

Pursuant to Article 158-j, Point 1) and Article 74, Point 6) of the Law on Insurance Supervision (Official Gazette of the Republic of Macedonia" No. 27/02, 84/02, 98/02, 33/04, 88/05, 79/07, 08/08, 88/08, 56/09, 67/10, 44/11, 188/13, 43/14, 112/14, 153/15, 192/15 and 23/16),), the Council of Experts of the Insurance Supervision Agency adopted the following

RULEBOOK

on the Types and Characteristics of the Assets Covering the Technical Provisions and the Assets Covering the Mathematical Provisions, and on the Detailed Placement and Limitation of Such Investments and their Valuation

I. General Provisions

Article 1

This Rulebook prescribes the types and characteristics of assets covering the technical provisions and the assets covering the mathematical provisions of insurance or reinsurance undertakings (hereinafter: insurance undertakings), pursuant to Articles 88 and 98 of the Law on Insurance Supervision (hereinafter: the Law), as follows:

- the types and characteristics of the permitted investments of assets covering the technical provisions and assets covering the mathematical provisions,
- rules for dispersion (localisation) and limitation of investments in assets covering the technical provisions and assets covering the mathematical provisions.
- valuation of assets covering the technical provisions and assets covering the mathematical provisions, and
- methods and deadlines for notification to the Insurance Supervision Agency (hereinafter: the Agency).

II. General Principles of Investment

Article 2

- (1) The insurance undertaking shall be required to invest the assets covering the technical provisions and mathematical provisions in compliance with the rules and principles of prudential and conscientious investment management.
- (2) When selecting the type of investment of assets covering the technical provisions and mathematical provisions, the insurance undertaking shall be required to take into consideration the classes of insurance its operates with, thereby respecting the principles of security, profitability and liquidity of investments, and diversification and dispersion of investments.
- (3) The insurance undertaking shall be required to align the maturity date of the assets

covering the technical provisions and mathematical provisions with the maturity date of the liabilities arising from the insurance contract.

- (4) The insurance undertaking shall be required to adjust the investments of assets covering the mathematical provisions with all of its liabilities arising from the insurance contracts, the amounts of which depend on variations of the foreign currencies exchange rates at least for up to 80%.
- (5) The insurance undertaking shall be required to manage the investments of assets covering the technical provisions and mathematical provisions in a way that ensures adequate yield and cash flow, so as to be able to settle the matured liabilities at any given time, i.e. not to bring the timeliness of payment of the damage claims into question.
- (6) Insurance undertaking shall not invest assets covering the technical provisions and mathematical provisions in instruments that have been in any way banned or restricted.
- (7) The insurance undertaking shall be required to invest assets in an amount at least equal to the amount of the net technical provisions.
- (8) If the Agency finds that the insurance undertaking invests the assets covering technical provisions and mathematical provisions contrary to the provisions of Paragraph 1 through Paragraph 7 of this Article, it shall be able to impose onto the insurance undertaking to comply with the provisions of the Law and this Rulebook.

Internal Acts on Investment

Article 3

- (1) Within the risks identification, assessment and monitoring policy, the insurance undertaking shall be required to adopt internal acts on investments that will define the strategies and principles of investments, and the investments organisation, procedures, monitoring and reporting. The internal acts referring to the investments shall include:
 - Investment principles and objectives,
 - Investment monitoring methods, guidelines and directions for enforcement of the law and by-laws,
 - Valuation methods,
 - Instructions, restrictions, permitted values determined on the grounds of individual risk assessment,
 - Investment procedures description,
 - Organisational structure: Definition of tasks, competencies and responsibilities of the organisational units,
 - Terms of reference for the people in charge of investments,
 - Expertise and qualification of the people in charge of investment of assets,
 - Internal reporting between organisational units and reporting deadlines,
 - Supervision and verification of the investment procedures, actually setting up of internal control mechanisms that ensures early identification of potential risks and determination of risks, and prevention measures for particular types of risks i.e. cumulating of risks of greater significance, and

- Rules for the organisation, storing and accessing the accounting and other documentation related to the investment of assets.
- (2) Insurance undertakings shall implement their investment policy by way of setting up or conforming their organisational structure.
- (3) The internal acts on investment of assets of insurance undertakings shall have to comply with all the valid regulations i.e. laws regulating the investments.

