

# ANNUAL REPORT 2019

 **Trusti**

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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)	160.8m	76.0m	178.5m	243.1m	272.6m	339.4m	410.5m	464.7m	468.0m	494.5m

### INVESTMENT

	2019	2018
Share price at the end of the year	€1.5106	€1.3875
Share price decrease/increase during the year	+8.87%	-5.3%
Gross investment return for the year	€158,459,907	€-85,406,464
Other returns for the year	€2,300,000	€700,000

### ASSETS UNDER MANAGEMENT (AUM)

	2019	2018
Net AUM at the end of the year	€1,966,956,583	€1,681,148,925
Increase in net AUM during the year	285,807,658	46,500,870

### CONTRIBUTIONS AND CONTRIBUTORS

	2019	2018
Contributions received during the year	€187,548,325	€173,852,170
Contributions received since inception	€1,781,446,174	€1,594,824,669
Accounts opened during the year	43,286	35,121
Account-holders at the end of the year	669,973	626,687
Active contributors during the year	379,827	344,453

All the figures in this Annual Report, including but not limited to: net or gross AUM, contributions for the year, changes in AUM; do not include contribution receivables in the amount of €12.27m (2018: €11.35m).

### RETIREMENT

	2019	2018
Newly withdrawn accounts during the year	7,808	5,435
Value of withdrawals for the year	€52,583,934	€31,347,494
Withdrawn accounts since inception	51,755	43,947
Value of withdrawals since inception	€203,403,895	€150,819,961

### FEES AND EXPENSES

	2019	2018
Investment / Operating fees during the year*	0.370% / 0.069%	0.381% / 0.071%
Amount of fees charged for the year	€8,235,843	€7,660,347
Investment expenses for the year	€4,702,557	€5,743,872
Operating expenses for the year	€1,205,928	€1,158,745

### UNALLOCATED CONTRIBUTIONS AND SERVICES

	2019	2018
Unallocated contributions at the end of the year	€2,405,299	€1,293,572
Number of services provided during the year	159,355	161,467
Number of eTrusti accounts	129,960	102,727

\*Details of withheld fees for 2019 are disclosed in the financial statements attached to this report.



# INVESTMENTS IN 2019

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 2019	GROSS INVESTMENT RETURN FOR THE YEAR 2019
<b>Vanguard Investment Series plc</b> Global Stock Index Fund Euro hedged (ISIN: IE00B03HD316)	€47,484,682	€48,969,050
<b>Nordea 1</b> Stable Return Fund (X) Euro (ISIN: LU0539147214)	€229,047,644	€17,042,015
<b>Nordea 1</b> Global Stable Equity Fund (X) (ISIN: LU0257969260)	€126,488,567	€28,881,121
<b>BNY Mellon</b> Real Return Fund (X) (ISIN: IE00B504KX99)	€270,436,971	€23,180,606
<b>AXA</b> Global Inflation Linked Bonds (I) Eur (ISIN: LU0227145629)	€29,528,301	€2,074,769
<b>AXA</b> Optimal Income I EUR (ISIN: LU0184635471)	€41,948,627	€5,740,987
<b>Schroders</b> Global Diversified Growth (I) (ISIN: LU0776411141)	€43,638,302	€5,244,959
<b>Amundi</b> Rendement Plus (I2) (ISIN: FRO011027283)	€85,540,345	€7,190,867
<b>BNP Paribas - PDP</b> Parvest Diversified Dynamic (I) (ISIN: LU0102035119)	€111,532,837	€9,763,153
<b>Schroders *</b> International Strategic Bond Euro Hedged (I) (ISIN: LU0201624265)	--	€574,969
<b>Amundi</b> 3M - (I) (ISIN: FRO00703813)	€273,862,765	€-830,703
<b>iShares Core</b> Corp Bond UCITS ETF EUR (ISIN: IE00B3F81R35)	€61,306,550	€-642,957
<b>iShares Edge</b> S&P 500 Minimum Volatility UCITS ETF EUR (ISIN: IE00BYX8XD24)	€50,394,634	€4,532,116
<b>Amundi IS</b> Corporates ETF-C EUR (ISIN: LU1681039647)	€61,168,064	€-792,988
<b>iShares Edge</b> MSCI USA Quality Factor ETF (ISIN: US46432F3394)	€47,680,019	€-29,170
<b>Treasury securities</b> The Government of the Republic of Kosovo	€298,483,698	€5,299,465
<b>Term deposits</b> BKT, NLB, TEB, ISB, PCB, RBK, BPB, BEK	€185,620,151	€2,261,648
<b>TOTAL</b>	<b>€1,964,162,157</b>	<b>€158,459,907</b>

\*On Augustu 2019, the Governing Board has withdrawn the entire investment Schroders ISB.

## 2019

Investments in the ETF funds have been initiated for the first time, and investments in Kosovo reached a record value of almost €500 million.

Net return for this year was + 8.9%, while assets under management increased by +17.0%.

## 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%.

## 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.

## 2019

e-Trusti accounts reached almost 130 thousand, thus constituting around 30% of active accounts. Electronic e-Kiosk has been put in service, and contributors can print the statement any time (24/7).

Unallocated contributions rose slightly to 0.14% of the contributions collected.

## ACRONYMS

<b>ASSEMBLY</b>	Assembly of the Republic of Kosovo
<b>CBK</b>	Central Bank of the Republic of Kosovo
<b>DPD</b>	Department for Production of Documents, Ministry of Internal Affairs
<b>GOVERNMENT</b>	Government of the Republic of Kosovo
<b>GDP</b>	Gross Domestic Product [as published by the Kosovo Agency of Statistics]
<b>IFRS</b>	International Financial Reporting Standards
<b>KAS</b>	Kosovo Agency of Statistics
<b>KPST</b>	Kosovo Pension Savings Trust
<b>OECD</b>	Organization for Economic Cooperation and Development
<b>PWP</b>	Phased Withdrawal Program [of pension savings]
<b>TAK</b>	Tax Administration of Kosovo

## GLOSSARY OF TERMS

**EQUITY** - Financial instrument that provides ownership in a company, depending on the size of investment.

**NOTES OR BONDS** - Financial instrument issued by governments or corporations with a designated maturity limit which usually pays a coupon based on a fixed or flexible interest.

**MULTI-ASSETS** - Investment funds that have in their composition a mix of securities from core asset classes [equities, bonds and cash].

**INVESTMENT RISK** - Implies the probability or likelihood of occurrence of losses relative to the expected return on any particular investment.

**BENCHMARK** - A standard reference level of comparing and analysing the investment performance. KPST has set as benchmark Kosovo's Consumer Price Index [CPI], otherwise referred to as the rate of inflation in Kosovo.

**DEFINED CONTRIBUTION** - In a defined contribution plan, fixed contributions are paid into an individual account by employer and employee. The contributions are then invested and the returns on the investment [positive or negative] are credited to the individual's account. On retirement, the member's account is used to provide retirement benefits, usually through the purchase of an annuity which then provides a regular income.

## THE LAST FIVE YEARS IN NUMBERS

# 80.8%

NET PENSION ASSETS

# 17.3%

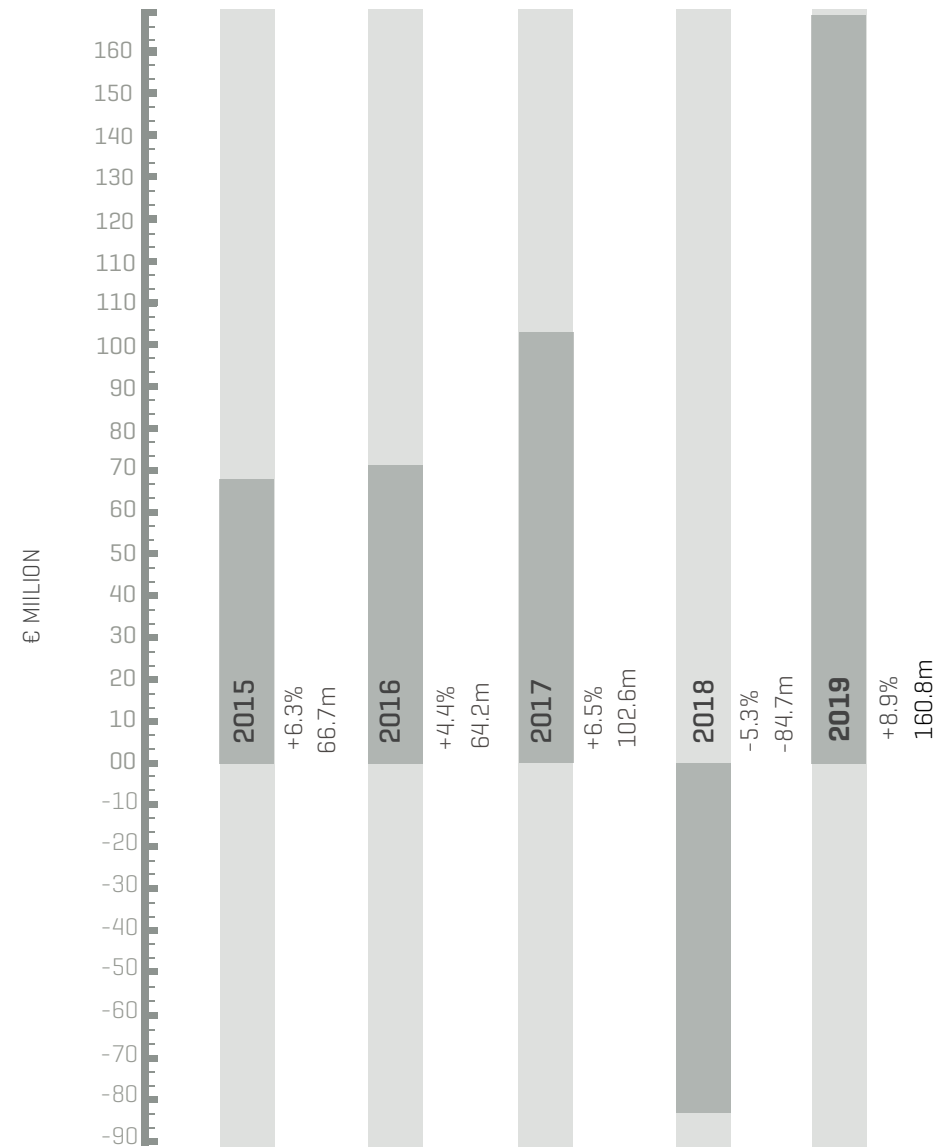
SHARE PRICE

# €272.6<sub>m</sub>

GROSS RETURN

### GROSS RETURN

UNIT PRICE ANNUAL INCREASE/DECREASE



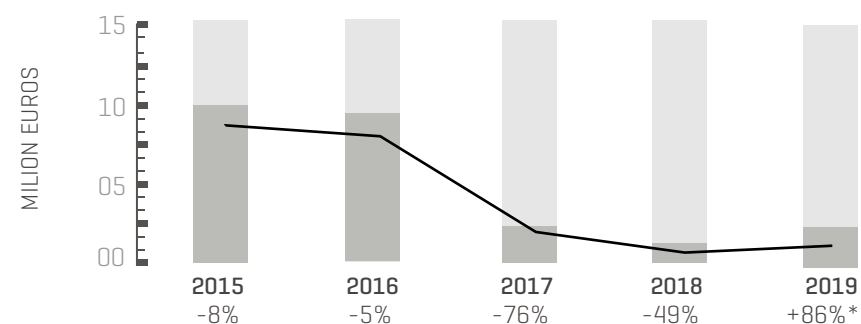
### NUMBER OF ACCOUNT-HOLDERS AND ACTIVE CONTRIBUTORS

YEAR	TOTAL ACCOUNTS			ACTIVE ACCOUNTS		
	(A)	(B)	(B)/(A)	(D)	(E)	(E)/(D)
2015	507,963	356,990	70.3%	297,466	205,380	69.0%
2016	541,923	377,192	69.6%	312,672	213,331	69.2%
2017	591,527	406,815	68.8%	352,849	238,005	67.5%
2018	626,687	426,960	67.9%	344,453	229,515	66.6%
2019	669,973	450,845	67.3%	379,827	248,618	65.5%

### NET AUM VS ANNUAL GDP OF KOSOVO

	2015	2016	2017	2018	2019
Net AUM	€1,229,333,328	€1,417,970,874	€1,634,648,056	€1,681,148,926	€1,966,956,583
GDP	€5,807,000,000	€6,070,200,000	€6,282,200,000	€6,659,000,000	€7,006,000,000*
Net AUM vs Kosovo GDP	21.2%	23.4%	26.0%	25.2%	28.1%

### CUMULATIVE UNALLOCATED CONTRIBUTIONS



CHANGE IN UNALLOCATED CONTRIBUTIONS AS A PERCENTAGE OF TOTAL CONTRIBUTIONS

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

KPST NET AUM AT THE END OF 2019 REACHED

# 28.1%

OF REAL GDP OF KOSOVO

\*AS EVALUATED BY THE KOSOVO AGENCY OF STATISTICS FOR THE PERIOD OF Q4 2019





## 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,

The 2019 Annual Report, together with the attached financial statements, is the most important annual publication of the institution, through which we disclose the main issues on investments and operations for the year.

2019 was a very positive year for growth, where the gross return on investment (of +€161 million) was the main attributor. In nominal value this is also the highest return ever. While the increase of the unit price (by 8.9%) for the year, was also the second highest since the establishment of KPST - the highest was in 2009 (by +14.1%). The institution has reached 18 years of operation of which, 16 years are with positive returns and only two (2008 and 2018) with negative returns. In 18 years of operation, the gross return on investment reached +€483 million, while the unit price rose by 51.1%.

KPST had started with a high risk exposure in 2019, as 2018 end of year correction was considered excessive. Afterward, especially during the period from May - August, KPST has shown increased caution and reduced high-risk investments. While in the last quarter of the year, we noticed an improved in economic environment, with less risk of economic recession, satisfactory series of corporate profits, relaxation of US-China trade relations and fading of the risk for increase in rates or inflation.

From the dynamic monitoring of investment positioning, KPST marked an annual performance (of 8.9%) while the risk taken on its portfolio was very restrained, with an annual fluctuation of 2.3%. This resulted in a KPST record return/risk ratio of 3.9 (when global stocks had a ratio of 1.6 - 2.4), thus fulfilling the goal of maximizing the profit in relation to the risk taken. Therefore, the Governing Board considers that the institution has satisfactorily fulfilled its tasks, taking into account the four fundamental principles provided by law, such as: i) security of pension assets, ii) diversity of investments, iii) maximum return consistent with the security of pension assets, and iv) maintenance of adequate liquidity. During last year there were some significant changes in the geographical distribution of investments.

For the first time, 25% of KPST investments were made in Kosovo, reaching €484 million (2018: €328 million). Out of total investments made in Kosovo, €298 million were invested in the Government of the Republic of Kosovo bonds (2018: €209 million) and €186 million were in local bank deposits (2018: €119 million).

The institution is already managing around €1.97 billion, which was also a record increase in assets under management (€286 million per year) and the institution's responsibility to manage the fund is growing rapidly. For this purpose, during the year the Investment and Risk Department was completed with additional staff. The institution continues to have a staff of only 28, which we believe is a unique example in the country.

Regarding operations, the institution continues to perform the usual tasks by providing services continuously and without interruption, both at KPST office in Prishtina, and regional TAK offices - through pension officials. At the same time, the number of online services, either through the e-Trusti portal or through e-mail and social networks, continues to grow rapidly.

Already over 140 thousand contributors have accounts online through e-Trusti service, while around 18 thousand contributors follow the Facebook page of the institution, while dozens of citizens send questions every day by e-mail, Facebook or enquire by phone.

KPST aims to communicate with contributors through online communication platforms, in order to reduce costs and increase efficiency, to improve services and increase interaction with contributors. The institution never neglects the importance of managing 670 thousand accounts (which increased by 43 thousand in 2019), as well as maintaining and protecting their data.

Of great value was the fact that the Financial Statements of KPST continued to be completely clean this year, according to the opinion of the External Auditor, which best shows the state of professional and technical and legal development of the institution.

Being aware that not everything can be summarized in this letter, we encourage everyone who is interested about our institution to consult all the reports (monthly, quarterly and annual), financial statements and all the news, decisions and notices which are constantly published online.

Finally, we would like to commend the extraordinary efforts of the KPST staff, and to appreciate the correct and open cooperation of the CBK, TAK and the Kosovo Assembly, who oversee a very sensitive institution for the citizens of country.

**REFLECT  
FOR  
THE FUTURE!**



# 01

## ORGANISATION AND FINANCES

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## 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.

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 2019 investments in Kosovo government securities, as well as bank deposits, reached record levels amounting to about €500m. For the first time KPST started direct investments in ETF funds.

## GOVERNING BOARD

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

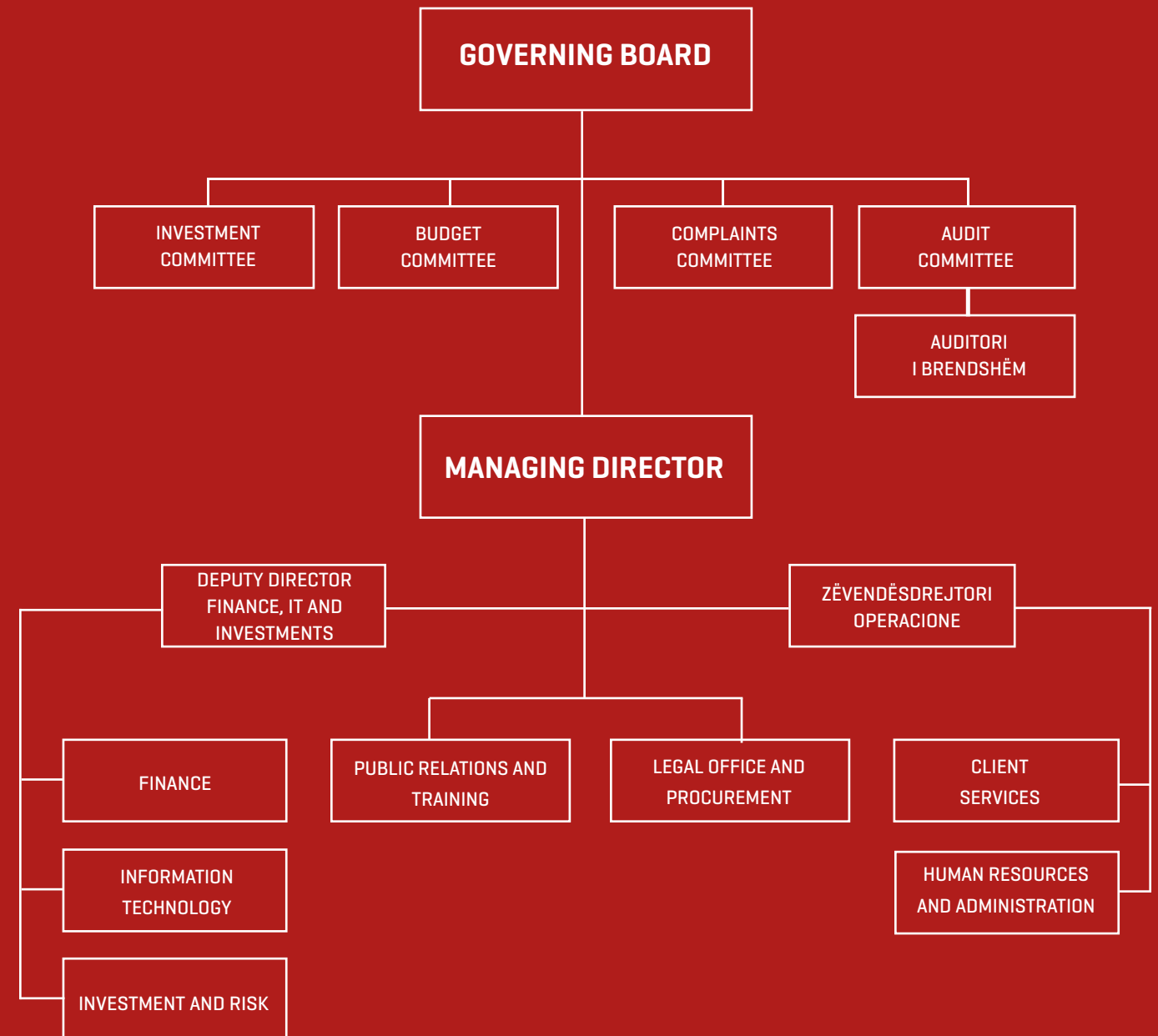
The Law No. 04/L-101 of the Republic of Kosovo on Pension funds of Kosovo, and its subsequent amendments [with Law No. 04/L-168 and Law No. 05/L-116], provides for a detailed list of functions and responsibilities of KPST and its Board. The pension rules of CBK provide the secondary legislation in relation 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.

During 2019, the composition of the Governing Board has been completed, having five professional members, two representative members and one external member in the Audit Committee, without the right to vote.





