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

Pursuant to Article 35, paragraph 1, sub-paragraph 1.1 of the Law no. 03/L-209 on the Central Bank of the Republic of Kosovo (Official Gazette of the Republic of Kosovo, no. 77/16 August 2010) and Article 4, paragraph 3, Article 60, Article 61 and Article 62 of the Law 05/L-045 on Insurance (Official Gazette of the Republic of Kosovo, no. 38/24 December 2015), the Board of the Central Bank of the Republic of Kosovo in the meeting held on 23rd February 2017 approved the following:

# REGULATION ON CALCULATION OF THE MINIMUM SOLVENCY MARGINS, CAPITAL ADEQUACY AND GUARANTEE FUND FOR NON-LIFE INSURERS

## Article 1
## Scope and Purpose

1. This regulation defines the methods of calculating the minimum solvency margins, capital adequacy and guarantee fund for non-life insurers as well as deadlines, forms, content and method of reporting to the CBK. Furthermore, this regulation outlines in a detailed manner, other elements involved in calculation of the capital, such as:
   1.1 detailed characteristics of subordinated debt instruments and,
   1.2 non-liquid assets and other elements deductible from the capital.
2. This regulation applies to all insurers and branches of foreign insurers that are licensed by the Central Bank of the Republic of Kosovo to exercise their activity in Kosovo.

## Article 2
## Definitions

1. All terms used in this Regulation shall have the same meaning as the terms stipulated in Article 3 of Law 05/L-045 on Insurance (hereinafter: the Law on Insurance) and/or with the following definitions for the purpose of this Regulation:
   1.1. *Guarantee Fund* - represents the amount of means required in cash, or the equivalent amount in the value of cash, which must be maintained at all times by insurers and branches of foreign insurers licensed in the Republic of Kosovo according to the Law on Insurance and used only in events when the insured are endangered from the insolvency or impossibility of fulfilling financial obligations by insurers.
   1.2. *Guarantee Fund Account* - means an entrusted account created on behalf of the guarantee fund, which must be maintained at all times, and cannot be touched without the approval of the CBK.
   1.3. *Solvency* - means the amount of assets of the insurer in overcoming any obligation or responsibility, deducting from them any intangible asset.

1.4. *Available capital* - means the amount of the base capital and the supplementary capital specified herein including any deductible element in the calculation of solvency.
1.5. *The required level of solvency* – means the minimum required amount of capital available which must be maintained at all times according to the requirements of this regulation.
1.6. *Deductible elements* - means the amount of capital elements which are not accepted in the calculation of solvency.
1.7. *The amount of insurance premiums* - means the amount of gross written premiums without VAT from direct insurance, reinsurance and co-insurance for a financial year by deducting from this sum the amount of premiums annulled for the financial year.
1.8. *The amount of gross earned premiums* - means the amount of premiums earned during a financial year without deducting the share of reinsurers and/or co-insurers[1].
1.9. *Gross incurred claims* - means the amount of claims incurred during an accounting period without deducting the share of reinsurers and/or co-insurers.
1.10. *Net incurred claims* - means the amount of claims incurred during an accounting period after deducting the share from reinsurers and/or co-insurers [2].

**Article 3**
**Insurers' capital**

1. Insurers' should at all times possess sufficient capital in order to maintain their solvency.
2. Solvency consists of insurer's assets free of any predictable liability/responsibility, by deducting from them every deductible asset according to this Regulation.
3. In calculating the insurers' capital, it should be taken into account the elements of charter capital determined according to Article 4 of this Regulation, the supplementary capital according to Article 5 of this Regulation as well as deductible elements from the capital, as defined by Article 6 of this regulation. Capital calculated in this manner shall be recognized as the available capital.

**Article 4**
**Charter capital**

1. Calculation of the insurer's charter capital include the following elements:
   1.1 The paid shareholder capital of insurers in cash, consisting on the basis of ordinary emitted shares;

[1] The share of reinsurers and/or co-insurers means - the ceded share in reinsurance and/or co-insurance and any change in the unearned premium reserve that belongs to reinsurance and/or co-insurance.
[2] Implies the amounts of receivables from reinsurers and/or co-insurers on claims, as well as any change in reserves on claims belonging to reinsurers and/or co-insurers.

