

*Translation from Bulgarian language*

Ordinance № 53 of 23 December 2016 on the requirements to the reporting, valuation of assets and liabilities and establishment of technical provisions of insurers, reinsurers and the Guarantee Fund

**FINANCIAL SUPERVISORY COMMISSION**  
**ORDINANCE № 53 of 23 December 2016**  
**on the requirements to the reporting, valuation of assets and liabilities and establishment of technical provisions of insurers, reinsurers and the Guarantee Fund**

**PART I**  
**GENERAL PROVISIONS**

Chapter 1

GENERAL

*Subject matter and objectives of the Ordinance*

**Article 1.** (1) The Ordinance lays down:

1. the structure, form and contents of:

a) the annual financial statement of insurers and reinsurers;

b) the consolidated financial statements of insurers and reinsurers which are participating undertakings in other insurance undertakings or reinsurance undertakings, of insurance holding companies and of mixed financial holding companies;

c) the annual, quarterly and monthly reports, templates, reports and annexes of insurers and reinsurers under the first subparagraph of Article 126, of the Code on Insurance, other than the templates for quantitative reporting of individual undertakings and groups under Commission Implementing Regulation (EU) 2015/2450 of 2 December 2015 laying down implementing technical standards with regard to the templates for the submission of information to the supervisory authorities according to Directive 2009/138/EC of the European Parliament and of the Council (OJ L 347, 31.12.2015, p. 1) (Regulation (EU) 2015/2450) and other than the templates of the solvency and financial condition report of individual undertakings and groups under Commission Implementing Regulation (EU) 2015/2452 of 2 December 2015 laying down implementing technical standards with regard to the procedures, formats and templates of the solvency and financial condition report in accordance with Directive 2009/138/EC of the European Parliament and of the Council (OJ L 347/1285 of 31.12.2015) (Regulation (EU) 2015/2452);

2. the requirements related to the preparation and contents of the regular supervisory report and the solvency and financial condition report of insurers and reinsurers;

3. the additional requirements related to the valuation of assets and liabilities with regard to

the mandatory accountancy reporting as well as with regard to the report for solvency supervision purposes;

4. the procedure and methodology for the establishment of technical provisions by insurers and reinsurers for the purposes of mandatory accountancy reporting and solvency supervision, the principles applied for the calculation of the amount of technical provisions as well as of the maximum amount of the technical interest for insurances under Section I of Annex № 1 of the Code on Insurance.

(2) The Ordinance lays down also:

1. the form of the electronic document and the requirements to the electronic signing of the reports and templates of insurers and reinsurers;
2. the additional requirements to the Guarantee Fund reporting;
3. other requirements to reporting.

(3) The objectives of the Ordinance shall be:

1. achieving comparability of the financial statements of individual insurers and reinsurers including through the same structure and the same item designations of components of the balance sheet (financial condition report) and the income statement (a statement of profit and loss and of the comprehensive income) that is of relevance to the proper understanding of their financial condition by consumers, by their shareholders as well as by the general public;
2. providing the information necessary with regard to the supervision of the insurance activity.

#### *Financial statements, templates, reports and annexes*

**Article 2.** (1) The annual financial statement under the first subparagraph of Article 126, point (1) of the Code on Insurance, shall be the annual financial statement for the purposes of mandatory accountancy reporting, where the financial condition report and the statement of profit and loss are in accordance with Part II and have the components and structure set out in Annex № 1 (Annex № 1.1 and Annex № 1.2).

(2) An annual report under the first subparagraph of Article 126, point (2) of the Code on Insurance, shall comprise the annual actuarial report under the second subparagraph of Article 100, point (2) of the Code on Insurance. The annual reports within the meaning of the first subparagraph of Article 126, point (2) shall also be included in the solvency and financial condition report under Article 129 of the Code on Insurance as well as the regular supervisory report and the supervisory report on own risk and solvency assessment under Article 304(1), letters „b“ and „c“ of Commission Delegated Regulation (EU) 2015/35 of 10 October 2014 to supplement Directive 2009/138/EC of the European Parliament and of the Council on the taking-up and pursuit of insurance and reinsurance activities (Solvency II) (OJ L 12/1 of 17.01.2015) (Regulation (EU) 2015/35).

(3) An insurer shall prepare annual templates, reports and annexes according to this Ordinance.

#### *Annual templates, reports and annexes*

**Article 3.** (1) The annual templates, reports and annexes under Article 126(1), point (2) of the Code on Insurance shall include:

1. the templates as per Annex № 2 (Annex № 2.1);
2. the templates as per Annex № 2 (Annex № 2.2);
3. the annual quantitative templates under Article 304(1), letter „d“ of Regulation (EU) 2015/35;
4. the template of the actual owners (beneficial owners) having 10% or more than 10% equity of an insurance joint-stock company;
5. recent certificates of entry in the commercial register issued 3 months prior the date of submission to the Commission of the existing branches and/or other forms of establishment of the insurer.

(2) Insurers, carrying out an activity exclusively under Section I of Annex № 1 to the Code on Insurance, shall submit the templates under the first subparagraph, point (1) and insurers, carrying out an activity exclusively under Section II of Annex № 1 to the Code on Insurance, shall submit the templates under the first subparagraph, point (2). Insurers, carrying out an activity also under Section I and Section II of Annex № 1 to the Code on Insurance, shall submit all templates under the first subparagraph, point (1), as well as the relevant templates under the first subparagraph, point (2) that are specific to the activity under Section II, point (2) of Annex № 1 to the Code on Insurance.

(3) The templates under the first subparagraph, point (4) shall be submitted by insurers attaching Part II, Title III of the Code on Insurance. Insurers, attaching Part II, Title III of the Code on Insurance, and reinsurers shall not submit the templates with extension „B“ to the name of the template.

(4) An „OUTWARD REINSURANCE“ template of the annexes under subparagraph 1 shall be submitted by insurers on the basis of aggregate data according to the credit rating of the reinsurer, but each insurer must submit the template, completed for each reinsurer, to the Commission when requested.

#### *Quarterly reports and templates*

**Article 4.** (1) The quarterly reports and templates under the first subparagraph of Article 126, point (3) of the Code on Insurance shall include:

1. a quarterly financial statement comprising the components under the first subparagraph of Article 33, points (1) to (4), where the components under the first subparagraph of Article 33, points (1) and (2) have the structure set out in Annex № 1;
2. quarterly templates as follows:
  - a) templates as per Annex № 3 (Annex № 3.1);
  - b) templates as per Annex № 3 (Annex № 3.2);
  - c) quarterly quantitative templates under Article 304(1), letter „d“ of Regulation (EU) 2015/35.

(2) Insurers, carrying out an activity exclusively under Section I of Annex № 1 to the Code

on Insurance, shall submit the templates under the first subparagraph, point (2), letter „a“ and insurers, carrying out an activity exclusively under Section II of Annex № 1 to the Code on Insurance, shall submit the templates under the first subparagraph, point (2), letter „b“. Insurers, carrying out an activity also under Section I and Section II of Annex № 1 to the Code on Insurance, shall submit all templates under the first subparagraph, point (2), letter „a“ as well as the relevant templates under the first subparagraph, point (2), letter „b“ that are specific to the activity under Section II, point (2) of Annex № 1 to the Code on Insurance.

(3) Insurers, attaching Part II, Title III of the Code on Insurance, and reinsurers shall not submit the templates with extension „.B“ to the name of the template .

(4) An „OUTWARD REINSURANCE“ template of the annexes under the first subparagraph, point (2) shall be submitted by insurers on the basis of aggregate data according to the credit rating of the reinsurer, but each insurer must submit the template, completed for each reinsurer, to the Commission when requested.

#### *Monthly templates*

**Article 5.** (1) The monthly templates under the first subparagraph of Article 126, point (4) of the Code on Insurance shall include:

1. a monthly financial statement comprising the components under the first subparagraph of Article 33, points (1) and (2) and having the structure set out in Annex № 1;

2. templates as per Annex № 4 (Annex № 4.1) – for insurers carrying out an activity under Section I of Annex № 1 to the Code on Insurance;

3. templates as per Annex № 4 (Annex № 4.2) – for insurers carrying out an activity under Section II of Annex № 1 to the Code on Insurance.

(2) In Tier Supplementary insurance of the template RB1 of Annex № 4.1 insurances details shall be provided under Section I, point (1), letter „c“ and point 3, letter „c“ of Annex № 1 to the Code on Insurance, as well as supplementary insurances details concluded prior its entry into force.

(3) Insurers, carrying out an activity both under Section I and Section II of Annex № 1 to the Code on Insurance, shall submit the templates set out in Annex № 4.1, as well as the template MO1 of Annex № 4.2.

#### *Templates, reports and annexes of reinsurers*

**Article 6.** (1) The annual templates, reports and annexes of reinsurers under the first subparagraph of Article 126, point (2) of the Code on Insurance shall include the templates under the first subparagraph of Article 3, points (3), (4) and (5).

(2) The quarterly reports and templates of reinsurers under the first subparagraph of Article 126, point (3) of the Code on Insurance shall include:

1. a quarterly financial statement under the first subparagraph of Article 4, point (1);

2. an „INVESTMENTS“ template under the first subparagraph of Article 4, point (2).

(3) the following templates shall be submitted together with the templates under subparagraph 2:

1. the templates as per Annex № 5 (Annex № 5.1) – by reinsurers authorised for life reinsurance;

2. the templates as per Annex № 5 (Annex № 5.2) – by reinsurers authorised for non-life reinsurance;

3. the templates as per Annex № 5 (Annexes № 5.1 and 5.2) – by reinsurers authorised for life reinsurance and for non-life reinsurance.

(4) The templates under subparagraph 3 shall be submitted for each ceding undertaking with a head office in the Republic of Bulgaria, as well as for all ceding undertakings.

(5) Reinsurers shall submit the annual reports under the second subparagraph of Article 2, as well as the templates under the first subparagraph of Article 3, point (3) and the first subparagraph of Article 4, point (2), letter „c“.

#### *Separation of mandatory accountancy reporting and solvency reporting*

**Article 7.** (1) Insurers and reinsurers shall carry out their mandatory accountancy reporting under the Accountancy Act and this Ordinance.

(2) The mandatory accountancy reporting of insurers and reinsurers shall be carried out on a monthly basis and insurers and reinsurers shall observe the form and contents of the templates under this Ordinance.

(3) Insurers, with the right of access to the single market, and reinsurers shall prepare financial statements and templates for the purposes of mandatory accountancy reporting in accordance with the Accountancy Act, the international accounting standards (IAS), the international financial reporting standards (IFRS) and this Ordinance, and separately shall prepare templates and statements for the purposes of their solvency calculation according to the applicable regulations of the European Commission.

(4) Insurers, without the right of access to the single market, shall prepare financial statements and templates for the purposes of mandatory accountancy reporting and shall report their solvency in accordance with IAS, IFRS and this Ordinance.

(5) Insurers and reinsurers must submit the same annual financial statement both to the commercial register and for the purposes of supervision of the Commission.

(6) For the purposes of the supervisory measures application the technical result on individual classes of insurances shall be determined on the basis of IAS/ IFRS and the Ordinance.

(7) When determining the mathematical provision and the provision for claims outstanding according to IAS, IFRS and the Ordinance for the purposes of the annual financial reporting insurers must attach a provisions adequacy test according to the International Financial Reporting Standard 4. Where the amount of the provisions, derived from the provisions adequacy test is higher, the necessary amount under the provisions adequacy test shall be reported in the annual financial statement and in the annual reports and templates. For the

purposes of the application of a provisions adequacy test for the third party liability insurance of motorists the tenth subparagraph of Article 92 shall be applied.