## BOARD MEMBERS AT YEAR-END



**MR.SC. 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.*

**ROLE ON THE BOARD:**

Professional

**APPOINTED:**

May 2009

**CURRENT MANDATE:**

Fourth



**MR. FREDERICK ARTESANI**

Chairman of the Investment Committee and member of the Budget Committee

*An economist and an Independent Financial Advisor with over 36 years of experience in financial markets.*

Professional

October 2008

Fourth



**MR. BEHXHET HALITI**

Chairman of the Audit Committee and member of the Investment Committee

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

Professional

December 2015

Second



**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.*

Professional

November 2017

First



**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.*

Employer representative

November 2017

First



**PROF. DR. 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*

Professional

August 2012

Second



**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.*

Employee representative

December 2018

First

# 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 open-end 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.

The Investment and Risk Department, together with the Board's Investment Committee, and within the guidance of KPST's Investment Manual, help manage actively KPST investment assets through different recommendations which encompass economic forecasts, financial policy changes, fluctuating market behavior, published company and sectors results, changes in regulations and any other factor affecting existing or potential investments. These recommendations are aimed at improving risk-adjusted returns for KPST within its prudent long-term investment mandate.

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.

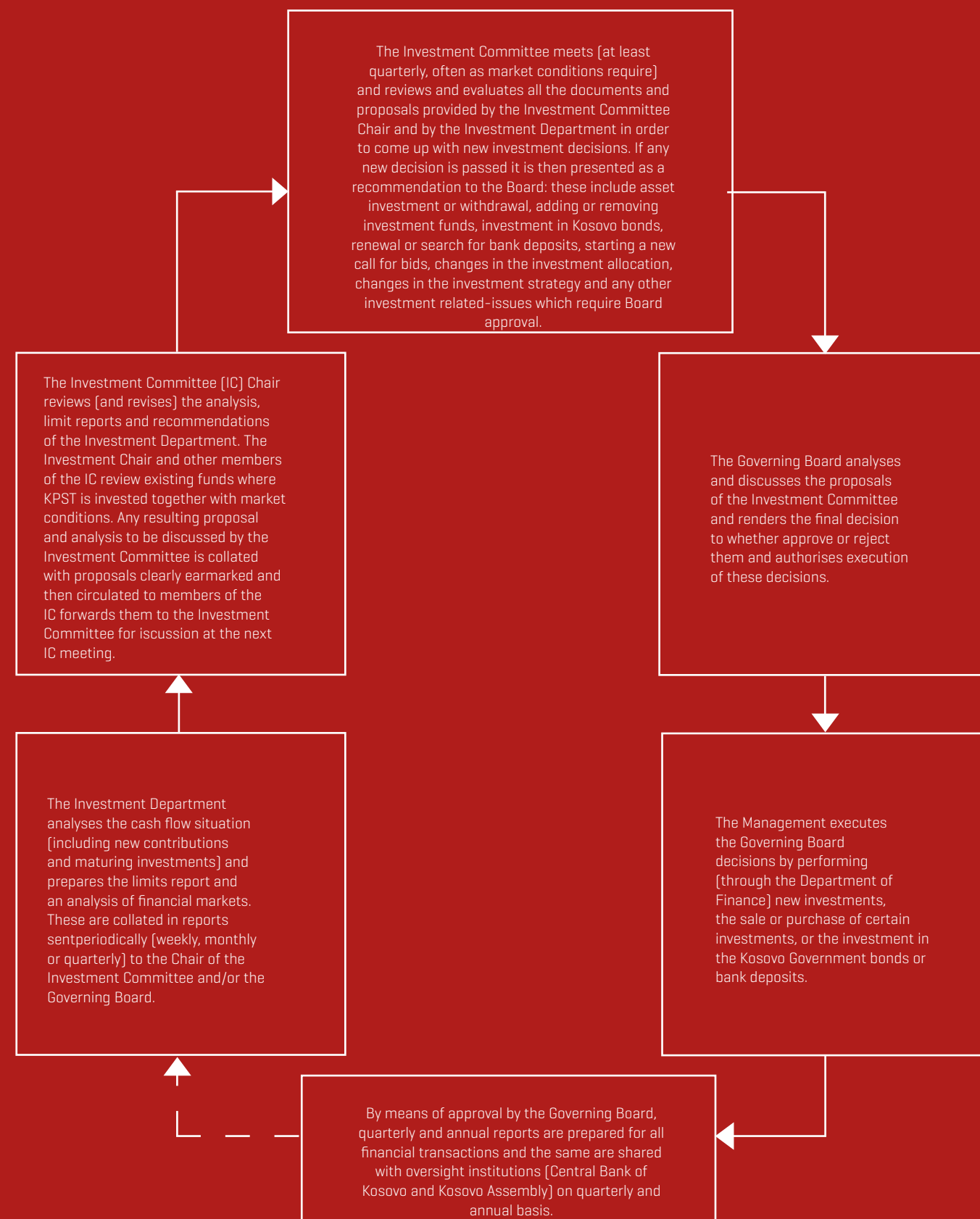
On the other hand, investment in Kosovo (in bonds and bank deposits) is taken within the framework of the prevailing market conditions for sovereign fixed income instruments as well as an assessment of the relative risk of the issuer.

## 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 open-end funds through which KPST invests its assets. The committee also reviews the compliance of investments with legal and regulatory requirements. The committee makes recommendations to the Board for the investment of pension assets.

#### CHAIRMAN:

Frederick Artesani

#### MEMBERS:

Ruzhdi Morina  
Behxhet Haliti  
Hajdar Korbi  
Driton Qehaja

#### MEETINGS HELD:

Six

### 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.

Behxhet Haliti

Valdrin Kasumaj  
Ymer Ymeri  
**External member:**  
Mirlinda Ahmeti

Five

### THE COMPLAINTS COMMITTEE

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

#### CHAIRMAN:

Valdrin Kasumaj

#### MEMBERS:

Hajdar Korbi  
Ymer Ymeri

#### MEETINGS HELD:

Six

### 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

Ruzhdi Morina

Frederick Artesani  
Driton Qehaja

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 2019, there were 27 permanent employees and one part-time employee [in 2018: there were 25 permanent employees and one part-time employee].

Over the past year, we have engaged students as interns, as needed, in order to get experience and provide services to clients and the Finance Department.

Minority employees accounted for 7% of the workforce [8% of those who declared ethnicity]. Women accounted for 30% of the workforce [2018: 28%]; 85% of staff were older than 35 years [2018: 84%], and 4% of the staff were with permanent physical disabilities [2018: 4%].

Due to changes in the staff composition, the average age has slightly decreased to 43.7 years [2018: 44.4 years].



**MANAGEMENT**

**1 MANAGING DIRECTOR**

UNIT	CLIENT SERVICES	INFORMATION TECHNOLOGY	FINANCE	INVESTMENT AND RISK
<b>PERMANENT EMPLOYEES</b>	<b>9</b>	<b>4</b>	<b>3</b>	<b>3</b>
<b>POSITIONS</b>	1 manager 7 pension advisors 1 receptionist	1 manager 1 programmer/developer 1 network administrator 1 database administrator	1 certified accountant 2 finance officers	1 manager 2 investment and risk analyst
<b>DESCRIPTION</b>	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 the 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.

**2 DEPUTY DIRECTORS**

HUMAN RESOURCES AND ADMINISTRATION	LEGAL OFFICE AND PROCUREMENT	INTERNAL AUDIT	PUBLIC RELATIONS, TRAININGS, TRANSLATIONS
<b>3</b>	<b>1</b>	<b>1</b>	<b>1</b>
1 human resources officer 1 housekeeper 1 security officer	1 legal officer	1 internal auditor	1 public relations officer, coordinator for translations and trainings
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 2019.

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. 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 at least four times a year to the Audit Committee of the Board on all aspects of institution's activities. In addition, in 2019, 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.

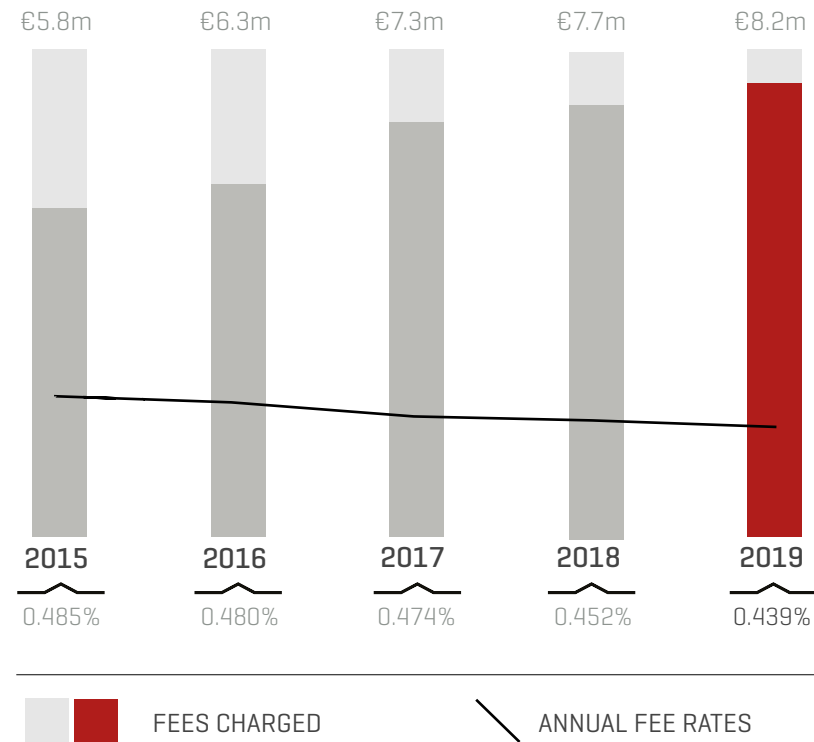
Also, the Internal Auditor, an expert in the field of IT, has conducted this year an audit of the internal processes of information technology in the KPST.

## ISSUES AND RECOMMENDATIONS RAISED BY EXTERNAL AUDITOR AND INTERNAL AUDITOR FOR 2019 AND THEIR STATUS

	RECOMMENDATION	FOLLOW UP/COMMENT
EXTERNAL AUDITOR	During our audit we identified that KPST did not fully update the Accounting Policy in which it will be included the requirements of IFRS 9 - Financial Instruments that is effective from 01 January 2018. The impairment model used will be approved in a separate document. KPST should take in consideration all changes in IFRS Standards and to make an appropriate accounting manual with all IFRS requirements.	When considering the instruments in which the KPST invests, and which is affected by this standard (bonds and deposits), the current model is adequate in complexity, and reasonable in estimating/determining expected losses. However, for 2020 a small change in the calculation formulas is intended, more precisely to remove the rounding of the years up to maturity as multipliers in determining the calculated value; and this will make the model more appropriate. If the KPST starts with direct investments in instruments and/or other issuers, then the model will be revised.
INTERNAL AUDITOR	Paragraph 8.5 of internal policies and procedures, states: "In case of sub-payments - In the final day of each year, reports (non-correctional) on the sub-payments that have at least 33% of the obligation paid, will be partially allocated to Individual accounts. The Administrator of the database is responsible for the proportionality of original reports, transferring and their reconciliation in the KPAS software, and return of original report, which will be pending until the remaining payments are done". Partial allocation of sub payments occurs more frequently than once at the end of the year. Otherwise, if partial allocation under the requirements of the concerned paragraph is applied, the achievement of the target set by the Board of Directors for unallocated funds is at risk. The management is recommended to amend the involved paragraph to enable partial allocation at least on quarterly basis, and such amended paragraph should be sent to the Board of Directors for information.	Following recommendation by the Audit Committee dated 10.12.2019; the recommendation of the auditor for amending the paragraph in the procedure has been implemented.
	During the Disaster Recovery test, although all processes tested at DRC level and the main level were functional, during the testing of the platform "My Account" in the website at DRC level, the platform was not rendered inactive for contributors and therefore if someone would have changed any data during the testing period, that data would not have been saved in the system. The recommendation is for KPST's management that in the future, during the testing of the platform "My Account" in IP addresses of the RMF, the platform is deactivated, and if any contributor would want to change data via the platform the same will be informed that it is not possible to do so due to testing.	Starting from the date of the recommendation, whenever the database is under DRC testing, a page stating that e-Trusti is temporarily out of service will be activated.
	Following the Decision of the Ministry of Labour and Social Welfare to grant war invalids the right to withdraw funds accumulated in the KPST accounts, the client service office of KPST faced a significant flux of beneficiary because of this decision. Also, it has so occurred that the Client Service officer at KPST had staff shortage (due to maternity leaves, health leave, or annual leave). As consequence, there were cases of delays in the processing and approval of applications for such beneficiaries. We recommend the management to develop a strategy for facing such situation, which would be in compliance with internal procedures and would best serve contributors.	The management has analyzed the situation, taking into consideration the unusual period when the same took place (during summer holidays) but also the prompt enforcement of the decision, without time available to prepare for its implementation. However, we will take all necessary measures to ensure that such situations are managed and do not recur, by using the system for setting application appointments. Also, it is worth mentioning that despite procedural delays, the beneficiaries have had no complaints on the issue.

## FINANCING

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



The annual fees charged on pension assets for 2019 decreased to a total of 0.439% of the funds [2017: 0.452%].

The investment fee decreased from 0.381% to 0.370% whereas the operational fee decreased from 0.071% to 0.069%. But at nominal value, the fees charged on pension assets increased by 7.1%, or by €575,496, due to the increase of assets under management.

However, this year KPST did not spend all the revenues generated from these fees and the surplus of €2,300,000 has been returned to the contributor's fund.

Charged fees generated revenues of €8,235,843 of which €6,941,657 were intended to cover investment expenses and the remaining €1,294,186 were intended to cover operational costs.

The non-fee revenues of KPST for the year were €174,030 and thus, the total KPST revenues for 2019 amounted to €8,409,873 or 8.4% higher than the revenues for the previous year [2018: €7,758,014].

About 70.0% of non-fee revenues were from other investments revenues, while 30.0% were revenues from other investment activities, incorrectly paid refunds and other operating revenues.

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 2018, KPST has reduced the fees charged during 2019 (in percentage) for both investment and operational activities.

The KPST's operational tariff of 0.09% 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 0.370% 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 2019, the operational cost of KPST, on average charged €2.09 [2018: €1.93] 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).
- 13 the ability to print the account statement at any time through the e-Kiosk outside the KPST office in Prishtina.

## 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 79.6% of KPST expenditures for 2019 (2018: 83.2%). They were worth €4,702,557 (2018: €5,743,872), thus falling because we had more funds invested in the cash market. But in total the funds invested outside Kosovo were almost the same as in 2018. In 2019 they were on average €1,399.5 mln versus 2018 when they were €1,401 mln.

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 pension assets - are further reduced in 2019, falling to around 0.370%.

Investment expenses were realized 67.7% of planned revenues from investment tariffs (2018: 89.1%), thus increasing the surplus from investment activities to €2.30 million in 2019 (2018: €719.5 thousand).

Significant increasing of surplus or lowering investment expenses this year is related to the investment of more assets in the cash market compared to 2018, which caused the lowering of expenses for the investment of assets through such funds.

During 2019, the Governing Board decided to return almost the entire amount of surplus from investment activities (of €2,300,000) back to the contributor's fund, thus, operating optimally with the management fee, by not charging the contributors unnecessarily.

It is the first time, at least in the last five years, that the forecasted investment expenses drop below the level of 89%.

## 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.

Open-end funds	2019		2018	
	Annual net fee rate	Fees charged	Annual net fee rate	Fees charged
Vanguard - GSIF	0.13%	€365,610	0.13%	€476,025
BNY Mellon - RRF	0.60%	€1,246,615	0.60%	€488,895
AXA - GILB	0.35%	€153,678	0.35%	€345,106
Schroders - SISF	0.50%	€100,784	0.50%	€50,969
Schroders - GDG	0.65%	€293,788	0.65%	€813,018
Nordea 1 - GSEF	0.43%	€414,968	0.43%	€689,736
Nordea 1 - SRF	0.56%	€1,129,320	0.56%	€942,218
Amundi - 3M I	0.54%	€221,064	0.55%	€16,719
AXA - WFOI	0.55%	€238,363	0.55%	€716,717
BNP Paribas - PDP	0.44%	€450,555	0.65%	€867,595
Amundi - RPI2	0.20%	€161,370	0.20%	€253,115
Corp Bond Eur ETF	0.20%	€46,473	--	--
S&P500 Minvol ETF	0.25%	€64,637	--	--
Amun EurCorp ETF	0.16%	€37,062	--	--
MSCI USA Qual ETF	0.15%	€2,768	--	--
Pictet - HDS	--	--	0.63%	44,293
<b>TOTAL FEES</b>		<b>€4,558,953</b>		<b>€5,704,406</b>
Transfer and other fees by CBK		€91,952		€30,550
Brokers, custodians and pledges		€51,652		€8,916
<b>TOTAL INVESTMENT EXPENDITURE</b>		<b>€4,702,557</b>		<b>€5,743,872</b>

79.6%

2019

83.2%

2018



## OPERATING EXPENSES

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

For 2019, operating expenses amounted to €1,205,928 (2018: €1,158,745) and accounted for 20.4% of the total expenses of KPST (2017: 17.2%). It is evident that operating expenses this year were higher (by €47,183) than last year, an increase of 4.1%. Although the increase of operating expenses can be considered slightly higher, most budget lines were reduced or remained the same as the previous year.

In 2019, the forecasted operational budget for goods and services was executed at 93.2% (2018: 95.6%). The level of the execution of operating expenses can be considered satisfactory for the 2019.

Staff costs are presented without including the staff training, travel, and other costs, as these costs are outlined in a separate budget line. Staff costs, although reduced by 1% from 2018, marked an increase in nominal value, and again accounted for the largest share of operating expenses this year as well, at 48.5% (2018: 49.6%). The reduction of this cost occurred as a result of staff movement.

Expenditures of the Board decreased to 16.0% of operating expenses (2018: 17.9%). Costs for printing and delivery of annual statements to contributors increased to 11.5% (2018: 9.3%), which means delivery of more annual statements to contributors by regular mail.

Significant increase in expenditures this year was on software maintenance, because in 2018 the contract for the account system maintenance company had expired (until its renewal by the CPA), but also because in 2019 the Investment Department started using the Bloomberg software for their needs.



20.4%  
2019

16.8%  
2018

OPERATING EXPENSES	2019		2018	
Staff costs	€584,453	48.5%	€574,375	49.6%
Governing Board expenses	€193,275	16.0%	€207,862	17.9%
Account statements and correspondence for beneficiaries	€138,368	11.5%	€107,951	9.3%
Software maintenance	€87,368	7.2%	€38,289	3.3%
Depreciation and amortisation	€92,696	7.7%	€53,584	4.6%
Office operating expenses	€22,595	1.9%	€82,801	7.1%
CBK supervision charges	€19,413	1.6%	€18,188	1.6%
Training, travel and other staff expenses	€16,057	1.3%	€10,050	0.9%
Professional services/Contractors/Consultants	€11,259	0.9%	€10,380	0.9%
Lease interest for the year	€10,540	0.9%	-	-
External audit	€9,050	0.8%	€9,050	0.8%
Communication	€7,263	0.6%	€8,298	0.7%
Disaster recovery - rent and other associated costs	€6,600	0.5%	€6,600	0.6%
Bank charges	€1,744	0.1%	€2,300	0.2%
Public education and advertising	€1,060	0.1%	€15,136	1.3%
Other costs	€4,187	0.3%	€13,881	1.2%
<b>TOTAL OPERATIONAL EXPENDITURE</b>	<b>€1,205,928</b>	<b>100%</b>	<b>€1,158,745</b>	<b>100%</b>

[1]

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

# 02

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## ACTIVITIES

41 Activities

42 Account management

45-46 Contribution allocation

47- 48 Client services

## ACTIVITIES

### THE GOVERNING BOARD

During 2019, the Board has operated in its full composition. After the extreme market volatility in the last quarter of 2018 resulting in a negative annual performance, the Board increased its focus on short to medium term risk and undertook a series of actions to improve risk-adjusted returns by implementing a tactical approach with risk-off / risk-on allocation adjustments.

One of the most important decisions was lowering of direct equity investments at the lowest historical level and, at the same time, the amount of assets directed to the cash market and multi-asset funds increased significantly.

Tactical rebalances, in order to better adapt the investment policy to market movement forecasts, were activated several times during the year, withdrawing from active funds around €1.33 billion and adding to the current funds, in four new ETF funds, around €1.43 billion. The difference between the withdrawn assets and those added was financed by the cash account at CBK from the previous year and through new contributions.

While rebalancing continued for investments abroad, the Board continued to increase investment in Kosovo. At the end of 2019, they accounted for  $\frac{3}{4}$  of all the investments, reaching a total amount of around €485 million. A year ago this figure was around €320 million. Investments in securities of the Government of Kosovo amounted to € 299 million, while placements in bank deposits in the country amounted to €186 million.

However, the increase in investments within the country came as a result of the increased demand from the Government of Kosovo to issue securities, as well as the readiness of the KPST Board to increase the presence of investments within the country any time possible (and as much as possible). In addition to investment decisions and oversight of the institution's operational activities, the Board members held regular meetings with Kosovo Assembly and the Central Bank of Kosovo. It also held meetings, visits and consultations with asset managers to ensure that investment and investment decision-making is appropriate.

