

DECREE
No. 434/2009 Coll.
of 24 November 2009,
Implementing Certain Provisions of the Insurance Act

Pursuant to Section 136 (1) (a) to (c), (f) to (h), (j) to (m), (o), (p), (t), (u), (w) and (x) of Act No. 277/2009 Coll., on the Insurance Industry (hereinafter the “Insurance Act”), the Czech National Bank stipulates as follows:

PART ONE
SUBJECT OF REGULATION

Section 1

This Decree implements the relevant regulations of the European Communities¹⁾ and stipulates

- a) the requirements for the management and control system;
- b) the form and contents of the documents which shall be enclosed with an application for authorization to perform
 1. insurance activities by a domestic insurance undertaking;
 2. insurance activities by a third-country insurance undertaking;
 3. reinsurance activities by a domestic reinsurance undertaking;
 4. reinsurance activities by a third-country reinsurance undertaking;
- c) the form and contents of the documents which shall be enclosed with an application for consent to the acquisition of or increase in the qualified holding in a domestic insurance undertaking and in a domestic reinsurance undertaking;
- d) the scope of information and documents which shall be submitted to the Czech National Bank by an applicant for registration in the list of administrators as part of an application for registration in this list, and the scope of information which shall be recorded in the list of administrators;
- e) the scope of information and documents which shall be submitted to the Czech National Bank by an applicant for registration in the list of adjusters as part of an application for

¹⁾ First Council Directive 73/239/EEC of 24 July 1973 on the coordination of laws, regulations and administrative provisions relating to the taking-up and pursuit of the business of direct insurance other than life assurance, as amended by Council Directives 76/580/EEC, 84/641/EEC, 87/343/EEC, 87/344/EEC, 88/357/EEC, 90/618/EEC, 92/49/EEC, Directives 95/26/EC, 2000/26/EC, 2002/13/EC, 2002/87/EC, 2005/1/EC, 2005/68/EC and 2006/101/EC of the European Parliament and of the Council.
Directive 2002/83/EC of the European Parliament and of the Council of 5 November 2002 concerning life assurance, as amended by Council Directive 2004/66/EC, Directives 2005/1/EC, 2005/68/EC, 2006/101/EC, 2007/44/EC and 2008/19/EC of the European Parliament and of the Council.
Directive 98/78/EC of the European Parliament and of the Council of 27 October 1998 on the supplementary supervision of insurance undertakings and reinsurance undertakings in an insurance or reinsurance group, as amended by Directives 2002/87/EC, 2005/1/EC and 2005/68/EC of the European Parliament and of the Council.
Directive 2005/68/EC of the European Parliament and of the Council of 16 November 2005 on reinsurance and amending Council Directives 73/239/EEC, 92/49/EEC as well as Directives 98/78/EC and 2002/83/EC, as amended by Directives 2007/44/EC and 2008/37/EC of the European Parliament and of the Council.

- registration in this list, and the scope of information which shall be recorded in the list of adjusters;
- f) the scope of information and documents attesting to the compliance with the operational requirements for the administration of a transferred insurance portfolio or a part thereof and for the administration of a transferred reinsurance portfolio or a part thereof;
 - g) the contents and essential elements of the documents which shall be enclosed with an application for consent to transformation;
 - h) the methods to determine the calculation of the equalization reserve and the requirements for its drawdown;
 - i) the procedure to determine the maximum level of the technical interest rate;
 - j) the limits applicable to the individual financial placement items and the conditions under which such items may become part of the financial placement structure;
 - k) the list of items which shall be used to calculate the available solvency margin and the required solvency margin, and the method of calculation of the available solvency margin and of the required solvency margin, including a specification of the items which may be included in the calculation or subtracted solely upon compliance with the requirements laid down in this Decree;
 - l) the form and contents of a notification of proportional distribution of the registered capital and the essential elements of an application for alteration of the proportional distribution of the registered capital;
 - m) the list of items which may be included in the guarantee fund;
 - n) the method of calculation of the adjusted solvency margin;
 - o) the form and essential elements of the report of the responsible actuary;
 - p) the scope, manner and dates of the public disclosure of information.

PART TWO

REQUIREMENTS FOR THE MANAGEMENT AND CONTROL SYSTEM

Section 2

(1) A domestic insurance undertaking or a domestic reinsurance undertaking shall ensure the setting-up of its management and control system so as to cover any and all activities of the domestic insurance undertaking or of the domestic reinsurance undertaking. The management and control system shall also include a system of internal principles and procedures to prevent the legitimization of proceeds from criminal activities and terrorism financing.

(2) A domestic insurance undertaking or a domestic reinsurance undertaking which shall also comply with the requirements for the management and control system at a group level for the purposes of supervision over the activities of the domestic insurance undertaking or of the domestic reinsurance undertaking within the group shall set up the management and control system so as to take into account the activities of all entities within the group. In relation to any affiliated entities, this provision shall be applied as appropriate.

Section 3

A domestic insurance undertaking or a domestic reinsurance undertaking shall create, maintain and apply the management and control system in view of

- a) the size, method of management, number of employees, nature, scope and complexity of the activities that it performs or intends to perform; and
- b) the development of the environment in which it performs its insurance or reinsurance activities, including the development in the field of due corporate governance.

Section 4

Further requirements for the management and control system are specified in Annex No. 1 to this Decree.

Section 5

A third-country insurance undertaking or a third-country reinsurance undertaking shall set up its management and control system pursuant to Sections 2 to 4 as appropriate to the scope of the insurance activities or reinsurance activities performed by the third-country insurance undertaking or by the third-country reinsurance undertaking in the territory of the Czech Republic.

PART THREE

FORM AND CONTENTS OF THE DOCUMENTS WHICH SHALL BE ENCLOSED WITH AN APPLICATION FOR AUTHORIZATION TO PERFORM INSURANCE ACTIVITIES OR REINSURANCE ACTIVITIES

Section 6

(1) The lists of entities pursuant to Section 15 (2) (f) and (g), Section 34 (2) (f), Section 37 (2) (f) and (g), and Section 47 (4) (f) of the Insurance Act shall be submitted in the form of a description and graphic representation of the structure, showing the entities with a qualified holding and closely related entities.

(2) In relation to entities pursuant to Section 15 (2) (f) and (g), Section 34 (2) (f), Section 37 (2) (f) and (g), and Section 47 (4) (f) of the Insurance Act, the following shall be stated in the application for authorization to perform insurance activities or reinsurance activities

- a) in the case of a legal entity: the firm or corporate name, registered office, identification number (if assigned) and the line of business; where the legal entity is a regulated entity, the name and address of its supervisory authority shall be stated, too;
- b) in the case of a natural person (private individual): the name(s) and surname, surname at birth, address of domicile, date and place of birth (state, district, municipality), sex and state citizenship; where the entrepreneur is registered in the Commercial Register or some other register, the firm, point of business, identification number (if assigned) and the line of business shall be stated, too.

PART FOUR

FORM AND CONTENTS OF THE DOCUMENTS WHICH SHALL BE ENCLOSED WITH AN APPLICATION FOR CONSENT TO THE ACQUISITION OF OR INCREASE IN THE QUALIFIED HOLDING IN A DOMESTIC INSURANCE UNDERTAKING OR IN A DOMESTIC REINSURANCE UNDERTAKING

Section 7

(1) In relation to entities pursuant to Section 24 (3) (b) and (c) and Section 42 (3) (b) and (c) of the Insurance Act, the following shall be stated in the application for consent to the acquisition of or increase in the qualified holding in a domestic insurance undertaking or in a domestic reinsurance undertaking

- a) in the case of a legal entity: the firm or corporate name, registered office, identification number (if assigned) and the line of business; where the legal entity is a regulated entity, the name and address of its supervisory authority shall be stated, too;
- b) in the case of a natural person (private individual): the name(s) and surname, surname at birth, address of domicile, date and place of birth (state, district, municipality), sex and state citizenship; where the entrepreneur is registered in the Commercial Register or some other register, the firm, point of business, identification number (if assigned) and the line of business shall be stated, too.

(2) A graphic representation of qualified holdings in the domestic insurance undertaking or in the domestic reinsurance undertaking before the alteration and after the alteration of the holding shall be enclosed with the application.

PART FIVE

REGISTRATION IN THE LIST OF ADMINISTRATORS AND IN THE LIST OF ADJUSTERS

Section 8

(1) Along with an application for registration in the list of administrators or in the list of adjusters, the following information about the applicant shall be submitted: the name(s) and surname, surname at birth, address of domicile, address for service, date and place of birth (state, district, municipality), sex and state citizenship, documents attesting to the applicant's educational background and experience, namely to the extent of Section 11 of the Insurance Act.

(2) In the list of administrators and in the list of adjusters maintained by the Czech National Bank, the following information shall be recorded: the name(s) and surname, address of domicile, effective date of the decision regarding the applicant's registration in the list of administrators or in the list of adjusters.

PART SIX

TRANSFER OF INSURANCE PORTFOLIO OR A PART THEREOF AND TRANSFER OF REINSURANCE PORTFOLIO OR A PART THEREOF

Section 9

(1) Compliance with the operational requirements for the administration of a transferred insurance portfolio or a part thereof pursuant to Section 104 (4) (a) of the Insurance Act in the case of a proposal for a transfer of the insurance portfolio or a part thereof or in the case of an application for approval of a transfer of the insurance portfolio or a part thereof shall be substantiated with

- a) a description of the information system of the transferee insurance undertaking;
- b) a description of the organizational structure of the transferee insurance undertaking, including a specification of the powers and responsibilities of the relevant departments;
- c) a specification of the control mechanisms established within the individual processes of the transferee insurance undertaking;
- d) the availability of the human resources necessary to perform the activities following from the transferred contracts.

(2) In the case of a transfer of a reinsurance portfolio or a part thereof pursuant to Section 107 (4) (a) of the Insurance Act, paragraph 1 above shall be applied as appropriate.

PART SEVEN

CONTENTS AND ESSENTIAL ELEMENTS OF THE DOCUMENTS WHICH SHALL BE ENCLOSED WITH AN APPLICATION FOR CONSENT TO TRANSFORMATION OF A DOMESTIC INSURANCE UNDERTAKING OR OF A DOMESTIC REINSURANCE UNDERTAKING

Section 10

(1) With an application for consent to transformation of a domestic insurance undertaking or of a domestic reinsurance undertaking, the following shall be enclosed

- a) information about the insurance undertaking or about the reinsurance undertaking involved in the transformation, namely at least to the extent pursuant to Section 7 (1), including a graphic representation analogous to that required under Section 7 (2);
- b) a list of members of the corporate bodies of the insurance undertaking or of the reinsurance undertaking involved in the transformation;
- c) information about the amount and payment of the applicant's registered capital, about the number, amount and object of the individual contributions through which the registered capital has been underwritten, about the number, nominal value, form and appearance of the shares of the insurance undertaking or of the reinsurance undertaking involved in the transformation;
- d) the composition of funds that will be the subject of the requested changes;
- e) the estimated development of solvency of the insurance undertaking or of the reinsurance undertaking involved in the transformation during the first 3 years after the execution of the requested changes;

f) the applicant's affidavit that the information stated in the application and in any annexes thereto is true, up-to-date and complete.

(2) With the application pursuant to paragraph 1 above, taking into account the contents of the application, the applicant shall also enclose

- a) a project for the transformation;
- b) a report of the statutory body of every insurance undertaking or reinsurance undertaking involved about the transformation, or a joint report of the aforementioned bodies about the transformation, and an expert opinion on the transformation;
- c) an expert opinion for the valuation of assets;
- d) detailed information about the transformation of the domestic insurance undertaking or of the domestic reinsurance undertaking, containing particularly the applicant's plan, changes to be made to the business plan, time schedule, description of impacts on the performance of insurance activities or reinsurance activities, description of the integration of organizational units and individual employees into the new organizational structure and description of the shifting of powers;
- e) the interim financial statement of every insurance undertaking or reinsurance undertaking involved and the auditor's report on its verification;
- f) the closing financial statement of every insurance undertaking or reinsurance undertaking involved, the opening balance sheet of the successor insurance undertaking or reinsurance undertaking and the auditor's report on the verification of the closing financial statement and of the opening balance sheet;
- g) a description of the groups of entities and of the legal successors of the entities involved in the transformation among which a close relation will be created as a consequence of the transformation;
- h) a summary of the changed facts pursuant to Section 15 or Section 37 of the Insurance Act, taking into account the proposed transformation.