1.2 Capital reserves (legally recognized reserves and free reserves), which do not correspond with obligations deriving from insurance contracts;
1.3 Profits carried over from previous accounting periods, the profit of the last accounting period verified by the external auditor and approved by the General Assembly of shareholders, after deducting the payable dividend.

2. In calculating insurers charter capital, the following elements shall be considered as deductible elements:
   1.1 Repurchased own shares;
   1.2 Investments in intangible assets (non-material);
   1.3 Transferred loss and current year's loss (financial year);
   1.4 Difference between discounted and undiscounted claims (where applicable and permitted by CBK).

**Article 5**
**Supplementary capital**

1. The following elements are included in calculating the insurers' supplementary capital:
   1.1 Share capital of the insurer, consisting of issuance of preferential shares according to their nominal amount paid in cash in insurer equity.
   1.2 Subordinated debt instruments, as defined under Articles 15, 16, 17 of this Regulation.
   1.3 Capital reserves related to preferential shares,
   1.4 Other elements of capital, different from elements involved in charter capital, but which by nature are part of the insurer's capital.

2. Subordinated debt instruments are securities and other financial instruments that entitle the holder in the event of bankruptcy or liquidation of the issuer for payment, only after claims of other creditors have been settled. This instrument will be accepted in the calculation of supplementary capital only when it meets the conditions specified in Articles 15, 16 and 17 of this Regulation.

3. Other elements referred to in paragraph 1.4. of this article, are reserves arising from the valuation of assets that are not exceptional, such as reserves from valuation of land and buildings, reserves from valuation of financial assets and reserves from valuation of other assets.

4. In calculating insurers' capital, elements of supplementary capital specified in paragraph 1 of this Article may be considered up to a maximum of 50% of the amount of capital available or minimum required solvency margin, calculated based on premium and based on claim, whichever is lower.

5. Notwithstanding the provisions of paragraph 4 of this Article, instruments of the subordinated debt with a fixed period of maturity and capital paid based on preferential shares with a fixed duration, shall be taken into account only up to a maximum of 25%

of charter capital or the minimum required solvency margin calculated based on premium and claim according to this regulation, whichever is lower.

**Article 6**
**Deductible elements in calculation of the capital**

1. In calculating the insurer's capital (available capital) consisting from the amount of charter capital and supplementary capital will be deducted from the following elements:
   1.1. Participations or possessions in ownership of other insurance companies, reinsurers, insurance control group, banks and/or branches of foreign banks, intermediary firms, administering companies and other financial institutions;
   1.2. Investments in subordinated debt instruments and other investments in the entities referred to in paragraph 1.1 of this Article, which for purposes of compliance with capital adequacy requirements of these entities will be considered in the calculation of their capital;
   1.3. Non-liquid assets;

2. Non-liquid assets defined in paragraph 1.3. of this article are:
   1.1 Shares not listed in regulated markets;
   1.2 Loans, receivables, and all transactions with related parties, with the exception of transactions with reinsurers that are made on behalf of insurance activity;
   1.3 Loans from and for brokers and agents;
   1.4 Receivables from premiums and reinsurance receivables of over 180 days;
   1.5 Other debtors and other net accounts receivable from provisioning, past due over 365 days, which do not derive directly from the insurance activity;
   1.6 Requirements from debtors who are in process of bankruptcy, and/or requirements deriving from investments made in an entity that is subject of bankruptcy procedures;
   1.7 Requirements or claims on a disputed legal basis;
   1.8 Long-term investments in property and buildings and the rights in immovable property which do not meet the requirements under Article 7, paragraph 1, point c) of the Regulation on Investment of Assets covering technical and mathematical provisions and Investment of Charter Capital, and which are done without prior approval of CBK;
   1.9 Other material investments for which the insurer does not possess the necessary documentation of their ownership;
   1.10 Deferred tax assets;
   1.11 Prepaid costs, with the exception of deferred acquisition costs determined according to applicable CBK instruction "on the calculation and registration of deferred acquisition costs in Financial Statements"
   1.12 50% of the total amount of other assets, which are not free from any responsibility or liability provided;
   1.13 Other assets, which are not easily convertible into cash at the time when needed to meet the financial obligations when they are matured.

