306/2016 Coll.

DECREE

of 8 September 2016,

implementing certain provisions of the Insurance Act

The Czech National Bank stipulates, under Article 136 (1) of Act No 277/2009, on Insurance, as amended by Act No 304/2016, for the implementation of Article 7b (7), Article 54b (1) and (4), Article 78 (2), Article 81 (5), Article 82 (2), Article 89c (6), Article 100 (3) and Article 123 (3) and under Article 136 (2) for the implementation of Article 76 (2) of this Act:

PART ONE

INTRODUCTORY PROVISIONS

Article 1

Subject of regulation

This Decree implements the relevant legislation of the European Union,[1)] and also builds on the directly applicable legislation of the European Union[2)] and governs

a) the method of calculation of the Solvency Capital Requirement,

b) the conditions for the use of the full or partial internal model for the calculation of the Solvency Capital Requirement,

c) the calculation of group solvency,

d) the conditions for use and method of calculation of the matching adjustment to the risk-free yield curve,

e) the scope, manner and deadlines for public disclosure,

f) evaluation of the sensitivity of technical provisions and eligible own funds,

g) the requisites and structure of the report on the verification of the system of governance and the report on the verification of disclosed information in the report on solvency and financial condition,

h) the method of payment and determination of the remuneration and reimbursement of cash expenses for a conservator of a domestic insurance undertaking or domestic reinsurance undertaking, their representative, and a liquidator of a domestic insurance undertaking or domestic reinsurance undertaking, branch of an insurance undertaking from a third country or a branch of a reinsurance undertaking from a third country.

Article 2

Definition of terms

For the purposes of this Decree, the following definitions shall apply:

a) diversification effects mean the reduction of the exposure of insurance and reinsurance undertakings, and insurance or reinsurance groups, to risks associated with the diversification of their activity, resulting from the fact that the negative impact from one risk can be offset by a more favorable impact from another risk, where the indicated risks are not fully correlated,

b) liquidation assets mean the asset balance remaining after the performance of all acts necessary to perform liquidation before the settlement of the remuneration of the liquidator,

c) use test means the evaluation of the use of an internal model in the system of governance, especially the integration of the internal model into the risk management system and the relevant decision-making processes,

d) calibration standards mean the requirements for calibration determined in Article 74 (2) and (3) of the Insurance Act, and calibration standards for the purposes of the internal model under Article 12.

PART TWO

SOLVENCY OF INSURANCE AND REINSURANCE UNDERTAKINGS

TITLE I

CALCULATION OF THE SOLVENCY CAPITAL REQUIREMENT USING THE STANDARD FORMULA

Article 3

Basic Solvency Capital Requirement

(1) The Basic Solvency Capital Requirement includes the capital requirements for at least the following risk modules:

a) non-life underwriting risk,

b) life underwriting risk,

c) health underwriting risk

d) market risk,

e) counterparty default risk, and

f) other risk modules stipulated by directly applicable EU legislation governing the calculation of the Solvency Capital Requirement.

(2) The risk modules under paragraph 1 a) to e) comprise at least the risk sub-modules specified in Annex No 1 to this Decree, and also the risk sub-modules under directly applicable EU legislation governing the calculation of the Solvency Capital Requirement.

(3) For the purposes of calculating the Basic Solvency Capital Requirement, capital requirements for the risk modules referred to in paragraph 1 a) to e) are aggregated using the correlation coefficients specified in Annex No 2 to this Decree.

(4) For the purposes of paragraph 1 a) to c), insurance and reinsurance operations are placed in the underwriting risk module that best reflects the technical nature of the underlying risks of the operation in question.

Article 4

The capital requirement for operational risk

The capital requirement for operational risk shall reflect operational risks to the extent that they are not reflected in the risk modules under Article 3.

Article 5

Adjustment for the loss-absorbing capacity of technical provisions and deferred taxes

(1) The adjustment for the loss-absorbing capacity of technical provisions and deferred taxes[3)] shall reflect the potential partial compensation of unexpected losses through a simultaneous decrease in technical provisions or deferred taxes or a combination of both.

(2) The adjustment for the loss-absorbingcapacity of technical provisions and deferred taxes shall reflect the risk mitigating effect provided by future discretionary benefits of insurance contracts to the extent that a domestic insurance undertaking or domestic reinsurance undertaking can establish that a reduction in such benefits may be used to cover any unexpected losses.

Article 6

Simplified calculation

A domestic insurance or domestic reinsurance undertaking may, for the risk modules or sub-modules under Article 3 (2), use a simplified calculation stipulated by directly applicable EU legislation governing the calculation of the Solvency Capital Requirement, if it is proportionate to the nature, scale and complexity of the risks associated with the activity of such domestic insurance or domestic reinsurance undertaking. A domestic insurance or domestic reinsurance undertaking shall perform the simplified calculation under Article 74 (2) and (3) of the Insurance Act.

Article 7

Implementing measures for the Solvency Capital Requirement

The calculation of the Solvency Capital Requirement, the capital requirements for each risk module and sub-module under Article 3, the capital requirement for operational risk under Article 4, adjustments under Article 5, and the application of the conditions and rules for the use of the simplified calculation under Article 6, shall be governed by the directly applicable EU legislation governing the Solvency Capital Requirement.

Article 8

The Solvency Capital Requirement of an insurance or reinsurance undertaking from a third country

The provisions of Article 3 to 7 shall apply *mutatis mutandis* to an insurance or reinsurance undertaking from a third country in relation to liabilities from insurance or reinsurance activity carried on in the Czech Republic.

TITLE II

CALCULATION OF THE SOLVENCY CAPITAL REQUIREMENT USING A FULL OR PARTIAL INTERNAL MODEL

Article 9

Use test

A domestic insurance or domestic reinsurance undertaking shall demonstrate by a use test that its internal model is widely and consistently used in its system of governance, and this at least in the scope of Article 78 (4) a) and b) of the Insurance Act.

Statistical quality standards

Article 10

(1) A domestic insurance or domestic reinsurance undertaking shall ensure that the internal model, including the calculation of the probability distribution forecast underlying the internal model, comply with the requirements stipulated in paragraphs 2 to 6 and Article 11.

(2) The methods used to calculate the probability distribution forecast shall be based upon adequate actuarial and statistical techniques and shall be consistent with the methods used to calculate technical provisions under applicable EU legislation. The methods used to calculate the probability distribution forecast shall be based upon current and credible information and realistic assumptions. A domestic insurance or domestic reinsurance undertaking shall justify to the Czech National Bank the assumptions underlying its internal model.

(3) The data used for the internal model shall be accurate, complete, appropriate and credible. A domestic insurance or domestic reinsurance undertaking shall update the data sets used in the calculation of the probability distribution forecast at least annually.

(4) The internal model shall cover the risks specified in Article 74 (4) of the Insurance Act and all other material risks to which the domestic insurance or domestic reinsurance undertaking may be exposed.

(5) In its internal model, a domestic insurance or domestic reinsurance undertaking shall accurately assess the partial risks associated with financial guarantees and all contractual options, if they are material. It shall also assess the risks associated with options of policyholders, insured persons and beneficiaries and the contractual options for the domestic insurance or domestic reinsurance undertaking, including the impacts that future changes in financial and non-financial conditions could have on the exercise of those options.

(6) A domestic insurance or domestic reinsurance undertaking shall take into account in its internal model all payments to policyholders, insured persons and beneficiaries that it expects will be made regardless of whether those payments are contractually guaranteed or not.

Article 11

(1) A domestic insurance or domestic reinsurance undertaking may, in its internal model, take account of dependencies within individual risk categories as well as across these categories in terms of diversification effects, and shall also justify to the Czech National Bank that the system used for the measurement of diversification effects is appropriate.

(2) A domestic insurance or domestic reinsurance undertaking may, in its internal model, fully take into account the effects of risk-mitigation techniques if credit risk and other risks arising from the use of such techniques are properly reflected in the internal model.

(3) A domestic insurance or domestic reinsurance undertaking may, in its internal model, take account of future management actions if their implementation can be expected, with regard to the time necessary for their implementation.

