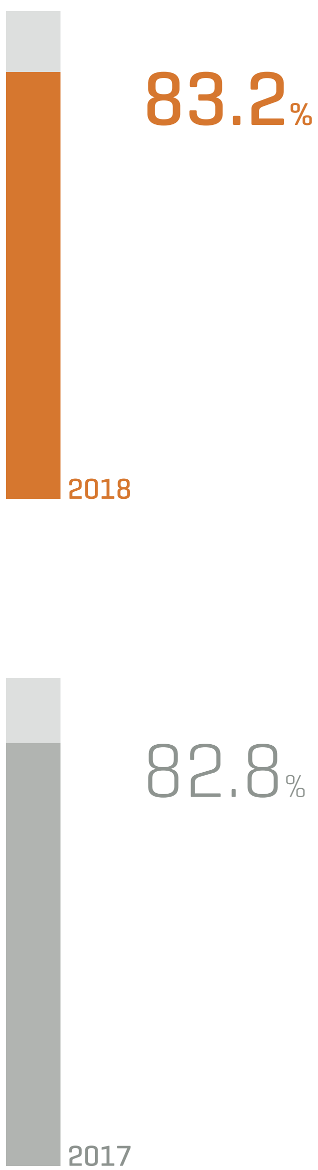
11 the most advanced technological services in the pension sector in the region;

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



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 accounted for 83.2% of KPST expenses for 2018 (2017: 82.8%). Their nominal value amounted to €5,743,872 (2017: €5,704,214) since the assets invested in global markets continued to mark new record amounts. In 2018, there were on average €1,401 million investments in financial markets during the year, or 1.0% more than in the previous year (2017: €1,388 million).

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 0.381% of assets for the year 2018.

Investment expenses were not largely different from what was estimated, accounting for 89.1% of planned revenues from investment tariffs (2017: 94.4%), thus increasing the surplus from investment activities to €719.5 thousand in 2018 (2017: €344.5 thousand). Increasing the surplus or lowering investment expenses is related to the non-delivery of additional investments to financial markets in 2018, despite the increase of assets under management by new contributions.

During 2018, the Governing Board decided to return almost the entire amount of surplus from investment activities (of €700,000) back to the contributor's fund. Thus, KPST operates optimally with the management fee which it charges.

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.

Despite all this, the accuracy of budget planning in last three years was between 89 and 95% for forecasted investment expenses.

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.

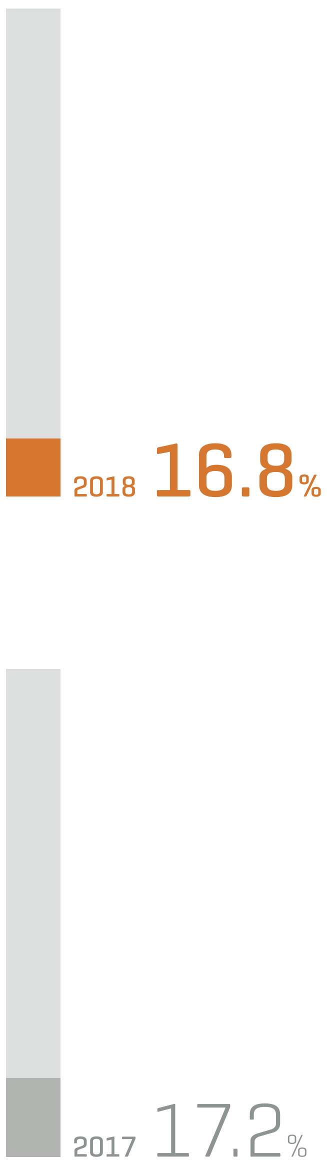
Through the payment of these fees, in some cases, KPST has access to financial markets at a lower costs than it would if it were to invest directly. But, in all the cases, KPST benefits from the investment experts of the fund managers.

Active investment funds, which perform transactions, research and risk management on daily basis, tend to have higher expenses and thereby understandably charge higher fees.

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.

	2018		2017	
Open-end funds	Annual net fee rate	Fees charged	Annual net fee rate	Fees charged
Vanguard – GSIF	0.13%	€476,025	0.13%	€455,954
BNY Mellon – RRF	0.60%	€ 488,895	0.60%	€798,961
AXA - GILB	0.35%	€345,106	0.35%	€336,504
Schroders – SISF	0.50%	€50,969	0.50%	€51,528
Schroders - GDG	0.65%	€813,018	0.65%	€520,466
Nordea 1 – GSEF	0.43%	€689,736	0.43%	€747,430
Nordea 1 – SRF	0.56%	€942,218	0.56%	€1,342,831
AXA - WFOI	0.55%	€716,717	0.55%	€428,939
Pictet - HDS	0.63%	€44,293	0.63%	€317,056
BNP Paribas – PDP	0.65%	€867,595	0.65%	€527,705
Amundi - RPI2	0.20%	€253,115	0.20%	€119,881
Amundi - 3M (I)	0.045%-0.057%	€16,719	0.045%-0.057%	€13,554
TOTAL FEES		€5,704,406		€5,660,809
Transfer and other fees by CBK		€30,550		€34,449
Brokers, custodians and pledges		€8,916		€8,956
TOTAL INVESTMENT EXPENDITURE		€5,743,872		€5,704,214

OPERATING EXPENSES



Operating expenses[1] 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 2018, operating costs amounted to €1,158,745 (2017: €1,181,697) and accounted for 16.8% of the total expenses of KPST (2017: 17.2%). It is evident that operating costs this year were lower (by €22,952) than last year, or by 1.9%.

In 2018, the foreseen operational budget for goods and services amounted to 95.6% (2017: 94.9%). This level of the execution of expenses planned for operational activities is the highest in the last five years.

This year the staff costs marked the most important part of operating expenses with 49.5% (2017: 50.7%). However, the expenses for this category were reduced by 4.1% compared to 2017.

The full composition of the Board during 2018 was the main cause for the increase of operating costs to 17.9% (2017: 13.7% with one position vacant most of the year)). The statements' printing and distribution expenses were reduced by 18.6% this year, but they were on top of the expenses list with 9.3% (2017: 11.2%).

The reduction of this cost is the result of the increase in the number of eTrust users and statements sent via e-mail. Other important changes this year were also marked in depreciation and amortization (decreased by 24.8%) and software maintenance (decreased by 33.2%).

Details for each budget category are given in the table on page 38, whereas additional explanations are available in attached financial statements.

[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.

OPERATING EXPENSES	**2018**		2017	
Staff costs	574,375	49.6%	598,973	50.7%
Governing Board expenses	207,862	17.9%	161,879	13.7%
Account statements and correspondence for beneficiaries	107,951	9.3%	132,598	11.2%
Office operating expenses	82,801	7.1%	79,845	6.8%
Depreciation and amortisation	53,584	4.6%	71,279	6.0%
Software maintenance	38,289	3.3%	57,358	4.9%
CBK supervision charges	18,188	1.6%	18,670	1.6%
Public education and advertising	15,136	1.3%	7,530	0.6%
Training, travel and other staff expenses	10,050	0.9%	13,600	1.2%
Professional services/Contractors/Consultants	10,380	0.9%	2,968	0.3%
External audit	9,050	0.8%	9,050	0.8%
Communication	8,298	0.7%	8,973	0.8%
Disaster recovery - rent and other associated costs	6,600	0.6%	6,600	0.6%
Bank charges	2,300	0.2%	2,138	0.2%
Other costs	13,881	1.2%	10,236	0.9%
TOTAL OPERATIONAL EXPENDITURE	**€1,158,745**	**100%**	€1,181,697	100%

02

ACTIVITIES

ACTIVITIES

THE GOVERNING BOARD

On 1 December 2018, five members of the Governing Board (four holding professional positions and one representative of the employees) were appointed on a four-year mandate by the Assembly of Kosovo; two other members had been appointed one year ago.

This year, due to increased turbulence in the financial markets, the Board has held intensive meetings and discussions. It has continuously reviewed the performance of each investment fund and has made record movements of assets within investment funds.

During 2018, the Board made decisions to move more than EUR 1 billion in financial markets, which was the highest level of such movement. In the first quarter of the year, due to the expectations of the financial markets and the then performance of the Pictet HDS equities fund, the Board decided to withdraw all of its investment made thereof.

These actions were part of the periodic rebalancing undertaken by the Board to better align the investment policy with the estimated market movements.

In 2018, the Board allocated the highest level of funds to Kosovo. At the end of the year, about €209m were invested in the Kosovo Government paper. One year ago this amount was €95m. A total of €76m matured during last year, while new placements amounted €177m.

Similarly, the assets deposited in Kosovo banks were significantly higher amounting to €119m compared to €50m one year earlier. This was the result of the increase of interest by banks for KPST's bids.

Therefore, as a result of these changes, around 20% of the funds invested in 2018 were in Kosovo. Also, for the first time within a year, the Board did not invest outside the country.

As every year, Board members held several meetings with Kosovo Assembly and Central Bank of Kosovo. It also held meetings, visits and consultations with asset managers to ensure that the investment and investment decisionmaking are appropriate.

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

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 online service eTrusti which numbers around 102 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) professional support of the Board in decision-making on investments (inside the country and abroad); b) the process of selecting a broker for investment in ETF funds; c) functionalization of the department of investment and risk; d) preparation of awareness-raising and information campaigns in social networks; e) increase of the number of accounts in e-Trusti to lower the cost and facilitate communication with contributors; f) the support of processes for increasing investments in banks operating in Kosovo; e) continuous advancement of internal information technology and full digitalization of processes; and g) fulfilment of all requirements of CBK and the external auditor for the entire operating chain of the institution.

ACCOUNT MANAGEMENT

Around 178 thousand account statements were sent by e-mail.

2018 **9.6**

THE AVERAGE NUMBER OF MONTHS FOR WHICH EMPLOYERS PAID CONTRIBUTIONS

2017: 9.6

2018 **3.4**

THE AVERAGE NUMBER OF QUARTERS FOR WHICH THE SELF-EMPLOYED PAID CONTRIBUTIONS

2017: 3.4

In the 2018 cycle, 382,291 statements have been sent, out of which 204,691 via mail and 177,600 via e-mail (2017: 280,198 via mail and 146,884 via e-mail). This year, the number of new accounts increased by about 35,000, but KPST has amortized this increase by increasing the number of e-Trust accounts and the number of statements sent via e-mail (jointly over 50 thousand). Also, the sending list excludes the statements of account holders that had no transaction in the three last years. The number of contributors for which KPST had no physical or electronic address was 17,204 (2017: 10,417) and the statement was not sent to them.

Due to retirement (or death) of contributors, 5,435 accounts were newly "withdrawn" during 2018 (2017: 5,173). The total of accounts withdrawn amounted to 43,947. Account statements are not sent to this category of account holders either.

KPST opened 35,121 new individual accounts (2017: 49,688), bringing the total number of opened accounts since its establishment to 626,687. Of the new opened accounts during the year (i.e. 35,121), 31,506 of them were for new contributors, i.e. the ones that started contributing in 2018, whereas the rest were cases of contributions for previous years, for which KPST has either received the payment or information in 2018.

During the year, there were 30,487 employers and 29,055 self-employed that paid contributions for the reporting year (2017: 28,685 and 29,787 respectively).

In addition, there were also 3,979 employers and 4,230 self-employed that paid contributions only for the previous years (2017, respectively: 3,798 and 4,472).

In total, for 2018, there were transactions worth 3.54 million posted to contributors' accounts and over 542 thousand to employers' accounts (2017: 3.62 million, respectively 741 thousand).

The transactions of employers' accounts involve 37,679 cases (2017: 37, 898) of refinancing of: a) wrongly paid contributions or overpayments; and b) fines at TAK. For information, fines include the fines and interests that TAK charges over employers (and the self-employed) for delays in payment or inaccurate declaration of pension contributions - and which the employer has paid together with the pension contribution.

These refinancing transactions, in 98% of cases, were overpayments (transactions) performed by employers during the same year, i.e. during 2018. In 2017, the same accounted for 95% of cases, whereas in 2016 they accounted for 56%.

On average, employers have declared and paid for 9.6 (or 80%) months of 2018, as in the previous year; and the self-employed for 3.4 (or 85%) quarters of 2018, as in the previous year.

CONTRIBUTION ALLOCATION

Unallocated contributions reduced to 0.08% of all the contributions collected.

For the second year, KPST continued the liquidation of contributions that have not been allocated for the last 6 years, by returning them to TAK. KPST has proven that it has exhausted the possibilities of finding information, for several reasons: employers did not retain individual payment information or paid them with wrong information, businesses closed or changed their activity, and/or have wrongly paid taxes and fines as pension contributions.

However, for the sake of accurate information, we recall that even after the transfer of these assets from KPST to TAK, the applicable law has retained for contributors the right that whenever they provide information for these contributions, they will be reimbursed for the contribution value, as well as adding the average return from KPST investments for the relevant period from the moment of their transfer to TAK.

KPST accomplished the liquidation of the second amount of unallocated contributions and the end of September was taken as an endpoint for contributions over 6 years. From this process, €1.22 million were returned to TAK, together with the return on investments, which amounted to €1.62 million.

After the transfer of these funds to TAK, only 0.08% of the funds remained unallocated for periods of less than 6 years (or €1.29 million of total contributions).

Unallocated assets for periods of less than 6 years, especially in finding information on annual payments, continues to be included in the list of commitments of the Governing Board and Management of KPST.

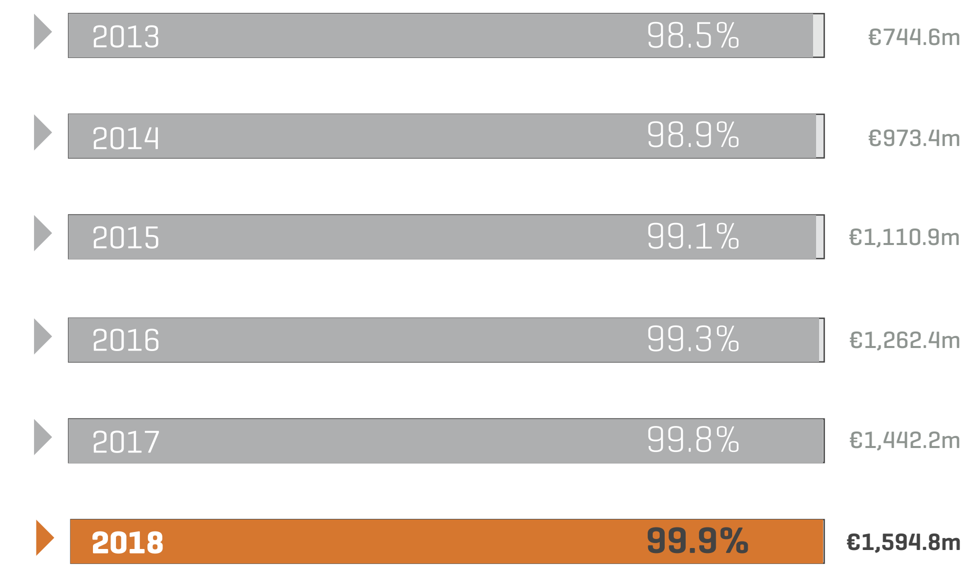
Even for 2018, the Board's objective (of not more than 0.15% of the cumulative contributions collected being unallocated) has been achieved and exceeded.

Reasons and amounts for unallocated funds were: a) €0.39 million for failure to submit contributions reports from employers; b) €0.72 million in cases where reports are not in compliance with payments; c) €0.03 million for payments for which the employer has not been identified; and d) €0.16 million for invalid details (ID number/Name) of reported contributors (2017 respectively €1.36 million, €0.68 million, €0.02 million, and €0.23 million).

As it can be seen, there are decreases in general in all categories this year, which is expected as there was an increased interest and awareness of employers for accurate and complete reporting. Contributors are also getting more and more interested in the state of pension savings.

In addition to these positive changes, KPST will continue its commitment to ensure that the information and payments are complete, in order to avoid in maximum the possibility of damaging the contributors' interest.

CUMULATIVE CONTRIBUTIONS RECONCILED AND COLLECTED



CLIENT SERVICES

549 services offered daily.

The total number of services provided by KPST offices during 2018 for individuals and employers was 161,467.

This marks an increase of 13% compared to the 143,218 services provided during 2017. On average, 556 services and consultations are provided for each working day (2017: 549 services).

The number of printed account statements (free) for contributors was 91,041. At 56% (2017: 54%) this service was most dominante this year, being the most requested. There are two reasons for this: The first one is that, one of the requirements for visa application is the KPST account statement, as evidence of employment; and the second one is, the increase of contributors' awareness about the importance of pension savings.

A limited number of KPST's services are also provided at TAK regional offices through TAK Pensions Officers. The services provided by them, consisting primarily of the printing of account statements, numbered 45,323 (2017: 8,617). KPST continuously keeps contact and consultations with these offices to provide the best services to contributors.

Other key services provided by KPST staff were: a) 22,684 authorizations of requests for access to the eTrust portal; b) 9,361 changed addresses of contributors; c) 5,492 approved pension applications; 4,438 printed pension announcements; e) over 5 thousand audits of accounts carried out.

KPST continued to prioritize the massive use of eTrust service. The number of accounts in eTrust during 2018 increased by 29% to 102,727 (2017: 79,867), accounting for 16% of KPST account holders (2017: 14%). Promoting this service on social networks continues to be the main driver of user growth.

The eTrust portal provides easy and free of charge access to the pension savings account for contributors and enables continuous improvement of services, cost reduction, and increased transparency. The services provided on this portal are numerous. Users of the eTrust can check their account balance and transactions, and unlike ordinary online services, the contributors can check the total state of pension savings, daily unit price, number of shares, all contribution payments from each employer from the start of their account; but can also send questions to KPST staff.

In addition to all the services provided in the office, the KPST has prepared and sent the annual financial statements of the contributors to all active contributors.

We have also responded to over three thousand questions and comments from contributors through social networks. 63% of all services that contributors received were provided by the main office, 30% by TAK offices and 7% by self-served contributes on the eTrusti portal.

ACCOUNT STATEMENTS PRINTED IN KPST OFFICE

91,041

TOTAL SERVICES OFFERED FROM THE OFFICE FOR CONTRIBUTORS AND EMPLOYERS

2018
161,467

2017
143,218

NUMBER OF ACCOUNTS IN e-TRUSTI

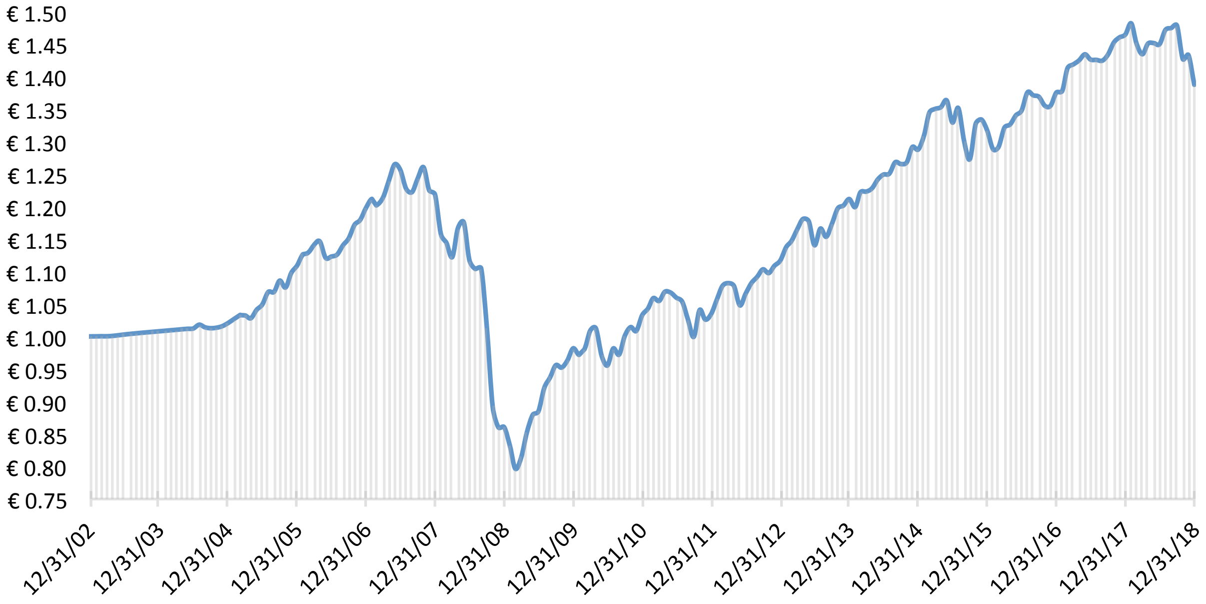
▲ 29%

03

INVESTMENT OF PENSION ASSETS

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.

KPST UNIT PRICE SINCE INCEPTION



INVESTMENT PRINCIPLES AND POLICY

KPST continued to fully adhere to the Statement of Investment Principles (SIP) and the Investment Policy Guideline (IPG) which were set back 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, recognizing 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, while reaping the rewards when markets go up. The strong fall in financial markets, especially in the last quarter of 2018, was a good test for this objective. The fall of KPST's share price by 5.3%, while most of the major financial indexes had double digits falls, proved that the current investment policy meets the purpose of protection in this case at a satisfactory level.

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 a minimum and maximum of investments allowed in them.

It should be emphasized 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, 2018 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	20.6%	1%-20%
Kosovo T-bonds	Interest bearing	10.0%	10%-20%
Debt Instruments	Directional	6.4%	4%-25%
Multi-assets	Managed/Targeted risk; Absolute return	31.7%	25%-55%
Equities	Dividend	9.7%	7%-13%
Equities	Managed/Targeted risk; Absolute return	21.6%	20%-35%

Multi-asset funds are 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

€328.4m the value of investments in Kosovo: in government debt securities and term deposits.

At the end of the year, assets under management of KPST, €1,682.3m, were distributed as follows: €1,227.3m were invested in global financial markets through investment funds (2017: €1,478.1m); €209.0m were invested in Kosovo bonds (2017: €95.0m); €119.4m were term deposited with BKT, NLB, TEB, ISB, PCB, RBK, BPB and BEK banks (2017: €50.6m BKT, BpB, and TEB); while €126.6m were in CBK as not invested (2017: €13.7m).

