



Pursuant to Article 35, paragraph 1.1 of the Law No. 03/L-209 on Central Bank of the Republic of Kosovo (Official Gazette of the Republic of Kosovo, No.77 / 16 August 2010), Article 50 and Article 85 of the Law No. 04/L-093 on Banks, Microfinance Institutions and Non-Bank Financial Institutions (Official Gazette of the Republic of Kosovo, No.11 / 11 May 2012), the Board of the Central Bank of Republic of Kosovo at the meeting held on November 09, 2012, approved the following:

REGULATION ON FOREIGN EXCHANGE RISK

Article 1 Purpose and Scope

1. The purpose of this Regulation is to limit the exposure of banks to foreign exchange risk.
2. This Regulation applies to all banks licensed by the CBK to operate in the Republic of Kosovo that deal in foreign currencies for their own accounts.

Article 2 Definitions

1. All terms used in this Regulation are as defined in Article 3 of the Law No. 04/L-093 on Banks, Microfinance Institutions and Non-Bank Financial Institutions (hereafter: *the Law on Banks*) and / or as further defined herein for the purpose of this Regulation:

- a) *Foreign currency* - means the legal tender of any foreign, sovereign country.
- b) *Net open foreign currency position* - means the Euro equivalent of the difference between a bank's assets in, and commitments to purchase, a particular currency and a bank's liabilities, and commitments to sell, that currency.
- c) *Aggregate net open foreign currency position* - means the sum total of the Euro equivalent amounts of all net open positions (long or short). By way of example, a long Swiss Franc net open position of ten (10) thousand Euros combined with a short US\$ net open position of five (5) thousand Euros results in an aggregate net open foreign currency position of fifteen (15) thousand Euros.

Article 3 Limits

1. No bank shall have a net open foreign currency position in any one foreign currency exceeding 15% (fifteen percent) of its Tier 1 capital.
2. No bank shall have an aggregate net open foreign currency position exceeding 30% (thirty percent) of its Tier 1 capital.

3. In the case of a branch of a foreign bank, the CBK may set limitations as well as application of other conditions similar to those of paragraphs 1 and 2 of this Article, on the limits of net opened foreign currency positions, on individual cases. The CBK reserves the right to use the branch's Capital Equivalency Deposit as the basis for these calculations if it considers it prudent to do so.

Article 4 Notification Requirement

1. At least ten (10) days prior to commencing operation of an active foreign exchange trading desk, the CBK must be notified of the bank's intent to do so.
2. For purpose of this Article "*active foreign exchange trading desk*" is one where the bank is prepared to trade in one or more foreign currencies on call as a customer service profit center, and not simply as a hedge to cover balance sheet foreign exchange positions.
3. Subsequent on-site examinations will include a review of the operations to insure adequate controls are in place.

Article 5 Enforcement, Remedial Measures and Civil Penalties

Any violation of this Regulation shall be subject to the remedial measures and penalties provided for in Articles 58, 59 and 82 of the Law on Banks.

Article 6 Abrogation

Upon the entry into force of this Regulation, it shall abrogate Rule VII of CBK on Foreign Exchange Activity adopted on February 07, 2007, and any other provisions that may be in conflict with this Regulation.

Article 7 Entry into Force

This Regulation shall enter into force on December 03, 2012.

The Chairman of the Board of Central Bank of the Republic of Kosovo

Gazmend Luboteni