Pursuant to Article 35, paragraph 1.1 of the Law No. 03/L-209 of the Central Bank of the Republic of Kosovo (Official Gazette of the Republic of Kosovo, No. 77/16 August 2010), and Articles 46 and 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 the Republic of Kosovo at the meeting held on April 26, 2013, approved the following:

REGULATION ON LARGE EXPOSURES

Article 1
Purpose and Scope

1. The purpose of this Regulation is to prevent credit risk concentrations in a bank’s portfolio of risk assets by imposing limits on credit exposures and ensuring that large exposures are treated differently from other exposures.

2. This Regulation applies to all banks licensed by the CBK to operate in the Republic of Kosovo, excluding branches of foreign banks.

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, Micro-finance Institutions and Non-Bank Financial Institutions (hereafter: the Law on Banks) and/or as further defined herein for the purpose of this Regulation in the following:

   a) Bank - means a Shareholder Company engaged in the business of banking, including a subsidiary, licensed by the CBK.

   b) Branch of foreign bank - means a person that is organized, has its head office and holds a license to engage in the business of banking in a jurisdiction other than in the Republic of Kosovo.

   d) Exposure - means any asset or off-balance sheet item, including without limitation a loan or direct or indirect commitment to disburse money in exchange for a right to repayment of the amount disbursed and outstanding and to the payment of interest or other charges on such amount, any extension of the due date of a debt, any guarantee or letter of credit issued, debt securities, and similar forms of credits or credit commitments granted by a bank to a client, as well as shares, participation in the capital, and other types of investments in a legal entity by a bank;

   e) Large exposures - means any exposure to a single borrower or group of related borrowers, if the sum of all exposures exceeds 10% (ten percent) of the Tier I Capital of the bank.
f) **Control** - means a relationship where a person or group of persons, directly or indirectly: (i) owns a majority of the shares of a legal entity; (ii) has the power to appoint or remove the majority of the Board of Directors of the legal entity; or (iii) has the ability to exert a significant influence on the management or policies of a legal entity;

g) **Group of related persons** - means two or more persons (natural or legal or both) who are connected, directly or indirectly, in such a way that the financial soundness of any of them may affect the financial soundness of the other or others, or the same factors may affect the financial soundness of some or all of them, or if as a result of the structure of their relationship the other person is in fact ultimately responsible for the credit outstanding. More specifically, individual persons of a bank are considered a group of related persons:

   i. When the expected source of repayment for each loan is the same for each borrower, and neither person has another source of income from which the loan (together with the borrower’s other obligations) may be fully repaid.

   ii. When loans are made to borrowers who are related directly or indirectly through common control, including where one person is directly or indirectly controlled by another borrower;

   iii. When substantial financial interdependence exists between or among the borrowers. Substantial financial interdependence is deemed to exist when 50% (fifty percent) or more of one borrower’s gross receipts or gross expenditures (on an annual basis) are derived from transactions with the other borrower. Gross receipts and expenditures include gross revenues/expenses, intercompany loans, dividends, capital contributions, and similar receipts or payments.

   iv. When separate borrowers, borrow from a bank to acquire a business enterprise of which those borrowers will, collectively, own more than 50% (fifty percent) of the voting shares.

   v. In other cases, as CBK determines, based on an evaluation of the facts and circumstances of particular transactions, that the financial soundness of any borrower may affect the financial soundness of any other.

   vi. When, in the reasonable judgment of the CBK, a common enterprise clearly exists between or among persons.

**Article 3**

**Limitations of Exposure**

1. No bank shall allow any exposure, to a person or group of aggregated persons which exceeds 10% (ten percent) of its Tier 1 capital, as defined in the CBK Regulation on Bank Capital Adequacy, unless such exposure has first been approved at a duly convened meeting of its Board of Directors at which a quorum was present and voted, and such approval has been noted in the minutes of that meeting.
2. No bank is permitted to have exposure to a single borrower or group of related borrowers, if as result of that action the exposure to that borrower or group exceeds 15% (fifteen percent) of Tier 1 capital or increases the amount by which the exposure already exceeds 15% (fifteen percent) of Tier 1 capital.

3. For the purposes of paragraph 2 of Article 46 of the Law on Banks, the limitation of 300% (three-hundred percent) of Tier 1 capital on aggregate large credit exposures will apply to all exposures to persons or groups of aggregated persons each of which is in excess of 10% (ten percent) of the bank’s Tier 1 capital.