During the year, the Governing Board took 17 decisions to withdraw or increase the assets within the current investment funds. In addition to one decision, which was related to full withdrawal, the rest were for rebalancing purposes, with a total of €972.6m. The Board did not commit new investment funds this year, and withdrew the entire investment (of €31.5m) from Pictet HDS.

This year, the Governing Board made a balanced distribution between the four financial instruments in which the assets were invested. Thus at the end of the year, 20.6% of assets were in cash market, bank deposits and securities; 16.4 of the assets were in debt instruments (bonds); 31.7% of assets were in multi-asset funds and 31.3% in shares. A year ago most of the invested assets were in multi-asset funds.

These decisions are perceived as Boards response to the increase in the fluctuations in the financial markets and the increase in the risk of invested funds.

During the year, matured investments in the Treasury of Kosovo were €65.7m, while the Board added €177.4m new investments. At the end of the year, investments in this instrument were €209.0m, accounting for 13.4% of total investments, more than twice as high as the previous year (2017: 5.8%).

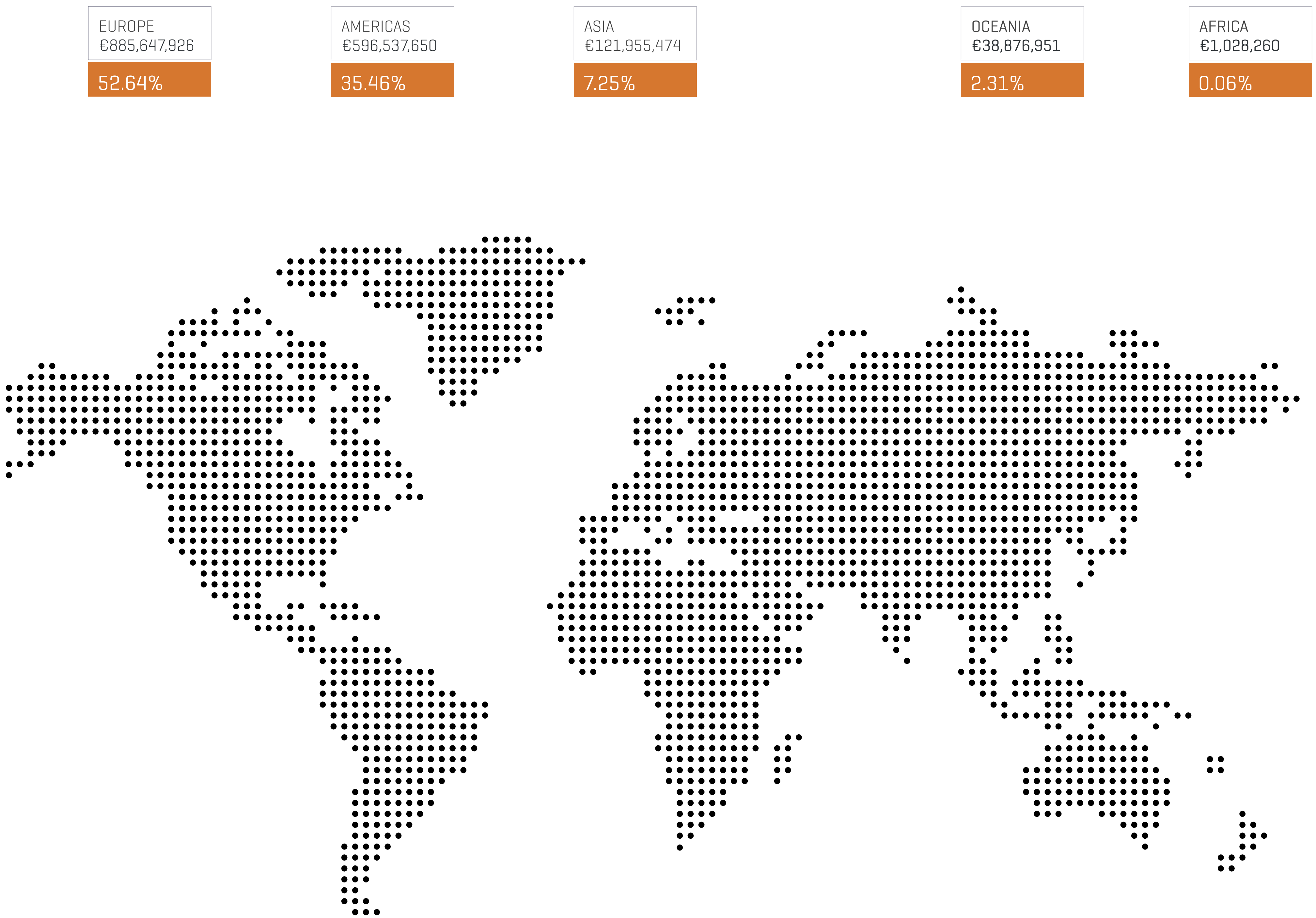
While with an average of 9.6% allocated for investments throughout the year, investments in the Kosovo Treasury contributed 2.4% (2017: 2.9%) on average to total investment performance. Investment performance in the Treasury of Kosovo depends on the investment's longevity and maturity. During 2017 and 2018, KPST increased investments in longer maturities.

Meanwhile, term deposits with local banks amounted with €50.8m at the end of 2017, of which € 38.0m matured during the year and were replaced by the Board by new one year deposits in the amount of €106.0m with eight banks: BEK (€12.9m); BKT(€10.0m); BPB (€11.5m); ISB (€4.5m); NLB (€26.1m); PCB (€8.0m); RBK (€10.0m) and TEB (€23.0m).

On average, for a year, allocations in bank deposits in Kosovo accounted for 3.4% of total investments and contributed on average by 2.8% to overall investment performance.

INVESTMENT	ASSET CLASS / STRATEGY	ASSETS (millio)	ALLOCATION
Vanguard - Global Stock Index Fund	Equities / Directional	€363,676,626	23.4%
Nordea 1 - Stable Return Fund	Multi-assets / Managed risk	€124,005,629	8.0%
Nordea 1 - Global Stable Equity Fund Unhedged	Equities / Managed risk	€162,607,446	10.4%
BNY Mellon - Real Return Fund	Multi-assets / Absolute return	€145,256,365	9.3%
AXA – Global Inflation Linked Bonds Fund	Debt instruments / Directional	€97,593,865	6.3%
AXA - World Fund Optimal Income	Multi-assets / Absolute return	€53,906,903	3.5%
Schroders – Global Diversified Growth Fund	Equities / Dividend	€55,893,343	3.6%
Amundi - Amundi Rendement Plus I2	Multi-assets / Managed risk	€102,509,778	6.6%
Amundi - 3 M I	Money market	€59,847,864	3.8%
BNP Paribas IP – Parvest Diversified Dynamic	Multi-assets / Managed risk	€52,220,239	3.4%
Schroders - International Strategic Bond Fund	Debt instruments / Directional	€9,812,299	0.6%
Kosovo Treasury	Kosovo T-bonds / Interest income	€168,156,013	10.8%
Kosovo Treasury	Kosovo T-bills / Interest income	€40,888,274	2.6%
BKT, NLB, TEB, ISB, PCB, RBK, BPB, BEK	Deposits / Interest income	€119,403,795	7.7%
TOTAL INVESTED ASSETS		€1,555,778,439	100.0%
Uninvested assets (assets in CBK and money market in transition)		€126,571,391	

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



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 2,531 issuers globally (2017: 2,134). The asset allocation by country on reporting date is presented in tabular form as well as according to their global spread.

NO.	COUNTRY	%	ASSETS
1.	USA	32.04%	€539,060,308
2.	Kosovo	14.90%	€250,670,125
3.	France	9.73%	€163,644,024
4.	UK	7.68%	€129,141,847
5.	Japan	4.59%	€77,139,184
6.	Germany	4.16%	€69,905,461
7.	Italy	2.95%	€49,621,931
8.	Canada	2.78%	€46,755,867
9.	Netherlands	2.42%	€40,693,326
10.	Irland	1.98%	€33,230,240
11.	Australia	1.95%	€32,754,453
12.	Spain	1.52%	€25,546,992
13.	Denmark	1.49%	€25,146,435
14.	Switzerland	1.37%	€23,004,347
15.	China	1.17%	€19,671,509
16.	Luxembourg	1.12%	€18,771,167
17.	Belgium	0.82%	€13,797,200
18.	Sweden	0.60%	€10,141,075
19.	Hong-Kong	0.51%	€8,614,705
20.	Portugal	0.46%	€7,703,204
21.	Singapore	0.40%	€6,783,170
22.	India	0.37%	€6,244,875
23.	New Zealand	0.36%	€6,122,498
24.	Greece	0.33%	€5,571,027
25.	Mexico	0.31%	€5,286,106
26.	Brazil	0.26%	€4,391,291
27.	Norway	0.25%	€4,279,211
28.	Jersey	0.22%	€3,701,774
29.	Finland	0.18%	€3,106,471
30.	Austria	0.15%	€2,533,989
31.	Israel	0.13%	€2,180,332
32.	Guernsey	0.10%	€1,695,896
33.	Taiwan	0.09%	€1,449,230
34.	Bermuda	0.06%	€1,044,079
35.	South Africa	0.06%	€1,028,260
36.	Poland	0.05%	€812,427
37.	Indonesia	0.05%	€803,261
38.	Turkey	0.04%	€749,425
39.	Malajsia	0.04%	€659,542
40.	Thailand	0.04%	€589,998
41.	Others	2.28%	

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

MAIN ISSUERS

KOSOVO TREASURY DOUBLED THE WEIGHT OF ALLOCATION

The list of 25 key issuers (out of a total of 2,531) is presented below. KPST is exposed to these issuers indirectly, through investment funds, while placements in the Kosovo Treasury and term deposits (in local banks) are direct.

Kosovo Treasury continued to be at the top of the list of top individual investments with 12.43% of allocated assets, doubled by 5.78% last year. US Treasury ranked second (with 5.58%), with a slight reduction of 5.68% of assets last year.

Legal constraints require that KPST does not exceed the following allocations: a) not more than 30% in the Treasury of Kosovo; b) not more than 20% of assets in bonds or debts of a single issuer rated AA or higher; c) 10% in bonds rated A or higher; d) 5% in bonds rated with BBB or lower; e) not more than 5% of assets in a single issuer of shares; and f) up to 1% in bonds rated BB + or lower. KPST has not exceeded any of these limits for investments in a single issuer on December 31, 2018.

ISSUER	ASSETS (million)	ASSET ALLOCATION
1. Kosovo Treasury	€209.04	12.43%
2. US Treasury	€93.78	5.58%
3. France Treasury	€29.15	1.73%
4. BpB Bank Kosovo	€26.65	1.58%
5. NLB Bank Kosovo	€26.51	1.58%
6. BKT Bank Kosovo	€26.09	1.55%
7. Italian Treasury	€25.82	1.53%
8. UK Treasury	€22.56	1.34%
9. German Treasury	€14.18	0.84%
10. Alphabet Inc	€10.95	0.65%
11. Apple Inc	€10.76	0.64%
12. Cisco Systems Inc	€10.39	0.62%
13. Australian Treasury	€10.35	0.62%
14. Microsoft	€9.29	0.60%
15. Johnson & Johnson	€9.09	0.55%
16. BNP Paribas	€8.87	0.54%
17. Roche Hldg Ag	€8.08	0.53%
18. At&T	€7.95	0.48%
19. Spain Treasury	€7.39	0.47%
20. Nykredit	€7.04	0.44%
21. Oracle Corp Com Stk	€6.92	0.42%
22. Netherlands Treasury	€6.88	0.41%
23. Cvs Caremark Corp	€6.86	0.41%
24. Pfizer Inc	€6.72	0.41%
25. Amazon.com	€6.38	0.40%

ASSET CLASSES AND CURRENCIES

EQUITIES MADE UP 45.5% OF INVESTED ASSETS

At the end of the year, the direct and indirect investments of KPST, comprised 45.5% of the shares, 38.3% of debt instruments (bonds), 18.2% of cash and -2.0% net of derivatives (2017 respectively: 66.6%, 28.7%, 7.7%, and -1.8%).

Even this year, of the 37.5% of the total investments invested in debt instruments, 99.9% were in instruments that were not classified with a high level of risk.

Investments in Kosovo, despite having no rating, are evaluated de facto by the law, with high security of return on investment, involving a total of 19.5% of all KPST investments.

Investments in Kosovo consisted of investments in the Treasury of Kosovo (12.4% of all investments) and bank deposits (7.1% of all investments).

Other unrated debt (outside of Kosovo), KPST had 1.4%, invested from total debt instruments (2017: 0.5%).

Direct and indirect placements at the end of the year were in the instruments of main currencies of the world, as follows: EUR 51.8% USD 31.3%; GBP 5.2%; JPY 3.3%; CAD 2.2%; CHF 1.5%; AUD 1.5%; DKK 1.3%; and other 1.9%.

INVESTMENTS IN DEBT INSTRUMENTS - RATED

RISK	RATING	QUALITY OF PLACEMENT	PPERCENTAGE OF DEBT INSTRUMENTS
	--	Investments in Kosovo	33.2%
	--	Outside Kosovo (unrated)	1.4%
	AAA	Prime	18.7%
	AA	High	19.3%
	A	Upper middle tier	8.7%
	BBB	Lower middle tier	13.6%
	BB	Speculative	3.3%
	B	Highly speculative	1.7%
	C and below	High risk	0.1%
	TOTAL		100.0%

INVESTMENT PERFORMANCE

Gross return from investment and other income was -€84.7m and unit price was down by 5.1%

The investment performance of KPST for 2018 was with a negative gross return of €84.7m - equivalent to a gross performance of -5.1%. By deducting the fees charged (for investments and operations) it turns out that KPST's net performance at the unit price level was -5.3% for the year.

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The year 2018 had a lot of fluctuations in the financial markets, but by the end of the third quarter, KPST's investment performance continued to be positive. It was the fourth quarter of the year, especially December, which overturned the investment results.

The main factor for the drop in the markets in the fourth quarter was the trade war between the major global economies: the US and China. The imposition of fees, which hinders the movement of goods and consequently slowed down the economic growth, was the cause of discouraging and fear for investors. In addition, FED's decision to continue with the increase of the US base interest rate had a very negative impact as it increased borrowing costs as an important instrument for investing in business projects. Meanwhile, the BREXIT crisis, the poor economic indicators in Europe, and the budgetary difficulties of some European countries increased the pressure further in financial markets.

Under these financial market conditions, all investment funds, including most of their underlying assets, ended the year in negative territory. The change in negative performance depended on the level of risk, geographical distribution, and sectorial composition of investments. The most affected, as usual, were investment funds that had a higher level of equities.

The worse performance was marked by the pure equity fund Pictet (with -23.5%), but the whole investment was withdrawn in the first quarter of the year. While the best performance (albeit slightly negative of -0.3%) was marked by cash fund, Amundi 3M, which is exclusively in protection through short term cash deposits.

Investments in Kosovo (in treasury and bank deposits) are at the predetermined (positive) rate of return on investment. They had an average annual allocation of 12.4% and contributed with a gross return of about €3.2m for the year.

This was the first year the Governing Board invested a record level of assets in Kosovo, and made no new investments in International financial markets while it withdrew investments from there. This was precisely to reduce the investment risk under forecasts of volatility in financial markets, and to maintain the investment value of pension assets.

INVESTMENT	AVERAGE ALLOCATION	GROSS CONTRIBUTION	GROSS RETURN (MILLION EURO)	PERFORMANCE
Vanguard	24.1%	-2.29%	-36.0	-9.5%
Schroders SB	0.6%	-0.03%	-0.5	-4.8%
Schroders GDG	8.0%	-0.67%	-10.4	-8.5%
AXA - GILB	6.0%	-0.19%	-2.6	-3.1%
AXA - OI	8.0%	-0.50%	-8.4	-6.2%
BNY Mellon	4.7%	-0.13%	-1.7	-2.7%
Nordea GSE	6.1%	-0.13%	-5.4	-2.2%
Nordea SRF	10.0%	-0.42%	-7.6	-4.1%
Amundi 3M	1.8%	-0.00%	-0.1	-0.3%
Pictet	0.4%	-0.10%	-1.7	-23.5%
BNP Parvest	8.2%	-0.53%	-8.8	-6.5%
Amundi RPI	7.7%	-0.34%	-5.5	-4.5%
Kosovo T-bonds[1]	3.4%	+0.09%	2.1	2.8%
Kosovo T-bills[1]	2.9%	+0.01%	0.3	0.3%
Term deposits in Kosovo[1]	6.6%	+0.13%	0.8	2.0%
Cash at CBK and suprlus return	1.4%	-0.00%	0.6	-0.3%
TOTAL	100.0%	-5.1%	-84.7	

[1] Weighted average

PERFORMANCE VS BENCHMARK

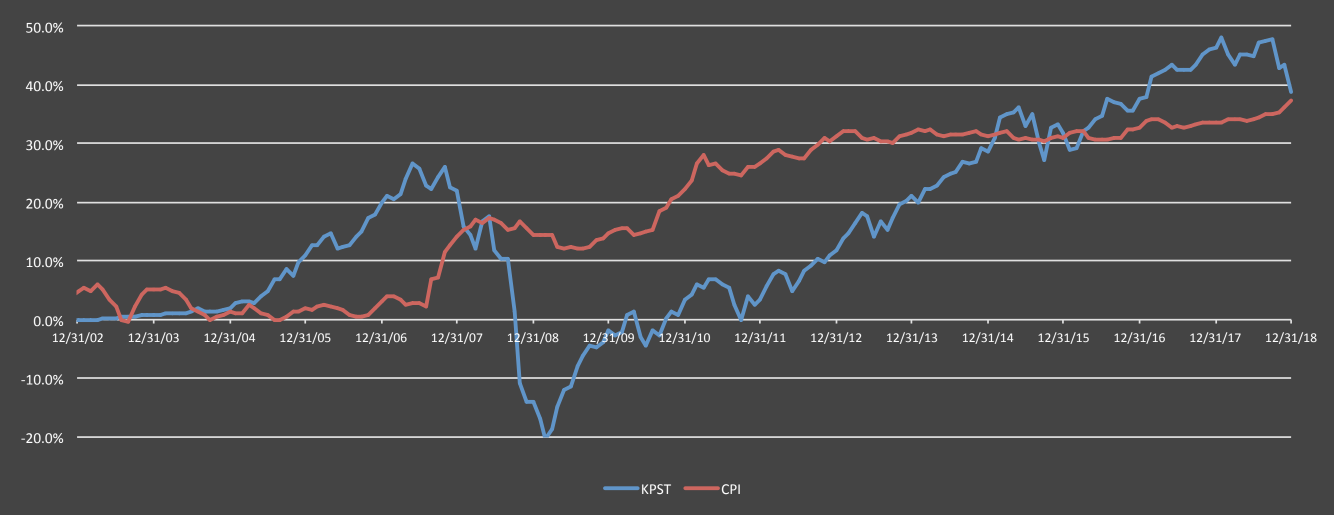
The Board has established the Consumer Price Index in Kosovo (CPI) as published by Kosovo Agency of Statistics as a benchmark for its investment performance.

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 -5.3% return on investments of KPST was significantly exceeded by this year's inflation of 2.2%.

But KPST continued to perform better than its benchmark since its foundation in 2002. For this period, KPST had a unit price increase of 38.8% versus the 37.4% increase in CPI in Kosovo.

COMPARISON OF KPST AND CPI UNIT PRICE SINCE ITS ESTABLISHMENT UNTIL THE END OF 2018



04

CONTRIBUTION AND RETIREMENT

FIRST-TIME CONTRIBUTING AND DORMANCY

Annual contributions paid in rose by 8.1%. Benefit payments increase by 13.0%. First-time contributors: 10.8% of active contributors.

KPST refers to individuals paying contributions for at least one month of the reporting year, in this case for 2018, as active contributors.

On the other hand, according to the KPST, new contributors are those active contributors, 10.8% of them, who paid contributions for the first time in and for 2018 (2017: 13.1%).

There were a total of 35,121 new contributors, while 59,974 others, or 17.4% of active contributors paused their contribution (contributed in 2017 but not in 2018); and this number did not include 5,492 contributors, the savings of which were withdrawn from their accounts during 2018. Meanwhile, 11.9% of the new contributors were employed[1] for the first time at age 40+ (2017: 13.9%).

The average age of new contributors was 27 years, while 57% were 25 years of age or younger (2017: respectively 28 and 54% were 25 years of age or younger).

The self-employed, which accounted for about 2.1% of the new contributors (2017: 1.5%), were older on average. Their average age was 35, and 52% of them were 33 years or younger.

The percentage of women first-time contributors were 43.6%, for the group of employees (2017: 40.6); and 35.2% for the group of self-employed (2017: 29.1%).

On the other hand, figures show that there was a higher inactivation rate in women, as compared to new female contributors, thus accounting for 34.2% of the employed 21.0% of the self-employed that were inactivated (2017: respectively 34.7% and 17.2%).

This year, inactivation of contributors mostly occurred to age groups of 20-25 years (2017: 22-25 years). Further, 50% of contributors in 2017, who were passive during the year were 28 years or younger in the group of employees, and 41 years or younger in the group of self-employed (2017: 50% of contributors, 31 and 40 respectively).

These data (stable over the years) provide the basis for judging if there is a level of work stability for younger ages and/or their seasonal engagement.

The percentage of contributors (excluding self-employed) who became passive in 2017 but returned to the contribution scheme in 2018 was 16.9% (2017: 20.3%).

Data analysis over the past five years reveals that 181,539 employed contributors and 19,479 self-employed have contributed at least one month to each of these five years (2017: 174,122 and 19,430).

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 €1,594.8m contributions received since inception, €1,443.9m remain under management.

Contributions that are not under management, or €150.9 million (2017: €124.0 million), are withdrawn contributions on the occasion of benefits or refunds payments, and are no longer part of the fund.