III. Types and Characteristics of Permitted Investments of Assets Covering the Technical Provisions and Assets Covering the Mathematical Provisions

Article 4

- (1) The insurance undertaking shall be required to invest the assets covering the technical provisions and mathematical provisions solely in the types of investments prescribed by the Law.
- (2) In addition to the provisions of Paragraph (1) of this Article, and in compliance with the provisions of Article 88, Paragraph (1), Point 16) of the Law, following shall be considered permitted assets covering the technical provisions and mathematical provisions of the insurance undertaking:
- 2.1 Advance payments in the amount of the purchase value of the life insurance policy, up to the maximum of 20% of the net value of the mathematical provision;
 - 2.2 Unmatured receivables arising from insurance, coinsurance and reinsurance premium, up to the maximum of 20% of the net value of the provisions for transferable premiums;
 - 2.3 Unmatured receivables arising from insurance, coinsurance and reinsurance premium, up to the maximum of 10% of the net value of the provisions for transferable premiums;
- (3) When investing the assets covering the technical provisions and mathematical provisions, the insurance undertakings shall be required to observe the restrictions stipulated by the Law and this Rulebook.

Article 5

Assets covering the technical provisions and mathematical provisions shall be invested in deposits in banks that have been given a licence issued by the National Bank of the Republic of Macedonia pursuant to Article 88, Paragraph (1), Point 2) of the Law, up to a maximum of 25% of the total value of the assets covering the technical provisions or mathematical provisions in individual bank.

Article 6

Assets covering the technical provisions and mathematical provisions shall be invested in bonds and other debt securities pursuant to Article 88, Paragraph (1), Point 6) of the Law, so long as:

- Bonds, and other debt securities have been issued by domestic shareholder companies

based on an approval by the Securities Commission of the Republic of Macedonia (hereinafter: KHV)

- Bonds, or other debt securities have been listed in the official market of the securities exchange or in another organised securities market in the Republic of Macedonia controlled by KHV, and
- Shareholder companies that have issued them have a report on the annual financial statements audit which contains negative opinion or unfavourable opinion about the last financial year, in accordance with the international audit standards, and which has been prepared by a certified audit company.

Article 7

Assets covering the technical provisions and mathematical provisions shall be invested in bonds and other debt securities pursuant to Article 88, Paragraph (1), Point 7) of the Law, so long as the shareholder companies that have issued them have a report on the annual financial statements audit which contains negative opinion or unfavourable opinion about the last financial year, pursuant to international audit standards, and which has been prepared by a certified audit company.

Article 8

Assets covering the technical provisions and mathematical provisions shall be invested in shares pursuant to Article 88, Paragraph (1), Point 8) of the Law, so long as:

- The shares have been issued by domestic shareholder companies based on approval by KHV,
- The shares have been listed in the official market or have been traded in the market of shareholder companies with special reporting requirements within the regular market of the securities exchange or in another organised securities market in the Republic of Macedonia controlled by KHV, and
- The shareholder companies that have issued them have a report on the annual financial statements audit which contains negative opinion or unfavourable opinion about the last financial year, in accordance with the international audit standards, and which has been prepared by a certified audit company.

Article 9

Assets covering the technical provisions and mathematical provisions shall be invested in shares pursuant to Article 88, Paragraph (1), Point 9) of the Law, so long as the shareholder companies that have issued them have a report on the annual financial statements audit which contains negative opinion or unfavourable opinion about the last financial year, pursuant to international audit standards, and which has been prepared by a certified audit company.

Article 10

(1) Assets covering the technical provisions and mathematical provisions shall be invested in units of trade companies pursuant to Article 88, Paragraph (1), Point 10) of the Law, so long as these are limited liability companies incorporated in the Republic of of Macedonia.

- (2) Investments shall be made in limited liability companies referred to in Paragraph 1) of this Article only if they are not entities related to the insurance undertakings.

Article 11

- (1) Assets covering the technical provisions and mathematical provisions shall be invested up to a maximum of 10% in units and shares of open-end and closed-end investment funds pursuant to Article 88, Paragraph (1), Point 11) of the Law, issued by the same company for investment fund management in the Republic of Macedonia.
- (2) Private investment funds units shall be invested up to a maximum of 1.5% of the assets covering technical provisions and mathematical provisions, with an investment in individual investment funds of up to a maximum of 0.5% of the assets covering technical provisions and mathematical provisions.

Article 12

Assets covering the technical provisions and mathematical provisions shall be invested in long-term bonds and long-term debt securities pursuant to Article 88, Paragraph (1), Point 12) of the Law so long as the country of the issuer of the bonds and other securities has a long-term credit rating for a foreign currency debt "BBB+" or higher according to Fitch Investor Services or Standard & Poor's or "Baa1" or higher according to Moody's.

