Pursuant to Article 158-j, Point 1, Article 74, Points 2 and 9 and Article 104, Paragraph (1), Point 1) of the Law on Insurance Supervision (Official Gazette of the Republic of Macedonia" Nos. 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 of the Republic of Macedonia, at its session held on 29.12.2010/22.03.2016, adopted the following

RULEBOOK[1]

on the Types and Descriptions of Items To Be Considered when Calculating the Capital of the Insurance and/or Reinsurance Undertaking

GENERAL PROVISIONS

Article 1

This Rulebook prescribes more closely the method of calculation of the capital of the insurance and/or reinsurance undertakings (hereinafter: insurance undertakings), the manner and the deadlines for reporting pursuant to the Law on Insurance Supervision (hereinafter: the Law):

1. Description and the contents of individual items that are to be considered when calculating the core capital of the insurance undertakings;
2. Description and the contents of individual items that are to be considered when calculating the supplementary capital of the insurance undertakings;
3. The forms that are to be used by the insurance undertakings for reporting to the Insurance Supervision Agency of the Republic of Macedonia (hereinafter: the Agency) on the value of the individual items comprising the capital.

Calculation of the Capital

Article 2

The capital of insurance undertakings shall be calculated as the sum of the core and supplementary capital reduced by the deductible items in a manner stipulated by the provisions of the Law and of this Rulebook.

Core Capital

[1] Unofficial consolidated text of the Rulebook on the Types and Descriptions of Items to be Considered when Calculating the Capital of the Insurance and/or Reinsurance Undertakings (Official Gazette of the Republic of Macedonia No. 5/2011) and the Rulebook amending the Rulebook on the Types and Descriptions of Items to be Considered when Calculating the Capital of the Insurance and/or Reinsurance Undertakings (Official Gazette of the Republic of Macedonia No. 64/2011).

Article 3

(1) The following items shall be considered when calculating the core capital of the insurance undertaking:

1. The paid-in share capital, except for the paid-in share capital coming from cumulative preferred shares;
2. Premiums on issued ordinary shares;
3. Reserves of the undertaking (legal and statutory) which do not arise from insurance contracts;
4. Retained earnings brought forward; and
5. Retained earnings of the current year (after deduction of taxes and other contributions, as well as the dividend to be paid), if the amount of the earnings has been verified by a certified auditor.

(2) The following items shall be considered as deductible when calculating the core capital of the insurance undertaking:

1. Treasury shares owned by the insurance undertaking;
2. Long-term intangible assets;
3. Loss not covered brought forward and current year's loss

Supplementary Capital

Article 4

(1) The following items shall be considered when calculating the supplementary capital of the insurance undertaking:

1. Paid-in share capital from cumulative preferred shares;
2. Premiums on issued cumulative preferred shares;
3. Subordinated debt instruments; and
4. Perpetual securities.

(2) The financial instruments referred to in Paragraph 1, Points 3 and 4 are more closely prescribed in Articles 6 and 7 of this Rulebook, respectively.

(3) When calculation the capital of the insurance undertaking, the supplementary capital referred to in Paragraph 1 of this Article shall be considered only within amounts not exceeding 50% of the core capital referred to in Article 3 of this Rulebook.

Deductible Items

Article 5

When calculating the capital of the insurance undertaking, the amount of the core and the supplementary capital shall be reduced by the following items:

1. Investments by the insurance undertaking in shares or subordinated debt instruments issued by another insurance undertaking or another financial institution where the insurance undertaking holds units greater than 10%, as well as other investments in such entities that are considered for the calculation of the capital of those entities;
2. Investments by the insurance undertaking in shares or subordinated debt instruments, issued by insurance undertakings or financial institutions other than those referred to in Point 1 of this Paragraph, which amount to more than 10% of the insurance undertaking's capital as calculated before deduction of the items referred to in Point 1 and this item.