## Article 7
## Capital adequacy, the required level of solvency

1. The capital of insurers who exercise activities with non-life insurance classes and capital of insurers who exercise activity in the field of reinsurances should not be lower than the required level of solvency of insurers.

2. The required level of insurer's solvency is the highest amount between the Guarantee Fund determined under Article 8 of this Regulation and 150 percent of the minimum solvency margin determined according to this article, whichever is higher between the calculation based on premium or based on claim.

3. The solvency margin based on premium shall be calculated as follows:
   - 3.1. The amount of insurance premiums belonging to a financial year up to 10 million Euro will be multiplied by 0.18, and any amount exceeding 10 million Euro will be multiplied with 0.16, where insurance premiums in this case will consist of the amount of written premiums or amount of gross earned premiums without deducting the share of reinsurance and/or co-insurance, whichever is higher;
   - 3.2. The amount of products multiplied by the relevant factors under paragraph 3.1. will be multiplied with the ratio resulting between:
     - 3.2.1. the amount of gross incurred claims during the past three years (claims paid plus any change in provision for outstanding claims), after deduction of recoverable[3] amounts from reinsurance and co-insurance and,
     - 3.2.2. the amount of gross incurred claims during the past three years (claims paid plus any change in provision for outstanding claims), without deduction of the amounts recoverable from reinsurance and co-insurance.
     - 3.2.3. the result obtained by such ratio in no case can result in less than 0.5. If this ratio is less than 0.5, then the amount of products in point 3.2. of paragraph 3 of this Article shall be multiplied with 0.5.
   - 3.3. In calculating the amount of insurance premiums for the financial year, premiums related to insurance classes 11, 12 and 13 specified under Article 7 of the law on insurance will increase for 50%.
   - 3.4. In calculating the amount of insurance premiums for the financial year, premiums will also increase for the amount of premiums received from reinsurance.
   - 3.5. From this amount, shall be deducted the total amount of insurance premiums, annulled for the last financial year.

4. The solvency margin based on claim shall be calculated as follows:
   - 4.1. The annual average of amounts of gross paid claims in last three financial years including any changes in reserves for claims without deducting the amounts for claims covered by reinsurers and/or co-insurers, up to 7 million Euros will be multiplied by 0.26 whereas the amount exceeding EUR 7 million will be multiplied by 0.23.

[3] Includes the amounts of receivables from reinsurers and/or co-insurers on claims, as well as any change in reserves on claims belonging to reinsurers and/or co-insurers.

4.2. Amounts of products multiplied by factors mentioned in point 3.1. of paragraph 3 of this Article shall be multiplied with the ratio resulting between;

4.2.1. the amount of gross paid claims for the last three financial years (including any changes in reserves for claims), after deducting the amounts recoverable[4] from reinsurance and co-insurance and,

4.2.2. the amount of gross claims paid (including any changes in reserves for claims), without deducting the recoverable amounts from reinsurance and/or co-insurance.

4.3. In calculating the annual amount of the gross claims incurred related to insurance classes 11, 12 and 13 specified according to Article 7 of the law on insurance, shall increase by 50%;

4.4. When calculating the annual amount of gross claims incurred, the amount of claims incurred belonging to reinsurance and/or co-insurance shall be added.

5. In calculating the amounts of gross claims incurred specified under paragraph 3, point 3.1. of this Article, the arithmetic mean of the last three financial years shall be used as a reference.

6. With the exception of paragraph 4 of this article, when the insurers insure the risks to loans, storm, hail or frost, as a reference in the calculation of gross incurred claims shall be the arithmetic mean for the last seven financial years.

7. With the exception of paragraph 1 of this Article, the required solvency margin for the first year of activity of the insurer it shall be calculated in accordance with paragraph 2 of this Article.

8. When the required solvency margin of the insurer calculated for the current financial year is lower than the required solvency margin calculated for the previous financial year, the required solvency margin for the financial year must be at least equal to the solvency margin of the previous year multiplied by the ratio, which results between the amount of provisions for claims pending at the end of the financial year and the amount of provisions for claims pending at the beginning of the financial year, provided that this ratio in any case should not be higher than 1. In this case, in calculation of this ratio, should be considered the amounts of net claims of reinsurance.