Article 12

Calibration standards

(1) A domestic insurance or domestic reinsurance undertaking may, for internal modelling purposes, use a different time period or risk measure than those specified in Article 74 (2) and (3) of the Insurance Act if the outputs of the internal model can be used to calculate the Solvency Capital Requirement in a manner that provides policyholders, insured persons and beneficiaries with the level of protection stipulated in Article 74 of the Insurance Act.

(2) A domestic insurance or domestic reinsurance undertaking shall derive the Solvency Capital Requirement directly from the probability distribution forecast generated by the internal model using the Value at Risk method under Article 74 (3) of the Insurance Act.

(3) Where a domestic insurance or domestic reinsurance undertaking cannot derive the Solvency Capital Requirement directly from the probability distribution forecast generated by the internal model, it may use approximations when calculating the Solvency Capital Requirement if it is able to demonstrate to the Czech National Bank that policyholders are provided with the level of protection stipulated in Article 74 of the Insurance Act.

Article 13

Validation standards of the internal model

(1) A domestic insurance or domestic reinsurance undertaking shall periodically verify the validity of the internal model under Article 78 of the Insurance Act and directly applicable EU legislation governing the calculation of the Solvency Capital Requirement. The internal model validation shall include at least a monitoring the performance of the internal model, a review of the ongoing appropriateness of its specifications and a comparison of its results with the observed experience.

(2) The model validation process shall include an effective statistical process for validating the internal model through which the domestic insurance or domestic reinsurance undertaking demonstrates to the Czech National Bank that the resulting capital requirements set through the internal model are appropriate under Article 74 (2) and 3 of the Insurance Act.

(3) The validation under paragraph 2 by a domestic insurance or domestic reinsurance undertaking using statistical methods shall test the appropriateness of the probability distribution forecast in terms of

a) loss experience and

b) all other related material new data and information.

(4) The model validation process shall include an analysis of its stability, especially the testing of the sensitivity of the results of the internal model to changes in key assumptions. It shall also include an assessment of the accuracy, completeness, appropriateness and reliability of the data used in the internal model.

Article 14

Documentation standards of the internal model

(1) A domestic insurance or domestic reinsurance undertaking shall thoroughly document the design and operational details of its internal model.

(2) The documentation shall demonstrate compliance with the requirements set out in Article 73 (3) and Article 78 (3) of the Insurance Act and in Articles 9 to 13.

(3) The documentation shall include a description of the theory, assumptions and mathematical and empirical basis underlying the internal model.

(4) The documentation shall include the circumstances under which the internal model does not work properly.

(5) A domestic insurance or domestic reinsurance undertaking shall thoroughly document all major changes to its internal model.

Article 15

Implementing measures for the internal model

The method of fulfilling the requirements set out in Articles 9 to 14, the requirements for external models and data, attribution of profits and losses, and the method of integrating a partial internal model into the standard formula for the calculation of the Solvency Capital Requirement shall be governed by the directly applicable EU legislation governing the calculation of the Solvency Capital Requirement using an internal model or partial internal model.

Article 16

Internal models for an insurance or reinsurance undertaking from a third country

The provisions of Articles 9 to 15 shall apply *mutatis mutandis* to an insurance or reinsurance undertaking from a third country in relation to liabilities from insurance or reinsurance activity carried on in the Czech Republic.

PART THREE

RULES FOR THE CALCULATION OF GROUP SOLVENCY

Article 17

General provisions

(1) When calculating group solvency, the person with a holding under Article 89c (1) of the Insurance Act (the “responsible person”) shall take into account the proportional share held in related persons. The proportional share is determined as

a) the percentage used for the establishment of the consolidated accounts under directly applicable EU legislation governing the calculation of group solvency if the responsible person uses, for calculating the group solvency, the accounting consolidation method, or

b) the sum of the direct and indirect share of the responsible person in the registered capital of a related person if the responsible person uses, for calculating the group solvency, the deduction and aggregation method.

(2) If any of the controlled insurance or reinsurance undertakings have eligible own funds lower than the Solvency Capital Requirement, the total solvency deficit of such insurance or reinsurance undertaking is used when calculating group solvency, not just the proportional share.

(3) If the responsibility or liability of the responsible person for the liabilities of a controlled insurance or reinsurance undertaking are precisely and unambiguously limited by the amount of its share in the subscribed capital of the controlled person, after approval by the Czech National Bank where it is the group supervisor, and after consultation with other relevant supervisors in a college, it is possible to take into account for the group solvency calculation the discrepancy between the amount of eligible own funds and the Solvency Capital Requirement of this controlled insurance or reinsurance undertaking in the proportional share.

Article 18

Prohibition of multiple use of own funds

(1) When calculating the group solvency there is a prohibition on the multiple use of items of own funds eligible to cover Solvency Capital Requirements by different persons in the same group.

(2) For the purposes of paragraph 1, the group solvency calculation shall exclude the value of assets

a) of an insurance or reinsurance undertaking with a holding used to finance items of own funds eligible to cover the Solvency Capital Requirement of its related insurance or reinsurance undertaking, and

b) of a related insurance or reinsurance undertaking used to finance items of own funds eligible to cover the Solvency Capital Requirement of an insurance or reinsurance undertaking that has a holding in it, or another insurance or reinsurance undertaking related to such insurance undertaking or reinsurance undertaking with the holding.

(3) To cover the group Solvency Capital Requirement, it is possible to use

a) the surplus funds under Article 65 of the Insurance Act of the insurance undertaking carrying on business according to the classes of life insurance indicated in part A of Annex No 1 to the Insurance Act or reinsurance undertaking carrying on business in life reinsurance related to the responsible person and

b) subscribed but unpaid registered capital of the insurance or reinsurance undertaking related to the responsible person,

and this to the extent in which these items are eligible to cover the Solvency Capital Requirement of the given related insurance or reinsurance undertaking. This is without prejudice to the provisions of paragraphs 1, 2 and 4.

(4) To cover the group Solvency Capital Requirement it is not possible to use

a) subscribed but unpaid registered capital which represents a liability for the insurance undertaking or reinsurance undertaking with the holding,

b) subscribed but unpaid registered capital of the insurance undertaking or reinsurance undertaking with the holding, which represents a liability of the related insurance or reinsurance undertaking, or

c) subscribed but unpaid registered capital of a related insurance or reinsurance undertaking, which represents a liability of another insurance or reinsurance undertaking related to that insurance or reinsurance undertaking.

(5) If the competent supervisory authority decides that any of the other capital items of the related insurance or reinsurance undertaking is not eligible to cover the Solvency Capital Requirement of the insurance or reinsurance undertaking with a holding in this related insurance or reinsurance undertaking, the value of these items may be included in the eligible own funds to cover the group Solvency Capital Requirement only to the amount to which these items are eligible to cover the Solvency Capital Requirement of this related insurance or reinsurance undertaking.

(6) The sum of the eligible own funds referred to in paragraphs 3 and 5 shall not exceed the amount of the Solvency Capital Requirement of the related insurance or reinsurance undertaking.

(7) The items of eligible own funds to cover the Solvency Capital Requirement of the related insurance or reinsurance undertaking subject to prior approval by the supervisory authority of the domestic Member State may be used to cover the group Solvency Capital Requirement only if they were approved by this supervisory authority.

Article 19

Exclusion of reciprocal financing

When calculating group solvency, it is not possible to use any item of eligible own funds arising out of reciprocal financing between entitles belonging to the same group. Reciprocal financing is a situation where an insurance or reinsurance undertaking or its related person directly or indirectly has a holding in a person that directly or indirectly holds items of eligible own funds to cover the Solvency Capital Requirement of that insurance or reinsurance undertaking or that provides loans to this person.

Article 20

Accounting consolidation method

(1) The calculation of group solvency using the accounting consolidation method is based on the consolidated accounts. Group solvency is determined as the difference between

a) the eligible own funds to cover the group Solvency Capital Requirement determined from the consolidated accounts and

b) the group Solvency Capital Requirement calculated from the consolidated accounts.

(2) The group Solvency Capital Requirement calculated from the consolidated accounts shall not be less than the sum

a) of the Minimum Capital Requirement of the responsible person and

b) the proportional share of the amount of the Minimum Capital Requirement of the related insurance or reinsurance undertakings included in the calculation.