*Adequacy of technical provisions*

**Article 8.** (1) An insurer, respectively a reinsurer, must establish and maintain adequate technical provisions at all times which is consistent with its entire business that shall ensure cover against insurance risks assumed.

(2) The amount of technical provisions shall be calculated on the basis of the value of the commitments assumed by an insurer, respectively by a reinsurer, which are expected to be fulfilled in the future under effective insurance and reinsurance contracts, the expenses related to the fulfilment of those obligations, and the value of the potential adverse deviation of the expected.

*Approval of other technical provisions for the purposes of mandatory accountancy reporting*

**Article 9.** Where an approval for the establishment of other provisions is required by a company under the first subparagraph of Article 119, point (9), the second subparagraph, point (6) and the third subparagraph in conjunction with the first subparagraph, point (9) and the second subparagraph, point (6) of the Code on Insurance, it shall submit to the Commission a reasoned request containing justification for the need of establishment of the relevant provision, description of the calculation method, a statement of estimates of the amount of the provision for the relevant period and details of the source of revenue for its establishment, and of the provision purpose and spending patterns.

*Methodologies to establish technical provisions*

**Article 10.** (1) For the purposes of mandatory accountancy reporting an insurer, respectively a reinsurer, shall establish technical provisions in accordance with the methods set out in this Ordinance or in accordance with other methods prescribed or approved by the Vice Chairman of the Financial Supervisory Commission, governing Insurance Supervision Department, hereinafter referred to as „the Vice Chairman“.

(2) Methods used for the establishment of technical provisions shall be described in the annual actuarial report submitted to the Financial Supervisory Commission, hereinafter referred to as „the Commission“.

(3) The method adopted under subparagraph 1 shall be applied consistently by the insurer in the reporting periods. Any change in the method adopted shall be justified in the annual actuarial report. In the absence of justification in the annual actuarial report or if this justification is insufficiently reasoned the Commission, on a proposal from the Vice Chairman, may recalculate the amount of the relevant technical provision.

(4) In the cases under the third subparagraph, appropriate coercive administrative measures may be applied under Article 587 of the Code on Insurance and/or administrative sanctions.

(5) For the purposes of solvency supervision insurers, with the right of access to the single market, respectively reinsurers, establish technical provisions in accordance with the requirements of Part II, Title III of the Code on Insurance and Regulation 2015/35. Subparagraphs 2, 3 and 4 shall be applied.

*Calculation of technical provisions for the purposes of mandatory accountancy reporting*

**Article 11** (1) For the purposes of mandatory accountancy reporting technical provisions of insurers shall be calculated by each class of insurance for which an authorisation has been obtained, without deduction of the reinsurers' part.

(2) For the purposes of mandatory accountancy reporting technical provisions of reinsurers shall be calculated by each class of insurance under which an activity is carried out, without deduction of the retrocessionaires' part.

*Application of the guidelines of the European Insurance and Occupational Pensions Authority*

**Article 12.** (1) When preparing the components of the regular supervisory report under Article 304 and 372 of Regulation (EU) 2015/35 insurers, with the right of access to the single market of the European Union, reinsurers, insurance holding companies and mixed financial holding companies shall observe:

1. The guidelines of the European Insurance and Occupational Pensions Authority (EIOPA-BoS-15/113 BG) on the recognition and valuation of assets and liabilities other than technical provisions;

2. The guidelines of the European Insurance and Occupational Pensions Authority (EIOPA-BoS-15/109 BG) on the reporting and public disclosure.

(2) When establishing technical provisions for the purposes of solvency supervision and in applying the long-term guarantee measures, insurers, with the right of access to the single market, and reinsurers shall observe:

1. The guidelines of the European Insurance and Occupational Pensions Authority (EIOPA-BoS-14/165 BG) on the contract boundary;

2. The guidelines of the European Insurance and Occupational Pensions Authority (EIOPA-BoS-14/166 BG) on the valuation of technical provisions;

3. The guidelines of the European Insurance and Occupational Pensions Authority (EIOPA-BoS-15/111 BG) on the application of long-term guarantee measures.

*Format of the electronic document and requirements to the electronic signing*

**Article 13.** (1) Insurers, reinsurers, insurance holding companies and mixed financial holding companies (obliged entities) shall submit the statements and templates, the reports and

annexes under the first subparagraph of Article 126 of the Code on Insurance, including the components of the regular supervisory report under Articles 304 and 372 of Regulation (EU) 2015/35, only in the form of an electronic document, signed with a qualified electronic signature, by means of a portal on the Financial Supervisory Commission's website.

(2) Obligated entities shall submit the statements and templates, reports and annexes under the first subparagraph of Article 126 of the Code on Insurance as follows:

1. the annual financial statement under the first subparagraph of Article 126, point (1) of the Code on Insurance shall be submitted in the form of a scanned copy of a certified annual financial statement and an audit report, signed with a qualified electronic signature;

2. the annual actuarial report under the second subparagraph of Article 100, point (2) of the Code on Insurance shall be submitted in the format under point (1), signed with a qualified electronic signature;

3. the annual and quarterly templates, which are templates for quantitative reporting within the meaning of Regulation № 2015/2450, shall be submitted in XBRL format, signed with a qualified electronic signature;

4. other components of the regular supervisory report under Articles 304 and 372 of Regulation (EU) № 2015/35 shall be submitted in PDF format, signed with a qualified electronic signature;

5. the annual, quarterly and monthly templates for the purposes of mandatory accountancy reporting under this Ordinance shall be submitted in XLS format, signed with a qualified electronic signature.

(3) The address of the portal shall be notified to the obliged entities by the Vice Chairman.

(4) The information under the first subparagraph shall be submitted exclusively by a natural person (an entity that submits information), entitled to operate and represent the obliged entity. Where the obliged entity is an insurer or a reinsurer, the entity that submits the information shall produce a proxy from at least one more representative of the insurer or of the reinsurer thus proving it has the power to submit the information. The second sentence shall be applied also to cases where the insurance holding company, respectively the mixed financial holding company, is always represented together by two or more entities. In the cases, described in the second and the third sentence, representatives may grant proxies in respect of each one of them to sign and submit the information under the first subparagraph.

(5) Each entity that submits information under the first subparagraph shall hold a valid certificate for universal electronic signature. This certificate must be issued by an electronic signature company in Bulgaria, authorised by the Telecommunications Regulatory Commission, and the electronic signature must be professional and must contain the BULSTAT Unified Identification Code of the company. The public key of the certificate shall be submitted for each entity in base-64 format. Where the exported certificate is e-mailed to the Commission (delovodstvo@fsc.bg), the file must be archived in advance.

(6) After registration each entity that submits information shall receive a username and a password to access the system. Each change of the entity that submits the information shall be



immediately notified by the obliged entity.

(7) Where necessary the Vice Chairman shall publish on the Commission's website:

1. the format in which the information should be submitted under the first subparagraph;
2. instructions for exporting the public key under the fifth subparagraph;
3. user's guide and instructions for completing the periodical reports and templates as well as for naming the files for submission of the information.

(8) The Vice Chairman shall notify the obliged entities by a letter for every publication under the seventh subparagraph and for any changes published in it.

## Chapter 2

### DATA REQUIREMENTS FOR THE CALCULATION OF TECHNICAL PROVISIONS

#### Section I

#### General rules

##### *Completeness of data*

**Article 14.** (1) An insurer, respectively a reinsurer, shall ensure that the data used for the calculation of technical provisions for the purposes of mandatory accountancy reporting, and for the purposes of its solvency reporting, cover a sufficiently large period of observations that characterises the reality measured.

(2) In the calculation of premium provisions for non-life insurance liabilities an insurer, respectively a reinsurer, shall ensure that there is sufficient historical information regarding the total expense arising from claims and their actual trends at a sufficiently detailed level.

(3) In the calculation of provisions for insurance claims outstanding, an insurer, respectively a reinsurer, shall ensure that there are sufficient data to enable relevant models in the development of claims to be identified, and in sufficient detail, in order to allow analysis of such models within homogeneous risk groups.

##### *Eligibility of data*

**Article 15.** (1) An insurer, respectively a reinsurer, shall ensure that the data from different time periods are used by applying a consistent approach.

(2) An insurer, respectively a reinsurer, shall apply adjustments to the historical data, if necessary, to increase their credibility or quality as input data in order to provide more reliable valuation estimates of technical provisions and to better synchronize them with the characteristics of the portfolio, that is estimated, and with the future expected development of risks.

##### *Data for determining the amount of provisions for claims outstanding on compulsory civil liability insurance of motorists*

**Article 16.** To determine the amount of the provision for claims outstanding on compulsory civil liability insurance of motorists, an insurer must have data containing the following

minimum format: date of event; date of reporting the claim; date of drawing up the policy; policy number; damage number; type of claim (damages suffered); amount claimed; changes in the amount of the provision for reported, outstanding claims and date of change; amount (amounts) of the damage paid; date (dates) of payment/refusal.

## Section II

### **Review and validation of data quality**

#### *Data verifications*

**Article 17.** (1) An insurer, respectively a reinsurer, shall ensure that the actuarial function assesses the accuracy and completeness of data through a sufficiently wide series of checks on the fulfilment of the criteria under Articles 14 and 15 and to allow the detection of any significant deficiencies.

(2) An insurer, respectively a reinsurer, shall ensure that the actuarial function performs this assessment at a sufficiently detailed level.

#### *Examination of other analysis made*

**Article 18.** An insurer, respectively a reinsurer, shall ensure that the actuarial function takes into account the conclusions of each relevant analysis, made under external review, where data quality has been verified in the context of the calculation of technical provisions.

#### *Examination of methodologies to be applied*

**Article 19.** (1) An insurer, respectively a reinsurer, shall ensure that the actuarial function takes into account the relationship between the conclusions of the analysis of data quality and the choice of methodologies to be applied for the valuation of technical provisions.

(2) An insurer, respectively a reinsurer, shall ensure that the actuarial function analyses the extent to which used data are suitable for the support of the assumptions underlying the methodologies to be applied to the valuation of technical provisions. If data do not adequately support the methodologies, the insurer, respectively the reinsurer, shall choose an alternative methodology.

(3) When assessing the completeness of data, the insurer, respectively the reinsurer, shall ensure that the actuarial function takes into account whether the number of observations and the level of detail of available data are sufficient and adequate to fulfil the requirement to the input data for the application of the methodology.

#### *Source and use of data*

**Article 20.** An insurer, respectively a reinsurer, shall require the actuarial function to take into account the source and the intended use of data in the process of validation of data.

#### *Use of expert judgement*

**Article 21.** An insurer, respectively a reinsurer, shall ensure that the use of expert judgement in the assessment of accurate, suitable and complete data to be applied in the calculation of technical provisions, do not replace the appropriate collection, processing and analysis of data, but supplements them where necessary.

#### *Validation process and feedback*

**Article 22.** (1) An insurer, respectively a reinsurer, shall ensure that the actuarial function, within the tasks of coordinating technical provisions, coordinates also the assessment and validation of the relevant data to be used in the process of assessment.