The total of contributions collected during 2018 was €172.7 million (2017: €159.8 million), of which employers and the self-employed paid €157.2 million for 2018, €13.5 million for 2017, € 0.8 million for 2016, and €1.2 million for 2002-2015.

Contributions collected during 2018 increased by 8.1% compared to the previous year. In 2017 they had increased by 5.4% and in 2016 by 10.2%. New employers, who were 4,313, had a 3.5% increase compared to the previous year (2017: 4,166).

KPST considers as new employers the businesses, institutions, etc. which for the first time contribute to their employees.

On the other hand, the number of employers who were inactivated was 4,025, with a growth of 4.8% (2017: 1.7%) in comparison to the previous year (2017: 3,840).

KPST consider as employers who inactivate businesses or institutions or organizations who have contributed to employees during the previous year, but not during the reporting year.

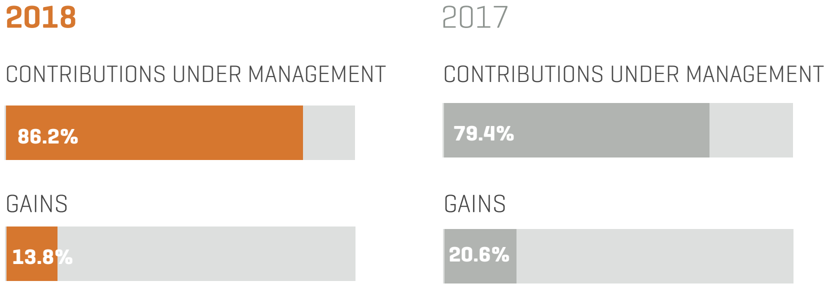
Although we had more employers who were inactivated this year, the number of active employers, those who contributed for the year, increased slightly this year by 6.3% compared to 2017 by 6.0%, reaching 30,487 (2017: 28,685).

By the end of the year, the average balance for all contributors' pension savings accounts was €2,947 (2017: € 3,003).

CONTRIBUTIONS

PERIOD	RECEIVED (million)	UNDER MANAGEMENT (million)
2002-2014	€973.4	€913.0
2015	€137.5	€121.4
2016	€151.5	€133.7
2017	€159.8	€130.0
2018	**€172.7**	**€145.8**
TOTAL	€1,594.8	€1,443.9

COMPOSITION OF ASSETS UNDER MANAGEMENT



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)

Phased Withdrawal Program (PWP) The PWP is such that, participants in the scheme get proceeds from their savings monthly in the amount of €200[1] or 1% of the balance at the time of retirement (whichever is lower), until such time as their pension savings are fully depleted.

Participants can choose one of four banks to offer them the PWP service: TEB, NLB Prishtina, Banka Për Biznes or Banka Ekonomike, thus taking advantage from specific treatmant, as per KPST contract with those banks.

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[1] 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[1]: 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 receive funds in lump-sum or transfer proceeds to their pension account with KPST.

[1)] The minimum monthly amount and the threshold are set by CBK regulations

RETIREMENTS AND BENEFIT PAYMENTS

During 2018 realised gains by retirees and beneficia-ries were 20.8%. In 2017 this figure was 20.4%.

During 2018, the Administration has approved 5,435 new applications for withdrawal of pension savings (2017: 5,173). Total funds paid for savings withdrawals during 2018 were €31.3m, consisting of nominal contributions of €24.8m and realized profits of €6.5m (2017: €27.7m, respectively €22.1m and €5.6m). The total of accounts with withdrawal since the establishment amounted to 43,947 and the paid out amount for these accounts amounted to €150.8m.

The number of persons withdrawing assets during 2018 after reaching the retirement age (65 years) was 4,354 or 80.3% of the applications approved (2017: 4,036, or 78.0%).

Due to invalidity, 172 people or 3.2% of the applications approved (2017: 174 or 3.4%) withdrew assets. While the number of contributors of foreign nationality who withdrew assets was 41 (which accounted for 0.7% of the retired persons), and the amount withdrawn from them was about €199 thousand.

In addition, there were 868 cases where the heirs of contributors, who died before withdrawing their funds from KPST (2017: 938), withdrew their saving, thus accounting for 15.8% of the applications approved (2017: 18.1%). In 33.1% of deaths, contributors were younger than 55 when they died, 23.9% were 55-59, 30.7% were 60-64 years old, and 12.3% over 65 years. Amounts directed at PTF were worth €24.9m, while €6.4m were withdrawn from beneficiaries with a single payment (2017: €18.0m, and €9.7m respectively).

Of the 2,475 persons who were in PTF during the year, 91.5% of them used the option of withdrawing 20% of the balance immediately.

The average balance of retirement accounts for this year was €5,654, increased from €5,279 that was in the previous year. The increase reflects the (usual) prolongation of life expectancy of pensioners in the scheme but also the increase from the investment balance, which by the end of Q3 was positive for 2018.

WITHDRAWALS

PERIOD	CONTRIBUTIONS (million)	ASSETS (million)
2004-2013	€37.9	€39.0
2014	€12.3	€14.3
2015	€15.8	€19.3
2016	€16.0	€19.2
2017	€22.1	€27.7
2018	**€24.8**	**€31.3**
TOTAL	€128.9	€150.8

PERCENTAGE OF WITHDRAWN FUNDS DIRECTED TO PWP

2018 75.7%

2017 64.6%

05

CONTRIBUTOR DEMOGRAPHICS

CONTRIBUTORS

This chapter summarises main demographic data for participants of KPST in 2018 and compares them to the previous year.

It is important to note that this chapter presents the results of the analysis only for the active contributors, not all of KPST's account holders, which by the end of 2018 were 626,687 in numbers.

This year there were 344,453 active contributors (2017: 352,849). With at least one contribution as employee per year there are 316,147, and 23,987 as self-employed; in these figures there are 4,317 contributors numbered twice, who appear during 2018 both as employed and as self-employed.

KPST continues to appeal that the key to adequate retirement savings is the sufficient and continuous contribution. In addition to the (still low) number of active contributors, compared to the number of working age population, the low value of savings accumulated throughout accounts remains worrisome.

The average balance of all accounts at KPST at the end of 2018 was €2,947 (reduced for 1.5% from the end of 2017 when it was €3,003). The reduction of the average balance of accounts relates to negative performance from investments. While this average balance (€2,947), if 200 euros are withdrawn per month, would be sufficient for less than 15 months of pension.

Understandably, the reason for this condition, apart from the period of staying in the scheme, is the value of the monthly contribution that (especially for ages under 35) continues to be at very low levels.

Also, according to the Kosovo Agency of Statistics (KAS), in the Q4 2018 report about the labor market in the country, the working age population (aged 15 to 64) is 1,202,489. KAS further estimates that the active workforce is estimated at 508,689, while the rest is counted as passive.

Under these conditions, it results that 344,453 employees and self-employed who contributed to KPST in 2018 account for 67.7% of active workforce. But this percentage is even lower if we compare the average number of active contributors
to KPST for 2018 (255,841) with active workforce (508,689). Thus,
it is estimated that only 50.3% of the active workforce were formally engaged in a job this year.

Therefore, from these comparative data, the most likely conclusion may be the still high level of informality in the country. And this particularly seems to be valid for the agriculture and construction sector, which sectors have a large discrepancy between employment statistics and the number of contributors to the KPST.

The KPST is pointing out these things while believing that it is fulfilling a part of its social responsibility: that every citizen of Kosovo to have saved enough for his/her own pension.'

THE NUMBER OF ACTIVE CONTRIBUTORS FOR EVERY MONTH IN THE LAST FIVE YEARS

	2018	2017	2016	2015	2014
JANUARY	249,428	233,144	223,240	213,584	207,253
FEBRUARY	251,291	237,040	224,354	213,361	207,822
MARCH	276,991	264,573	251,045	238,066	233,441
APRIL	257,976	243,872	232,024	217,922	213,007
MAY	259,962	245,694	234,600	220,157	214,528
JUNE	284,804	273,306	258,103	257,153	241,296
JULY	263,527	266,564	236,259	222,381	217,332
AUGUST	263,255	249,513	236,899	222,434	216,641
SEPTEMBER	285,900	274,065	261,168	245,847	240,660
OCTOBER	262,775	268,030	235,655	223,038	216,269
NOVEMBER	259,977	257,866	232,732	219,408	213,892
DECEMBER	269,739	256,425	245,464	242,841	186,047

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.

As seen in the table, the number of contributors in municipalities in 2018 results to be reduced to 33 out of 37 municipalities compared to 2017. But this has been largely due to the fact that in 2017 two pairs of elections (national and local) were held, where temporary staff from the CEC is engaged, as well as from NGOs and political parties, to organize and observe the election process. Of course, after the elections are over, the people who are engaged usually are no longer part of the employment scheme.

It is noteworthy that, despite this, due to concentration of economic activity, Prishtina and Lipjan were the only ones, from the first 10, with an increase of contributors this year.

These two municipalities together held 22.2% of all the country's contributors. The other two municipalities with increase were also Fushe Kosova and Hani i Elezit, which ones had modest positive movements.

The most important indicator for this year was that the concentration of contributors in Prishtina, and the adjacent areas, continued to grow (from 18.3% to 18.9%), signalling the continuation of economic activity concentration.

‡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 FROM 2017	
				IN NO.	IN %
1.	PRISHTINA	65,250	18.9%	650	1.0%
2.	PRIZREN	27,679	8.0%	-818	-2.9%
3.	FERIZAJ	21,603	6.3%	-34	-0.2%
4.	GJILAN	19,634	5.7%	-1,030	-5.0%
5.	PEJA	19,036	5.5%	-241	-1.3%
6.	GJAKOVA	18,023	5.2%	-402	-2.2%
7.	PODUJEVA	15,877	4.6%	-321	-2.0%
8.	MITROVICA	14,479	4.2%	-594	-3.9%
9.	VUSHTRRI	13,710	4.0%	-332	-2.4%
10.	LIPJAN	11,254	3.3%	177	1.6%
11.	DRENAS	11,120	3.2%	-333	-2.9%
12.	SUHAREKA	9,599	2.8%	-536	-5.3%
13.	SKENDERAJ	8,909	2.6%	-404	-4.3%
14.	FUSHE KOSOVA	8,887	2.6%	173	2.0%
15.	RAHOVEC	7,686	2.2%	-546	-6.6%
16.	ISTOG	6,958	2.0%	-113	-1.6%
17.	MALISHEVA	6,857	2.0%	-465	-6.4%
18.	VITI	6,572	1.9%	-323	-4.7%
19.	KAMENICA	5,852	1.7%	-553	-8.6%
20.	KLINA	5,831	1.7%	-135	-2.3%
21.	KACANIK	5,382	1.6%	-91	-1.7%
22.	OBILIC	5,334	1.5%	-25	-0.5%
23.	NORTH MITROVICA	1,436	0.4%	-65	-4.3%
24.	DECAN	4,820	1.4%	-303	-5.9%
25.	SHTIME	4,587	1.3%	-61	-1.3%
26.	DRAGASH	3,725	1.1%	-618	-14.2%
27.	GRACANICA	1,994	0.6%	-201	-9.2%
28.	LEPOSAVIQ	1,912	0.6%	-300	-13.6%
29.	SHTERPCE	1,439	0.4%	-90	-5.9%
30.	HANI I ELEZIT	1,404	0.4%	39	2.9%
31.	ZVECAN	1,086	0.3%	-64	-5.6%
32.	ZUBIN POTOK	984	0.3%	-140	-12.5%
33.	JUNIK	567	0.2%	-67	-10.6%
34.	MAMUSHA	553	0.2%	-30	-5.1%
35.	NOVOBERDE	504	0.1%	-123	-19.6%
36.	KLLOKOT	469	0.1%	-76	-13.9%
37.	RANILLUG	445	0.1%	-125	-21.9%
38.	PARTESH	340	0.1%	-80	-19.0%
	OTHER	2,656	0.8%	202	8.2%

CONTRIBUTOR AGE

The average age of contributors in 2018 has increased slightly to 40.7 years old from 40.5 as it was in the previous year. Meanwhile, the median decreased for a year, to 38 years old (from 39 as it was a year ago).

Small changes were made to the average by gender, while the median did not change from last year.

AVERAGE - MEN:	AVERAGE - WOMEN:
42.0	37.8
MEDIAN - MEN:	**MEDIAN - WOMEN:**
40.0	35.0

Overall there were no significant changes in age group participation as a percentage of active contributors. About 2/3 of the active contributors or 67.7% (2017: 68.3%) were under the age of 45 even this year.

The biggest change (decreased by 1.1%) was in the age group of 15-24 years. While a slight increase was in the age group 35 to 64 years, as in the following table.

AGE GROUP	2018	2017
15-24	14.5%	15.6%
25-34	29.4%	29.4%
35-44	23.8%	23.3%
45-54	18.6%	18.5%
55-64	12.8%	12.4%
65+	0.8%	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.

Compared to 2017, this year, budget organizations and NGOs had a significant decrease in the number of contributors involved, which is understandable as the main reason was the holding of both elections in 2017, in which case these sectors engaged additional staff for organizing and monitoring elections.

Positive this year was the number of contributors declared by the LLCs, with a percentage of 18.9% versus 2017. Even in 2018, this sector had known double-digit growth of engaged contributors.

The following example will be used to illustrate the "engagement": if one of two employees has contributed for 8 months during the year and the other for 4 months, then in number they are two contributors, but in engagement, they constitute the equivalent of one contributor that has contributed throughout the year.

Other sectors mainly had small movements during 2017, and it is evident that budget organizations, self-employed and joint stock companies had the highest coefficient of engagement.

		FTE		CHANGE FROM 2017	
ENTERPRISE TYPE	CONTRIBUTORS IN NUMBER	COEFICIENT	EQUIVALENT CONTRIBUTORS	CONTRIBUTORS IN NUMBER	EQUIVALENT CONTRIBUTORS
Budget organisations	95,476	0.858	81,918	-27.6%	-5.9%
LLCs	145,128	0.598	86,787	18.9%	17.9%
Individual businesses	69,840	0.665	46,444	-1.4%	-0.9%
Self-employed	29,055	0.845	24,551	-2.5%	-2.7%
Joint stock companies	29,588	0.793	23,463	0.1%	1.7%
NGOs	17,724	0.422	7,480	-11.1%	-2.1%
Partnerships	5,567	0.651	3,624	3.7%	-20.3%
Others	11,557	0.620	7,165	2.7%	5.1%

AVERAGE CONTRIBUTIONS

The average (monthly) contribution to the category of employees increased to €44.84 from €39.97 as it was one year earlier. The short-term engagement of a number of employees during 2017 (due to the elections) is the reason for the significant difference with 2018.

While for the self-employed, the average contribution slightly increased to €33.84 per month from €33.49 as it was last year.

The average monthly contribution increased at all age groups, both at employees and self-employed compared to 2017.

There was an increase in the monthly contribution by gender, both for employees and self-employed.

AVERAGE MONTHLY CONTRIBUTIONS

YEAR	EMPLOYED	SELF-EMPLOYED
2016	€44.42	€32.25
2017	€39.97	€33.49
2018	€44.84	€33.84

AVERAGE MONTHLY CONTRIBUTIONS BY AGE GROUP

	2018		2017		2016	
AGE	EMPLOYED	SELF-EMPLOYED	EMPLOYED	SELF-EMPLOYED	EMPLOYED	SELF-EMPLOYED
15-24	€28.54	€21.18	€26.58	€20.45	€25.77	€20.23
25-34	€40.63	€26.04	€38.57	€26.52	€38.68	€25.97
35-44	€50.83	€35.45	€48.15	€34.97	€49.05	€33.64
45-54	€50.80	€37.15	€48.02	€37.32	€49.13	€35.76
55-64	€56.42	€38.52	€53.45	€37.77	€58.91	€36.68
65+	€60.35	€41.83	€58.03	€37.85	€59.12	€32.61

AVERAGE MONTHLY CONTRIBUTIONS BY GENDER

YEAR	WOMEN		MEN	
	EMPLOYED	SELF-EMPLOYED	EMPLOYED	SELF-EMPLOYED
2016	€40.70	€25.61	€46.26	€33.57
2017	€37.35	€26.17	€41.29	€35.02
2018	€41.39	€26.22	€46.65	€35.50

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.

In the category of employees, the level of contribution is generally better, where the level of contribution in over 93% of cases is above the minimum. While the self-employed category contributes to the maximum, in 47% of the cases the contribution is only as much as the minimum and in almost 6% of cases it is under the legal minimum.

THE LEVEL OF CONTRIBUTING BY THE EMPLOYED

	PAYMENT		
	BELOW MINIMUM	AT MINIMUM	ABOVE MINIMUM
UP TO 35 YEARS OLD	1.81%	0.34%	46.08%
OVER 35 YEARS OLD	1.54%	2.96%	47.27%

THE LEVEL OF CONTRIBUTING BY THE SELF-EMPLOYED

	PAYMENT		
	BELOW MINIMUM	AT MINIMUM	ABOVE MINIMUM
UP TO 35 YEARS OLD	0.45%	10.46%	14.98%
OVER 35 YEARS OLD	5.19%	36.73%	32.19%

"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. The 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.

06

LEGAL FRAMEWORK

LEGAL 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 responsibilitiesof 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.

This year there were no initiatives for changes in applicable laws, neither new regulations nor rules.

On the following page, we have presented three issues that are increasingly a (reasonable) concern of contributors, for which KPST has no legal basis and/or legal clarity to deal with. Therefore, it would be necessary to review and discuss the amendment and supplementation of the current legal basis within which KPST operates.

PROPOSALS FOR LEGAL AMENDMENTS/SUPPLEMENTS

1. WITHDRAWAL OF PENSION SAVINGS IN THE CASE OF RENUNCIATION OF CITIZENSHIP

KPST staff has received numerous requests and concerns of Kosovar citizens who are willing to renounce or have already renounced the Kosovar citizenship, who have emigrated or are in the process of emigration, but who currently have no legal right to withdraw the pension savings from KPST. This issue requires detailed treatment based also on the experiences of other states, since KPST does not have full legal clarity to deal with this issue, while the requests of contributors as such seem reasonable.

2. EARLY RETIREMENT

The number of contributors who have gone on early retirement, i.e. before the age of 65 (either as former KPC members, members of the KSF or police officers) is growing and the KPST has consistently received requests from such contributors that request the withdrawal of pension savings from the KPST. But KPST has no legal basis to make such decisions, as these categories are not foreseen or addressed in the current legislation, within which KPST operates.

Therefore, in order for the KPST to have a legal basis to respond, the applicable legislation that clarifies the rights of those categories who retire before the age of 65 should be amended/supplemented.

3. INVESTMENTS IN KOSOVO

KPST is investing in Kosovo to the limits of legal possibilities. The Managing Board is obliged to enforce the current legislation in force, which foresees certain investment limits and instruments.

Therefore, in order to be able to invest more funds in Kosovo, it is imperative to amend and/or supplement a number of laws and regulations. This would also imply the involvement of all stakeholders in such amendment process.

ANNEX
7

Trusti

KOSOVO PENSION SAVINGS TRUST
OPERATIONS

INDEPENDENT AUDITOR’S REPORT AND FINANCIAL STATEMENTS

As at and for the year ended December 31, 2018

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Grant Thornton

Independent Auditor's Report

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To the Board of Governors of Kosovo Pension Savings Trust

Opinion

We have audited the accompanying financial statements of Kosovo Pension Savings Trust – Operations (the "KPST"), which comprise the statement of financial position as at 31 December 2018, and the statement of comprehensive income, statement of changes in net assets of KPST operations and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of Kosovo Pension Savings Trust – Operations as at 31 December 2018, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs).

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are independent of KPST in accordance with International Ethics Standards Board for Accountants Code of Ethics for Professional Accountants (IESBA Code) and with the ethical requirements that are relevant to our audit of the financial statements in Kosova, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Responsibilities of Management and Those Charged with Governance for the Financial Statements

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

In preparing the financial statements, management is responsible for assessing the KPST's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate KPST or to cease operations, or has no realistic alternative but to do so.

Independent Auditor's Report (continued)
To the Board of Governors of Kosovo Pension Savings Trust (continued)

Those charged with governance are responsible for overseeing the KPST's financial reporting process.

Auditor's Responsibilities for the Audit of the Financial Statements
Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the KPST's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the KPST's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the KPST to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

GRANT THORNTON L.L.C. KOSOVO

Grant Thornton LLC

Prishtina,
03 April 2019

Suzana Stavrikj
Statutory auditor

	Notes	As at December 31 2018	As at December 31 2017
		EUR	EUR
Assets			
Current Assets			
Cash in hand and at banks	4	688,467	789,206
Term deposits	5	4,602,762	5,109,673
Account receivables	6	483,036	474,657
Prepaid expenses		13,173	42,645
		5,787,438	**6,416,181**
Non-current Assets			
Property, plant and equipment	7	636,264	58,400
Intangible assets	8	61,497	46,981
		697,761	**105,381**
Total assets		**6,485,199**	**6,521,562**
Liabilities			
Current Liabilities			
Accounts payable and accruals	9	868,207	1,057,664
		868,207	**1,057,664**
Net assets attributable to KPST Operations		**5,616,992**	**5,463,898**

Authorised for issue by the Governing Board and Management of KPST and signed on their behalf on 30 March 2019.