(3) The documents specified in paragraph 2 above shall be enclosed, provided that their preparation is required by some other legal regulation²⁾, which does not apply to information enclosed pursuant to subparagraphs d), g) and h) of paragraph 2 above.

PART EIGHT

EQUALIZATION RESERVE

Section 11

(1) The methods of calculation of the equalization reserve are set out in Annex No. 2 to this Decree.

(2) The equalization reserve shall be drawn down on a continuous basis in accordance with the selected method of its calculation pursuant to Annex No. 2 to this Decree.

²⁾ Act No. 125/2008 Coll., on Transformations of Commercial Companies and Cooperatives, as amended.

PART NINE

TECHNICAL INTEREST RATE

Section 12

(1) The maximum level of the technical interest rate shall not exceed 60 % of the weighted arithmetic mean of the average yield of government bonds³⁾ in Czech crowns, with maturity of at least 5 years and issued during the last 36 calendar months immediately preceding the month in which the maximum level of the technical interest rate shall be made public. Provided that no such bonds have been issued over the aforementioned period, the maximum level of the technical interest rate shall not exceed 60 % of the weighted arithmetic mean of the average yield of all government bonds in Czech crowns issued during the last 36 calendar months immediately preceding the month in which the maximum level of the technical interest rate shall be made public.

(2) The provisions of paragraph 1 above shall not be applied to single premium insurance contracts with the term of insurance of not more than 8 years, unless stipulated otherwise further in this Decree, or to insurance contracts where the investment risk is borne solely by the policyholder.

(3) For single premium insurance contracts with the term of insurance of not more than 8 years, the technical interest rate must be determined in a prudent manner on the basis of the estimated annual yield until maturity of the underlying portfolio of bonds and deposits and, simultaneously, it may not exceed 90 % of the annual yield until maturity of the bonds in the underlying portfolio as at the date of determination of the technical interest rate pursuant to this paragraph. The period of time until maturity of the relevant underlying portfolio of bonds must be longer than or equal to the term for which the insurance contract has been made, and the value of the underlying portfolio of bonds and deposits must be at least equal to the value of the liabilities arising out of such insurance contracts. Within the scope of the financial placement, the relevant underlying portfolio of bonds and deposits must be registered separately in the assets of the insurance undertaking, and the bonds and deposits included in this portfolio must be denominated in the same currency as the liabilities arising out of the insurance contracts made. The insurance undertaking shall verify the technical interest rate determined pursuant to this paragraph on a regular basis, but not less frequently than twice a year. The insurance undertaking shall change the level of the technical interest rate, provided that the difference between the applicable level of the technical interest rate pursuant to this paragraph and 90 % of the annual yield until maturity of the bonds in the underlying portfolio has reached 0.5 percentage point at least. Should the insurance undertaking fail to determine the technical interest rate pursuant to this paragraph, the technical interest rate shall be limited by the maximum technical interest rate determined pursuant to paragraph 1 above for these insurance contracts, too.

(4) The Czech National Bank shall change the maximum level of the technical interest rate determined pursuant to paragraph 1 above, provided that the absolute value of the difference between 60 % of the weighted arithmetic mean of the average yield of government bonds pursuant to paragraph 1 above and the applicable maximum level of the technical interest rate determined pursuant to paragraph 1 above has reached 0.5 percentage point at least. The maximum level of the technical interest rate may be changed even earlier, namely in view of the development of the situation in the financial market.

³⁾ Section 25 (1) of Act No. 190/2004 Coll., on Bonds, as amended.

PART TEN

LIMITS FOR THE FINANCIAL PLACEMENT STRUCTURE

Section 13

(1) The limits applicable to the individual items of the financial placement structure and the conditions under which such items may become part of the financial placement structure shall be as follows for

- a) bonds (including treasury notes) issued by a Member State of the European Union or by a country making up the European Economic Area (hereinafter the “Member State”) or by the Central Bank thereof, and loans provided to a Member State or to the Central Bank thereof: up to 100 % of the total technical reserves;
- b) listed bonds (including treasury notes) issued by the banks and similar institutions of Member States: up to 50 % of the total technical reserves; unlisted bonds issued by such issuers: up to 10 % of the total technical reserves;
- c) listed bonds issued by commercial companies: up to 20 % of the total technical reserves; for bonds guaranteed by a Member State, the limit may be increased to 40 %;
- d) listed municipal bonds: up to 20 % of the total technical reserves; for municipal bonds guaranteed by a Member State, the limit may be increased to 40 %;
- e) provided credits, loans and claims other than those referred to in subparagraph a) above or in subparagraphs j) or l) below: up to 10 % of the total technical reserves; such credits, loans or other claims must be secured by reinsured securities or guaranteed by a Member State or by the Central Bank, a bank, insurance undertaking or reinsurance undertaking thereof;
- f) bills of exchange: up to 10 % of the total technical reserves; the bill of exchange must be secured by bill surety⁴⁾, where a bank or similar credit institution shall stand surety for the bill of exchange;
- g) real property situated in the territory of Member States: up to 20 % of the total technical reserves; one piece of land or building or a number of pieces of land or buildings that together make up one whole so that they may be regarded as one investment: up to 10 % of the total technical reserves; the real estate must be insured against damage and/or destruction with another insurance undertaking;
- h) mortgage bonds: up to 50 % of the total technical reserves;
- i) listed shares: up to 10 % of the total technical reserves; this item also includes listed bonds the repayment of which is subject to a condition of subordination;
- j) deposits (including deposits confirmed by a certificate of deposit, deposit slip or other similar document) with banks authorized to operate in the territory of Member States as banks, and credits, loans and other claims against such banks: up to 50 % of the total technical reserves; the deposits (including deposits confirmed by a certificate of deposit, deposit slip or other similar document) with one bank and the credits, loans and other claims against such a bank may not exceed 20 % of the total technical reserves; this item does not include bank accounts from which the operating expenditures or payments of insurance benefits are covered;
- k) objects and works of artistic cultural value, appraised by at least two experts: up to 5 % of the total technical reserves; such objects must be insured against damage, destruction, loss and/or theft with another insurance undertaking;
- l) bonds issued by the European Investment Bank, by the European Central Bank, by the European Bank for Reconstruction and Development or by the International Bank for

⁴⁾ Section 30 (1) et seq. of Act No. 191/1950 Coll., on Bills of Exchange and Cheques, as amended.

- Reconstruction and Development and loans provided to such entities: up to 100 % of the total technical reserves;
- m) securities issued by collective investment funds compliant with the statutory requirements of the European Communities: up to 20 % of the total technical reserves;
 - n) securities issued by collective investment funds non-compliant with the statutory requirements of the European Communities: up to 5 % of the total technical reserves, provided that the securities issued by one issuer may not exceed 3 % of the total technical reserves;
 - o) unlisted shares, debt securities and other securities similar to shares and debt securities that do not fall under any other item of the financial placement structure: up to 5 % of the total technical reserves, provided that the securities issued by one issuer may not exceed 3 % of the total technical reserves; this item also includes bonds other than those referred to in subparagraph i) above, deposits, loans, credits or other claims the repayment of which is subject to a condition of subordination;
 - r) claims against policyholders and against insurance intermediaries arising out of insurance contracts, provided that a period shorter than 1 month has elapsed since their maturity: up to 3 % of the total technical reserves;
 - s) tax returns in respect of which a payment cheque has been issued pursuant to the act on the administration of taxes and charges⁵⁾: up to 5 % of the total technical reserves;
 - t) claims against the guarantee fund of the Czech Insurers Bureau⁶⁾: up to 5 % of the total technical reserves;
 - u) foreign securities⁷⁾ traded in the regulated market⁸⁾ of the Member States of the Organization for Economic Cooperation and Development that do not fall under any other item of the financial placement structure: up to 10 % of the total technical reserves;
 - v) credits provided to insured persons who have entered into life assurance contracts with the insurance undertaking: up to 5 % of the total technical reserves; the maximum limit for one credit shall be equal to the surrender value as at the day of provision of the credit, and the credit interest shall be determined at least at the level of the technical interest rate guaranteed by the insurance contract;
 - w) reinsurance derivatives compliant with the requirements for reinsurance derivatives laid down in the international accounting standards referred to in Article 2 of the directly applicable EC regulation on the application of the international accounting standards⁹⁾;
 - x) claims against reinsurance undertakings and against entities pursuant to Section 50 of the Insurance Act, including the reinsurer's share in the technical reserves, after deduction of all liabilities with respect to the reinsurer: up to 50 % of the total technical reserves.

(2) The financial placement pursuant to subparagraphs b), c), d) and e) of paragraph 1 above, with the exception of loans provided to government or regional or local authorities or to international organizations whose members include one or more Member States, and pursuant to subparagraphs f), h), i), m), u) and w) of paragraph 1 above shall be limited to 5 % of the total technical reserves in respect of one issuer of a security, one debtor or one counterparty. The limit may be increased to 10 % of the total technical reserves, on condition that the domestic insurance undertaking or domestic reinsurance undertaking does not invest

⁵⁾ Act No. 337/1992 Coll., on the Administration of Taxes and Charges, as amended.

⁶⁾ Section 24 of Act No. 168/1999 Coll., on Liability Insurance for Damage Caused by the Operation of Vehicle and on Amendments to Certain Related Acts (Motor Third Party Liability Insurance Act), as amended.

⁷⁾ Section 1 (f) of Act No. 219/1995 Coll., the Foreign Exchange Act, as amended.

⁸⁾ Section 37 of Act No. 256/2004 Coll., on Undertaking on the Capital Market, as amended, Section 26 (1) (a) (3) of Act No. 189/2004 Coll., on Collective Investment, as amended.

⁹⁾ Section 19 (9) of Act No. 563/1991 Coll., on Accounting, as amended.

more than 40 % of the total technical reserves in the financial placement pursuant to the first sentence with entities with whom it invests more than 5 % of the total technical reserves.

(3) The financial placement pursuant to subparagraphs b), c), e), f), h), i), j), m), n), o), r), u), v), w) and x) of paragraph 1 above, relating to two or more entities that belong to the same business grouping, shall be limited to 15 % of the total technical reserves (hereinafter the “limit per group”). Where the financial placement pursuant to the first sentence includes a deposit, credit, loan or other claim against banks pursuant to subparagraph j) of paragraph 1 above or a claim against reinsurance undertakings whose registered offices are situated in a Member State, the said limit per group shall be increased by the volume of such financial placement items, up to 20 % of the total technical reserves.

Section 14

- (1) The reference to total technical reserves shall be understood as a reference to
- a) an aggregate of technical reserves relating to all classes of life assurance specified in Part A of Annex No. 1 to the Insurance Act, with the exception of technical reserves created in respect of such assurance contracts the insurance benefits of which comply with the provisions of Section 67 of the Insurance Act;
 - b) an aggregate of technical reserves relating to all classes of non-life insurance specified in Part B of Annex No. 1 to the Insurance Act; or
 - c) an aggregate of technical reserves for reinsurance activities.

(2) Where a domestic insurance undertaking concurrently offers both life assurance and non-life insurance classes pursuant to Section 17 (1) of the Insurance Act, the total amount of technical reserves shall be calculated separately for life assurance classes and separately for non-life insurance classes.

(3) Where a domestic insurance undertaking performs reinsurance activities, provided that at least one of the values pursuant to Section 18 (4) (a) of the Insurance Act has been exceeded, the total amount of technical reserves shall be calculated separately for insurance activities and separately for reinsurance activities.