Article 13

Assets covering the technical provisions and mathematical provisions shall be invested in long-term bonds and long-term debt securities pursuant to Article 88, Paragraph (1), Point 13) of the law, so long as:

- a) debt securities have a credit rating issued by at least one international credit rating agency, including: "BBB+" or higher according to Fitch Investor Services or Standard & Poor's or "Baa1" or higher according to Moody's for long-term instruments, and
- b) the country of the issuer of the bonds or other securities has a long-term credit rating for a foreign currency debt "BBB+" or higher according to Fitch Investor Services or Standard & Poor's or "Baa1" or higher according to Moody's.

Article 14

Assets covering the technical provisions and mathematical provisions shall be invested in shares the issuer of which is a foreign shareholder company pursuant to Article 88, Paragraph (1), Point 14) of the Law, so long as the shareholder companies that have issued them meet the following requirements:

- a) the credit rating of the issuer company (issuer rating) is "BBB+" or higher according to Fitch Investor Service or Standard & Poor's or "Baa1" or higher according to Moody's, and
- b) the country of incorporation of the issuer of the shares has a long-term credit rating for a foreign currency debt "BBB+" or higher according to Fitch Investor Services or Standard & Poor's or "Baa1" or higher according to Moody's.

Article 15

Assets covering the technical provisions and mathematical provisions shall be invested in units of investment funds pursuant to Article 88, Paragraph (1), Point 15) of the Law, so long as:

- a) the company managing the investment funds is incorporated in a member country of EU or OECD, whereby the registered office shall not be in an off-shore zone as determined by the International Monetary Fund, and
- b) the foreign investment fund is registered in a country which has a long-term credit rating for external foreign currency debt “BBB+” or higher according to Fitch Investor Services or Standard & Poor’s or “Baa1” or higher according to Moody’s, and
- c) the foreign investment fund does not feature characteristics of hedge fund, i.e. a private risk capital fund.

Futures Contracts, Options and Other Derivative Financial Instruments

Article 16

- (1) Insurance undertakings shall use futures contract, options and other derivative financial instruments so long as they ensure security against risks resulting from fluctuations in foreign currency exchange rates, interest rates and other market risks.
- (2) Before it starts to use derivative financial instruments, the insurance undertaking shall be required to adopt internal acts on the use of derivative financial instruments that will prescribe the risk assessment and management methods for assets covering technical provisions and mathematical provisions.
- (3) The Undertaking shall be required to notify the Agency of the use of derivative financial instruments 8 days after the ending of the month .

Valuation of Investments

Article 17

The types of investments stipulated by the Law and this Rulebook shall be valued in compliance with the International Financial Reporting Standards and the Rulebook on the Method of Valuation of Items within a Balance Sheet and Preparation of Business Balance Sheets.

IV. Method and Deadlines of Notification

Article 18

- (1) The insurance undertaking shall be required to notify the Agency of the types of investments of assets covering the technical provisions and assets covering the mathematical provisions in accordance with the layout and contents of the notification form VTR or MTR, which are herewith attached as Annex to this Rulebook and constitute an integral part thereof.

- (2) The insurance undertaking shall be required to notify the Agency of the types of investments in assets covering the technical provisions and the assets covering the mathematical provisions with a position on 31 March (first quarter), 30 June (second quarter), 30 September (third quarter) and 31 December (fourth quarter) of the current year, within 30 days the latest from the completion of the quarter the notification refers to.
- (3) By way of derogation from Paragraph 1) of this Article, the insurance undertaking shall be required to notify the Agency of the fourth quarter also with the additional submission of the annual.
- (4) The insurance undertaking shall submit the duly completed VTR and MTR Forms in electronic form in manner prescribed by the Agency.
- (5) In case the credit rating either of the issuer or of the security drops under the permitted level, the insurance undertaking shall be required to notify the Agency thereof in the period of 8 days after the drop below the levels permitted has been done for the issuer or security and to comply accordingly within 90 days from the day this change has occurred.
- (6) In case the insurance undertaking hold a licence by the Agency to transfer the external activities relating to the management of assets covering the technical provisions and mathematical provisions, the insurance undertaking shall be required along with the notifications of Paragraphs 1) and 2) of this Article to also submit the full documentation relating to the on-going activities related to the investments.

Transitional Provisions

Article 19

- (1) Provisions of Article 4, Paragraph 1), Point 2.2 of this Rulebook shall apply until 31.12.2011.
- (2) Provisions of Article 4, Paragraph 1), Point 2.3 of this Rulebook shall apply from 01.01.2011 until 31.12.2012.

Final Provisions

Article 20

This Rulebook shall enter into force on the day of its promulgation in the Official Gazette of the Republic of Macedonia, and shall start to apply for the preparation of notification of the types of investments of assets covering the technical provisions and assets covering the mathematical provisions and the annual report of the insurance undertakings with a position on 30 June 2011.