Mr. Ruzhdi Morina
Chairperson of the Board

Mr. Adrian Zalli
Managing Director

Mr. Vërshim Hatipi
Deputy Director - Finance | Investments and Risk | IT

KPSF FKPK KPST 2

The accompanying notes 1 to 17 form an integral part of these financial statements

	Notes	Year ended December 31 2018	Year ended December 31 2017
		EUR	EUR
Income			
Fees charged on pension assets	11	7,660,347	7,288,684
Other income	12	97,919	92,571
Total income		**7,758,266**	**7,381,255**
Expenses			
Investment expenses			
Open-end vehicle net fees	13	(5,704,406)	(5,660,809)
CBK transfer and maintenance charges		(30,550)	(34,449)
Brokerage, custody and pledge expenses		(8,916)	(8,956)
		(5,743,872)	**(5,704,214)**
Operational expenses			
Staff costs	14	(574,375)	(598,973)
Governing Board expenses	15	(207,862)	(161,879)
Account statements and correspondence for beneficiaries		(107,951)	(132,598)
Office operating expenses		(82,801)	(79,845)
Depreciation and amortisation	7-8	(53,584)	(71,279)
Software maintenance		(38,289)	(57,358)
CBK supervision charges		(18,188)	(18,670)
Public education and advertising		(15,136)	(7,530)
Training, travel and other staff expenses		(10,050)	(13,600)
Professional services/Contractors/Consultants	16	(10,380)	(2,968)
External audit		(9,050)	(9,050)
Communication		(8,298)	(8,973)
Disaster recovery - rent and other associated costs		(6,600)	(6,600)
Bank charges		(2,300)	(2,138)
Other costs		(13,881)	(10,236)
		(1,158,745)	**(1,181,697)**
Total expenses		**(6,902,617)**	**(6,885,911)**
Net surplus for the year		**855,649**	**495,344**

The accompanying notes 1 to 17 form an integral part of these financial statements

	Notes	Surplus	Reserve	Total
		EUR	EUR	EUR
As at January 1, 2017		**353,554**	**5,000,000**	**5,353,554**
Net surplus for the year		495,344	-	**495,344**
Return of surplus to KPST-PA	**10**	(385,000)	-	**(385,000)**
As at December 31, 2017		**463,898**	**5,000,000**	**5,463,898**
Changes on initial application of IFRS9 (Note 2.3)		(2,555)	-	**(2,555)**
Restated as at January 1, 2018		**461,343**	**5,000,000**	**5,461,343**
Net surplus for the year		855,649	-	**855,649**
Return of surplus to KPST-PA	**10**	(700,000)	-	**(700,000)**
As at December 31, 2018		**616,992**	**5,000,000**	**5,616,992**

The accompanying notes 1 to 17 form an integral part of these financial statements

	Notes	Year ended December 31 2018	Year ended December 31 2017
		EUR	EUR
Cash flows from operating activities			
Net surplus for the year		855,649	495,344
Adjustments for:			
Depreciation and amortisation	7-8	53,584	71,279
Interest income	11	(82,072)	(71,876)
Net movements in impairment provision	5	(252)	-
		826,909	494,747
Interest received		86,253	65,242
		913,162	559,989
Changes in operating assets and liabilities:			
(Decrease) in accounts payable / accruals		(189,457)	(30,504)
(Increase) / Decrease in accounts receivable / prepaid expenses excluding interest receivable	4	21,520	(48,302)
Net cash flows from operating activities		**745,225**	**481,183**
Cash flows from investing activities			
Purchase of property, plant and equipment	7	(606,986)	(46,690)
Purchase of software and licenses	8	(38,978)	(19,631)
(Increase) in loans and receivables		(4,600,000)	(5,100,000)
Decrease in loans and receivables		5,100,000	4,500,000
Net cash flows / (used in) investing activities		**(145,964)**	**(666,321)**
Cash flows from financing activities			
Return of surplus to KPST-PA		(700,000)	(385,000)
Net cash flows / (used in) financing activities		**(700,000)**	**(385,000)**
(Decrease) in cash and cash equivalents		**(100,739)**	**(570,138)**
Cash and cash equivalents at the beginning of the year		789,206	1,359,344
Cash and cash equivalents at the end of the year	**4**	**688,467**	**789,206**

The accompanying notes 1 to 17 form an integral part of these financial statements

1 GENERAL

The Kosovo Pension Savings Trust (hereinafter "KPST"), registered at address: Rr. Agim Ramadani No. 182-184, 10000 Prishtina, Republic of Kosovo, with registration number 90000225; was created by UNMIK Regulation 2001/35 on 22 December 2001, later amended to Regulation No. 2005/20, further amended by Law No. 03/L-084 of the Republic of Kosovo, further amended by Law No. 04/L-101 of the Republic of Kosovo, the latter complemented by additions and changes of Law No. 04/L-168 and No. 05/L-116; as a not-for-profit, financial institution whose sole and exclusive purpose is to administer and manage individual accounts for savings pensions, assuring the prudent investment and custody of pension assets, and paying the proceeds of individual accounts to purchase annuities for savings pensions, as management trustee acting on behalf of participants' and beneficiaries.

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

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

These financial statements are for KPST Operations (or “KPST-O”), which is the entity managing and administering contributors’ pension savings (pension assets). The financial statements for KPST Pension Assets (or “KPST-PA”) are prepared separately from the financial statements of the entity.

A Director and 26 permanent staff members managed the day to day operations of the KPST during 2018 (2017: Director and 26 permanent staff members).

2 BASIS OF PREPARATION OF THE FINANCIAL STATEMENTS

2.1 Statement of compliance

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

2.2 Basis of preparation

KPST-O maintains its accounting records and prepares its statutory financial statements under the historical cost convention as modified by the revaluation of financial assets and liabilities. Current and comparative data stated in these financial statements are expressed in Euro, which is the functional and presentation currency of KPST-O. Where necessary, comparative figures have been reclassified in order to conform to the current year presentation.

2.3 Changes in accounting policies and disclosures

i) Initial application of new standard and amendments to the existing standards effective for the current reporting period

The following new standard and amendments to the existing standards issued by the International Accounting Standards Board are effective for the current period:

- **IFRS 9 "Financial Instruments**" (effective for annual periods beginning on or after 1 January 2018);
- **IFRS 15 "Revenue from Contracts with Customers"** and further amendments (effective for annual periods beginning on or after 1 January 2018);
- **Amendments to IFRS 2 "Share-based Payment"** - Classification and Measurement of Share-based Payment Transactions (effective for annual periods beginning on or after 1 January 2018);
- **Amendments to IFRS 4 "Insurance Contracts"** - Applying IFRS 9 "Financial Instruments" with IFRS 4 "Insurance Contracts" (effective for annual periods beginning on or after 1 January 2018 or when IFRS 9 "Financial Instruments" is applied first time);
- **Amendments to IFRS 10 "Consolidated Financial Statements" and IAS 28 "Investments in Associates and Joint Ventures" -** Sale or Contribution of Assets between an Investor and its Associate or Joint Venture and further amendments (effective date was deferred indefinitely until the research project on the equity method has been concluded);
- **Amendments to IAS 40 "Investment Property"** - Transfers of Investment Property (effective for annual periods beginning on or after 1 January 2018);
- **Amendments to various standards "Improvements to IFRSs (cycle 2014-2017)"** resulting from the annual improvement project of IFRS (IFRS 1, IFRS 12 and IAS 28) primarily with a view to removing inconsistencies and clarifying wording (amendments to IFRS 12 are to be applied for annual periods beginning on or after 1 January 2018 and amendments to IFRS 1 and IAS 28 are to be applied for annual periods beginning on or after 1 January 2018);
- **IFRIC 22 "Foreign Currency Transactions and Advance Consideration"** (effective for annual periods beginning on or after 1 January 2018).

The adoption of the above standards did not have a material impact on the financial statements of KPST-O, with the exception of IFRS 9 details of which are provided below.

<u>Implementation of IFRS 9 "Financial Instruments"</u>
KPST-O has adopted IFRS 9 (issued by IASB in July 2014) with a transition date of January 1, 2018. This has resulted in changes in accounting policies for recognition, classification and measurement of financial assets and liabilities and the impairment of financial assets and has resulted in adjustments to the amounts previously recognised in the financial statements.

KPST-O did not early adopt IFRS 9 in previous periods. As permitted by the transitional provisions of the standard, KPST-O elected not to restate comparative figures. Any adjustments to the carrying amounts of financial assets and liabilities on transition date were recognised in the opening retained earnings for the current period.

Consequently, for notes and disclosures, the consequential amendments to IFRS 7 disclosures have also been applied to the current period. The comparative period notes disclosures repeat those disclosures made in the comparative year.

Set out below are disclosures related to the impact of the adoption of IFRS 9 on KPST-O. Further details of the specific IFRS 9 accounting policies applied in the current period, as well as previous IAS 39 accounting policies applied in the comparative period, are described in more detail in Note 3 of these financial statements.

2 BASIS OF PREPARATION OF THE FINANCIAL STATEMENTS (CONTINUED)

2.3 Changes in accounting policies and disclosures (continued)

(a) Classification and measurement of financial instruments

The measurement category and the carrying amount of financial assets and liabilities in accordance with IAS 39 at December 31, 2017 and IFRS 9 at January 1, 2018 are compared as follows:

	IAS 39		IFRS 9	
	Measurement category	Carrying amount	Measurement category	Carrying amount
		EUR		EUR
Financial assets				
Cash at bank	Amortised cost (L&R)	789,206	Amortised cost	789,206
Accounts receivable	Amortised cost (L&R)	474,657	Amortised cost	474,657
Term deposits (see Note 5)	Amortised cost (L&R)	5,109,673	Amortised cost	5,107,118
		6,373,536		**6,370,981**
Financial liabilities				
Account payables	Amortised cost	1,057,664	Amortised cost	1,057,664
		1,057,664		**1,057,664**

L&R – Loans & Receivables

There were no changes to the classification of financial liabilities.

(b) Reconciliation of balances in the statement of financial position

KPST-O performed a detailed analysis of its business models for managing financial assets and analysis of their cash flow characteristics. Note 3.2 of these financial statements provides more detailed information regarding the new classification requirements of IFRS 9.

The following table reconciles the carrying amount of financial assets, from their previous measurement category in accordance with IAS 39 to their new measurement categories in accordance with IFRS 9 on January 1, 2018:

	IAS 39 carrying amount December 31 2017	Reclassification	Remeasurement	IFRS 9 carrying amount January 1 2018
	EUR	EUR	EUR	EUR
Amortised cost				
Cash at bank	789,206	-	-	789,206
Accounts receivable	474,657	-	-	474,657
Term deposits (see Note 5)	5,109,673	-	(2,555)	5,107,118
	6,373,536	**-**	**(2,555)**	**6,370,981**

2 BASIS OF PREPARATION OF THE FINANCIAL STATEMENTS (CONTINUED)

2.3 Changes in accounting policies and disclosures (continued)

(c) Reconciliation of impairment allowance from IAS 39 to IFRS 9

The following table reconciles the prior period's closing impairment allowance measured in accordance with IAS 39 incurred loss model to the new impairment allowance measured in accordance with IFRS 9 expected loss model on January 1, 2018:

	IAS 39 impairment allowance December 31 2017	Reclassification	Remeasurement	IFRS 9 impairment allowance January 1 2018
	EUR	EUR	EUR	EUR
Loans and receivables (IAS 39) / Financial assets at amortised cost (IFRS 9)				
Cash at bank	-	-	-	-
Contribution and other receivables	-	-	-	-
Term deposits (see Note 5)	-	-	2,555	2,555
Total	**-**	**-**	**2,555**	**2,555**

ii) New standards and amendments to existing standards in issue not yet adopted

At the date of authorisation of these financial statements, the following new standards, amendments to existing standards and new interpretation to existing standards were in issue, but not yet effective:

- **IFRS 16 "Leases" (**effective for annual periods beginning on or after 1 January 2019;
- **Amendments to IFRS 10 "Consolidated Financial Statements" and IAS 28 "Investments in Associates and Joint Ventures" -** Sale or Contribution of Assets between an Investor and its Associate or Joint Venture and further amendments (effective date was deferred indefinitely until the research project on the equity method has been concluded).

KPST-O has elected not to adopt these new standards and amendments to existing standards for in advance of their effective dates. KPST-O anticipates that the adoption of these standards and amendments to existing standards will have no material impact on the valuation of financial statements of the KPST-O in the period of initial application.

3 SIGNIFICANT ACCOUNTING POLICIES

3.1 Financial instruments

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

3.2 Financial assets and liabilities

Measurement methods

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

Amortised cost and effective interest rate
The amortised cost is the amount at which the financial asset or liability is measured at initial recognition minus the principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between that initial amount and the maturity amount and, for financial assets, adjusted for any loss allowance.

The effective interest rate is the rate that exactly discounts estimated future cash flows through the expected life of the financial asset or liability to the gross carrying amount of a financial asset (the amortised cost before any impairment allowance) or the amortised cost of a financial liability. The calculation does not consider expected credit losses and includes transaction costs, premiums or discounts and fees and points paid or received that are integral to the effective interest rate, such as origination fees.

When KPST-O revises estimated future cash flows, the carrying amount of respective financial assets or liabilities is adjusted to reflect the new estimate discounted using the original effective interest rate. Any changes are recognised in profit or loss.

Interest income
Interest income is calculated applying the effective interest rate to the gross carrying amount of financial assets, except:

- Purchased or originated credit-impaired financial assets (POCI);
- Financial assets that were not POCI, but subsequently became credit-impaired ("Stage 3"), for which the interest revenue is calculated by applying the effective interest rate to the amortised cost (i.e. net of the ECL provision).

Initial recognition and measurement
Financial assets and liabilities are recognised when KPST-O becomes a party to the contractual provisions of the instrument. Regular purchases and sales of financial assets are recognised on trade-date, the date on which KPST-O commits to purchase or sell the asset.

At the initial recognition, KPST-O measures a financial asset or liability at its fair value plus or minus, in the case of a financial asset or liability not at fair value through profit and loss, transaction costs that are incremental and directly attributable to the acquisition or issue of the financial asset or liability, such as fees and commissions.

Transaction costs of financial assets and liabilities carried at fair value through profit and loss are expensed in profit and loss. Immediately after the initial recognition, an expected credit loss allowance (ECL) is recognised for financial assets measured at amortised cost and investments in debt instruments measured at FVOCI, which results in an accounting loss being recognised in profit and loss when an asset is newly originated.

When the fair value of financial assets and liabilities differs from the transaction price on initial recognition, KPST-O recognises the differences as follows:

- When the fair value is evidenced by a quoted price in an active market for an identical asset or liability (i.e. a Level 1 input) or based on a valuation technique that uses only data from observable markets, the difference is recognised as a gain or loss;
- In all other cases, the difference is deferred, and the timing of recognition of deferred day one profit or loss determined individually. It is either amortised over the life of the instrument, deferred until the instrument's fair value can be determined using market observable inputs, or realised through settlement.

3 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.2 Financial assets and liabilities (continued)

3.2.1. Financial assets

i) Classification and subsequent measurement

From January 1, 2018, KPST-O has applied IFRS 9 and classifies its financial assets in the following measurement categories:

- *Amortised cost*: Assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest (SPPI), and that are not designated at FVPL, are measured at amortised cost. The carrying amount of these assets is adjusted by any recognised and measured expected credit loss allowance. Interest income from these financial assets is included in 'Interest income' using the effective interest rate method;
- *Fair value through other comprehensive income (FVOCI)*: Financial assets that are held for collection of contractual cash flows and for selling the assets, where the assets' cash flows represent solely payments of principal and interest, and that are not designated at FVPL, are measured at fair value through other comprehensive income. Movements in the carrying amount are taken through OCI, except for the recognition of impairment gains or losses, interest revenue and foreign exchange gains and losses on the instrument's amortised cost which are recognised in profit and loss. When the financial asset is derecognised, the cumulative gain or loss previously recognised in OCI is reclassified from equity to profit and loss and recognised in 'Net investment income'. Interest income from these financial assets is included in 'Interest income' using the effective interest rate method;
- *Fair value through profit and loss (FVPL)*: Assets that do not meet the criteria for amortised cost or FVOCI are measured at fair value through profit and loss. A gain or loss on a debt investment that is subsequently measured at fair value through profit and loss and is not part of a hedging relationship is recognised in profit or loss and presented in the profit or loss statement within 'Net trading income' in the period in which it arises, unless it arises from debt instruments that were designated at fair value or which are not held for trading, in which case they are presented separately in 'Net investment income'. Interest income from these financial assets is included in the 'Interest income' using the effective interest rate method.

Debt instruments
Debt instruments are those instruments that meet the definition of a financial liability from the issuer's perspective, such as loans, government and corporate bonds and trade receivables purchased from clients in factoring arrangements without recourse.

Classification and subsequent measurement of debt instruments depend on:

- the KPST-O business model for managing the asset; and
- the cash flow characteristics of the asset.

Based on these factors, KPST-O classifies its debt instruments into one of the measurement categories: (a) Amortised cost; (b) FVOCI; or (c) FVPL. KPST-O has classified its debt instruments comprised of investments in term deposits placed with commercial banks in Kosovo, as measured at amortised cost. KPST-O has no debt instruments classified as FVOCI.

Business model: the business model reflects how KPST-O manages the assets in order to generate cash flows, and instruments are classified into one of three measurement categories mentioned above. As such, investments in term deposits are classified as amortised cost.

SPPI: where the business model is to hold assets to collect contractual cash flows or to collect contractual cash flows and sell, KPST-O assesses whether the financial instrument's cash flows represent solely payments of principal and interest (the SPPI test). In making the assessment, KPST-O considers whether the contractual cash flows are consistent with a basic lending agreement i.e. interest includes only consideration for the time value of money, credit risk, other basic lending risks and profit margin that is consistent with the basic lending arrangement. Where the contractual terms introduce exposure to risk or volatility that is inconsistent with a basic lending arrangement, the related financial instrument is classified and measured at fair value through profit or loss.

KPST-O reclassifies debt investments when and only when its business model for managing those assets changes. The reclassification takes place from the start of the first reporting period following the change. Such changes are expected to be very infrequent and none occurred during the period.

3 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.2 Financial assets and liabilities (continued)

3.2.1. Financial assets (continued)

i) Classification and subsequent measurement (continued)

Equity instruments
Equity instruments are instruments that meet the definition of equity from the issuer's perspective; that is, instruments that do not contain a contractual obligation to pay and that evidence a residual interest in the issuer's net assets. Examples of equity instruments include ordinary shares which KPST-O does not hold.

KPST-O subsequently measures all such investments at fair value through profit or loss, except where the KPST-O management, at initial recognition, irrevocably designates an equity investment at fair value through other comprehensive income when those investments are held for purposes other than to generate investment returns. In such cases, of which there were none during the reporting period, the fair value gains or losses are recognised in OCI and are not subsequently reclassified to profit or loss, including on disposal. Impairment losses, and reversals of impairment losses, are not reported separately from other changes in fair value. Dividends, when representing a return on such investments, would continue to be recognised in profit or loss as other income when the KPST-O rights to receive payments is established.

Gains or losses on equity investments measured at FVPL are included as income or expense in the statement of comprehensive income.

ii) Impairment

KPST-O assesses on a forward-looking basis the expected credit losses (ECL) associated with debt instrument assets carried at amortised cost. KPST-O recognises a loss allowance for such losses at each reporting date. The measurement of ECL reflects:

- An unbiased and probability-weighted amount that is determined by evaluating a range of possible outcomes;
- The time value of money; and
- Reasonable and supportable information that is available without undue cost or effort at the reporting date about past events, current conditions and forecasts of future economic conditions.

iii) Derecognition other than on modification

Financial assets, or a portion thereof, are derecognised when the contractual rights to receive the cash flows from the assets have expired, or when they have been transferred and either (a) KPST-O transfers substantially all the risks and rewards of ownership, or (b) KPST-O neither transfers nor retains substantially all the risks and rewards of ownership and KPST-O has not retained control. There were no such instances during the reporting period.

3.2.2. Financial liabilities

i) Classification and subsequent measurement

In both the current and prior reporting period, financial liabilities are classified as subsequently measured at amortised cost.

ii) Derecognition

Financial liabilities are derecognised when they are extinguished (i.e. when the obligation specified in the contract is discharged, cancelled or expires).

3 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.2 Financial assets and liabilities (continued)

3.2.3. Financial instruments measured at fair value

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

Level 1: quoted prices (not adjusted) on the active markets for identical assets or liabilities;
Level 2: other incoming data, aside from the quoted prices, included in Level 1 which are available for asset or liability observing, directly (i.e. as prices), or indirectly (i.e. made of prices); and
Level 3: incoming data on the asset or liability that are not based on data available for market observing.

As of the reporting dates, there were no financial instruments of KPST-O measured at fair value.

3.3 Cash and cash equivalents

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

3.4 Property, plant and equipment

Property, plant and equipment of KPST-O consist of: Computers and related equipment; Furniture, fixtures and related equipment; Other office equipment; and Motor vehicles; which are carried at cost less accumulated depreciation and accumulated impairment losses, if any.

Land is not depreciated. Depreciation is charged on a straight-line basis over the estimated useful lives of the assets using the following rates:

Computer and related equipment	33%
Furniture, fixtures and equipment	20%
Other office equipment	20%
Motor vehicles	20%

Gains and losses on disposal of property, plant and equipment are recognised in the statement of comprehensive income in the period in which they occurred.

The useful life of the property, plant and equipment is reviewed and adjusted on an annual basis at minimum, if necessary.

3.5 Intangible assets

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

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

Software - 20%
Licenses are amortised over the term of the license up to the maximum of 5 years.

3.6 Impairment of non-financial assets

The carrying value of non-financial assets is reviewed for impairment when events change or changes in circumstances indicate that the carrying value may not be recoverable. If any such indications exist and where the carrying value exceeds the estimated recoverable amount, the assets are written down to their recoverable amount. The recoverable amount of such assets is the greater of the net selling price and the value in use.

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

Impairment losses are recognised in the statement of comprehensive income.

3.7 Taxation

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

3 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.8 Pension costs

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

3.9 Significant estimates and judgments

The preparation of financial statements requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates. Management also needs to exercise judgement in applying the KPST-O accounting policies. Estimates and underlying assumptions are reviewed on an on-going basis.

This note provides an overview of the areas that involve a higher degree of judgement and complexity, and major sources of estimation uncertainty that have a significant risk of resulting in a material adjustment within the next financial year. Detailed information about each of these estimates and judgements is included in related notes together with information about the basis of calculation for each affected line item in the financial statements.

Useful life of depreciable assets
Management reviewed the useful lives of depreciable assets at 31 December 2018. Management estimates the determined useful life of assets represents the expected usefulness (utility) of assets. The carrying values of such assets are analysed in Notes 7 and 8. However, the factual results may differ due to the technological obsoleteness.