(3) At group level, basic own funds shall be available at an amount under Article 71 (4) of the Insurance Act, at least equal to the sum under paragraph 2. The provisions of Article 89c (4) and (5) and Article 89d to 89g of the Insurance Act and Articles 17 to 19 shall apply *mutatis mutandis* for the purpose of determining the eligible own funds under the first sentence.

Article 21

Deduction and aggregation method

(1) Group solvency calculated using the deduction and aggregation method is determined as the difference between

a) the sum of the eligible own funds under paragraph 2 and

b) the sum of the accounting value of the holding and the items of own funds of the responsible person in the related insurance undertaking, reinsurance undertaking or insurance holding person at the date of preparation of the financial statements and the aggregate Solvency Capital Requirement under paragraph 3.

(2) The sum of eligible own funds equals the sum

a) of the eligible own funds to cover the Solvency Capital Requirement of the responsible person and

b) the proportional share of the responsible person in the own funds of the related insurance or reinsurance undertaking eligible to cover the Solvency Capital Requirement of this related insurance or reinsurance undertaking.

(3) The aggregate Solvency Capital Requirement is equal to the sum

a) of the Solvency Capital Requirement of the responsible person and

b) of the proportional share of the Solvency Capital Requirement of the related insurance or reinsurance undertaking.

(4) Where the holding in related insurance or reinsurance undertakings is fully or partially in an indirect holding, the items under paragraph 1 b) shall include the value of this indirect ownership taking account of the relevant successive holding, and the items under paragraph 2 b) and paragraph 3 b) shall include the corresponding proportional shares of the eligible own funds of the related insurance or reinsurance undertakings and the shares of the Solvency Capital Requirement of the related insurance or reinsurance undertakings.

Article 22

Implementing measures for group solvency

The principles and methods for calculating group solvency, the group Solvency Capital Requirement and eligible own funds for its coverage under Articles 17 to 21 are governed by directly applicable EU legislation governing the calculation of group solvency.

PART FOUR

SCOPE, METHOD AND DEADLINES FOR PUBLIC DISCLOSURE

Article 23

The information that a domestic insurance undertaking or domestic reinsurance undertaking discloses about itself, about shareholders or members and about the group of which it is part, their structure and the order in which they are presented, is determined by Annex No 3 hereto.

Article 24

(1) A domestic insurance or domestic reinsurance undertaking shall disclose the required information on its website always at least in the Czech language as an unlocked data file suitable for download in a suitable and commonly used format, namely *.pdf, *.doc, *.docx or *.odt. Figures contained herein are also disclosed in an additional data file in a suitable and commonly used format, namely *.xls, *.xlsx, or *.ods. Figures under the second sentence mean the content of financial statements, in particular the balance sheet and profit and loss statement under legislation on the accounting of insurance undertakings.

(2) Requirements for the method of publication of data under paragraph 1 up to 31 December of the calendar year shall also be considered fulfilled if the domestic insurance or domestic reinsurance undertaking directly discloses them as part of the performance of its obligations as an accounting unit or issuer of listed securities, in the annual report or in the consolidated annual report, and this within the deadline under Article 25 (1).

(3) A domestic insurance or domestic reinsurance undertaking shall also publish on its website the annual report and the consolidated annual report if the domestic insurance or domestic reinsurance undertaking has an obligation to prepare it, and this at least for the last 3 previous accounting periods.

(4) A domestic insurance or domestic reinsurance undertaking shall publish the information under paragraph 1 on its website so that it is accessible on a single page together with information published under directly applicable EU legislation governing the disclosure of information under the joint title “Obligatory public disclosures”.

Article 25

(1) A domestic insurance or domestic reinsurance undertaking shall disclose information under Article 23 according to the state as of

a) 31 March, 30 June and 30 September within 6 weeks of the end of the relevant calendar quarter,

b) 31 December within 4 months of the end of the calendar year.

(2) A domestic insurance or domestic reinsurance undertaking shall disclose quarterly data together with data for the previous 3 quarters.

(3) Simultaneously with the disclosure of data under paragraphs 1 and 2, a domestic insurance undertaking or domestic reinsurance undertaking shall indicate the date when the data were disclosed, as well as the date of addition or correction of already disclosed data.

Article 26

(1) The provisions of Article 23 to 25 shall apply *mutatis mutandis* to an insurance or reinsurance undertaking from a third country in relation to insurance or reinsurance activity carried on in the Czech Republic.

(2) In relation to the overall extent of the activity of an insurance or a reinsurance undertaking from a third country, the scope of the information disclosed is limited to item 1 a), item 2 and item 4 a) to e) of Annex No 3 hereto, and to the annual report, if the legislation of the third country stipulates such an obligation, while these data shall be disclosed under Article 25 (1) b).

(3) An insurance or reinsurance undertaking from a third country shall disclose information similarly under directly applicable EU legislation that governs the report on solvency and financial condition, and this in relation to the insurance and reinsurance activity carried on in the Czech Republic.

PART FIVE

DISCLOSURE OF INFORMATION TO THE CZECH NATIONAL BANK BY AN INSURANCE UNDERTAKING FROM A THIRD COUNTRY OR REINSURANCE UNDERTAKING FROM A THIRD COUNTRY

Article 27

An insurance company from a third country or a reinsurance undertaking from a third country shall submit to the Czech National Bank information *mutatis mutandis* under directly applicable EU legislation that governs the submission of the regular supervisory report and the own risk and solvency supervisory report, and this in relation to the insurance or reinsurance activity carried on in the Czech Republic.

PART SIX

MATCHING ADJUSTMENT OF THE RISK-FREE YIELD CURVE

Article 28

Conditions for the use of matching adjustment of the risk-free yield curve

1) The matching adjustment of the risk-free yield curve under Article 54b (1) of the Insurance Act can be used if

a) the domestic insurance undertaking or domestic reinsurance undertaking assigned a portfolio of assets consisting of bonds or other financial instruments with similar cash-flow characteristics ("portfolio of assigned assets") intended to cover the best estimate of the portfolio of liabilities for which, when calculating the best estimate, the matching adjustment of the risk-free yield curve (the "portfolio of dedicated liabilities") shall be used.

b) the domestic insurance undertaking or domestic reinsurance undertaking maintains the composition of the portfolio of assigned assets over the lifetime of the respective liabilities, except in situations where a modification of the composition of this portfolio is necessary to maintain replication of expected cash flows from assets and liabilities under letter d) in the case of a material change to these cash flows,

c) the identification, organization and management of the portfolio of assigned assets and the portfolio of dedicated liabilities are performed separately from other activity of the domestic insurance undertaking or domestic reinsurance undertaking, and the portfolio of assigned assets must not be used to cover losses arising from other activity of the domestic insurance or domestic reinsurance undertaking,

d) the expected cash flows from the portfolio of assigned assets replicate all the individual cash flows from the portfolio of dedicated liabilities in the same currency and the risks resulting from any mismatch of these cash flows are not material in relation to the risks inherent in the activity of the domestic insurance or domestic reinsurance undertaking to which the matching adjustment is applied,

e) no future insurance or reinsurance premium payments arise from the insurance and reinsurance contracts of the portfolio of dedicated liabilities,

f) in connection with the underwriting risk, the portfolio of dedicated liabilities is exposed only to longevity risk, expense risk, revision risk and mortality risk,

g) if the underwriting risk that arises from the portfolio of dedicated liabilities also includes mortality risk, the best estimate of this portfolio as a result of the application of mortality shock under directly applicable EU legislation governing the calculation of the Solvency Capital Requirement in the life underwriting risk module calibrated under Article 74 of the Insurance Act does not increase by more than 5% of its original value,

h) insurance contracts of the portfolio of dedicated liabilities do not include any option for policyholders; the right to surrender may be part of an insurance contract only if this surrender does not exceed the amount of the assets valued under Article 51 of the Insurance Act intended to cover this liability at the time the surrender option is exercised,

i) the cash flows from the portfolio of assigned assets are fixed and neither the issuer nor any third party has the right to change or otherwise modify them, and

j) the liabilities arising from one insurance or reinsurance contract are not separated from each other during the compilation of the portfolio of dedicated liabilities.

