Banking and Payments Authority of Kosovo

Pursuant to the provisions of UNMIK Regulation No. 2001/35, On Pensions in Kosovo, date of 22 December 2001,

For the purpose of execution of Section 8.4 of the UNMIK Regulation No. 2001/35, in regard to the computation of investment return and the principles of rounding-up the values of pension assets and for prescribing the time and manner by which the Custodian shall report these values to the Trust and/or Pension Funds and/or, where applicable, Pension Providers.

Governing Board of the Banking and Payment Authority of Kosovo (BPK), at its meeting held on July 25, 2002 adopts the following:

Rule 6 on Pension Assets and Valuation of Pension Assets

Section 1 Scope and Purpose of this Rule

1.1 Scope of Rule

This Rule applies to the Kosovo Savings Pension Trust ("the Trust"), Supplementary Employer Pension Funds ("Pension Fund"), Supplementary Individual Pension Providers ("Pension Provider") and the Custodian of pension assets.

1.2 Purpose of the Rule

This Rule defines what is included as pension assets pursuant to the provisions of Section 1 of the Pensions Regulation and prescribes the method and principles to be applied in assigning values to pension assets (asset valuation) and the manner and time limitations for the Custodian to submit required reports to the Trust, to the Pension Fund, and to the Pension Provider and to the BPK.

Section 2 General Provisions

2.1 Definitions

All terms used in this Rule are as defined and stated in the Pensions Regulation and/or as further defined in this Rule.

"Equity portfolio" includes shares of stock of corporate institutions, whether in the form of ordinary, common, or preferred shares.

"Fair market value" is the amount a willing buyer will pay a willing seller when neither party is acting under duress or other external influence and both parties have substantially equal knowledge of the facts and circumstances affecting the transaction and the seller has had reasonable period of time to expose the subject of sale in the market.

"Pension entity" includes, unless the context indicates otherwise, the Trust, Pension Funds and Pension Providers.

"Pension assets" consist of the following:

a) Assets that are categorized as investment assets, and

b) Assets that are not categorized as investment assets to include the following:

1. Cash on hand and in transit;

2. Contributions receivable, not more than thirty (30) days past due, only if such contributions is/are included in the participants' Individual Accounts;

3. Non-investment property owned and in the actual control and possession of the pension entity acquired in accordance with the terms and conditions prescribed in this Rule;

4. Office furniture and equipment, including computer hardware and software owned and used by the pension entity in the appropriate administration and management of their pension programs or arrangements.

"Non- investment property" includes personal, chattel and real properties acquired by the pension entity other than as investment property.

"Investment property" refers to an interest in land and/or building, not occupied by the pension entity or its affiliate entities for their own purposes, as may be allowed as direct investment in accordance with Section 10 of the Pensions Regulation or other applicable laws.

"Securities" includes equity portfolio, investments in bonds, debts or obligations and of all types of (eligible) investments.

"Short-term securities" consist of cash, bank deposits, certificates of deposit, money market instruments and other securities that have maturity dates of one (1) year or less as of the valuation date.

"Medium (or Mid)-term securities" includes government bonds, corporate bonds, mortgages, preferred shares with fixed redemption dates, and other securities that are not readily convertible to cash and that have maturity dates longer than one (1) year but less than five (5) years as of the valuation date.

"Long-term securities" all securities that are not categorized as Short – term or Medium-term.

2.2 Segregation of Pension Assets

Pension entities providing both Defined Contribution and Defined Benefit pension arrangements must segregate the assets and the related investments and accounting thereof in such a fashion that assets belonging to participants and beneficiaries of Defined Contributions are separate and distinct from assets underlying a Defined Benefit pension scheme. There shall be no co-mingling of these two pension assets in their management, investment, accounting and custody.

Section 3
Conditions of Non-Investment Property as Pension Assets

3.1 General Limitations

Subject to specific limitations prescribed under the next paragraph, non-investment property owned and held by a pension entity shall be included as pension assets if acquired as follows:

a) By the pension entity in satisfaction, or on account, of loans, mortgages, liens, judgments, or other debts in the course of its investment activities and/or administration of its pension program or arrangements.

b) By gift, devise or bequest in connection with the conduct of its pension business if the grant deed imposes no restriction for the disposal of such assets. In case the grant deed imposes restriction for the disposal of the asset, the effective date of acquisition, for purposes of this Rule, is the date such restriction(s) no longer apply.

3.2 Specific Limitations

a) Real property allowed as pension asset under Section 3.1 (non-investment property) of this Rule must be disposed of within a period of two (2) years from date of acquisition.

b) Personal properties and/or chattels allowed as pension assets under Section 3.1 (non-investment property) of this Rule must be disposed of within six (6) months from date of acquisition.

c) Extension of time to dispose. The BPK may extend the time for the disposal of property described under paragraphs a) and b) above for such definite additional period or periods upon the written application of the pension entity showing reasonably that a forced sale of the property would be against the best interest of the pension participants and beneficiaries.

d) In a Defined Benefit pension, any non-investment property held by the pension entity beyond the time prescribed in this Rule shall not be included as pension asset.