Measurement of the expected credit loss allowance
The measurement of the expected credit loss allowance for financial assets measured at amortised cost is an area that requires the use of complex models and significant assumptions about future economic conditions and credit behaviour (e.g. the likelihood of banks defaulting on term deposits and the resulting losses). Explanation of these inputs, assumptions and estimation techniques used in measuring ECL is further detailed in Note 3.11.3, which also sets out key sensitivities of the ECL to changes in these elements.

Several significant judgements are also required in applying the accounting requirements for measuring ECL, such as:

- Determining criteria for significant increase in credit risk;
- Choosing appropriate models and assumptions for the measurement of ECL;
- Establishing the number of relative weightings of forward-looking scenarios for each type of product/market and the associated ECL; and
- Establishing groups of similar financial assets for the purposes of measuring ECL.

3.10 Reserve

Operational reserve is part of net assets attributable to KPST-O, and can reach a maximum level of EUR 5,000,000, with funds used only with the decision of the Governing Board in the event of extraordinary events, unpredictable circumstances, or the need for acquisition of real estate for purposes of KPST operations (such as offices). The reserve was initially funded in 2013 from accumulated surpluses, and it can only be replenished from the surplus from operating activities with the decision of the Governing Board. In the event that funds from the reserve are used to cover the costs of the reporting period, they will be recognised in the profit or loss for the period.

3.11 Financial risk management

3.11.1 Market risk

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

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

Interest rate risk
Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. KPST-O management is primarily responsible for monitoring daily the net interest rate risk position and it sets limits to reduce the potential of interest rate mismatch.

At the financial position dates all the interest-bearing assets of KPST-O (term deposits) were of fixed interest rates.

3 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.11 Financial risk management (continued)

3.11.2 Liquidity risk

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

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

	As at December 31 2018			As at December 31 2017		
	1-3 months	3-6 months	6-12 months	1-3 months	3-6 months	6-12 months
	EUR	EUR	EUR	EUR	EUR	EUR
Financial assets						
Cash in hand and at banks	688,467	-	-	789,206	-	-
Term deposits	-	-	4,602,762	-	606,181	4,503,492
Account receivables	483,036	-	-	474,657	-	-
	1,171,503	**-**	**4,602,762**	**1,263,863**	**606,181**	**4,503,492**
Financial Liabilities						
Account payables	868,207	-	-	1,057,664	-	-
	868,207	**-**	**-**	**1,057,664**	**-**	**-**
Maturity gap	**303,296**	**-**	**4,602,762**	**206,199**	**606,181**	**4,503,492**

3.11.3. Financial instruments that are not presented at fair value

The following table summarises the carrying amounts and fair values to those financial assets and liabilities that are not presented in the Statement of financial position at their fair value as at December 31, 2018 and 2017.

	As at December 31 2018		As at December 31 2017	
	Carrying Value	Fair value	Carrying Value	Fair value
	EUR	EUR	EUR	EUR
Financial assets				
Cash at bank	688,467	688,467	789,206	789,206
Term deposits	4,602,762	4,605,065	5,109,673	5,109,673
Accounts receivable	483,036	483,036	474,657	474,657
	5,774,265	**5,776,568**	**6,373,536**	**6,373,536**
Financial liabilities				
Account payables	868,207	868,207	1,057,664	1,057,664
	868,207	**868,207**	**1,057,664**	**1,057,664**

3 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.11 Financial risk management (continued)

3.11.4 Credit risk

Credit risk is the risk of financial loss to KPST-O if a customer or counterparty to financial instruments fails to meet its contractual obligations. Credit risk arises primarily and directly from investments in term deposits, and represents the highest form of risk to KPST-O.

Credit risk measurement
The estimation of credit exposure for risk management purposes is complex and requires the use of models, as the exposure varies with changes in market conditions, except cash flows and the passage of time. The assessment of credit risk entails further estimation as to the likelihood of defaults occurring,

KPST-O measures credit risk using the Probability of Default (PD), Exposure at Default (EAD) and Loss Given Default (LGD). This is the approach used for the purpose of measuring the Expected Credit Loss (ECL) under IFRS 9.

Credit exposures are categorised into one of three stages, depending on the increase in credit risk since initial recognition of the relevant instruments carried at amortised cost, namely: term deposits with commercial banks.

When there is a significant increase in credit risk, an instrument is moved from a 12-month expected loss to a lifetime expected loss. In making the evaluation, the initial credit risk of a financial instrument is measured against its current credit risk, taking into consideration its remaining life of the instrument.

In stages one and two, the interest revenue is the effective interest on gross carrying amount; in stage three it is the effective interest on amortised cost.

In order to calculate 12-month and lifetime expected losses, a model on credit risk (PD, LGD), balance sheet forecast (prepayments, facility withdraws) and interest rates (discount factors) is applied for relevant instruments.

On the credit risk side, PD and LGD models need to satisfy the impairment model.

The PD model estimates the probability of default (PD) consistent with the following principles:

- All relevant information is considered;
- Current economic circumstances are reflected using a best rather than a conservative estimate;
- Provides the likelihood of a default occurring within the next 12 months or during the lifetime of the instrument;
- Includes forward-looking economic forecasts.

The LGD model estimates the loss percentage consistent with the following principles:

- Considers all relevant information and includes a forward-looking element;
- Reflects current economic circumstances (i.e., is a best estimate rather than an economic downturn estimate);
- Considers only costs directly attributable to the collection of recoveries.

The impairment model for term deposits
The impairment model for term deposits with local banks takes into account the history of defaults by the respective banks (of which there were none), basic financial ratios and metrics, as well as the remaining life of the instrument. Each scenario is given an associated probability which in turn is used to evaluate the expected credit losses.

Whether or not an instrument is moved from stage 1 to stages two or three depending on objective evidence of impairment or basic metrics such as:

- default or delinquency in interest or principal payments of deposits; or
- it is becoming probable that the bank will enter bankruptcy or financial reorganisation; or
- Central Bank of the Republic of Kosovo proceeds to revoke the license of the bank; or
- Current ratio falls lower than 0.9; or
- Loans to deposits ratio exceeds 1.1 or falls below 0.4; or
- Capital Adequacy ratio falls below 8.5%; or
- Percentage of bad loans exceeds 13%.

Given the above inputs, all term deposits were evaluated using the Stage 1, 12-month impairment model, with remeasurement on January 1, 2018 amounting EUR 2,555. There were no movements in stages during the year ended December 31, 2018, and net subtractions to the impairment provisions during the year were EUR 252, making for an end balance as at December 31, 2018 of EUR 2,303.

4 CASH IN HAND AND AT BANKS

	As at December 31 2018	As at December 31 2017
	EUR	EUR
Banka për Biznes – Current account	544,426	3
Raiffeisen Bank Kosovo - Current account	84,662	220,811
ProCredit Bank - Current account	58,733	567,710
NLB Prishtina - Current account	244	252
Banka Kombëtare Tregtare – Current account	187	16
Banka Ekonomike – Current account	92	-
ISh Bankasi – Current account	44	-
Cash in hand	79	414
Total cash in hand and at banks	**688,467**	**789,206**

The current accounts of KPST-O do not provide any interest, except the account with Banka për Biznes which provides a progressive interest based on the daily balance of the account starting from August 1, 2018. The interest earned for the year ended December 31, 2018 on this account amounted EUR 2,022, of which EUR 1,595 were received and EUR 427 were receivable on reporting date.

5 TERM DEPOSITS

	2018	2017
	EUR	EUR
As at January 1	**5,109,673**	**4,503,039**
Changes on initial application of IFRS9	(2,555)	-
Restated as at January 1	**5,107,118**	**4,503,039**
New placements	4,600,000	5,100,000
Interest earned	80,050	71,876
Interest - received	(84,658)	(65,242)
Principal - matured	(5,100,000)	(4,500,000)
Net movements in impairment provision	252	-
As at December 31	**4,602,762**	**5,109,673**

As at December 31, 2018 KPST-O investments in term deposits measured at amortised cost consisted of 3 deposits that had original maturities of 1-year, fixed interest rates, an average duration (weighted) of 0.96 years, and average interest rate of 2.38%. The deposits are all placed with commercial banks licensed and operating in the Republic of Kosovo. As at December 31, 2017 investments in term deposits measured at amortised cost consisted of 3 deposits that had original maturities of between 6 months and 1-year, fixed interest rate, an average duration (weighted) of 0.89 years, and average rate/coupon of 1.66%.

Impairment provisions for debt instruments for the year ended December 31, 2018 were derived in accordance with the expected credit loss model as detailed in significant accounting policies. Net movements in impairment provisions were:

	As at December 31 2018	As at December 31 2017
	EUR	EUR
Restated as at January 1	2,555	-
Releases of impairment provisions	(2,555)	
Impairment provision expenses	2,303	
As at 31 December	**2,303**	**-**

6 ACCOUNT RECEIVABLES

	As at December 31 2018	As at December 31 2017
	EUR	EUR
Net receivables from KPST-PA	410,601	398,541
Rebates receivable from open-end funds	71,961	76,116
Other receivables	474	-
Total account receivables	**483,036**	**474,657**

As at December 31, 2018 the balance of net receivables from KPST-PA amounting EUR 410,601 consists of fees charged on participants' accounts amounting EUR 415,160 as well as the negative difference from refunds of erroneous contributions amounting EUR 4,559 (2017: EUR 396,359, and positive difference amounting EUR 2,182 respectively); which were received after reporting date.

7 PROPERTY, PLANT AND EQUIPMENT

	Computers and related equipment	Furniture, fixtures and equipment	Other office equipment	Motor Vehicles	Construction in progress and advances	Total
	EUR	EUR	EUR	EUR	EUR	EUR
Cost						
As at January 1, 2017	**281,116**	**22,414**	**69,159**	**53,365**	**-**	**426,054**
Additions for the year	46,690	-	-	-	-	46,690
Disposals for the year	(7,858)	-	(10,209)	-	-	(18,067)
As at December 31, 2017	**319,948**	**22,414**	**58,950**	**53,365**	**-**	**454,677**
Additions for the year	14,344	1,489	-	-	591,153	606,986
Disposals for the year	(16,820)	(403)	(6,304)	-	-	(23,527)
As at December 31, 2018	**317,472**	**23,500**	**52,646**	**53,365**	**591,153**	**1,038,136**
Accumulated depreciation						
As at January 1, 2017	**(263,067)**	**(19,396)**	**(47,935)**	**(53,365)**	**-**	**(383,763)**
Charge for the year	(21,608)	(905)	(8,068)	-	-	(30,581)
Eliminated through disposals	7,858	-	10,209	-	-	18,067
As at December 31, 2017	**(276,817)**	**(20,301)**	**(45,794)**	**(53,365)**	**-**	**(396,277)**
Charge for the year	(21,124)	(878)	(7,120)	-	-	(29,122)
Eliminated through disposals	16,820	403	6,304	-	-	23,527
As at December 31, 2018	**(281,121)**	**(20,776)**	**(46,610)**	**(53,365)**	**-**	**(401,872)**
Net book value						
As at December 31, 2018	**36,351**	**2,724**	**6,036**	**-**	**591,153**	**636,264**
As at December 31, 2017	**43,131**	**2,113**	**13,156**	**-**	**-**	**58,400**

Construction in progress and advances
On November 23, 2016 the Government of the Republic of Kosovo took decision No 06/117 in the name of public interest to expropriate the property of the socially-owned enterprise "P.SH. Association SH.A.M. Vllaznim Union", located in cadastral plot, P-7207-0, in Lakërishtë, Pristina Cadastral Zone, Municipality of Pristina, for the purposes of accommodation needs of KPST.

According to the privatisation laws in force – given that the expropriation was occurring in the public interest - KPST has had to pay only 20% of the value of the property amounting EUR 249,012 (evaluated by an independent chartered surveyor at EUR 1,245,060), legitimate claims of creditors ruled as such by the Liquidation Authority in the amount EUR 340,142, and administrative fees of EUR 2,000. As such, in June 2018 KPST paid to the Kosovo Privatisation Agency the full required amount of EUR 591,153.

The Liquidation Authority has refused claims in the amount EUR 133,618, and their decisions can be appealed in the Special Chamber of the Supreme Court of the Republic of Kosovo. As per the expropriation agreement, KPST has pledged and is liable to pay any and all the claims ruled in favour of the appellant by the Special Chamber, and such amounts shall add to the cost of acquiring the expropriated plot.

As at the date of the issue of this report, the title of the property has not yet been transferred in the cadastral register to KPST. When that happens, KPST plans to proceed with the project of building its headquarter offices.

During 2018 KPST has written off fully depreciated assets.

As at 31 December 2018 and 2017, there are no encumbrances over KPST-O assets.

8 INTANGIBLE ASSETS

	Software and Licenses
	EUR
Cost	
As at January 1, 2017	**393,257**
Additions for the year	19,631
Disposals for the year	-
As at December 31, 2017	**412,888**
Additions for the year	38,978
Disposals for the year	-
As at December 31, 2018	**451,866**
Accumulated amortisation	
As at January 1, 2017	**(325,209)**
Charge for the year	(40,698)
Eliminated through disposals	-
As at December 31, 2017	**(365,907)**
Charge for the year	(24,462)
Eliminated through disposals	-
As at December 31, 2018	**(390,369)**
Net book value	
As at December 31, 2018	**61,497**
As at December 31, 2017	**46,981**

9 ACCOUNTS PAYABLE AND ACCRUALS

	As at December 31 2018	As at December 31 2017
	EUR	EUR
Payables for investment activities	711,780	910,184
Accruals for printing and mailing member account statements	93,301	121,213
Other accounts payable and accruals	63,126	26,267
Total accounts payable	**868,207**	**1,057,664**

As at December 31, 2018 the balance of payables for investment activities includes management fees invoiced by managers of open-end vehicles in the amount of EUR 711,037 as well as brokerage fees in the amount of EUR 743 (2017: EUR 909,441 and EUR 743 respectively).

10 SURPLUS

			2018			2017
	Operational Activities	Investment Activities	Total	Operational Activities	Investment Activities	Total
	EUR	EUR	EUR	EUR	EUR	EUR
Income for the year						
Income from fees charged	1,212,535	6,447,812	**7,660,347**	1,245,535	6,043,149	**7,288,684**
Other income	82,324	15,595	**97,919**	87,004	5,567	**92,571**
	1,294,859	**6,463,407**	**7,758,266**	**1,332,539**	**6,048,716**	**7,381,255**
Expenses for the year	(1,158,745)	(5,743,872)	**(6,902,617)**	(1,181,697)	(5,704,214)	**(6,885,911)**
Surplus for the year	**136,114**	**719,535**	**855,649**	**150,842**	**344,502**	**495,344**
Surplus at the start of the year - restated	379,516	81,827	**461,343**	231,229	122,325	**353,554**
Return of surplus to KPST-PA	-	(700,000)	**(700,000)**	-	(385,000)	**(385,000)**
Surplus at the end of the year	**515,630**	**101,362**	**616,992**	**382,071**	**81,827**	**463,898**

During 2018 the Governing Board decided to refund EUR 700,000 to contributors' pension assets (KPST-PA) from surpluses from investment activities leaving a total net surplus balance of EUR 616,992 as of December 31, 2018 (During 2017 the Governing Board decided to refund EUR 385,000 to contributors' pension assets (KPST-PA) from surpluses from investment activities leaving a net surplus balance of EUR 463,898 as of December 31, 2017).

11 FEES CHARGED ON PENSION ASSETS

	Year ended December 31 2018	Year ended December 31 2017
	EUR	EUR
Fees charged for investment activities	6,447,812	6,043,149
Fees charged for operational activities	1,212,535	1,245,535
Total fees charged on pension assets	**7,660,347**	**7,288,684**

Fees are accrued on daily basis according to the formula:

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

Total fees charged on gross participants' assets for the purpose of financing the activities of KPST-O for the year ended December 31, 2018 amounted EUR 7,660,347 (2017: EUR 7,288,684).

Applicable fees for the reporting period, as approved by the Assembly of the Republic of Kosovo in accordance with Law Nr. 04/L-168, were as follows:

Date from	Date to	Fees for investment activities	Fees for operational activities	Total fees
January 1, 2017	January 31, 2018	0.393% p.a.	0.081% p.a.	0.474% p.a.
February 1, 2018	December 31, 2018	0.381% p.a.	0.071% p.a.	0.452% p.a.

12 OTHER INCOME

	Year ended December 31 2018	Year ended December 31 2017
	EUR	EUR
Interest income from deposits and current account	82,072	71,876
Other income from investment activities	15,595	5,567
Releases from impairment provisions, net (Note 5)	252	-
Differences from refunds of erroneous contributions	-	15,128
Total other income	**97,919**	**92,571**

13 OPEN-END VEHICLE NET FEES

	Year ended December 31 2018			Year ended December 31 2017		
	Gross fee	Rebate	Net fee	Gross fee	Rebate	Net fee
	EUR	EUR	EUR	EUR	EUR	EUR
Vanguard – GSIF	986,158	(510,133)	**476,025**	910,863	(454,909)	**455,954**
BNY Mellon – RRF	488,895	-	**488,895**	798,961	-	**798,961**
AXA – GILB	394,407	(49,301)	**345,106**	384,576	(48,072)	**336,504**
Schroders – SISF	50,969	-	**50,969**	51,528	-	**51,528**
Schroders - GDG	813,018	-	**813,018**	520,466	-	**520,466**
Nordea 1 - GSEF	689,736	-	**689,736**	747,430	-	**747,430**
Nordea 1 - SRF	942,218	-	**942,218**	1,342,831	-	**1,342,831**
Amundi – 3M I	16,719	-	**16,719**	15,950	(2,396)	**13,554**
AXA - WFOI	716,717	-	**716,717**	428,939	-	**428,939**
Pictet - HDS	44,293	-	**44,293**	317,056	-	**317,056**
BNP Paribas – PDP	1,014,653	(147,058)	**867,595**	616,751	(89,046)	**527,705**
Amundi - RPI2	253,115	-	**253,115**	119,881	-	**119,881**
Total open-end vehicle net fees	**6,410,898**	**(706,492)**	**5,704,406**	**6,255,232**	**(594,423)**	**5,660,809**

14 STAFF COSTS

	Year ended December 31 2018	Year ended December 31 2017
	EUR	EUR
Staff salaries	462,045	454,008
Employer's pension contributions	63,749	62,426
Cost of the Collective Agreement	39,029	43,379
Health insurance	5,879	1,128
Overtime, bonuses and retention fees	3,673	38,032
Total staff costs	**574,375**	**598,973**

15 GOVERNING BOARD EXPENSES

	Year ended December 31 2018	Year ended December 31 2017
	EUR	EUR
Trustees honoraria	123,850	102,382
Meetings (Travel/Hotel/Other costs)	48,708	28,154
Fiduciary Insurance	22,663	22,882
Employer's pension contributions	12,641	8,461
Total Governing Board expenses	**207,862**	**161,879**

16 PROFESSIONAL SERVICES/CONTRACTORS/CONSULTANTS

	Year ended December 31 2018	Year ended December 31 2017
	EUR	EUR
Design and public relation related services	4,977	1,555
Internal audit services	2,678	158
Architectonic services	1,801	-
Translation and proofreading services	640	1,116
Notary / Legal and other services	284	139
Total Professional services/Consultants/Contractors	**10,380**	**2,968**

17 EVENTS AFTER THE REPORTING PERIOD

There are no subsequent events that require adjustment or further disclosure in the financial statements for the year ended December 31, 2018.

ANNEX 8

KOSOVO PENSION SAVINGS TRUST
PENSION ASSETS

INDEPENDENT AUDITOR'S REPORT AND FINANCIAL STATEMENTS

As at and for the year ended December 31, 2018

Grant Thornton

Independent Auditor's Report

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To the Board of Governors of Kosovo Pension Savings Trust

Opinion

We have audited the accompanying financial statements of Kosovo Pension Savings Trust –Pension Assets (the "KPST"), which comprise the statement of financial position as at 31 December 2018, and the statement of comprehensive income, statement of changes in net participants' assets and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of Kosovo Pension Savings Trust – Pension Assets as at 31 December 2018, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs).

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the KPST in accordance with International Ethics Standards Board for Accountants Code of Ethics for Professional Accountants (IESBA Code) and with the ethical requirements that are relevant to our audit of the financial statements in Kosova and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Responsibilities of Management and Those Charged with Governance for the Financial Statements

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

In preparing the financial statements, management is responsible for assessing the KPST's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Institution or to cease operations, or has no realistic alternative but to do so.

Independent Auditor's Report (continued)

To the Board of Governors of Kosovo Pension Savings Trust (continued)

Those charged with governance are responsible for overseeing the KPST's financial reporting process.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Institution's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the KPST's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Institution to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Grant Thornton LLC

GRANT THORNTON L.L.C. KOSOVO

Prishtina,
03 April 2019

Suzana Stavrikj
Statutory auditor

	Notes	As at December 31 2018	As at December 31 2017
		EUR	EUR
Assets			
Cash at bank	4	6,245,153	13,667,252
Contribution and other receivables	5	131,347,368	18,243,910
Investments in open-end funds	6	1,227,330,357	1,478,150,510
Kosovo Treasuries	7	208,510,864	95,045,140
Term deposits	7	119,344,093	50,579,411
		1,692,777,835	**1,655,686,223**
Liabilities			
Liabilities towards KPST-O	8	410,601	398,541
Liabilities for repurchased shares	9	424,779	10,435,361
Non-contributions	10	34,257	49,298
Interest payable	4	5,030	3,618
		874,667	**10,886,818**
Net participants' assets		**1,691,903,168**	**1,644,799,405**

Authorised for issue by the Governing Board and Management of KPST and signed on their behalf on 30 March 2019.

