



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) and Articles 47, 48 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 Republic of Kosovo at the meeting held on November, 29, 2012, approved the following:

REGULATION ON TRANSACTIONS TO BANK-RELATED PERSONS AND EXPOSURES TO BANK EMPLOYEES

Article 1

Purpose and Scope

1. Purpose of this Regulation is to specify certain monetary limits which govern exposures to bank-related persons, where a conflict of interest may be present and ensures any such lending is done on an arms-length basis and the limit on exposures to bank employees.
2. This Regulation applies to all banks licensed by the CBK to operate in the Republic of Kosovo.
3. For branches of foreign bank only Article 6 of this Regulation is applicable.

Article 2

Definitions

1. All term 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 referred as: *the Law on Banks*) and / or as further defined herein for the purpose of this Regulation:

- a) *Bank* - means a shareholder company engaged in the business of banking, including a subsidiary;
- b) *Branch of foreign bank* - means a person that is organized, has its head office and holds a licence to engage in the business of banking in a jurisdiction other than in the Republic of Kosovo;
- c) *Senior Manager* - means, the chief executive officer, chief financial officer, chief operating officer, and chief risk officer of a bank and any person, other than a director, who (i) reports directly to the board or participates or has authority to participate in major policymaking functions of the bank, whether or not such person has an official title or receives compensation for such actions, and (ii) is designated as a senior manager by the CBK. In the case of a foreign bank licensed to operate one or more branches in the Republic of Kosovo, the manager of the principal branch in the Republic of Kosovo and any other manager or deputy manager of a branch in the Republic of Kosovo will be deemed to be a member of senior management;

- d) *Principal shareholder* - means a person that owns, directly or indirectly, alone or in concert with another person, 10 % (ten percent) or more of any class of voting shares of a bank or company or ten percent of the equity interest in a bank or company;
- e) *Employee* - means any person, other than a bank-related person as defined in Article 3 of the Law on Banks, who holds a position of employment with a bank and receives compensation for services performed;
- f) *Related Individuals* - means the spouse of a person, the children of a person, whether they are adults or minors, and whether or not they reside with the person, mother, father, step-parents, brothers, step-brothers, sisters, step-sisters, aunts, uncles, first cousins, whether by blood or marriage, or other persons with whom there is familial relationship;
- g) *First cousins* - are people in family who have one or both of the same grandparents (children of aunts and uncles). These relationships are also referred to as “second degree” relationships.
- h) *Bank Related Person* - means any person that has with the bank at least one of the following relationships:
 - i. Any Senior Manager or Director of the bank and any principal shareholder of the bank;
 - ii. Any person who is related to a Senior Manager or Director or principal shareholder of the bank by marriage or consanguinity to the second degree;
 - iii. Any legal entity in which a Senior Manager or Director or principal shareholder of the bank is also a principal shareholder;
 - iv. Any person that has a significant interest in a legal entity in which the bank has a significant interest;
 - v. Any affiliate of the bank; and
 - vi. Any other person involved in a relationship with the bank similar to those identified in clauses 1-5 above, that the CBK determines by regulation or order to be a bank-related person;

Article 3

Credit Transactions with Related Persons

1. Credit transactions with related persons should be done on the arm’s length basis and the following principles should be observed:

- a) The creditworthiness of the connected party is not less than what is normally required of other persons;
- b) The terms and conditions of credit transactions with connected parties should not be more favorable than those entered into with other counterparties with similar circumstances and creditworthiness, in respect of tenure, interest rate, amortization schedules and requirement for collateral;

- c) Senior management of the banks may apply for loans for individual needs, but not for business loans.
- d) The credit transaction should be in the interest of the bank;

Article 4

Board of Director Approval and Control

1. For the purposes of Article 47 of the Law on Banks, Board of Directors is responsible to establish a clear written policy on credit transactions and management of credit exposures with bank related persons. The policy should be periodically reviewed and any changes to the policy should be approved by the Board of Directors.
2. Exposures provided by a bank to a bank-related individual are subject to the prior approval of the Board of Directors of the bank, except to the extent that the CBK exempts exposures below a de minimis threshold as determined by the CBK.
3. The Board of Directors should ensure that a proper mechanism is in place to implement policies and procedures relating to the control and management of risk exposures and risk of malpractices associated with connected party transactions.
4. Board of Directors should institute appropriate processes that will facilitate its timely identification of parties which are connected to it. Such processes may include declarations by directors, key officers and controlling shareholders of their affiliations and close relatives. The list of connected parties should be updated regularly.
5. The internal audit function should conduct regular reviews into credit transactions and the administration and management of credit exposures with connected parties to ensure compliance with established policies and procedures. The resulting audit reports should be submitted to the Board of Directors via the Audit Committee.
6. The CBK shall deduct any lending to a Bank-Related Person from capital for purposes of calculating regulatory capital ratios pursuant to Article 15 and Article 16 of the Law on Banks.

Article 5

Limits on Exposure to Related Persons

1. For purposes of the Regulation, credit exposures include both outstanding and unutilized credit arising from credit transactions with connected parties.
2. No bank shall have an exposure to or for the benefit of a Bank-Related Person if, as a result thereof, the aggregate amount outstanding to, or for the benefit of, Bank-Related Persons would exceed ten percent 10 % (ten percent) of the bank's Tier 1 capital.
3. No bank shall extend credit to or for the benefit of a related person, if as a result thereof the aggregate amount outstanding on all credits extended by the bank to persons so related to the bank would exceed 100 % (one hundred percent) of the capital of the bank.

Article 6
Limits on Exposures to Employees

No bank shall give any financial assistance to its employees beyond the amount of one hundred thousand (100,000) Euros.

Article 7
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 8
Abrogation

Upon the entry in to force of this Regulation, it shall abrogate Amended Rule XX of CBK on Credit Restrictions to Related Persons adopted on February 7, 2007, and any other provisions that may be in collision with this Regulation.

Article 9
Entry into Force

This Regulation shall enter into force on December 3, 2012.

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

Sejdi Rexhepi