### 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 investment in ETF funds; c) fully staffing the Investment and Risk Department; d) information and awareness-raising campaigns on pension contribution; e) increasing the number of accounts in e-Trust to lower the cost and facilitate communication with contributors; f) supporting 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 453 thousand account statements were sent by regular mail and e-mail.

In the 2019 cycle, 452,708 statements have been sent, out of which 253,258 via regular mail and 172,450 via e-mail (2018: 382,291 via mail and 204,691 via e-mail). This year, the number of new accounts increased by about 43,000, but at the same time the number of e-Trusti service users increased by about 30 thousand, thus reducing the need to send statements via regular mail.

Also from the distribution list were removed account statements that had no transactions in the last three years. Meanwhile, the number of contributors for which KPST had no physical or electronic address was 20,000 and the statement were not sent to them. Due to retirement (or death) of contributors, 7,808 accounts were newly "withdrawn" during 2019 (2018: 5,435). The total of accounts withdrawn amounted to 51,755. Account statements are not sent to this category of account holders either.

KPST opened 43,286 new individual accounts (2018: 35,121), bringing the total number of opened accounts since its establishment to 669,973. Of the new opened accounts during the year (i.e. out of 43,286), 41,775 of them were for new contributors, i.e. the ones that started contributing in 2019, whereas the rest were cases of contributions from previous years, for which KPST has either received the payment or information in 2019.

During the year, there were 33,317 employers and 22,890 self-employed that paid contributions for the reporting year (2018: 30,487 and 24,461 respectively).

In addition, there were also 3,893 employers and 4,002 self-employed that paid contributions only for the previous years (2018, respectively: 3,979 and 4,230).

In total, for 2019, there were 3.74 million transactions posted to contributors' accounts and over 515 thousand to employers' accounts (2018: 3.54 million, respectively 542 thousand).

The transactions of employers' accounts involve 37,911 cases (2018: 37,679) of refunding of: a) incorrectly paid contributions or overpayments; and b) fines by 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 - for which the employer has paid together with the pension contribution. These refunding transactions, in 99% of cases, were overpayments (transactions) performed by employers during the same year, i.e. during 2019. In 2018, the same accounted for 98% of cases, whereas in 2017 they accounted for 95%.

On average, employers have declared and paid for 9.56 (or 79.7%) months of 2019, almost same as in the previous year, whereas self-employed for 3.37 (or 84.3%) quarters of 2019, slightly less than in the previous year.

# 9.6

THE AVERAGE NUMBER OF MONTHS FOR WHICH EMPLOYERS PAID CONTRIBUTIONS

2018: 9.6

2019

# 3.4

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

2018: 3.4

2019







## CONTRIBUTION ALLOCATION

Unallocated contributions reduced to 0.14% of all the contributions collected.

During 2019, the KPST has not returned any unallocated funds to TAK, as it was done for two years in a row - since the amount belonging to the period 2013-2019 was relatively low (about €200,000). Nevertheless, when KPST returns assets to TAK, initially it proves that it has exhausted the possibilities of finding information, for several reasons: employers did not retain individual payment information or paid them with incorrect information; businesses closed or changed their activity; and/or have incorrectly paid taxes and fines as pension contributions.

However, it is worth reiterating that even after the transfer of these assets from KPST to TAK (for the abovementioned purposes), the applicable law provides the right of contributors to be reimbursed whenever they provide information and proof on these contributions, by also adding the average of the return from KPST's investments for the period from the moment of their transfer to TAK.

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

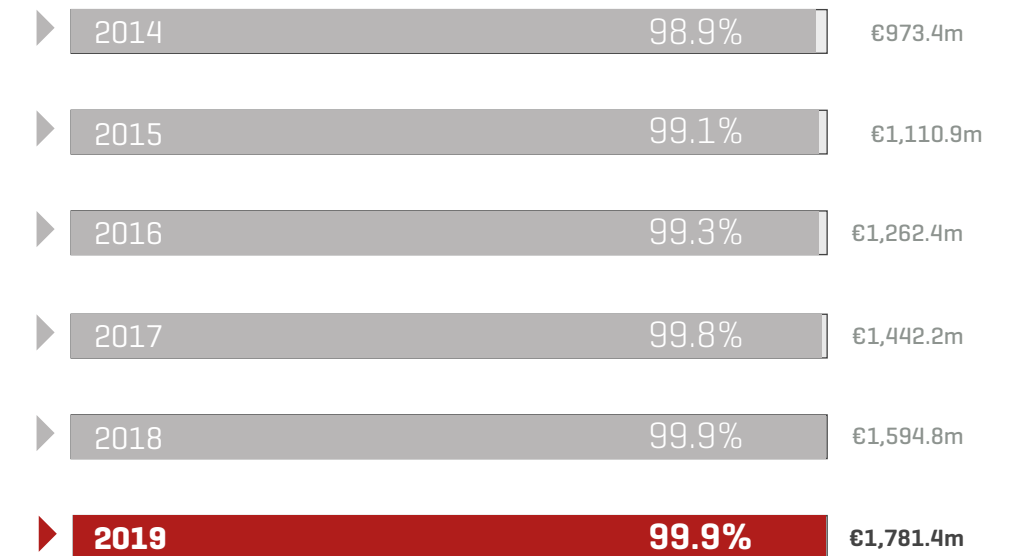
Therefore, even for 2019, the Board's objective had set the objective for unallocated assets, giving attention to this process in the regular activities of the institution.

Unallocated contributions on 31 December 2019 amounted to €2,405,299 (2018: €1,293,572). At first glance, it seems that we have an increase in unallocated assets, but this is due to the reporting deadlines (of financial statements that are closed on 15 January 2020 for 2019) and the time when assets that are not pension contributions (belonging to 2019) have been returned to TAK.

Thus, on 20 January 2020, KPST returned to TAK the amount of €573,000, which belong to 2019. Also, KPST has not yet returned to TAK about €200,000, which are unidentified contributions belonging to the period 2013 -2019. So, by subtracting these two amounts clearly unallocated assets for the end of 2019 would fall to €1.25 million, which would be a lower value of unallocated assets than at the end of 2018.

It should be noted here the fact that accuracy of reporting pension contributions has significantly improved (through the EDI portal of TAK), is also noted that contributors are also getting more and more interested about the state of pension savings, thus reflecting increased awareness of the importance of pension contributions. 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 contributors' interest.

## CUMULATIVE CONTRIBUTIONS RECONCILED AND COLLECTED



## CLIENT SERVICES

The total number of services provided by KPST offices during 2019 for individuals and employers was 159,355. This marks a slight decrease of 1.3% compared to the 161,467 services provided during 2018. On average, 611 services and consultations are provided for each working day (2019: 619 services). The number of printed account statements (free) for visiting contributors was 109,648. At 69% (2018: 56%) this service was the most dominant this year, thus being the most requested service. There are reasons for this: one of the requirements for visa application is the KPST account statement, evidence of employment; and the increase of contributors' awareness about the importance of pension savings.

A [fast growing] 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, numbering 61,100 (2018: 45,323). 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) 27,233 authorizations of requests for access to the e-Trusti portal; b) 7,961 approved pension applications; c) 3,642 changed addresses of contributors; d) 1,483 printed pension announcements; e) over 3 thousand audits of accounts carried out.

KPST continued to prioritize the massive use of e-Trusti service. The number of accounts in e-Trusti during 2019 increased by 27% to 129,960 (2018: 102,727), accounting for 19% of all KPST accounts and 34% of active accounts at the end of 2019. Now, as a great number of contributors have accounts in e-Trusti, promotion of this service is made by contributors themselves. The e-Trusti portal enables participants to have free and easy access to their savings account, and enables KPST to continually improve services, lower costs and achieve a higher degree of transparency. The services offered in the on-line portal are numerous. Users of the e-Trusti can check their account balance and transactions, and unlike ordinary online services.

Contributors can check their status 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 five thousand questions and comments from contributors through social networks. In addition to services provided by KPST office and TAK regional offices, contributors have self-served 13,237 services, constituting 8% of other services with a growth tendency.

**ACCOUNT STATEMENTS PRINTED FOR CONTRIBUTORS IN THE KPST OFFICE**

109,648

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

	<b>2019</b>
	159,355
	<b>2018</b>
	161,467

## INCREASE OF NUMBER OF ACCOUNTS IN e-TRUSTI

2019:  
▲ 27%

2018:  
▲ 29%

#e-TRUSTI is an online-based service, to all contributors since 2010. Registration procedures are performed online, verifying the identity of the contributor and confirming the e-mail.

# 03

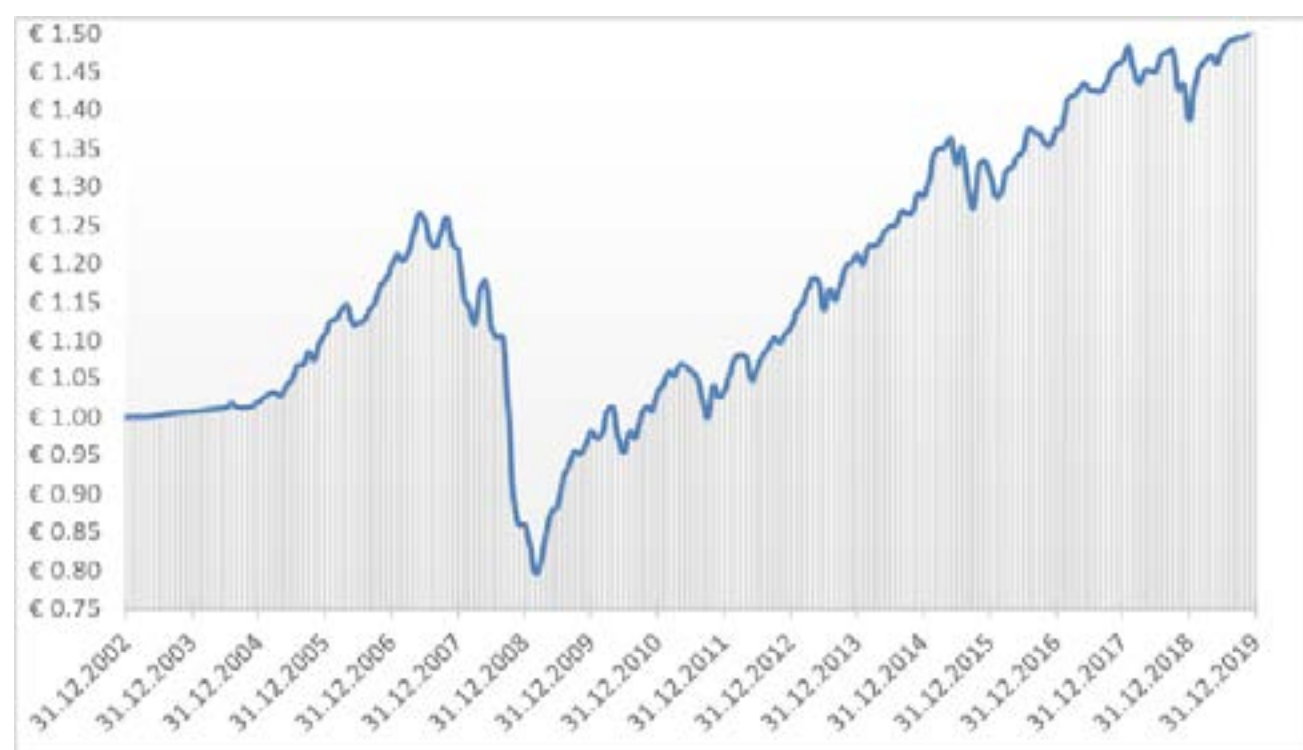
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## INVESTMENT OF PENSION ASSETS

- 51-52 Investment principles and policy
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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, yet to reap the rewards when markets go upwards. Even during 2019, the positioning of KPST investments was more towards protecting investments from short-term movements, based on the strong falls that financial markets had during the last quarter of 2018. As a result, despite maintaining a generally conservative portfolio, a good return on investment was achieved, with a very strong risk-adjusted return.

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, 2019 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	25.0%	1%-50%
Kosovo T-bonds	Interest bearing	13.9%	0%-20%
Debt Instruments	Directional	7.7%	0%-25%
Multi-assets	Managed/Targeted risk	39.6%	25%-55%
Equities	Managed/Targeted risk	6.4%	0%-20%
Equities	Directional	7.4%	0%-35%

Multi-asset funds are funds that contain both equity and debt instruments of governments and global corporations such as e.g. bonds. These 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. When it comes to protect the investment strategy, these risk managed funds change the allocation to equities and bonds and to lower risk subsets within each asset class; they can also 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 complementing risk management with risk targeting determine a risk level (target) for the volatility of the investment portfolio and on regular basis they reallocate assets to restore the expected volatility to that established level of 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. Directional investments do not have an accompanying risk management element and represent a direct participation in the risks and rewards of financial markets. The information as to where each direct placement of KPST falls, is provided in the next page.



## ASSET ALLOCATION

€484.1m the value of investments in Kosovo: in government debt securities and term deposits.

At the end of the year, assets under management of KPST, €1,968.3 million, were distributed as follows: €1,480.0 million were invested in global financial markets through investment funds (2018: €1,347.3 million); €298.5 million were invested in Kosovo bonds (2018: €209.0 million); €185.7 million were term deposited with BKT, NLB, TEB, ISB, PCB, RBK, BPB and BEK banks (2018: €119.4 million in BKT, NLB, TEB, ISB, PCB, RBK, BPB and TEB); while €3.3 million were in CBK as not invested (2018: €126.6 million).

During the year, the Governing Board took 22 decisions to withdraw or increase the assets within the current investment funds. In addition, one decision was about full withdrawal of investments (Schroders SISF) amounting to €62.4 million, whereas four other decisions were about adding new investment funds in the amount of €217.6 million in ETF funds (as investment in the new class category of financial instruments).

During the year, the Governing Board has distributed a total of €1.43 billion for the purpose of rebalancing, withdrawing and increasing funds according to forecasts for the fluctuation of financial markets and in accordance with the legal obligations of the Board. The Governing Board has generally maintained a more focused conservative position, significantly reducing exposure to higher risk instruments.

At the end of 2019, 24.8% of assets were in cash/money market, 21.6% of assets were in debt instruments, 39.7% of assets were in multi-asset funds and only 13.9% in equities. During the year, matured investments in the Kosovo paper were €55.1 million, while the Board added €140.0 million new investments.

At the end of the year, KPST investments in the Kosovo paper amounted to €298.5 million, accounting for 15.3% of total investments, slightly higher than in the previous year (2018: 13.4%). With an average of 5.3% allocated for investment during 2019, investments in the Kosovo paper contributed with about 3.6% (2018: 2.4%) on average to total investment performance of the KPST. Nevertheless, we must bear in mind that investment performance of Kosovo paper depends on the investment's longevity and maturity. Adding investment in country continues to be a priority of the KPST Governing Board.

Meanwhile, deposits in local banks amounted to €185.7 million at the end of 2019, from € 119.3 million as they were in the previous year. During this year matured €77.5 million in bank deposits and Board decided to deposit an additional amount of €141.5 million in eight banks in Kosovo (BEK, BKT, BPB, ISB, NLB, PCB, RBK and TEB). The year-end allocation being 9.4% of KPST assets.

INVESTMENT	ASSET CLASS / STRATEGY	ASSETS (million)	ALLOCATION
Vanguard - Global Stock Index Fund	Equities / Directional	€47,484,682	2.4%
Nordea 1 - Stable Return Fund	Multi-assets / Managed risk	€229,047,644	11.6%
Nordea 1 - Global Stable Equity Fund Unhedged	Equities / Managed risk	€126,488,567	6.4%
BNY Mellon - Real Return Fund	Multi-assets / Absolute return	€270,436,971	13.7%
AXA - Global Inflation Linked Bonds Fund	Debt instruments / Directional	€29,528,301	1.5%
AXA - World Fund Optimal Income	Multi-assets / Absolute return	€41,948,628	2.1%
Schroders - Global Diversified Growth Fund	Equities / Dividend	€43,638,302	2.2%
Amundi - Amundi Rendement Plus I2	Multi-assets / Managed risk	€85,540,345	4.3%
Amundi - 3M I	Money market	€273,862,765	13.9%
BNP Paribas IP - Parvest Diversified Dynamic	Multi-assets / Managed risk	€111,532,837	5.7%
Corp Bond Eur ETF	Debt instruments - Directional	€61,306,550	3.1%
S&P500 Minvol ETF	Shares - Directional	€50,394,634	2.6%
Amundi EurCorp ETF	Debt instruments - Directional	€61,168,064	3.1%
MSCI USA Qual ETF	Shares - Directional	€47,680,019	2.4%
Kosovo Treasury	Kosovo T-bonds&bills / Interest income	€298,483,698	15.2%
BKT, NLB, TEB, ISB, PCB, RBK, BPB, BEK	Deposits / Interest income	€185,713,008	9.4%
<b>TOTAL OF INVESTED ASSETS</b>		<b>€1,968,213,025</b>	<b>99.8%</b>
Uninvested assets (assets in CBK and money market in transition)		€3,279,603	0.2%

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

EUROPE  
€1,196,327,631  
60.82%

AMERICAS  
€524,768,380  
26.68%

ASIA  
€87,237,215  
4.44%

OCEANIA  
€23,193,416  
1.18%

AFRICA  
€2,069,278  
0.11%



NO.	COUNTRIES	%	ASSETS
1.	Kosovo	25.0%	€492,053,260
2.	USA	24.1%	€474,374,603
3.	France	10.1%	€199,638,970
4.	UK	7.0%	€137,919,727
5.	Germany	4.5%	€89,385,232
6.	Italy	2.4%	€47,357,067
7.	Netherlands	1.9%	€38,312,217
8.	Japan	1.9%	€37,471,701
9.	Canada	1.9%	€36,415,889
10.	Spain	1.6%	€31,267,036
11.	Luxembourg	1.5%	€28,924,375
12.	Switzerland	1.2%	€23,803,056
13.	Ireland	1.1%	€22,382,376
14.	Australia	1.0%	€18,806,457
15.	Denmark	0.9%	€17,699,860
16.	Greece	0.6%	€12,051,095
17.	Hong-Kong	0.6%	€11,783,973
18.	Belgium	0.6%	€11,527,062
19.	Sweden	0.6%	€11,399,538
20.	China	0.6%	€11,240,311
21.	Portugal	0.6%	€10,909,886
22.	South Korea	0.5%	€10,516,737
23.	Mexico	0.3%	€6,638,287
24.	India	0.3%	€6,281,548
25.	Hungary	0.3%	€5,591,821
26.	Israel	0.2%	€4,617,231
27.	New Zealand	0.2%	€4,401,775
28.	Brazil	0.2%	€4,207,542
29.	Norway	0.2%	€3,321,938
30.	Austria	0.2%	€3,131,624
31.	Finland	0.1%	€2,315,229
32.	Thailand	0.1%	€2,047,595
33.	Singapore	0.1%	€1,987,950
34.	South Africa	0.1%	€1,864,095
35.	Taiwan	0.1%	€1,783,988
36.	Indonesia	0.1%	€1,734,383
37.	Poland	0.1%	€1,407,154
38.	Turkey	0.1%	€1,343,463
39.	Caiman Islands	0.1%	€1,261,821
40.	Peru	0.1%	€1,133,927
41.	Other	7.0%	€136,644,788

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 2,705 issuers globally (2018: 2,531).

NOTE: CASH ASSETS AND FUNDS WITH CBK WERE NOT INCLUDED IN CALCULATIONS.

## MAIN ISSUERS

### KOSOVO TREASURY CONVINCINGLY WITH THE HIGHEST ALLOCATION

The list of the top 25 issuers (out of a total of 2,705) is presented below. KPST is exposed to these issuers indirectly, through investment funds, while placements in the Kosovo Treasury, long-term deposits (in local and international banks) are direct.

osovo Treasury is convincingly at the top of the list of top individual investments with 15.2% of allocated funds, doubled from 12.4% in the last year. Investments in mixed funds with fixed interest, at 4.5%, were second, while the US Treasury, significantly reduced to 2.7% from 5.58% a year ago, was third.

Legal restrictions require the KPST not to exceed the following placements: a) not more than 30% in the Kosovo Treasury; b) not more than 20% of the assets in debt bonds of a single issuer rated with AA or higher; c) 10% on bonds rated at A or higher; d) 5% on bonds rated BBB or lower; e) not more than 5% of the assets in a single issuer for shares; and f) up to 1% in bonds rated BB + or lower.

KPST has not exceeded any of these restrictions for investments in a single issuer as of 31 December 2019.