## Article 8
## Guarantee fund

1. Guarantee fund shall consist of charter capital according to Article 4 and supplementary capital according to Article 5 of this Regulation and shall be subject to approval by CBK.

2. Guarantee fund shall in no case should be less than 1/3 of the minimum required solvency level determined according to Article 7, paragraph 4 of this Regulation.

[4] Includes the amounts of receivables from reinsurers and/or co-insurers on claims, as well as any change in reserves on claims belonging to reinsurers and/or co-insurers.

3. Exceptionally from determinations in paragraphs 1 and 2 of this Article:
   3.1. Guarantee fund of a licensed insurer for exercising the insurance activity in Kosovo for non-life insurances cannot be less than 2,200,000 (two millions and two hundred thousands) Euro;
   3.2. In cases when one or several risks are included in Classes 10 to 15 referred to in Article 7 of the Law on Insurances, the guarantee fund cannot be lower than 3,200,000 (three millions and two hundred thousands) Euro.

4. For the purpose of its guarantee, the minimum required amount of the guarantee fund shall be held in one of the bank accounts called as "account of guarantee fund" in banks and/or branches of foreign banks licensed to operate in the territory of the Republic of Kosovo. The means of guarantee fund shall be distributed as follows:
   4.1. 10% of the guarantee fund should be kept in CBK account,
   4.2. Not more than 30% of the guarantee fund should be kept in a trusted account in a commercial bank specified according to the paragraph 4 of this Article.

5. Guarantee fund may be invested only in bank deposits and treasury bonds issued by the Government of the Republic of Kosovo and cannot be used without the prior approval of CBK.

6. Any transaction related to the guarantee fund cannot be performed without getting prior approval of CBK and after submission of the request by the insurer with all necessary information required by CBK. Every transaction shall be performed only through bank transfers.

## Article 9
## Source of capital

1. To verify the source of origin of the capital, the insurer shall submit to CBK the following information:
   1.1. For legal persons:
      1.1.1. evidence on origin - source of creating the capital, such as the report of the external auditor, annual financial statements, gifts or other sources intended for use in the purchase of shares of the insurer;
      1.1.2. certificate issued by the competent authorities, which provides data for the balance of the legal person and the fulfilment of tax obligations.
   1.2. For natural persons:
      1.2.1. evidence of the source of creating the capital, such as purchase or sale, gifts, wages, money deposits in bank or other proof of the source of creating the capital;
      1.2.2. certificates evidencing the fulfilment of tax obligations.
2. Contributions for insurers' capital must not derive from borrowed funds from the public, bank loans and other loans, the origin of which is illegal and unknown.

3. In order to prevent money laundering, CBK, in cooperation with the Financial Intelligence Unit of Kosovo, may require additional information from shareholders of the insurer during the verification of the source of capital.

**Article 10**
**Calculation and reporting**

1. An insurer shall calculate and draft regular quarterly and annual reports concerning the:
   1.1. Capital;
   1.2. Guarantee Fund;
   1.3. Required solvency level;
2. Insurers shall calculate the level of capital and guarantee fund on quarterly basis, in the last day of the quarter.
3. Data that will be used for filling the quarterly reports regarding the required solvency level that cover the period from three to seven years, shall comply with the following circumstances:
   3.1. for the first quarter, data from the period from 1 April of the previous year (namely, arithmetic mean for three or seven previous years of the same accounting period) to 31 March of the current (financial) year;
   3.2. for the second quarter, data from the period from 1 July of the previous year (namely arithmetic mean for three or seven previous years of the same accounting period) to 30 June of the current (financial) year;
   3.3. for the third quarter, data from the period from 1 October of the previous year (namely, the arithmetic mean for three or seven previous years of the same accounting period) to 31 September of the current (financial) year.
4. Insurers shall, within a month following the expiration of the reporting quarter, submit to CBK the filled reports in compliance with the requirements referred to in paragraph 1 of this Article for the first, second and third quarter.
5. Insurers shall, within a month following the end of calendar year, submit to CBK the filled reports drafted in compliance with the requirements referred to in paragraph 1 of this Article, for the entire accounting year.
6. Insurers shall submit to CBK the abovementioned forms:
   6.1. In electronic form;
   6.2. In written form (hard copy), signed by persons responsible for completing these forms and other responsible persons. The forms that will be used for calculating the capital adequacy shall be signed by the actuary that is certified and appointed by the insurer.