(2) The task of coordinating shall include at least:

1. the choice of data to be used in the assessment that takes into account the criteria for accuracy, appropriateness and completeness of data, having regard to the methodologies which are most appropriate to use in the calculation;

2. report on all recommendations concerning the implementation of the improvements in internal procedures that are considered relevant for improving the compliance with the criteria under point (1);

3. identifying the cases where additional external data are necessary;

4. assessment of the external data quality, as carried out for internal data, by focusing on whether market data are required or when to be used for improving the internal data quality and whether and how the improvements to the available data shall be made;

5. assess whether any adjustments to the available data should be made as part of actuarial good practices to improve the appropriateness and reliability of the assessments, obtained from actuarial and statistical methodologies for determining the provisions based on those data;

6. record all relevant conclusions, made in the assessment and validation process, which may be of importance to the other stages of the calculation of technical provisions and which are related to the comprehension of major risks and to the knowledge of the quality and limitations of available data.

(3) For the purposes of the second subparagraph, point (1) the relevant instruments shall be used to verify any significant differences that may be identified in the data of the same year and within other relevant analysis.

### Section III

#### **Limitations of data**

##### *Identifying the source of major limitations*

**Article 23.** An insurer, respectively a reinsurer, shall ensure that the actuarial function assesses the accuracy, completeness and appropriateness of data to identify all major limitations of data. Where major limitations are identified, the sources of those limitations shall also be identified.

### *Effect of deficiencies*

**Article 24.** (1) For identifying and assessing the effect of any possible deficiencies that may affect the compliance with the requirements for data quality, an insurer, respectively a reinsurer, shall ensure that the actuarial function takes into account all relevant available documentation related to the internal processes and procedures for collection, storage and validation of data, used for the valuation of technical provisions, and where necessary, it shall seek more specific information by contacting the personnel involved in those processes.

(2) In addition, an insurer, respectively a reinsurer, shall ensure that the actuarial function coordinates each relevant task, that may be undertaken for the assessment of the effect of deficiencies, identified with regard to the available data, which are to be used in the calculation of technical provisions in order to obtain findings whether to use the available data for the intended purpose or whether to search for alternative data.

### *Adjustments to data*

**Article 25.** (1) Where insufficiency of data is identified an insurer, respectively a reinsurer, shall ensure that the actuarial function assesses whether data quality on account of their purpose may be improved by adjusting or completing the data.

(2) An insurer, respectively a reinsurer, shall ensure that they use appropriate measures to address the limitations of data resulting from the exchange of information with a business partner.

(3) Where external data are used an insurer, respectively a reinsurer, shall ensure that data remain in conformity with the standards under this Chapter regarding data quality.

(4) An insurer, respectively a reinsurer, shall decide on possible adjustment to data to address the deficiencies which affect the data quality, and where applicable, what specific adjustments are to be made.

(5) An insurer, respectively a reinsurer, shall ensure that adjustments are limited to the level strictly necessary for improving the compliance with the criteria set out in Articles 22 and 23 and do not impair the identification of tendencies and all other characteristics concerning the major risks reflected in data.

### *Recommendations of the actuarial function*

**Article 26.** An insurer, respectively a reinsurer, shall ensure that the actuarial function gives recommendations to the management body regarding the procedures that may be implemented to increase the quality and quantity of the available data. In order to achieve the task the actuarial function shall identify the sources of major limitations and offer possible solutions taking into account their efficiency and the time necessary for their application.

### *Use of expert judgement with regard to material limitations*

**Article 27.** Where there are material limitations of data which cannot be adjusted without

unfounded complexity, an insurer, respectively a reinsurer, shall ensure that expert judgement is used to address those limitations to ensure that technical provisions are adequately calculated. The calculation of technical provisions should not be impaired as a result of inaccurate or incomplete data.

#### *Documentation of limitations of data*

**Article 28.** An insurer, respectively a reinsurer, shall ensure that the actuarial function documents limitations of data, including at least:

1. a description of deficiencies including their causes and all references to other documents where they are identified in;
2. a template of the effect of deficiencies within the scope of the calculation of technical provisions regarding its materiality and how it affects this process;
3. a description of the actions taken by the actuarial function to detect deficiencies in addition or not in addition to other sources and documents;
4. a description of how similar situations may be adjusted in the short term for the intended purpose and all relevant recommendations to be applied for improving the data quality in the future.

### Section IV

#### **Market data**

##### *Use of market data*

**Article 29.** (1) In the assessment of liabilities directly depending on the operation of financial markets, or where the calculation of technical provisions requires input of data from external source, an insurer, respectively a reinsurer, shall be able to demonstrate that external data are more suitable than internal data for the intended purpose. An insurer, respectively a reinsurer, shall ensure that external data, provided by third parties, or market data supplement the available internal data.

(2) Notwithstanding the level of dependency of liabilities on the market conditions or the quality level regarding the available internal data an insurer, respectively a reinsurer must consider relevant external benchmarks where necessary. The external data shall be a part of the analysis for assessment of the overall compliance with the requirements for data quality.

##### *Conditions for market data*

**Article 30.** (1) To carry out the assessment of the level of accuracy, appropriateness and completeness of external data an insurer, respectively a reinsurer, shall ensure that the actuarial function, in its analysis, knows and examines the reliability of information sources and the consistency and stability of its process of collecting and publishing information over time.

(2) Furthermore, an insurer, respectively a reinsurer, shall ensure that the actuarial function takes into account all realistic assumptions and relevant methodologies applied for obtaining data,

including any adjustments or simplifications applied to raw data. The actuarial function should be aware of and take account of whether any changes are applied over time to external data, whether those changes are related to assumptions or related methodologies or any other procedures regarding the collection of external data.

(3) Where accessible and appropriate an insurer, respectively a reinsurer, shall ensure that the actuarial function measures the quality of available data in the context of the analysis to determine provisions with regard to the available data for industrial or market data, which are considered comparable, and in particular with regard to the requirements under the fourth subparagraph of Article 120 of the Code on Insurance. Any material deviations should be identified and understood by the actuarial function. The analysis may cover the specific characteristics of a given homogeneous risk group which is assessed.

#### *Market data published by the Commission*

**Article 31.** (1) The Financial Supervisory Commission may publish market data, and also publish the documenting for the processing and application of adjustments to historical data, where such documenting is done.

(2) For the purposes of this Section, it shall be assumed that market data, aggregated and published by the Commission, meet the requirements for completeness, accuracy and appropriateness.

(3) Where insurer's or a reinsurer's internal data do not meet the requirements of Article 19 of Regulation 2015/35/EC, the insurer and the reinsurer shall draw with priority on the relevant market data published by the Commission for the calculation of their technical provisions.

(4) For the purposes of the calculation of provisions on compulsory civil liability insurance of motorists, insurers not having reliable, suitable and complete data, shall use market data.

## **PART II**

### **REQUIREMENTS TO THE MANDATORY ACCOUNTANCY REPORTING**

#### **Chapter 3**

#### **FINANCIAL STATEMENTS OF INSURERS AND REINSURERS**

##### **Section I**

##### **General requirements to the financial statements of insurers**

###### *Annual financial reporting*

**Article 32.** Insurers and reinsurers shall prepare an annual financial statement and annual templates, reports and annexes the components and contents of which being in accordance with this Ordinance.

###### *General provisions*

**Article 33.** (1) The annual single report and the consolidated financial statement shall comprise the following components:

1. a financial condition report;
2. a statement of profit or loss and other comprehensive income;
3. a statement of changes in equity;
4. a statement of cash flows;
5. an annex (explanatory notes to the financial statement).

(2) The reports under the first subparagraph shall comprise the components under the first subparagraph, points (1) to (4), prepared under the conditions laid down in the Accountancy Act, IAS/ IFRS and the Ordinance, and need not necessarily apply the format set out in Annex № 1.

(3) The annual templates and other periodical reports and templates under the first subparagraph of Article 126, points (2) to (4) of the Code on Insurance shall comprise the components under the first subparagraph, points (1) to (3), prepared under the conditions laid down in the Accountancy Act, IAS/ IFRS and the Ordinance, where the format set out in Annex № 1 shall also be applied to them.

(4) The contents of the reports under the first subparagraph and the annual templates shall not differ.

(5) Insurers shall apply IAS/ IFRS to the outstanding issues under this Ordinance.

*Form and components of the financial condition report and the statement of profit or loss and other comprehensive income*

**Article 34.** (1) The form of the components under the third subparagraph of Article 33 is unilateral and shall be presented as per the structure set out in Annex №.1.1 and Annex № 1.2.

(2) The order of items in the components under third subparagraph of Article 33 shall follow the order set out in the annexes.

(3) The form and structure of the components under the first subparagraph of Article 33, points (1) to (4) may differ from the structure set out in Annex №.1.1 and Annex № 1.2.

*Structure of the financial condition report (the balance sheet)*

**Article 35.** (1) The financial condition report shall contain systematic accounting information under sections, groups and items as per the scheme set out in Annex №.1.1 and pursuant to the special requirements to them.

(2) The items in the financial condition report shall be indicated as follows: the sections – with letters, the groups – with roman numerals, and the items – with Arabic numerals.

(3) The amount of intangible assets shall be shown under section A of the asset in the financial condition report, where formation costs and positive reputation are shown separately, to the extent that the asset was acquired for valuable consideration.

(4) Own use of land and buildings shall be shown separately under Section B.I.

(5) Section D of the asset in the financial condition report shall include insurer's receivables, including with separate indication of the amounts payable by undertakings in which an insurer holds share participation.

(6) The sections of the asset in the financial condition report shall show separately the information on each of the groups.

*Exception to the obligation to disclose items not included in the financial condition report*

**Article 36.** The obligation to disclose in the explanatory notes to the financial statement the total amount of any financial commitments, guarantees or contingencies that are not included in the financial condition report, with an indication of the nature and form of any valuable security which has been provided, as well as any commitments concerning pensions and affiliated or associated undertakings, which are disclosed separately, shall not be applied to the commitments related to insurance activities.

*Statement of profit and loss*

**Article 37.** (1) Insurers authorised to a non-life insurance activity shall complete the part of the statement of profit and loss presented under section I „Technical account – non-life insurance“.

(2) Insurers authorised to a life insurance activity shall complete the part of the statement of profit and loss, presented under section II „Technical account – life insurance“.

(3) Insurers authorised to non-life and life insurance activities shall complete the parts of the statement of profit and loss, presented under section I „Technical account – non-life insurance“ and under Section II „Technical account – life insurance“.

(4) Insurers under subparagraphs 1, 2 and 3 shall complete also the part of the statement of profit and loss, presented under section III „Non-technical account“.

*Structure of the statement of profit and loss*

**Article 38.** (1) The statement of profit and loss shall contain systematic accounting information under groups, items and sub-items as per the scheme set out in Annex №.1.2 and pursuant to the special requirements to them.

(2) The items in the statement of profit and loss shall be indicated as follows: the groups – with roman numerals, and the items – with Arabic numerals, and the sub-items – with small letters.

Section II

**Special requirements to certain items in the financial condition report**

*Presentation of flows of particular groups of assets*

**Article 39.** The flows of assets, presented under section A and groups B.I and B.II of the financial condition report, shall be shown in Annex № 1.3.

*Requirements to item B.III.2 of the asset in the financial condition report*

**Article 40.** (1) Item B.III.2 of the asset in the financial condition report shall include



negotiable debt securities and other fixed income securities that are issued by credit institutions, companies or by the State, or by municipalities, provided that they are not included under items B.II.2 and B.II.4 of the asset in the financial condition report.