ISSUER	ASSETS (million)	ASSET ALLOCATION
1. Kosovo Treasury	€299.16	15.2%
2. Mutual funds	€88.31	4.5%
3. US Treasury	€53.99	2.7%
4. Cash at banks	€52.23	2.7%
5. Equity mutual funds	€42.92	2.2%
6. NLB Bank Kosova	€39.64	2.0%
7. Alternative mutual funds	€37.02	1.9%
8. TEB Bank Kosova	€33.42	1.7%
9. BKT Bank Kosova	€31.85	1.6%
10. PCB Bank Kosova	€28.26	1.4%
11. Italian Treasury	€22.32	1.1%
12. Intesa Sanpaolo SpA	€20.61	1.0%
13. Societe Generale SA	€20.53	1.0%
14. Groupe Credit Mutuel	€20.52	1.0%
15. Money market mutual funds	€20.01	1.0%
16. BEK Bank Kosova	€19.84	1.0%
17. BPB Bank Kosova	€17.56	0.9%
18. Groupe BPCE	€17.44	0.9%
19. UniCredit SpA	€15.41	0.8%
20. AT&T Inc	€12.90	0.7%
21. Spain Treasury	€12.25	0.6%
22. Hellenic Treasury	€11.88	0.6%
23. Australian Treasury	€11.53	0.6%
24. Johnson & Johnson	€11.08	0.6%
25. HSBC Holdings PLC	€10.77	0.5%

### BONDS ACCOUNTED FOR 44.2% OF INVESTED ASSETS

The invested assets of the KPST, directly and indirectly, at the end of the year accounted for 44.2% in debt instruments (of which 23.7% in treasury bonds and 20.5% in corporate bonds), 34.9% in equities, 20.6% in cash, and 0.3% of the assets were in derivatives.

Of the 44.2% of total investment held by debt instruments and 20.6% in the cash market, 95.1% of them were in instruments that were not classified as high risk, 4.9% were not rated.

Investments in Kosovo, despite not having a rating, are assessed de facto by the law with high security of return on investment.

Investments in Kosovo consisted of investments in the Kosovo Treasury (as much as 15.2% of all investments) and bank deposits (as much as 9.4% of all investments).

While investments outside Kosovo that were in instruments without rating were as much as 0.6% of all investments.

As for currencies, direct and indirect placements at the end of the year, were on the instruments of the world's major currencies, as follows: EUR 69.3% and hedged in: USD 21.3%; GBP 3.0%; JPY 1.3%; CAD 1.3%; DKK 1.1%; and others 2.7%.

### RATING OF PLACEMENTS ON DEBT INSTRUMENTS AND INDIRECT CASH INSTRUMENTS

RISK	RATING	QUALITY OF PLACEMENT	PERCENTAGE OF DEBT INSTRUMENTS AND CASH
	--	Investments in Kosovo	24.6%
	--	Outside Kosovo (unrated)	0.6%
	AAA	Prime	4.9%
	AA	High	3.4%
	A	Upper middle tier	9.6%
	BBB	Lower middle tier	10.5%
	BB	Speculative	2.1%
	B	Highly speculative	0.4%
	C and below	High risk	0.1%



## INVESTMENT PERFORMANCE

The gross return from investment and other income was €160.8m and the unit price was up by 8.9%.

The investment performance of KPST managed to be quite satisfactory for 2019. Gross return on investment was 160.7 million, while the unit price increased by 8.9%. This year's return on investment, in nominal value, is also the highest ever for the institution. This was achieved while respecting the four principles set out in the Law on Pension Funds, which are: 1) the security of Pension Assets; 2) diversity of investment; 3) maximum return consistent with security of Pension Assets, and 4) maintenance of adequate liquidity.

Almost 75% of KPST's assets during 2019, were invested in international financial markets. Although the year ended with a strong increase in the performance of markets, they were followed by some risks and uncertainties during the year: with very high equity valuation, with the deterioration of corporate expected profit, with the unresolved trade war until the end of the year and with geopolitical tensions all over the globe.

As a result of this uncertain investment climate, and to be in line with the mandate [to ensure careful investment allocation] the distribution of investments has been adapted through the continuous tactical view of exposure.

We started the year with high risk exposure, as the 2018 end-of-year correction was considered excessive. But then, especially during the period May - August, KPST has shown increased caution and reduced high-risk investments. While at the end of the year, we have seen an improved economic environment, with less risk of economic recession, with a satisfactory series of corporate profits, with the relaxation of US-China trade relations and the fading of the risk of rising rates or inflation. As a result, the KPST has slightly increased its positioning in shares.

From dynamic monitoring of investment positioning, KPST has achieved an annual performance of 8.9%, while the risk taken on its portfolio was very restrained, with an annual fluctuation of 2.3%. This resulted in a record return/risk ratio of the KPST of 3.9 [when global stocks had a ratio of 1.6-2.4], thus meeting the goal of maximizing profit in relation to the risk taken.

In addition, the Board has raised [in a record] the value of investments in Kosovo, both in securities and bank deposits. At the end of 2019, approximately 25% of the assets [about 500 million euros] were invested in the country.

ALLOCATION	AVERAGE ALLOCATION	NET CONTRIBUTION	GROSS RETURN (MILLION EURO)	PERFORMANCE
Vanguard GSIF	7.9%	33.3%	€48.97	+2.64%
SP500 MinVol ETF	1.4%	17.6%	€4.53	+0.24%
MSCI US Quality	0.1%	-1.7%	€-0.03	-0.00%
Schroders SB	1.1%	2.8%	€0.57	+0.03%
Schroders GDG	2.4%	11.7%	€5.24	+0.28%
AXA - GILB	2.1%	5.4%	€2.07	+0.11%
AXA - WFOI	2.3%	13.2%	€5.74	+0.31%
BNY Mellon - RRF	11.2%	11.2%	€23.18	+1.25%
Nordea 1 - GSEF	5.2%	29.9%	€28.88	+1.56%
Nordea 1 - SRF	10.9%	8.5%	€17.04	+0.92%
Amundi 3M	20.8%	-0.2%	€-0.83	-0.04%
Corp Bond Eur ETF	1.2%	-2.8%	€-0.64	-0.03%
BNP Paribas - PDP	3.2%	16.5%	€9.76	+0.53%
Amundi - RPI2	4.4%	8.9%	€7.19	+0.39%
Amundi EurCorp ETF	1.2%	-3.4%	€-0.79	-0.03%
Kosovo T-bonds <sup>(1)</sup>	8.1%	3.1%	€4.85	+0.25%
Kosovo T-bills <sup>(1)</sup>	1.9%	0.5%	€0.45	+0.02%
Term deposits in Kosovo <sup>(1)</sup>	12.8%	2.2%	€2.26	+0.28%
Returned surplus	--	--	€2.30	--
<b>TOTAL</b>	<b>100.0%</b>	<b>8.7%</b>	<b>€160.76</b>	<b>8.9%</b>

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

## PERFORMANCE VS BENCHMARK

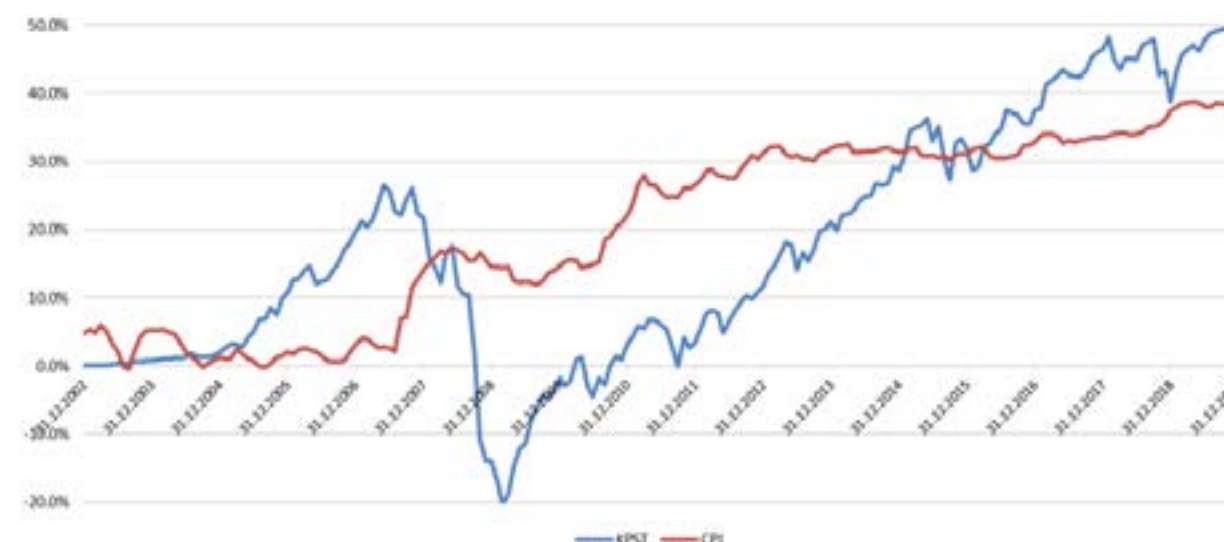
The Board has established the Consumer Price Index in Kosovo [CPI] as published by Kosovo Agency of Statistics as a benchmark for its investment performance.

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 positive return from KPST investments of + 8.9% significantly exceeded the inflation rate for 2019, which was 1.1%.

In this way, the KPST continued to be significantly better than its founding benchmark, in 2002. For this period, KPST has had an increase in the unit price of 51.1% against the increase of 39.0% of CPI in Kosovo.

COMPARISON OF KPST UNIT PRICE AND CPI SINCE KPST ESTABLISHMENT UNTIL THE END OF 2019





# 04

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## CONTRIBUTION AND RETIREMENT

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## FIRST-TIME CONTRIBUTING AND DORMANCY

Annual contributions paid in rose by 7.9%. Benefit payments increase by 67.7%. First-time contributors:11.0% of active contributors.

Collected annual contributions increased by 7.9%. Payment of benefits increased by 67.7%. Initiating contributors were as much as 11.0% of active contributors.

Active contributors -KPST calls the persons who pay contributions for the reporting year, in this case for 2019. On the other hand, initiating contributors KPST calls the active contributors, 11.0% of them, who for the first time pay contributions in and for 2019 [2018: 10.8%].The initiating contributors numbered a total of 41,775, while there were 37,348 others, or 9.8% of active contributors, who ceased contributing [contributed in 2018 but not in 2019]; and this number does not include 7,808 contributors from whose accounts the savings were withdrawn during 2019. Meanwhile, 11.4% of the initiating contributors were employed<sup>1</sup> for the first time at the age of 40+ [2018: 11.9%].

The average age of the initiating contributors was 26 years old, while 65% of them were 25 years old or younger [2018: respectively 27 and 57% of them were 25 years old or younger].

The self-employed, who accounted for about 1.7% of the initiating contributors [2018: 2.1%], were on average older. Their average age was 34, and 57% of them were 33 years old or younger. The share of women initiators was 44.9% for the employed [2018: 43.6]; and 34.6% [2018: 35.2%] for the self-employed.

The share of women initiators was 44.9% for the employed [2018: 43.6]; and 34.6% [2018: 35.2%] for the self-employed.

On the other hand, the figures show that women were passive at lower rates than they are starting to contribute, thus accounting for 35.6% of employees and 21.3% of the self-employed [2018: 34.2% and 21.0% respectively].

Passivation of contributors again this year mostly happened to the age group 20-25 years old [2018: 20-25 years old]. Furthermore, 50% of 2018 contributors who were passive during the year, were 29 years or younger among employees, and 40 years or younger among self-employed [2018: 50% of contributors aged 28 and 41, respectively]. This data [stable over the years] form the basis for judging that there is less work stability for younger ages and/or their engagement is seasonal.

The percentage of contributors [excluding the self-employed] who became passive in 2018 but who returned to the contribution scheme in 2019 was 28.3% [2018: 16.9%]. Data analysis for the last five years reveals that 192,078 employed contributors, and 19,806 self-employed contributors, have contributed at least one month to each of these five years [2018: 181,539 and 19,479].

## CONTRIBUTIONS

There are €1,781.4m collected contributions since the inception of the institution and €1,967.0m are AUM.

The total of contributions collected during 2019 was € 186.6 million [2018: € 172.7 million], which are payments of pension contributions made by employees and the self-employed during 2019.

Contributions collected during 2019 increased by 7.9% compared to the previous year. In 2018, they had increased by 8.1% and in 2017 by 5.4%. Contributions that are not under management, or € 210.5 million [2018: € 176.7 million], are contributions withdrawn due to payment of benefits or refunds and are no longer part of the fund.

The new employers, which were 4,853, marked a significant increase of 12.5% compared to the previous year [2018: 4,313]. New employers are considered businesses, institutions, etc., which for the first time contribute for their employees.

On the other hand, the number of employers who became passive was 3,948, realising a decrease of -1.9% [2018: 4.8%] compared to the previous year's number [2018: 4,025].

Employers who become passive, KPST considers businesses or institutions or organizations that have contributed to employees during the previous year but not in the reporting year.

In 2019, in addition to the increase in the number of new employers and the decrease of passive employers, the number of active contributors for the year increased by 7.9%, compared to 6.3% that had increased in 2018, and reached 33,317 [2018: 30,487]. At the end of the year, the average balance for all contributors' pension savings accounts was € 3,284 [2018: € 2,947].

### CONTRIBUTIONS AND AUM

PERIOD	RECEIVED (million)	AUM (million)
2002-2015	€1,110.8	€1,229.5
2016	€151.5	€188.6
2017	€159.8	€216.8
2018	€172.7	€46.6
<b>2019</b>	<b>€186.6</b>	<b>€285.9</b>
<b>TOTAL</b>	<b>€1,781.4</b>	<b>€1,967.4</b>

### COMPOSITION OF ASSETS UNDER MANAGEMENT

2019	2018
CONTRIBUTIONS UNDER MANAGEMENT <b>81.0%</b>	CONTRIBUTIONS UNDER MANAGEMENT <b>86.2%</b>
GAINS <b>19.0%</b>	GAINS <b>13.8%</b>

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].

## 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 €2001 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 treatment, 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<sup>1</sup> savings are withdrawn in total via a lump-sum payment. Members withdrawing savings due to disability shall receive their savings monthly via PWP in the amount of €2001: 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.

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

## RETIREMENTS AND BENEFIT PAYMENTS

During 2018 realised gains by retirees and beneficiaries were 20.4%. In 2018 this figure was 20.8%.

During 2019, KPST administration has approved 7,808 new applications for the withdrawal of pension savings (2018: 5,435). The total funds paid for savings withdrawals during 2019 were €52.6 million, which consisted of nominal contributions of €41.9 million and profits of € 10.7 million (2018: €31.3 million, respectively €24.8 million and €6.5 million). The total number of accounts with withdrawals reached 51,755 and the amount paid for these accounts were €203.4 million.

The number of people who withdrew funds during 2019 after reaching retirement age (65 years) was 4,938 or 63.2% of approved applications (2018: 4,354, or 80.2%). The novelty this year was the decision that gave the right to all war invalids to retroactively withdraw their pension savings, causing the number and value that this category withdrew to increase significantly. For this reason, due to disability, the funds were withdrawn by 1,430 persons, or 18.3% of approved applications (2018: 172 or 3.4%).

While the number of foreign nationals who withdrew funds was 32 (which accounted for 0.3% of retirees), and the amount withdrawn from them was about €170 thousand.

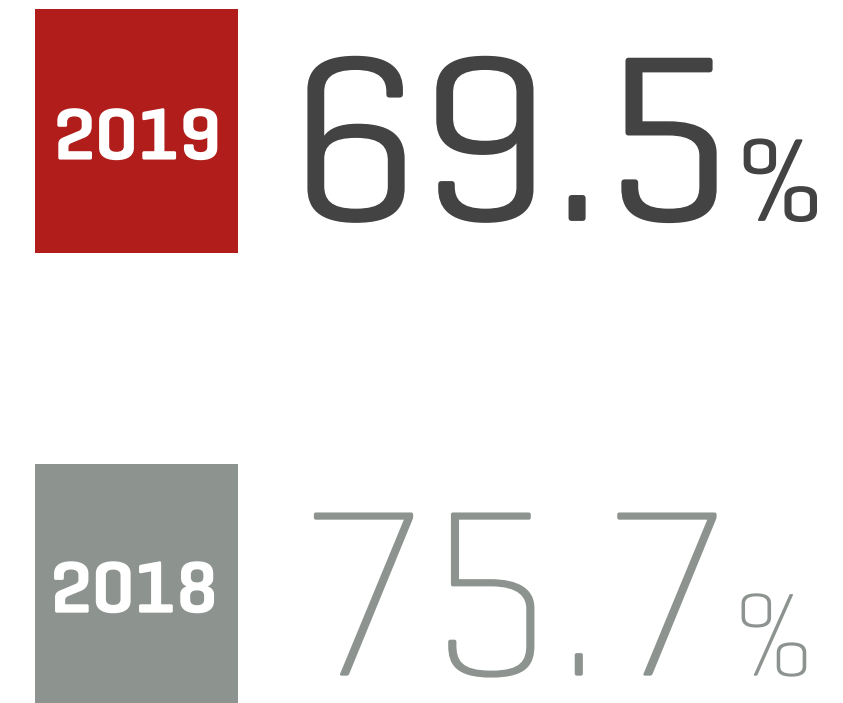
In addition, there were 880 cases that withdrew savings from the heirs of contributors who died before retirement (2018: 868), thus accounting for 8.5% of approved applications (2018: 15.8%). In 35.5% of deaths, the contributors were younger than 55 years old when they died, 21.0% were 55-59 years old, 32.0% were 60-64 years old and 11.5% were over 65 years old.

The amounts directed to PWP were in the amount of €31.2 million, while €1.2 million were withdrawn by the beneficiaries with a single payment (2018: €24.9 million, respectively €6.4 million). Of the 3,599 persons who were in the PWP during the year, 82.4% of them took the opportunity to withdraw 20% of the balance immediately. The average balance of retirement accounts for the year was €6,650 raised from € 5,654 a year earlier.

## WITHDRAWALS

PERIOD	CONTRIBUTIONS (million)	ASSETS (million)
2004-2014	€50.2	€53.3
2015	€15.8	€19.3
2016	€16.0	€19.2
2017	€22.1	€27.7
2018	€24.8	€31.3
<b>2019</b>	<b>€41.9</b>	<b>€52.6</b>
<b>TOTAL</b>	<b>€170.8</b>	<b>€203.4</b>

## PERCENTAGE OF WITHDRAWN FUNDS DIRECTED TO PWP





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## CONTRIBUTOR DEMOGRAPHICS

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## CONTRIBUTORS

This chapter summarises main demographic data for participants of KPST in 2019 and compares them to the previous year.

It is extremely positive that for each month of 2019 there were more active contributors than a year ago. Also, on average, this year we had almost 69 thousand contributors more than a year ago. The main reason for this may be the increase of employment in the country, but the increase in awareness of pension contributions and the transition of employees from the informal to the formal market also had an impact.

Quite positive this year was the increase of the average balance of all accounts in KPST, which at the end of 2019 reached € 3,284 (an increase of 11.4% from the end of 2018 when it was € 2,947). The increase of the average balance this year is mostly by the positive return from the investments of KPST, and less by the new contributions of the contributors. While this average balance (€ 3,284 euros), if withdrawn by 200 euros per month it would be enough for about 16 months.

So, despite all these positive changes, the average balance of all accounts is extremely low. Therefore, the KPST continues to appeal that the key to adequate savings for retirement is larger and continuous contribution.

It is understood that the reason for this situation, in addition to the period of stay in the scheme, is the value of the monthly contribution, which (especially for ages under 35) continues to be at extremely low levels.

It is important to make some comparisons between the number of the active working population and active contributors. According to the Kosovo Agency of Statistics, in the report of Q4 2019 for the labour market in the country, the working-age population in the country (aged 15 to 64 years) is 1,214,084. While the active workforce (according to KAS) is estimated at 506,622, while the rest is assessed as passive.

Under these conditions, it turns out that 379,827 employees and self-employed who contributed to the KPST during 2019 account for 75.0% of the active workforce. This percentage is lower compared to the average number of active contributors in the KPST for 2019 (324,755) with the active workforce (506,622). So, it turns out that 64.1% of the active workforce was 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

	<b>2019</b>	<b>2018</b>	<b>2017</b>	<b>2016</b>	<b>2015</b>
<b>JANUARY</b>	348,563	233,144	249,428	223,240	213,584
<b>FEBRUARY</b>	245,376	237,040	251,291	224,354	213,361
<b>MARCH</b>	267,092	264,573	276,991	251,045	238,066
<b>APRIL</b>	298,846	243,872	257,976	232,024	217,922
<b>MAY</b>	309,239	245,694	259,962	234,600	220,157
<b>JUNE</b>	317,408	273,306	284,804	258,103	257,153
<b>JULY</b>	328,746	266,564	263,527	236,259	222,381
<b>AUGUST</b>	337,859	249,513	263,255	236,899	222,434
<b>SEPTEMBER</b>	344,652	274,065	285,900	261,168	245,847
<b>OCTOBER</b>	352,653	268,030	262,775	235,655	223,038
<b>NOVEMBER</b>	366,797	257,866	259,977	232,732	219,408
<b>DECEMBER</b>	379,833	256,425	269,739	245,464	242,841
<b>ANNUAL AVERAGE</b>	<b>324,755</b>	<b>255,841</b>	<b>265,469</b>	<b>239,295</b>	<b>227,181</b>

## 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 can be seen in the table, the number of contributors has increased in all municipalities. Although usually every time there is a national or local election, we have an increase in the number of contributors, because additional staff are engaged, in 2019 we are dealing with an increase in the number of contributors for each month, which is more than in 2018. This is an indication that we had an increase in employment and/or contributors who switch to the formal economy.