**Article 11**
**Capital adequacy for newly licensed insurance companies**

1. Insurers who obtained the licence to exercise non-life insurance activity shall submit to CBK the calculation of the first, second and third year of solvency margin (capital adequacy) based on premium and claim, after the first, second and third year since the beginning of their activity.

2. Insurers shall calculate the first, second and third year of the solvency margin based on premium and claim, according to the relative data for the first, second and third year of business.

3. Exceptionally from paragraph 1 and 2 of this Article, the solvency margin for the first year of business shall be calculated only based on premium, as specified in Article 7, paragraph 6 of this Regulation.

4. In the second and third year of the business, the insurers shall calculate the solvency margin in compliance with the paragraph 2 of this Article.

5. The solvency (capital adequacy) margin based on claim for the second and third year shall be calculated based on the:
   5.1. data of the first and second year of business for calculating the solvency (capital adequacy) margin for the second year;
   5.2. data of the first, second and third year of business for calculating the solvency (capital adequacy) margin for the third year.

6. Exceptionally from paragraph 5 of this Article, the insurer who insures risks mainly related to the credit risk, storm, hail and frost, shall calculate the solvency margin based on claim for the three-year period until the expiration of at least seven years from the commencement of its activity. First calculation of the solvency margin on the basis of claim for the seven-year period shall be concluded upon expiration of at least seven years from the commencement of insurer activity.

**Article 12**
**Measures taken by the board of directors of insurers to achieve the required solvency level**

1. In case the insurer capital is not sufficient due to the increase of the required solvency level or other causes, the board of directors of the insurer shall undertake necessary measures to achieve the required capital level, as well as take decisions or make proposals with regards to the measures within their competencies or other responsible bodies of the company.

2. Board of directors of the insurer shall notify CBK about measures proposed in paragraph 1 of this Article within eight calendar years from their proposal.

3. In addition to the notification of CBK as determined in paragraph 2 of this Article, the governing board of the insurer shall attach projections of the business for the next five financial years:
   a) For first two years on quarterly basis;
   b) For three other remaining years on annual basis.

4. Business projections determined according to the paragraph 3 of this Article shall include at least:
   4.1. Balance sheet
   4.2. Income and expense statement
   4.3. Capital adequacy calculation

4.4. Available capital calculation
4.5. Calculation of required solvency margin
4.6. Assumptions based on which projections have been made.

## Article 13
## Measures taken by CBK

1. In cases when interests of insured is in jeopardy and/or the capital is not sufficient as is determined in Article 7 and 8 of this Regulation, CBK shall require from the insured to present the recovery plan, along with the proposed measures for the next three financial years, which should also include:
   1.1. The assessment of administrative expenses and a comparison with current total expenses and commissions;
   1.2. Detailed assessment of incomes and expenses related to the direct business of insurance and reinsurance;
   1.3. Projection of balance sheet and other financial statements;
   1.4. Calculation of the capital and guarantee fund, as determined in Article 3 and 8 of this Regulation;
   1.5. Calculation of the required solvency level, as determined in Article 7 of this Regulation;
   1.6. The assessment of financial sources designated to cover the required solvency level and all other liabilities to insure the insurer;
   1.7. General policies and reinsurance strategies;
2. CBK may oblige insurers to maintain a higher solvency margin when considered that the insured rights are risked as a result of deteriorated financial position of the insurer. This higher required level of solvency shall be based on a plan of financial recovery, including here a proposal for measures to be taken in the next three years.
3. CBK may require from the insurer to register the decrease of the reassessed value of elements that are considered in determining the required solvency margin, in cases when there was a significant change in the value of the market of these elements since the end of the financial year.
4. CBK may require adjustment/regulation in required calculation of insurer solvency, in cases when it is considered that the nature and the quality of reinsurance contracts has significantly changed compared to the last financial year or when reinsurance contracts do not allow for a balanced risk transfer.
5. Financial recovery plan shall be submitted to CBK for approval, within the deadlines set by CBK. CBK shall decide whether to approve or refuse the financial recovery plan within 1 month from the day when it was received by CBK.
6. In case of refusal of financial recovery plan, CBK shall undertake one or several other supervision measures, as provided for in the Law on Insurances.