(4) The limits for the financial placement structure shall be applied separately in respect of the technical reserves for life assurance classes, separately in respect of the technical reserves for non-life insurance classes and separately for reinsurance activities.

(5) The individual financial placement items shall be included in the financial placement with their respective valuation as registered in the accounting books of the domestic insurance undertaking or of the domestic reinsurance undertaking. Any purchases and sales of securities shall be reflected in the financial placement from the moment of settlement, irrespective of the accounting method used.

Section 15

A third-country insurance undertaking or a third-country reinsurance undertaking shall abide by the provisions of Sections 13 and 14 as appropriate, namely to the extent of the insurance activities or reinsurance activities performed by the third-country insurance undertaking or by the third-country reinsurance undertaking in the territory of the Czech Republic.

PART ELEVEN

SOLVENCY

Chapter I

Available Solvency Margin

Section 16

(1) Where a domestic insurance undertaking concurrently offers both life assurance and non-life insurance classes, the available solvency margin shall be calculated separately for life assurance and separately for non-life insurance. Where a domestic insurance undertaking concurrently offers both life assurance and non-life insurance classes, a part of the registered capital shall be included in the calculation of the available solvency margin for life assurance and a part of the registered capital shall be included in the calculation of the available solvency margin for non-life insurance, so that each of the calculations complies with the minimum registered capital requirements for the performance of each of these activities. The available solvency margin of a domestic reinsurance undertaking shall be calculated together for life assurance and non-life insurance. The available solvency margin of a domestic insurance undertaking that performs reinsurance activities, provided that at least one of the values pursuant to Section 18 (4) (a) of the Insurance Act has been exceeded, shall be calculated separately for insurance activities (like in the case of a domestic insurance undertaking) and separately for reinsurance activities (like in the case of a domestic reinsurance undertaking). Where a domestic insurance undertaking performs reinsurance activities, provided that at least one of the values pursuant to Section 18 (4) (a) of the Insurance Act has been exceeded, a part of the registered capital shall be included in the calculation of the available solvency margin for insurance activities and a part of the registered capital shall be included in the calculation of the available solvency margin for reinsurance activities, so that each of the calculations complies with the minimum registered capital requirements laid down in the Insurance Act for the performance of each of these activities.

(2) The available solvency margin shall be calculated using the following items

- a) the paid-up registered capital and, if the domestic insurance undertaking does not have the legal form of a cooperative, also the share premium;
- b) the other capital funds, reserve fund and other profit funds;
- c) the undistributed profit of previous accounting periods and of the current period, after deduction of the part of profit which shall be paid out to shareholders or members;
- d) other items pursuant to paragraph 4 below;
- e) the value of the intangible property;
- f) own shares, if the domestic insurance undertaking has the legal form of a joint-stock company;
- g) holdings in affiliated or controlled entities that are an insurance undertaking, reinsurance undertaking, insurance holding entity, bank, foreign bank, electronic money institution, foreign electronic money institution¹⁰⁾, savings and loan association, entity which is not a bank or foreign bank and whose main activities consist in the acquisition of holdings or in the performance of one or more of the activities referred to in Section 5 (d) (b) to (l) of the act governing the activities of banks¹¹⁾, investment firm or a foreign entity providing

¹⁰⁾ Act No. 284/2009 Coll., on Payment Systems.

¹¹⁾ Act No. 21/1992 Coll., on Banks, as amended.

investment services, or items pursuant to the first sentence of paragraph 4 below with respect to such entities.

(3) The available solvency margin shall be calculated as a sum of the items referred to in subparagraphs a) to d) of paragraph 2 above, reduced by the items referred to in subparagraphs e) to g) of paragraph 2 above.

(4) The reference to other items shall be understood as a reference to cumulative priority share capital, liabilities arising out of subordinate bonds or other liabilities the repayment of which is subject to a condition of subordination³⁾ (hereinafter the “subordinate debt”) and securities with no fixed maturity date. These items may only be included up to 50 % of the lesser of the required solvency margin and the available solvency margin, and up to 25 % of other items may be formed by subordinate debts with a fixed maturity date or cumulative priority share capital with a fixed maturity date, provided that there exist binding agreements under which, in the case of bankruptcy or liquidation of the insurance undertaking or of the reinsurance undertaking, any subordinate debts or priority shares shall be registered after the claims of any other creditors and may be repaid only after all other debts payable as at that moment have been settled.

(5) A subordinate debt may be included in other items pursuant to paragraph 4 above, provided that

- a) the funds have been provided in fact;
- b) for debts with a fixed maturity date, the original maturity period shall be 5 years at least. No later than 1 year prior to the maturity date, the domestic insurance undertaking or the domestic reinsurance undertaking shall submit to the Czech National Bank a plan on how to maintain the available solvency margin or how to comply with the required solvency margin as at the maturity date, and the Czech National Bank shall not reject the submitted plan within 1 month after its submission; this shall not apply on condition that the extent to which the debt may be included in the available solvency margin has been gradually reduced at least over the last 5 years prior to the maturity date. The Czech National Bank may permit early redemption of such debts, provided that the owing domestic insurance undertaking or domestic reinsurance undertaking so requests and this shall not jeopardize its available solvency margin (in terms of dropping below the required level);
- c) for debts with no fixed maturity date, the five-year period of notice shall be complied with; this shall not apply on condition that such debts do not form part of the available solvency margin or on condition that, at least 6 months prior to the proposed day of early redemption, the domestic insurance undertaking or domestic reinsurance undertaking has submitted to the Czech National Bank a plan for early redemption, with a specification of the available solvency margin and of the required solvency margin before and after the redemption, unless the Czech National Bank has rejected the plan for early redemption within 1 month after its complete submission due to a risk that the available solvency margin might drop below the required level;
- d) neither the contract governing the subordinate debt nor the supplements thereof contain any provisions under which, in certain circumstances besides liquidation of the domestic insurance undertaking or of the domestic reinsurance undertaking, the subordinate debt should become payable prior to the agreed maturity date;
- e) the plan to include the subordinate debt in other items, including the terms and conditions of such a debt and its amount have been communicated and submitted to the Czech National Bank, unless the Czech National Bank has rejected the plan within 1 month after the complete submission of the terms and conditions and of the amount of the subordinate debt, or unless the Czech National Bank has informed the domestic insurance undertaking

or domestic reinsurance undertaking within 1 month after the complete submission of the terms and conditions and of the amount of the subordinate debt that it has reserved the right to reject the plan within a time limit extended by another month at the most and has rejected the plan within this extended time limit; and

- f) the contract governing the subordinate debt may be amended solely on condition that the Czech National Bank has not raised any objections within 1 month after the delivery of such an amendment.

(6) Securities with no fixed maturity date may be included in other items pursuant to paragraph 4 above, provided that

- a) they may not be redeemed at the suggestion of the holder or provided that, at least 6 months prior to the proposed date of early redemption, the domestic insurance undertaking or domestic reinsurance undertaking has submitted to the Czech National Bank a plan for early redemption, with a specification of the available solvency margin and of the required solvency margin before and after the redemption, unless the Czech National Bank has rejected the plan for early redemption within 1 month after its complete submission due to a risk that the available solvency margin might drop below the required level;
- b) the contract governing the issue of such securities or the issue terms and conditions allow the domestic insurance undertaking or domestic reinsurance undertaking to defer the payment of interest on the outstanding amount;
- c) the claims of the holder of such a security against the domestic insurance undertaking or domestic reinsurance undertaking are to the full extent registered behind the claims of all non-subordinate creditors;
- d) the documents regulating the issue of the securities contain provisions on the ability to absorb any debt loss and unpaid interest loss, while the domestic insurance undertaking or domestic reinsurance undertaking must be allowed to continue its operations;
- e) the domestic insurance undertaking or domestic reinsurance undertaking has received any funds from the issue; and
- f) the plan to include securities with no fixed maturity date in other items, including the issue terms and conditions or prospectus relating to such securities and their value in which they should be included in other items of the available solvency margin have been communicated and submitted to the Czech National Bank, unless the Czech National Bank has rejected the plan within 1 month after the complete submission of the issue terms and conditions or of the prospectus and of the value of such securities, or unless the Czech National Bank has informed the domestic insurance undertaking or domestic reinsurance undertaking within 1 month after the complete submission of the issue terms and conditions or of the prospectus and of the value that it has reserved the right to reject the plan within a time limit extended by another month at the most and has rejected the plan within this extended time limit.

(7) While calculating the available solvency margin, the item referred to in subparagraph g) of paragraph 2 above shall not be subtracted, provided that such holdings are possessed by the domestic insurance undertaking or by the domestic reinsurance undertaking temporarily for the purpose of providing the entity with financial aid in order to stabilize or save the entity and provided that the plan not to subtract the item referred to in subparagraph g) of paragraph 2 above has been communicated and submitted to the Czech National Bank, unless the Czech National Bank has rejected the plan within 1 month after its submission.

(8) While calculating the available solvency margin, the item referred to in subparagraph g) of paragraph 2 above shall not be subtracted, provided that

- a) the entity is a bank, foreign bank, electronic money institution, foreign electronic money institution¹⁰⁾, savings and loan association, entity which is not a bank or foreign bank and whose main activities consist in the acquisition of holdings or in the performance of one or more of the activities referred to in Section 5 (d) (b) to (l) of the act governing the activities of banks¹¹⁾, investment firm or a foreign entity providing investment services;
- b) while calculating the aforementioned, the method of calculation of the supplementary capital requirement, as laid down in the implementing regulation relating to the act on supplementary supervision over banks, savings and loan associations, electronic money institutions, insurance undertakings and investment firms in financial conglomerates¹²⁾, is applied as appropriate;
- c) the method referred to in subparagraph b) above is applied consistently for the entire duration of the reporting.

(9) Where a domestic insurance undertaking or domestic reinsurance undertaking applies the method of accounting consolidation, as laid down in the implementing regulation relating to the act on supplementary supervision over banks, savings and loan associations, electronic money institutions, insurance undertakings and investment firms in financial conglomerates, it must first of all substantiate to the Czech National Bank the existence of an integrated management and control system¹³⁾ for the entities to be consolidated using this method.

(10) While calculating the available solvency margin, the item referred to in subparagraph g) of paragraph 2 above shall not be subtracted, provided that

- a) the domestic insurance undertaking or domestic reinsurance undertaking is not subject to supervision in a group pursuant to Section 87 to Section 92 of the Insurance Act, or to supplementary supervision pursuant to the act on supplementary supervision over banks, savings and loan associations, electronic money institutions, insurance undertakings and investment firms in financial conglomerates¹⁴⁾; and
- b) the supervision referred to in subparagraph a) above also includes the entity referred to in subparagraph g) of paragraph 2 above.

(11) To the available solvency margin calculated pursuant to paragraph 3 above, not more than the following may be added

- a) one half of the unpaid registered capital, on condition that at least 25 % of the registered capital have been paid-up already, but not exceeding 50 % of the lesser of the required solvency margin and the available solvency margin;
- b) the difference between the non-zillmerised or partially zillmerised reserve and the reserve zillmerised at a rate equal to the loading for initial costs included in the premium, where the reserves for life assurance premium are non-zillmerised or partially zillmerised at a rate less than the loading for initial costs included in the premium, but not exceeding 3.5 % of the non-negative net capital at risk for contracts where zillmerising is possible,

¹¹⁾ Act No. 21/1992 Coll., on Banks, as amended.

¹²⁾ Sections 6 and 7 or Section 8 of Decree No. 347/2006 Coll., Implementing Certain Provisions of the Financial Conglomerates Act.

¹³⁾ Section 23 of Act No. 377/2005 Coll., on Supplementary Supervision over Banks, Savings and Loan Associations, Electronic Money Institutions, Insurance Undertakings and Investment Firms in Financial Conglomerates and on Amendments of Some Other Acts (Financial Conglomerates Act), as amended.