Mr. Ruzhdi Morina
Chairperson of the Board

Mr. Adrian Zalli
Managing Director

Mr. Vërshim Hatipi
Deputy Director - Finance | Investments and Risk | IT

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

	Notes	Year ended December 31 2018	Year ended December 31 2017
		EUR	EUR
Income			
Interest income from Kosovo Treasuries	7	2,353,410	1,464,839
Interest income from term deposits	7	847,793	465,940
Other income	11	700,000	385,000
Gains from investments in open-end funds - net	6	-	100,372,243
		3,901,203	**102,688,022**
Expenses			
Losses from investments in open-end funds - net	6	(88,540,994)	-
Fees charged on participants' accounts	12	(7,660,347)	(7,288,684)
Impairment provisions	7	(415,300)	-
Interest expenses on cash at CBK	4	(66,673)	(130,341)
		(96,683,314)	**(7,419,025)**
(Decrease) / Increase in net participants' assets		**(92,782,111)**	**95,268,997**

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

	Participants' Contributions	Retained Earnings	Total
	EUR	EUR	EUR
As at January 1, 2017	**1,177,645,803**	**249,858,408**	**1,427,504,211**
Contributions	160,375,531	-	160,375,531
Repurchases due to withdrawal of savings	(22,083,346)	(5,656,301)	(27,739,647)
Repurchases due to return of unallocated funds	(7,026,365)	(2,941,618)	(9,967,983)
Repurchases due to refunds	(626,576)	(15,128)	(641,704)
Increase in net participants' assets	-	95,268,997	95,268,997
As at December 31, 2017	**1,308,285,047**	**336,514,358**	**1,644,799,405**
Changes on initial application of IFRS9 (Note 2.3)	-	(177,825)	(177,825)
Restated as at January 1, 2018	**1,308,285,047**	**336,336,533**	**1,644,621,580**
Contributions	173,852,170	-	173,852,170
Repurchases due to withdrawal of savings	(24,832,011)	(6,515,483)	(31,347,494)
Repurchases due to return of unallocated funds	(1,223,238)	(399,260)	(1,622,498)
Repurchases due to refunds	(826,887)	8,408	(818,479)
(Decrease) in net participants' assets	-	(92,782,111)	(92,782,111)
As at December 31, 2018	**1,455,255,081**	**236,648,087**	**1,691,903,168**

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

	Notes	Year ended December 31 2018	Year ended December 31 2017
		EUR	EUR
Cash flows from operating activities			
Increase in net participants' assets		(92,782,111)	95,268,997
Adjustments for:			
(Gain) / Loss in open end funds (net of fees withheld)		91,922,763	(97,895,283)
Net movement in impairment provisions		415,300	-
Interest income	7	(3,201,203)	(1,930,779)
Interest expenses	4	66,673	130,341
		(3,578,578)	(4,426,724)
Interest received		2,048,667	1,715,009
Interest paid		(65,261)	(134,918)
		(1,595,172)	**(2,846,633)**
Movement of working capital:			
Increase in liabilities for fees	8	18,801	22,402
(Decrease) / Increase in liabilities for non-contributions	10	(15,041)	27,199
(Increase) in redemption and maturity receivables		(111,907,440)	(7,835,000)
Net cash flows from operating activities		**(113,498,852)**	**(10,632,032)**
Cash flows from investing activities			
(Additions) to investments in open-end funds	6	(422,575,982)	(359,513,372)
Redemption of investments in open-end funds	6	581,473,372	282,999,794
(Additions) to Kosovo Treasuries	7	(177,350,917)	(74,896,454)
Matured Kosovo Treasuries (principal)	7	64,278,922	58,599,709
(Additions) to term deposits	7	(106,000,000)	(50,401,000)
Matured term deposits (principal)	7	37,401,000	20,000,000
Net cash flows (used in) investing activities		**(22,773,605)**	**(123,211,323)**
Cash flows from financing activities			
Participants' contributions received		172,656,152	159,757,519
Withdrawal of savings		(42,985,423)	(27,590,720)
Refunds		(820,371)	(591,804)
Net cash flows from financing activities		**128,850,358**	**131,574,995**
(Decrease) in cash and cash equivalents		**(7,422,099)**	**(2,268,360)**
Cash and cash equivalents at the beginning of the year		13,667,252	15,935,612
Cash and cash equivalents at the end of the year	**4**	**6,245,153**	**13,667,252**

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

1 GENERAL

The Kosovo Pension Savings Trust (hereinafter "KPST"), registered at address: Rr. Agim Ramadani No. 182-184, 10000 Prishtina, Republic of Kosovo, with registration number 90000225; was created by UNMIK Regulation 2001/35 on 22 December 2001, later amended to Regulation No. 2005/20, further amended by Law No. 03/L-084 of the Republic of Kosovo, further amended by Law No. 04/L-101 of the Republic of Kosovo, the latter complemented by additions and changes of Law No. 04/L-168 and No. 05/L-116; as a not-for-profit, financial institution whose sole and exclusive purpose is to administer and manage individual accounts for savings pensions, assuring the prudent investment and custody of pension assets, and paying the proceeds of individual accounts to purchase annuities for savings pensions, as management trustee acting on behalf of participants' and beneficiaries.

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

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

These financial statements are for KPST Pension Assets (or "KPST-PA") which consist of contributors' pension savings (pension assets). The financial statements for KPST Operations (or "KPST-O"), which is the entity managing and administering contributors' pension savings (pension assets), are prepared separately from the financial statements for pension assets.

2 BASIS OF PREPARATION OF THE FINANCIAL STATEMENTS

2.1 Statement of compliance

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

2.2 Basis of preparation

KPST-PA maintains its accounting records and prepares its statutory financial statements on accrual basis, under the historical cost convention as modified by the revaluation of financial assets and liabilities measured at FVPL. Current and comparative data stated in these financial statements are expressed in Euro, which is the functional and presentation currency of KPST-PA. Where necessary, comparative figures have been reclassified in order to conform to the current year presentation.

2.3 Changes in accounting policies and disclosures

i) Initial application of new standard and amendments to the existing standards effective for the current reporting period

The following new standard and amendments to the existing standards issued by the International Accounting Standards Board are effective for the current period:

- **IFRS 9 "Financial Instruments**" (effective for annual periods beginning on or after 1 January 2018);
- **IFRS 15 "Revenue from Contracts with Customers"** and further amendments (effective for annual periods beginning on or after 1 January 2018);
- **Amendments to IFRS 2 "Share-based Payment"** - Classification and Measurement of Share-based Payment Transactions (effective for annual periods beginning on or after 1 January 2018);
- **Amendments to IFRS 4 "Insurance Contracts"** - Applying IFRS 9 "Financial Instruments" with IFRS 4 "Insurance Contracts" (effective for annual periods beginning on or after 1 January 2018 or when IFRS 9 "Financial Instruments" is applied first time);
- **Amendments to IAS 40 "Investment Property"** - Transfers of Investment Property (effective for annual periods beginning on or after 1 January 2018);
- **Amendments to various standards "Improvements to IFRSs (cycle 2014-2017)"** resulting from the annual improvement project of IFRS (IFRS 1, IFRS 12 and IAS 28) primarily with a view to removing inconsistencies and clarifying wording (amendments to IFRS 12 are to be applied for annual periods beginning on or after 1 January 2018 and amendments to IFRS 1 and IAS 28 are to be applied for annual periods beginning on or after 1 January 2018);
- **IFRIC 22 "Foreign Currency Transactions and Advance Consideration"** (effective for annual periods beginning on or after 1 January 2018).

The adoption of the above standards did not have a material impact on the financial statements of KPST-PA, with the exception of IFRS 9 details of which are provided below.

Implementation of IFRS 9 "Financial Instruments"
KPST-PA has adopted IFRS 9 (issued by IASB in July 2014) with a transition date of January 1, 2018. This has resulted in changes in accounting policies for recognition, classification and measurement of financial assets and liabilities and the impairment of financial assets and has resulted in adjustments to the amounts previously recognised in the financial statements.

KPST-PA did not early adopt IFRS 9 in previous periods. As permitted by the transitional provisions of the standard, KPST-PA elected not to restate comparative figures. Any adjustments to the carrying amounts of financial assets and liabilities on transition date were recognised in the opening retained earnings for the current period.

Consequently, for notes and disclosures, the consequential amendments to IFRS 7 disclosures have also been applied to the current period. The comparative period notes disclosures repeat those disclosures made in the comparative year.

Set out below are disclosures related to the impact of the adoption of IFRS 9 on KPST-PA. Further details of the specific IFRS 9 accounting policies applied in the current period, as well as previous IAS 39 accounting policies applied in the comparative period, are described in more detail in Note 3 of these financial statements.

2 BASIS OF PREPARATION OF THE FINANCIAL STATEMENTS (CONTINUED)

2.3 Changes in accounting policies and disclosures (continued)

(a) Classification and measurement of financial instruments
The measurement category and the carrying amount of financial assets and liabilities in accordance with IAS 39 and IFRS 9 at January 1, 2018 are compared as follows:

	IAS 39		IFRS 9	
	Measurement category	Carrying amount	Measurement category	Carrying amount
		EUR		EUR
Financial assets				
Cash at bank	Amortised cost (L&R)	13,667,252	Amortised cost	13,667,252
Contribution and other receivables	Amortised cost (L&R)	18,243,910	Amortised cost	18,243,910
Deposits	Amortised cost (L&R)	50,579,411	Amortised cost	50,554,121
Kosovo Treasuries	Amortised cost (HTM)	95,045,140	Amortised cost	94,892,605
Investments in open-end funds	AFS (*Designated*)	1,478,150,510	FVPL (*Designated*)	1,478,150,510
		1,655,686,223		**1,655,508,398**
Financial liabilities				
Account payables	Amortised cost	10,886,818	Amortised cost	10,886,818
		10,886,818		**10,886,818**

L&R – Loans & Receivables; HTM – Held to maturity; AFS – Available For Sale.

There were no changes to the classification of financial liabilities.

(b) Reconciliation of balances in the statement of financial position
KPST-PA performed a detailed analysis of its business models for managing financial assets and analysis of their cash flow characteristics. Note 3.2 of these financial statements provides more detailed information regarding the new classification requirements of IFRS 9.

The following table reconciles the carrying amount of financial assets, from their previous measurement category in accordance with IAS 39 to their new measurement categories in accordance with IFRS 9 on January 1, 2018:

	IAS 39 carrying amount December 31 2017	Reclassification	Remeasurement	IFRS 9 carrying amount January 1 2018
	EUR	EUR	EUR	EUR
Amortised cost				
Cash at bank	13,667,252	-	-	13,667,252
Contribution and other receivables	18,243,910	-	-	18,243,910
Deposits (see Note 7)	50,579,411	-	(25,290)	50,554,121
Kosovo Treasuries (see Note 7)	95,045,140	-	(152,535)	94,892,605
	177,535,713	**-**	**(177,825)**	**177,357,888**
Fair value through profit and loss (FVPL)				
Investments in open-end funds (Added from AFS through profit and loss)	-	1,478,150,510	-	1,478,150,510
	-	**1,478,150,510**	**-**	**1,478,150,510**
Available for sale (AFS)				
Investments in open-end funds (Transfer to FVPL)	1,478,150,510	(1,478,150,510)	-	-
	1,478,150,510	(1,478,150,510)	**-**	**-**

2 BASIS OF PREPARATION OF THE FINANCIAL STATEMENTS (CONTINUED)

2.3 Changes in accounting policies and disclosures (continued)

(c) Reconciliation of impairment allowance from IAS 39 to IFRS 9

The following table reconciles the prior period's closing impairment allowance measured in accordance with IAS 39 incurred loss model to the new impairment allowance measured in accordance with IFRS 9 expected loss model on January 1, 2018:

	IAS 39 impairment allowance December 31 2017	Reclassification	Remeasurement	IFRS 9 impairment allowance January 1 2018
	EUR	EUR	EUR	EUR
Loans and receivables (IAS 39) / Financial assets at amortised cost (IFRS 9)				
Cash at bank	-	-	-	-
Contribution and other receivables	-	-	-	-
Deposits (see Note 7)	-	-	25,290	25,290
	-	**-**	**25,290**	**25,290**
Held-to-maturity (IAS 39) / Financial assets at amortised cost (IFRS 9)				
Kosovo Treasuries (see Note 7)	-	-	152,535	152,535
	-	**-**	**152,535**	**152,535**
Total	**-**	**-**	**177,825**	**177,825**

ii) New standards and amendments to existing standards in issue not yet adopted

At the date of authorisation of these financial statements, the following new standards, amendments to existing standards and new interpretation were in issue, but not yet effective:

- **IFRS 16 "Leases"** (effective for annual periods beginning on or after 1 January 2019;
- **Amendments to IFRS 10 "Consolidated Financial Statements" and IAS 28 "Investments in Associates and Joint Ventures" -** Sale or Contribution of Assets between an Investor and its Associate or Joint Venture and further amendments (effective date was deferred indefinitely until the research project on the equity method has been concluded).

KPST-PA has elected not to adopt these new standards and amendments to existing standards in advance of their effective dates. KPST-PA anticipates that the adoption of these standards and amendments to existing standards will have no material impact on the valuation of financial assets and on financial statements of the KPST-PA in the period of initial application.

3 SIGNIFICANT ACCOUNTING POLICIES

3.1 Financial instruments

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

3.2 Financial assets and liabilities

Measurement methods

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

Amortised cost and effective interest rate
The amortised cost is the amount at which the financial asset or liability is measured at initial recognition minus the principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between that initial amount and the maturity amount and, for financial assets, adjusted for any loss allowance.

The effective interest rate is the rate that exactly discounts estimated future cash flows through the expected life of the financial asset or liability to the gross carrying amount of a financial asset (the amortised cost before any impairment allowance) or the amortised cost of a financial liability. The calculation does not consider expected credit losses and includes transaction costs, premiums or discounts and fees and points paid or received that are integral to the effective interest rate, such as origination fees.

When KPST-PA revises estimated future cash flows, the carrying amount of respective financial assets or liabilities is adjusted to reflect the new estimate discounted using the original effective interest rate. Any changes are recognised in profit or loss.

Interest income
Interest income is calculated applying the effective interest rate to the gross carrying amount of financial assets, except:

- Purchased or originated credit-impaired financial assets (POCI);
- Financial assets that were not POCI, but subsequently became credit-impaired ("Stage 3"), for which the interest revenue is calculated by applying the effective interest rate to the amortised cost (i.e. net of the ECL provision).

Initial recognition and measurement
Financial assets and liabilities are recognised when KPST-PA becomes a party to the contractual provisions of the instrument. Regular purchases and sales of financial assets are recognised on trade-date, the date on which KPST-PA commits to purchase or sell the asset.

After the initial recognition, KPST-PA measures a financial asset or liability at its fair value plus or minus, in the case of a financial asset or liability not at fair value through profit and loss, transaction costs that are incremental and directly attributable to the acquisition or issue of the financial asset or liability, such as fees and commissions.

Transaction costs of financial assets and liabilities carried at fair value through profit and loss are expensed in profit and loss. Immediately after the initial recognition, an expected credit loss allowance (ECL) is recognised for financial assets measured at amortised cost and investments in debt instruments measured at FVOCI, which results in an accounting loss being recognised in profit and loss when an asset is newly originated.

When the fair value of financial assets and liabilities differs from the transaction price on initial recognition, KPST-PA recognises the differences as follows:

- When the fair value is evidenced by a quoted price in an active market for an identical asset or liability (i.e. a Level 1 input) or based on a valuation technique that uses only data from observable markets, the difference is recognised as a gain or loss;
- In all other cases, the difference is deferred, and the timing of recognition of deferred day one profit or loss determined individually. It is either amortised over the life of the instrument, deferred until the instrument's fair value can be determined using market observable inputs, or realised through settlement.

3 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.2 Financial assets and liabilities (continued)

3.2.1. Financial assets

i) Classification and subsequent measurement

From January 1, 2018, KPST-PA has applied IFRS 9 and classifies its financial assets in the following measurement categories:

- *Amortised cost*: Assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest (SPPI), and that are not designated at FVPL, are measured at amortised cost. The carrying amount of these assets is adjusted by any recognised and measured expected credit loss allowance. Interest income from these financial assets is included in 'Interest income' using the effective interest rate method;
- *Fair value through other comprehensive income (FVOCI)*: Financial assets that are held for collection of contractual cash flows and for selling the assets, where the assets' cash flows represent solely payments of principal and interest, and that are not designated at FVPL, are measured at fair value through other comprehensive income. Movements in the carrying amount are taken through OCI, except for the recognition of impairment gains or losses, interest revenue and foreign exchange gains and losses on the instrument's amortised cost which are recognised in profit and loss. When the financial asset is derecognised, the cumulative gain or loss previously recognised in OCI is reclassified from equity to profit and loss and recognised in 'Net investment income'. Interest income from these financial assets is included in 'Interest income' using the effective interest rate method;
- *Fair value through profit and loss (FVPL)*: Assets that do not meet the criteria for amortised cost or FVOCI are measured at fair value through profit and loss. A gain or loss on a debt investment that is subsequently measured at fair value through profit and loss and is not part of a hedging relationship is recognised in profit or loss and presented in the profit or loss statement within 'Net trading income' in the period in which it arises, unless it arises from debt instruments that were designated at fair value or which are not held for trading, in which case they are presented separately in 'Net investment income'. Interest income from these financial assets is included in the 'Interest income' using the effective interest rate method.

Debt instruments
Debt instruments are those instruments that meet the definition of a financial liability from the issuer's perspective, such as loans, government and corporate bonds and trade receivables purchased from clients in factoring arrangements without recourse.

Classification and subsequent measurement of debt instruments depend on:

- the KPST-PA business model for managing the asset; and
- the cash flow characteristics of the asset.

Based on these factors, KPST-PA classifies its debt instruments into one of the measurement categories: (a) Amortised cost; (b) FVOCI; or (c) FVPL. KPST-PA has classified its debt instruments comprised of investments in Kosovo Treasury bills and bonds, as well as investments in term deposits placed with commercial banks in Kosovo, as measured at amortised cost. KPST-PA has no debt instruments classified as FVOCI.

Business model: the business model reflects how KPST-PA manages the assets in order to generate cash flows, and instruments are classified into one of three measurement categories mentioned above. As such, investments in term deposits as well as those in Kosovo Treasury bills and bonds are classified as amortised cost.

SPPI: where the business model is to hold assets to collect contractual cash flows or to collect contractual cash flows and sell, KPST-PA assesses whether the financial instrument's cash flows represent solely payments of principal and interest (the SPPI test). In making the assessment, KPST-PA considers whether the contractual cash flows are consistent with a basic lending agreement i.e. interest includes only consideration for the time value of money, credit risk, other basic lending risks and profit margin that is consistent with the basic lending arrangement. Where the contractual terms introduce exposure to risk or volatility that is inconsistent with a basic lending arrangement, the related financial instrument is classified and measured at fair value through profit or loss.

KPST-PA reclassifies debt investments when and only when its business model for managing those assets changes. The reclassification takes place from the start of the first reporting period following the change. Such changes are expected to be very infrequent and none occurred during the period.

3 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.2 Financial assets and liabilities (continued)

3.2.1. Financial assets (continued)

i) Classification and subsequent measurement (continued)

Equity instruments and open-end funds
Equity instruments are instruments that meet the definition of equity from the issuer's perspective; that is, instruments that do not contain a contractual obligation to pay and that evidence a residual interest in the issuer's net assets. Examples of equity instruments include ordinary shares which KPST-PA does not hold, but also shares in open-end funds which KPST-PA does hold.

KPST-PA classifies and subsequently measures all such investments at fair value through profit or loss, except where the KPST-PA management, at initial recognition, irrevocably designates an equity investment at fair value through other comprehensive income when those investments are held for purposes other than to generate investment returns. In such cases, of which there were none during the reporting period, the fair value gains or losses are recognised in OCI and are not subsequently reclassified to profit or loss, including on disposal. Impairment losses, and reversals of impairment losses, are not reported separately from other changes in fair value. Dividends, when representing a return on such investments, continue to be recognised in profit or loss as other income when the KPST-PA rights to receive payments is established.

KPST-PA has classified its investments in open-end funds as measured at FVPL and has no equity investments classified as FVOCI.

Gains or losses on investments in open-funds measured at FVPL are included as income or expense in the statement of comprehensive income.

ii) Impairment

KPST-PA assesses on a forward-looking basis the expected credit losses (ECL) associated with debt instrument assets carried at amortised cost. KPST-PA recognises a loss allowance for such losses at each reporting date. The measurement of ECL reflects:

- An unbiased and probability-weighted amount that is determined by evaluating a range of possible outcomes;
- The time value of money; and
- Reasonable and supportable information that is available without undue cost or effort at the reporting date about past events, current conditions and forecasts of future economic conditions.

iii) Derecognition other than on modification

Financial assets, or a portion thereof, are derecognised when the contractual rights to receive the cash flows from the assets have expired, or when they have been transferred and either (a) KPST-PA transfers substantially all the risks and rewards of ownership, or (b) KPST-PA neither transfers nor retains substantially all the risks and rewards of ownership and KPST-PA has not retained control. There were no such instances during the reporting period.

3.2.2. Financial liabilities

i) Classification and subsequent measurement

In both the current and prior reporting period, financial liabilities are classified as subsequently measured at amortised cost.

ii) Derecognition

Financial liabilities are derecognised when they are extinguished (i.e. when the obligation specified in the contract is discharged, cancelled or expires).

3 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.2 Financial assets and liabilities (continued)

3.2.3. Financial instruments measured at fair value

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

Level 1: quoted prices (not adjusted) on the active markets for identical assets or liabilities;
Level 2: other incoming data, aside from the quoted prices, included in Level 1 which are available for asset or liability observing, directly (i.e. as prices), or indirectly (i.e. made of prices); and
Level 3: incoming data on the asset or liability that are not based on data available for market observing.

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

Class of investment	Level	As at December 31 2018	As at December 31 2017
		EUR	EUR
Investments in open-end funds	1	1,227,330,357	1,478,150,510

Fair value measurements listed above are recurring. There were no movements of funds between levels during the year ending December 31, 2018 and 2017.

The fair value of other financial assets as at December 31, 2018 and 2017 approximates their carrying amounts due to short term maturities.