(2) Securities bearing interest income that depends on specific factors, for example the interest rate in the inter-bank market, shall be classified and presented as debt securities and other fixed income securities.

(3) The securities under subparagraph 1 shall be presented together with the accumulated interest income.

*Requirements to item B.III.3 of the asset in the financial condition report*

**Article 41.** Item B.III.3 of the asset in the financial condition report shall include the shares held by an insurer in joint investment pools, created by several undertakings or pension funds the management of which has been assigned to one of these entities.

*Requirements to items B.III.4 and B.III.5 of the asset in the financial condition report*

**Article 42.** (1) Item B.III.4 of the asset in the financial condition report shall include loans secured by mortgages even where they are secured by insurance contracts.

(2) Item B.III.5 of the asset in the financial condition report shall include loans granted on life insurance contracts.

(3) The amount under section B.III.5 of the asset in the financial condition report must be broken down which is disclosed in the explanatory notes to the financial statement.

*Requirements to item B.III.6 of the asset in the financial condition report*

**Article 43.** Item B.III.6 of the asset in the financial condition report shall include sums deposited in credit institutions the disbursement of which is subject to time restriction. Sums deposited with no such restriction shall be shown under group E.II of the asset in the financial condition report and where they are interest-bearing.

*Requirements to item B.III.7 of the asset in the financial condition report*

**Article 44.** Item B.III.7 of the asset in the financial condition report shall include investments that are not shown under items from B.III.1 to B.III.6. Where the value of those investments is material they shall be disclosed in the explanatory notes to the financial statement.

*Requirements to group B.IV of the asset in the financial condition report*

**Article 45.** (1) Group B.IV „Deposits in ceding undertakings“ of the asset in the financial condition report of a reinsurer or an insurer that carries out an inward reinsurance (the reinsurer) shall include the sums payable by ceding undertakings which are consistent with the guarantees detained or deposited with these ceding undertakings or with third parties. Those sums shall not be increased or reduced with other sums payable to the reinsurer by the ceding

undertaking or compensated with sums payable to the ceding undertaking by the reinsurer.

(2) Securities deposited with the ceding undertaking or with third parties, which remain the property of the reinsurer, shall be entered under the relevant item of the statement of the reinsurer as an investment.

*Requirements to section C of the asset in the financial condition report*

**Article 46.** Section C of the asset in the financial condition report shall include:

1. contractual investments for which the policy holder bears the investment risk and which are included in the investment fund;
2. investments, meeting the contractual insurance obligations of an insurer, which are index value-linked and reflect that index value to the fullest extent possible.

*Requirements to section D of the asset in the financial condition report*

**Article 47.** (1) The participation of reinsurers in the technical provisions shall be reported as reinsurance amounts. Reinsurance amounts shall comprise the actual or estimated amounts deducted from the gross amounts of technical provisions in accordance with the financial obligations under reinsurance contracts.

(2) As regards the provision for unearned premiums, the reinsurance amounts shall be calculated according to the methods referred to in the second and third subparagraphs of Article 84 or in accordance with the terms of the reinsurance contract.

(3) Reinsurance amounts shall be shown under section Da of the asset (Participation of reinsurers in the technical provisions) subdivided as follows:

1. provision for unearned premiums;
2. provision for unexpired risks;
3. life insurance provision (mathematical provisions and capitalised value of pensions);
4. provision for claims outstanding;
5. provision for bonuses and rebates (unless shown in point (3));
6. other technical provisions;
7. technical provisions under life insurances for which the policy holders bear the investment risk.

*Requirements to group E.III of the asset in the financial condition report*

**Article 48.** Group E.III of the asset in the financial condition report shall include the assets not shown in groups E.I and E.II. Where the amount of those assets is material, it shall be disclosed in the explanatory notes to the financial statement.

*Requirements to group F.I of the asset in the financial condition report*

**Article 49.** Group F.I of the asset in the financial condition report shall include rents that

have been earned up to the date of the financial condition report but have not yet matured.

*Requirements to group F.II of the asset in the financial condition report*

**Article 50.** Group F.II of the asset in the financial condition report shall include the deferred acquisition costs which are accounted for as if they were deferred expenses.

*Requirements to group A.I of the liability in the financial condition report*

**Article 51.** In group A.I of the liability in the financial condition report shall be shown the contributed equity, any subscribed but not paid-up equity, as well as shares redemption operations.

*Requirements to group A.IV of the liability in the financial condition report*

**Article 52.** In group A.IV „Provisions“ shall be shown all types of provisions that are provided for in the applicable accounting standards according to the definition laid down in them.

*Requirements to section B of the liability in the financial condition report*

**Article 53.** Section B of the liability in the financial condition report shall include the liabilities for which is agreed that in the event of liquidation or bankruptcy of the insurer their payment shall be authorised after all other creditors' claims are fully satisfied.

*Representation of amounts the allocation of which has not been determined*

**Article 54.** Where amounts are included in the financial condition report of an undertaking the allocation of which either to policy holders or to shareholders has not been determined by the close of the financial year, those amounts shall be reported for liabilities under item Ba (Fund for future appropriations). The movements under this section shall follow those in group II, item 10a (transfer to or from the Fund for future appropriations) of the statement of profit and loss.

*Requirements to section C of the liability in the financial condition report*

**Article 55.** (1) Section C of the liability in the financial condition report shall include the technical provisions that are calculated in compliance with the following main principles:

1. technical provisions shall cover liabilities the nature of which is clearly defined and which by the date of the financial condition report are either likely to be incurred or certain to be incurred, but uncertain as to their amount or as to the date on which they will arise;
2. technical provisions may be established to cover expenses the nature of which is clearly defined and which by the date of the financial condition report are either likely to be incurred or certain to be incurred, but uncertain as to their amount or as to the date on which they will arise;

3. by the date of the financial condition report, technical provisions shall represent the best estimate of the expenses likely to be incurred or, in the case of a liability, of the amount required to meet that liability;

4. technical provisions shall not be used to adjust the value of assets.

(2) Articles 56 to 61 shall be applied to technical provisions.

*Requirements to item C.1 of the liability in the financial condition report*

**Article 56.** (1) Under item C.1 of the liability in the financial condition report shall be entered the provision for unearned premiums. This is the amount comprising the part of gross premiums which shall be allocated to the following financial year, or to subsequent financial years.

(2) The estimation of the gross amount of the provision for unearned premiums shall be based on the insurance contract premium recognised as income during the current or the past reporting period, where transfer shall be made to the next reporting period of the part of it which is related to the period between:

1. the end of the reporting period and the term of the insurance contract – for non-life insurances;

2. the end of the reporting period and the term of the insurance contract or the next maturity date of the annual premium – for life insurances.

*Provision for unexpired risks*

**Article 57.** The amount of the provision for unexpired risks shall be reported under item C.2 of the liability in the financial condition report.

*Insurance provision under section I of Annex № 1 of the Code on Insurance*

**Article 58.** The mathematical provision (item C.3 of the liability in the financial condition report), respectively the capitalised value of pensions (item C.6 of the liability in the financial condition report) shall comprise the actuarially estimated value of an insurer's liabilities, including the income already declared, after the actuarial value of future premiums is deducted.

*Provision for claims outstanding*

**Article 59.** (1) The provision for claims outstanding (item C.4 of the liability in the financial condition report) shall comprise the estimated gross expenses of an insurer, respectively a reinsurer, for the settlement of any claims arising from events which have occurred up to the end of the financial year, whether reported or not, less the amounts already paid in respect of such claims.

(2) The provision for claims outstanding shall be presented by deduction of any recourses and salvages, estimated on a prudent basis.

*Provision for bonuses and rebates*

**Article 60.** The provision for bonuses and rebates under item C.8 of the liability in the financial statement shall comprise the amounts intended for policy holders and insurance contract beneficiaries by way of bonuses and rebates resulting from the development of risk as defined in Article 68 in so far as they are not included in other established provision or not reported for expenses in the reporting period.

*Equalization provision*

**Article 61.** (1) The equalization provision shall comprise the amounts, set aside in accordance with Article 94 to cover estimated adverse variance in payments under the insurances offered.

(2) Setting aside equalization provision shall not be mandatory.

*Technical provisions under insurances under section I, point (3) of Annex № 1 of the Code on Insurance for which the policy holders bear the investment risk*

**Article 62.** (1) Section D of the liability in the financial condition report shall include the technical provisions constituted to cover investment-related liabilities under insurance contracts under section I, point (3) of Annex № 1 of the Code on Insurance the value of which or the return on which is determined depending on the investments for which the policy holder bears the risk, or against an index.

(2) Any additional technical provisions constituted to cover death risks, administrative expenses or other risks (such as benefits payable at the maturity date or guaranteed surrender values) shall be shown under item C.3, respectively under item C.6.

*Deposits received by reinsurers*

**Article 63.** (1) Section E of the liability in the financial condition report of a ceding undertaking shall include any amounts deposited or withheld under reinsurance contracts by reinsurers. Those amounts shall not be increased or reduced with other amounts payable to or by reinsurers.

(2) Where a ceding undertaking has received securities as a deposit, which have been transferred to its ownership, this item shall comprise the amount owed by the ceding undertaking by virtue of the deposit.

Section III

**Special requirements concerning certain items in the statement of profit and loss**

*Requirements to sub-items I.1.a and II.1.a in the statement of profit and loss*

**Article 64.** (1) Sub-items I.1.a and II.1.a in the statement of profit and loss shall include

gross premiums receivable under insurance contracts which are recognised as income.

(2) Premiums receivable under non-life insurance contracts shall be recognised as income on the basis of the amount payable by a policy holder for the whole period of cover to which an insurer is entitled under insurance contracts concluded in the reporting period, including where the period of cover encompasses in whole or in part a subsequent reporting period.

(3) Premiums receivable under life insurance contracts shall be recognised as income as follows:

1. on the basis of the amount payable by a policy holder in the reporting period; the amount shall comprise single premiums receivable under contracts the cover of which shall take effect in the reporting period, annual premiums for premium periods starting in the beginning of the reporting period; prepaid premiums, which have been collected in the reporting period, shall be recognised as income depending on the terms of the contract;

2. where, under insurance contracts of three or more than three years' duration, a payment of the premium by instalments has been agreed for periods of less than one year, depending on the nature of the products and the accounting policies of the insurer shall be charged the overall annual premium or only the premium with maturities in the reporting period;

3. the premium receivable under unit-linked and index-linked life insurances, shall be divided into two parts – deposit part and insurance part (for a risk, for acquisition costs and administrative expenses, fund management fees and other), in case the two parts can be evaluated individually; in this case the deposit part shall be reported directly for liability according to the second subparagraph of Article 20 and the International Accounting Standard (IAS) 39 Financial Instruments: Recognition and Measurement shall be applied, and the insurance part shall be reported for premium income.

(4) In the event of an inward reinsurance reinsurance premiums shall be recognised as income on the basis of the premiums in the reporting period payable by ceding undertakings under reinsurance contracts.

(5) In the event of co-insurance only the part of the insurer of the total amount of premiums shall be recognised as income.

(6) The amounts under subparagraphs 1 to 5 shall not comprise indirect taxes and fees collected with the premium. The amounts under subparagraphs 1 to 5 shall not comprise repayments under Article 554, point (1) and under the first subparagraph of Article 563, point (1) of the Code on Insurance.

(7) Where premiums receivable under an insurance contract are paid by instalments, every prospective amount receivable by the date of the financial statement, recognised as income, shall be reported for receivable in the financial condition report.