(2) The condition of permanence of cash flows under paragraph 1 i) is considered met if the domestic insurance undertaking or domestic reinsurance undertaking uses, for the portfolio of assigned assets, assets whose cash flows are, with the exception of dependency on inflation, fixed and at the same time under paragraph 1 d) replicate the cash flows from the portfolio of dedicated liabilities dependent on inflation.

(3) The right of the issuer or a third party to change the cash flows from the assets included in the portfolio of assigned assets is not a violation of the conditions for applying matching adjustment under paragraph 1 i) if this right includes compensation allowing the domestic insurance undertaking or domestic reinsurance undertaking to gain the same cash flows through reinvestment into assets of the same or better credit quality.

Article 29

Calculation of the matching adjustment of the risk-free yield curve

(1) For each currency, the matching adjustment of the risk-free yield curve is the difference between

a) the annual effective interest rate calculated as a single discount rate, whose use on cash flows arising from the portfolio of dedicated liabilities results in a value that is equal to the value of the portfolio of assigned assets valued under Article 51 of the Insurance Act , and

b) the annual effective interest rate expressed as a single discount rate, whose use on cash flows arising from the portfolio of dedicated liabilities results in a value that is equal to the best estimate of the value of the portfolio of dedicated liabilities calculated under Article 53 of the Insurance Act.

(2) The matching adjustment does not take into account the fundamental spread reflecting the risks retained by a domestic insurance undertaking or domestic reinsurance undertaking (“fundamental spread”).

(3) A domestic insurance or domestic reinsurance undertaking shall increase the fundamental spread so that the matching adjustment resulting from holding assets with a certain maturity and type with a credit rating lower than investment grade does not exceed the matching adjustment resulting from holding assets with the same maturity, the same type and with investment grade credit ratings.

(4) A domestic insurance or domestic reinsurance undertaking shall use, for the purposes of determining the amount of matching adjustment, an external credit assessment in a manner that is consistent with directly applicable EU legislation governing the use of external credit assessment.

(5) The fundamental spread referred to in paragraph 2 is determined as the sum of

a) the credit spread corresponding to the probability of default of the assets, the calculation of which is based on long-term credit default statistics relevant to the assets in question, given the time to maturity, credit quality and type of these assets, and

b) the credit spread corresponding to the expected loss arising from the reduction in the credit valuation of assets.

(6) If it is not possible to determine the credit spread under paragraph 5, the procedure under paragraph 7 or paragraph 8 shall be used to calculate the fundamental spread, depending on the type of exposure.

(7) In the case of exposures to the central government and the central bank of a Member State, the fundamental spread under paragraph 2 shall correspond to at least 30% of the long-term average spread observable on financial markets derived from assets of the same maturity, credit quality and type with respect to the risk-free yield curve.

(8) In the case of exposures to persons other than under paragraph 7, the fundamental spread under paragraph 2 shall correspond to at least 35% of the long-term average spread observable on financial markets derived from assets of the same maturity, credit quality and type with respect to the risk-free yield curve.

Article 30

Matching adjustment for an insurance or reinsurance undertaking from a third country

The provisions of Article 28 to 29 shall apply *mutatis mutandis* to an insurance or reinsurance undertaking from a third country in relation to liabilities from insurance or reinsurance activity carried on in the Czech Republic.

PART SEVEN

ASSESSMENT OF THE SENSITIVITY OF TECHNICAL PROVISIONS AND ELIGIBLE OWN FUNDS

Article 31

(1) A domestic insurance or domestic reinsurance undertaking shall perform an assessment of the sensitivity of technical provisions and eligible own funds at least quarterly.

(2) A domestic insurance or domestic reinsurance undertaking shall assess the sensitivity of technical provisions and eligible own funds, especially a change in technical provisions and eligible own funds due to changes to the data or parameters used, on the basis of realistic and appropriate assumptions and corresponding methods. This assessment shall also include an assessment of the appropriateness and reasonableness of those assumptions and methods.

Article 32

An insurance or reinsurance undertaking from a third country shall proceed in relation to liabilities from insurance or reinsurance activity carried on in the Czech Republic under Article 31 in a similar fashion.

PART EIGHT

REPORTS ON OTHER VERIFICATIONS PERFORMED BY AN AUDITOR

Article 33

Report on verification of the system of governance

(1) A report on verification of the system of governance shall include

a) the result of verification of whether the system of governance or its part complies with requirements of the legislation including an evaluation of its functioning and efficiency, and

b) a determination of identified shortcomings, including inadequate or missing management or control mechanisms.

(2) The structure and other requisites of the report on verification of system of governance are determined in Annex No 4 hereto. If the Czech National Bank orders verification of part of the system of governance, Annex No 4 hereto shall be used to a reasonable extent for the structure of the report.

(3) The statutory auditor shall present in the report under paragraph 1 information about him/herself, his/her registration number, signature and date of preparation of the report. The auditing company shall present, in the report under paragraph 1, particulars about itself, registration number and the name of the statutory auditor who drew up this report for the auditing company, his/her registration number, signature and the date of preparation of this report. In the report under paragraph 1, the information about the insurance or reinsurance undertaking for which the verification is carried out shall always be presented.

Report on the verification of disclosed information in the report on solvency and financial condition

Article 34

(1) The requisites and structure of the report on the verification of the disclosed information in the report on solvency and financial condition are determined in Annex No 5 hereto. If the Czech National Bank orders verification of only a limited part of the information, Annex No 5 hereto shall be used to a reasonable extent for the structure of the report.

(2) The statutory auditor shall present in the report under paragraph 1 information about him/herself, his/her registration number, signature and date of preparation of the report. The auditing company shall present, in the report under paragraph 1, particulars about itself, registration number and the name of the statutory auditor who drew up this report for the auditing company, his/her registration number, signature and the date of preparation of this report. In the report under paragraph 1, the information about the insurance or reinsurance undertaking for which the verification is carried out shall always be presented.

Article 35

(1) If the Czech National Bank orders verification of disclosed information on eligible own funds, the report under Article 34 (1) shall include the result of evaluation of its determination, structure and eligibility under Article 71 of the Insurance Act with respect to capital limits under legislation governing capital requirements for a domestic insurance or domestic reinsurance undertaking, including directly applicable EU legislation. In the case of a domestic insurance undertaking or domestic reinsurance undertaking subject to group supervision, the report shall also include the results of the evaluation of whether there is multiple use of capital items eligible at group level.

(2) If the Czech National Bank orders verification of disclosed information relating to the Solvency Capital Requirement calculated under the standard formula, the report shall include, under Article 34 (1), the result of an evaluation of the correctness of its calculation process, even if parameters specific to the insurance or reinsurance undertaking were used in the calculation. In relation to the Solvency Capital Requirement calculated through a full or partial internal model, the report shall include under Article 34 (1) the result of an evaluation as to whether the model is used in compliance with license conditions and under legislation governing the Solvency Capital Requirement for a domestic insurance or domestic reinsurance undertaking.

(3) If the Czech National Bank orders verification of disclosed information relating to the Minimum Capital Requirement, the report shall include under Article 34 (1) the result of an evaluation of its calculation with regard to the legislation governing the Minimum Capital Requirement for a domestic insurance or domestic reinsurance undertaking.

(4) The report on the verification of disclosed information shall include an auditor’s opinion of whether the information subject to verification is, in all material respects, compliant with the legislation governing the valuation of assets and liabilities, technical provisions, investment and solvency of the domestic insurance undertaking or domestic reinsurance undertaking, and whether it is free of material misstatement.

Article 36

Report on the verification of disclosed information in the report on solvency and financial condition for an insurance or reinsurance undertaking from a third country

The provisions of Article 33 to 35 shall apply *mutatis mutandis* to an insurance or reinsurance undertaking from a third country in relation to insurance or reinsurance activity carried on in the Czech Republic.