Subordinated Debt Instruments

Article 6

(1) Subordinated debt instruments that are included in the supplementary capital are financial instruments of the insurance undertaking which, regardless of their form, shall have to meet the following requirements:

1. they should be in the form of cash i.e. to have occurred from cash inflows in the insurance undertaking, whereby the portion paid in shall be included in the supplementary capital;
2. they should not be covered by other forms of collateral by the insurance undertaking or by a person related to the insurance undertaking (the insurance undertaking or the person related to the insurance undertaking should not have them covered with a guarantee, mortgage or other form of collateral);
3. they should contain a subordination clause, which is a clause stipulating that in case of bankruptcy or liquidation of the insurance undertaking, these liabilities shall be paid for before the settlement of liabilities to shareholders of the insurance undertaking and to holders of perpetual securities, but after the settlement of liabilities to other creditors.
4. they should have no maturity date or a maturity date longer than five years and one day from the date when the cash inflow occurred in the insurance undertaking arising from these instruments. In case the subordinated instrument has no maturity date, the insurance undertaking shall be able to carry out the payment only if it has notified the Agency thereof at least five years before the planned payment. In case the subordinated instrument has a maturity date, the subordinated instrument contract shall not be able to contain an early payment clause, except in cases of bankruptcy or liquidation of the insurance undertaking; and
5. they should not be used as collaterals for receivables and potential liabilities of the insurance undertaking.

(2) By way of derogation from Paragraph 1, Point 4 of this Article, the insurance undertaking shall be able to vary out (an early) payment of the subordinated debt instrument only if it receives a prior consent by the Agency. The Agency shall grant its consents if one of the following requirements is met:

1. The insurance undertaking has secured sufficient amount of core or supplementary capital of the same or better quality that can fully substitute the amount of the paid off subordinated debt instrument;
2. The insurance undertaking has submitted evidence that even without the paid off subordinated debt instrument it has an adequate level of equity available regarding the nature, type and volume of activities it carries out and the risks it is exposed to resulting from such activities.

(3) For the purposes of obtaining the consent of Paragraph 2 of this Article, the insurance undertaking shall be required to submit to the Agency the following documentation:

1. In cases of Paragraph 2, Point 1 of this Article, projection of the capital and of the necessary level of solvency margin for the coming 5 years, including the core or supplementary capital that will substitute the paid-off subordinated debt instrument;
2. In cases of Paragraph 2, Point 2 of this Article, projection of the capital, of the necessary level of solvency margin and of the nature, type and volume of activities that the undertaking will be carrying out over the next 5 years.

(4) When calculating the supplementary capital of the undertaking within the last five years until the maturity or payment date, the amount of the subordinated instrument shall be discounted by 20% each year. The last year before the maturity or payment date, the subordinated instrument shall not be included in the calculation of the capital.

Perpetual Securities

Article 7

(1) Securities and other financial instruments that have an indefinite maturity and which are included in the supplementary capital of the insurance undertaking shall meet the following requirements:

1. They should be in the form of cash i.e. to have occurred from cash inflows in the insurance undertaking, whereby the issued instruments should be fully paid in in order to be included in the supplementary capital;
2. They should contain a clause according to which the holder of these instruments in case of bankruptcy or liquidation of the insurance undertaking shall have the right to collect its receivable before the settlement of liabilities to shareholders of the insurance undertaking, but after the settlement of liabilities to other creditors;
3. They should not be able to be paid off by the issuer upon request from the holder without the prior consent by the Agency;
4. The insurance undertaking shall have to have the opportunity to defer the payment of the calculated interest on these instruments; and
5. The documentation relating to the issuance of these instruments shall clearly

determine the capacity for coverage of the loss that would arise from matured liabilities and unpaid interest thereby and at the same time maintaining the continuity in the insurance undertaking's operations.

(2) The Agency shall not grant its consent referred to in Paragraph 1, Point 3 for a payment to be made before the expiry of five years and one day from the day of subscription.

Calculation and Reporting

Article 8

(1) The insurance undertakings shall be required to calculate the capital by completing the prescribed form KS which is herewith attached as Annex to this Rulebook and constitutes and integral part thereof, in a way that is prescribed by the Guidelines for Completion of the KS Form – Calculation of the Capital, which constitutes an integral part of this Rulebook.