**Article 4**

**Consolidation**

If a bank is a member of a banking group subject to consolidated supervision in accordance with the provisions in CBK Regulation on the Consolidated Supervision of Banking Groups, the limits from Article 46 of Law on Banks and this Regulation shall be observed by adding together all exposures to the same counterparty by all the members of the group and relating the total exposure to the group’s regulatory capital.

**Article 5**

**Exceptions**

1. Banks may exclude from the limits the following categories of exposures:

   a) Portions of exposures collateralized by cash in Euros or other readily convertible currencies with value to be at all times maintained in amounts of at least 100% (one hundred percent) of the outstanding exposure, such cash to be actually delivered to the bank or placed with it in a pledged and blocked special account, clearly labeled and evidenced by an enforceable security agreement;

   b) Exposures in the form of debt securities issued or unconditionally guaranteed by the Government of the Republic of Kosovo, or by central governments of countries that have strong payment capacities, as defined in (Annex I) of the CBK Regulation on Bank Capital Adequacy, or portions of credit risk exposures collateralized by such debt securities with margins to be at all times maintained at market values of at least 125% (one hundred and twenty five percent) of amounts outstanding, all such securities to be delivered to the bank under either book-entry form satisfactory to the CBK or in certificated form actually delivered and pledged under an enforceable security agreement;

   c) Portions of exposures collateralized by money market instruments in the form of direct bank obligations issued in the European or North American money markets such as prime bankers’ acceptances and certificates of deposit issued by prime banks (prime banks is used to describe the top 50 banks in the world, which trade financial instruments such as World Bank Papers, International Monetary Fund bonds and Federal Reserve notes) commercial paper of issuers rated A- or better by a readily recognized rating agency and such other instruments which the CBK shall approve on a case by case basis, with margins to be at all times maintained at market values of at least 130% (one hundred and thirty percent) of amounts outstanding, all such instruments to be actually delivered and pledged under an enforceable security agreement;
d) Portions of exposures that are deposits of one year or less with financial institutions domiciled in countries that are insured by a government-sponsored deposit insurance scheme and rated A- or better by a recognized credit rating agency; and

e) Portions of a credit risk exposure that are documentary letters of credit shall be valued at 50% (fifty percent) of the amount of those letters of credit.

f) The CBK may prescribe exemptions from the limitations from article 3) paragraph 2. and 3. of exposures, to the maximum of 25% (twenty five percent) of Tier 1 capital, except debt instruments of the Government of the Republic of Kosovo, for following cases, described by the Law:

i. an exposure that is fully secured by readily marketable collateral;

ii. transactions with, or guaranteed by, a government, rated A- or better by a recognized credit rating agency, as described in capital adequacy regulation; and

iii. transactions between banks with a maturity of one year or less, rated A- or better by a recognized credit rating agency, as described in capital adequacy regulation

Article 6
Oversight by Board of Directors

1. The Board of Directors should ensure that the bank fully understands its legal obligations in relation to the limitations on exposures and risk concentrations under Article 46 of the Law on Banks.

2. The Board of Directors should ensure that the bank has policies on controlling of large exposures and risk concentrations. The policy and any changes thereto, should be reviewed and approved by the Board of Directors.

3. The Board of Directors should be responsible for ensuring that the bank establishes appropriate procedures and systems to identify, measure and control large exposures and risk concentrations and to monitor compliance with the approved policy.

4. The Board of Directors should receive regular reports to facilitate its review of the bank large exposures and risk concentrations.

Article 7
Regulatory Reporting

1. Banks are required to report to the CBK their large exposures in the “Return of Large Exposures”

2. Where necessary, the CBK may require particular bank to adhere to different reporting requirements in relation to large exposures.
3. A banks should notify the CBK immediately of any breach of the statutory limits under Article 46 of the Law on Banks, the provisions of this Regulation or any other prudential limits agreed with the CBK.

**Article 8**

**Enforcement, Remedial Measures and Civil Penalties**

1. 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.

2. If a breach occurs, the CBK may take other appropriate actions, e.g. increasing the bank minimum capital adequacy ratio or limiting its business expansion. It may also require the bank to agree on a timetable to bring the exposure quickly below the statutory limit or any agreed limit and to report progress on a regular basis.

**Article 9**

**Abrogation**

Upon the entry into force of this Regulation, it shall abrogate Regulation on Large Exposures issued by the CBK Board on December 03, 2012, and any other provisions that may be in conflict with this Regulation.

**Article 10**

**Entry into Force**

This Regulation shall enter into force on May 10, 2013, on the day of its publication at the CBK website.

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

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Sejdi Rexhepi