PART NINE

METHOD OF DETERMINING THE REMUNERATION AND COMPENSATION OF CASH EXPENSES OF AN ADMINISTRATOR, HIS/HER REPRESENTATIVE AND LIQUIDATOR, AND THE METHOD OF THEIR PAYMENT

Article 37

Determination of the remuneration for an administrator of a domestic insurance or domestic reinsurance undertaking and their representative

(1) An administrator of a domestic insurance or domestic reinsurance undertaking is entitled to a monthly

remuneration of

a) CZK 75,000 if the value of the equity of the domestic insurance or domestic reinsurance undertaking increased by the value of assets held to cover technical provisions under legislation governing the accounting of insurance undertakings is less than CZK 100,000,000,

b) CZK 100,000 if the value of the equity of the domestic insurance or domestic reinsurance undertaking increased by the value of assets held to cover technical provisions under legislation on the accounting of insurance undertakings is at least CZK 100,000,000 but less than CZK 1,000,000,000,

c) CZK 125,000 if the value of the equity of the domestic insurance or domestic reinsurance undertaking increased by the value of assets held to cover technical provisions under legislation on the accounting of insurance undertakings is at least CZK 1,000,000,000 but less than CZK 10,000,000,000, or

d) CZK 150,000 if the value of the equity of the domestic insurance or domestic reinsurance undertaking increased by the value of assets held to cover technical provisions under legislation on the accounting of insurance undertakings is at least CZK 10,000,000,000.

(2) A representative of the administrator is entitled to a proportionate part of the remuneration under paragraph 1, and this proportionately to the number of efficiently and justifiably conducted operations related to the activity of the representative demonstrated to the Czech National Bank. For the purposes of approving the amount of remuneration, the representative shall submit to the Czech National Bank a list of operations conducted no later than 30 days after the end of the calendar month for which the remuneration is to be paid.

(3) For the purposes of determining the amount of remuneration under paragraph 1, the last known equity value of the domestic insurance or domestic reinsurance undertaking shall be used, and the last known value of the assets intended to cover technical provisions under legislation governing the accounting of insurance undertakings before the Czech National Bank decided to introduce forced administration. The administrator shall submit such information to the Czech National Bank within 10 days of the end of the calendar month for which the remuneration is payable.

Article 38

Method of payment of the remuneration for an administrator of a domestic insurance or domestic reinsurance undertaking

(1) The remuneration for an administrator of a domestic insurance or domestic reinsurance undertaking is payable retrospectively for the calendar month, and this by the end of the next calendar month after the demonstration of the decisive data to determine its amount under Article 37 (3). The remuneration for a representative is payable retrospectively for the calendar month, and this within 3 months from the date of submission of the list of operations performed under Article 37 (2).

(2) If the administrator of a domestic insurance or domestic reinsurance undertaking ended their activity during a calendar month, for such month they are entitled to a proportional part of the remuneration corresponding to the ratio of the number of working days during which they exercised the activity of administrator, and the total number of working days in the calendar month in which they ended their activity. This is without prejudice to the provisions of Article 37.

Article 39

Determination of the remuneration of a liquidator

(1) The base for determining the remuneration of the liquidator of a domestic insurance or domestic reinsurance undertaking, or a branch of an insurance or reinsurance undertaking from a third country for carrying out the winding-up ("base") is the value of the liquidation assets; the base is increased

a) by one tenth of the value of the assets intended to cover technical provisions under legislation governing the accounting of insurance undertakings in relation to liabilities from insurance or reinsurance activity if the portfolio of these liabilities has been transferred, and

b) by the value of the assets intended to cover technical provisions under legislation governing the accounting of insurance undertakings in relation to liabilities from insurance or reinsurance activity that were not transferred to a different insurance or reinsurance undertaking.

(2) A liquidator is entitled to remuneration in the amount of

a) CZK 50,000, increased by 1% of the base if the base is not more than CZK 10,000,000,

b) CZK 150,000, increased by 0.3% of the difference between the base and CZK 10,000,000 if the base is not more than CZK 100,000,000,

c) CZK 420,000, increased by 0.07% of the difference between the base and CZK 100,000,000 if the base is not more than CZK 1,000,000,000,

d) CZK 1,050,000, increased by 0.01% of the difference between the base and CZK 1,000,000,000 if the base is not more than CZK 10,000,000,000,

e) CZK 1,950,000, increased by 0.001% of the difference between the base and CZK 10,000,000,000 if the base is more than CZK 10,000,000,000.

(3) If the liquidation assets are insufficient in full or in part for the remuneration of the liquidator of a domestic insurance or domestic reinsurance undertaking, a branch of an insurance undertaking from a third country or a branch of a reinsurance undertaking from a third country, the state shall pay this remuneration to the liquidator to the extent that it cannot be paid from the liquidation assets, however to the value of at most CZK 150,000 for the entire period of liquidation for which the liquidator did not receive their remuneration due to the insufficient liquidation assets.

(4) For the purposes of determining the base under paragraph 1, the value of assets held to cover technical provisions under legislation on the accounting of insurance undertakings shall be used, determined from the opening balance sheet on the date of entry of the domestic insurance or domestic reinsurance undertaking, or branch of an insurance or reinsurance undertaking from a third country, into winding up proceedings.

(5) If the winding-up is terminated before the value of the liquidation assets is determined, the liquidator is entitled to remuneration in the amount of CZK 25,000. If the liquidator transferred the insurance portfolio, this remuneration is increased through the procedure under paragraph 2 and the base used is one tenth of the value of the assets to cover technical provisions under legislation on the accounting of insurance undertakings in relation to liabilities from insurance or reinsurance activity determined from the opening balance sheet at the date of entry of the domestic insurance or domestic reinsurance undertaking, or branch of an insurance or reinsurance undertaking from a third country, into winding-up proceedings. Article 40 shall apply *mutatis mutandis* to its payment.

Article 40

Method of payment of remuneration of the liquidator

(1) The remuneration to which a liquidator is entitled is payable within 30 days of the deletion of the domestic insurance or domestic reinsurance undertaking, or branch of an insurance or reinsurance undertaking from a third country from the Commercial Register, or within 30 days from the date of entry into force of the decision on the bankruptcy of the domestic insurance or domestic reinsurance undertaking, or branch of an insurance or reinsurance undertaking from a third country.

(2) If more than one liquidator progressively participated in the winding-up of a domestic insurance or domestic reinsurance undertaking, or branch of an insurance or reinsurance undertaking from a third country, each of them is entitled to a share of the remuneration under Article 39 corresponding to the duration of their activity, its complexity and intensity, and the number of efficiently and justifiably conducted operations related to their activities.

(3) For the purposes of determining the remuneration, the liquidator shall submit to the Czech National Bank information about

a) the amount of the proposed remuneration for the liquidator,

b) the amount of the liquidation assets, and

c) the course and outcome of the potential transfer of the insurance portfolio or part thereof or reinsurance portfolio or part thereof.

(4) The liquidator shall submit information under paragraph 3 to the Czech National Bank no later than 30 days before convening a general meeting which should decide on the proposal for the distribution of the winding-up profit, or 30 days before submitting application for deletion from the Commercial Register if the general meeting cannot take place.

Article 41

Cash expenses of a liquidator, administrator and their representative

(1) A liquidator, administrator and their representative are entitled to the reimbursement of cash expenses, especially court and other fees, travel expenses, postage, telephone charges, expert opinions and statements, translations, transcripts and photocopies, which were efficiently and justifiably incurred in connection with the winding-up of a domestic insurance or domestic reinsurance undertaking, or branch of an insurance or reinsurance undertaking from a third country, or in connection with the forced administration of a domestic insurance or domestic reinsurance undertaking.

(2) To determine the amount of reimbursement of travel expenses, the Labour Code shall apply *mutatis mutandis*.

Article 42

Method of reimbursement of the cash expenses of an administrator and their representative

Cash expenses are reimbursed up to the demonstrated amount for each month in which they were incurred. The reimbursement of cash expenditures is performed from the assets of the domestic insurance or domestic reinsurance undertaking after the Czech National Bank approves the efficiency and justification of the cash expenses. The Czech National Bank shall send a statement regarding the submitted expenses to the administrator or their representative without undue delay.

Article 43

Method of reimbursement of the cash expenses of a liquidator

(1) The cash expenses are reimbursed up to the demonstrated amount for each month in which they were incurred. The reimbursement of cash expenditures is performed from the liquidation assets of the domestic insurance or domestic reinsurance undertaking, or branch of an insurance or reinsurance undertaking from a third country after the Czech National

Bank approves the efficiency and justification of the cash expenses. The Czech National Bank shall send a statement regarding the submitted expenses to the liquidator without undue delay.