¹⁴⁾ Act No. 377/2005 Coll., on Supplementary Supervision over Banks, Savings and Loan Associations, Electronic Money Institutions, Insurance Undertakings and Investment Firms in Financial Conglomerates and on Amendments of Some Other Acts (Financial Conglomerates Act), as amended.

further reduced by the amount of unamortised acquisition costs of insurance contracts included in the assets;
provided that this plan, including the underlying data for the calculation, has been communicated and submitted to the Czech National Bank, unless the Czech National Bank has rejected the plan within 1 month after the complete submission of underlying data.

(12) When calculating the available solvency margin in the course of an accounting period, paragraphs 1 to 11 above shall be observed as appropriate.

Chapter II **Required Solvency Margin**

Section 17

(1) In the case of an insurance undertaking with mixed activities, the required solvency margin shall be calculated separately for life assurance and separately for non-life insurance. The required solvency margin of a domestic reinsurance undertaking performing reinsurance activities in respect of life reinsurance and the required solvency margin of a domestic reinsurance undertaking performing reinsurance activities in respect of non-life reinsurance shall be calculated in a manner similar to the calculation of the required solvency margin for non-life insurance. Where a domestic reinsurance undertaking performs reinsurance activities in respect of both life reinsurance and non-life reinsurance, the required solvency margin shall be calculated as a sum of the required solvency margin for life reinsurance and of the required solvency margin for non-life reinsurance. Where a domestic insurance undertaking performs reinsurance activities, provided that at least one of the values pursuant to Section 18 (4) (a) of the Insurance Act has been exceeded, the required solvency margin shall be calculated separately for insurance activities (like in the case of a domestic insurance undertaking) and separately for reinsurance activities (like in the case of a domestic reinsurance undertaking). Where a domestic insurance undertaking performs reinsurance activities, provided that none of the values pursuant to Section 18 (4) (a) of the Insurance Act has been exceeded, the required solvency margin shall be calculated together for insurance and reinsurance activities; for the purposes of this calculation, the reinsurance premium paid shall be regarded as the insurance premium paid.

(2) In respect of non-life insurance, the required solvency margin shall be equal to the greater of the two results calculated according to the procedures set out in Part I of Annex No. 3 to this Decree.

(3) Where the required solvency margin calculated pursuant to paragraph 2 above is lower than the required solvency margin for the previous year, the required solvency margin shall be equal at least to the required solvency margin for the previous year, multiplied by the ratio of the technical reserves for insurance benefits at the end of the last accounting period to the technical reserves for insurance benefits at the beginning of the last accounting period. This ratio must not be greater than 1. For the purposes of such calculations, technical reserves shall be cleared of reinsurance.

(4) Where the required solvency margin calculated pursuant to paragraph 3 above is lower than the required solvency margin calculated pursuant to paragraph 2 above, the required solvency margin shall be equal to the required solvency margin calculated pursuant to paragraph 2 above.

(5) In respect of life assurance, the required solvency margin shall be equal to a sum of the results for the individual groupings of life assurance classes, which shall be calculated according to the procedures set out in Part II of Annex No. 3 to this Decree.

(6) In the course of an accounting period, the required solvency margin shall be obtained from the data valid as at the last day of the previous accounting period.

Section 18

The items referred to in Section 16 (2) (a) to (d) may be included in the guarantee fund, after subtraction of the items referred to in Section 16 (2) (e) to (g).

Chapter III

Proportional Distribution of the Registered Capital

Section 19

Depending on the insurance or reinsurance activities performed, the notification to be given by a domestic insurance undertaking of the proportional distribution of its registered capital shall contain

- a) the total amount of the registered capital and the amount thereof that may be included in the calculation of the available solvency margin;
- b) the amount of the registered capital determined for the purposes of calculating the available solvency margin in respect of
 1. life assurance;
 2. non-life insurance;
 3. reinsurance;
- c) the manner of and reasons for determining the proportional distribution pursuant to subparagraph b) above.

Section 20

(1) The application of a domestic insurance undertaking that, in the course of a calendar year, intends to alter the ratio in which it distributes its registered capital or that applies for a permission to transfer any available solvency margin items from one activity to another shall contain

- a) the corporate name and registered office of the domestic insurance undertaking;
- b) the proposed new ratio of the distribution of the registered capital or of the distribution of the available solvency margin items;
- c) a justification for the alteration of the ratio or for the transfer;
- d) the plan of activities and the financial plan covering the current accounting period and at least the next 2 accounting periods; and
- e) the estimated development of the available solvency margin and of the required solvency margin over the next 3 years in the form of a solvency statement for the Czech National Bank.

(2) The plan of activities and the financial plan pursuant to paragraph 1 above shall contain

- a) an estimate of the newly made insurance or reinsurance contracts, the total number of contracts and the gross insurance premium written in the individual insurance classes

- offered or the total number of contracts and the gross reinsurance premium written in respect of the reinsurance offered;
- b) the planned balance sheet and the profit and loss statement;
 - c) an assessment of the plan fulfilment in the current accounting period;
 - d) the current investment strategy;
 - e) the passive reinsurance strategy and a list of valid reinsurance contracts; and
 - f) a list of all individual financial placement items as at the end of the month preceding the month in which the application has been filed, containing
 1. the name, identification number and registered office of the issuer;
 2. the ISIN (if assigned);
 3. the type of the assets;
 4. the number of items;
 5. the nominal value;
 6. the average acquisition price;
 7. the real value of the assetsin respect of the individual items, depending on their nature.

(3) Where a domestic insurance undertaking concurrently performs reinsurance activities, the application shall contain all information pursuant to paragraph 1 above and the plan of activities shall contain all information pursuant to paragraph 2 above, which shall be stated separately for insurance activities and separately for reinsurance activities.

Chapter IV

Solvency of a Third-Country Insurance Undertaking or of a Third-Country Reinsurance Undertaking

Section 21

The calculation of solvency of a third-country insurance undertaking or of a third-country reinsurance undertaking to the extent of the insurance activities or reinsurance activities performed by the third-country insurance undertaking or by the third-country reinsurance undertaking in the territory of the Czech Republic shall be governed by Sections 16 to 20 as appropriate.

PART TWELVE

ADJUSTED SOLVENCY MARGIN

Section 22

The adjusted solvency margin of a domestic insurance undertaking or of a domestic reinsurance undertaking shall be calculated using the aggregate method pursuant to Section 23 and in accordance with the principles laid down in Sections 24 to 26.

Section 23

(1) The adjusted solvency margin of a domestic insurance undertaking or of a domestic reinsurance undertaking with a holding in at least one insurance undertaking or reinsurance undertaking (hereinafter the “holding insurance undertaking or reinsurance undertaking”) shall be calculated as a difference between

- a) a sum of the available solvency margin of the holding insurance undertaking or reinsurance undertaking and of a proportional part of the available solvency margin of the controlled or affiliated insurance undertaking or reinsurance undertaking, or of the capital of the controlled or affiliated insurance holding entity; and
- b) a sum of the book value of the holding and of the items pursuant to Section 16 (4) of the holding insurance undertaking or reinsurance undertaking in the controlled or affiliated insurance undertaking, reinsurance undertaking or insurance holding entity as at the day of preparation of the financial statement, of the required solvency margin of the holding insurance undertaking or reinsurance undertaking and of a proportional part of the required solvency margin of the controlled or affiliated insurance undertaking or reinsurance undertaking.

(2) The adjusted solvency margin of a domestic insurance undertaking or of a domestic reinsurance undertaking controlled by an insurance holding entity shall be calculated as a difference between

- a) a sum of the capital of the insurance holding entity and of a proportional part of the available solvency margin of the controlled or affiliated insurance undertaking or reinsurance undertaking, or of the capital of the controlled or affiliated insurance holding entity; and
- b) a sum of the book value of the holding and of the items pursuant to Section 16 (4) of the insurance holding entity in the controlled or affiliated insurance undertaking, reinsurance undertaking or insurance holding entity as at the day of preparation of the financial statement and of a proportional part of the required solvency margin of the controlled or affiliated insurance undertaking or reinsurance undertaking.

(3) The adjusted solvency margin of a domestic insurance undertaking or of a domestic reinsurance undertaking controlled by a third-country insurance undertaking or by a third-country reinsurance undertaking shall be calculated as a difference between

- a) a sum of the available solvency margin of the third-country insurance undertaking or of the third-country reinsurance undertaking and of a proportional part of the available solvency margin of the controlled or affiliated insurance undertaking or reinsurance undertaking, or of the capital of the controlled or affiliated insurance holding entity; and
- b) a sum of the book value of the holding and of the items pursuant to Section 16 (4) of the third-country insurance undertaking or of the third-country reinsurance undertaking in the controlled or affiliated insurance undertaking, reinsurance undertaking or insurance holding entity as at the day of preparation of the financial statement, of the required solvency margin of the third-country insurance undertaking or of the third-country reinsurance undertaking and of a proportional part of the required solvency margin of the controlled or affiliated insurance undertaking or reinsurance undertaking.

(4) The procedure for the calculation of the adjusted solvency margin of a domestic insurance undertaking or of a domestic reinsurance undertaking is set out in Annex No. 4 to this Decree.

Section 24

(1) The proportional part pursuant to Section 23 (1) to (3) shall be determined as a sum of the direct and indirect share of a holding insurance undertaking or reinsurance undertaking, insurance holding entity, third-country insurance undertaking or third-country reinsurance undertaking in the registered capital of the controlled or affiliated insurance undertaking, reinsurance undertaking or insurance holding entity.

(2) Where the available solvency margin of any of the controlled insurance undertakings or reinsurance undertakings is lower than the required solvency margin, the full amounts of both the available solvency margin and the required solvency margin of such an insurance undertaking or reinsurance undertaking shall be used in the calculation of the adjusted solvency margin, instead of the proportional parts thereof.

(3) The capital of an insurance holding entity shall be determined in a manner similar to that of determining the available solvency margin of a domestic insurance undertaking.

(4) While calculating the adjusted solvency margin,

- a) the available solvency margin or the capital may not include the item pursuant to Section 16 (11) (a), where the registered capital has been underwritten by an entity belonging to the same group;
- b) a multiple inclusion of items includable in the available solvency margins of different insurance undertakings or reinsurance undertakings, or of items includable in the capitals of different insurance holding entities must be precluded;
- c) no available solvency margin item or capital item may be taken into account which has resulted from mutual funding among entities belonging to the same group;
- d) the available solvency margin of a holding insurance undertaking or reinsurance undertaking, of a third-country insurance undertaking or of a third-country reinsurance undertaking, or the capital of an insurance holding entity shall not be reduced by the book value of the holding and of the items pursuant to Section 16 (4) in the controlled or affiliated insurance undertaking, reinsurance undertaking or insurance holding entity, where such a controlled or affiliated insurance undertaking, reinsurance undertaking or insurance holding entity has been included in the calculation of the adjusted solvency margin;
- e) the available solvency margin of a holding insurance undertaking or reinsurance undertaking, of a third-country insurance undertaking or of a third-country reinsurance undertaking, or the capital of an insurance holding entity shall be reduced by the book value of the holding and of the items pursuant to Section 16 (4) in a bank, foreign bank, savings or loan association, electronic money institution, foreign electronic money institution, entity which is not a bank or foreign bank and whose main activities consist in the acquisition of holdings or in the performance of one or more of the activities referred to in Section 5 (d) (b) to (l) of the act governing the activities of banks¹¹⁾, investment firm or in a foreign entity providing investment services.

