

**Amended Rule XIV on the Registration, Licensing and Supervision of
Micro Finance and Financial Institutions Authorized under Sections 3, 6, and 7 of
the Regulation and Under Administrative Direction No. 2000/3 of the United
Nations Interim Administration Mission in Kosovo**

1. Scope of Rule

This Rule applies to institutions operating in Kosovo and determined by the BPK to be micro finance or financial institutions.

2. Definitions

“Association” means a membership organization. An association may be established by at least three domestic or foreign legal or natural persons, at least one of whom has a residence or seat in Kosovo.

“BPK” means the Banking and Payments Authority of Kosovo.

“Financial institution” means a legal or natural entity that is not a bank that engages in one or more of the following activities: extending credit; underwriting, dealing in, brokering, or distributing securities; acting as investment company manager or investment advisor or providing other financial services such as equipment leasing finance services, foreign exchange, or other financial informational, advisory or transactional services.

“Foundation” means an organization without members established to manage properties and assets. One or more persons may establish a foundation, at least one of whom has a residence or seat in Kosovo.

“Licensed Financial Institution” means a financial institution that takes deposits in excess of 125,000 euro or its countervalue pursuant to a license issued by the BPK.

“Licensed MFI” means an MFI that takes deposits in excess of 125,000 euros or its countervalue pursuant to a license issued by the BPK.

“Micro Finance Institution (MFI)” means a foundation, association, joint stock company, or other legal or natural entity, whether domestic or foreign, which pursuant to its license or registration with the BPK, provides financial services primarily to small enterprises, small scale industries and individuals.

“Non Governmental Organization (NGO)” means a foundation or association, domestic or foreign, established to accomplish any lawful purpose, whether for public benefit or mutual interest.

“Non-Licensed Financial Institution” means a financial institution which takes no deposits or which takes deposits of less than 125,000 euros or its countervalue pursuant to exemption from the BPK.

“Non-Licensed MFI” means an MFI which takes no deposits or which takes deposits of less than the amount of 125,000 euros or its countervalue pursuant to exemption from the BPK.

“Principal Shareholder” means a person that owns directly or indirectly ten percent or more of any class of voting shares of a bank, financial institution, or MFI.

“Regulation” means UNMIK Regulation No. 1999/21 on Bank Licensing, Supervision and Regulation, or any successor law or regulation.

3. Prohibitions and Exemptions

No Non-Licensed MFI or Non-Licensed Financial Institution shall operate in Kosovo without an effective registration with the BPK.

No MFI or financial institution shall use words in its name or in its advertising which, in the judgment of the BPK, are false or misleading concerning its financial condition, legal status, or connection with government or international institutions.

The BPK may designate separate MFIs or financial institutions as being linked institutions because of such factors as common ownership or control, similarity of name, or joint operating arrangements, and require that the aggregate deposits of all such linked institutions not exceed the amount of 125,000 euros or its countervalue without an appropriate license granted by the BPK.

4. Registration of MFIs and Financial Institutions

- (a) The BPK shall have the sole responsibility for the registration of MFIs and financial institutions in Kosovo.
- (b) Applications for registration shall contain such form and substance as may be prescribed by the BPK and shall include the following information:
 1. Name and legal address in Kosovo.
 2. Legal representative in Kosovo.
 3. Foreign legal address, if applicable.
 4. Foreign legal representative, if applicable.
 5. Names and addresses of persons directing the institution:
 6. If a Foundation, the persons directing the Foundation and their names and addresses.
 7. If an Association, the expected or actual requirements for membership and the names and addresses of the founding or actual board of directors.
 8. If a joint stock company the names and addresses of its administrators

9. A copy of its Articles of Association and By-laws.
10. Financial statements for the last two years except in the case of a de novo organization.
11. A statement describing the expected activities in Kosovo for at least two years, giving details about proposed products, including loan portfolio projections.
12. A statement whether an exemption from the prohibition on deposit taking permitting deposits in aggregate amounts of up to 125,000 euros or its countervalue is requested and if so a description of proposed deposit products and the expected amount of deposits for each of the next two years.
13. Such additional information as the applicant deems appropriate.

The BPK may require an applicant to submit additional or supplemental information.

- (c) A registration shall be approved for an indefinite period of time, and is not transferable.
- (d) The BPK may establish a fee schedule for charges for registration.
- (e) A central register shall be kept by the BPK for inspection by the public that shall record for each registered institution its name, its head office address, branch office address, and relevant contact information.
- (f) The BPK may withdraw the registration of an institution and, prior thereto or at any time thereafter, may subject it to any of the sanctions contained in Section 37 of the Regulation or to any sanctions which it may impose by Order:
 1. After a request by the institution, and subject to such conditions as the BPK may impose.
 2. If deposit taking exceeds 125,000 euros or its countervalue without becoming a Licensed MFI or a licensed bank.
 3. If the MFI or financial institution has intentionally or continually presented fraudulent reports or reports with false information to the BPK.
 4. If, in the judgment of the BPK, the MFI or financial institution has engaged in illegal practices or practices that are causing significant distortion of relevant markets and consequent potential harm to banks and the MFI has sufficient market share in several small towns and villages or an urban center to justify such judgment.
 5. If, in the judgment of the BPK, the MFI or financial institution becomes or may soon become insolvent. In this case, the BPK may exercise any or all of the actions set forth in the Regulation.