(2) If the liquidation assets of domestic insurance or reinsurance undertaking, or branch of an insurance or reinsurance undertaking from a third country, are insufficient for the reimbursement of the cash expenses of the liquidator, the state shall pay such expenses up to the amount that cannot be paid from the liquidation assets, but not more than a total of CZK 300,000 for the expenses under Article 41 (1). The reimbursement shall be paid within 30 days of approval by the Czech National Bank of the effectiveness and justification of the cash expenses, and paragraph 1, first sentence, shall apply *mutatis mutandis*. The Czech National Bank shall send a statement regarding the submitted expenses to the liquidator without undue delay.

Article 44

Increasing the remuneration of the administrator or their representative and the liquidator

The remuneration of the liquidator or administrator under Article 37 (1) and Article 39 (2) may be increased by the Czech National Bank by up to 100%, with the reason for the increase in remuneration being extraordinary complexity, intensity, duration of their activity, or an extremely high number of efficiently and justifiably performed operations related to their activity.

PART TEN

COMMON, TRANSITIONAL AND FINAL PROVISIONS

Article 45

Adjustment of the parameters of the standard formula for the calculation of the Solvency Capital Requirement

(1) Exposures to central governments and central banks of Member States are, until 31 December 2017, considered risk-free for the purpose of calculating the capital requirement for market risk concentration and spread risk under directly applicable EU legislation governing their calculation, even if they are denominated and funded in the currency of a different Member State than the currency of the relevant Member State.

(2) The parameters for the calculation of the capital requirement for market concentration risk and spread risk under directly applicable EU legislation governing their calculation for exposures to central governments and central banks of a Member State denominated in the currency of a different Member State than the currency of that State shall, for the purposes of calculating the Solvency Capital Requirement using the standard formula,

a) be reduced for 2018 by 80% of the value determined by directly applicable EU legislation governing the calculation of the Solvency Capital Requirement and

b) be reduced for 2019 by 50% of the value determined by directly applicable EU legislation governing the calculation of the Solvency Capital Requirement.

(3) From 1 January 2020, for the purposes of calculating the Solvency Capital Requirement for market concentration risk and spread risk using the standard formula, non-modified standard parameters determined by directly applicable EU legislation governing the calculation of the Solvency Capital Requirement shall be used.

Article 46

Adjustment of the parameters of the equity risk sub-module

(1) For shares that were as of 1 January 2016 owned by a domestic insurance or domestic reinsurance undertaking, the weighted average of the following shall be used as the parameter for calculating the capital requirement for equity risk under point 4 b) of Annex No 1 hereto

a) the parameter of the equity risk sub-module reflecting the permanence of liabilities determined through directly applicable EU legislation governing the calculation of the Solvency Capital Requirement and

b) the parameter stipulated by directly applicable EU legislation for calculating the capital requirement for equity risk through directly applicable EU legislation governing the calculation of the Solvency Capital Requirement.

(2) The weighted average under paragraph 1 is set so that the weighting of the parameter under paragraph 1 b), starting from 1 January 2017, grows annually at least linearly so that its share is 100% as of 1 January 2023.

Article 47

Information disclosed under Decree No 434/2009

A domestic insurance or reinsurance undertaking, or branch of an insurance or reinsurance undertaking from a third country, which operates an insurance or reinsurance business in the Czech Republic, shall keep the data disclosed under Decree No 434/2009 fully accessible on its website even after the effective date of this Decree, and this at least for the next 3 years.

Article 48

Transitional provisions relating to remuneration

The procedure to determine the amount of remuneration, the method of its payment, and the reimbursement of cash expenses of a liquidator or administrator and their representative appointed or designated before the effective date of this Decree shall be governed by existing legislation.

PART ELEVEN

EFFECT

Article 49

This Decree shall come into effect on the date it is promulgated.

Governor:

per pro. Vladimír Tomšík, duly signed

Vice-Governor

Annex No 1

Structure of the risk modules for calculating the Basic Solvency Capital Requirement using the standard formula

1. The non-life underwriting risk module under Article 3 (1) a) shall reflect the risk arising from non-life insurance obligations in connection with the perils covered and processes used in the conduct of business. This module shall take into account the uncertainty of the results of a domestic insurance undertaking or domestic reinsurance undertaking related to existing contracts and contracts that the domestic insurance undertaking or domestic reinsurance undertaking assumes will be concluded during the next 12 months. The non-life underwriting risk module shall consist of at least the following risk sub-modules and potentially other risk sub-modules stipulated by directly applicable EU legislation governing the calculation of the Solvency Capital Requirement:

a) the risk of loss or of adverse change in the value of insurance liabilities resulting from fluctuations in the timing, frequency and severity of insured events in the timing and amount of claim settlement (non-life premium and reserve risk) and

b) the risk of loss or of adverse change in the value of insurance liabilities resulting from the significant uncertainty of pricing and provisioning assumptions relating to exceptional or extreme events (non-life catastrophe risk).

2. The life underwriting risk module under Article 3 (1) b) shall reflect the risk arising from life insurance obligations in connection with the perils covered and processes used in the conduct of business. The life underwriting risk module shall consist of at least the following risk sub-modules and potentially other risk sub-modules stipulated by directly applicable EU legislation governing the calculation of the Solvency Capital Requirement:

a) the risk of loss or of adverse change in the value of insurance liabilities resulting from changes in the level, trend or volatility of mortality rates, where an increase in the mortality rate leads to an increase in the value of insurance liabilities (mortality risk in life insurance),

b) the risk of loss or of adverse change in the value of insurance liabilities resulting from changes in the level, trend or volatility of mortality rates, where a decrease in the mortality rate leads to an increase in the value of insurance liabilities (longevity risk in life insurance),

c) the risk of loss or of adverse change in the value of insurance liabilities resulting from changes in the level, trend or volatility of disability, sickness and morbidity rates (disability-morbidity risk in life insurance),

d) the risk of loss or of adverse change in the value of insurance liabilities resulting from changes in the level, trend or volatility of the expenses incurred in servicing insurance and reinsurance contracts (life-expense risk),

e) the risk of loss or of adverse change in the value of insurance liabilities resulting from fluctuations in the level, trend or volatility of the revision rates applied to annuities, which are determined by changes in the legal environment or health status of the insured person (revision risk in life insurance),

f) the risk of loss or of adverse change in the value of insurance liabilities resulting from changes in the level or volatility of rates of policy lapses, terminations, renewals and surrender of insurance contracts (lapse risk in life insurance), and

g) the risk of loss or of adverse change in the value of insurance liabilities resulting from the significant uncertainty of pricing and provisioning assumptions relating to exceptional or extreme events (life-catastrophe risk).

3. The health underwriting risk module under Article 3 (1) c) shall reflect the risk arising from liabilities concerning health insurance in connection with exposure to risks and processes used in the conduct of business, regardless of whether the health insurance is operated on a similar technical basis to that of life insurance or not. The health underwriting risk module shall consist of at least the following risk sub-modules and potentially other risk sub-modules stipulated by directly applicable EU legislation governing the calculation of the Solvency Capital Requirement:

a) the risk of loss or of adverse change in the value of insurance liabilities resulting from fluctuations in the timing, frequency and severity of insured claims and the timing and amounts for the claim settlements,

b) the risk of loss or of adverse change in the value of insurance liabilities resulting from changes in the level, trend or volatility of the expenses incurred in servicing health insurance contracts and related reinsurance contracts, and

c) the risk of loss or of adverse change in the value of insurance liabilities resulting from the significant uncertainty of pricing and provisioning assumptions related to outbreaks of major epidemics, as well as the unusual accumulation of risks under such extreme circumstances.