(5) Where an insurance undertaking concurrently offers both life assurance and non-life insurance classes, or where a reinsurance undertaking concurrently provides both life reinsurance and non-life reinsurance, for the purposes of calculating the adjusted solvency margin, the available solvency margin of the insurance undertaking or of the reinsurance undertaking shall be equal to a sum of the available solvency margins calculated separately for life assurance and separately for non-life insurance or reinsurance. Analogously, a sum of the required solvency margins calculated separately for life assurance and separately for non-life insurance or reinsurance shall be regarded as the required solvency margin of the insurance undertaking or of the reinsurance undertaking. Where an insurance undertaking concurrently performs insurance activities and reinsurance activities, for the purposes of calculating the adjusted solvency margin, the available solvency margin shall be equal to a sum of the available solvency margins calculated separately for insurance activities and

¹¹⁾ Act No. 21/1992 Coll., on Banks, as amended.

separately for reinsurance activities. Analogously, a sum of the required solvency margins calculated separately for insurance activities and separately for reinsurance activities shall be regarded as the required solvency margin of the insurance undertaking.

Section 25

(1) Where a third-country insurance undertaking or third-country reinsurance undertaking is included in the calculation of the adjusted solvency margin, Sections 16 and 17 shall apply as appropriate to the calculation of the available solvency margin and of the required solvency margin of such an insurance undertaking or reinsurance undertaking, which shall then be used in the calculation of the adjusted solvency margin of the domestic insurance undertaking or of the domestic reinsurance undertaking; the aforementioned applies without prejudice to the provisions of paragraph 2 below.

(2) Where a third-country insurance undertaking or third-country reinsurance undertaking is included in the calculation of the adjusted solvency margin and where the performance of insurance activities or reinsurance activities by such an insurance undertaking or reinsurance undertaking is subject to authorization in the third country and compliance with a solvency requirement that is at least comparable with the solvency requirement under the Insurance Act and this Decree, the available solvency margin and the required solvency margin of such an insurance undertaking or reinsurance undertaking determined according to the regulations of the third country may be used in the calculation of the adjusted solvency margin.

Section 26

Where a domestic insurance undertaking or domestic reinsurance undertaking is unable, at a request of the Czech National Bank, to submit information on the controlled or affiliated insurance undertaking, reinsurance undertaking or insurance holding entity that has its factual registered office in a Member State or in a third country, which information is necessary for the calculation of the adjusted solvency margin using the aggregate method, the book value of the holding and of the items pursuant to Section 16 (4) in such a controlled or affiliated entity shall be subtracted from the adjusted solvency margin; the information on such a controlled or affiliated entity shall otherwise not be included in the aggregate data pursuant to Section 23.

PART THIRTEEN

REPORT OF THE RESPONSIBLE ACTUARY

Section 27

(1) The report of the responsible actuary concerning its activities in a domestic insurance undertaking or in a third-country insurance undertaking shall be submitted in written form and signed by the responsible actuary who has prepared the same.

- (2) The report of the responsible actuary pursuant to paragraph 1 above shall contain
- a) the firm or corporate name, registered office and identification number of the domestic insurance undertaking or of the third-country insurance undertaking;
 - b) the name(s) and surname of the responsible actuary, type of the responsible actuary's contractual relationship with the domestic insurance undertaking or with the third-country

- insurance undertaking, including the duration of its existing discharge of the function of the responsible actuary in the domestic insurance undertaking or in the third-country insurance undertaking;
- c) a statement of the responsible actuary on
1. the amount of the technical reserves of the domestic insurance undertaking or of the third-country insurance undertaking, including a justification for any significant changes in terms of their amount;
 2. the method of calculation of the equalization reserve and, if the method has changed since the last report of the responsible actuary, also a statement on the reasons for such an alteration;
 3. the results of sufficiency tests in respect of the technical reserves and the measures proposed on the basis of these results;
 4. the management of assets and liabilities and the financial placement structure;
 5. the amount and manner of distribution of the participation in profits from life assurance;
 6. the calculation of the available solvency margin and of the required solvency margin of the domestic insurance undertaking or of the third-country insurance undertaking;
 7. the calculation of insurance premium rates for the individual products offered by the domestic insurance undertaking or by the third-country insurance undertaking;
 8. the trustworthiness of the data that the responsible actuary has used as a basis for its activities;
 9. the agreed reinsurance schemes and other methods of reducing the risk applied by the domestic insurance undertaking or by the third-country insurance undertaking;
 10. the results of credibility verification of economic scenario generators or of a similar simulation software, if used to make actuarial calculations;
 11. the amount of the technical interest rate determined for single premium insurance contracts with the term of insurance of not more than 8 years pursuant to Section 12 (3);
 12. any other information that the responsible actuary may find important and significant in terms of its function;
- d) an estimate of the expected available solvency margin and required solvency margin of the domestic insurance undertaking or of the third-country insurance undertaking for the following calendar year.

(3) Where a domestic insurance undertaking or third-country insurance undertaking has more responsible actuaries than one, each of them shall submit the report of the responsible actuary pursuant to paragraph 1 above for those insurance classes the correctness of which the respective responsible actuary is to assess pursuant to Section 81 (1) of the Insurance Act.

Section 28

The report of the responsible actuary concerning its activities in a domestic reinsurance undertaking or in a third-country reinsurance undertaking shall be governed by Section 27 as appropriate.

PART FOURTEEN

SCOPE, MANNER AND DATES OF PUBLIC DISCLOSURE OF INFORMATION

Chapter I

Public Disclosure of Information by a Domestic Insurance Undertaking or by a Domestic Reinsurance Undertaking

Section 29

The scope of information that a domestic insurance undertaking or domestic reinsurance undertaking shall publicly disclose about itself, about its shareholder or member structure, about the group to which it belongs and about its activities, including financial indicators, is specified in Annex No. 5 to this Decree.

Section 30

(1) The required information shall be publicly disclosed in the Czech language on the website of a domestic insurance undertaking or of a domestic reinsurance undertaking in the form of a data file that is suitable for downloading, namely in a commonly used format. The requirements for the manner of public disclosure of the information as at 31 December of a calendar year shall also be considered complied with, provided that it is publicly disclosed by a domestic insurance undertaking or by a domestic reinsurance undertaking directly as part of the performance of its duties, being an accounting entity or issuer of listed securities, in the annual report or in the consolidated annual report, namely within the time limit laid down in Section 31 (2).

(2) On its website, a domestic insurance undertaking or domestic reinsurance undertaking shall also publicly disclose the annual report and the consolidated annual report, provided that the domestic insurance undertaking or domestic reinsurance undertaking is obliged to prepare the same, at least for the last 3 accounting periods.

(3) Where the information to be publicly disclosed in accordance with these requirements is a subject of the duty to inform the Czech National Bank¹⁵⁾, it shall be publicly disclosed in a structure similar to that in which the information is presented in the statements submitted to the Czech National Bank.

Section 31

(1) The information shall be publicly disclosed on a quarterly basis. The information on the solvency margin shall be publicly disclosed as at 31 December of the previous calendar year.

(2) The information shall be published as at

- a) 31 March, 30 June and 30 September within 6 weeks after the expiration of the relevant calendar quarter;
- b) 31 December within 4 months after the expiration of a calendar year.

¹⁵⁾ Decree No. xx/2009 Coll., on the Manner of Submission, Form and Essential Elements of Statements of Insurance Undertakings and Reinsurance Undertakings.

(3) The quarterly information shall be publicly disclosed along with the information for the previous 3 quarters.

(4) Along with the public disclosure of the information, the date shall be specified when the information has been publicly disclosed or the date when this information has been supplemented or modified.

Chapter II

Public Disclosure of Information by a Third-Country Insurance Undertaking or by a Third-Country Reinsurance Undertaking

Section 32

A third-country insurance undertaking or a third-country reinsurance undertaking that performs insurance activities or reinsurance activities in the territory of the Czech Republic shall abide by Sections 29 and 30 as appropriate.

PART FIFTEEN

COMMON, TRANSITORY AND FINAL PROVISIONS

Section 33

(1) A domestic insurance undertaking or a domestic reinsurance undertaking shall, for the first time, publicly disclose the information pursuant to Section 29 in respect of the second quarter of the year 2010.

(2) A third-country insurance undertaking or a third-country reinsurance undertaking shall, for the first time, publicly disclose the information pursuant to Section 32 in respect of the second quarter of the year 2010.

(3) The required solvency margin calculated pursuant to the existing regulation shall be regarded as the required solvency margin calculated pursuant to this Decree.

(4) A domestic insurance undertaking, domestic reinsurance undertaking, third-country insurance undertaking or third-country reinsurance undertaking shall harmonize its activities referred to in Part Two and in Part Ten to Part Twelve with this Decree within 3 months after the effective day of this Decree. Until the time when the activities have been harmonized with this Decree, it shall abide by the existing regulation.

Section 34

Effective Day

This Decree shall become effective on 1 January 2010.

Governor:

Doc. Ing. Tůma, CSc., signed in his own hand

Further Requirements for the Management and Control System

Part I

Preconditions for the Due Administration and Management of a Domestic Insurance Undertaking or of a Domestic Reinsurance Undertaking

(1) The manner of compliance with the requirements for the management and control system shall be reflected in the description of the organizational structure of a domestic insurance undertaking or of a domestic reinsurance undertaking as well as in other internally defined principles, plans and procedures (hereinafter the “internal regulations”). In order to comply with the preconditions for the due administration and management of a domestic insurance undertaking or of a domestic reinsurance undertaking, recognized and well-tested principles and procedures created and published by acknowledged persons and selected by the domestic insurance undertaking or by the domestic reinsurance undertaking shall be reflected in its internal regulations.

(2) A domestic insurance undertaking or a domestic reinsurance undertaking shall ensure that the management and control system fulfils its functions also in respect of the activities performed under contracts on the separation of activities or contracts on mutual cost sharing¹⁶⁾ (hereinafter the “outsourcing”). In particular, the management and control system of the domestic insurance undertaking or of the domestic reinsurance undertaking shall ensure that the outsourcing does not restrain the compliance of activities with the relevant regulations, the possibility to control such activities by the domestic insurance undertaking or by the domestic reinsurance undertaking and the exercise of supervision (including a potential verification of the facts that are subject to supervision) over the third party that provides the domestic insurance undertaking or domestic reinsurance undertaking with the outsourcing. In order to ensure the controllability of fulfilment of the functions defined for thus performed activities, the management and control system of the domestic insurance undertaking or of the domestic reinsurance undertaking shall be set up in such a manner that the form of the outsourcing agreement enables to record and retrieve information about the contents of the agreement (including its amendments) and designation of the person that provides the outsourcing.

(3) The management and control system of a domestic insurance undertaking or of a domestic reinsurance undertaking shall enable to record and retrieve information on approval and decision-making processes and on control activities, including the related responsibilities, powers and internal regulations. Compliance with this requirement is also supported by the system and by the technology of acquiring, processing, transmission, sharing and keeping of information in any form (hereinafter the “information system”).

(4) The management and control system of a domestic insurance undertaking or of a domestic reinsurance undertaking shall enable to retrieve information about the frequency and

¹⁶⁾ Section 6 (4) of Act No. 277/2009 Coll., on the Insurance Industry.

about the conclusions of the supervision exercised by the supervisory board or by the control committee (hereinafter the “supervisory body”) over

- a) the functionality and efficiency of the management and control system of the domestic insurance undertaking or of the domestic reinsurance undertaking;
- b) the decisions and procedures relating to the strategy of the domestic insurance undertaking or of the domestic reinsurance undertaking.