A decision to withdraw a registration shall be published in one or more newspapers of general circulation wherever the institution's main office is located.

5. Establishing Local Institutions

Foreign or international NGOs or other organizations that are registered with the BPK and operate as MFIs or financial institutions shall, at such times as the BPK shall prescribe, establish a fully capitalized Kosovo presence, fully compliant with this Rule, to the satisfaction of the BPK, through which it conducts its operations. From that point forward, all Kosovo finance operations shall be conducted through the local Kosovo office.

6. Reporting by Non-licensed MFIs and Financial Institutions

- (a) Non-Licensed MFIs and Non-Licensed Financial Institutions which do not take deposits but do extend credit shall report their activities to the BPK on the basis prescribed in their registrations and from time to time as may be prescribed by the BPK, but shall include a monthly loan portfolio report and an annual external audit to be delivered within 120 days of the end of the institution's financial year.
- (b) Non-Licensed MFIs and Non-Licensed Financial Institutions that take deposits shall report to the BPK as follows:
 - 1. A monthly loan portfolio report in form and content as prescribed by the BPK.
 - 2. Quarterly financial statements including balance sheet and income and loss statement.
 - 3. A monthly deposit report in form and content prescribed by the BPK.
 - 4. An annual external audit report in accordance with international accounting standards as adapted in Kosovo to the satisfaction of the BPK to be delivered within 120 days of the end the institution's financial year.
 - 5. Such other reports as may be required by the BPK.

7. Permitted Activities for Non-Licensed MFIs and Financial Institutions

Non- licensed MFIs and Non-Licensed Financial Institutions may engage in the following activities:

- (a) When exempted by the BPK pursuant to Section 3.6 of the Regulation, receiving time and savings deposits in one or more currencies, whether or not bearing interest, but not to exceed 125,000 euros or its countervalue.
- (b) Providing payment and collection services.
- (c) Buying and selling of foreign exchange on a spot basis, for the local market or for local customers.

- (d) Extending credit, in more than one currency, including consumer or mortgage credit and the financing of domestic commercial transactions.
- (e) Borrowing and placing funds in markets and institutions approved by the BPK for the purpose of managing their liquidity.
- (f) Acquiring funds by grant or by borrowings for the purpose of lending or for its own use.
- (g) Equipment leasing finance.
- (h) Providing credit information services.
- (i) Such other financial activities as the BPK shall determine by Rule.

The BPK may prohibit or restrict any MFI or financial institution from engaging in any of the above listed activities.

8. Conversion of MFIs and Financial Institutions

- (a) The BPK may issue Rules governing the conversion of unlicensed MFIs or financial institutions to Licensed MFIs, Licensed Financial Institutions, or banks.
- (b) In such conversions, the percentage of the minimum capital requirement that can be satisfied by the converting institution's loan portfolio shall be determined by the BPK, and shall not be more than 50%.
- (c) The BPK may require non-competition agreements with MFIs or financial institutions that form Licensed MFIs, Licensed Financial Institutions, or banks if the converting MFI or financial institution continues or plans to continue offering financial products after conversion. If the converting MFI or financial institution does not agree or comply with such agreement, the BPK may require the MFI or financial institution to divest its ownership of shares in the licensed institution until it is no longer a principal shareholder.

9. Prudential Requirements for Licensed MFIs and Financial Institutions

- (a) MFIs or financial institutions that wish to take deposits of more than 125,000 euros or its countervalue shall request a license from the BPK. Except for the items mentioned in the following subparagraphs, licensing and operating requirements shall be the same as those provided under the Regulation.
- (b) The minimum capital requirements for Licensed MFIs or Licensed Financial Institutions shall be the same as that required by Section 4 (b)(i) and (ii) of Rule XXI on Increase in Minimum Capital for Banks Authorized under Section 5 of Regulation 1999/21. Effective 1 January 2002, the minimum capital required

under Section 4 (b)(i) of Rule XXI is two million five hundred thousand (2,500,000) euro. Effective 1 January 2003, the minimum capital required under Section 4 (b)(ii) is four million (4,000,000) euro.

- (c) The BPK may set different risk based capital requirements for Licensed MFIs or Licensed Financial Institutions than for banks, but never less than those required for banks.
- (d) For character loans (unsecured personal credit) by MFIs or financial institutions, the BPK may establish by Rule maximum loan classifications and minimum required provisioning for loans to persons which have prior poor repayment histories for similar loans from other banks, MFIs, or financial institutions in Kosovo.
- (e) The BPK shall establish methodologies for classifying and setting minimum provisions for loans appropriate to the types of loans made by MFIs and financial institutions.

10. Permitted Activities for Licensed MFIs and Financial Institutions

Licensed MFIs may engage in the same activities as set forth in Section 7 of this Rule, except that they may accept deposits in aggregate amounts of more than 125,000 euros or its countervalue.

11. Effective Date

The Governing Board of the Banking and Payments Authority of Kosovo adopted Rule XIV on June 27, 2000.

12. Effective Date of Amendment

The Governing Board of the BPK amended Rule XIV on April 25, 2002.