## Article 14
## Prohibition of distribution of profits

1. Insurers shall not be allowed to distribute profits in the form of dividends or intermediate dividends, or in the form of payments based on the share in profits of board of directors, supervisory board or other employees in cases when:
   1.1. The insurer capital is under the required solvency level, defined in Article 7 of this Regulation;
   1.2. As a result of distribution of profits, insurer capital declines under the required solvency level defined in Article 7 of this Regulation;
   1.3. The insurers does not guarantee the minimum liquidity level, as defined in Article 64 of the Law on Insurance;
   1.4. The insurer failed to implement measures ordered by CBK for correction and about the misunderstanding and non-accurate presentation of assets and liabilities in financial statements, in which case the accurate disclosure would affect the operating result of the insurer.
   1.5. CBK may refuse the request to distribute the dividend, if according to its judgment the payment of dividend would hinder the financial situation of the insurer.

## Article 15
## Subordinate debt instruments as an element of supplementary capital

1. Insurers who aim the inclusion of subordinated debt instruments as an element of the supplementary capital shall inform CBK at least 30 days before undertaking this action.
2. In addition to the notification defined in paragraph 1 of this Article, the insurer shall submit the following documents as well:
   2.1. Proposed contract about the issuance of subordinate debt instrument,
   2.2. Business projections for the next five years.
3. Business projections referred to in paragraph 2 of this Article shall at least include conditions determined in Article 11, paragraph 4 of this Regulation and shall be submitted to CBK in compliance with Article 10, paragraph 6 of this Regulation.
4. Insurers may present subordinate debt instruments as element of the capital in calculating the supplementary capital, if the following conditions have been met:
   4.1. If the contract between the insurer as the issuer and owner of the subordinate debt instruments clearly indicates that in case of bankruptcy or liquidation of the issuer/insurers, the holder has the right of payment only after the claims of other creditors have been settled/paid,
   4.2. If the capital has been paid completely, i.e. only paid amount of the capital has been considered,
   4.3. The contract between the insurer and subordinate creditor shall not contain provisions that would allow the creditor to receive the payment prior to the

specified maturity date, except in cases of bankruptcy or liquidation of the insurer, or if otherwise provided for in this Regulation,

4.4. The contract between the insurer and subordinated creditor may be changed only if CBK has provided prior approval.

5. Insurers may present the capital of subordinated debt as an element in calculating the supplementary capital, which contains a specific maturity date, as well as the capital of subordinated debt without a specified maturity date.

6. If the insurer fails to fulfil the requirements specified in paragraph 4 of this Article, the n the subordinated debt capital shall not be accepted in calculating the supplementary capital.

## Article 16
## Capital of subordinated debt with a specified maturity date

1. Besides the conditions mentioned in paragraph 4, Article 15 of this Regulation, the capital of subordinated debt containing a specified maturity date shall fulfil the following conditions:
   1.1. Specified maturity shall be at least 5 years and 1 day,
   1.2. When calculating the supplementary capital, the insurer shall gradually reduce the subordinated debt capital with a cumulative deduction of 20% for the last 5 years prior to the maturity date, as follows:
      1.2.1. when calculating the supplementary capital for five years or less than five years and more than four years before the complete or partial settlement of the amount of financial instrument of paid debt, a deduction of 20% shall apply to that part of the amount,
      1.2.2. when calculating the supplementary capital for less than four years and more than three years prior to the settlement date, a deduction of 40% shall apply,
      1.2.3. when calculating the supplementary capital for less than three years and more than two years prior to the settlement date, a deduction of 60% shall apply,
      1.2.4. when calculating the supplementary capital for less than two years and more than one year prior to the settlement date, a deduction of 80% shall apply,
      1.2.5. when calculating the supplementary capital for one or less than one year before the settlement date, a deduction of 100% shall apply and this amount of subordinated debt capital shall not be included in calculating the supplementary capital.