Section 4
Valuation of Pension Assets

4.1 Computation of Investment Returns

For all Defined Contribution Pensions, the Custodian shall compute investment returns of pension assets under its custody at the end of each calendar month by comparing the aggregate value of the pension assets from the previous month's with the current month's assets valuation. The difference of the two valuations minus contributions received during the month represents the investment return for the current month. The rate of return is the percentage that the amount of investment return bears to the amount of the total pension assets that are with the custodian. The Trust, Pension Fund or Pension Provider shall then adjust this investment return by making a similar calculation with respect to other pension assets that are not included in the Custodian's computation in order to arrive at the total investment return appropriate for allocation for the current month.

4.2 Principles and Guidelines in Rounding-up (Valuation of) Pension Assets

Pension assets shall be valued at their market or realizable values under the following principles and guidelines:

a) Equity portfolio shall be valued at their "last sale price" quoted by the Stock Exchange on the trading date immediately prior to the valuation date. Unquoted shares whose fair market value cannot be readily measured shall be valued at net realizable value.

b) Short-term securities, other than government or treasury bills and notes, are valued at net realizable values. Government or treasury bills and notes are to valued at the time of acquisition at their discounted values. Valuations subsequent to acquisition date shall be at amortized values.

c) Medium and long-term securities are to be valued at amortized values. Any premium or discount arising on the purchase of these securities is amortized to income over the period remaining to maturity.

d) Mutual fund or unit trust shares or participation interests in other investment funds are valued based on their Net Asset Values (NAV) last quoted on the trading date immediately prior to the valuation date. If applicable NAV quotations are unavailable these types of investment are to be valued at net realizable values.

e) Securities purchased in the free market (over-the counter, dealer or broker) are valued based on respective realizable values on the valuation date by calculating and recognizing value changes between the trading date and the settlement date.

f) Investment properties are to be valued based on price quotes and other reliable reference available in the open market. If these valuation bases are unavailable, investment properties are to be valued in the manner prescribed for the valuation on non-investment properties.

g) Non-investment properties are to be valued at their fair market values as determined by a qualified independent valuator or appraiser, less allowance for reasonable selling expenses. All real properties are to be valued at least once a year. Valuations may be done more frequently where the market conditions indicate that the carrying values of the assets are materially different from the values obtaining in the free market.

h) Mortgages and loans are to be valued, not exceeding the fair market value of their underlying collateral securities, at carrying costs less a provision for obligations in arrears.

i) If a security is or becomes “a non-performing loan” the value of such security shall not be greater than its net realizable value.

j) Purchases “cum dividend” or “cum interest” involving equity shares or other securities shall be valued without including the dividend or interest until these income components are actually received.

k) Contributions receivable shall be valued at cost. No value is assigned to such receivables that are more than 30 days over due.

l) Office furniture and equipment shall not be assigned any value.

m) In determining values of investment assets, interest and discount rates shall be rounded to the nearest one fourth (1/4) of one (1%) percent.

n) Non-investment pension assets whose market values cannot be reasonably determined may be valued at realizable values, if available.

Otherwise at acquisition and historical costs.

o) BPK may allow other bases of valuation as may be consistent with the requirements of Organization of Economic Co-operation and Development (OECD), the European Union and/or standards formulated under International Accounting Standards for valuation of pension assets.

Section 5
Reports Required of the Custodian

5.1 Custodian of Pension Assets and Investment Returns

a) Monthly Reports. Within the first 10 days following the end of any calendar month, the custodian must submit a monthly report to the Trust, Pension Fund or Pension Provider, as applicable, a schedule of pension assets under its custody. Separate reports shall be made for Defined Contribution pension assets and Defined Benefit pension assets. The Custodian must also submit copies of these reports to the BPK on the same day. These reports must contain the following information:

1. A listing of all assets under its custody as of the end of the current month and the previous month indicating their respective values according to the principles and guidelines prescribed under this Rule.

2. A calculation of the rate of investment return of Defined Contribution pension assets under its custody.

b) Other Reports. The custodian shall submit all other reports as may be required under the terms of its Custodial Agreement with the Trust, Pension Funds and Pension Provider. A copy of such report must also be submitted to the BPK in the same stipulated manner and time.

c) The Custodian shall submit to the BPK such other reports and information on pension assets under its custody as may be required by the BPK. In this event, the BPK shall specify the type of report and the nature of the information it requires and shall prescribe the manner and time for its or their submission.

Section 6
Allocation of Investment Returns to Individual Pension Accounts

6.1 Savings Pension

The Trust shall allocate the total investment return calculated in accordance with Section 4.1 of this Rule to the Individual Accounts of the participants in the savings pension. The allocation shall be made consistent with the methods and procedures adopted by the Kosovo Savings Pension Trust.

6.2 For Supplementary and /or Voluntary Pensions

a) Applicable to providers of Defined Contribution Pensions. The total investment returns calculated according to Section 4.1 of this Rule shall be allocated to all participants according to the methods and procedures established under the provisions of the Pension Bylaws or Pension Rules, as applicable.

b) Applicable to providers of Defined Benefit Pensions. The total investment return forms part of the segregated pension assets used to fund the technical provisions required under these Rules for Defined Benefit Pension arrangements.

Section 7
Entry into Force

This Rule shall enter into force on July 25, 2002.

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Managing Director