(8) Gross premiums written shall comprise premiums recognised as income under direct insurance and inward reinsurance contracts, less premiums returned and receivables written-off under surrendered contracts concluded in the reporting period, reported in tier „including premiums returned and receivables written-off under surrendered contracts concluded in the reporting period“. The adjustments, arising in the reporting period in relation to premium

receivables from direct insurance and inward reinsurance activities with regard to contracts concluded during previous reporting periods, shall be included in „Other technical charges, net of reinsurance“ in tier „including premiums returned and receivables written-off under surrendered contracts concluded during previous reporting periods“.

#### *Outward reinsurance premiums*

**Article 65.** (1) Sub-items I.1.b and II.1.b in the statement of profit and loss shall include outward reinsurance premiums paid or payable in respect of outward reinsurance contracts concluded by the insurer. Portfolio entries payable on the conclusion or amendment of outward reinsurance contracts shall be added. Portfolio withdrawals receivable must be deducted.

(2) Accountancy reporting of outward reinsurance premiums shall follow the accountancy reporting of the premium income arising from insurance and inward reinsurance activities, taking into account the relevant reinsurance contracts.

(3) Outward life reinsurance premiums shall comprise premiums payable to reinsurers in the reporting period under reinsurance contracts in relation to:

1. reinsurance of risks under direct and inward reinsurance contracts concluded in the reporting period – single premium contracts;
2. reinsurance of risks relevant to premium periods starting in the reporting period under direct and inward reinsurance contracts – annual premium contracts.

#### *Change in the provision for unearned premiums after deducting reinsurance*

**Article 66.** (1) Sub-item I.1.c and sub-item I.1.d in the statement of profit and loss shall include the change in the gross amount of the provision for unearned premiums, including an additional amount for unexpired risks and the change in the reinsurers' share in the provision for unearned premiums.

(2) Sub-item II.1.c in the statement of profit and loss shall include the change in the net amount of the provision for unearned premiums.

#### *Claims incurred net of reinsurance cessions (items I.4, respectively II.4 in the statement of profit and loss)*

**Article 67.** (1) Net claims incurred shall be the claims relating to insurance events that have occurred in the reporting period free of the reinsurers' share.

(2) The claims under the first subparagraph shall be defined as the amount of payments and the cost of settling claims in the reporting year free of any benefits refunded and reimbursements by reinsurers, and the difference between the provision for claims outstanding at the end of the year and the provision for claims outstanding at the beginning of the year (less the share of reinsurers in the provision for claims outstanding). From the amount in the

first sentence there shall be deducted first the amounts accrued on recourses and salvages, estimated on a prudent basis.

(3) In the explanatory notes to the financial statement with a separate identification by class of insurance and the corresponding amounts shall be disclosed the difference, where significant, between:

1. the provision for claims outstanding established at the beginning of the year for claims with regard to insurance events that have occurred in previous years, and

2. the payments made in the reporting period on account of claims incurred in previous years, and the amount of the established provision for claims outstanding on those claims, shown in the financial condition report by the date of the preparation of the financial statement for the current period.

#### *Bonuses and rebates net of reinsurance*

**Article 68.** (1) Sub-items I.6 and II.6 in the statement of profit and loss shall include:

1. amounts paid or payable (accrued) or granted to policy holders, insured persons or users in the form of bonuses, including amounts intended for increase of the amount of technical provisions or intended for reduction of the amount of future premiums, insofar as those amounts are allocated income or profit, generated by the entire business of an insurer or by an activity by class of insurance, less amounts for previous reporting periods for which there is a lack of any legitimate interest by the date of the preparation of the financial statement;

2. rebates – amounts paid or payable to policy holders or insured persons in the form of a partial refund of premiums resulting from favourable development of risk on individual contracts;

3. participation in the positive result.

(2) Bonuses, rebates and participation in the positive financial result that are not deducted from the accrued premium income shall comprise the amounts intended for policy holders, insured parties and beneficiaries. Bonuses and participation in the positive financial result shall comprise all amounts chargeable for the financial year which are paid or payable to policy holders, insured parties and beneficiaries or provided for their benefit, including amounts used to increase technical provisions or applied to reduction of future premiums to the extent that such amounts represent an allocation of surplus or profit arising on business. Rebates shall comprise such amounts to the extent that they represent a partial refund of premiums relating to the current reporting period except where reduction is made at the beginning of the term of the contract at the payment of those premiums.

(3) In cases where the amount of bonuses and rebates is material that shall be disclosed in the explanatory notes to the financial statement.

#### *Acquisition costs*

**Article 69.** (1) Sub-items I.7.a and II.7.a of the statement of profit and loss shall include



acquisition costs arising from the conclusion of insurance contracts. They shall cover both direct costs, such as acquisition commissions or the cost of drawing up the insurance document or including the insurance contract in the portfolio, and indirect costs, such as advertising costs or the administrative expenses connected with the processing of proposals and the issuing of policies.

(2) Policy renewal commissions shall be included in the sub-item I.7.c or II.7.c of the statement of profit and loss.

#### *Administrative expenses*

**Article 70.** (1) Sub-items I.7.c and II.7.c shall include administrative expenses arising from premium collection, handling insurance and reinsurance contracts, processing of bonuses and rebates and portfolio administration.

(2) Expenses under subparagraph 1 shall comprise also the salary cost of the personnel and the accrued depreciation for assets, used for own account, subject to depreciation, so far as acquisition costs do not comprise them, the claims incurred or the investment expenses.

#### *Investment income and expenses*

**Article 71.** (1) All investment income and expenses relating to a non-life insurance activity shall be shown under items III.3 and III.5 in the non-technical account.

(2) All investment income and expenses relating to a life insurance activity shall be shown under items II.2 and II.8 in the life insurance technical account.

#### *Allocated investment return (items I. 2, respectively II. 2, respectively III. 4 and 6)*

**Article 72.** (1) Where part of the investment return is transferred to the non-life insurance technical account, the amount transferred from the non-technical account shall be deducted from item III.6 and added to item I.2.

(2) Where part of the investment return shown in the life insurance technical account is transferred to the non-technical account, the amount transferred shall be deducted from item II.10 and added to item III.4.

(3) In the explanatory notes to the financial statement shall be disclosed the reasons for such transfers and the legal grounds on which they are made under subparagraphs 1 and 2.

### Section IV

#### **Valuation rules for the purposes of mandatory accountancy reporting**

##### *Valuation of investments*

**Article 73.** In the valuation of investments shall be applied the principles of IAS and IFRS.

##### *Disclosure of the valuation of investments*

**Article 74.** (1) Where investments are shown at their purchase price, their fair value shall be

disclosed in the explanatory notes to financial statements.

(2) Where investments are shown at their fair value, their purchase price shall be disclosed in the explanatory notes to the financial statement.

(3) The same valuation method shall be applied to all investments included in a balance sheet item or shown as assets under B.I.

(4) The method(s) applied also in respect of each balance sheet item shall be stated in the explanatory notes to the financial statement, together with the amounts thus determined.

*Disclosure of the valuation of investments other than immovable property*

**Article 75.** The method applied to an ex-post valuation of investments as well as a justification for the choice of it shall be disclosed in the explanatory notes to the financial statement.

*Valuation of investments in immovable property*

**Article 76.** (1) The valuation of immovable property, classified as investment property, shall be carried out once a year by an independent external valuer suitably qualified and experienced.

(2) Whereby the date of the preparation of the financial statement the immovable property have been sold or are to be sold within the short term, the value arrived at in accordance with the first subparagraph shall be reduced by the actual or estimated approximate costs of their sale.

(3) The method applied to an ex-post valuation of immovable property as well as a justification for the choice of it shall be disclosed in detail in the explanatory notes to the financial statement.

*Ex-post valuations of assets*

**Article 77.** Where an insurer makes out ex-post valuations of its assets it may evaluate:

1. assets under E.I in the financial condition report at their recoverable value by the date of the preparation of the financial statement;

2. assets under B.I to B.IV in the financial condition report and assets under E.I with the exception of the inventory at their fair value by the date of the preparation of the financial statement.

*Impairment and depreciation rules*

**Article 78.** (1) Where the assets under section A, section B and E.I in the financial condition report are evaluated and presented at their historical cost the rules of the applicable IAS for depreciation and impairment shall be applied.

(2) Financial assets under section B, groups II, III and IV and section E, group III in the financial condition report shall be tested for impairment and where their book value is greater than their estimated recoverable value by the date of the financial statement an insurer shall evaluate them at their recoverable value and shall recognise the impairment loss and/or

decrease in provision of revaluation of financial instruments.

(3) In cases under subparagraph 1 each of the individual assets, including the financial assets, shall be presented in the financial condition report at the date of the preparation of the financial statement at the lower value than its book or recoverable value.

*Presentation of the assets under groups from D.I to D.III and group E.II in the financial condition report*

**Article 79.** Assets, classified in groups from D.I to D.III and group E.II, shall be evaluated and presented in the financial condition report by the date of the preparation of the financial statement at value lower than their book or recoverable value.

*Operating expenses*

**Article 80.** In the income statement the expenses shall be classified in the following primary categories of operating expenses:

1. acquisition costs shall comprise the costs arising from the conclusion or renewal of insurance contracts; they shall cover both direct costs - acquisition commissions (cash commissions in the payment of periodical premiums shall not be included) or the cost of drawing up insurance contracts and including them in the portfolio, and indirect acquisition costs – for advertising and administrative expenses connected with the preparation of bids, conclusion of contracts and renewal of already concluded contracts;

2. administrative expenses shall include the costs arising from premium collection, insurance contracts and reinsurance service, handling of bonuses and rebates, insurance and reinsurance portfolio administration, as well as personnel costs and depreciation which shall not be allocated to acquisition costs, to the cost of settling claims or to investment charges;

3. other technical charges, net of reinsurance.

*Recognition of acquisition costs*

**Article 81.** (1) Acquisition costs shall be recognised as expenses of an insurer for the term of the respective insurance contracts according to one of the following two methods:

1. method 1: acquisition costs shall be recognised in full as expense in the reporting period in which they have occurred, where calculated ones shall be deducted from the premiums in determining the provision for unearned premiums, and in determining the mathematical provision on life insurances they shall be deducted by „Zillmer quotas“;

2. method 2:

a) acquisition costs incurred shall be carried forward (delayed) for subsequent reporting periods in proportion to the provision for unearned premiums; deferred acquisition costs shall be reported as a separate item of the asset in the financial condition report; the first sentence shall apply mutatis mutandis to linked reinsurance commissions; linked reinsurance commissions shall be shown in the liability in the financial condition report; or

b) acquisition costs incurred in the reporting period and outstanding shall be carried forward (delayed) for future periods, in which they are expected to be extinguished by the additions to acquisition, calculated in the agreed future premiums; deferred acquisition costs shall be reported as a separate item of the asset in the financial condition report and shall be depreciated in the same proportion as additions to acquisition in future premiums are allocated; the first sentence shall apply mutatis mutandis to linked reinsurance commissions; linked reinsurance commissions shall be shown in the liability in the financial condition report.

(2) Accounting treatment of commissions of insurance intermediaries follows the accounting treatment of premium income. Comparability of expenses to income shall be provided by the application of the methods set out in subparagraph 1.

#### *Valuation of debt securities and other fixed income securities*

**Article 82.** Valuation of debt securities and other fixed income securities shall be made on the basis of IAS and IFRS by taking into account their classification when initially acquired.

