BANKA QENDRORE E REPUBLIKËS SË KOSOVËS
CENTRALNA BANKA REPUBLIKE KOSOVA
CENTRAL BANK OF THE REPUBLIC OF KOSOVO

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 49 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 Apil 26, 2013, approved the following:

REGULATION
ON CREDIT RISK MANAGEMENT
CHAPTER I
GENERAL PROVISION

Article 1
Purpose and Scope

1. The purpose of this Regulation is to establish the standard and minimum requirements for credit risk management, including the minimum standards for credit risk assessment systems and classification systems for all credit exposures, including the minimum provisioning requirements.

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

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 referred to as the Law on Banks) and/or as further defined in this Regulation:

   a. Past due loans - are defined as the loans classified in the categories of credit classification as: watch, substandard, doubtful and loss;

   b. Classified loans - are defined as the loans classified in the categories of credit classification as: substandard, doubtful and loss;

   c. Non-performing loans - are defined as the loans classified in the categories of credit classification as: doubtful and loss;

   d. Delinquent interest - is defined as interest, that is not paid before the loan is being rescheduled, including regular delinquent interest, penalties and other forms of interest related to that loan;

f. Stress testing- is the process of determining the effects to a loan portfolio resulting from the application of extreme and realistic simulated events;

g. Fair market value - is the price at which an asset would sell for in the open, free market, with willingness of buyer and seller and no pressure is applied to either;

h. Sustained performance - is defined as four contractual payments of principal and interest as per the payment plan.

CHAPTER II
GENERAL REQUIREMENTS ON CREDIT RISK MANAGEMENT

Article 3
Credit Risk Management Systems

1. Banks should have in place a system for credit risk management, adequate for the nature, volume and complexity of the Banks' activities.

2. A credit risk management system shall consist of the policies, procedures, rules and banks' structures used to manage the credit risk.

3. A credit risk management system should provide the ongoing assessment of credits and other assets' quality on a timely basis, including determining the adequacy of reserves to cover losses related to this risk.

Article 4
Strategy and Policy

1. Banks should develop the strategy and policy to manage their credit risk. The credit risk strategy and policies should be effectively communicated throughout the Bank. All relevant personnel should clearly understand the Bank's approach to granting and managing credit and should be held accountable for complying with established policies and procedures.

2. The very basic purpose of a credit risk strategy is to determine the risk appetite of the bank. Once it is determined, the bank should develop a plan to optimize return while keeping credit risk within predetermined limits. Credit risk strategy shall minimally consist of:

   a. A statement of the Banks's willingness to grant credit based on various client segments and products, exposure type (trade, production, consumer, real estate, etc.), economic sector, geographic location, currency, maturity and anticipated profitability;
   b. The identification of target markets and the overall characteristics that the Bank plans to achieve with its loan portfolio, including levels of diversification and concentration tolerance;
   c. The recognition to the goals of credit quality, earnings and growth;

d. Provide continuity with the approach which needs to take into account the cyclical aspects of the economy and the resulting shifts in the composition and quality of the overall loan portfolio.

3. The credit risk strategy shall be reviewed on a regular basis, at least annually.

4. Policies on credit risk management shall be reviewed on a regular basis, at least annually, and shall minimally include following elements:

   a. Mission statement;
   b. Definition of acceptable and unacceptable types of credit exposures;
   c. Limitation on total loan outstanding in relation to total assets, total deposits or capital;
   d. Desired portfolio mixture;
   e. Desired portfolio maturity distribution;
   f. Market segment defined;
   g. Lending terms: pricing, maturity and down payment/capital requirements;
   h. Financial information requirements;
   i. Definition of a qualified borrower;
   j. Acceptable collateral and margins;
   k. Lending authorities and approval process;
   l. Limitations on large exposures;
   m. Lending limits for loan officers;
   n. Exposures to insiders and their related interests;
   o. Guidelines for restructuring credit;
   p. Internal reports related to credit risk management
   q. Organization of the credit function;
   r. Guidelines for purchases and sales of participations/syndications.

Article 5
Organizational Structure for Credit Risk Management

1. Banks must establish an adequate organizational structure for the management of credit risk, by clearly defining the authorities and responsibilities of the governing bodies.