(5) The management and control system of a domestic insurance undertaking or of a domestic reinsurance undertaking shall enable to retrieve information about

- a) how the board of directors adopts decisions and performs control activities as regards
 - 1. the creation of the management and control system and evaluation of its compliance with the requirements laid down in the Insurance Act and in this Decree, particularly in terms of its permanent functionality and efficiency;
 - 2. the definition of and compliance with the overall strategy of the domestic insurance undertaking or of the domestic reinsurance undertaking, including the risk management strategy, investment strategy, capital and solvency strategy, information system development strategy and outsourcing strategy;
 - 3. any new products, activities and systems of key importance, unless such authority has been transferred to any committee(s) designated by the board of directors; the requirement for a possibility to retrieve the defined information shall not be affected by the transfer of authority;
 - 4. the limits used to reduce the scope of risks, always at least for the insurance risk, market risk, credit risk, concentration and liquidity risk, including the requirements for the structure of assets, liabilities and off-balance-sheet items, unless such authority has been transferred to any committee(s) designated by the board of directors; the requirement for a possibility to retrieve the defined information shall not be affected by the transfer of authority;
 - 5. the organizational structure;
 - 6. the principles of the internal control system, including the principles for
 - (i) the recognition of activities or functions the performance of which is incompatible, and for the prevention of conflict of interests pursuant to paragraphs 8 and 9 below;
 - (ii) the ensurance of compliance pursuant to Part III, paragraph 2 below;
 - (iii) the ensurance of the internal audit function, particularly the scope of activities, organizational, personnel and technical aspects thereof and the strategic and periodic internal audit plan;
 - 7. any security principles, including the security principles for the information system;
- b) the conclusions made and any measures taken by the board of directors in line with the regular reports and any extraordinary findings, in particular of the supervisory body, of the employees directly subordinate to the board of directors, of the responsible actuary, of the internal audit function, of the statutory auditor or of the audit company (hereinafter the “auditor”) or of the competent supervisory authority;
- c) whether the board of directors controls the overall functionality and efficiency of the management and control system and decides about measures to remedy any imperfections identified to a sufficient extent and at a sufficient frequency.

(6) The management and control system of a domestic insurance undertaking or of a domestic reinsurance undertaking shall enable to retrieve information about how the domestic insurance undertaking or domestic reinsurance undertaking along the management line

- a) implements the strategies, principles and objectives approved by the board of directors and ensures the development of procedures for their fulfilment and for the everyday management of the domestic insurance undertaking or of the domestic reinsurance undertaking;
- b) maintains a functional and efficient organizational structure, including the separation of incompatible functions and prevention of conflict of interests pursuant to paragraphs 8 and 9 below;
- c) creates and maintains a functional and efficient information system.

(7) The organizational structure of the management and control system of a domestic insurance undertaking or of a domestic reinsurance undertaking shall be set up in such a manner that it unambiguously and coherently delimits the responsibilities, powers, major information flows and internal relations within the domestic insurance undertaking or domestic reinsurance undertaking.

(8) The management and control system of a domestic insurance undertaking or of a domestic reinsurance undertaking shall enable a timely identification of areas in which conflicts of interests may arise. The responsibilities, powers and procedures shall be set up in such a manner that they prevent any conflict of interests pursuant to Section 10 of the Insurance Act and reduce the possibility of emergence of other conflicts of interests pursuant to Section 7 (1) (a) (2) of the Insurance Act.

(9) The management and control system of a domestic insurance undertaking or of a domestic reinsurance undertaking shall ensure that

- a) the areas of conflicts of interests pursuant to paragraph 8 above and the areas in which conflicts of interests may arise are continuously monitored in an independent manner;
- b) independently of the activities as a direct consequence of which the domestic insurance undertaking or domestic reinsurance undertaking is exposed to an insurance, market or credit risk (hereinafter the “business activities”)
 1. the risks are being managed and the related activities are being performed, including the creation of reinsurance schemes;
 2. the insured events are being adjusted;
 3. the information on the insurance or reinsurance contracts made is being controlled;
 4. the transactions made in the financial markets are being assessed, the deals agreed in the financial markets are being settled and the information on the deals agreed in the financial markets is being controlled;
- c) the responsibility for the management of the business activities is separated from the responsibility for
 1. the management of the insurance, market, credit and concentration risk;
 2. the settlement of the deals agreed in the financial markets;
 3. the control of the information on the deals agreed in the financial markets;

- d) adequate independence and prevention of conflicts of interests pursuant to paragraph 8 above is provided for in the ensurance of control mechanisms and activities.

(10) The management and control system of a domestic insurance undertaking or of a domestic reinsurance undertaking shall be set up in such a manner that up-to-date, reliable and coherent information is available to the relevant bodies, employees, departments and committees (if any) for their decision-making and other defined activities. In particular, the management and control system shall provide information on

- a) any facts that might adversely affect the financial standing of the domestic insurance undertaking or of the domestic reinsurance undertaking, including the impacts of changes in the internal or external environment;
- b) any non-compliance with the statutory requirements and with the procedures laid down in internal regulations, particularly in terms of any significant deviations identified within the procedures followed by the domestic insurance undertaking or by the domestic reinsurance undertaking as against the statutory requirements and the procedures laid down in internal regulations;
- c) any exceeding of the limits that ensure the compliance with the accepted level of the insurance, market, credit and other risks run by the domestic insurance undertaking or by the domestic reinsurance undertaking, including the liquidity risk;
- d) the results of the measurement of the insurance, market, credit and operational risk, and of the concentration risk run by the domestic insurance undertaking or by the domestic reinsurance undertaking;
- e) the results of the measurement of liquidity at properly determined time intervals and in the structure according to major currencies;
- f) the results of mathematical analyses and stress tests;
- g) the solvency and financial placement structure.

(11) The management and control system of a domestic insurance undertaking or of a domestic reinsurance undertaking shall include a system for the creation and control of the information that the domestic insurance undertaking or domestic reinsurance undertaking shall publicly disclose about its current standing and investment strategy and about the estimated development. The management and control system shall contain internal control mechanisms aimed to ensure the up-to-dateness, availability, adequacy and balance of such information. Any information, including advertising messages and information determined for clients shall be unbiased, clear and non-deceptive.

(12) The management and control system of a domestic insurance undertaking or of a domestic reinsurance undertaking shall include a system for the creation, control and submission of information to the competent supervisory authorities, which shall be created, maintained and applied in such a manner that it provides the supervisory authorities with up-to-date, reliable and truthful information. The management and control system shall contain internal control mechanisms that ensure the completeness and correctness of all calculations, data, statements and other information submitted to the Czech National Bank on an individual and on a group basis. The procedures applied to the creation and submission of information to the Czech National Bank, including the submission of statements, can be retrieved also within the group. The responsibilities for communication and cooperation with the competent supervisory authorities shall be clearly defined within the scope of the management and control system of a domestic insurance undertaking or of a domestic reinsurance undertaking.

Part II

Risk Management System

(1) The management and control system of a domestic insurance undertaking or of a domestic reinsurance undertaking shall be set up in such a manner that it enables a systematic and methodical management of risks.

(2) The management and control system of a domestic insurance undertaking or of a domestic reinsurance undertaking shall be set up in such a manner that it is ensured that the risk management system

- a) corresponds with the nature, scope and complexity of activities and of the related risks and permanently provides an undistorted picture of the level of the risks run by the domestic insurance undertaking or by the domestic reinsurance undertaking. The process of risk identification shall be ensured in respect of all activities and at all management and organizational levels and enable to discover new, as yet unidentified risks;
- b) considers all significant risks and risk factors which the domestic insurance undertaking or domestic reinsurance undertaking is or may be exposed to, taking into account the nature, scope and complexity of activities that the domestic insurance undertaking or domestic reinsurance undertaking performs or intends to perform;
- c) considers the internal and external factors, including the strategy of the domestic insurance undertaking or of the domestic reinsurance undertaking, the effects of the economic environment and legislation changes with impact on its activities, quantitative and qualitative aspects of the risks, real possibilities for their management and the costs and revenues associated with their management;
- d) contains, in particular
 1. a strategy and procedures for the recognition, measurement, monitoring, reporting and potential reduction of the risks;
 2. a system of limits that is used in risk management, including the procedures and information flows that shall be applied, if these limits have been exceeded;
 3. the principles of control mechanisms and risk management activities, including the control of compliance with the defined procedures and limits for risk management and verification of the risk assessment or measurement results.

(3) The management and control system of a domestic insurance undertaking or of a domestic reinsurance undertaking shall be set up in such a manner that it creates the basic preconditions for a systematic risk management, which particularly include the determination of

- a) internal definitions of the risks that the domestic insurance undertaking or domestic reinsurance undertaking is or may be exposed to;
- b) the principles for the determination of significance of the individual risks;
- c) the principles and methods of management of the individual risks, including stress testing, namely always in respect of the insurance, market, credit, operational, liquidity and concentration risk;
- d) the reasonable risk level;
- e) the principles for the preparation and modification of emergency plans.

(4) The management and control system of a domestic insurance undertaking or of a domestic reinsurance undertaking shall be set up in such a manner that it is ensured that

- a) the domestic insurance undertaking or domestic reinsurance undertaking systematically manages
 1. the insurance risk (in particular, structured into non-life insurance, life assurance and reinsurance), market, credit and operational risk, including the legal, liquidity and concentration risk;
 2. any other significant risks that the domestic insurance undertaking or domestic reinsurance undertaking is or may be exposed to, particularly the reputation and strategic risk, the risk associated with capital resources and funding or the risk associated with belonging to a particular group, including the risk associated with operations inside the group to which the domestic insurance undertaking or domestic reinsurance undertaking belongs, unless such a risk is out of the question or not significant;
- b) the principles and procedures for the management of the risks that the domestic insurance undertaking or domestic reinsurance undertaking is or may be exposed to are coherent and interconnected with the principles and procedures for the maintenance of capital to cover such risks;
- c) the coverage of the risks by capital prudently considers the factors that influence the results of the assessment and measurement of the risks run by the domestic insurance undertaking or by the domestic reinsurance undertaking, including the effects of
 1. adjustments of asset assessments and creation of reserves;
 2. application of own estimates and models;
 3. consideration of test results (including stress tests) and other impacts of the estimated or alternative development of the internal and external environment;
 4. utilization of investments for derivatives, consideration of reinsurance and other techniques to reduce the risk;
 5. potential consideration of effects resulting from risk correlation or diversification.

(5) The management and control system of a domestic insurance undertaking or of a domestic reinsurance undertaking shall be set up in such a manner that remedial measures are taken whenever the risks run by the domestic insurance undertaking or by the domestic reinsurance undertaking are not adequately covered by capital or in any other manner.

Part III

Internal Control System

(1) The management and control system of a domestic insurance undertaking or of a domestic reinsurance undertaking shall include control activities. Control activities shall be part of the routine, usually everyday activities of the domestic insurance undertaking or of the domestic reinsurance undertaking, they shall be in place and applied at all management and organizational levels and include, in particular

- a) appropriate control mechanisms for the individual processes and activities, including the activities that the domestic insurance undertaking or domestic reinsurance undertaking outsources;
- b) the performance of controls along the management line;

- c) the ensurance of compliance (paragraph 2 below),
- d) the ensurance of the performance of the internal audit function.

(2) The management and control system of a domestic insurance undertaking or of a domestic reinsurance undertaking shall contain the principles and procedures for the ensurance of compliance, covering all activities of the domestic insurance undertaking or of the domestic reinsurance undertaking in a coherent and interconnected manner and aimed to ensure at least

- a) the compliance of internal regulations with legal regulations;
- b) the mutual compliance of internal regulations;
- c) the compliance of the activities performed with both legal and internal regulations.

While ensuring compliance, related information shall also be created, used and kept such as, in particular, internal reports on any identified instances of non-compliance, on prepared legal regulations and their potential impacts on the activities of the domestic insurance undertaking or of the domestic reinsurance undertaking, evaluation reports, proposals for the ensurance of compliance of the domestic insurance undertaking or of the domestic reinsurance undertaking and information about the compliance risk.

(3) The management and control system of a domestic insurance undertaking or of a domestic reinsurance undertaking shall ensure a systematic and efficient performance of the internal audit function. All activities of the domestic insurance undertaking or of the domestic reinsurance undertaking shall be subject to an independent verification by the internal audit function, in particular

- a) the performance of the duties set out in legal regulations, particularly of the duty to act with due professional care and with prudence and to abide by the internally defined principles, objectives and procedures;
- b) the risk management system;
- c) the financial management, capital and solvency management;
- d) the completeness, conclusiveness, correctness and reliability of bookkeeping and of the information submitted to the bodies of the domestic insurance undertaking or of the domestic reinsurance undertaking;
- e) the reliability of accounting, statistical and operating information, including information determined for clients, and reliability of the system used to prepare and submit statements to the Czech National Bank;
- f) the functionality and safety of the information system.