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Skopje

No 02-298/5

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**President of the Council of Experts of the
Agency**

Dr. Klime Poposki

VTR Form

(group)

(name of the company)

(period)

(current year)

VTR: Investments of Assets Covering the Technical Provisions

	No.	Permitted %	Realised Amount	Realised %
		1	2	3
Types of permitted investments	I			
Cash in treasury and assets in bank accounts	I1	3%		0.0%
Deposits in banks that hold a licence issued by NBRM	I2	60%		0.0%
Securities issued by NBRM	I3	80%		0.0%
Bonds and other debt securities issued or guaranteed by the Republic of Macedonia on the domestic market	I4	80%		0.0%
Bonds and other debt securities issued or guaranteed by the local self-government units of RM	I5	10%		0.0%
Bonds and other debt securities that are traded in a regulated securities market in RM	I6	35%		0.0%
Bonds and other debt securities that are not traded in a regulated securities market in RM, if their issuer is a legal entity incorporated in RM	I7	5%		0.0%
Shares that are traded in a regulated securities market in RM	I8	25%		0.0%
Shares that are not traded in a regulated securities market in RM, if their issuer is a legal entity incorporated in RM	I9	5%		0.0%
Units in trade companies in RM	I10	5%		0.0%
Units and shares in investment funds that are registered in RM	I11	20%		0.0%

Long-term bonds and other long-term securities the issuer of which is an EU or OECD member state	I12	20%		0.0%
Long-term bonds and other long-term securities the issuer of which is a foreign legal entity from an EU or OECD member state	I13			0.0%
Shares the issuer of which is a foreign shareholder company that are traded in a regulated securities market in EU or OECD member states	I14			0.0%
Units of investment funds that are traded in a regulated securities market in an EU or OECD member state	I15			0.0%
Other type of investment pursuant to the ISA rules, under the condition this is not contrary to Paragraph 2 of Article 89 of the Law on Insurance Supervision	I16			0.0%
Investments not stipulated by the Rulebook	II			0.0%

НАПОМЕНА: Investments referred to in Point 6) and Point 8) of this table shall not exceed 5% with the same issuer and the investments referred to in Point 7), Point 9) and Point 10) of this table shall not exceed 1% with the same issuer.

Item	No.	Amount
Total permitted investments of assets	III	0
Total net technical provisions	IV	0
Reserves for transferred premiums	IV1	
Reserves for bonuses and discounts	IV2	
Provisions for claims	IV3	
Other technical provisions	IV4	
Equalisation provisions	IV5	
Difference (IV-III)	V	0

VMR Form

(group)

(name of the company)

(period)

(current year)

VMR: Investments of Assets Covering the Mathematical Provisions

MKD

	No.	Permitted %	Realised Amount	Realised %
		1	2	3
Types of permitted investments	I			
Cash in treasury and assets in bank accounts	I1	3%		0.0%
Deposits in banks that hold a licence issued by NBRM	I2	60%		0.0%
Securities issued by NBRM	I3	80%		0.0%
Bonds and other debt securities issued or guaranteed by the Republic of Macedonia on the domestic market	I4	80%		0.0%
Bonds and other debt securities issued or guaranteed by the local self-government units of RM	I5	10%		0.0%
Bonds and other debt securities that are traded in a regulated securities market in RM	I6	35%		0.0%
Bonds and other debt securities that are not traded in a regulated securities market in RM in RM, if their issuer is a legal entity incorporated in RM	I7	5%		0.0%
Shares that are traded in a regulated securities market in RM	I8	25%		0.0%
Shares that are not traded in a regulated securities market in RM, if their issuer is a legal entity incorporated in RM	I9	5%		0.0%
Units in trade companies in RM	I10	5%		0.0%

Units and shares in investment funds that are registered in RM	I11	20%		0.0%
Long-term bonds and other long-term securities the issuer of which is an EU or OECD member country	I12	20%		0.0%
Long-term bonds and other long-term securities the issuer of which is a foreign legal entity from an EU or OECD member state	I13			0.0%
Shares the issuer of which is a foreign shareholder company that are traded in a regulated securities market in an EU or OECD member state	I14			0.0%
Units of investment funds that are traded in a regulated securities market in an EU or OECD member state	I15			0.0%
Advance payments	I16			0.0%
Investments not stipulated by the Rulebook	II			0.0%

NOTICE: Investments referred to in Point 6) and Point 8) of this table shall not exceed 5% with the same issuer and the investments referred to in Point 7), Point 9) and Point 10) of this table shall not exceed 1% with the same issuer.

Item	No.	Amount
Total permitted investments of assets	III	0
Total mathematical provisions	IV	0
Difference (IV-III)	V	0