2. Banks shall ensure that the loan sales function be clearly separated from organizational and operational functions, as well as from the supporting operational and control functions of credit risk, including protections from any potential influence from the senior levels of governing bodies.

3. Bank shall ensure the appropriate structures for assessing, measuring and controlling credit risk concentration by sectors, by geography/locations, by currency and by credit type, etc.

4. The Board of Directors of Banks, with respect to the credit risk management is responsible to:

   a. approve credit risk strategy;
   b. approve credit risk management policy and monitor its implementation;

c. review the appropriateness of the adopted policy and procedures at least on an annual basis;
d. review the credit risk reports:

   i. At least every quarter, the Board of Directors should be briefed on the overall credit risk exposure (including off-balance sheet items) of the Bank and should review, at the very minimum, the following:

      - The amount of exposures undertaken in credit activities, broken down by categories (type of exposures, products and level of credit grades);
      - Large concentrations of credit;
      - Past due loan list which identifies problems and bank's potential loss on each significant past due loan;
      - Status of significant rescheduled loans;
      - Credit areas with high rapid growth in the loan portfolio;
      - Significant credit exception reports.

   ii. On an annual basis, the Board of Directors should be given a report containing a list of all existing credit products. The report should contain, at the minimum, the target markets of the credit products, their performance and their credit quality.

   iii. On an annual basis, or more frequently as needed, the Board of Directors should review the results of stress-testing for:
      - Improving the strategy and policy of credit risk management;
      - Drafting and improving the required regulatory framework to address the main;
      - Issues related to the exposure against credit risk;
      - Forecasting in a timely manner the requirements for capital growth and the identification of the most efficient ways for its accumulation;

e. Approve the credit risk exposure limits in accordance with the CBK regulation on large exposures;
f. Define possible exceptions from the defined limits and assign responsibility for deciding on the application of such exceptions;
g. Monitor the efficiency of internal controls, as an integral part of the credit risk management system.

5. The Risk Management Committee shall:

   a. Monitor the credit risk management policy and give proposals for its continual review and revision;
   b. Assess the credit risk management system;
   c. Analyze the reports of the banks' credit risk exposure and monitor the management of this risk;
   d. Determine and regularly revise the internal credit indicators and credit risk exposure limits;

e. Establish clear delineation of lines of authority and responsibility for the managing of credit risk.

6. The Bank Management shall:

a. Approve and monitor implementation of credit risk management procedures;
b. Create an environment for following the credit risk management policy;
c. Establish an adequate system of reporting to the Board of Directors and the Risk Management Committee on any noncompliance with the credit risk exposure limits;
d. Establish proper channels of communication to insure that the credit risk management policy and credit risk tolerances are clearly communicated to and adhered by all appropriate levels of the bank;
e. Ensure that adequate and effective operational procedures, internal controls and systems for identifying, measuring, monitoring and controlling credit risks are in place, to implement the credit risk management policies approved by the board of directors;
f. Establish a comprehensive credit risk reporting process;
g. Establish an effective management information system to insure timely, accurate and informative reporting of credit risk exposures;
h. Ensure that sufficient resources and competent personnel are allocated to manage and control the daily operations and credit risk management functions effectively;
i. Perform periodically an independent assessment of the banks' credit granting functions.

Article 6
Stress Testing

1. Bank, through the conducting of stress testing, shall assess, on an ongoing and adequate basis, their exposure against credit risk, by considering possible future changes in the risk factors which could affect their credit portfolio's quality and the banks' financial situation as it affects net income and the capital adequacy ratio.

2. Banks shall set forth periodic results of their stress testing, at least on annual basis, through reports to senior management, consistent with the activity size, data on exposure against credit risk and their share in the market. The CBK may request the banks to conduct stress testing in more frequent periods and/or by scenarios with additional and/or different assumptions.

3. Stress testing conducted by Bank should at least include the use of particular and/or combined scenarios, based on factors such as: economic downturns, rapid change of market conditions (market risk conditioned by the exchange rate fluctuations, interest rates, etc.) which could have unfavorable effects on the regular payment of the liability (debt), or scenarios of credit portfolio deterioration, notwithstanding the definition of risk factors which may serve as a reason for the occurrence of unfavorable situations.