#### *Impairment of receivables*

**Article 83.** (1) Estimated future cash flows shall be derived by depreciating the agreed cash flows for receivables under concluded insurance contracts by insured persons (policy holders) and for receivables from intermediaries, with accumulated overdue payments, on the basis of an analysis of future cash flows by achieving the best estimate, calculated annually by a receivables matrix.

(2) The receivables matrix under subparagraph 1 shall contain at least information about the age structure of receivables, retrospective historical information concerning a probability of receivables collection for the calculation of the impairment rate which is used for impairment of receivables.

(3) Insurers must submit to the Commission, upon a request, the retrospective historical information on which impairment of receivables has been based.

(4) In the absence of historical information, the receivables under concluded insurance contracts by insured persons (policy holders) and the receivables from intermediaries, with accumulated overdue payments, shall be depreciated at least as follows:

1. from 90 to 180 days – by 25%;
2. from 181 to 365 days – by 75%;
3. over 365 days – 100%;
4. after expiry of the term or after early termination of an insurance contract – 100%.

(5) In the absence of historical information on outstanding receivables other than the receivables under subparagraph 4, at least the following impairments shall be applied:

1. from 31 to 60 days – 10%;
2. from 61 to 90 days – 50%;

3. over 90 days – 100%.

*Establishment of the provision for unearned premiums*

**Article 84.** (1) The provision for unearned premiums shall be established to cover the claims and administrative expenses expected to incur under the respective insurance or reinsurance contract after the end of the reporting period.

(2) The amount of the provision for unearned premiums shall be calculated for each contract by the prompt date method according to which the part of the premium transferred to the next reporting period is determined according to the date on which the contract takes effect and the date of expiry of its term. The premium, less the actual acquisition costs, shall be multiplied by the deferral factor, derived as a ratio of the number of days on which the contract will take effect in the next reporting period, broken down into the term of the contract expressed as number of days.

(3) Where the development of risk during the term of the contract is not even and is expected to vary, adjustments to thus calculated provision for unearned premiums shall be made by allocating the premium according to the allocation of claims over the period of coverage and the level of the estimated risk in the next reporting periods.

(4) The basis for determining the provision for unearned premiums shall correspond to the basis for recognising the provision for unearned premiums in the annual statement of the company.

(5) The amount of the provision for unearned premiums may be calculated also by other methods after an approval of the Vice Chairman.

(6) The provision for unearned premiums shall be calculated pursuant to the second subparagraph of Article 86, for insurance contracts under point (2) of section II, letter „A“ of Annex № 1 of the Code on Insurance, under which:

1. an insurer offers guaranteed coverage for more than one year;
2. sickness tables are used in calculating the premiums;
3. a premium is constant for the whole term of the contract at increased level of risk or a premium grows at a slower pace than the increase in the level of risk;
4. it is not provided for an increase in the premium or for reduction of payments.

*Establishment of the provision for unexpired risks*

**Article 85.** (1) The provision for unexpired risks shall be calculated on the basis of the estimated costs for claims and operating expenses which are expected to arise after the end of the reporting financial period from contracts concluded before that date in the last twelve months (underwriting year) in so far as their estimated value exceeds the provision for unearned premiums and any premiums receivable under those contracts.

(2) On insurances under section II, letter „A“, point (10.1) of Annex № 1 to the Code on Insurance where the amount of the estimated ultimate loss and operating expenses by class of insurance for the respective underwriting year exceed the premium earned, an insurer shall set

aside a provision for unexpired risks for an amount equal to the difference between the estimated ultimate loss and operating expenses, of the one part, and the provision set aside for unearned premiums, of the other part.

(3) On insurances other than those under section II, letter „A“, point (10.1) of Annex № 1 to the Code on Insurance, an insurer may establish the provision for unexpired risks under the second subparagraph. Where an insurer has not established the provision under the second subparagraph, they must establish the provision for unexpired risks, when for the latest three years, including the current one, the gross technical result set out in Annex № 6 is negative. In such case an insurer shall submit to the Commission an actuarial statement of estimates of achieving adequate of premiums.

(4) Where the provision for unexpired risks under the third subparagraph is not calculated according to the second subparagraph, its amount shall be determined as per Annex № 7.

*Establishment of the mathematical provision and capitalised value of pensions*

**Article 86.** (1) A mathematical provision, for the purposes of determining the surrender value, shall comprise the savings part of accrued premiums increased by the guaranteed income from investing them and amounts for estimated underwriting of risk and administrative expenses. The mathematical provision shall comprise also additionally allocated yields where it is provided for under the terms of the contract.

(2) For the purposes of calculating technical provisions in mandatory accountancy reporting, the basis for determining the mathematical provision and capitalised value of pensions shall correspond to the basis for recognising the premium income by an insurer.

(3) Provisions under the second subparagraph shall be derived as amounts of the individual reserves calculated separately for each insurance contract.

(4) For the purposes of calculating technical provisions in mandatory accountancy reporting the mathematical provision shall be calculated on insurances under Section I of Annex № 1 of the Code on Insurance by a prospective method, including:

1. the difference between:

a) net provision for unearned premiums representing the present value of the estimated future insurance payments arising from the terms of the concluded insurance contracts, including :

aa) all guaranteed amounts, including guaranteed surrender values;

bb) bonuses to which policy holders and beneficiaries are entitled under the insurance contracts;

cc) all rights granted to policy holders and beneficiaries as an option in insurance contracts;

b) present value of estimated future net premiums (premiums for risk cover) that are to be collected by an insurer by the end of the term of the contract, and

2. additional amount for administrative expenses – derived as a difference between the present value of estimated future administrative expenses based on the technical plan of the respective insurance and prudent judgement of their future values and the present value of

additions for administrative expenses in the estimated future premiums according to the technical plan.

(5) Where, due to the characteristics of a contract, it is impracticable to apply the prospective method, for the calculation of the mathematical provision shall be applied the retrospective method which is the difference between:

1. the amount of premium income, less the acquisition costs set out in the technical plan, and the accrued income, and

2. the amount of the accumulated value of insurance payments made, including the established provision for claims outstanding, and the recognised administrative expenses, calculated in the premium – at an amount, set out in the technical plan.

(6) The method used for calculating the provisions under subparagraph 1 shall be based on prudent actuarial valuations and shall take into account also the method for evaluating assets used as cover.

(7) Statistical components in the estimates of the provisions under subparagraph 1 and calculated additions to expenses shall be determined on the basis of prudent assumptions taking into account the terms of the insurance contract, the type of the contract and the estimated value of future administrative expenses and commissions. The assumptions used shall be disclosed in the explanatory notes to the annual financial statement.

(8) Any changes to the method used for the calculation of technical provisions or the bases for calculations may not be unjustified.

(9) Where a periodic payment of premiums is made, the estimated future net premiums under the fourth subparagraph, point (1), letter „b“ may be modified by a Zillmer quota that reflects the present value of the outstanding acquisition costs.

(10) The ninth subparagraph shall not be applied by insurers that show in the asset in the financial condition report deferred acquisition costs on insurances on which the mathematical provision is established.

(11) The maximum amount of the technical interest used in the calculations of premiums and provisions shall be not more than 50% of the long-term interest rate, published by the Bulgarian national bank, averaged over the last seven years. The amount of the technical interest, defined under the first sentence, shall be computed and changed on the first working day of each quarter and published on the site of the Financial Supervisory Commission. Upon each change of the maximum amount of the technical interest the new amount shall apply only to contracts concluded after the date of the change.

(12) Mortality tables used must reflect the national experience and/or the behaviour of the insurance aggregate.

(13) The mathematical provision on a certain insurance contract shall not be negative and shall not be less than the amount of the guaranteed surrender value at the time of determining it.

(14) The mathematical provision is an amount of the individual reserves calculated separately for each existing insurance contract.

(15) The capitalised value of pensions is a mathematical provision set out on the insurances under Section I, point (1), letter „b“ of Annex № 1 of the Code on Insurance.

(16) The provisions adequacy test shall be calculated on the basis of best estimates and assumptions.

*Publicity of the basis and methods for the calculation of technical provisions.*

*Income allocation.*

**Article 87.** (1) The basis and methods for calculating technical provisions on the insurances under Section I of Annex № 1 of the Code on Insurance, including the income allocated on insurance contracts – with with-profits insurance, shall be public. In the annual actuarial report submitted to the Commission insurers shall state: the total investment income of technical provisions and the manner it has been determined; the part of that income allocated to insurance contracts and the basis on which the allocation has been made.

(2) The income allocation to with-profits insurance shall be made on the basis of the individual amount of the mathematical provision or of the capitalised value of pensions in the current year in accordance with the terms of the contract.

(3) The allocated income shall be paid to the policy holders or beneficiaries or shall be included in the mathematical provision or in the capitalised value of pensions under the contracts.

*Provision for future participation in income*

**Article 88.** (1) The provision for future participation in income shall be established on insurances with a savings component under Section I of Annex № 1 of the Code on Insurance for covering the estimated future unfavourable variance in the investment income.

(2) The provision for future participation in income shall be used to supplement the income for allocation to insurance contracts or for completing the inadequacy of investments income for covering the technical interest.

(3) The source of establishing the provision for future participation in income is the difference between investments income, less the technical interest, and the actual allocated amount under Article 87.

(4) The established provision for future participation in income shall be subject to allocation among insurance contracts for a period of five years.

*Provision for claims outstanding – general rules*

**Article 89.** (1) The provision for claims outstanding shall be established for covering benefits, amounts and other payments under insurance or reinsurance contracts as well as the costs related to them, on claims incurred before the end of the reporting period, irrespective of whether they are reported or not reported and which are not settled towards the same date. The provision shall take into account all known factors and circumstances affecting the total value



of payments.

(2) The provision for claims outstanding shall comprise:

1. claims claimed but unpaid;
2. claims incurred but unfiled;
3. cost of settling claims.

*Establishment of the provision for claims claimed but unpaid*

**Article 90.** (1) The provision under the second subparagraph of Article 89, point (1) shall be calculated by the „Claim by claim“ method according to which it comprises the estimated amount of payments on every claim claimed but unpaid. Statistical methods may be used if they result in the establishment of adequate provision having regard to the nature of the risks after a prior approval by the Vice Chairman.

(2) A claim is the right of receiving a payment under an insurance contract occurring to a policy holder or a beneficiary, which right has been claimed or may be claimed also to the insurer. A claim is also the right occurring to an insurer or a reinsurer (retroceding undertaking) under a reinsurance contract.

(3) Every claim reported shall be entered in the information system of the insurer or the reinsurer under a separate number. With regard to an inward reinsurance activity the claims reported in connection with proportional contracts may not be entered under a separate number by the insurer or the reinsurer. The claims which an insurer has resumed work on after previous adjudicate (reopened claims) shall be entered under the number of the claim initially reported.

(4) For calculating the amount of the provision for claims claimed but unpaid for every claim newly reported an initial provision shall be established on the basis of statistical methods, when carrying out expert evaluation on the claim the provision shall be changed on the basis of the evaluation in order to reflect the estimated amount of the payment on the claim.

(5) Cost of settling claims shall be included in the calculation of the provision irrespective of their origin.

(6) Recoverable amounts arising out of the acquisition of the rights of policy holders with respect to third parties (subrogation) or of the legal ownership of insured property (salvage) shall be deducted from the provision for claims outstanding by estimating them on a prudent basis. Where such amounts are material, they shall be disclosed in the explanatory notes to the financial report.