The increase in the number of active contributors was the highest in Prishtina, but in percentage, in the 10 municipalities with the highest growth, Vushtrria led with an increase of 13.6%.

Top 10 represented 65% of all contributors. The slight decrease in the number of contributors in Prishtina this year (from 18.9% to 18.4%) is an indicator of distribution, but it cannot yet be assessed whether this is a momentary change. The country is in dire need of reducing high concentration in the capital, and the development of other areas of the country helps to create long-term stability and sustainable economic development.

NO.	MUNICIPALITY	NUMBER OF CONTRIBUTORS	PARTICIPATION	CHANGE FROM 2018	
				IN NO.	IN %
1.	PRISTINA	69,881	18.4%	4,631	7.1%
2.	PRIZREN	30,933	8.1%	3,254	11.8%
3.	FERIZAJ	23,011	6.1%	1,408	6.5%
4.	GJILAN	21,693	5.7%	2,059	10.5%
5.	PEJA	20,683	5.4%	1,647	8.7%
6.	GJAKOVA	19,813	5.2%	1,790	9.9%
7.	PODUJEVA	17,760	4.7%	411	11.9%
8.	MITROVICA	16,326	4.3%	1,883	2.6%
9.	VUSHTRRI	15,570	4.1%	1,860	13.6%
10.	LIPJAN	12,573	3.3%	1,319	11.7%
11.	GLLOGOC	12,297	3.2%	1,177	10.6%
12.	SUHAREKA	10,763	2.8%	1,164	12.1%
13.	SKENDERAJ	9,967	2.6%	1,058	11.9%
14.	FUSHE KOSOVE	9,832	2.6%	945	10.6%
15.	RAHOVEC	8,668	2.3%	982	12.8%
16.	ISTOG	7,777	2.0%	819	11.8%
17.	MALISHEVA	7,741	2.0%	884	12.9%
18.	VITI	7,423	2.0%	851	12.9%
19.	KAMENICA	6,450	1.7%	598	10.2%
20.	KLINA	6,188	1.6%	357	6.1%
21.	KACANIK	5,917	1.6%	535	9.9%
22.	OBILIC	5,815	1.5%	481	9.0%
23.	DECAN	5,365	1.4%	545	11.3%
24.	SHTIME	4,939	1.3%	352	7.7%
25.	DRAGASH	4,379	1.2%	654	17.6%
26.	GRACANICA	2,183	0.6%	189	9.5%
27.	LEPOSAVIQ	2,150	0.6%	238	12.4%
28.	SHTERPCE	1,637	0.4%	198	13.8%
29.	NORTH MITROVICA	1,502	0.4%	66	4.6%
30.	HANI I ELEZIT	1,473	0.4%	69	4.9%
31.	ZVECAN	1,305	0.3%	219	20.2%
32.	ZUBIN POTOK	1,105	0.3%	121	12.3%
33.	JUNIK	613	0.2%	46	8.1%
34.	MAMUSHA	598	0.2%	45	8.1%
35.	NOVOBERDA	583	0.2%	79	15.7%
36.	RANILLUG	504	0.1%	35	7.5%
37.	KLLOKOT	501	0.1%	56	12.6%
38.	PARTESH	396	0.1%	56	16.5%
	OTHER	3,513	0.9%	847	31.8%

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



## CONTRIBUTOR AGE

The average age of contributors in 2019 increased slightly to 41.0, from 40.7 in the previous year. While the median did not change, it remained 38 years old as a year ago.

AVERAGE - MEN:

42.1



MEDIAN - MEN:

40.0



We had slight change in the average by gender, while the median did not change at all from last year.

AVERAGE - WOMEN:

37.8



MEDIAN - WOMEN:

35.0



In general, there were no significant changes in the participation of age groups as a percentage of active contributors. The encouraging fact is that slightly more than 2/3 of active contributors or 68.7% (2018: 67.7%) were under the age of 45 this year as well.

The biggest change (increased by 2.2%) was in the 15-24 age group. Meanwhile, all other categories had a decrease, except for the age of 65+ which had a slight increase.

AGE GROUP	2019	2018
15-24	16.7%	14.5%
25-34	29.1%	29.4%
35-44	22.9%	23.8%
45-54	17.9%	18.6%
55-64	12.4%	12.8%
65+	0.9%	0.8%

## CONTRIBUTORS BY TYPE OF ENTERPRISE

The type of enterprise is determined according to their registration in the Kosova Business Registration Agency or in the Ministry of Public Administration.

It should be noted that public and social enterprises (e.g. regional water supply or waste companies, Post of Kosovo, or central heating companies, etc.), most of them are registered as joint stock companies; therefore they are presented along with other public and social companies in the joint stock companies group.

In 2019 we had a strong increase in the number of contributors by three types of enterprises: budget organizations (with + 25.4%), LLCs (with + 16.0%), and NGOs (with 28.2%). Whereas, the increase of contributors to joint-stock companies (by + 2.7%), and individual businesses (by 2.2%) was low.

The category of partnerships (with -2.0%) and self-employed (-23.9%) decreased, but the reason is difficult to identify, as it may also be due to a change in the legal form of the entity (e.g.: from individual business to LLC).

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.

ENTERPRISE TYPE	CONTRIBUTORS IN NUMBER	FTE		CHANGE FROM 2018	
		COEFICIENT	EQUIVALENT CONTRIBUTORS	CONTRIBUTORS IN NUMBER	EQUIVALENT CONTRIBUTORS
Budget organisations	119,736	0.716	85,731	25.4%	4.7%
LLCs	168,289	0.602	101,310	16.0%	16.7%
Individual businesses	71,361	0.652	46,527	2.2%	0.2%
Self-employed	28,466	0.843	23,997	-2.0%	-2.3%
Joint stock companies	30,386	0.748	22,729	2.7%	-3.1%
NGOs	22,726	0.377	8,568	28.2%	14.5%
Partnerships	4,234	0.611	2,587	-23.9%	-28.6%
Others	14,069	0.490	6,894	21.7%	3.8%



## AVERAGE CONTRIBUTIONS

The average (monthly) contribution for the category of employees decreased slightly to €44.38 from €44.84 as it was a year ago. Seasonal (or short-term) employment continues to be a factor influencing the level of average monthly contribution.

While for the self-employed, the average contribution increased slightly to €33.96 per month from €33.84 as it was last year.

The average monthly contribution had very slight fluctuations, compared to 2018, in all age groups, except the age of 65+.

As expected, the average monthly contribution increases in proportion to the age of the contributors, being an indicator of both professional development and added care for pension savings.

### AVERAGE MONTHLY CONTRIBUTIONS

YEAR	EMPLOYED	SELF-EMPLOYED
2017	€39.97	€33.49
2018	€44.84	€33.84
<b>2019</b>	€44.38	€33.96

### AVERAGE MONTHLY CONTRIBUTIONS BY AGE GROUP

AGE	2019		2018		2017	
	EMPLOYED	SELF-EMPLOYED	EMPLOYED	SELF-EMPLOYED	EMPLOYED	SELF-EMPLOYED
15-24	€28.81	€20.82	€28.54	€21.18	€26.58	€20.45
25-34	€41.00	€25.82	€40.63	€26.04	€38.57	€26.52
35-44	€51.09	€35.37	€50.83	€35.45	€48.15	€34.97
45-54	€51.30	€37.16	€50.80	€37.15	€48.02	€37.32
55-64	€57.02	€39.40	€56.42	€38.52	€53.45	€37.77
65+	€64.32	€36.43	€60.35	€41.83	€58.03	€37.85

### AVERAGE MONTHLY CONTRIBUTIONS BY GENDER

YEAR	WOMEN		MEN	
	EMPLOYED	SELF-EMPLOYED	EMPLOYED	SELF-EMPLOYED
2017	€37.35	€26.17	€41.29	€35.02
2018	€41.39	€26.22	€46.65	€35.50
<b>2019</b>	€40.59	€26.53	€46.47	€35.63



## LEVEL OF CONTRIBUTING

The law requires that minimum contribution for employed and selfemployed 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.

This year we had an increase in the number of contributors (employees) who contributed below the required legal minimum. This figure approached 7%, from about 3% as it was last year.

The category of self-employed had almost identical levels of contribution with a year ago, with 52.1% of all contributors to this category who pay only the minimum (46.5%) or less than the minimum (5.6%).

It is understood that the category of employees, which includes all employees of the public sector, fulfil satisfactorily the payments of pension contributions.

### THE LEVEL OF CONTRIBUTING BY THE EMPLOYED

	PAYMENT		
	BELOW MINIMUM	AT MINIMUM	ABOVE MINIMUM
<b>UP TO 35 YEARS OLD</b>	4.14%	0.29%	45.57%
<b>OVER 35 YEARS OLD</b>	2.65%	2.62%	44.72%

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

	PAYMENT		
	BELOW MINIMUM	AT MINIMUM	ABOVE MINIMUM
<b>UP TO 35 YEARS OLD</b>	0.37%	9.73%	14.57%
<b>OVER 35 YEARS OLD</b>	5.18%	36.74%	33.41%

## “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

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## LEGAL FRAMEWORK

83 Legal framework

84 Proposed changes

## 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 responsibilities of KPST and its Board.

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

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

On the following page, we have presented 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

The KPST staff received numerous requests and concerns by Kosovo citizens that are ready to, or have already renounced Kosovan citizenship, who have emigrated or are in the process of emigration, but currently have no legal right to withdraw pension savings from KPST. This issue requires detailed handling, based in experiences from other countries as well, as KPST does not have full legal clarity on how to treat this issue.

### 2. EARLY RETIREMENT

The number of contributors that are in early retirement, i.e. prior to reaching 65 year of age [either former TMK members, members of KSF, Trepça or police officers] is increasing and KPST has continuously received applications by such contributors requesting to withdraw pension savings from KPST. However, KPST has no legal grounds for issuing such decisions, since these categories are not foreseen or addressed under the current legislation for operation of KPST. Therefore, the relation of these beneficiaries and their KPST account has to be regulated, i.e. whether they can withdraw contribution from KPST or not.

### 3. INVESTMENTS

Allow KPST to invest in alternative investments via funds. This would provide increased diversification complementing quoted financial assets. Fund managers of alternative assets funds have a proven track record of higher returns, in part since they benefit from extracting an additional illiquidity premium over traditional quoted assets. Moreover they have a history of achieving better risk-adjusted returns over time. The life of these investments ranges from 5 to 10 years, thus fulfilling a long-term investment objective. These alternative investments cover different asset classes such as private equity, infrastructure or real estate. These investments are not allowed at the moment. Should such an asset class be contemplated in the future, the initial allocation would be low between 5% to 10% of assets under management.

### 4. WITHDRAWAL OF PENSION SAVINGS IN CASE OF DISABILITY OR SERIOUS DISEASE

It should be defined whether or not to allow contribution in cases of savings withdrawal based on disability [allowed by current law].

There are numerous applications for early withdrawal due to contributors' diseases, either terminal or other, so it should be reviewed and determined whether the scope of the KPST should be only pension fund or disability, health fund, etc.

These are some of the amendments that require immediate attention, while there are other small amendments that would improve progress and better functioning of the KPST. The KPST team is ready to give its contribution, should a working group on legal amendments be established.



ANNEX

7

# **KOSOVO PENSION SAVINGS TRUST OPERATIONS**

**INDEPENDENT AUDITOR'S REPORT AND FINANCIAL STATEMENTS**

*As at and for the year ended December 31, 2019*

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# 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 2019, 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 2019, 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 Kosovo, 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.

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 Kosovo Pension Savings Trust –Operations 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**

Prishtina,  
10 April 2020

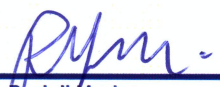

  
Suzana Stavrikj  
Statutory auditor





	Notes	As at December 31 2019	As at December 31 2018
		EUR	EUR
<b>Assets</b>			
<b>Current Assets</b>			
Cash in hand and at banks	4	143,678	688,467
Term deposits	5	5,268,026	4,602,762
Accounts receivable	6	614,998	483,036
Prepaid expenses		21,556	13,173
		<b>6,048,258</b>	<b>5,787,438</b>
<b>Non-current Assets</b>			
Property, plant and equipment	7	702,473	636,264
Right-of-use assets	8	139,376	-
Intangible assets	9	54,900	61,497
		<b>896,749</b>	<b>697,761</b>
<b>Total assets</b>		<b>6,945,007</b>	<b>6,485,199</b>
<b>Liabilities</b>			
<b>Current Liabilities</b>			
Accounts payable and accruals	10	984,586	868,207
Lease liabilities	8	46,256	-
		<b>1,030,842</b>	<b>868,207</b>
<b>Non-current Liabilities</b>			
Lease liabilities	8	101,765	-
		<b>101,765</b>	<b>-</b>
<b>Net assets of KPST Operations</b>		<b>5,812,400</b>	<b>5,616,992</b>

Authorised for issue by the Governing Board and Management of KPST and signed on their behalf on 31 March 2020.

 _____ Mr. Ruzhdi Morina Chairperson of the Board		 _____ Mr. Adrian Zalli Managing Director
 _____ Mr. Vërshim Hatipi Deputy Director - Finance   Investments and Risk   IT		

The accompanying notes 1 to 18 form an integral part of these financial statements

	Notes	Year ended December 31 2019	Year ended December 31 2018
		EUR	EUR
<b>Income</b>			
Fees charged on pension assets	12	8,235,843	7,660,347
Other income	13	174,030	97,667
<b>Total income</b>		<b>8,409,873</b>	<b>7,758,014</b>
<b>Expenses</b>			
<i>Investment expenses</i>			
Open-end vehicle net fees	14	(4,558,953)	(5,704,406)
CBK transfer and maintenance charges		(91,952)	(30,550)
Brokerage, custody and pledge expenses		(51,652)	(8,916)
		<b>(4,702,557)</b>	<b>(5,743,872)</b>
<i>Operational expenses</i>			
Staff costs	15	(584,453)	(574,375)
Governing Board expenses	16	(193,275)	(207,862)
Account statements and correspondence for beneficiaries		(138,368)	(107,951)
Software maintenance		(87,368)	(38,289)
Depreciation and amortisation	7-9	(92,696)	(53,584)
Office operating expenses		(22,595)	(82,801)
CBK supervision charges		(19,413)	(18,188)
Training, travel and other staff expenses		(16,057)	(10,050)
Professional services/Contractors/Consultants	17	(11,259)	(10,380)
Lease interest for the year	8	(10,540)	-
External audit		(9,050)	(9,050)
Communication		(7,263)	(8,298)
Disaster recovery - rent and other associated costs		(6,600)	(6,600)
Bank charges		(1,744)	(2,300)
Public education and advertising		(1,060)	(15,136)
Other costs		(4,187)	(13,881)
		<b>(1,205,928)</b>	<b>(1,158,745)</b>
<b>Total expenses</b>		<b>(5,908,485)</b>	<b>(6,902,617)</b>
Provisions for expected credit losses, net (increase) / decrease	5	(333)	252
<b>Net surplus for the year</b>		<b>2,501,055</b>	<b>855,649</b>

The accompanying notes 1 to 18 form an integral part of these financial statements



	Notes	Surplus	Reserve	Total
		EUR	EUR	EUR
<b>As at January 1, 2018</b>		<b>461,343</b>	<b>5,000,000</b>	<b>5,461,343</b>
Net surplus for the year		855,649	-	<b>855,649</b>
Return of surplus to KPST-PA	11	(700,000)	-	<b>(700,000)</b>
<b>As at December 31, 2018</b>		<b>616,992</b>	<b>5,000,000</b>	<b>5,616,992</b>
Changes on initial application of IFRS 16	2.3	(5,647)	-	<b>(5,647)</b>
<b>Restated as at January 1, 2019</b>		<b>611,345</b>	<b>5,000,000</b>	<b>5,611,345</b>
Net surplus for the year		2,501,055	-	<b>2,501,055</b>
Return of surplus to KPST-PA	11	(2,300,000)	-	<b>(2,300,000)</b>
<b>As at December 31, 2019</b>		<b>812,400</b>	<b>5,000,000</b>	<b>5,812,400</b>

The accompanying notes 1 to 18 form an integral part of these financial statements

	Notes	Year ended December 31 2019	Year ended December 31 2018
		EUR	EUR
<b>Cash flows from operating activities</b>			
Net surplus for the year		2,501,055	855,649
<b>Adjustments for:</b>			
Depreciation and amortisation	7-9	92,696	53,584
Interest income	13	(121,765)	(82,072)
Net movements in provisions for expected credit loss	5	333	(252)
		2,472,319	826,909
Interest received		115,867	86,253
		2,588,186	913,162
<b>Changes in operating assets and liabilities:</b>			
(Decrease) in lease liabilities - net of discount		(43,460)	-
Increase / (Decrease) in accounts payable / accruals		116,379	(189,457)
(Increase) / Decrease in accounts receivable / prepaid expenses excluding interest receivable	6	(140,544)	21,520
<b>Net cash flows from operating activities</b>		<b>2,520,561</b>	<b>745,225</b>
<b>Cash flows from investing activities</b>			
Purchase of property, plant and equipment	7	(94,480)	(606,986)
Purchase of software and licenses	9	(11,370)	(38,978)
(Increase) in term deposits		(5,259,500)	(4,600,000)
Decrease in / maturity of term deposits		4,600,000	5,100,000
<b>Net cash flows (used in) investing activities</b>		<b>(765,350)</b>	<b>(145,964)</b>
<b>Cash flows from financing activities</b>			
Return of surplus to KPST-PA		(2,300,000)	(700,000)
<b>Net cash flows (used in) financing activities</b>		<b>(2,300,000)</b>	<b>(700,000)</b>
<b>(Decrease) in cash and cash equivalents</b>		<b>(544,789)</b>	<b>(100,739)</b>
Cash and cash equivalents at the beginning of the year		688,467	789,206
<b>Cash and cash equivalents at the end of the year</b>	4	<b>143,678</b>	<b>688,467</b>

The accompanying notes 1 to 18 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, consisting of members that are investment and pension experts, as well as employee and employer representatives from Kosovo. According to the Law No. 04/L-101, one non-voting member shall represent the interests of the Government. During 2019 and 2018, the Board of Governors was operating without the non-voting member.

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 28 permanent staff members managed the day to day operations of the KPST during 2019 (2018: Director and 26 permanent staff members).

## 2 BASIS OF PREPARATION OF THE FINANCIAL STATEMENTS

### 2.1 Statement of compliance

The financial statements of KPST-0 have been prepared in accordance International Financial Reporting Standards ("IFRS").

### 2.2 Basis of preparation

KPST-0 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-0. 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 16 "Leases"** (effective for annual periods beginning on or after 1 January 2019);
- **Amendments to various standards:** Income Tax Consequences of Payments on Instruments Classified as Equity (Amendments to IAS 12); Plan Amendment, Curtailment or Settlement (Amendments to IAS 19); Borrowing Costs Eligible for Capitalisation (Amendments to IAS 23); Long-term Interests in Associates and Joint Ventures (Amendments to IAS 28); Previously Held Interests in a Joint Operation (Amendments to IFRS 3 and IFRS 11); Prepayment Features with Negative Compensation (Amendments to IFRS 9) – all effective for annual periods beginning on or after 1 January 2019;
- **IFRIC 23 "Uncertainty over Income Tax Treatments"** – effective for annual periods beginning on or after 1 January 2019.

The adoption of the above standards, amendments and interpretations did not have a material impact on the financial statements of KPST-0, with the exception of IFRS 16 details of which are provided below.

#### Implementation of IFRS 16 "Leases"

The adoption of this new Standard has resulted in the KPST-0 recognising a right-of-use asset and related lease liability in connection with all former operating leases except for those identified as low-value or having a remaining lease term of less than 12 months from the date of initial application.

The new Standard has been applied using the modified retrospective approach, with the cumulative effect of adopting IFRS 16 being recognised in the statement of changes in net assets of KPST-0 as an adjustment to the opening balance of the surplus for the current period. Prior periods have not been restated.

KPST-0 has elected not to include initial direct costs in the measurement of the right-of-use asset for operating leases in existence at the date of initial application of IFRS 16, being 1 January 2019. At this date, KPST has also elected to measure the right-of-use assets at an amount equal to the lease liability adjusted for any prepaid or accrued lease payments that existed at the date of transition.

On transition, for leases previously accounted for as operating leases with a remaining lease term of less than 12 months and for leases of low-value assets KPST-0 has applied the optional exemptions to not recognise right-of-use assets but to account for the lease expense on a straight line basis over the remaining lease term.

On transition to IFRS 16 the incremental borrowing rate applied to lease liabilities recognised under IFRS 16 was 6.49%.

KPST-0 has benefited from the use of hindsight for determining the lease term when considering options to extend and terminate leases.