4. Bank shall set forth the methodology for stress testing, the assumptions, and the actions that might be taken, given the results, including:

a. Implementation, analysis of stress tests scenarios and their periodicity;
b. Stress testing for particular and individual scenarios and combined scenarios, given the potential for simultaneous occurrence of some scenarios;
c. Documentation and regular review of the assumptions used for stress testing;
d. The reporting and frequency of the output of the tests to the management;
e. Actions to be taken by the management and/or special structures assigned for credit risk management, based on the stress tests' results.

CHAPTER III
ASSESSMENT OF CREDITS AND THE ESTABLISHMENT OF LOAN LOSS PROVISION AND CLASSIFICATION

Article 7
Credit Classification

1. The Board of Directors is responsible for approving detailed policy on the classification of impaired loans and provisioning.

2. Banks shall review all credit risk exposures at least on a quarterly basis, while the loan classification and reporting should be done on a monthly basis.
   Loan exposures that are individually assessed in amount over 50,000 euro is required to be reviewed at least in quarterly basis (reporting period). The reviewed should include at least: state in Credit Registry of Kosovo (CRK), days in arrears and other factors that may effect the financial performance of the borrower. It is also required that the bank should review credit exposures in amounts under 50,000 euro at least in annual basis.

   Loan exposures that are individually assessed, in amount over 50,000 euro is required to be monitored at least in semiannual basis (reporting period).

3. The following guidance is provided concerning classifications of credit exposures:

   a. Standard Loans includes all credit risk exposures, including off-balance sheet exposures that carry normal credit risk. Available information concerning the credit exposure, the performance of the customer's account, and the financial data all indicate that the settlement of the exposure is reasonably certain without difficulties, (or the obligation is fully secured by eligible collateral, defined in Article 21 of this Regulation). The loan is current, or delinquency is less than thirty (30) days from the date of due payment or maturity. Overdraft facilities are standard loans that are within established limits or only temporarily exceed the limit by less than 5% (five percent) or are for less than thirty (30) days, and cash flow into the account is sufficient to liquidate the overdraft balance within thirty (30) days of the expiration date of the facility.

   b. Special Attention (or Watch) Loans. This classification should be used to identify and monitor exposures which contain weaknesses or potential weaknesses that, at the time of review, do not jeopardize the repayment of the credit or reflect a potential for loss, but which, if not addressed or corrected, could result in the deterioration of the credit to a substandard or more severe classification. Absent any documented evidence to the contrary, Banks must classify as "special attention" those exposures that are overdue from thirty-one to sixty (31 - 60) days or those with continuous indebtedness in excess of 5% (five percent) of approved lines from thirty-one to sixty (31-60) days overdue. This category of classification is intended for banks to identify and address potentially weak relationships at an early stage. This classification may also be used for credits or groups of credits that are poorly structured as a result of insufficient analysis or technical knowledge by the lending officer(s). This category should not be used for exposures that have documentation weaknesses that do not affect adversely the repayment potential of the exposure.

c. **Substandard Loans** includes exposures which, based upon a review of all factors attendant to the credit, have well defined credit weaknesses that jeopardize repayment of the credit in the normal course. A substandard credit is one which, by an analysis of financial data and other respective factors, is not currently protected by the sound worth and paying capacity of the borrower or guarantors or the value of the eligible collateral, if any. Recourse to a responsible and able guarantor for repayment that would involve prolonged negotiations before liquidation of the credit would invoke a substandard classification. The need for recourse to the collateral as the means of satisfying the obligation also would be the basis for a substandard classification.

Absent any documented evidence to the contrary, an exposure must be classified at least substandard if any of the following criteria apply:

i. Deposits/cash flows into the customer's overdraft account are insufficient to liquidate the outstanding balance from sixty-one to ninety (61-90) days.
ii. The customer exceeded the authorized limit of loan exposure by 5% (five percent) or more, for sixty-one to ninety (61-90) days without paying this excess or without the banks management formally raising the authorized limit.
iii. The customer is overdue in repaying contractual installments (including interest) for sixty-one to ninety (61-90) days.
iv. The maturity/expiration date of the loan or other loan exposures is sixty-one to ninety (61-90) days past due without repayment.

d. **Doubtful Loans** includes exposures which, based upon a review of all factors attendant to the credit, contain all the weaknesses that are inherent in a substandard credit, but which are so pronounced that there is a strong probability that a significant portion of the principal amount will not be paid. There is a likelihood of loss, but the exact amount cannot be clearly defined at the time of review or is dependent upon the occurrence of a future act or event. Although the possibility of loss is thus extremely high, because of significant pending factors, reasonably specific, which could be expected to work to the advantage and strengthening of the asset, its classification as an estimated loss is deferred until more exact status may be determined. Examples of such pending factors include but are not limited to mergers, acquisitions, capital restructuring, furnishing new collateral or realistic refinancing plans. Uncooperative guarantors or those who are in weak financial condition should not be considered as being able to provide strength to the credit.