3.3 Significant estimates and judgments

The preparation of financial statements requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates. Management also needs to exercise judgement in applying the KPST-PA accounting policies. Estimates and underlying assumptions are reviewed on an on-going basis.

This note provides an overview of the areas that involve a higher degree of judgement and complexity, and major sources of estimation uncertainty that have a significant risk of resulting in a material adjustment within the next financial year. Detailed information about each of these estimates and judgements is included in related notes together with information about the basis of calculation for each affected line item in the financial statements.

Measurement of the expected credit loss allowance
The measurement of the expected credit loss allowance for financial assets measured at amortised cost and FVOCI is an area that requires the use of complex models and significant assumptions about future economic conditions and credit behaviour (e.g. the likelihood of Kosovo Treasuries defaulting and the resulting losses). Explanation of these inputs, assumptions and estimation techniques used in measuring ECL is further detailed in Note 3.8.5, which also sets out key sensitivities of the ECL to changes in these elements.

Several significant judgements are also required in applying the accounting requirements for measuring ECL, such as:

- Determining criteria for significant increase in credit risk;
- Choosing appropriate models and assumptions for the measurement of ECL;
- Establishing the number of relative weightings of forward-looking scenarios for each type of product/market and the associated ECL; and
- Establishing groups of similar financial assets for the purposes of measuring ECL.

3.4 Cash and cash equivalents

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

3 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.5 Contributions

Contributions from participants are accounted for on accrual basis.

3.6 Withdrawals of savings and refunds

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

3.7 Taxation

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

3.8 Financial risk management

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

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

The investment policy above all requires for invested assets, whether directly or indirectly, to be highly diversified across issuers and asset classes as well as across investment approach of Open-end funds themselves. Further, as a way to manage the direct risks the policy sets limits as to the proportion of assets that can be invested in instruments of a given asset class (Pure equity funds: 56%; Multi-asset class funds: 55%; Pure debt securities funds including Kosovo treasury bonds: 34%; and money markets and Kosovo treasury bills: 20%); as well as limits as to the proportion of assets that can be invested in instruments of a given investment approach (Directional return/Non risk adjusted funds: 60%; Risk targeted/Risk managed/ Absolute return funds: 68%; and Pure income funds: 30%). Within this framework the Governing Board makes decisions whether to increase or reduce exposure to a certain Open-end fund depending on fund's performance, underlying holdings, or its correlation with other Open-end-funds, as well as beliefs for the short and medium-term prospect for the given asset class and investment style of the Open-end fund. KPST itself does not engage in forward contracts, swaps or derivatives in order to manage and control these risks to assets of KPST-PA.

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

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

3.8.1 Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. As at reporting date KPST-PA had direct investments in Kosovo Treasury bills and bonds and term deposits with commercial banks with a fixed interest rate, whereas there were no direct investments in floating interest rate securities.

	As at December 31 2018		As at December 31 2017	
	Assets	Liabilities	Assets	Liabilities
	EUR	EUR	EUR	EUR
Fixed rate				
Kosovo Treasuries	208,510,864	-	95,045,140	-
Term deposits	119,344,093		50,579,411	
Total	**327,854,957**	**-**	**145,624,551**	**-**

3 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.8 Financial risk management (continued)

3.8.2 Price risk

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

Sensitivity Analysis of price changes in Open-end funds
Had the prices of Open-end funds been 5% higher/lower on reporting date, net participants' assets would have been increased/decreased by EUR 61,366,009 (2017: EUR 73,906,856).

The maximum drawdown for the KPST-PA portfolio for the 1-year period ending December 31, 2018 was 8.2%, and for the 3-year period it was 8.2% (2017: 2.1% and 9.1% respectively).

The ratio of performance vs volatility for the 1-year period ending December 31, 2018 was -1.06; where the annualised volatility was 5.0% and the performance -5.28% (2017: 2.18, 3.0% and 6.48% respectively). On the other hand, the ratio for the 3-year period was 0.39; where the annualised volatility was 4.5% and the annualised performance 1.75% (2017: 0.87, 5.1% and 4.38%, respectively).

3.8.3 Liquidity risk

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

The average monthly redemptions from KPST-PA through withdrawals of savings and refunds for the year ended December 31, 2018 amounted to EUR 2,747,499 (2017: EUR 2,365,113). Average monthly incoming contributions for the year amounting EUR 14,388,013 (2017: EUR 13,313,127) continued to be well in excess of monthly outgoings.

Investments measured at fair value (through Open-end funds) can all be redeemed within 1-5 days but are presented here as investments with a long-term horizon. Investments of KPST-PA assets in Kosovo Treasury debt securities have an original maturity of up to ten years whereas term deposits with banks have an original maturity of between 1 and 2 years.

The table below presents the remaining contractual maturities of financial assets and liabilities of KPST-PA.

	As at December 31 2018			As at December 31 2017		
	Up to 1 year	1-5 years	5-10 years	Up to 1 year	1-5 years	5-10 years
	EUR	EUR	EUR	EUR	EUR	EUR
Financial assets						
Cash at bank	6,245,153	-	-	13,667,252	-	-
Open-end funds	-	-	1,227,330,357	-	-	1,478,150,510
Kosovo Treasuries	50,863,036	136,400,021	21,247,807	51,826,754	37,006,393	6,211,993
Term deposits	76,243,274	43,100,819	-	37,490,866	13,088,545	-
Contribution and other receivables	131,347,368	-	-	18,243,910	-	-
	264,698,831	**179,500,840**	**1,248,578,164**	**121,228,782**	**50,094,938**	**1,484,362,503**
Financial liabilities						
Account payables	874,667	-	-	10,886,818	-	-
	874,667	**-**	**-**	**10,886,818**	**-**	**-**
Maturity gap	**263,824,164**	**179,500,840**	**1,248,578,164**	**110,341,964**	**50,094,938**	**1,484,362,503**

3 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.8 Financial risk management (continued)

3.8.4 Currency risk

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

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

As a result of there being no direct currency risk exposure on reporting dates no sensitivity analysis is performed on the effects of currency shifts on the comprehensive income for the year ended December 31, 2017 and 2018.

3.8.5 Credit risk

Credit risk is the risk of financial loss to KPST-PA if a customer or counterparty to financial instruments fails to meet its contractual obligations. Credit risk arises primarily and directly from investments in Kosovo Treasuries and investments in term deposits, and represents the second highest form of risk to KPST-PA.

Credit risk measurement
The estimation of credit exposure for risk management purposes is complex and requires the use of models, as the exposure varies with changes in market conditions, except cash flows and the passage of time. The assessment of credit risk entails further estimation as to the likelihood of defaults occurring.

KPST-PA measures credit risk using the Probability of Default (PD), Exposure at Default (EAD) and Loss Given Default (LGD). This is the approach used for the purpose of measuring the Expected Credit Loss (ECL) under IFRS 9.

Credit exposures are categorised into one of three stages, depending on the increase in credit risk since initial recognition of the relevant instruments carried at amortised cost, namely: Kosovo Treasury bills / bonds as well as term deposits with commercial banks.

When there is a significant increase in credit risk, an instrument is moved from a 12-month expected loss to a lifetime expected loss.

In making the evaluation, the initial credit risk of a financial instrument is measured against its current credit risk, taking into consideration its remaining life of the instrument.

In stages one and two, the interest revenue is the effective interest on gross carrying amount; in stage three it is the effective interest on amortised cost.

In order to calculate 12-month and lifetime expected losses, a model on credit risk (PD, LGD), balance sheet forecast (prepayments, facility withdrawals) and interest rates (discount factors) is applied for relevant instruments.

On the credit risk side, PD and LGD models need to satisfy the impairment model.

The PD model estimates the probability of default (PD) consistent with the following principles:

- All relevant information is considered;
- Current economic circumstances are reflected using a best rather than a conservative estimate;
- Provides the likelihood of a default occurring within the next 12 months or during the lifetime of the instrument;
- Includes forward-looking economic forecasts.

The LGD model estimates the loss percentage consistent with the following principles:

- Considers all relevant information and includes a forward-looking element;
- Reflects current economic circumstances (i.e., is a best estimate rather than an economic downturn estimate);
- Considers only costs directly attributable to the collection of recoveries.

3 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.8 Financial risk management (continued)

3.8.5 Credit risk (continued)

The impairment model for Kosovo Treasuries
The impairment model for Kosovo Treasuries takes into account the history of defaults of Kosovo Treasuries (of which there were none) as well as the constitutional and legal guarantees obligating the government to prioritise the settlement of public debt in advance of any other payments. The model also takes into account the level of public debt and the remaining life of the instrument. Each scenario is given an associated probability which in turn is used to evaluate the expected credit losses.

Whether or not an instrument is moved from stage 1 to stages two or three depends on objective evidence of impairment or basic macro-economic data such as:

- significant financial difficulty of the country of Kosovo; or
- default or delinquency in interest or principal payments; or
- it is becoming probable that the country of Kosovo will enter bankruptcy or financial reorganisation; or
- debt to GDP exceeds 80%.

Given the above inputs, all Kosovo Treasury instruments were evaluated using the Stage 1, 12-month impairment model, with remeasurement on January 1, 2018 amounting EUR 152,535. There were no movements in stages during the year ended December 31, 2018, and net additions to the impairment provisions during the year were EUR 380,888, making for an end balance as at December 31, 2018 of EUR 533,423.

The impairment model for term deposits
The impairment model for term deposits with local banks takes into account the history of defaults by the respective banks (of which there were none), basic financial ratios and metrics, as well as the remaining life of the instrument. Each scenario is given an associated probability which in turn is used to evaluate the expected credit losses.

Whether or not an instrument is moved from stage 1 to stages two or three depends on objective evidence of impairment or basic metrics such as:

- default or delinquency in interest or principal payments of deposits; or
- it is becoming probable that the bank will enter bankruptcy or financial reorganisation; or
- Central Bank of the Republic of Kosovo proceeds to revoke the license of the bank; or
- Current ratio falls lower than 0.9; or
- Loans to deposits ratio exceeds 1.1 or falls below 0.4; or
- Capital Adequacy ratio falls below 8.5%; or
- Percentage of bad loans exceeds 13%.

Given the above inputs, all term deposits were evaluated using the Stage 1, 12-month impairment model, with remeasurement on January 1, 2018 amounting EUR 25,290. There were no movements in stages during the year ended December 31, 2018, and net additions to the impairment provisions during the year were EUR 34,412, making for an end balance as at December 31, 2018 of EUR 59,702.

3 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.8 Financial risk management (continued)

3.8.6. Financial instruments that are not presented at fair value

The following table summarises the carrying amounts and fair values to those financial assets and liabilities that are not presented in the Statement of financial position at their fair value as at December 31, 2018 and 2017.

	As at December 31 2018		As at December 31 2017	
	Carrying Value	Fair value	Carrying Value	Fair value
	EUR	EUR	EUR	EUR
Financial assets				
Cash at bank	6,245,153	6,245,153	13,667,252	13,667,252
Kosovo Treasuries	208,510,864	209,044,287	95,045,140	95,045,140
Term deposits	119,344,093	119,403,795	50,579,411	50,579,411
Contribution and other receivables	131,347,368	131,347,368	18,243,910	18,243,910
	465,447,478	**466,040,603**	**177,535,713**	**177,535,713**
Financial liabilities				
Account payables	874,667	874,667	10,886,818	10,886,818
	874,667	**874,667**	**10,886,818**	**10,886,818**

3.8.7 Exposure through indirect holdings

Majority of KPST-PA assets are invested through open-end funds which trade in different asset classes and employ varying investment and risk policies. As a result, KPST-PA assets are exposed to different risks for its indirect investments depending on the assets invested with a given Open-end fund.

The full set of risks exposed to as at December 31, 2018 by each open-end fund can be obtained from their respective fund prospectus, with the main risks summarised below:

Fund	Main risks
Vanguard - GSIF	Price | Country/political | Index tracking
AXA - GILB	Credit | Counterparty | Interest rate
BNY Mellon - RRF	Price | Credit | Counterparty | Interest rate | Currency
Schroders - GDG	Price | Counterparty | Credit | Currency | Derivatives | Interest rate | Leverage
Schroders - SISF	Credit | Counterparty | Currency | Derivatives
Nordea 1 - GSEF	Price | Counterparty | Country/Political
Nordea 1 - SRF	Price | Credit | Counterparty | Country/Political | Derivatives
AXA - WFOI	Credit | Counterparty
BNP Paribas – PDP	Credit | Liquidity | Counterparty | Operating and Custody | Derivatives
Amundi – RPI2	Credit | Liquidity | Counterparty | Derivatives
Amundi – 3M-I	Credit | Counterparty

3 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.8 Financial risk management (continued)

3.8.7 Exposure through indirect holdings (continued)

When the breakdown of all investments, direct and indirect, is considered, the exposure of KPST-PA assets as at December 31, 2018 was as follows:

Currency - EUR: 51.8%; USD: 31.3%; GBP: 5.2%; JPY: 3.3%; CAD: 2.2%; CHF: 1.5%; AUD: 1.5%; DKK: 1.3%; Others (net): 1.9%.

Asset class - Equities: 45.5%; Treasury debt: 27.2%; Corporate debt: 11.1%; Money markets: 18.2%; Net derivatives: -2.0%.

The breakdown of ratings of direct fixed income and money-market instruments, as well as indirect ones held through open-end funds is provided below. No provisions are accounted for indirect fixed income instruments as they are measured at fair value through profit or loss in respective open-end funds.

Description	Applicable ratings	Percentage of KPST assets as at December 31 2018	Percentage of KPST assets as at December 31 2017
Direct investments			
Kosovo Treasuries	-	12.43%	5.78%
Term deposits	-	7.10%	3.07%
		19.53%	**8.85%**
Indirect fixed income investments			
Prime	AAA	6.97%	7.96%
High	AA+ | AA | AA-	7.22%	5.69%
Upper medium	A+ | A | A-	3.28%	1.78%
Lower medium	BBB+ | BBB | BBB-	5.10%	4.72%
Non-investment speculative	BB+ | BB | BB-	1.27%	1.12%
Highly speculative	B+ | B | B-	0.64%	0.35%
Substantial risk	CCC+	0.02%	0.03%
Extremely speculative	CCC	0.01%	0.00%
In default with little prospect of recovery	CCC- | CC | C	0.00%	0.00%
Not rated	-	0.54%	0.15%
		25.05%	**21.80%**
Indirect money-market investments			
High	AA+ | AA | AA-	0.10%	0.06%
Upper medium	A+ | A | A-	1.57%	0.66%
Lower medium	BBB+ | BBB | BBB-	0.31%	0.35%
Highly speculative	B+ | B | B-	0.01%	0.03%
		1.99%	**1.10%**

4 CASH AT BANK

	As at December 31 2018	As at December 31 2017
	EUR	EUR
At Central Bank of Republic of Kosovo	6,245,153	13,667,252
Total cash at bank	**6,245,153**	**13,667,252**

During years ended December 31, 2018 and December 31, 2017 a negative interest of -0.40% p.a. was applied on the daily balance of the KPST-PA cash account with the Central Bank of Kosovo. The total interest expenses for the year ending December 31, 2018 were EUR 66,673 of which EUR 5,030 were payable to the CBK on reporting date. The total interest expenses for the year ending December 31, 2017 were EUR 130,341 of which EUR 3,618 were payable to the CBK on reporting date.

5 CONTRIBUTION AND OTHER RECEIVABLES

	As at December 31 2018	As at December 31 2017
	EUR	EUR
Contributions receivable	11,347,368	10,151,350
Matured bonds and coupon payments receivable	-	8,092,560
Receivables from open-end funds	120,000,000	-
Total contribution and other receivables	**131,347,368**	**18,243,910**

Contributions receivable relate to contributions received in the collection account up to the 18th of the month following the reporting dates and not unitised on reporting dates.

Matured bonds and coupon payments receivable relate to Kosovo Treasury debt instruments maturing - or with coupons due - on reporting dates. Due to reporting dates being non-working days, the payments were received after reporting dates.

Receivables for redemptions from open-end funds relate to redemptions in a given reporting year that were received in the next reporting period.

6 INVESTMENTS IN OPEN-END FUNDS

a) Investments in open-end funds (in EUR)

							2018
Fund	Note	As at January 1	Additions	Gains or losses	Fees withheld	Redemptions	As at December 31
		EUR	EUR	EUR	EUR	EUR	EUR
Vanguard – GSIF	6.1	368,189,871	32,509,398	(36,036,485)	(986,158)	-	363,676,626
BNY Mellon – RRF	6.2	108,940,067	110,000,000	(1,683,702)	-	(72,000,000)	145,256,365
AXA – GILB	6.3	100,550,642	49,414	(2,611,784)	(394,407)	-	97,593,865
Schroders – SISF	6.4	10,275,294	-	(462,995)	-	-	9,812,299
Schroders – GDG	6.5	113,300,190	36,000,000	(10,406,847)	-	(83,000,000)	55,893,343
Nordea 1 – GSEF	6.6	146,966,855	21,000,000	(5,359,409)	-	-	162,607,446
Nordea 1 – SRF	6.7	242,568,079	-	(7,562,450)	-	(111,000,000)	124,005,629
Amundi – 3M-I	6.8	27,942,054	97,000,402	(78,317)	(16,719)	(64,999,556)	59,847,864
AXA – WFOI	6.9	109,973,876	40,015,595	(8,365,851)	(716,717)	(87,000,000)	53,906,903
Pictet – HDS	6.10	33,137,645	-	(1,664,192)	-	(31,473,453)	-
BNP Paribas – PDP	6.11	130,010,203	22,000,000	(8,775,311)	(1,014,653)	(90,000,000)	52,220,239
Amundi - RPI2	6.12	86,295,734	64,001,173	(5,533,651)	(253,115)	(42,000,363)	102,509,778
Total investments in open-end funds		**1,478,150,510**	**422,575,982**	**(88,540,994)**	**(3,381,769)**	**(581,473,372)**	**1,227,330,357**

							2017
Fund	Note	As at January 1	Additions	Gains or losses	Fees withheld	Redemptions	As at December 31
		EUR	EUR	EUR	EUR	EUR	EUR
Vanguard – GSIF	6.1	395,450,768	27,456,685	58,193,281	(910,863)	(112,000,000)	368,189,871
BNY Mellon – RRF	6.2	138,826,337	-	3,113,730	-	(33,000,000)	108,940,067
AXA – GILB	6.3	85,653,672	14,047,394	1,234,152	(384,576)	-	100,550,642
Schroders – SISF	6.4	10,209,928	-	65,366	-	-	10,275,294
Schroders – GDG	6.5	50,872,418	56,000,000	6,427,772	-	-	113,300,190
Nordea 1 – GSEF	6.6	170,162,279	-	3,804,576	-	(27,000,000)	146,966,855
Nordea 1 – SRF	6.7	232,257,002	-	10,311,077	-	-	242,568,079
Amundi – 3M-I	6.8	-	100,001,771	(43,973)	(15,950)	(71,999,794)	27,942,054
AXA – WFOI	6.9	61,183,827	56,005,568	5,213,420	(428,939)	(12,000,000)	109,973,876
Pictet – HDS	6.10	58,778,067	-	1,359,578	-	(27,000,000)	33,137,645
BNP Paribas – PDP	6.11	50,091,736	72,500,000	8,035,218	(616,751)	-	130,010,203
Amundi - RPI2	6.12	50,255,615	33,501,954	2,658,046	(119,881)	-	86,295,734
Total investments in open-end funds		**1,303,741,649**	**359,513,372**	**100,372,243**	**(2,476,960)**	**(282,999,794)**	**1,478,150,510**

6 INVESTMENTS IN OPEN-END FUNDS (CONTINUED)

b) Investments in open-end funds (in Units)

					2018
Fund	Note	As at January 1	Additions	Redemptions	As at December 31
		Units	Units	Units	Units
Vanguard – GSIF	6.1	19,118,503	1,749,472	-	20,867,975
BNY Mellon – RRF	6.2	84,626,790	85,736,732	(57,288,351)	113,075,171
AXA – GILB	6.3	639,513	321	-	639,834
Schroders – SISF	6.4	65,229	-	-	65,229
Schroders – GDG	6.5	647,516	209,452	(509,102)	347,866
Nordea 1 – GSEF	6.6	5,899,914	808,314	-	6,708,228
Nordea 1 – SRF	6.7	12,888,846	-	(6,014,920)	6,873,926
Amundi – 3M-I	6.8	24	95	(62)	57
AXA – WFOI	6.9	751,958	276,157	(629,307)	398,808
Pictet – HDS	6.10	180,498	-	(180,498)	-
BNP Paribas – PDP	6.11	842,199	146,921	(624,326)	364,794
Amundi - RPI2	6.12	17	13	(9)	21

					2017
Fund	Note	As at January 1	Additions	Redemptions	As at December 31
		Units	Units	Units	Units
Vanguard – GSIF	6.1	23,965,116	1,500,733	(6,347,346)	19,118,503
BNY Mellon – RRF	6.2	110,319,721	-	(25,692,931)	84,626,790
AXA – GILB	6.3	550,332	89,181	-	639,513
Schroders – SISF	6.4	65,229	-	-	65,229
Schroders – GDG	6.5	314,894	332,622	-	647,516
Nordea 1 – GSEF	6.6	7,017,001	-	(1,117,087)	5,899,914
Nordea 1 – SRF	6.7	12,888,846	-	-	12,888,846
Amundi – 3M-I	6.8	-	92	(68)	24
AXA – WFOI	6.9	449,617	385,380	(83,039)	751,958
Pictet – HDS	6.10	331,649	-	(151,151)	180,498
BNP Paribas – PDP	6.11	355,437	486,762	-	842,199
Amundi - RPI2	6.12	10	7	-	17

6 INVESTMENTS IN OPEN-END FUNDS (CONTINUED)

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

The fund seeks to provide long term growth of capital by tracking the performance of Morgan Stanley Capital International (MSCI), World Free Index (the "Index"), a market capitalisation weighted index of common stocks of companies in developed countries. Global Stock Index Fund investment policy is to remain substantially invested in common stocks. KPST investments in the fund are subscribed based on the Net Asset Value per share on the relevant business day. The fund does not pay any dividend therefore all gains were reflected in the Net Asset Value of the fund. The unit price change for the year ended December 31, 2018 was -9.51% (2017: +16.71%). The management fee is calculated daily, at an annualised rate of 0.25% of assets (2017: 0.25%). The fund gives out 0.12% as rebate on the management fee (2017: 0.12%) which is reinvested in the following month, making net management fees charged by the fund 0.13% of assets p.a. (2017: 0.13% of assets p.a.). There were no redemptions from this fund during 2018.