(4) The performance of the internal audit function shall always include

- a) the preparation of a risk analysis, namely at least once a year;
- b) the preparation of a strategic and periodic plan of the internal audit function, usually on an annual basis;
- c) the creation and maintenance of a system to monitor the fulfilment of remedial measures taken on the basis of the findings made by the internal audit function;
- d) a continuous monitoring and evaluation of the functionality and efficiency of the internal control system and of other elements of the management control system;
- e) the preparation of an overall evaluation of the functionality and efficiency of the management and control system, namely at least once a year;

- f) the provision of information to the bodies of the domestic insurance undertaking or of the domestic reinsurance undertaking about the results of internal audit and about the facts discovered.

The performance of the internal audit function shall be ensured in such a manner that it contributes to the improvement of internal processes of the domestic insurance undertaking or of the domestic reinsurance undertaking.

(5) The management and control system of a domestic insurance undertaking or of a domestic reinsurance undertaking shall be set up in such a manner that the monitoring and evaluation of its functionality and efficiency is carried out on a continuous basis at all management and organizational levels. Any imperfections of the management and control system shall be reported to the relevant management level without undue delay. Any significant imperfections of the management and control system shall be reported to the board of directors and to the supervisory body. The system for the detection and reporting of imperfections of the management and control system shall be set up in such a manner that it enables a timely rectification thereof. Subsequently, the efficiency of the measures taken shall be verified.

Methods of Calculation of the Equalization Reserve

Method No. 1

Let us define

- VR_t creation of the equalization reserve for accounting period t in respect of a given non-life insurance class;
- TZ_t technical profit for accounting period t in respect of a given non-life insurance class, where the technical profit shall be understood as a reference to earned insurance premium for own account, reduced by the costs of insurance benefits for own account and by the operating expenditures for own account;
- ZP_t earned insurance premium for the insurance undertaking's own account for accounting period t in respect of a given non-life insurance class;
- CVR total amount of the equalization reserve created until time t in respect of a given non-life insurance class
$$CVR = (VR_t + VR_{t-1} + \dots).$$

If $TZ_t > 0$, then the equalization reserve for the given accounting period (t) shall be created according to the formula

$$VR_t = \min\{0.75 \cdot TZ_t; 0.12 \cdot ZP_t\}.$$

If $TZ_t \leq 0$, then $VR_t = TZ_t$.

However, in respect of the total amount of the equalization reserve (CVR), the following must be complied with

$$0 \leq CVR \leq 1.5 \cdot \max\{ZP_{t-1}; \dots; ZP_{t-5}\}.$$

Method No. 2

Let us define

- VR_t creation of the equalization reserve for accounting period t in respect of a given non-life insurance class;
- TZ_t technical profit for accounting period t in respect of a given non-life insurance class, where the technical profit shall be understood as a reference to earned insurance premium for own account, reduced by the costs of insurance benefits for own account and by the operating expenditures for own account;
- ZP_t earned insurance premium for the insurance undertaking's own account for accounting period t in respect of a given non-life insurance class;
- CVR total amount of the equalization reserve created until time t in respect of a given non-life insurance class
$$CVR = (VR_t + VR_{t-1} + \dots).$$

If $TZ_t > 0$, then the equalization reserve for the given accounting period (t) shall be created according to the formula

$$VR_t = 0.75 * TZ_t.$$

If $TZ_t \leq 0$, then $VR_t = TZ_t$.

However, in respect of the total amount of the equalization reserve (CVR), the following must be complied with

$$0 \leq CVR \leq 0.268 * (ZP_{t-1} + \dots + ZP_{t-5}).$$

Method No. 3

Let us define

- VR_t creation of the equalization reserve for accounting period t in respect of a given non-life insurance class;
- T number of monitored periods, must be $T \in \{15, 16, \dots, 30\}$;
- NPP_t costs of insurance benefits for the insurance undertaking's own account for accounting period t in respect of a given non-life insurance class;
- ZP_t earned insurance premium for the insurance undertaking's own account for accounting period t in respect of a given non-life insurance class;
- CVR total amount of the equalization reserve created until time t in respect of a given non-life insurance class
 $CVR = (VR_t + VR_{t-1} + \dots)$.

Let us define the loss ratio in accounting period t as $q_t = NPP_t / ZP_t$;

the average loss ratio in accounting period t as $Q_t = (q_{t-1} + \dots + q_{t-T}) / T$;

the standard deviation of the loss ratio in accounting period t as $\sigma_t = \sqrt{\sum_{k=1}^T (q_{t-k} - Q_t)^2 / (T-1)}$

and the maximum amount of the equalization reserve in year t as $MVR_t = 6 * \sigma_t * ZP_t$.

The equalization reserve for the given accounting period (t) shall be created according to the formula

$$VR_t = (Q_t - q_t) * ZP_t + 0.035 * MVR_t.$$

However, in respect of the total amount of the equalization reserve (CVR,) the following must be complied with

$$0 \leq CVR \leq MVR_t.$$

Where no insurance loss has occurred in the course of the monitored periods (T), there is no need to create any equalization reserve.

Method No. 4

Let us define

- VR_t creation of the equalization reserve for accounting period t in respect of a given non-life insurance class;
- T number of monitored periods, must be $T \in \{15, 16, \dots, 30\}$;
- NPP_t costs of insurance benefits for the insurance undertaking's own account for accounting period t in respect of a given non-life insurance class;
- ZP_t earned insurance premium for the insurance undertaking's own account for accounting period t in respect of a given non-life insurance class;
- CVR total amount of the equalization reserve created until time t in respect of a given non-life insurance class
CVR = (VR_t + VR_{t-1} + ...).

Let us define the loss ratio in accounting period t as $q_t = \text{NPP}_t / \text{ZP}_t$;

the average loss ratio in accounting period t as $Q_t = (q_{t-1} + \dots + q_{t-T}) / T$;

the standard deviation of the loss ratio in accounting period t as $\sigma_t = \sqrt{\sum_{k=1}^T (q_{t-k} - Q_t)^2 / (T-1)}$;

the maximum amount of the equalization reserve in year t as $\text{MVR}_t = 6 * \sigma_t * \text{ZP}_t$ and

the minimum amount of the equalization reserve in year t as $\text{mVR}_t = 3 * \sigma_t * \text{ZP}_t$.

The equalization reserve for the given accounting period (t) shall be created according to the formula

$$\text{VR}_t = (Q_t - q_t) * \text{ZP}_t.$$

However, in respect of the total amount of the equalization reserve (CVR), the following must be complied with

$$\text{mVR}_t \leq \text{CVR} \leq \text{MVR}_t.$$

Where no insurance loss has occurred in the course of the monitored periods (T), there is no need to create any equalization reserve.

Calculation of the Required Solvency Margin

I. Calculation of the Required Solvency Margin for Non-Life Insurance

For the purposes of calculating the required solvency margin, the insurance premiums and the costs of insurance benefits (including the balances of the reserves for insurance benefits) pertaining to classes no. 11, 12 and 13 referred to in Part B of Annex No. 1 to the Insurance Act shall be increased by 50 %.

1. First result

Let us define

- P the greater of the gross premium written and the gross premium earned in a given accounting period;
- D the part of insurance premium that corresponds to taxes and charges, if they are included in the gross premium written;
- PZ the ratio of the costs of insurance benefits (including any change of the balance of the reserve for insurance benefits) for own account to the total costs of insurance benefits (including any change of the balance of the reserve for insurance benefits);
- K CZK to EUR conversion rate (that is, EUR 1 = CZK K).

Further, let us define $S = P - D$.

The first result of the required solvency margin for non-life insurance shall be calculated as

$[0.18 * \min\{50\,000\,000 * K; S\} + 0.16 * \max\{0; S - 50\,000\,000 * K\}] * \max\{0.5; PZ\}$.

2. Second result

Let us define

- T duration of the reference period;
- N gross costs of insurance benefits in the given reference period;
- V revenues from returns in the given reference period, if they are not included in the gross costs of insurance benefits already;
- RK gross amount of the reserve for insurance benefits at the end of the reference period;
- RZ gross amount of the reserve for insurance benefits at the beginning of the reference period;
- PZ the ratio of the costs of insurance benefits (including any change of the balance of the reserve for insurance benefits) for own account in the reference period to the total costs of insurance benefits (including any change of the balance of the reserve for insurance benefits) in the reference period;
- K CZK to EUR conversion rate (that is, EUR 1 = CZK K).

Let us define $T = 7$, if the insurance undertaking offers credit insurance, windstorm, hail or frost insurance to a considerable extent; otherwise $T = 3$. For insurance undertakings that

perform insurance activities for a period shorter than the prescribed duration of the reference period, such a number of whole accounting periods shall be used in respect of which the necessary information is available.

To a considerable extent shall mean that the volume of insurance premium written in respect of a given insurance class has reached 4 % of the total insurance premium written in respect of all non-life insurance classes offered at least in one year of the reference period, and the volume of insurance premium written in respect of this insurance class has simultaneously exceeded the amount of CZK 1,000,000 per 1 year in the course of the reference period.

In the case of the risks assigned to class no. 18 in Part B of Annex No. 1 to the Insurance Act, the costs of insurance benefits shall be equal to the costs borne by the insurance undertaking with respect to the assistance provided.

Further, let us define $S = (N - V + RK - RZ)/T$.

The second result of the required solvency margin for non-life insurance shall be calculated as

$$[0.26 * \min\{35\,000\,000 * K; S\} + 0.23 * \max\{0; S - 35\,000\,000 * K\}] * \max\{0.5; PZ\}.$$

II. Calculation of the Required Solvency Margin for Life Assurance

1. First result (classes A I a), A I b), A II, A IX)

These items shall not include amounts pertaining to any supplementary insurance contracts made together with life assurance.

Let us define

- HR gross amount of reserves of life assurance premiums;
- CR net amount of reserves of life assurance premiums;
- RK1 gross amount of non-negative capital at risk in relation to life assurance, with the exception of temporary assurance contracts payable at death, with the term of assurance of not more than 5 years;
- RK2 gross amount of non-negative capital at risk in relation to temporary assurance contracts payable at death, with the term of assurance of more than 3 years, but not exceeding 5 years;
- RK3 gross amount of non-negative capital at risk in relation to temporary assurance contracts payable at death, with the term of assurance of not more than 3 years;
- PZ the ratio of the net amount to the gross amount of non-negative capital at risk.

The first result of the required solvency margin for life assurance shall be calculated as

$$0.04 * HR * \max\{CR/HR; 0.85\} + [0.003 * RK1 + 0.0015 * RK2 + 0.001 * RK3] * \max\{PZ; 0.5\}.$$

2. Second result (class A I c))

The second result shall be calculated in a manner similar to that specified in Part I of this Annex.

3. Third result (classes A III, A VII, A VIII)

These items shall not include amounts pertaining to any supplementary insurance contracts made together with life assurance associated with an investment fund.

Let us define

- HR1 gross amount of the reserves of life assurance premiums in respect of contracts pursuant to which the investment risk is borne by the insurance undertaking;
- HR2 gross amount of the reserves of life assurance premiums in respect of contracts pursuant to which the investment risk is borne by the policyholder and the loading for administrative expenses included in assurance premium is fixed for a period exceeding five years;
- PZ the ratio of the net amount to the gross amount of technical reserves in respect of life assurance contracts associated with an investment fund;
- SN net administrative expenses in the last accounting period in respect of contracts pursuant to which the investment risk is borne by the policyholder and the loading for administrative expenses included in assurance premium is not fixed for a period exceeding five years;
- HRK gross amount of non-negative capital at risk in relation to assurance contracts covering the risk of death;
- CRK net amount of non-negative capital at risk in relation to assurance contracts covering the risk of death.