Recourse to any available collateral that would not be sufficient to cover the amount owing may also justify a doubtful classification.

Absent any documented evidence to the contrary, an exposure must be classified at least doubtful if any of the following criteria apply:

i. Deposits/cash flows into the customer's overdraft account are insufficient to liquidate the outstanding balance from ninety-one to one hundred eighty (91-180) days; The customer exceeded the authorized limit of loan exposures by 5% (five percent) or more for ninety-one to one hundred eighty (91- 180) days without paying this excess or without Banks' management formally raising the authorized limit;
ii. The customer is overdue in repaying any contractual installment (including interest) for ninety-one to one hundred eighty (91-180) days;
iii. There are deficiencies in the customer's financial condition that have caused negative equity;
iv. The maturity/expiration date of the loan other loan exposures is ninety-one to one hundred eighty (91-180) days past due without repayment.

e. Loss Loans include exposures which, based upon a review of all factors attendant to the credit, are of such little value or will require such an extended period to realize any value.

An exposure must be classified as bad (loss) if any of the following criteria apply:

i. Deposits/cash flows into the customer's overdraft account are insufficient to liquidate the balance of the outstanding overdraft over one hundred eighty (180) days; The customer exceeded the authorized limit of loan exposures by 5% (five percent) or more for over one hundred eighty (180) days without paying the excess or without Banks' management formally raising the authorized limit;
ii. The customer fails to repay a contractual installment (including interest) for over one hundred eighty (180) days;
iii. The maturity/expiration date of the loan or other loan exposures is over one hundred eighty (180) days past due without repayment.

Article 8
Rescheduling of Loan Exposures

1. Banks should reschedule loan exposures only on the basis of improved credit factors. The banks should not reschedule delinquent exposures solely to avoid classification and provisioning requirements. The CBK considers such a practice to be both deceptive and unsound. If any such practice is discovered by CBK, it will result in a less than satisfactory rating of that institution's management.

2. A banks' management must document in the credit files of each person having an exposure to the bank the basis for rescheduling any credit exposure and should prepare a list of rescheduled exposures for periodic review by the Board of Directors or Risk Management Committee.
   CBK examiners also will review these lists and related files during onsite examinations of each Bank to validate the institution's rescheduling policy and practices.

3. Banks are prohibited from capitalizing delinquent interest into the principal amount of any credit exposure or from creating an additional exposure to the person or a related interest of that person in order to pay the delinquent interest. Therefore, in case of rescheduling the loan exposure, the bank is allowed to treat the delinquent interest through preparing a payment plan without interest which includes a reasonable period.

4. Rescheduled exposure must be (done) written with payment plan, including principal and interest. The payment plan must fit the nature of the borrower's business..

5. Rescheduled loan exposures must be classified at the minimum substandard category or worse and will continue to be classified at the same category until sustained performance is observed. After the completion of each period of sustained performance, the bank can classify reschedule loan exposures for one category better.

Article 9
Treatment of Multiple Loans to a Single Borrower or Group of Related Borrowers

1. Each separate extension of credit to a borrower or group should be evaluated and classified based upon its own merits and the factors pertinent to the particular advance or exposure. However, problems with one advance often are indicative that problems may extend to the entire credit relationship. Therefore, the CBK requires that loan exposures, including off-balance sheet exposure, to a single borrower should be classified in the same category, except for the credit exposure that meet the "split classification" requirements. Inherent with this recommendation is the requirement that banks must know the full extent of their client's business relationships and have adequate management information systems with which to monitor aggregate exposures.