6.2 BNY Mellon - Real Return Fund (ISIN IE00B504KX99)

The BNY Mellon Real Return Fund is an absolute return fund investing the funds in a mixture of cash, bonds and equities. The fund does not pay a dividend therefore all the gains and income are reflected on the Net Asset Value of the fund. The unit price change for the year ended December 31, 2018 was -0.21% (2017: +2.30%). The management fee was calculated daily at an annualised rate of 0.60% of assets (2017: 0.60% of assets) and was paid separately through an invoice, i.e. not reducing the net asset value. Total fees charged by the fund manager for the year ended December 31, 2018 amount to EUR 488,895 (2017: EUR 798,961). The redemption of EUR 72,000,000 from this fund in March 2018 included realised gains of EUR 8,398,398.

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

Global Inflation Linked Bond fund of AXA, a leading global asset manager, is an absolute return fund investing funds in inflation protected sovereign and corporate bonds. The fund does not pay a dividend, and all the gains and income were reflected in the Net Asset Value of the fund. The unit price change for the year ending December 31, 2018 was -2.99% (2017: +1.02%). The management fee is calculated daily at an annualised rate of 0.40% of assets (2017: 0.40%); however, when value of assets is in excess of EUR 50 million, a rebate at an annualised rate of 0.05% of assets is accrued daily and reinvested in the following month, making net fees charged by the fund 0.35% of assets p.a. There were no redemptions from this fund during 2018.

6.4 Schroders - International Strategic Bond Euro Hedged (ISIN LU0201724265)

Schroders International Strategic Bond fund is a Luxemburg based mutual fund which operates through investments in a portfolio of bonds and other fixed and floating rates securities denominated in various currencies issued by governments, government agencies, supra-national and corporate issuers worldwide. The fund does not pay a dividend therefore all the income is reflected in the bid price of the fund. The unit price change for the year ended December 31, 2018 was -4.51% (2017: +0.64%). The management fee is calculated quarterly, at an annualised rate of 0.50% of assets (2017: 0.50%), and was paid separately through an invoice, i.e. not reducing the net asset value. However, for the value of assets in excess of EUR 100 million, the annualised fee rate is 0.45% of assets. Total fees charged by the fund manager for the year ended December 31, 2018 amount to EUR 50,969 (2017: EUR 51,528). There were no redemptions from this fund during 2018.

6.5 Schroders – Global Diversified Growth Fund (ISIN LU0776411141)

Schroders Global Diversified Growth Fund is a fund with a mixture of asset classes in its portfolio. The fund does not pay a dividend therefore all the gains and income were reflected on the Net Asset Value of the fund. The unit price change for the year ended December 31, 2018 was -8.17% (2017: +8.31%). The management fee is calculated quarterly at an annualised rate of 0.65% of assets, and was paid separately through an invoice, i.e. not reducing the net asset value. Total fees charged by the fund manager for the year ended December 31, 2018 amount to EUR 813,018 (2017: EUR 520,466). The redemptions of EUR 83,000,000 from this fund during October and December 2018 included realised losses of EUR 1,358,480.

6.6 Nordea 1 – Global Stable Equity Fund (ISIN LU0257969260)

Nordea 1 - Global Stable Equity fund is an active fund that primarily contains stocks of global corporations which have stable: returns, dividends and cash flows. The fund may however hold up to 1/3 of assets in cash or invest them in bonds or other debt instruments in order to manage risk. The fund does not pay a dividend therefore all the gains were reflected on the Net Asset Value of the fund. The unit price change for the year ended December 31, 2018 was -2.69% (2017: +2.72%). The management fee is calculated daily at an annualised rate of 0.43% of assets, and is paid separately through an invoice, i.e. not reducing the net asset value. Total fees charged by the fund manager for the year ended December 31, 2018 amount to EUR 689,736 (2017: EUR 747,430). There were no redemptions from this fund during 2018.

6 INVESTMENTS IN OPEN-END FUNDS (CONTINUED)

6.7 Nordea 1 –Stable Return Fund X EUR (ISIN LU0539147214)

Nordea 1 - Stable Return fund is an active fund that contains global corporations' stocks and bonds and government securities, aiming to generate return from both asset classes and at the same time to manage risks through the strategic use of financial derivative. The fund does not pay a dividend therefore all the gains and income were reflected on the Net Asset Value of the fund. The return for the year ended December 31, 2018 was -4.14% (2017: +4.44%). The management fee is calculated daily at an annualised rate of 0.56% of assets and is paid separately through an invoice, i.e. not reducing the net asset value. Total fees charged by the fund manager for the year ended December 31, 2018 amount to EUR 942,218 (2017: EUR 1,342,831). The redemptions of EUR 111,000,000 from this fund during March and October 2018 included realised gains of EUR 10,197,907.

6.8 Amundi – 3M (I) (ISIN FR000703813)

Amundi – 3M (I) is a fund which invests in money market instruments and seeks to provide high liquidity and security and serves as an alternative to keeping the funds in the Central Bank of Kosovo. The fund does not pay a dividend therefore all the losses were reflected on the Net Asset Value of the fund. The unit price change during the year ended December 31, 2018 was -0.32% (2017: -0.19%). The management fee is calculated daily at an annualised rate of 0.057% of assets and is withheld from the fund, thereby reducing the net asset value. When the average value of assets in a given calendar quarter is in excess of EUR 50,000,000 the fund gives out a 0.012% of assets p.a. as rebate on fees which is typically reinvested. The redemptions of EUR 64,999,556 from this fund during June and December 2018 included realised losses of EUR 82,899.

6.9 AXA - Optimal Income I EUR (ISIN: LU0184635471)

AXA – Optimal Income fund is an active fund that contains corporate stocks and bonds and government securities, mainly from Europe, aiming to generate an absolute return in long-term from both these classes of financial instruments. For the sake of risk management, small scale use of derivatives is allowed. The fund does not pay a dividend therefore all the gains and income were reflected on the Net Asset Value of the fund. The unit price change for the year ended December 31, 2018 was -7.58% (2017: +7.47%). The management fee is calculated daily at an annualised rate of 0.55% of assets (2017: 0.55%), and is withheld from the fund, thereby reducing the net asset value. The redemptions of EUR 87,000,000 from this fund in October and December 2018 included realised gains of EUR 396,675.

6.10 Pictet - High Dividend Selection - Z Euro (ISIN: LU0650147423)

Pictet – High Dividend Selection fund is an active fund that primarily contains stocks with stable dividends of global corporations. The fund does not pay a dividend therefore all the gains were reflected on the Net Asset Value of the fund. The unit price change for the year up to the full redemption on March 21, 2018 was -5.02% (2017: +3.59%). The management fee is calculated daily at an annualised rate of 0.63% of assets and is paid separately through an invoice, i.e. not reducing the net asset value. Total fees charged by the fund manager for the year ended December 31, 2018 amount to EUR 44,263 (2017: EUR 317,056). The full redemption of EUR 31,473,453 from this fund in March 2018 included realised gains of EUR 3,172,705.

6.11 BNP Paribas IP – Parvest Diversified Dynamic (ISIN: LU0102035119)

BNP Paribas IP – Parvest Diversified Dynamic is a fund with a mixture of asset classes in its portfolio. The fund does not pay any dividend therefore all gains were reflected in the Net Asset Value of the fund. The unit price change for the year ended December 31, 2018 was -7.27% (2017: +9.54%). The management and other fees are calculated daily, at an annualised rate of 0.76% of assets and are withheld from the fund, thereby reducing the net asset value. The fund gives out 0.11% of assets as rebate on the fees, making net fees charged by the fund 0.65% of assets p.a. The redemptions of EUR 90,000,000 from this fund in October and December 2018 included realised losses of EUR 1,207,465.

6.12 Amundi – Amundi Rendement Plus I2 (ISIN: FR0011027283)

Amundi Rendement Plus I2 is a fund with a mixture of asset classes in its portfolio. The fund does not pay any dividend therefore all gains were reflected in the Net Asset Value of the fund. The unit price change for the year ended December 31, 2018 was -4.38% (2017: +4.55%). The management and other fees are calculated daily, at an annualised rate of 0.20% of assets and are withheld from the fund, thereby reducing the net asset value. The redemption of EUR 42,000,362 from this fund in October 2018 included realised losses of EUR 449,782.

6 INVESTMENTS IN OPEN-END FUNDS (CONTINUED)

6.13 Open-end fund fees and rebates

		Year ended December 31 2018			Year ended December 31 2017		
		Gross fee	Rebate	Net fee	Gross fee	Rebate	Net fee
		EUR	EUR	EUR	EUR	EUR	EUR
Vanguard – GSIF	6.1	986,158	(510,133)	**476,025**	910,863	(454,909)	**455,954**
BNY Mellon – RRF	6.2	488,895	-	**488,895**	798,961	-	**798,961**
AXA – GILB	6.3	394,407	(49,301)	**345,106**	384,576	(48,072)	**336,504**
Schroders – SISF	6.4	50,969	-	**50,969**	51,528	-	**51,528**
Schroders - GDG	6.5	813,018	-	**813,018**	520,466	-	**520,466**
Nordea 1 - GSEF	6.6	689,736	-	**689,736**	747,430	-	**747,430**
Nordea 1 - SRF	6.7	942,218	-	**942,218**	1,342,831	-	**1,342,831**
Amundi – 3M I	6.8	16,719	-	**16,719**	15,950	(2,396)	**13,554**
AXA - WFOI	6.9	716,717	-	**716,717**	428,939	-	**428,939**
Pictet - HDS	6.10	44,293	-	**44,293**	317,056	-	**317,056**
BNP Paribas – PDP	6.11	1,014,653	(147,058)	**867,595**	616,751	(89,046)	**527,705**
Amundi - RPI2	6.12	253,115	-	**253,115**	119,881	-	**119,881**
Total open-end fund fees and rebates		**6,410,898**	**(706,492)**	**5,704,406**	**6,255,232**	**(594,423)**	**5,660,809**

7 KOSOVO TREASURIES AND TERM DEPOSITS

	Kosovo Treasuries	Term deposits	Debt instruments
	EUR	EUR	EUR
As at January 1, 2017	**78,697,947**	**20,013,089**	**98,711,036**
New placements	74,896,454	50,401,000	125,297,454
Interest earned	1,464,839	465,940	1,930,779
Interest / coupons - matured	(1,414,391)	(300,618)	(1,715,009)
Principal - matured	(58,599,709)	(20,000,000)	(78,599,709)
As at December 31, 2017	**95,045,140**	**50,579,411**	**145,624,551**
Changes on initial application of IFRS9	(152,535)	(25,290)	(177,825)
Restated as at January 1, 2018	**94,892,605**	**50,554,121**	**145,446,726**
New placements	177,350,917	106,000,000	283,350,917
Interest earned	2,353,410	847,793	3,201,203
Interest / coupons - matured	(1,426,258)	(622,409)	(2,048,667)
Principal - matured	(64,278,922)	(37,401,000)	(101,679,922)
Net movement in impairment provisions	(380,888)	(34,412)	(415,300)
As at December 31, 2018	**208,510,864**	**119,344,093**	**327,854,957**

As at December 31, 2018 KPST-PA investments in Kosovo Treasury debt instruments measured at amortised cost consisted of 25 securities with EUR 209,060,000 in nominal value, original maturities of between 6 months and 10 years, average duration (weighted) of 2.79 years, and average rate/coupon of 1.79%. As at December 31, 2017 they consisted of 10 securities with EUR 103,130,000 in nominal value, original maturities of between 6 months and 7 years, average duration of 1.67 years, and average rate/coupon of 1.33%. Kosovo Treasuries are not rated.

As at December 31, 2018 KPST-PA investments in term deposits measured at amortised cost consisted of 20 deposits with banks that had original maturities of between 1 and 2 years, fixed interest rates, an average duration (weighted) of 1.19 years, and average interest rate of 1.55%. The banks are all commercial banks licensed and operating in the Republic of Kosovo (Banka Kombëtare Tregtare, Banka për Biznes, Turkish Enterprise Bank, NLB Bank, Raiffeisen Bank Kosovo, ProCredit Bank, ISh Bankasi, and Banka Ekonomike).

As at December 31, 2017 investments in term deposits measured at amortised cost consisted of 11 deposits that had original maturities of between 1 and 2 years, fixed interest rates, an average duration (weighted) of 0.99 years, and average rate of 1.46%.

Impairment provisions for debt instruments for the year ended December 31, 2018 were derived in accordance with the expected credit loss model as detailed in significant accounting policies.

Net movements in impairment provisions for the year ended December 31, 2018 for the above instruments were:

	Kosovo Treasuries	Term deposits	Debt instruments
	EUR	EUR	EUR
Releases in impairment provision	63,954	18,745	82,699
Additions to impairment provision	(444,842)	(53,157)	(497,999)
Net movement in impairment provisions	**(380,888)**	**(34,412)**	**(415,300)**

There was no movement of impairment provisions during the year ended December 31, 2017.

8 LIABILITIES TOWARDS KPST-O

	As at December 31 2018	As at December 31 2017
	EUR	EUR
Fees charged on participants' accounts - payable	415,160	396,359
(Less) / Plus: Difference from refunds of erroneous contributions	(4,559)	2,182
Net liabilities towards KPST-O	**410,601**	**398,541**

As at December 31, 2018 the balance of payable fees amounting EUR 415,160 relates to KPST fees charged to the participants' accounts which were not transferred to KPST-O as of reporting date (2017: EUR 396,359). The fee liabilities are increased, or (netted), with the difference between the value of shares redeemed for the purpose of the refund (the redemption value) and the amount refunded to the payee (the nominal contribution). As at December 31, 2018 the balance of differences from refunds was EUR -4,559, making for net liabilities towards KPST-O in the amount EUR 410,601 (2017: EUR 2,182 and EUR 398,541, respectively).

Refunds are necessary in cases when, what was initially considered a pension contribution and units were issued for it, is proven to have been paid in error or was overpaid. In such cases, only the nominal amount is refunded to the payer.

9 LIABILITIES FOR REPURCHASED SHARES

	As at December 31 2018	As at December 31 2017
	EUR	EUR
Liabilities for refunds	130,346	125,497
Liabilities for the withdrawal of savings	294,433	341,881
Liabilities for the return of unallocated funds	-	9,967,983
Total liabilities for repurchased shares	**424,779**	**10,435,361**

As at December 31, 2018 the balance of funds redeemed through refunds and withdrawal of savings (benefit payments) not transferred to respective beneficiaries as of reporting date amounts to EUR 424,779 (2017: EUR 467,378).

Paragraph 3 of Article 3 of the Law No. 05/L-116 amending paragraph 7.11 of the Article 7 of the Law No. 04/L-101 on Pension Funds in Kosovo, allows for the redemption of units of contributions that were: a) received more than 6 years ago; and b) which remain unallocated despite all the efforts of the KPST administration to find their rightful owner. The proceeds of such redemptions are paid to the Kosovo Consolidated Budget via the Tax Administration of Kosovo.

In December 2018 units related to unallocated contributions paid before December 31, 2012 were redeemed. The value of the redemption was EUR 1,622,498 and was comprised of nominal contributions amounting EUR 1,223,238 and net gains amounting EUR 399,260. The proceeds were paid in full at the end of December 2018.

In December 2017 unallocated contributions paid before September 2011 were redeemed. The value of the redemption amounted EUR 9,967,983 and was comprised of nominal contributions amounting EUR 7,026,365 and net gains amounting EUR 2,941,618. The proceeds were payable as at December 31, 2017 and the payment was executed during January 2018.

10 NON-CONTRIBUTIONS

Incoming transfers to the KPST-PA collection account with CBK, which at the time of processing a bank statement are identified as not being pension contributions (were paid in error or overpaid), are classified as non-contributions and are not unitised. In all other cases incoming contribution transfers are unitised, and subsequently redeemed as refunds when proven to have been made in error. As at December 31, 2018 the balance of non-contributions yet to be returned to the payer as of reporting date amounts to EUR 34,257 (2017: EUR 49,298).

11 OTHER INCOME

During the year ended December 31, 2018 the Governing Board of KPST had decided to refund EUR 700,000 to pension assets from the KPST-O surplus for investment activities (2017: EUR 385,000).

12 FEES CHARGED ON PARTICIPANTS' ACCOUNTS

	Year ended December 31 2018	Year ended December 31 2017
	EUR	EUR
Fees for investment activities	6,447,812	6,043,149
Fees for operational activities	1,212,535	1,245,535
Total fees charged on participants' accounts	**7,660,347**	**7,288,684**

Fees are accrued on daily basis according to the formula:

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

Total fees charged on gross participants' assets for the purpose of financing the activities of KPST-O for the year ended December 31, 2018 amounted EUR 7,660,347 (2017: EUR 7,288,684).

Applicable fees for the reporting period, as approved by the Assembly of the Republic of Kosovo in accordance with Law Nr. 04/L-168, were as follows:

Date from	Date to	Fees for investment activities	Fees for operational activities	Total fees
January 1, 2017	January 31, 2018	0.393% p.a.	0.081% p.a.	0.474% p.a.
February 1, 2018	December 31, 2018	0.381% p.a.	0.071% p.a.	0.452% p.a.

13 INDIVIDUAL PARTICIPANTS' ACCOUNTS

	As at December 31 2018	As at December 31 2017
	Number of Accounts	Number of Accounts
Accounts with no withdrawals of savings	582,740	553,015
Accounts with withdrawals of savings	43,947	38,512
Total accounts	**626,687**	**591,527**

An account with withdrawals of savings represents accounts from which pension savings have been withdrawn due to: (i) the contributor retiring by reaching the pension age of 65 years old or by becoming permanently disabled; or (ii) successors, deemed as rightful heirs, inheriting the pension savings of a deceased participant. Out of 626,687 contributors for whom KPST has opened a pension savings account, 344,453 had contributions belonging to the year ended December 31, 2018 (2017: 352,849 out of 591,527 opened accounts).

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

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

Mainly due to the imperfect nature of collection and reporting process in force prior to the fourth quarter of 2012, when the TAK portal was introduced, funds collected have not been fully allocated to individual participants accounts. Since the portal was introduced the vast majority of contributions are being allocated to individual accounts on the day payments are first processed. Predominantly due to employer non-reporting for prior periods, an amount of EUR 1,293,572 was not allocated to individual participants' accounts as at December 31, 2018 (December 31, 2017: EUR 2,288,327).

During 2018 KPST allocated the amount of EUR 4,698 to individual accounts from the amount outstanding as of December 31, 2017 and redeemed as unallocated assets contributions amounting EUR 1,223,238. During 2017 KPST allocated the amount of EUR 299,699 to individual accounts from the amount outstanding as of December 31, 2016 and redeemed as unallocated assets contributions amounting EUR 7,026,365.

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

Reason	As at December 31 2018	As at December 31 2017
	EUR	EUR
Employers have not submitted contribution reports	1,104,230	2,041,184
Invalid contributor ID and Name/Surname combination	159,719	228,273
Payment not posted to employer account	29,623	18,870
Total un-allocated contributions	**1,293,572**	**2,288,327**
Cumulative contributions unitised up to reporting date	1,594,824,669	1,422,168,517
Un-allocated contributions as percentage of unitised contributions up to reporting date	**0.08%**	**0.16%**

13 INDIVIDUAL PARTICIPANTS' ACCOUNTS (CONTINUED)

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

	Notes	As at December 31 2018	As at December 31 2017
		Value EUR	Value EUR
Net participants' assets		1,691,903,168	1,644,799,405
Adjusted for:			
Contribution receivables not unitised on reporting date	5	(11,347,368)	(10,151,350)
Balance of impairment provisions	7	593,125	-
Net unitised participants' assets		**1,681,148,925**	**1,634,648,055**
Balance of funds in individual accounts		1,679,863,025	1,631,759,860
Percentage of net unitised participants' assets in individual accounts		**99.92%**	**99.82%**

14 PHASED WITHDRAWAL BENEFIT PAYMENTS

As per the Rule for the withdrawal of pension savings, amended by CBK in August 2017 participants retiring with balances above the threshold of EUR 3,000 in their KPST accounts, must withdraw their savings in phases but have the option to receive 20% of their balance in a lump-sum payment (2017: threshold of EUR 3,000). Participants receive monthly payments amounting 1% of the balance of their account upon retirement from KPST or EUR 200, whichever is greater (2017: 1% or EUR 200 whichever is greater). The phased withdrawal rules are conditional until such time as annuities shall be available in Kosovo. Upon retirement the balance of participants' KPST account, minus the portion received in lump-sum, is transferred to the commercial bank contracted to provide the phased withdrawal service, and such assets are no longer accounted for as KPST-PA assets. Persons retiring with balances under the threshold get their proceeds in a lump-sum payment.

15 STATEMENT OF SHARE MOVEMENTS ATTRIBUTABLE TO REDEEMABLE PARTICIPANTS

	Notes	2018	2017
		Units	Units
As at January 1		**1,115,941,202**	**1,030,807,350**
Units issued for received contributions		119,032,107	111,815,014
Units redeemed through withdrawal of savings		(21,572,925)	(19,436,297)
Units redeemed due to return of unallocated funds		(1,149,974)	(6,798,515)
Units redeemed through refunds		(569,693)	(446,350)
As at December 31		**1,211,680,717**	**1,115,941,202**
Net unitised participants' assets	13	1,681,148,925	1,634,648,055
NAV per share on reporting date		**EUR 1.3875**	**EUR 1.4648**

16 EVENTS AFTER THE REPORTING PERIOD

There are no subsequent events that require adjustment or further disclosure in the financial statements for the year ended December 31, 2018.

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