**2 BASIS OF PREPARATION OF THE FINANCIAL STATEMENTS (CONTINUED)**

**2.3 Changes in accounting policies and disclosures (continued)**

The following is the reconciliation of the impact on the surplus in the statement of changes in net assets of KPST-0 affected by the implementation of IFRS 16 at January 1, 2019:

	As at January 1 2019
	EUR
Initial application of right-of-use assets	185,834
(Initial application of) lease liabilities	(191,481)
<b>Changes on initial application of IFRS 16</b>	<b>(5,647)</b>

**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 and amendments to existing standards were in issue, but not yet effective:

- **IFRS 17 “Insurance Contracts”** - effective for annual reporting periods beginning on or after 1 January 2021;
- **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).
- **Definition of a Business (Amendments to IFRS 3)** - effective for annual reporting periods beginning on or after 1 January 2020;
- **Classification of Liabilities as Current or Non-current (Amendments to IAS 1)** - effective for annual reporting periods beginning on or after 1 January 2022.

KPST-0 has elected not to adopt these new standards and amendments to existing standards for in advance of their effective dates. KPST-0 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-0 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

KPST-O 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 or FVPL.

*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-0 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 and leases

##### 3.4.1 Property, plant and equipment

Property, plant and equipment of KPST-0 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.

Cost includes the purchase price and all costs directly related to bringing the asset into operating condition for its intended use. Maintenance and repairs, replacements and improvements of minor importance are expensed as incurred. Significant improvements and replacement of assets are capitalised.

Construction in progress is reported at cost of construction including costs charged by third parties. Upon completion, all accumulated costs of the asset are transferred to the relevant property, plant and equipment category and subsequently subject to the applicable depreciation rates.

Land and construction in progress are 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.

##### 3.4.2 Leases

For any new contracts entered into on or after 1 January 2019, KPST-0 considers whether a contract is, or contains a lease. A lease is defined as 'a contract, or part of a contract, that conveys the right to use an asset (the underlying asset) for a period of time in exchange for consideration'. To apply this definition KPST-0 assesses whether the contract meets three key evaluations which are whether:

- the contract contains an identified asset, which is either explicitly identified in the contract or implicitly specified by being identified at the time the asset is made available to KPST-0
- KPST-0 has the right to obtain substantially all of the economic benefits from use of the identified asset throughout the period of use, considering its rights within the defined scope of the contract
- KPST-0 has the right to direct the use of the identified asset throughout the period of use.

KPST-0 assess whether it has the right to direct 'how and for what purpose' the asset is used throughout the period of use.

### **3 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

#### **3.4 Property, plant and equipment and leases (continued)**

##### Measurement and recognition of leases

At lease commencement date, KPST-0 recognises a right-of-use asset and a lease liability on the balance sheet. The right-of-use asset is measured at cost, which is made up of the initial measurement of the lease liability, any initial direct costs incurred by KPST-0, an estimate of any costs to dismantle and remove the asset at the end of the lease, and any lease payments made in advance of the lease commencement date (net of any incentives received).

KPST-0 depreciates the right-of-use assets on a straight-line basis from the lease commencement date to the earlier of the end of the useful life of the right-of-use asset or the end of the lease term. KPST-0 also assesses the right-of-use asset for impairment when such indicators exist.

At the commencement date, KPST-0 measures the lease liability at the present value of the lease payments unpaid at that date, discounted using the interest rate implicit in the lease if that rate is readily available or KPST-0's incremental borrowing rate. Lease payments included in the measurement of the lease liability are made up of fixed payments (including in substance fixed), variable payments based on an index or rate, amounts expected to be payable under a residual value guarantee and payments arising from options reasonably certain to be exercised.

Subsequent to initial measurement, the liability will be reduced for payments made and increased for interest. It is remeasured to reflect any reassessment or modification, or if there are changes in in-substance fixed payments. When the lease liability is remeasured, the corresponding adjustment is reflected in the right-of-use asset, or profit and loss if the right-of-use asset is already reduced to zero.

KPST-0 has elected to account for short-term leases and leases of low-value assets using the practical expedients. Instead of recognising a right-of-use asset and lease liability, the payments in relation to these are recognised as an expense in profit or loss on a straight-line basis over the lease term. Both right-of-use assets and lease liabilities have been shown as separate balances on the statement of financial position.

#### **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-0 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-0 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 2019. 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 9. However, the factual results may differ due to the technological obsolescence.

##### *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-0, 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-0 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-0 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-0 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-0 (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 2019			As at December 31 2018		
	1-3 months	3-6 months	6-12 months	1-3 months	3-6 months	6-12 months
	EUR	EUR	EUR	EUR	EUR	EUR
<b>Financial assets</b>						
Cash in hand and at banks	143,678	-	-	688,467	-	-
Term deposits	-	-	5,268,026	-	-	4,602,762
Account receivables	614,998	-	-	483,036	-	-
	<b>758,676</b>	<b>-</b>	<b>5,268,026</b>	<b>1,171,503</b>	<b>-</b>	<b>4,602,762</b>
<b>Financial Liabilities</b>						
Account payables	984,586	-	-	868,207	-	-
	<b>984,586</b>	<b>-</b>	<b>-</b>	<b>868,207</b>	<b>-</b>	<b>-</b>
<b>Maturity gap</b>	<b>(225,910)</b>	<b>-</b>	<b>5,268,026</b>	<b>303,296</b>	<b>-</b>	<b>4,602,762</b>

##### 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, 2019 and 2018.

	As at December 31 2019		As at December 31 2018	
	Carrying Value	Fair value	Carrying Value	Fair value
	EUR	EUR	EUR	EUR
<b>Financial assets</b>				
Cash at bank	143,678	143,678	688,467	688,467
Term deposits	5,268,026	5,270,661	4,602,762	4,605,065
Accounts receivable	614,998	614,998	483,036	483,036
	<b>6,026,702</b>	<b>6,029,337</b>	<b>5,774,265</b>	<b>5,776,568</b>
<b>Financial liabilities</b>				
Account payables	984,586	984,586	868,207	868,207
	<b>984,586</b>	<b>984,586</b>	<b>868,207</b>	<b>868,207</b>



### 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 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.

##### *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, and there were no movements in stages during the year ended December 31, 2019 and December 31, 2018. Net additions to the provisions for expected credit losses during the year were EUR 333 making for an end balance as at December 31, 2019 of EUR 2,636 [2018: net subtraction of EUR 252 and an end balance of EUR 2,303].

#### 4 CASH IN HAND AND AT BANKS

	As at December 31 2019	As at December 31 2018
	EUR	EUR
ProCredit Bank - Current account	115,813	58,733
Banka për Biznes – Current account	19,047	544,426
Raiffeisen Bank Kosovo - Current account	6,841	84,662
NLB Prishtina - Current account	531	244
Banka Ekonomike – Current account	386	92
ISh Bankasi – Current account	324	44
TEB Bank – Current account	300	-
Banka Kombëtare Tregtare – Current account	272	187
Cash in hand	164	79
<b>Total cash in hand and at banks</b>	<b>143,678</b>	<b>688,467</b>

The current accounts of KPST-0 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, 2019 on this account amounted EUR 6,357, of which EUR 228 were receivables on reporting date (2018: interest earned EUR 2,022 of which EUR 427 were receivables).

#### 5 TERM DEPOSITS

	As at December 31 2019	As at December 31 2018
	EUR	EUR
Term deposits gross of provisions for expected credit losses	5,270,662	4,605,065
Provision for expected credit losses	(2,636)	(2,303)
<b>Term deposits net of provisions for expected credit losses</b>	<b>5,268,026</b>	<b>4,602,762</b>

Provisions for expected credit losses for deposits for the year ended December 31, 2019 and 2018 were derived in accordance with the expected credit loss model as detailed in significant accounting policies. Net movements in provisions for expected credit losses were:

	2019	2018
	EUR	EUR
As at January 1	2,303	2,555
Additions to provision due to new placements	2,636	2,303
Releases in provision due to maturity / derecognition	(2,303)	(2,555)
Releases in provision due to change in credit risk	-	-
<b>Net movement of provisions for expected credit losses</b>	<b>333</b>	<b>(252)</b>
<b>As at 31 December</b>	<b>2,636</b>	<b>2,303</b>

**5 TERM DEPOSITS (CONTINUED)**

	2019	2018
	EUR	EUR
<b>As at January 1</b>	<b>4,602,762</b>	<b>5,107,118</b>
New placements	5,259,500	4,600,000
Interest earned	115,408	80,050
Interest – received	(109,311)	(84,658)
Principal – matured	(4,600,000)	(5,100,000)
Net movement of provisions for expected credit loss	(333)	252
<b>As at December 31</b>	<b>5,268,026</b>	<b>4,602,762</b>

As at December 31, 2019 KPST-0 investments in term deposits measured at amortised cost consisted of 5 deposits that had original maturities of 1-year, fixed interest rates, an average duration (weighted) of 0.90 years, and average interest rate of 2.08%. The deposits are all placed with commercial banks licensed and operating in the Republic of Kosovo. As at December 31, 2018 investments in term deposits measured at amortised cost consisted of 3 deposits that had original maturities of 1-year, fixed interest rate, an average duration (weighted) of 0.96 years, and average rate/coupon of 2.38%.

**6 ACCOUNTS RECEIVABLE**

	As at December 31 2019	As at December 31 2018
	EUR	EUR
Net receivables from KPST-PA	553,143	410,601
Rebates receivable from open-end funds	56,826	71,961
Other receivables	5,029	474
<b>Total account receivables</b>	<b>614,998</b>	<b>483,036</b>

As at December 31, 2019 the balance of net receivables from KPST-PA amounting EUR 553,143 consists of fees charged on participants' accounts amounting EUR 553,030 as well as the positive difference from refunds of erroneous contributions amounting EUR 113 (2018: EUR 415,160, and negative difference amounting EUR 4,559 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	Land and construction in progress	Total
	EUR	EUR	EUR	EUR	EUR	EUR
<b>Cost</b>						
<b>As at January 1, 2018</b>	<b>319,948</b>	<b>22,414</b>	<b>58,950</b>	<b>53,365</b>	<b>-</b>	<b>454,677</b>
Additions for the year	14,344	1,489	-	-	591,153	606,986
Disposals for the year	(16,820)	(403)	(6,304)	-	-	(23,527)
<b>As at December 31, 2018</b>	<b>317,472</b>	<b>23,500</b>	<b>52,646</b>	<b>53,365</b>	<b>591,153</b>	<b>1,038,136</b>
Additions for the year	72,870	410	21,200	-	-	94,480
Disposals for the year	(16,519)	(783)	(6,314)	-	-	(23,616)
<b>As at December 31, 2019</b>	<b>373,823</b>	<b>23,127</b>	<b>67,532</b>	<b>53,365</b>	<b>591,153</b>	<b>1,109,000</b>
<b>Accumulated depreciation</b>						
<b>As at January 1, 2018</b>	<b>(276,817)</b>	<b>(20,301)</b>	<b>(45,794)</b>	<b>(53,365)</b>	<b>-</b>	<b>(396,277)</b>
Charge for the year	(21,124)	(878)	(7,120)	-	-	(29,122)
Eliminated through disposals	16,820	403	6,304	-	-	23,527
<b>As at December 31, 2018</b>	<b>(281,121)</b>	<b>(20,776)</b>	<b>(46,610)</b>	<b>(53,365)</b>	<b>-</b>	<b>(401,872)</b>
Charge for the year	(22,452)	(875)	(4,944)	-	-	(28,271)
Eliminated through disposals	16,519	783	6,314	-	-	23,616
<b>As at December 31, 2019</b>	<b>(287,054)</b>	<b>(20,868)</b>	<b>(45,240)</b>	<b>(53,365)</b>	<b>-</b>	<b>(406,527)</b>
<b>Net book value</b>						
<b>As at December 31, 2019</b>	<b>86,769</b>	<b>2,259</b>	<b>22,292</b>	<b>-</b>	<b>591,153</b>	<b>702,473</b>
<b>As at December 31, 2018</b>	<b>36,351</b>	<b>2,724</b>	<b>6,036</b>	<b>-</b>	<b>591,153</b>	<b>636,264</b>

*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.

The title of the property has been transferred to KPST in the cadastral register during 2019. As of the date of this report, KPST is in the design phase of the project for the construction of its headquarter offices.

During 2019 and 2018 KPST has written off fully depreciated assets.

As at 31 December 2019 and 2018, there are no encumbrances over KPST-O assets.



**8 RIGHT-OF-USE ASSETS AND LEASE LIABILITIES**

	Right-of- use assets
	EUR
<b>As at January 1, 2018</b>	-
Additions for the year	-
Depreciation for the year	-
<b>As at December 31, 2018</b>	-
Changes on initial application of IFRS16	185,834
<b>Restated as at January 1, 2019</b>	<b>185,834</b>
Additions for the year	-
Depreciation for the year	(46,458)
<b>As at December 31, 2019</b>	<b>139,376</b>

	Lease liabilities
	EUR
<b>As at January 1, 2018</b>	-
Interest for the year	-
Payments during the year	-
<b>As at December 31, 2018</b>	-
Changes on initial application of IFRS16	191,481
<b>Restated as at January 1, 2019</b>	<b>191,481</b>
Interest for the year	10,540
Payments during the year	(54,000)
<b>As at December 31, 2019</b>	<b>148,021</b>

During the year ended December 31, 2019, KPST-0 has only one lease, for its office, identified as a right-of-use asset on the statement of financial position. The lease liabilities associated with the same are also shown in the statement of financial position.

The lease runs from January 1, 2018 until December 31, 2023 with both parties having the option to terminate the lease by giving a 9-month notice. The incremental borrowing rate applied to lease liabilities recognised on initial application on January 1, 2019 was 6.49%, whereas the depreciation of the right-of-use asset is done on straight-line basis over the life of the lease.

Given that the rent is paid in advance, the initial payment was not included in the lease liabilities. As at December 31, 2019 the discounted lease liabilities amounting EUR 148,021 consist of EUR 46,256 in short-term and EUR 101,765 long-term lease liabilities. The undiscounted lease liabilities amount to EUR 162,000 of which EUR 54,000 are short-term and EUR 108,000 long-term.

**9 INTANGIBLE ASSETS**

	Software and Licenses
	EUR
<b>Cost</b>	
<b>As at January 1, 2018</b>	<b>412,888</b>
Additions for the year	38,978
Disposals for the year	-
<b>As at December 31, 2018</b>	<b>451,866</b>
Additions for the year	11,370
Disposals for the year	(7,520)
<b>As at December 31, 2019</b>	<b>455,716</b>
<b>Accumulated amortisation</b>	
<b>As at January 1, 2018</b>	<b>(365,907)</b>
Charge for the year	(24,462)
Eliminated through disposals	-
<b>As at December 31, 2018</b>	<b>(390,369)</b>
Charge for the year	(17,967)
Eliminated through disposals	7,520
<b>As at December 31, 2019</b>	<b>(400,816)</b>
<b>Net book value</b>	
<b>As at December 31, 2019</b>	<b>54,900</b>
<b>As at December 31, 2018</b>	<b>61,497</b>

## 10 ACCOUNTS PAYABLE AND ACCRUALS

	As at December 31 2019	As at December 31 2018
	EUR	EUR
Payables for investment activities	824,824	711,780
Accruals for printing and mailing member account statements	115,409	93,301
Other accounts payable and accruals	44,353	63,126
<b>Total accounts payable</b>	<b>984,586</b>	<b>868,207</b>

As at December 31, 2019 the balance of payables for investment activities includes management fees invoiced by managers of open-end vehicles in the amount of EUR 824,081 as well as brokerage fees in the amount of EUR 743 (2018: EUR 711,037 and EUR 743 respectively).

## 11 SURPLUS

	2019			2018		
	Operational Activities	Investment Activities	Total	Operational Activities	Investment Activities	Total
	EUR	EUR	EUR	EUR	EUR	EUR
<b>Income for the year</b>						
Income from fees charged	1,294,186	6,941,657	<b>8,235,843</b>	1,212,535	6,447,812	<b>7,660,347</b>
Other income	132,822	41,208	<b>174,030</b>	82,072	15,595	<b>97,667</b>
	<b>1,427,008</b>	<b>6,982,865</b>	<b>8,409,873</b>	<b>1,294,607</b>	<b>6,463,407</b>	<b>7,758,014</b>
Expenses for the year	(1,205,928)	(4,702,557)	<b>(5,908,485)</b>	(1,158,745)	(5,743,872)	<b>(6,902,617)</b>
Provisions for expected credit losses, net (increase) / decrease	(333)	-	<b>(333)</b>	252	-	<b>252</b>
<b>Surplus for the year</b>	<b>220,747</b>	<b>2,280,308</b>	<b>2,501,055</b>	<b>136,114</b>	<b>719,535</b>	<b>855,649</b>
Surplus at the start of the year - restated	509,983	101,362	<b>611,345</b>	379,516	81,827	<b>461,343</b>
Return of surplus to KPST-PA	-	(2,300,000)	<b>(2,300,000)</b>	-	(700,000)	<b>(700,000)</b>
<b>Surplus at the end of the year</b>	<b>730,730</b>	<b>81,670</b>	<b>812,400</b>	<b>515,630</b>	<b>101,362</b>	<b>616,992</b>

During 2019 the Governing Board decided to refund EUR 2,300,000 to contributors' pension assets (KPST-PA) from surpluses from investment activities leaving a total net surplus balance of EUR 812,400 as of December 31, 2019 (During 2018 the Governing Board decided to refund EUR 700,000 to contributors' pension assets (KPST-PA) from surpluses from investment activities leaving a net surplus balance of EUR 616,992 as of December 31, 2018).

## 12 FEES CHARGED ON PENSION ASSETS

	Year ended December 31 2019	Year ended December 31 2018
	EUR	EUR
Fees charged for investment activities	6,941,657	6,447,812
Fees charged for operational activities	1,294,186	1,212,535
<b>Total fees charged on pension assets</b>	<b>8,235,843</b>	<b>7,660,347</b>

Fees are accrued on daily basis according to the formula:

$$\text{Fee} = [\text{Gross Participants' Assets}] * [\text{Rate}] / [\text{Number of calendar days in a year}].$$

Total fees charged on gross participants' assets for the purpose of financing the activities of KPST-0 for the year ended December 31, 2019 amounted EUR 8,235,843 (2018: EUR 7,660,347).

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, 2018	January 31, 2018	0.393% p.a.	0.081% p.a.	0.474% p.a.
February 1, 2018	May 15, 2019	0.381% p.a.	0.071% p.a.	0.452% p.a.
May 16, 2019	December 31, 2019	0.370% p.a.	0.069% p.a.	0.439% p.a.

## 13 OTHER INCOME

	Year ended December 31 2019	Year ended December 31 2018
	EUR	EUR
<i>Operational activities</i>		
Interest income from deposits and current account	121,765	82,072
Net income from contribution refunds	7,862	-
Other income from operating activities	3,195	-
	<b>132,822</b>	<b>82,072</b>
<i>Investment activities</i>		
Rebate by AXA-WFOI	39,100	15,595
Other income from investment activities	2,108	-
	<b>41,208</b>	<b>15,595</b>
<b>Total other income</b>	<b>174,030</b>	<b>97,667</b>

Pension contributions incoming in the collection account (the CBK account for KPST-PA) are converted into units on the day of contribution. Occasionally, transfers are made in error (in part or in full) by the payer, and when this is understood KPST, in compliance with the Law No. 04/L-101, refunds the nominal amount of the erroneous contribution. As per KPST policies, the net differences between the (i) nominal amount refunded, and (ii) the value of respective units on the day of the refund; are treated for KPST-0 as other income when positive, and as other expenses when negative. For the year ended December 31, 2019 the net income from contribution refunds amounted EUR 7,862 (2018: net expense amounting EUR 4,559).