2. In situations when a single borrower, or a group of related borrowers, have loan exposures towards different financial institutions, and have different classifications, the loan exposures should not be classified better than one category from the worst classification, except for the loan exposures that meet the "split" classification criteria. This applies only for loans that are individually assessed by the banks. Materiality criteria which must be applied in cases of classification of the borrower's loan exposure only in a financial institution is the amount over 5,000 euro.
   In cases when loan exposure is classified to a better category must be taken into consideration the sustained performance of the borrower, while in case of classification of loan exposure of the borrower in another category must be taken into consideration the weaker classification in another financial institution.

3. Banks should fully document and analyze all relationships within their portfolios and will abstain from “nominee” lending to circumvent the lending limit imposed by regulations and other CBK requirements, or to disguise ultimate beneficiaries of proceeds. Failure to properly document relationships is considered an unsound practice. Banks’ shareholders, directors and officers who knowingly conceal or fail to disclose such relationships will be subject to punitive measures by CBK, including liability to reimburse any losses suffered by the Banks on any such credit exposures.

Article 10
Split Classifications

1. The CBK recognizes that the factors surrounding a particular exposure (value and liquidity of collateral security, partial guarantees, different sources of repayment, etc.) can result in situations where a portion of the exposure is adequately protected or better protected than other portions. In such situations, where the credit factors are documented and assured, Banks are permitted to split the classifications, and the corresponding provisioning requirements, in order to portray more appropriately the actual credit risk.

Article 11
Classification of Off-balance-sheet Commitments and Contingent Obligations

1. The review of exposures to individual borrowers shall include the off-balance sheet commitments and contingent liabilities of the Banks that also represent an exposure to the borrower. These include:

    a. The unused portions of approved/irrevocable credit lines and overdrafts determined in the original agreement. These usually will be classified in the same category as the amount drawn under those lines, but this rule does not apply for revocable credit lines and overdrafts;

    b. Credit substitutes such as guarantees, standby letters of credit, and commercial letters of credit. These should be classified using the same standards that are employed to judge creditworthiness of advances on the balance sheet. Absent any documented indications or evidence to the contrary, these off-balance sheet exposures shall be classified in the same category as other exposures to the Banks’ customer.

2. Classification should be for amounts that are net of currently appraised values for eligible collateral.

Article 12
Classification of Investment Securities

1. Shares (equities) and bonds (debt securities) should be classified based upon the creditworthiness of the issuer of the securities or, where appropriate, the guarantor or credit enhancer. Creditworthiness should be determined by analysis of current financial information and/or reference to a rating for the securities provided by a known, reputable credit rating agency.

2. The CBK considers that ratings given by international rating agencies, equal with that of an S&P rating lower than BBB to be speculative, and subject to classification. Should there be no rating available, and the financial institution does not have current financial information, the investment should be classified as “loss” and fully provisioned.

Article 13
Classification of Correspondent Bank Exposures

1. All exposures to correspondent banks should be supported by adequate financial and other credit information.

2. Classification should be based upon commonly recognized factors used for financial institution analysis.

3. In addition, cross-border exposures must be evaluated in terms of country risk, foreign exchange risk and transfer risk.

4. In the event of default in interest or principal payments, absent any other information, the same performance periods as apply to other credit exposures should be used.

Article 14
Classification of Assets Where the Bank has taken Title / Ownership

1. From time to time, banks may take possession or acquire ownership of assets in satisfaction of outstanding debts owed to it. These assets should be recorded at the fair value of the asset possessed, less the estimated cost to sell, and the related loan should be removed from the books.

2. Banks must sell these assets as soon as possible, but in no case may these assets be held beyond five years in the case of real property or one year from the date of acquisition in the case of movable property as specified under the CBK Regulation on Limits to Holdings of Real Estate and Movable Property.

3. Such assets, by their nature, should be classified no better than substandard, and possibly worse, at the time of acquisition, if the possibility of sale at the appraised value becomes protracted.

Article 15
Classification of Other Assets

1. Suspense or holdover accounts, casual overdrafts, and correspondent bank accounts should be reconciled and cleared on a regular basis.