(2) The insurance undertakings shall calculate the capital by completing the prescribed form as per the position on the final day of the following periods:

from 1 January to 31 March of the current year (first quarter);

from 1 January to 30 June of the current year (second quarter);

from 1 January to 30 September of the current year (third quarter);

from 1 January to 31 December of the current year (fourth quarter),

and shall submit it to the Agency within 30 days from the completion of the quarter that the Report is submitted for.

(3) By way of derogation of the previous Paragraph, the insurance undertakings shall submit the fourth quarter form along with the annual financial statements.

(4) By way of derogation from Paragraphs (1) and (2) of this Article, in cases stipulated by the provisions of Article 160, Paragraph (2) of the Law, the insurance undertakings shall be required to submit the prescribed form within deadlines set by the Agency.

(5) The insurance undertakings shall be required to report to the Agency by submitting the form prescribed with this Rulebook in electronic form on manner prescribed by the Agency.

(6) Enclosed with the Report on the calculated supplementary capital referred to in Article 4, Paragraph (1), Points 3) and 4) of this Rulebook, the insurance undertaking shall submit a decision by the managing body of the insurance undertaking for the issuance of the subordinated debt instrument and securities with indefinite maturity. Attached thereto, supporting documents shall be submitted, such as the decision (resolution) by the Central Securities Depository to make and entry of the instrument in the securities register, a prospectus of the issued instrument, along with proof of payment, and a list of insurance undertaking’s creditors, or the holders of the instrument.

Transitional and Final Provisions

Article 9

(1) This Rulebook shall enter into force on the day of its promulgation in the Official Gazette of the Republic of Macedonia.

(2) The insurance undertakings shall be required to enforce this Rulebook for the preparation of the quarterly reports as for the first quarter of 2011.

No. 0101-2861/3	**Council of Experts of the Agency,**
On 29.12.2010	**President**
Skopje	**Dr. Klime Poposki**

And

02-298/4

On 22.3.2016

Annex

to the Rulebook on the Types and Descriptions of Items
To Be Considered when Calculating the Capital
of the Insurance and/or Reinsurance Undertaking

(name of the company)
(period)
(current year)

KS: Calculation of Capital

	Code	Amount
		100
Core capital, Article 69 (I1+I2+I3+I4+I5-I6-I7-I8)	**I**	**0**
The paid-in share capital, except for the paid-in share capital coming from cumulative preferred shares	I1	
Premiums on issued ordinary shares	I2	
Legal and statutory reserves	I3	
Retained earnings brought forward	I4	
Retained earnings of the current year	I5	
Treasury shares owned by the insurance undertaking	I6	
Long-term intangible assets	I7	
Loss not covered brought forward and current year’s loss	I8	
Supplementary capital, Article 71 (II1+II2+II3+II4), if not greater than 50% of the core capital	**II**	**0**
Paid-in share capital from cumulative preferred shares	II1	
Premiums on issued cumulative preferred shares	II2	
Subordinated debt instruments	II3	
Perpetual securities	II4	
Total core and supplementary capital I+II	**II**	**0**
Deductible items, Article 72 (IV1+IV2)	**IV**	**0**
Investments in shares in legal entities as referred to in Article 72 of the Law on Insurance Supervision	IV1	
Investments in subordinated debt instruments and other investments in legal entities as referred to in Article 72 of the Law on Insurance Supervision	IV2	
CAPITAL I + II - IV	**V**	**0**
Necessary level of solvency margin (for non-life insurance undertakings)	VI1	

Necessary level of solvency margin (for life insurance undertakings)	VI2	
Capital	VI3	0
Guarantee fund*	VI4	
Capital surplus/deficit with regards to the guarantee fund (VI5 = VI3 - VI4)	VI5	0
Capital surplus/deficit (for non-life insurance) with regards to the necessary level of solvency margin (for non-life insurance undertakings) (VI6 = VI3 - VI1)	VI6	
Capital surplus/deficit (for life insurance) with regards to the necessary level of solvency margin (for life insurance undertakings) (VI7 = VI3 - VI2)	VI7	

* The Guarantee Fund is defined in Article 77 of the Law and is expressed as 1/3 of the necessary level of solvency margin, but should not be less than the corresponding amount referred to in Article 77, Paragraph (3) of the Law.