The third result of the required solvency margin for life assurance shall be calculated as

$$[0.04 * HR1 + 0.01 * HR2] * \max\{PZ; 0.85\} + 0.25 * SN + HRK * 0.003 * \max\{CRK/HRK; 0.5\}.$$

4. Fourth result (class A VI)

Let us define

- HR gross amount of the reserves of life assurance premiums;
- CR net amount of the reserves of life assurance premiums;

The fourth result of the required solvency margin for life assurance shall be calculated as

$$0.04 * HR * \max\{CR/HR; 0.85\}.$$

5. Fifth result (class A V)

The fifth result of the required solvency margin for life assurance shall be calculated as 1 % of the assets pertaining to class A V.

6. Sixth result (class A IV)

The sixth result of the required solvency margin for life assurance shall be calculated as a sum of

- a) the fourth result calculated in Part II of this Annex; and
- b) the result calculated in Part I of this Annex.

Procedure for the Calculation of the Adjusted Solvency Margin of a Domestic Insurance Undertaking or of a Domestic Reinsurance Undertaking

Adjusted solvency margin US_p shall be calculated as follows

$$US_p = A - B,$$

where

$$A = DMS_p + \sum_{i=1}^n q_i * DMS_i,$$

$$B = \sum_{i=1}^n UH_{p_i} + PMS_p + \sum_{i=1}^n q_i * PMS_i,$$

where DMS_p available solvency margin of a holding insurance undertaking or reinsurance undertaking, third-country insurance undertaking or a third-country reinsurance undertaking, or capital of an insurance holding entity;

q_i proportional share of a holding insurance undertaking or reinsurance undertaking, insurance holding entity, third-country insurance undertaking or a third-country reinsurance undertaking in the registered capital of the i^{th} controlled or affiliated insurance undertaking, reinsurance undertaking or insurance holding entity;

DMS_i available solvency margin of the i^{th} controlled or affiliated insurance undertaking or reinsurance undertaking, or capital of the i^{th} controlled or affiliated insurance holding entity;

UH_{p_i} book value of the holding and of the items pursuant to Section 16 (4) of a holding insurance undertaking or reinsurance undertaking, insurance holding entity, third-country insurance undertaking or a third-country reinsurance undertaking in the i^{th} controlled or affiliated insurance undertaking, reinsurance undertaking or insurance holding entity;

PMS_p required solvency margin of a holding insurance undertaking or reinsurance undertaking, third-country insurance undertaking or a third-country reinsurance undertaking;

PMS_i required solvency margin of the i^{th} controlled or affiliated insurance undertaking or reinsurance undertaking.

Scope of Information about a Domestic Insurance Undertaking or a Domestic Reinsurance Undertaking, about its Shareholder or Member Structure, about the Group to which it Belongs and about its Activities, including Financial Indicators

(1) Information about a domestic insurance undertaking or a domestic reinsurance undertaking shall include

- a) the corporate name, legal form, registered office address and identification number of the domestic insurance undertaking or of the domestic reinsurance undertaking in accordance with its registration in the Commercial Register;
- b) the date of registration of the domestic insurance undertaking or of the domestic reinsurance undertaking in the Commercial Register, including the date of registration of the last alteration, with a specification of the purpose of the last alteration;
- c) the amount of registered capital, as registered in the Commercial Register;
- d) the amount of paid-up registered capital;
- e) the type, form, appearance and number of issued shares, with a specification of their nominal value, provided that the domestic insurance undertaking or domestic reinsurance undertaking is a joint-stock company;
- f) information about the acquisition of own shares and interim certificates and other subscriber securities, with a specification of their type, form, appearance and number, provided that the domestic insurance undertaking or domestic reinsurance undertaking is a joint-stock company;
- g) information about any increase in the registered capital, if the registered capital has been increased since the last public disclosure, namely
 1. the manner and scope of the increase in the registered capital;
 2. provided that new shares have been issued, the domestic insurance undertaking or domestic reinsurance undertaking shall publicly disclose the type, form, appearance and number of issued shares, with a specification of their nominal value, the extent to which the newly subscribed shares have been paid-up and the time limit for payment of the newly subscribed shares;
 3. provided that own resources have been used to increase the registered capital, the domestic insurance undertaking or reinsurance undertaking shall publicly disclose the amount by which the registered capital has been increased and identify its own resources from which the registered capital has been increased. Provided that the domestic insurance undertaking or domestic reinsurance undertaking is a joint-stock company, it shall further specify whether the nominal value of the shares has been increased and, if this is the case, by what amount;
- h) the organizational structure of the domestic insurance undertaking or of the domestic reinsurance undertaking, with a specification of the number of organizational units and of the number of employees (converted status);
- i) information about members of the supervisory body, members of the board of directors of the domestic insurance undertaking or of the domestic reinsurance undertaking, including
 1. the name(s) and surname, including academic degrees;
 2. the function and date since when the function has been discharged by the respective person;
 3. the existing experience and qualifications for the discharge of the function;
 4. the membership of any bodies in other legal entities;

5. the aggregate amount of loans and credits provided by the domestic insurance undertaking or by the domestic reinsurance undertaking to members of the supervisory board or control committee, to members of the board of directors of the domestic insurance undertaking or of the domestic reinsurance undertaking;
6. the aggregate amount of guarantees given by the domestic insurance undertaking or by the domestic reinsurance undertaking for members of the supervisory board or control committee, for members of the board of directors of the domestic insurance undertaking or of the domestic reinsurance undertaking.

(2) Information about the shareholder or member structure of a domestic insurance undertaking or of a domestic reinsurance undertaking shall include information about the shareholders or members of the domestic insurance undertaking or of the domestic reinsurance undertaking with a qualified holding in the domestic insurance undertaking or in the domestic reinsurance undertaking, providing that

- a) in relation to the shareholders or members who are legal entities, the domestic insurance undertaking or domestic reinsurance undertaking shall publicly disclose the firm or corporate name, legal form, registered office address and the percentage of voting rights;
- b) in relation to the shareholders or members who are natural persons (private individuals), the domestic insurance undertaking or domestic reinsurance undertaking shall publicly disclose the name(s) and surname and the percentage of voting rights.

(3) Information about the structure of the group to which a domestic insurance undertaking or a domestic reinsurance undertaking belongs shall include

- a) information about the entities which are the controlling entities or, as the case may be, the majority member of the domestic insurance undertaking or of the domestic reinsurance undertaking, which shall include
 1. the firm or corporate name, legal form and registered office address of such an entity; if a natural person (private individual) is concerned, the name(s) and surname;
 2. the percentage of direct or indirect share in the registered capital of the domestic insurance undertaking or of the domestic reinsurance undertaking;
 3. the percentage of direct or indirect share in the voting rights of the domestic insurance undertaking or of the domestic reinsurance undertaking;
 4. the manner in which the domestic insurance undertaking or domestic reinsurance undertaking is a controlled entity, if this is not a share in the registered capital or voting rights;
 5. the aggregate amount of claims of the domestic insurance undertaking or of the domestic reinsurance undertaking, and the aggregate amount of liabilities of the domestic insurance undertaking or of the domestic reinsurance undertaking with respect to such entities;
 6. the aggregate amount of securities that are included in the assets of the domestic insurance undertaking or of the domestic reinsurance undertaking and that are issued by such entities, and the aggregate amount of liabilities of the domestic insurance undertaking or of the domestic reinsurance undertaking resulting from such securities;
 7. the aggregate amount of guarantees given by the domestic insurance undertaking or by the domestic reinsurance undertaking for such entities, and the aggregate amount of guarantees received by the domestic insurance undertaking or by the domestic reinsurance undertaking from such entities.

Where the entity which is the direct controlling entity of a domestic insurance undertaking or of a domestic reinsurance undertaking is a bank, investment firm, foreign bank or

foreign entity providing investment services, it shall be sufficient to publicly disclose the information pursuant to subparagraph a) in respect of that controlling entity only.

- b) information about the entities which are the controlled entities of the domestic insurance undertaking or of the domestic reinsurance undertaking or, as the case may be, of which the domestic insurance undertaking or domestic reinsurance undertaking is the majority member, which shall include
 1. the firm or corporate name, legal form and registered office address of such an entity;
 2. the percentage of direct or indirect share of the domestic insurance undertaking or of the domestic reinsurance undertaking in the registered capital;
 3. the percentage of direct or indirect share of the domestic insurance undertaking or of the domestic reinsurance undertaking in the voting rights;
 4. the manner in which the domestic insurance undertaking or domestic reinsurance undertaking is the controlling entity, if this is not a share in the registered capital or voting rights;
 5. the number, nominal value and acquisition price of shares, or the percentage and acquisition price of the ownership interest acquired in such an entity, including any changes in the course of the accounting period;
 6. the aggregate amount of claims of the domestic insurance undertaking or of the domestic reinsurance undertaking, and the aggregate amount of liabilities of the domestic insurance undertaking or of the domestic reinsurance undertaking with respect to such entities;
 7. the aggregate amount of securities that are included in the assets of the domestic insurance undertaking or of the domestic reinsurance undertaking and that are issued by such entities, and the aggregate amount of liabilities resulting from such securities;
 8. the aggregate amount of guarantees given by the domestic insurance undertaking or by the domestic reinsurance undertaking for such entities, and the aggregate amount of guarantees received by the domestic insurance undertaking or by the domestic reinsurance undertaking from such entities;
- c) a graphic representation of the group, showing all controlled and affiliated entities of the domestic insurance undertaking or of the domestic reinsurance undertaking, all of its controlling entities and all controlled or affiliated entities of the controlling entities of the domestic insurance undertaking or of the domestic reinsurance undertaking. Where the controlling entities of the domestic insurance undertaking or of the domestic reinsurance undertaking are subject to supervision within the group or to supervision on a consolidated basis or to supplementary supervision over a financial conglomerate, providing that they publicly disclose information about their group, the graphic representation may show the controlled and affiliated entities of the domestic insurance undertaking or of the domestic reinsurance undertaking and all of its controlling entities only;
- d) where a domestic insurance undertaking or a domestic reinsurance undertaking or its controlling entity is subject to the duty to comply with the adjusted solvency margin, the domestic insurance undertaking or domestic reinsurance undertaking shall state which entities are included in the calculation of the adjusted solvency margin.

(4) Information about the activities of a domestic insurance undertaking or of a domestic reinsurance undertaking, including financial indicators, shall include

- a) the line of business (activities), as registered in the Commercial Register;
- b) a summary of activities performed in fact;

- c) a summary of activities the performance or provision of which has been restricted or suspended by the Czech National Bank;
- d) the balance sheet of the domestic insurance undertaking or of the domestic reinsurance undertaking;
- e) the profit and loss statement of the domestic insurance undertaking or of the domestic reinsurance undertaking;
- f) the real and nominal (notional) values of the derivatives (on an overall basis for the derivatives agreed for reinsurance purposes, and on an overall basis for the derivatives agreed for trading or speculation purposes);
- g) the proportional indicators of the domestic insurance undertaking or of the domestic reinsurance undertaking, namely
 1. solvency indicators for life assurance, non-life insurance, reinsurance – the available solvency margin, required solvency margin, guarantee fund amount, ratio of the available solvency margin to the required solvency margin, and ratio of the guarantee fund amount to a sum of the items pursuant to Section 18;
 2. the adjusted solvency margin indicator as at the day of preparation of the financial statement, including its calculation, in the form pursuant to the relevant paragraph of Section 23, if supervision is exercised over the domestic insurance undertaking or domestic reinsurance undertaking within the group pursuant to Section 87 (1) (a) and (b) of the Insurance Act;
 3. the return on average assets (ROAA) – $100 \% * \text{profit or loss in accounting period} / \text{assets in total}$;
 4. the return on average equity (ROAE) – $100 \% * \text{profit or loss in accounting period} / \text{equity}$;
 5. the “combined ratio” for non-life insurance – $100 \% * (\text{costs of insurance benefits, including any change of the balance of the reserve for insurance benefits, cleared of reinsurance} + \text{net operating expenditures}) / \text{earned insurance premium, cleared of reinsurance}$.