## Article 17
## Capital of subordinated debt without a specified maturity date

1. Besides the conditions mentioned in Article 15, paragraph 4 of this Regulation, the capital of subordinated debt with no specified maturity date shall fulfil the following conditions:

1.1. Financial instrument cannot be paid with the initiative of the owner without prior approval of CBK, except in case as specified in paragraph 2.1 of this Article;
1.2. Insurer shall ensure an opportunity to postpone the payment of return of this financial instrument.

2. Capital of subordinated debt may be paid in the following cases:
   2.1. If a prior notice has been submitted to CBK five years before the date of planned settlement of the capital of subordinated debt in order to enable the calculation of the deduction of this capital/instrument, as specified in Article 15 of this Regulation in calculating the supplementary capital;
   2.2. If the capital of the subordinated debt is not an integral part of the supplementary capital, i.e. if it is calculated with a deduction of 100%;
   2.3. If a prior notification for earlier settlement has been taken from CBK.

3. If the insurers aim the earlier settlement, they should inform in advance the CBK at least six-month prior the settlement date and provide a plan related to the capital adequacy calculation before and after the settlement date. CBK shall authorize the repayment or settlement, only if this plan shows that capital adequacy requirements specified in Article 7 of this Regulation shall be fulfilled even after the settlement or repayment of this instrument.

**Article 18**
**Implementation, remedial measures and civil penalties**

Violation of provisions of this Regulation shall be subject to administrative measures and penalties, as defined in the Law No. 03/L-209 on Central Bank and Law No. 05/L-045 on Insurances.

**Article 19**
**Transitional provisions**

Existing insurers shall comply with the requirements of this Regulation until 01 March 2017.

**Article 20**
**Repeal**

Upon the entry into force of this Regulation, all provisions of the Regulation on Deposit of Asset as Guaranty, Capital Adequacy, Financial Reporting, Risk Management, Investment and Liquidity related to the capital adequacy and solvency, approved by the Board of CBK on 30 April 2015, shall be repealed.

**Article 21**
**Annexes**

This Regulation contains also two attached forms: Annex I – Table for Solvency Calculation and Annex II – Table for Capital Calculation.

**Article 22**
**Entry into force**

This Regulation shall enter into force on 1 March 2017.

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

Prof. Dr. Bedri Peci

# Annex I

## 1. Table for Solvency Calculation

| 1 | Table of reserves for claims | Prior 3 | Prior 2 | Prior 1 | Current |
|---|---|---|---|---|---|
| 1.1 | Requirements for outstanding claims at the beginning of the period | | | | |
| 1.2 | Paid claims | | | | |
| 1.3 | Requirements for outstanding claims at the end of the period | | | | |
| **1.4** | **Incurred losses (1.2 + 1.3) - 1.1** | - | - | - | - |
| **1.5** | **Average of incurred losses** | | - | | - |

| 2 | Table of part of reinsurer requirements | | | | |
|---|---|---|---|---|---|
| 2.1 | Part of reinsurance for pending claims at the beginning of the period | | | | |
| 2.2 | Accepted reinsurance | | | | |
| 2.3 | Part of reinsurance for pending claims at the end of the period | | | | |
| **2.4** | **Part of reinsurance for incurred claims** | - | - | - | - |
| **2.5** | **Net incurred losses (held claims)** | - | - | - | - |
| **2.6** | **Holding level** | | | | |
| **2.7** | **Average of holding level** | | | | |

| 3 | Based on premiums | Prior 1 | Current |
|---|---|---|---|
| 3.1 | Gross written premiums | | |
| 3.2 | Change of premiums | | |
| 3.3 | For Ql: 11,12,13 increase of premium for 50% | | |
| 3.4 | Others (tax & reinsurance) | | |
| **3.5** | **Total** | - | - |
| 3.6 | First layer (fixed to 10 million) | **10,000,000** | **10,000,000** |
| 3.7 | Second layer (more than 10 million) | - | - |
| 3.8 | Percentage of the first layer (fixed) | 18% | 18% |
| 3.9 | Percentage of the second layer (fixed) | 16% | 16% |
| **3.10** | **Result based on premiums** | - | - |
| 3.11 | Holding level | #DIV/0! | #DIV/0! |
| **3.12** | **Result of solvency based on premiums** | - | - |