(7) Where benefits resulting from a claim must be paid in the form of annuity, the amounts to be set aside for that purpose shall be calculated by recognised actuarial methods.

(8) Implicit discounting or deductions resulting from determining the present value of claims which are expected to be settled later at a higher figure or otherwise effected, shall be prohibited.

(9) The provision for claims outstanding, established by an insurer or reinsurer carrying out an insurance activity under section II of Annex № 1 of the Code on Insurance may be

discounted after an approval by the Vice Chairman, taking into account the estimated investment income and the following conditions are fulfilled:

1. the expected average term for the settlement of claims is at least four years after the end of the reporting period;

2. an insurer or a reinsurer have adequate representative and reliable data to construct a reliable model of the settlement of claims over time;

3. the discount rate used shall not be higher than one of the two values as follows:

a) annual average yields obtained on the assets covering the technical provisions for the previous five years;

b) annual yields obtained on the assets covering technical provisions in the previous year.

(10) Claims under insurance or reinsurance contracts, brought before a court, on which the court has delivered judgement, shall be included in the provision to the full amount of the claim granted, including interests and fees awarded.

(11) Claims under insurance or reinsurance contracts, brought before a court, of which the company is notified and on which the court has not delivered judgement or which had been rejected in earlier proceedings before the decision was enforced, shall be included in the provision, where the cost of claims together with the interest payable and known expenses in cases may be adjusted by a factor.

(12) The factor under Article 11 shall be calculated annually as at 31 December by each insurer, respectively reinsurer, where its value shall not be lower than the ratio between:

1. the amount granted on claims brought before a court under point (2), including also the amount with regard to court settlements and arrangements as a result of which legal proceedings were terminated in the previous three years (including principal, interest and costs), and

2. the total amount of the claims reported in statements of claim on which final decisions were taken and court settlements were reached.

(13) The factor under Article 11 shall be calculated by classes of insurances. On insurances under Section II, letter A, point (10.1) of Annex № 1 to the Code on Insurance it shall be calculated separately for material and non-material damage.

(14) To the papers and within the terms under the first subparagraph of Article 126, point (2) of the Code on Insurance, companies shall submit the values of the factors used by classes of insurances and a template containing information on:

1. judgements and court settlements on cases of insurance or reinsurance claims that entered into force in the three-year period before the date of submission of the template and the amount of the awarded or agreed amount (including principal, interests and costs), and

2. the statements of claim in respect of which final judgements have been delivered or court settlements have been reached, and the amount of claims reported (including principal, interests and legal expenses).

(15) The factor shall be applied to a period of one financial year and it will be recalculated for each subsequent year on the basis of a previous three-year period.

(16) The amount of the provision for claims outstanding in life insurance shall be equal to the

sums payable to policy holders/beneficiaries, plus the cost of settling claims. It shall comprise the provision for claims incurred but unfiled. The provision for claims claimed but unpaid shall comprise also payables outstanding due on insurances under Section I of Annex № 1 of the Code on Insurance. The sums in the first sentence shall be shown under item C.4 of the liability in the financial condition report.

*Provision for claims incurred but unfiled*

**Article 91.** (1) The provision for claims outstanding shall also allow for claims incurred but unfiled by the date of the financial condition report; the amount of the provision for claims incurred but not reported shall be determined having regard to past experience as to the number and magnitude of claims reported after the date of the financial condition report.

(2) The provision for claims incurred but unfiled shall comprise the amount of claims not reported on events incurred before the end of the reporting period as well as the amount of claims which may be resumed.

(3) The provision for claims incurred but unfiled shall be calculated as follows:

1. by applying statistical methods which take into account the trends in claims and their reporting over time, the inflation, the individual characteristics of the company's portfolio and other factors, where assumptions shall be made as to the extent to which tendencies observed will have effect on the future development; those methods shall be applied by companies having sufficiently representative and reliable statistics on the development of claims on the respective insurances;

2. as a percentage of claims reported of earned premiums or of the premium income for a period for which the events are expected to have occurred, which have not been reported; the rate for the respective period shall be subject to the prior approval of the Vice Chairman; the method is used by companies not having sufficiently representative and reliable statistics on the development of claims on the respective insurances.

(4) When approving the rate under the second subparagraph, point (3) the Vice Chairman shall take into account the market trends in the development of claims and their reporting over time on the respective insurances.

(5) Where on a given type of insurance risks of a different nature are covered, including material damage, non-material damage, loss of benefits and other, the provision for claims incurred but unfiled shall be calculated separately for the claims relating to each of those risks. In those cases for each calculation of the provision a company may apply different methods, which are the most appropriate, in order to determine the future obligations of the company in relation to those claims.

(6) Where on a given class of insurance an insurer carries out an activity under the right of establishment or under freedom to provide service, the provision for claims incurred but unfiled shall be calculated separately for each country in which the risk is situated. In those cases to each calculation of the provision an insurer may apply different methods, which are the most appropriate, in order to determine the future obligations of the company in relation to those

claims. The fifth subparagraph shall be applied.

(7) Where on a given class of insurance an insurer carries out direct insurance and reinsurance activities, the provision for claims incurred but unfiled shall be calculated separately for the claims in relation to insurance and reinsurance claims. In those cases for each calculation of the provision a company may apply different methods, which are the most appropriate, in order to determine the future obligations of the company in relation to those claims.

(8) If a company does not establish a provision for claims incurred but unfiled on a given class of insurance, it shall include a reasoned justification for that decision in the annual actuarial report.

*Provision for claims incurred but unfiled on an civil liability insurance of motorists*

**Article 92.** (1) The method for establishing the provision for claims incurred but unfiled at the end of the financial year on insurances under Section II, letter „A“, point (10.1) of Annex № 1 of the Code on Insurance shall be subject to the prior approval of the Vice Chairman. Insurers shall submit annually by 31 January the following year a reasoned request as per Annex № 8, containing a detailed description of:

1. the calculation method used;
2. the justification for selecting the method stated;
3. the statistical information on the basis of which calculations were made;
4. the justification of the expert assumptions and judgements underlying the method used, including about the inflation rate, the future development model of claims on those insurances, the risk margin set out for deviation of those assumptions and other.

(2) The amount of the provision for claims incurred but unfiled on an civil liability insurance of motorists may be calculated separately for the following risk groups:

1. passenger cars and commercial vehicles with a maximum authorised weight not exceeding 5 tonnes;
2. commercial vehicles with a maximum authorised weight over 5 tonnes and coaches;
3. semi-trailer towing vehicles, and
4. motor vehicles other than those coming under points (1) to (3).

(3) Where the market share of an insurer on a per insured motor vehicles basis in one of the groups under the second subparagraph, points (2) or (3) for the previous seven years exceeds 15%, the insurer must calculate the provision for claims incurred but unfiled by the respective group.

(4) In the calculation of a provision by risk groups under the second subparagraph, points (2) (4), an insurer not having sufficient own data shall use market data for the respective risk group, published on the Commission's website.

(5) For specifying and justifying the method under subparagraph 1 the amount of the provision shall be calculated according to several methods, the chain ladder method being one of them. The results of all methods used by an insurer for determining the amount of the provision shall be described in detail, analyzed and compared. When using market data and the chain ladder method

an insurer is not obliged to make the calculation by the use of other methods.

(6) The calculations based on data for claims paid and based on data for claims reported shall be done separately.

(7) The method of specifying the development factors used in estimating the expected amount of claims shall be described in detail and grounds shall be stated. When the calculation of the provision is not carried out on the basis of market data, development factors in using the chain ladder method may be specified according to data supplied by the insurer, market data and, data supplied by the insurer and market data, having different weighting. Where the calculation of the provision is made on the basis of market data, development factors in using the chain ladder method shall be specified exclusively on the basis of those data.

(8) The choice of method under subparagraph 1 for the establishment of the provision shall be made separately for claims with regard to material and non-material damage, where the results on the amount of the provision by selected methods are summed up.

(9) Correction of data, on the basis of which the provision is determined, shall be allowed only with regard to claims over 500 000 BGN. In this case data smoothing shall be applied, and for claims over 500 000 BGN separate calculation shall be made.

(10) In choosing a method under subparagraph 1 for the establishment of the provision an insurer shall carry out an amount adequacy test according to subparagraph 11 or according to subparagraphs 12-20.

(11) The adequacy of the amount of the provision shall be proved by using the chain ladder method based on the data supplied by the insurer, calculated separately on the basis of material and non-material damage, by using development factors, calculated by applying the weighted averages for the respective year of development. Calculations shall be made separately for claims paid and for claims reported, where the estimated ultimate loss is the amount of 50% of the ultimate loss, calculated on the basis of claims reported, and 50% of the ultimate loss, calculated on the basis of claims paid.

(12) In the absence of own data of the insurer or at his discretion the adequacy of the amount of the provision shall be proved by comparison with a market-determined benchmark or value, determined separately for each of the risk groups under the second subparagraph, points (1) to (4) on the basis of the amount of the material and non-material damage. The market benchmark shall be the average value of the results of the calculation on the basis of claims reported and paid. The result on the amount of the provision for claims incurred but unfiled at the end of the year, determined by the method chosen by the insurer, shall not be lower than the market share of the insurer in the common for the market estimated amount of claims not reported for each of the risk groups under the second subparagraph.

(13) In connection with the calculation of the adequacy of the provision under the twelfth subparagraph the common for the market estimated amount of claims not reported at the end of the year shall be determined on the basis of market historical data for a period of ten years, published on the Commission's website, which shall be updated quarterly. The common for the market estimated amount of claims not reported shall be published by the risk groups according

to the second subparagraph.

(14) In connection with the calculation of the adequacy of the provision under the twelfth subparagraph the market share of the insurer shall be determined on a per insured motor vehicles basis, weighted by the relative share of the amount of the common for the market estimated amount of claims not reported for the respective event year, for each of the risk groups under the second subparagraph. The number of the motor vehicles insured for a given year of the event shall be determined as an arithmetic mean of the number of motor vehicles on existing contracts at the beginning, the middle and the end of each month for each of the risk groups under the second subparagraph. The number of the motor vehicles insured since 1.01.2010 including, shall be determined by the Vice Chairman on the basis of the Information centre data under Article 572 of the Code on Insurance.

(15) In connection with the calculation of the adequacy of the provision under the twelfth subparagraph in order to take into account the portfolio specifics after submitting a reasoned justification to the Commission insurers may adjust their market share in the common for the market estimated amount of claims not reported using the following factors:

1. a factor, reflecting the average amount of claims paid, defined as the ratio between the average amount of the claims paid by the insurer and the average amount of claims paid in the market in total;

2. a factor, reflecting the average frequency of the events on which claims have been paid, defined as the ratio between the average frequency determined using insurer's data, and the average frequency determined using market data;

3. a factor, reflecting the duration or time-weighted average for payment of claims, defined as the ratio between the insurer's duration and market duration; the duration shall be calculated on the basis of the value of claims paid for a period of time of not less than ten years, grouped by year of the event and year of reporting the claims.

(16) In connection with the calculation of the adequacy of the provision under the twelfth subparagraph the factors under the fifteenth subparagraph, points (1) and (2) shall be determined by a single event year, where their value of any given event year shall not be lower than 0,9 and higher than 1,1. The terminal value of factors shall be determined by weighing the value for any given event year against the relative share of the common for the market estimated amount of claims not reported for the respective event year.