4. The market risk module under Article 3 (1) d) shall reflect the risk arising from the level or volatility of market prices of financial instruments which affect the value of assets and liabilities of a domestic insurance and domestic reinsurance undertaking. This module shall properly reflect the structural mismatch between assets and liabilities, in particular in terms of their duration. The market risk module shall consist of at least the following risk sub-modules and potentially other risk sub-modules stipulated by directly applicable EU legislation governing the calculation of the Solvency Capital Requirement:

a) the sensitivity of the values of assets, liabilities and financial instruments to changes in yield curves or volatility (interest rate risk),

b) the sensitivity of the values of assets, liabilities and financial instruments to changes in the level of market prices of equity or volatility (equity risk), including symmetric adjustments of the parameters of the equity risk sub-module, taking into account risks arising from changes in the price of equity under point 6 of this Annex,

c) the sensitivity of the values of assets, liabilities and financial instruments to changes in the level of market prices of real estate or their volatility (property risk),

d) the sensitivity of the values of assets, liabilities and financial instruments to changes in the level of credit spreads or their volatility over the risk-free yield curve (spread risk),

e) the sensitivity of the values of assets, liabilities and financial instruments to changes in the level of currency exchange rates or their volatility (currency risk), and

f) additional risks arising from lack of diversification in the asset portfolio or from large exposure to the default risk by a single issuer of securities or a group of related issuers (market risk concentration).

5. The counterparty default risk module under Article 3 (1) e) shall reflect the potential losses over the next 12 months resulting from unexpected credit default or deterioration in the credit standing of counterparties and debtors of a domestic insurance or domestic reinsurance undertaking. The counterparty default risk module shall cover the legal proceedings related to risk mitigation techniques such as reinsurance arrangements, securitization and derivative contracts, receivables from intermediaries, as well as any other credit exposures which are not covered in the spread risk sub-module. This module shall take due account of collateral held by a domestic insurance and domestic reinsurance undertaking or on its account, and the risk associated with it. The counterparty default risk module shall take into account the size of the overall exposure of a domestic insurance and domestic reinsurance undertaking exposed to the risk of credit default of a counterparty for each of its counterparties, regardless of the legal form of its contractual obligations to the domestic insurance and domestic reinsurance undertaking.

6. Calibration of the symmetric adjustments of the parameters of the equity risk sub-module in point 4 b) shall be carried out under Article 74 (3) of the Insurance Act to cover the risk arising from changes in equity prices.

Annex No 2

Correlation coefficients for calculating the Basic Solvency Capital Requirement

	Non-life underwriting risk	Life underwriting risk	Health underwriting risk	Market risk	Counterparty default risk
Non-life underwriting risk	1	0	0	0.25	0.5
Life underwriting risk	0	1	0.25	0.25	0.25
Health underwriting risk	0	0.25	1	0.25	0.25
Market risk	0.25	0.25	0.25	1	0.25
Counterparty default risk	0.5	0.25	0.25	0.25	1

Annex No 3

Information on domestic insurance or domestic reinsurance undertakings, on their shareholders or members, and on the group to which they belong

I. Information on a domestic insurance or domestic reinsurance undertaking:

1. corporate name, legal form, registered office and identification number of the domestic insurance or domestic reinsurance undertaking according to the entry in the Commercial Register,

2. date of registration of the domestic insurance or domestic reinsurance undertaking into the Commercial Register, and the date of entry of the most recent change, indicating the purpose of the most recent change,

3. the amount of registered capital recorded in the Commercial Register,

4. the amount of paid-up registered capital,

5. the type, form, format and number of issued shares, with a specification of their nominal value if the domestic insurance or domestic reinsurance undertaking is a joint-stock company,

6. about the acquisition of own participating securities, specifying the type, form, format and number, if the domestic insurance or domestic reinsurance undertaking is a joint-stock company,

7. about an increase in the registered capital, if the registered capital has been increased since the last disclosure

a) the manner and extent of the increase in the registered capital,

b) if new shares are being issued, the domestic insurance or domestic reinsurance undertaking shall disclose the type, form, format and number of the shares being issued, with a specification of their nominal value, the extent to which the newly underwritten shares have been paid up, and the time limit for the payment of the newly underwritten shares,

c) when increasing registered capital from own resources, a domestic insurance or domestic reinsurance undertaking shall disclose the amount by which the registered capital is increased, and identify the own resources through which the registered capital is increased; a domestic insurance or domestic reinsurance undertaking that is a joint-stock company shall also state whether the nominal value of the shares is increased, and if so, the amount by which it is increased,

8. the organizational structure of the domestic insurance undertaking or domestic reinsurance undertaking, indicating the number of branches and number of employees (full-time equivalent),

9. about the persons who effectively run the domestic insurance undertaking or domestic reinsurance undertaking, or supervise the operation of the domestic insurance undertaking or domestic reinsurance undertaking

a) the name or names, surname and title,

b) function, if they are a member of an administrative or supervisory body, and the date from which the person has performed the relevant function,

c) the position of the person who effectively runs the domestic insurance undertaking or domestic reinsurance undertaking, or supervises the operation of the domestic insurance or domestic reinsurance undertaking, in the organizational structure of the domestic insurance undertaking or domestic reinsurance undertaking,

d) previous experience and qualifications required for the discharge of the relevant function or for the relevant position,

e) membership of elected bodies of other legal persons, indicating the functions performed,

f) the aggregate amount of credits and loans provided by the domestic insurance undertaking or domestic reinsurance undertaking to the persons who effectively run the domestic insurance undertaking or domestic reinsurance undertaking or supervise the operation of the domestic insurance undertaking or domestic reinsurance undertaking, and

g) the aggregate amount of guarantees issued by the domestic insurance undertaking or domestic reinsurance undertaking to the persons who effectively run the domestic insurance undertaking or domestic reinsurance undertaking, or supervise the operation of the domestic insurance undertaking or domestic reinsurance undertaking.

II. Information about the shareholders or members of a domestic insurance or domestic reinsurance undertaking with a qualifying holding in the domestic insurance undertaking or domestic reinsurance undertaking, while

1. the domestic insurance or reinsurance undertaking shall disclose, about shareholders or members who are legal persons, the corporate name or name, legal form, registered office, and the share in the voting rights as a percentage,

2. the domestic insurance or reinsurance undertaking shall disclose, about shareholders or members who are natural persons, the name or names, the surname, and the share in the voting rights as a percentage.

III. Information about the structure of the group of which a domestic insurance or domestic reinsurance undertaking is part

1. information about the persons who are, in relation to the domestic insurance or domestic reinsurance undertaking, controlling persons or, as the case may be, the majority shareholder, including

a) the corporate name or name, legal form and registered office of such person; in the case of a natural person, the name or names, and surname,

b) the direct or indirect share in the registered capital of the domestic insurance undertaking or domestic reinsurance undertaking as a percentage,

c) the direct or indirect share in the voting rights of the domestic insurance undertaking or domestic reinsurance undertaking as a percentage,

d) the method through which the domestic insurance undertaking or domestic reinsurance undertaking is a controlled person, if this is not a result of the share in the registered capital or voting rights,

e) the aggregate amount of receivables of the domestic insurance or reinsurance undertaking, and the aggregate amount of liabilities of the domestic insurance or domestic reinsurance against these persons,

f) the aggregate amount of securities that the domestic insurance or domestic reinsurance undertaking has in its assets and which are issued by these persons, and the aggregate amount of liabilities of the domestic insurance or domestic reinsurance undertaking from such securities,

g) the aggregate amount of guarantees issued by the domestic insurance or domestic reinsurance undertaking for these persons, and the aggregate amount of guarantees accepted by the domestic insurance or domestic reinsurance undertaking from such persons.

If the person who is the direct controlling person of a domestic insurance or domestic reinsurance undertaking is a bank, investment firm, foreign bank or foreign person providing investment services, the disclosure of information under letter a) only for such controlling person shall be sufficient.

2. information on the persons who are, in relation to the domestic insurance or domestic reinsurance undertaking, controlled persons, including

a) the corporate name or name, legal form and registered office of such person,

b) the direct or indirect share of the domestic insurance undertaking or domestic reinsurance undertaking in the registered capital as a percentage,

c) the direct or indirect share of the domestic insurance undertaking or domestic reinsurance undertaking in the voting rights as a percentage,

d) the method through which the domestic insurance undertaking or domestic reinsurance undertaking is a controlling person, if this is not through the share of the registered capital or voting rights,

e) the number, nominal value and the acquisition cost of the shares, or the amount and the acquisition cost of the share acquired in such a person, and changes during the accounting period,

f) the aggregate amount of receivables of the domestic insurance or domestic reinsurance undertaking, and the aggregate amount of liabilities of the domestic insurance or domestic reinsurance undertaking against these persons,

g) the aggregate amount of securities that the domestic insurance or domestic reinsurance undertaking has in assets and which are issued by these persons, and the aggregate amount of liabilities from such securities,

h) the aggregate amount of guarantees issued by the domestic insurance or domestic reinsurance undertaking for such persons, and the aggregate amount of guarantees received from such persons by the domestic insurance or domestic reinsurance undertaking.