#### 14 OPEN-END VEHICLE NET FEES

	Year ended December 31 2019			Year ended December 31 2018		
	Gross fee	Rebate	Net fee	Gross fee	Rebate	Net fee
	EUR	EUR	EUR	EUR	EUR	EUR
Vanguard – GSIF	365,610	(167,640)	<b>197,970</b>	986,158	(510,133)	<b>476,025</b>
BNY Mellon – RRF	1,246,615	-	<b>1,246,615</b>	488,895	-	<b>488,895</b>
AXA – GILB	153,678	(9,194)	<b>144,484</b>	394,407	(49,301)	<b>345,106</b>
Schroders – SISF	100,784	-	<b>100,784</b>	50,969	-	<b>50,969</b>
Schroders – GDG	293,788	-	<b>293,788</b>	813,018	-	<b>813,018</b>
Nordea 1 – GSEF	414,968	-	<b>414,968</b>	689,736	-	<b>689,736</b>
Nordea 1 – SRF	1,129,320	-	<b>1,129,320</b>	942,218	-	<b>942,218</b>
Amundi – 3M I	221,064	(84,790)	<b>136,274</b>	16,719	-	<b>16,719</b>
AXA – WFOI	238,363	-	<b>238,363</b>	716,717	-	<b>716,717</b>
BNP Paribas – PDP	450,555	(106,478)	<b>344,077</b>	1,014,653	(147,058)	<b>867,595</b>
Amundi – RPI2	161,370	-	<b>161,370</b>	253,115	-	<b>253,115</b>
Corp Bond Eur ETF	46,473	-	<b>46,473</b>	-	-	-
S&P500 Minvol ETF	64,637	-	<b>64,637</b>	-	-	-
Amun. EurCorp ETF	37,062	-	<b>37,062</b>	-	-	-
MSCI USA Qual ETF	2,768	-	<b>2,768</b>	-	-	-
Pictet – HDS	-	-	-	44,293	-	<b>44,293</b>
<b>Total open-end vehicle net fees</b>	<b>4,927,055</b>	<b>(368,102)</b>	<b>4,558,953</b>	<b>6,410,898</b>	<b>(706,492)</b>	<b>5,704,406</b>

#### 15 STAFF COSTS

	Year ended December 31 2019	Year ended December 31 2018
	EUR	EUR
Staff salaries	456,201	462,045
Employer’s pension contributions	59,874	63,749
Cost of the Collective Agreement	42,176	39,029
Health insurance	4,702	5,879
Overtime, bonuses and other staff costs	21,500	3,673
<b>Total staff costs</b>	<b>584,453</b>	<b>574,375</b>

## 16 GOVERNING BOARD EXPENSES

	Year ended December 31 2019	Year ended December 31 2018
	EUR	EUR
Trustees honoraria	124,600	123,850
Meetings (Travel/Hotel/Other costs)	34,505	48,708
Fiduciary Insurance	22,709	22,663
Employer's pension contributions	11,461	12,641
<b>Total Governing Board expenses</b>	<b>193,275</b>	<b>207,862</b>

## 17 PROFESSIONAL SERVICES/CONTRACTORS/CONSULTANTS

	Year ended December 31 2019	Year ended December 31 2018
	EUR	EUR
Design and public relation related services	4,815	4,977
Internal audit services	2,940	2,678
Architectonic services	2,007	1,801
Translation and proofreading services	818	640
Notary / Legal and other services	679	284
<b>Total Professional services/Consultants/Contractors</b>	<b>11,259</b>	<b>10,380</b>

## 18 EVENTS AFTER THE REPORTING PERIOD

Since 31 December 2019, the spread of COVID-19 has severely impacted many local economies around the globe. In many countries, businesses are being forced to cease or limit operations for long or indefinite periods of time. Measures taken to contain the spread of the virus, including travel bans, quarantines, social distancing, and closures of non-essential services have triggered significant disruptions to businesses worldwide, resulting in an economic slowdown. Global stock markets have also experienced great volatility and a significant weakening. While governments and central banks have reacted with monetary interventions designed to stabilise economic conditions, the duration and extent of the impact of the COVID-19 outbreak, as well as the effectiveness of government and central bank responses, remains unclear at this time.

### Overall risk to operations

These events have mildly disrupted, but not prevented, the normal functioning of KPST. All operations are being handled, and services are being provided, using a skeleton of staff at the office and others working from home. Given that KPST-0 had no exposure to affected financial instruments, therefore there was no impact in the financial position of KPST-0, or its income, as both remain very stable.

KPST determined that these events are non-adjusting subsequent events. Accordingly, the financial position and results of operations as of and for the year ended 31 December 2019 have not been adjusted to reflect their impact.

It is reasonable to expect that irrespective of the duration and severity of these consequences, there will be no impact on the financial position and results of the KPST-0 for future periods.

After December 31, 2019, except as already disclosed above, there are no other subsequent events that require adjustment or further disclosure in these financial statements.

ANNEX

8

# **KOSOVO PENSION SAVINGS TRUST PENSION ASSETS**

**INDEPENDENT AUDITOR'S REPORT AND FINANCIAL STATEMENTS**

*As at and for the year ended December 31, 2019*

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# Independent Auditor's Report

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### *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 2019, 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 2019, 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 Kosovo 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.

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 of Kosovo Pension Savings Trust – Pension Assets, 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**

Prishtinë,  
10 April 2020

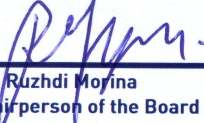
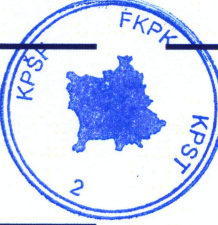
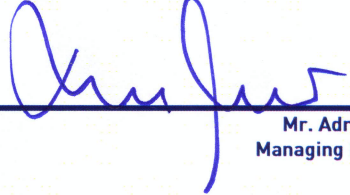
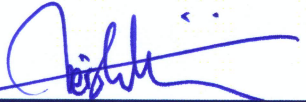
  
Suzana Stavrikj  
Statutory auditor





	Notes	As at December 31 2019	As at December 31 2018
		EUR	EUR
<b>Assets</b>			
Cash at bank	4	3,279,603	6,245,153
Contribution and other receivables	5	12,274,188	131,347,368
Investments in open-end funds	6	1,480,058,308	1,227,330,357
Kosovo Treasuries	7	298,483,698	208,510,864
Term deposits	7	185,620,151	119,344,093
		<b>1,979,715,948</b>	<b>1,692,777,835</b>
<b>Liabilities</b>			
Liabilities towards KPST-O	8	553,143	410,601
Liabilities for repurchased shares	9	650,497	424,779
Non-contributions	10	38,174	34,257
Interest payable	4	14,627	5,030
		<b>1,256,441</b>	<b>874,667</b>
<b>Net participants' assets</b>		<b>1,978,459,507</b>	<b>1,691,903,168</b>

Authorised for issue by the Governing Board and Management of KPST and signed on their behalf on 31 March 2020.

 _____ Mr. Ruzhdi Morina Chairperson of the Board		 _____ Mr. Adrian Zalli Managing Director
 _____ Mr. Vërshim Hatipi Deputy Director - Finance   Investments and Risk   IT		

	Notes	Year ended December 31 2019	Year ended December 31 2018
		EUR	EUR
<b>Income</b>			
Gains from investments in open-end funds - net	6	150,898,794	-
Interest income from Kosovo Treasuries	7	5,299,465	2,353,410
Interest income from term deposits	7	2,261,648	847,793
Other income	11	2,300,000	700,000
		<b>160,759,907</b>	<b>3,901,203</b>
<b>Expenses</b>			
Fees charged on participants' accounts	12	(8,235,843)	(7,660,347)
Interest expenses on cash at CBK	4	(99,699)	(66,673)
Losses from investments in open-end funds – net	6	-	(88,540,994)
		<b>(8,335,542)</b>	<b>(96,268,014)</b>
Net (increase) in provisions for expected credit losses	7	(178,140)	(415,300)
<b>Increase / (Decrease) in net participants' assets</b>		<b>152,246,225</b>	<b>(92,782,111)</b>

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

	Participants' Contributions	Retained Earnings	Total
	EUR	EUR	EUR
<b>As at January 1, 2018</b>	<b>1,308,285,047</b>	<b>336,336,533</b>	<b>1,644,621,580</b>
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)
<b>As at December 31, 2018</b>	<b>1,455,255,081</b>	<b>236,648,087</b>	<b>1,691,903,168</b>
Contributions	187,548,325	-	187,548,325
Repurchases due to withdrawal of savings	(41,850,770)	(10,733,164)	(52,583,934)
Repurchases due to refunds	(646,415)	(7,862)	(654,277)
Increase in net participants' assets	-	152,246,225	152,246,225
<b>As at December 31, 2019</b>	<b>1,600,306,221</b>	<b>378,153,286</b>	<b>1,978,459,507</b>

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



	Notes	Year ended December 31 2019	Year ended December 31 2018
		EUR	EUR
<b>Cash flows from operating activities</b>			
Increase in net participants' assets		152,246,225	(92,782,111)
<b>Adjustments for:</b>			
(Gain) / Loss in open end funds (net of fees withheld)		(149,157,214)	91,922,763
Net movement in provisions for expected credit losses	7	178,140	415,300
Interest income	7	(7,561,113)	(3,201,203)
Interest expenses	4	99,699	66,673
		(4,194,263)	(3,578,578)
Interest received		5,873,117	2,048,667
Interest paid		(90,102)	(65,261)
		<b>1,588,752</b>	<b>(1,595,172)</b>
<i>Movement of working capital:</i>			
Increase in liabilities for fees	8	137,870	18,801
Increase / (Decrease) in liabilities for non-contributions	10	3,917	(15,041)
Decrease / (Increase) in redemption and maturity receivables		120,000,000	(111,907,440)
<b>Net cash flows from / (used in) operating activities</b>		<b>121,730,539</b>	<b>(113,498,852)</b>
<b>Cash flows from investing activities</b>			
(Additions) to investments in open-end funds	6	(1,431,956,161)	(422,575,982)
Redemption of investments in open-end funds	6	1,328,385,424	581,473,372
(Additions) to Kosovo Treasuries	7	(140,001,490)	(177,350,917)
Matured Kosovo Treasuries (principal)	7	50,800,454	64,278,922
(Additions) to term deposits	7	(141,538,000)	(106,000,000)
Matured term deposits (principal)	7	76,000,000	37,401,000
<b>Net cash flows (used in) investing activities</b>		<b>(258,309,773)</b>	<b>(22,773,605)</b>
<b>Cash flows from financing activities</b>			
Participants' contributions received		186,612,628	172,656,152
Withdrawal of savings		(52,225,969)	(42,985,423)
Refunds		(772,975)	(820,371)
<b>Net cash flows from financing activities</b>		<b>133,613,684</b>	<b>128,850,358</b>
<b>(Decrease) in cash and cash equivalents</b>		<b>(2,965,550)</b>	<b>(7,422,099)</b>
Cash and cash equivalents at the beginning of the year		6,245,153	13,667,252
<b>Cash and cash equivalents at the end of the year</b>	4	<b>3,279,603</b>	<b>6,245,153</b>

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, consisting of members that are investment and pension experts, as well as employee and employer representatives from Kosovo. According to the Law No. 04/L-101, one non-voting member shall represent the interests of the Government. During 2019 and 2018, the Board of Governors was operating without the non-voting member.

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 16 "Leases"** (effective for annual periods beginning on or after 1 January 2019);
- **Amendments to various standards:** Income Tax Consequences of Payments on Instruments Classified as Equity (Amendments to IAS 12); Plan Amendment, Curtailment or Settlement (Amendments to IAS 19); Borrowing Costs Eligible for Capitalisation (Amendments to IAS 23); Long-term Interests in Associates and Joint Ventures (Amendments to IAS 28); Previously Held Interests in a Joint Operation (Amendments to IFRS 3 and IFRS 11); Prepayment Features with Negative Compensation (Amendments to IFRS 9) – all effective for annual periods beginning on or after 1 January 2019;
- **IFRIC 23 "Uncertainty over Income Tax Treatments"** – effective for annual periods beginning on or after 1 January 2019.

The adoption of the above standards did not have a material impact on the financial statements of KPST-PA.

#### 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 and amendments to existing standards were in issue, but not yet effective:

- **IFRS 17 "Insurance Contracts"** - effective for annual reporting periods beginning on or after 1 January 2021;
- **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).
- **Definition of a Business (Amendments to IFRS 3)** - effective for annual reporting periods beginning on or after 1 January 2020;
- **Classification of Liabilities as Current or Non-current (Amendments to IAS 1)** - effective for annual reporting periods beginning on or after 1 January 2022.

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.

At 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

KPST-PA 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 or FVPL.

*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)

#### 3.2.1. 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)

#### 3.2.3. 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	As at
		December 31 2019	December 31 2018
		EUR	EUR
Investments in open-end funds	1	1,480,058,308	1,227,330,357

Fair value measurements listed above are recurring. There were no movements of funds between levels during the year ending December 31, 2019 and 2018.

The fair value of other financial assets as at December 31, 2019 and 2018 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: 55%; Multi-asset class funds: 55%; Pure debt securities funds including Kosovo treasury bonds: 35%; and money markets and Kosovo treasury bills: 50%); 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: 70%). 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 2019		As at December 31 2018	
	Assets	Liabilities	Assets	Liabilities
	EUR	EUR	EUR	EUR
<b>Fixed rate</b>				
Kosovo Treasuries	298,483,698	-	208,510,864	-
Term deposits	185,620,151		119,344,093	
<b>Total</b>	<b>484,103,849</b>	<b>-</b>	<b>327,854,957</b>	<b>-</b>

### 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 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 74,002,915 (2018: EUR 61,366,009).

The maximum drawdown for the KPST-PA portfolio for the 1-year period ending December 31, 2019 was 4.8%, and for the 3-year period it was 8.2% (2018: 8.2%, and 8.2%, respectively).

The ratio of performance vs volatility for the 1-year period ending December 31, 2019 was 3.81; where the annualised volatility was 2.3% and the performance +8.87% (2018: -1.06, 5.0% and -5.28% respectively). On the other hand, the ratio for the 3-year period was 0.87; where the annualised volatility was 3.7% and the annualised performance 3.17% (2018: 0.39, 4.5% and 1.75%, 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, 2019 amounted to EUR 4,436,518 (2018: EUR 2,747,499). Average monthly incoming contributions for the year amounting EUR 15,551,052 (2018: EUR 14,388,013) 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 3 years.

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

	As at December 31 2019			As at December 31 2018		
	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
<b>Financial assets</b>						
Cash at bank	3,279,603	-	-	6,245,153	-	-
Open-end funds	-	-	1,480,058,308	-	-	1,227,330,357
Kosovo Treasuries	77,695,694	200,332,878	20,455,126	50,863,036	136,400,021	21,247,807
Term deposits	112,949,255	72,670,896	-	76,243,274	43,100,819	-
Contribution and other receivables	12,274,188	-	-	131,347,368	-	-
	<b>206,198,740</b>	<b>273,003,774</b>	<b>1,500,513,434</b>	<b>264,698,831</b>	<b>179,500,840</b>	<b>1,248,578,164</b>
<b>Financial liabilities</b>						
Account payables	1,256,441	-	-	874,667	-	-
	<b>1,256,441</b>	-	-	<b>874,667</b>	-	-
<b>Maturity gap</b>	<b>204,942,299</b>	<b>273,003,774</b>	<b>1,500,513,434</b>	<b>263,824,164</b>	<b>179,500,840</b>	<b>1,248,578,164</b>

### 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. An exception to this is the iShares MSCI US Qual ETF which has USD based securities unhedged and represented 2.4% of assets on reporting date (2018: nil).

As a result of there being limited 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, 2018 and 2019.

##### 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, and there were no movements in stages during the year ended December 31, 2019. Net additions to the impairment provisions during the year were EUR 144,985, making for an end balance as at December 31, 2019 of EUR 678,408 (2018: net additions of EUR 380,888 and an end balance 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, and there were no movements in stages during the year ended December 31, 2019. Net additions to the provisions for expected losses during the year were EUR 33,155, making for an end balance as at December 31, 2019 of EUR 92,856 (2018: net additions of EUR 34,412 and an end balance 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, 2019 and 2018.

	As at December 31 2019		As at December 31 2018	
	Carrying Value	Fair value	Carrying Value	Fair value
	EUR	EUR	EUR	EUR
<b>Financial assets</b>				
Cash at bank	3,279,603	3,279,603	6,245,153	6,245,153
Kosovo Treasuries	298,483,698	299,162,106	208,510,864	209,044,287
Term deposits	185,620,151	185,713,007	119,344,093	119,403,795
Contribution and other receivables	12,274,188	12,274,188	131,347,368	131,347,368
	<b>499,657,640</b>	<b>500,428,904</b>	<b>465,447,478</b>	<b>466,040,603</b>
<b>Financial liabilities</b>				
Account payables	1,256,441	1,256,441	874,667	874,667
	<b>1,256,441</b>	<b>1,256,441</b>	<b>874,667</b>	<b>874,667</b>

##### 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, 2019 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   Credit   Counterparty   Currency   Derivatives   Interest rate   Leverage
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
Corp Bond Eur ETF	Price   Counterparty   Country/political
S&P500 Minvol ETF	Price   Counterparty   Country/political
Amun EurCorp ETF	Price   Counterparty   Country/political
MSCI USA Qual ETF	Price   Counterparty   Country/political   Currency

### 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, 2019 was as follows:

Currency - EUR: 69.3%; USD: 21.3%; GBP: 3.0%; JPY: 1.3%; CAD: 1.3%; DKK: 1.1%; Others (net): 2.7%.

Asset class - Equities: 34.9%; Treasury debt: 23.7%; Corporate debt: 20.5%; Money markets: 20.6%; Net derivatives: 0.3%.

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. Excluded are indirect investments in fixed income funds, or 4.93% of KPST-PA assets, for which the rating could not be obtained. 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 2019	Percentage of KPST assets as at December 31 2018
<b>Direct investments</b>			
Kosovo Treasuries	-	15.20%	12.43%
Term deposits	-	9.44%	7.10%
		<b>24.64%</b>	<b>19.53%</b>
<b>Indirect fixed income investments</b>			
Prime	AAA	4.87%	6.97%
High	AA+   AA   AA-	2.31%	7.22%
Upper medium	A+   A   A-	5.90%	3.28%
Lower medium	BBB+   BBB   BBB-	7.98%	5.10%
Non-investment speculative	BB+   BB   BB-	2.13%	1.27%
Highly speculative	B+   B   B-	0.37%	0.64%
Substantial risk	CCC+	0.01%	0.02%
Extremely speculative	CCC	0.02%	0.01%
In default with little prospect of recovery	CCC-   CC   C	0.00%	0.00%
Not rated	-	0.43%	0.54%
		<b>24.02%</b>	<b>25.05%</b>
<b>Indirect money-market investments</b>			
Prime	AAA	0.01%	-
High	AA+   AA   AA-	1.05%	0.10%
Upper medium	A+   A   A-	3.75%	1.57%
Lower medium	BBB+   BBB   BBB-	2.55%	0.31%
Highly speculative	B+   B   B-	-	0.01%
Not rated	-	0.17%	-
		<b>7.53%</b>	<b>1.99%</b>

#### 4 CASH AT BANK

	As at December 31 2019	As at December 31 2018
	EUR	EUR
Central Bank of Republic of Kosovo	2,955,546	6,245,153
Erste Bank Austria (broker)	324,057	-
<b>Total cash at bank</b>	<b>3,279,603</b>	<b>6,245,153</b>

From January 1, 2018 to June 30, 2019 a negative interest rate of -0.40% p.a.; from July 1 to October 17, 2019 a negative interest rate of -0.50% p.a.; and from October 18 to December 31, 2019 a negative interest of -0.60% 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, 2019 were EUR 99,699 of which EUR 14,627 were payable to the CBK on reporting date (2018: expenses of EUR 66,673 of which EUR 5,030 were payable on reporting date).

#### 5 CONTRIBUTION AND OTHER RECEIVABLES

	As at December 31 2019	As at December 31 2018
	EUR	EUR
Contributions receivable	12,274,188	11,347,368
Receivables for redemptions from open-end funds	-	120,000,000
<b>Total contribution and other receivables</b>	<b>12,274,188</b>	<b>131,347,368</b>

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.

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)

							2019
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	363,676,626	55,204,616	48,969,050	(365,610)	(420,000,000)	47,484,682
BNY Mellon – RRF	6.2	145,256,365	102,000,000	23,180,606	-	-	270,436,971
AXA – GILB	6.3	97,593,865	13,345	2,074,769	(153,678)	(70,000,000)	29,528,301
Schroders – SISF	6.4	9,812,299	52,000,000	574,969	-	(62,387,268)	-
Schroders – GDG	6.5	55,893,343	-	5,244,959	-	(17,500,000)	43,638,302
Nordea 1 – GSEF	6.6	162,607,446	108,000,000	28,881,121	-	(173,000,000)	126,488,567
Nordea 1 – SRF	6.7	124,005,629	88,000,000	17,042,015	-	-	229,047,644
Amundi – 3M-I	6.8	59,847,864	733,065,632	(830,703)	(221,064)	(517,998,964)	273,862,765
AXA – WFOI	6.9	53,906,903	39,100	5,740,987	(238,363)	(17,500,000)	41,948,627
BNP Paribas – PDP	6.10	52,220,239	50,000,000	9,763,153	(450,555)	-	111,532,837
Amundi – RPI2	6.11	102,509,778	26,000,262	7,190,867	(161,370)	(49,999,192)	85,540,345
Corp Bond Eur ETF	6.12	-	61,995,980	(642,957)	(46,473)	-	61,306,550
S&P500 Minvol ETF	6.13	-	45,927,155	4,532,116	(64,637)	-	50,394,634
Amun EurCorp ETF	6.14	-	61,998,114	(792,988)	(37,062)	-	61,168,064
MSCI USA Qual ETF	6.15	-	47,711,957	(29,170)	(2,768)	-	47,680,019
<b>Total investments in open-end funds</b>		<b>1,227,330,357</b>	<b>1,431,956,161</b>	<b>150,898,794</b>	<b>(1,741,580)</b>	<b>(1,328,385,424)</b>	<b>1,480,058,308</b>

							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
BNP Paribas – PDP	6.10	130,010,203	22,000,000	(8,775,311)	(1,014,653)	(90,000,000)	52,220,239
Amundi – RPI2	6.11	86,295,734	64,001,173	(5,533,651)	(253,115)	(42,000,363)	102,509,778
Pictet – HDS		33,137,645	-	(1,664,192)	-	(31,473,453)	-
<b>Total investments in open-end funds</b>		<b>1,478,150,510</b>	<b>422,575,982</b>	<b>(88,540,994)</b>	<b>(3,381,769)</b>	<b>(581,473,372)</b>	<b>1,227,330,357</b>



AMOUNTS IN EUR UNLESS OTHERWISE SPECIFIED

**6 INVESTMENTS IN OPEN-END FUNDS (CONTINUED)**

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

						2019
Fund	Note	As at	Additions	Redemptions	As at	
		January 1			December 31	
		Units	Units	Units	Units	
Vanguard – GSIF	6.1	20,867,975	2,972,007	(21,651,536)	2,188,446	
BNY Mellon – RRF	6.2	113,075,171	74,298,882	-	187,374,053	
AXA – GILB	6.3	639,834	87	(455,392)	184,529	
Schroders – SISF	6.4	65,229	333,840	(399,069)	-	
Schroders – GDG	6.5	347,866	-	(104,545)	243,321	
Nordea 1 – GSEF	6.6	6,708,228	3,898,672	(6,462,452)	4,144,448	
Nordea 1 – SRF	6.7	6,873,926	4,664,998	-	11,538,924	
Amundi – 3M-I	6.8	57	696	(493)	260	
AXA – WFOI	6.9	398,808	271	(122,901)	276,178	
BNP Paribas – PDP	6.10	364,794	298,579	-	663,373	
Amundi - RPI2	6.11	21	5	(10)	16	
Corp Bond Eur ETF	6.12	-	457,000	-	457,000	
S&P500 Minvol ETF	6.13	-	7,323,737	-	7,323,737	
Amun EurCorp ETF	6.14	-	270,745	-	270,745	
MSCI USA Qual ETF	6.15	-	530,229	-	530,229	

						2018
Fund	Note	As at	Additions	Redemptions	As at	
		January 1			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	
BNP Paribas – PDP	6.10	842,199	146,921	(624,326)	364,794	
Amundi - RPI2	6.11	17	13	(9)	21	
Pictet – HDS		180,498	-	(180,498)	-	

## 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, 2019 was +24.50% (2018: -9.51%). The management fee is calculated daily, at an annualised rate of 0.25% of assets (2018: 0.25%). The fund gives out 0.12% as rebate on the management fee (2018: 0.12%) which is reinvested in the following month, making net management fees charged by the fund 0.13% of assets p.a. (2018: 0.13% of assets p.a.). The redemption of EUR 420,000,000 from this fund during 2019 included realised gains of EUR 141,769,973.