2. Banks must write off items that do not clear as soon as their non-collectability becomes apparent.

3. In any event, all such items should be written off no later than ninety (90) days after inception.

Article 16
Reserves Rates for Loan Loss Provisioning

1. **Specific Provisions (Reserves)**

    a. Minimum provisions shall be made according to paragraph 3 of Article 7 of this Regulation.
    b. Banks should provision at higher levels than the regulatory minimum if the analysis of the credit risk in any specific exposure indicates such a need.
    c. Provisions should be made against the net value of the exposure after deducting eligible collateral.
    d. Regulatory minimum provisions for classified credit assets are as follows:

        Substandard 20% (twenty percent)
        Doubtful 50% (fifty percent)
        Loss 100% (one hundred percent)

    e. In addition to the minimum provisioning against classified assets as shown above, according to the CBK, the lack of adequate financial data is a serious weakness in many portfolios and constitutes more than normal credit risk. Therefore, for each commercial credit exposure of Five hundred thousand (500,000) Euros or higher that is not supported by current audited financial statements, Banks must make a specific provision equal to 1 % (one percent) of the outstanding balance (or total amount of the facility if it is a legally binding commitment). This provision would apply unless the exposure is classified adversely, in which case the provision relevant to the classification would apply.

    f. For purpose of the sub-paragraph e. of this paragraph, the terms: "current" means a set of fiscal financial statements that are dated within eighteen (18) months of the date of review for provisioning purposes; "audited" means a set of financial statements for which a certified external auditor has expressed an unqualified opinion.

2. **General Provision (Reserve)**

a. In addition to the specific provisions required against classified exposures, Banks shall make a general provision against the remaining, non-classified portfolio or segments of the portfolio. This provision can be against gross or “net of eligible collateral” values, but in the case of the latter, documentation of the exposures with such collateral must be kept on file for review by CBK examiners.

b. The general provision made should be on the basis of documented historical experience, adjusted for current and prospective market conditions. Banks commonly can use one or more of the following methodologies: “roll-rate model”, “average charge-off method”, “vintage analysis”, “regression analysis”, or any other internationally recognized model that shall be previously approved by the CBK.

c. Banks methodologies for determining general provisioning shall be reviewed by the CBK during on-site examinations. Any such methodologies and underlying data shall be reviewed and updated at least on annual basis.

Article 17
Treatment of Accrued Interest

1. Accrued interest on balance-sheet items of a bank shall be recognized for the relevant period during which the interest is earned, regardless of the time of its actual payment. Whenever a Bank classifies an exposure as non-performing, i.e., having delinquency or default in excess of 90 days (which usually should result in classification as doubtful or loss), it must stop the accrual into the income statement of the interest on that exposure. All uncollected interest that has been previously accrued and recognized as income must be reversed out of income.

2. Banks shall make these adjustments on a monthly basis. The following rules pertain to treatment of interest/revenues on non-performing exposures:

a. Banks are prohibited from accruing or capitalizing interest on credit exposures classified as non-performing. Interest received on these exposures may only be recognized as income on a cash basis, i.e., when actually received. The prescribed accounting procedure at the time that an exposure is categorized as non-performing, based upon delinquency/default status or whenever there is doubt about full collection of principle or interest, is that all accrued but unpaid interest on the exposure during the current accounting period should be reversed out of income. Banks may account for unpaid interest due on non-performing exposures in off the balance sheet items. If banks are reviewing and classifying their exposures on an appropriate basis, such amounts should not normally exceed the three months preceding the classification of the exposure in doubtful or loss category;

b. CBK examiners will review specifically the accounting and reporting of this item during on-site examinations of banks. Previous failure to comply with established requirements could constitute a significant contingent liability for banks. Therefore, the CBK urges that portfolio review, classification and provisioning be accomplished on a timely and accurate basis.

Article 18
Write-offs

Banks should develop policies, which describe the bases on which uncollectible credit exposures are recognized as losses and written off. When a loan is classified as "Loss", it shall be charged against the Bank's provision for loan losses and shall be written off the balance sheet after reasonable collection measures have been taken in accordance with the Banks' established policy.

Article 19
CBK Decisions Related to Classification

1. Internal classifications of credit exposures by Banks shall be subject to review and possible re-classification by the CBK during on-site examinations. Differences between a classification of the CBK and that of the classifying banks shall be discussed during on-site examinations but, after such discussions, the classification decision of the CBK shall be final for all purposes.