3. a graphical representation of the structure of the group, which includes all controlled and related persons of the domestic insurance or domestic reinsurance undertaking, all of its controlling persons and all of the controlled or related persons of the controlling persons of the domestic insurance or domestic reinsurance undertaking; if the controlling persons of the domestic insurance or domestic reinsurance undertaking are subject to supervision in a group or supervision on a consolidated basis or supplementary supervision of financial conglomerates and publicly disclose information about their group, the graphical representation may include only the controlled and related persons of the domestic insurance or domestic reinsurance undertaking and all of its controlling persons.

IV. Information on the activity of a domestic insurance or domestic reinsurance undertaking

1. classes of insurance (activity) recorded in the Commercial Register,

2. summary of the activities actually performed,

3. summary of activities the performance or provision of which has been restricted or precluded by the Czech National Bank,

4. balance sheet of the domestic insurance or reinsurance undertaking under legislation governing accounting,

5. profit and loss account of the domestic insurance or domestic reinsurance undertaking,

6. ratio indicators of the domestic insurance or domestic reinsurance undertaking

a) return on average assets (ROAA): 100% * profit or loss for the accounting period / total assets,

b) return on average equity (ROAE): 100% * profit or loss for the accounting period / equity,

c) “combined ratio” in non-life insurance: 100% * (claims costs, including changes in provisions for claims, net of reinsurance + net operating expenses) / earned premiums net of reinsurance.

Annex No 4

Structure and other requisites of the report on verification of system of governance

I. Evaluation of the functioning and efficiency of the individual parts of the system of governance, including compliance with legislation and written strategies

The report shall contain the result of the verification of individual parts of the system of governance:

1. general assumptions for an efficient system of governance, always at least

a) the management system, including risk management,

b) own risk and solvency assessment,

c) the internal control system,

d) the organizational and operational structure, definition of powers and responsibilities, and the decision-making and approval process,

e) avoidance of conflicts of interest and

f) acquisition, transmission and storage of information,

2. risk management activity, compliance with legislation, internal audit, actuarial and potentially other activity identified by the insurance or reinsurance undertaking as of key importance,

3. competence and trustworthiness of persons who have key functions and competence of employees or persons engaged by the insurance undertaking or reinsurance undertaking,

4. outsourcing and

5. remuneration.

It shall be clear from the evaluation whether and how the legal requirements for the individual parts of the system of governance are met, whether and how compliance with approved written strategies is ensured, and whether the individual parts of the system of governance are functional and effective. If shortcomings have been identified, such facts shall be mentioned in this chapter; the individual shortcomings shall be analyzed in Chapter II in more detail.

II. Specification of shortcomings and evaluation of their severity

Identified shortcomings shall be described in detail in this chapter. It shall also include an evaluation of the severity of the relevant shortcomings using the following scale:

1. shortcoming with a very high degree of severity – this shortcoming has a significant impact on the functioning and effectiveness of the system of governance, on financial performance, on the creation and distribution of profit, and poses significant risks to compliance with the Minimum Capital Requirement or the Solvency Capital Requirement of the domestic insurance or domestic reinsurance undertaking, or its ability to meet its liabilities arising from its insurance or reinsurance activity;

2. shortcoming with a high degree of severity – this shortcoming of a systemic nature has a significant impact on the functioning and effectiveness of several parts of the system of governance under Chapter I, on financial performance, on the creation and distribution of profit, and could pose significant risks to compliance with the Minimum Capital Requirement or the Solvency Capital Requirement of the domestic insurance or domestic reinsurance undertaking, or its ability to meet its liabilities arising from its insurance or reinsurance activity;

3. shortcoming with a moderate degree of severity – a less significant shortcoming of a systemic nature, or a significant shortcoming of a non-systemic nature with an impact on the functioning and effectiveness of at least one part of the system of governance under Chapter I, does not pose risks to compliance with the Minimum Capital Requirement or the Solvency Capital Requirement of the domestic insurance or domestic reinsurance undertaking, or its ability to meet its liabilities arising from its insurance or reinsurance activity, and does not have a significant impact on financial performance and on the creation and distribution of profit;

4. shortcoming with a low degree of severity – a less significant shortcoming of a non-systemic nature with an impact on the functioning and effectiveness of one part of the system of governance under Chapter 1, does not threaten compliance with the Minimum Capital Requirement or the Solvency Capital Requirement of the domestic insurance or domestic reinsurance undertaking, or its ability to meet its liabilities arising from its insurance or reinsurance activity, and does not have a significant impact on financial performance and on the creation and distribution of profit;

III. Overall evaluation of the functioning and efficiency of the system of governance

This chapter shall evaluate the functioning and efficiency of the system of governance as a whole. It shall be clear from the evaluation whether and how the legal requirements for the system of governance are met as a whole, including an evaluation of whether the system of governance is functional and effective as a whole. If shortcomings are identified, they shall also be analyzed in detail and evaluated under Chapter II in this chapter.

Annex No 5

Requisites and structure of the report on the verification of disclosed information in the report on solvency and financial condition

A. The report on the verification of disclosed information in the report on solvency and financial condition shall have the following structure covering the following subjects of verification:

I. The balance sheet, in which assets and liabilities shall be valued under Article 51 of the Insurance Act, including

1. the part of the report describing the valuation for solvency purposes,

2. the following quantitative statements:
a) balance sheet,
b) the technical provisions of non-life insurance,
c) the technical provisions of life insurance and health insurance operated on a similar technical basis to life insurance, and
d) the technical provisions of non-life insurance and health insurance operated on a different technical basis than life insurance.

II. The capital area shall include

1. the part of the report describing the capital management and

2. a quantitative statement on capital.

III. The area of capital requirements shall include

1. the part of the report focusing on the Minimum Capital Requirement and the Solvency Capital Requirement in full under directly applicable EU legislation governing the capital requirements in the report on solvency and financial condition,

2. the following quantitative statements:
a) the Solvency Capital Requirement of an insurance or reinsurance undertaking that calculates the Solvency Capital Requirement using the standard formula,
b) the Solvency Capital Requirement of an insurance or reinsurance undertaking that calculates the Solvency Capital Requirement in combination with a partial internal model, or
c) the Solvency Capital Requirement of an insurance or reinsurance undertaking that calculates the Solvency Capital Requirement using a full internal model, and
d) the Minimum Capital Requirement of an insurance or reinsurance undertaking pursuing only life or non-life insurance, or
e) the Minimum Capital Requirement of an insurance or reinsurance undertaking simultaneously pursuing life and non-life insurance.

B. In the case of a domestic insurance or domestic reinsurance undertaking subject to group supervision, the report on the verification of disclosed information in the report on solvency and financial condition shall have the following structure covering the following subjects of verification:

I. the part of the report describing the activity and performance of the group,

II. the part of the report describing the valuation for group solvency purposes,

III. the part of the report describing capital management in the group in full under directly applicable EU legislation governing the report on solvency and financial condition for the group, and

IV. quantitative statements:

1. the balance sheet, unless the insurance undertaking is a domestic insurance undertaking or domestic reinsurance undertaking subject to group supervision that calculates the Solvency Capital Requirement only using the aggregated data deduction method,

2. a description of the persons in the group,

3. capital in the group, and

4. the group Solvency Capital Requirement.

---

1) Directive of the European Parliament and of the Council 2009/138/EC of 25 November 2009 on the taking-up and pursuit of the business of Insurance and Reinsurance (Solvency II), as amended.

2) Commission Delegated Regulation (EU) 2015/35 of 10 October 2014 supplementing Directive 2009/138/EC of the European Parliament and of the Council on the taking-up and pursuit of the business of Insurance and Reinsurance (Solvency II), as amended.

3) Article 103 of Directive of the European Parliament and of the Council 2009/138/EC of 25 November 2009 on the taking-up and pursuit of the business of Insurance and Reinsurance (Solvency II), as amended.