GUIDELINES

for the Completion of the KS Form – Calculation of Capital

I. Core Capital

Calculate the core capital of the insurance undertaking as the sum of the amount recognised in the positions I.1, I.2, I.3, I.4 and I.5, reduced by the amount of the positions I.6, I.7 and I.8.

I.1 Paid-in share capital, except for the paid-in share capital coming from cumulative preferred shares

Enter the amount of the paid-in capital from the ordinary shares corresponding to the position of the paid-in shareholder capital on the last day of the quarter as registered by the Central Securities Depository, without including the subscribed capital from preferred shares.

I.2 Premiums on issued ordinary shares

Enter the amount resulting from the sale of shares at a price higher than their face value (capital reserves). It refers to the difference between the face and the sale value of the shares.

I.3 Reserves of the undertaking (legal and statutory) which do not arise from insurance contracts

Enter the amount of reserves that are not arising from the liabilities from insurance contracts, including legal reserves, statutory reserves and other reserves.

This also includes the calculated revaluation reserves.

I.4 Retained earnings brought forward

Enter the amount of the retained earnings brought forward from the previous accounting periods.

I.5 Retained earnings of the current year

Enter the amount of the retained earnings of the current year, after deduction of taxes and other contributions, as well as the dividend to be paid, if the amount of the earnings has been verified by a certified auditor.

I.6 Purchased treasury shares

Enter the amount of treasury shares owned by the insurance undertaking. This refers to treasury shares acquired pursuant to the Law on Trade Companies.

Purchased treasury shares are a considered deductible item when calculation the core capital.

I.7 Intangible assets

Enter the amount of assets in an intangible form that are used for operations, which are hard to predict their useful life, their transferability and to measure their future economic benefit.

Intangible forms of assets include: costs for development, patents, licences, software, concessions, trademarks, other rights and goodwill.

Intangible assets are considered deductible item when calculating the core capital.

I.8 Loss not covered brought forward and current year's loss

Enter the amount of the loss not covered which is brought forward and the loss of the current accounting period. It is considered deductible item when calculating the core capital.

II. Supplementary capital

Calculate the supplementary capital of the insurance undertaking as the sum of the amount recognised in the positions II.1, II.2, II.3 and II.4. Supplementary capital may not be greater than 50% of the core capital of the insurance undertaking.

II.1 Paid-in share capital from issued cumulative preferred shares

Enter the share capital that has been paid-in on the basis of issued cumulative preferred shares at their face value. If the sale price of the issued shares is higher than their face value at the time of issuance, increase the amount by the difference between the face and the sale value of the shares.

II.2 Premiums on issued cumulative preferred shares

Enter the amount resulting from the sale of cumulative preferred shares at a price higher than their face value (capital reserves). It refers to the difference between the face and the sale value of the shares.

II.3 Subordinated debt instruments

Enter the amount of the paid-in capital from the issued subordinated debt instruments.

II.4 Perpetual securities

Enter the amount of the paid-in capital arising from the issued securities that have indefinite maturity.

III. Sum of the core and the supplementary capital

Enter the sum of I. Core and II. Supplementary capital.

IV. Deductible items

Enter in this positions the sum of the amount recognised in positions IV.1. and IV.2.

IV.1 Investments in shares in legal entities referred to in Article 72 of the Law

Enter the amount of investments in shares in legal entities referred to in Article 72 of the Law.

IV.2 Investments in subordinated debt instruments and other investments in legal entities referred to in Article 72 of the Law

Enter the amount of investments in subordinated debt instruments and other investments in legal entities referred to in Article 72 of the Law.

V. Capital

Enter the amount of the calculated capital which is the difference between the amount recognised in positions III. Total Core and Supplementary capital and the amount recognise in positions IV. Deductible items.