   Therefore the loan exposure that are classified during CBK examination, may be classified for to better category from the bank, only in cases when the criteria of sustained performance is fulfilled. While in cases when the borrower is classified to a weaker category from the bank the sustained performance of the borrower must not be taken into consideration, but must be respected requirement from article 9; paragraph 2.

2. The preceding paragraph does not preclude Banks from reclassifying a credit exposure during the intervening period between examinations. CBK recognizes that credit factors can change over time. In fact, CBK expects that banks will take steps to improve the creditworthiness of adversely classified exposures. Similarly, it is possible that the financial condition of a borrower can deteriorate between examinations. In those instances where a change in credit factors, whether positive or negative, significantly changes the bases on which an exposure has been classified, CBK expects that Banks will change the classification and respective provision appropriately.

3. Any change of loan classification to a better category by banks of loans have been subject of the review by the CBK examination, and which occurs during the period between CBK examinations, is required to be reported quarterly to the CBK.

Article 20
Rebooking Assets

1. Banks must have a policy that governs the rebooking of assets previously written-off. The Banks may reverse a provision and rebook the pertinent asset only when it can satisfactorily
   demonstrate that the asset's quality has improved.

2. For any such exposure that exceeds 5% (five percent) of the Tier 1 capital, the Bank's Board of Directors or its Risk Management Committee must approve the rebooking in advance.

3. Approval from paragraph 2 of this article shall be recorded in the Board of Directors or Risk Management Committee minutes and must indicate the improved facts and circumstances that justify the rebooking.

4. Rebooked assets shall be assessed by CBK examiners on a case by case basis and rebooked assets shall:

   a. Meet the criteria used in granting new loans contained in the Bank's lending policies;
   b. Not be granted on more favorable terms than those prevailing for comparable borrowers in good-credit standing with the financial institutions; and
   c. Not be subject to classification.

5. If any of the above conditions are not met, the asset shall not be rebooked.

Article 21
Collateral Recognition

1. Collateral security should be taken into consideration in the classification process. The fair market and liquidation values of the collateral should be documented by a current appraisal made by a competent party. The Banks' ability to access and liquidate the collateral within a reasonable period also must be considered.

2. Classification of amounts should always be net of eligible collateral values. Eligible collateral is defined as:

   a. Cash collateral or fully collected deposit account balances in the possession of the banks and subject to a validly executed collateral pledge agreement;
   b. Any cash margin deposit held at the bank to secure a letter of credit or guarantee;
   c. Securities issued or guaranteed by the Government of the Republic of Kosovo to the extent that the market value of these securities is at least 100% (one hundred percent) of the exposure, provided that such securities are in the possession of the bank and subject to a validly executed collateral pledge agreement, and are revalued on a regular basis;
   d. Securities issued or guaranteed by countries rated by international rating agencies, which are equal to S&P ratings "A" or better or issued by their Central Banks to the extent that the market value of these securities is at least 100% (one hundred percent) of the exposure, provided that such are in the possession of the bank and subject to a validly executed collateral pledge agreement, and are revalued on a regular basis;
   e. Other marketable securities issued by financial institutions rated by international rating agencies, which are equal to S&P ratings "A" or better (shares or bonds that are listed and actively traded on an organized exchange for which market prices can be readily obtained) to the extent that the market value of those securities is at least 125% (one hundred twenty-five percent) of the exposure, provided that such

securities are in the possession of the bank, subject to a validly executed collateral pledge agreement, and are revalued on a regular basis;

f. An unconditional guarantee by another financial institution that rated by international rating agencies, which are equal to S&P ratings "A" or better by an internationally known and reputable credit rating agency.

3. Other types of collateral should not be deducted from the amount of the exposure for the purpose of classification. However, that collateral, its condition, accessibility and value, realistically applied, may be a factor in determining the severity of classification of the exposure.

CHAPTER IV
TRANSITORY AND FINAL PROVISIONS

Article 22
Reporting to CBK

Banks shall report to the CBK the classification of credits and other assets which produce credit risk, as well as the establishment of reserves for loan loss provisioning, accordingly to the requirements set out in the CBK Regulation on Reporting of Banks.

Article 23
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 24
Abrogation

Upon the entry in to force of this Regulation, it shall abrogates the regulation on credit risk management issued by CBK Board on December 3, 2012 and any other provisions that may be in conflict with this Regulation.

Article 25
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.

____

Sejdi Rexhepi