| 4 | Based on claims | | |
|---|---|---|---|
| 4.1 | Incurred gross claims (see table of claims) | - | - |
| 4.2 | First layer (fixed) | 7,000,000 | 7,000,000 |
| 4.3 | Second layer | | |
| 4.4 | *Percentage of the first layer (fixed)* | *26%* | *26%* |
| 4.5 | *Percentage of the second layer (fixed)* | *23%* | *23%* |
| 4.6 | **Sum of the first layer** | **0** | **0** |
| 4.7 | Net and gross incurred claims ratio | #DIV/0! | #DIV/0! |
| **4.8** | **Minimum percentage** | **50%** | **50%** |
| **5** | **Result of solvency based on claims** | - | - |

| 5 | Required solvency | | |
|---|---|---|---|
| 5.1 | Based on premiums | - | - |
| 5.2 | Based on claims | - | - |
| 5.3 | Required solvency | - | - |
| 5.4 | Required solvency for the previous year | - | - |
| 5.5 | **Solvency based on growth of 150%** | - | - |

## Annex II

### 2. Table for Capital Calculation

| | | Prior 1 | Current |
|---|---|---|---|
| **I** | **CHARTER CAPITAL, Article 4: (1 + 2 + 3)** | - | - |
| *1* | Paid share capital of insurers in cash | - | - |
| *2* | Capital reserves (reserves recognized by law and free reserves), | - | - |
| *3* | Accumulated profits transferred after the deduction of dividends to be paid | - | - |
| **II** | **DEDUCTIBLE ELEMENTS FROM CHARTER CAPITAL, Article 4: (1 + 2 + 3 + 4)** | - | - |
| *1* | Repurchased own shares | - | - |
| *2* | Investments in intangible (non-material) assets; | - | - |
| *3* | Transferred losses and losses of the current year; | - | - |
| *4* | Difference between reserves for discounted and undiscounted claims | - | - |
| **III** | **SUPPLEMENTARY CAPITAL, Article 5; (1 + 2 + 3 + 4), max 50%** | - | - |
| *1* | Share capital of the insurer, consisting of preferential shares issuance according to their nominal amount paid in cash in insurer equity | - | - |
| *2* | Subordinated debt Instruments, | - | - |
| *3* | Capital reserves linked to preferential shares | - | - |
| *4* | Other elements | - | - |
| | | - | - |
| **IV** | **REGULATORY CAPITAL, (I - II + III)** | - | - |
| **V** | **DEDUCTIBLE ELEMTS IN CAPITAL CALCULATION, Article 6: (1 + 2)** | - | - |
| 1 | Participations or possessions in ownership of other companies | | - |
| 2 | Investments in subordinated debt instruments | | - |
| **VI** | **Non-liquid assets, Article 6; (1 to 9)** | - | - |
| *1* | Premiums receivable and debtors from the reinsurance for more than 90 days | - | - |
| *2* | Borrowings and receivables with related parties | - | - |
| *3* | Debtors and other accounts receivable, which derive from the insurance activity | - | - |
| *4* | Borrowings from brokers and agents | - | - |
| *5* | 100% expenses paid in advance and deferred tax assets | - | - |
| *6* | Other assets, not excluded from any responsibility or liability | - | - |
| *7* | Other assets which are not easily convertible into cash | - | - |
| *8* | Intangible assets | - | - |
| *9* | Others | - | - |
| **VII** | **Net property - Available capital (IV - V - VI)** | - | - |
| **VIII** | **Guarantee fund according to the law** | **3,200,000** | **3,200,000** |
| **IX** | **Request for capital according to the Guarantee Fund** | **(3,200,000)** | **(3,200,000)** |
| **X** | **Request for solvency coverage** | - | - |
| **XI** | **Final request for capital growth** | **3,200,000** | **3,200,000** |