### 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, 2019 was +12.35% (2018: -0.21%). The management fee was calculated daily at an annualised rate of 0.60% of assets (2018: 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, 2019 amount to EUR 1,246,615 (2018: EUR 488,895). There were no redemptions from this fund during 2019.

### 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, 2019 was +6.94% (2018: -2.99%). The management fee is calculated daily at an annualised rate of 0.40% of assets (2018: 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. The redemption of EUR 70,000,000 from this fund during 2019 included realised gains of EUR 8,045,150.

### 6.4 Schroders – International Strategic Bond Euro Hedged (ISIN LU0201824265)

Schroders International Strategic Bond fund is a Luxembourg 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 up to full redemption on August 13, 2019 was +3.92% (2018: -4.51% for the full year). The management fee is calculated quarterly, at an annualised rate of 0.50% of assets (2018: 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, 2019 amount to EUR 100,784 (2018: EUR 50,969). The full redemption of EUR 62,387,268 from this fund during 2019 included realised gains of EUR 2,190,514.

### 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, 2019 was +11.62% (2018: -8.17%). 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, 2019 amount to EUR 293,788 (2018: EUR 813,018). The redemption of EUR 17,500,000 from this fund during 2019 included realised gains of EUR 176,846.

### 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, 2019 was +25.91% (2018: -2.69%). 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, 2019 amount to EUR 414,968 (2018: EUR 689,736). The redemption of EUR 173,000,000 from this fund during 2019 included realised gains of EUR 30,597,957.

## 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, 2019 was +10.03% (2018: -4.14%). 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, 2019 amount to EUR 1,129,320 (2018: EUR 942,218). There were no redemptions from this fund during 2019.

### 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, 2019 was -0.28% (2018: -0.32%). 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 517,998,964 from this fund during 2019 included realised losses of EUR 535,321.

### 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, 2019 was +12.37% (2018: -7.58%). The management fee is calculated daily at an annualised rate of 0.55% of assets (2018: 0.55%), and is withheld from the fund, thereby reducing the net asset value. The redemptions of EUR 17,500,000 from this fund during 2019 included realised gains of EUR 586,626.

### 6.10 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, 2019 was +17.79% (2018: -7.27%). 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. Up to March 31, 2019 the fund gave out 0.11% of assets as rebate on the fees, making net fees charged by the fund 0.65% of assets p.a. From April 1, 2019 the fund gave out a 0.22% of assets as rebate making net fees charged 0.54% of assets. There were no redemptions from this fund during 2019.

### 6.11 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, 2019 was +8.34% (2018: -4.38%). 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 49,999,192 from this fund during 2019 included realised gains of EUR 414,150.

### 6.12 iShares Core € Corp Bond UCITS ETF EUR (Dist) (ISIN: IE00B3F81R35)

Corp Bond Eur ETF is an exchange traded fund with euro denominated corporate bonds in its portfolio and was first invested in during August 2019. The fund does not pay any dividend therefore all gains were reflected in the Net Asset Value of the fund. The unit price change since the initial investment and up to December 31, 2019 was -1.11%. 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. There were no redemptions from this fund during 2019.

### 6.13 iShares Edge S&P 500 Minimum Volatility UCITS ETF EUR Hedged (Acc) (ISIN: IE00BYX8XD24)

S&P500 Minvol ETF is an exchange traded fund with lower volatility stocks from the S&P500 in its portfolio and was first invested in during June 2019. The fund pays out a dividend therefore not all the gains are reflected in the Net Asset Value of the fund. The unit price change since the initial investment and up to December 31, 2019 was +9.73%. The management and other fees are calculated daily, at an annualised rate of 0.25% of assets and are withheld from the fund, thereby reducing the net asset value. There were no redemptions from this fund during 2019.

## 6 INVESTMENTS IN OPEN-END FUNDS (CONTINUED)

### 6.14 Amundi IS EURO Corporates ETF-C EUR (ISIN: LU1681039647)

Amun EurCorp ETF is an exchange traded fund with euro denominated corporate bonds in its portfolio and was first invested in during August 2019. The fund does not pay any dividend therefore all gains were reflected in the Net Asset Value of the fund. The unit price change since the initial investment and up to December 31, 2019 was -1.34%. The management and other fees are calculated daily, at an annualised rate of 0.16% of assets and are withheld from the fund, thereby reducing the net asset value. There were no redemptions from this fund during 2019.

### 6.15 iShares Edge MSCI USA Quality Factor ETF (ISIN: US46432F3394)

MSCI USA Qual ETF is an exchange traded fund with quality US stocks from the MSCI World index portfolio, it does not hedge back to euros, and was first invested in during December 2019. The fund does not pay any dividend therefore all gains were reflected in the Net Asset Value of the fund. The unit price change since the initial investment and up to December 31, 2019 was -0.07%. The management and other fees are calculated daily, at an annualised rate of 0.15% of assets and are withheld from the fund, thereby reducing the net asset value. There were no redemptions from this fund during 2019.

### 6.16 Open-end fund fees and rebates

		Year ended December 31 2019			Year ended December 31 2018		
		Gross fee	Rebate	Net fee	Gross fee	Rebate	Net fee
		EUR	EUR	EUR	EUR	EUR	EUR
Vanguard – GSIF	6.1	365,610	(167,640)	197,970	986,158	(510,133)	476,025
BNY Mellon – RRF	6.2	1,246,615	-	1,246,615	488,895	-	488,895
AXA – GILB	6.3	153,678	(9,194)	144,484	394,407	(49,301)	345,106
Schroders – SISF	6.4	100,784	-	100,784	50,969	-	50,969
Schroders – GDG	6.5	293,788	-	293,788	813,018	-	813,018
Nordea 1 – GSEF	6.6	414,968	-	414,968	689,736	-	689,736
Nordea 1 – SRF	6.7	1,129,320	-	1,129,320	942,218	-	942,218
Amundi – 3M I	6.8	221,064	(84,790)	136,274	16,719	-	16,719
AXA – WFOI	6.9	238,363	-	238,363	716,717	-	716,717
BNP Paribas – PDP	6.10	450,555	(106,478)	344,077	1,014,653	(147,058)	867,595
Amundi – RPI2	6.11	161,370	-	161,370	253,115	-	253,115
Corp Bond Eur ETF	6.12	46,473	-	46,473	-	-	-
S&P500 Minvol ETF	6.13	64,637	-	64,637	-	-	-
Amun EurCorp ETF	6.14	37,062	-	37,062	-	-	-
MSCI USA Qual ETF	6.15	2,768	-	2,768	-	-	-
Pictet – HDS		-	-	-	44,293	-	44,293
<b>Total open-end fund fees and rebates</b>		<b>4,927,055</b>	<b>(368,102)</b>	<b>4,558,953</b>	<b>6,410,898</b>	<b>(706,492)</b>	<b>5,704,406</b>

**7 KOSOVO TREASURIES AND TERM DEPOSITS**

	As at December 31 2019	As at December 31 2018
	EUR	EUR
<b>Kosovo Treasuries</b>		
Gross of provisions for expected credit losses	299,162,106	209,044,287
Provision for expected credit losses	(678,408)	(533,423)
<b>Net of provisions for expected credit losses</b>	<b>298,483,698</b>	<b>208,510,864</b>
<b>Term deposits</b>		
Gross of provisions for expected credit losses	185,713,008	119,403,795
Provision for expected credit losses	(92,857)	(59,702)
<b>Net of provisions for expected credit losses</b>	<b>185,620,151</b>	<b>119,344,093</b>
<b>Kosovo Treasuries and term deposits</b>	<b>484,103,849</b>	<b>327,854,957</b>

Provisions for expected credit losses for debt instruments for the years ended December 31, 2019 and 2018 were derived in accordance with the expected credit loss model as detailed in significant accounting policies.

The movements in provisions for expected credit losses for the years ended December 31, 2019 and 2018 for the above instruments were:

	Kosovo Treasuries	Term deposits	Debt instruments
	EUR	EUR	EUR
<b>As at January 1, 2018</b>	<b>152,535</b>	<b>25,290</b>	<b>177,825</b>
Additions to provision due to new placements	444,842	53,157	497,999
Releases in provision due to maturity / derecognition	(63,954)	(18,745)	(82,699)
Releases in provision due to change in credit risk	-	-	-
<b>Net movement of provisions for expected credit losses</b>	<b>380,888</b>	<b>34,412</b>	<b>415,300</b>
<b>As at December 31, 2018</b>	<b>533,423</b>	<b>59,702</b>	<b>593,125</b>
Additions to provision due to new placements	269,870	71,295	341,165
Releases in provision due to maturity / derecognition	(124,885)	(38,140)	(163,025)
Releases in provision due to change in credit risk	-	-	-
<b>Net movement of provisions for expected credit losses</b>	<b>144,985</b>	<b>33,155</b>	<b>178,140</b>
<b>As at December 31, 2019</b>	<b>678,408</b>	<b>92,857</b>	<b>771,265</b>



**7 KOSOVO TREASURIES AND TERM DEPOSITS (CONTINUED)**

As at December 31, 2019 KPST-PA investments in Kosovo Treasury debt instruments measured at amortised cost consisted of 30 securities with EUR 297,230,000 in nominal value, original maturities of between 12 months and 10 years, average duration (weighted) of 2.49 years, and average rate/coupon of 1.91%. As at December 31, 2018 they consisted of 25 securities with EUR 209,060,000 in nominal value, original maturities of between 6 months and 10 years, average duration of 2.79 years, and average rate/coupon of 1.79%. Kosovo Treasuries are not rated.

As at December 31, 2019 KPST-PA investments in term deposits measured at amortised cost consisted of 33 deposits with banks that had original maturities of between 1 and 3 years, fixed interest rates, an average duration (weighted) of 1.16 years, and average interest rate of 1.48%. 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, 2018 investments in term deposits measured at amortised cost consisted of 20 deposits that had original maturities of between 1 and 3 years, fixed interest rates, an average duration (weighted) of 1.19 years, and average rate of 1.55%.

	Kosovo Treasuries	Term deposits	Debt instruments
	EUR	EUR	EUR
<b>As at January 1, 2018</b>	<b>94,892,605</b>	<b>50,554,121</b>	<b>145,446,726</b>
New placements	177,350,917	106,000,000	283,350,917
Interest earned	2,353,410	847,793	3,201,203
Interest / coupons - received	(1,426,258)	(622,409)	(2,048,667)
Principal - matured	(64,278,922)	(37,401,000)	(101,679,922)
Net movement in provisions for expected credit loss	(380,888)	(34,412)	(415,300)
<b>As at December 31, 2018</b>	<b>208,510,864</b>	<b>119,344,093</b>	<b>327,854,957</b>
New placements	140,001,490	141,538,000	281,539,490
Interest earned	5,299,465	2,261,648	7,561,113
Interest / coupons - received	(4,382,682)	(1,490,435)	(5,873,117)
Principal - matured	(50,800,454)	(76,000,000)	(126,800,454)
Net movement in provisions for expected credit loss	(144,985)	(33,155)	(178,140)
<b>As at December 31, 2019</b>	<b>298,483,698</b>	<b>185,620,151</b>	<b>484,103,849</b>

## 8 LIABILITIES TOWARDS KPST-0

	As at December 31 2019	As at December 31 2018
	EUR	EUR
Fees charged on participants' accounts - payable	553,030	415,160
<i>Plus / (Less):</i> Difference from refunds of erroneous contributions	113	(4,559)
<b>Net liabilities towards KPST-0</b>	<b>553,143</b>	<b>410,601</b>

As at December 31, 2019 the balance of payable fees amounting EUR 553,030 relates to KPST fees charged to the participants' accounts which were not transferred to KPST-0 as of reporting date (2018: EUR 415,160). 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, 2019 the balance of differences from refunds was EUR 113, making for net liabilities towards KPST-0 in the amount EUR 553,143 (2018: EUR -4,559 and EUR 410,601, 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 2019	As at December 31 2018
	EUR	EUR
Liabilities for refunds	6,976	130,346
Liabilities for the withdrawal of savings	643,521	294,433
<b>Total liabilities for repurchased shares</b>	<b>650,497</b>	<b>424,779</b>

As at December 31, 2019 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 650,497 (2018: EUR 424,779).

## 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, 2019 the balance of non-contributions yet to be returned to the payer as of reporting date amounts to EUR 38,174 (2018: EUR 34,257).

## 11 OTHER INCOME

During the year ended December 31, 2019 the Governing Board of KPST had decided to refund EUR 2,300,000 to pension assets from the KPST-O surplus from investment activities (2018: EUR 700,000).

## 12 FEES CHARGED ON PARTICIPANTS' ACCOUNTS

	Year ended December 31 2019	Year ended December 31 2018
	EUR	EUR
Fees for investment activities	6,941,657	6,447,812
Fees for operational activities	1,294,186	1,212,535
<b>Total fees charged on participants' accounts</b>	<b>8,235,843</b>	<b>7,660,347</b>

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, 2019 amounted EUR 8,235,843 (2018: EUR 7,660,347).

Applicable fees for the reporting period, as approved by the Assembly of the Republic of Kosovo in accordance with Law NO. 04/L-168, were as follows:

Date from	Date to	Fees for investment activities	Fees for operational activities	Total fees
January 1, 2018	January 31, 2018	0.393% p.a.	0.081% p.a.	0.474% p.a.
February 1, 2018	May 15, 2019	0.381% p.a.	0.071% p.a.	0.452% p.a.
May 16, 2019	December 31, 2019	0.370% p.a.	0.069% p.a.	0.439% p.a.

### 13 INDIVIDUAL PARTICIPANTS' ACCOUNTS

	As at December 31 2019	As at December 31 2018
	Number of Accounts	Number of Accounts
Accounts with no withdrawals of savings	618,218	582,740
Accounts with withdrawals of savings	51,755	43,947
<b>Total accounts</b>	<b>669,973</b>	<b>626,687</b>

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 669,973 contributors for whom KPST has opened a pension savings account, 379,827 had contributions belonging to the year ended December 31, 2019 (2018: 344,453 out of 626,687 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 the Tax Administration of Kosovo (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.

Since the TAK electronic declaration portal was introduced and made mandatory in 2012 the vast majority of contributions are allocated to individual accounts at the first attempt. However, in some limited cases contribution payments made by employers are not associated with the correct and/or sufficient information; resulting in contributions not allocated to individual participants accounts.

Un-allocated contributions as at December 31, 2019 amounted EUR 2,405,299 (2018: EUR 1,293,572). Main reasons include: (i) employer making the payment but not submitting the list of contributors; (ii) employer submitting the list of contributors but making underpayments and/or overpayments; (iii) contributor personal information in the contributor list (ID and/or name) is not valid; (iv) penalties and fees for late payment (payable to TAK) are included in payments; and (v) the source of payment (employer) is not yet identified.

The administration of KPST does its best to resolve cases of un-allocated contributions. If however, six or more years have passed since the contribution was paid and despite best efforts of the administration the contribution remains un-allocated, 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 such contributions and for the proceeds of such redemptions are paid to the Kosovo Consolidated Budget (KCB) via the Tax Administration of Kosovo. During 2019 no units were redeemed under this provision, making for EUR nil of proceeds for the KCB (2018: EUR 1,622,498).

The total un-allocated contributions as percentage of total collected contributions is provided below:

	As at December 31 2019	As at December 31 2018
	EUR	EUR
Un-allocated contributions (unitised up to reporting date)	2,405,299	1,293,572
Cumulative contributions unitised up to reporting date	1,781,446,174	1,594,824,669
<b>Un-allocated contributions as percentage of unitised contributions up to reporting date</b>	<b>0.135%</b>	<b>0.081%</b>

### 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 2019	As at December 31 2018
		Value EUR	Value EUR
Net participants' assets		1,978,459,507	1,691,903,168
<i>Adjusted for:</i>			
Contribution receivables not unitised on reporting date	5	(12,274,188)	(11,347,368)
Balance of provision from impairment losses	7	771,264	593,125
<b>Net unitised participants' assets</b>		<b>1,966,956,583</b>	<b>1,681,148,925</b>
Balance of funds in individual accounts		1,964,366,263	1,679,863,025
<b>Percentage of net unitised participants' assets in individual accounts</b>		<b>99.87%</b>	<b>99.92%</b>

### 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 (2018: 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 (2018: 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	2019	2018
		Units	Units
<b>As at January 1</b>		<b>1,211,680,717</b>	<b>1,115,941,202</b>
Units issued for received contributions		126,442,738	119,032,107
Units redeemed through withdrawal of savings		(35,588,488)	(21,572,925)
Units redeemed through refunds		(441,768)	(569,693)
Units redeemed due to return of unallocated funds		-	(1,149,974)
<b>As at December 31</b>		<b>1,302,093,199</b>	<b>1,211,680,717</b>
Net unitised participants' assets	13	1,966,956,583	1,681,148,925
<b>NAV per share on reporting date</b>		<b>EUR 1.5106</b>	<b>EUR 1.3875</b>



## 16 EVENTS AFTER THE REPORTING PERIOD

Since 31 December 2019, the spread of COVID-19 has severely impacted many local economies around the globe. In many countries, businesses are being forced to cease or limit operations for long or indefinite periods of time. Measures taken to contain the spread of the virus, including travel bans, quarantines, social distancing, and closures of non-essential services have triggered significant disruptions to businesses worldwide, resulting in an economic slowdown. Global stock markets have also experienced great volatility and a significant weakening. While governments and central banks have reacted with monetary interventions designed to stabilise economic conditions, the duration and extent of the impact of the COVID-19 outbreak, as well as the effectiveness of government and central bank responses, remains unclear at this time.

### Overall risk to operations

These events have mildly disrupted, but not prevented, the normal functioning of KPST. All operations are being handled, and services are being provided, using a skeleton of staff at the office and others working from home. The financial position of KPST-PA remains very stable given the long-term nature of its investments, the high liquidity of investment vehicles used, and the low level of withdrawals compared to incoming contributions needed to service those withdrawals.

KPST determined that these events are non-adjusting subsequent events. Accordingly, the financial position and results of operations as of and for the year ended 31 December 2019 have not been adjusted to reflect their impact. It is not possible to reliably estimate the duration and severity of these consequences, as well as their impact on the financial position and results of KPST-PA for future periods.

### Decline in fair value of investments

In light of these events, the Governing Board of KPST took measures to drastically reduce equity allocations in favour of cash. This helped amortise the impact of declining prices of fair value investments in the overall portfolio of KPST-PA. The unit price of KPST-PA was reduced by -4.66% for the year up to 31 March 2020, at a time when world's major indices fell by between -30% and -20% during the same period. Following a series of redemptions and the decline in value the fair value investments, the exposure to fair value investments amounted to EUR 1,364,353,783 as at 31 March 2020.

These subsequent changes in the fair value of the KPST-PA investments are not reflected in the financial statements as at 31 December 2019.

After December 31, 2019, except as already disclosed above, there are no other subsequent events that require adjustment or further disclosure in these financial statements.

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