(17) In connection with the calculation of the adequacy of the provision under the twelfth subparagraph the duration under the fifteenth subparagraph, point (3) shall be defined as the ratio between the amounts of claims paid, weighed against the number of years of delay of their payment, and the total amount of claims paid for the previous ten years. The amount of claims paid, weighed against the number of years of delay of their payment, shall be defined as the amount of:

1. claims paid in the event year;

2. twice the amount of claims paid one year following the event year;

3. three times the amount of claims paid two years following the event year;

4. four times the amount of claims paid three years following the event year;
5. five times the amount of claims paid four years following the event year;
6. six times the amount of claims paid five years following the event year;
7. seven times the amount of claims paid six years following the event year;
8. eight times the amount of claims paid seven years following the event year;
9. nine times the amount of claims paid eight years following the event year, and
10. ten times the amount of claims paid nine years following the event year.

(18) In connection with the calculation of the adequacy of the provision under the twelfth subparagraph factors shall be determined separately for claims with regard to material and non-material damage.

(19) In connection with the calculation of the adequacy of the provision under the twelfth subparagraph the terminal value of each of the factors shall not be lower than 0,9 and higher than 1,1, and the cumulative effect of all factors used or their product shall not be less than 0,8. The value of factors under the fifteenth subparagraph, points (1), (2) and (3) shall be determined by the Vice Chairman according to data submitted by insurers to the Commission.

(20) For establishing the provision during the year the method approved at the end of the previous year shall be applied, except where the method presents significant deviations within the value of the provision. In those cases after an approval by the Vice Chairman an insurer may change the method or not recalculate the amount of the provision at the end of the respective quarter. The amount of the provision established at the end of every quarter shall not be lower than the amount at the end of the previous year except in the case of significant decrease in market share of an insurer in the number of motor vehicles insured.

(21) The Financial Supervisory Commission shall publish on its website aggregate market data for the number and value of claims reported and paid at the end of the respective quarter.

#### *Provision for the cost of settling claims*

**Article 93.** The amount of the provision for the cost of settling claims shall be determined for each class of insurance, by including all costs which may be allocated and which are related to payment of benefits, sums and other payments on insurance contracts, as follows:

1. costs, which may be charged to any claim, shall be included at their estimated value for each claim;
2. costs, which may not be charged to a specific claim, shall be broken down by class of insurance on the basis of premium income, number or value of claims.

#### *Establishment of the equalization provision*

**Article 94.** (1) The equalization provision shall be established by class of insurance by the application of statistical methods to be such as to equalize future fluctuations in the net quota of damage on the respective class of insurance.

(2) The method applied and a justification for the choice of it shall be disclosed in the explanatory notes to the financial statement.

*Outward reinsurance provision*

**Article 95.** An insurer or a reinsurer, carrying out an outward reinsurance, shall take into account the share of reinsurers in the established technical provisions according to the terms of reinsurance contracts.

*Inward reinsurance provision*

**Article 96.** An insurer, carrying out an inward reinsurance, shall establish the types of provisions under this chapter according to the terms of the reinsurance contract.

Section V

**Contents of the explanatory notes to the financial statement**

*General requirements to the explanatory notes to the financial statement*

**Article 97.** In addition to the disclosures, required by the provisions of the applicable accounting standards and this Ordinance, in the explanatory notes to financial statements of insurers shall be disclosed also the information provided for under this section.

*Requirements to the explanatory notes to the financial statement of non-life insurers*

**Article 98.** (1) Insurers, carrying out a non-life insurance activity, shall disclose in the explanatory notes to financial statements information on:

1. gross premiums written;
2. gross earned premiums;
3. gross claims incurred;
4. gross operating expenses;
5. the result of reinsurance operations.

(2) The amounts under the first subparagraph shall be shown separately for insurance and inward reinsurance where the inward reinsurance share exceeds 10% or more of the gross written premiums for the reporting year.

(3) Insurers shall further disclose information under the first subparagraph by classes and groups of insurances, as follows, on:

1. „Accident“ and „Sickness“;
2. „Civil liability insurance“ of motorists;
3. motor insurance except for point (2);
4. marine, aviation and transport insurance;
5. property insurance;
6. civil liability;
7. credits and guarantees;
8. legal expenses;
9. tourist assistance (assistance);



10. miscellaneous.

(4) Grouping by insurances shall be in compliance with the provisions under Section II, letter „B“ of Annex № 1 of the Code on Insurance.

(5) The information under the third subparagraph shall not be disclosed where the amount of gross written premiums under the respective class of insurance or group of insurances does not exceed 20 Million BGN.

(6) Irrespective of the provision under the fifth subparagraph insurers shall disclose the values on the three classes of insurances and/or groups of insurances having the largest percentage shares in their activity for the reporting year.

*Requirements to the explanatory notes to the financial statement of life insurers*

**Article 99.** (1) Insurers, carrying out a life insurance activity, in the explanatory notes to the financial statement shall disclose the following:

1. gross premiums written;
2. the result of reinsurance operations.

(2) The amounts under the first subparagraph, point (1) shall be shown separately for insurance and inward reinsurance where the relative share of inward reinsurance exceeds 10% or more of the gross written premiums for the reporting year.

(3) Insurers under the first subparagraph shall further disclose the information under point (1) of that subparagraph by showing the amounts according to the following terms of insurance contracts:

1. depending on the number of insured persons:
  - a) premium amount under individual contracts;
  - б) premium amount under group contracts;
2. depending on the means of payment of the insurance premium:
  - a) periodical premium amount;
  - б) single premium amount;
3. depending on the estimated participation in investment income:
  - a) premium amount under contracts without participation in investment income;
  - б) premium amount under contracts with participation in investment income;
4. premium amount under unit-linked and index-linked life insurances.

(4) Information under the items numbered by letters in points (1) to (3) of the third subparagraph shall not be disclosed separately where the amounts under the separate items do not exceed 10% or more of the gross written premiums.

*Disclosure of gross written premiums depending on the territory on which the activity is carried out*

**Article 100.** (1) In the explanatory notes to the financial statement shall be disclosed the

amount of gross written premiums of insurance activity carried out on the territory of:

1. Republic of Bulgaria;
2. other Member State within the meaning of § 1, point (6) of the Code on Insurance ;
3. a third-country within the meaning of § 1, point (7) of the Code on Insurance .

(2) Information under subparagraph 1 shall not be disclosed where the relative share of the respective amount does not exceed 5% or more of the gross written premiums.

#### *Disclosure of commission expenses*

**Article 101.** In the explanatory notes to the financial statement shall be disclosed information on the gross amount of all commission expenses for the reporting period, including those of insurance intermediaries, encashment commissions and management of the insurance portfolio commissions.

### Section VI

#### **Provisions relating to consolidated statements**

##### *Obligation to prepare consolidated financial statements*

**Article 102.** Insurers, insurance holding companies and mixed financial holding companies within the meaning of the Code on Insurance, hereinafter referred to as the undertakings, shall prepare and submit to the Commission a consolidated financial statement under the conditions laid down in the Accountancy Act, the applicable accounting standards and the requirements of the Ordinance.

##### *Consolidation with an interim financial report*

**Article 103.** Where the annual financial statement date of preparation of an undertaking, participating in the consolidation, precedes the consolidated financial statement date of drawing up by more than six months, that undertaking shall be consolidated on the basis of interim financial report drawn up as at the consolidated financial statement date.

##### *Investment income and expenses reporting in the preparation of a consolidated financial statement*

**Article 104.** In the preparation and presentation of the consolidated financial statement investment income and expenses shall be reported in the non-technical account of the consolidated statement of profit and loss, including where such income and expenses are related to life insurance.

##### *Submission of the consolidated financial statement to the Commission*

**Article 105.** The persons referred to in Article 102 shall submit the consolidated financial statement to the Commission by 30 June of the year following the year covered by the statement.

### Section VII

## **Publishing**

### *Publishing the annual and consolidated financial statements*

**Article 106.** Any insurer, reinsurer or undertaking referred to in Article 102 shall publish their annual and consolidated financial statements, annual activity reports, annual consolidated activity reports and audit reports under the conditions laid down in Article 38 of the Accountancy Act.

### **Chapter 4**

#### **ADDITIONAL REQUIREMENTS TO THE GUARANTEE FUND REPORTING**

**Article 107.** (1) The rules covering the provision for unearned premiums shall not apply to the Guarantee Fund.

(2) The Guarantee Fund shall submit the monthly templates: „General features of the insurance portfolio“, „Financial condition report“, „Statement of profit and loss and other comprehensive income“ and „Assets to cover technical provisions“.

(3) The Guarantee Fund shall submit the quarterly templates: „General features of the insurance portfolio“, „Technical provisions“, „Outward reinsurance“, „Investments“, „Complaints“, „Financial condition report“, „Statement of profit and loss and other comprehensive income“ and „Assets to cover technical provisions“.

(4) The Guarantee Fund shall submit the quarterly templates: „Provision for claims outstanding“, „Civil liability insurance of motorists“, „General features of the insurance portfolio“, „Technical provisions“, „Outward reinsurance“, „Investments“, „Assets to cover technical provisions“, „Complaints“, „Financial condition report“, „Statement of profit and loss and other comprehensive income“, „Statement of cash flows“ and „Statement of equity“.

## **PART III**

### **REQUIREMENTS TO THE SOLVENCY AND FINANCIAL CONDITION REPORT OF INSURERS WITHOUT THE RIGHT OF ACCESS TO THE SINGLE MARKET**

#### *Structure*

**Article 108.** (1) The solvency and financial condition report of insurers without the right of access to the single market shall follow the structure, set out in Annex XX of Regulation (EU) 2015/35, and disclose the information referred to in Articles 292 to 295 of this Regulation, and referred to in Articles 109 to 112 of this Regulation.

(2) The report shall contain narrative information in quantitative and qualitative form supplemented, where appropriate, with quantitative templates.

#### *Materiality*

**Article 109.** For the purposes of this Chapter, the information to be disclosed in the solvency and financial condition report shall be considered as material, if its omission or misstatement could influence the decision-making or the judgement of the users of that document, including the supervisory authorities.

### *Valuation for solvency purposes*

**Article 110.** (1) The solvency and financial condition report shall include information regarding the valuation of the assets of the insurer for solvency purposes separately for each material class of asset – the value of the assets, as well as a description of the bases, methods and main assumptions used for the valuation for solvency purposes.

(2) The solvency and financial condition report shall include all of the following information regarding the valuation of technical provisions of the insurer for solvency purposes:

1. separately for each material class of insurance – the value of technical provisions, as well as a description of the bases, methods and main assumptions used for their valuation for solvency purposes;

2. a description of the level of uncertainty associated with the value of technical provisions;

3. a description of:

a) the recoverables from reinsurance contracts and special purpose vehicles;

b) any material changes in the relevant assumptions made in the calculation of technical provisions compared to the previous reporting period.

(3) The solvency and financial condition report shall include information regarding the valuation of the other liabilities of the insurer for solvency purposes separately for each material class of other liabilities – the value of those other liabilities, as well as a description of the bases, methods and main assumptions, used for their valuation for solvency purposes.

(4) The solvency and financial condition report shall include in a separate section any other material information regarding the valuation of assets and liabilities for solvency purposes.

### *Capital management*

**Article 111.** (1) The solvency and financial condition report shall include all of the following information regarding the own funds of the insurer:

1. information on the objectives, policies and processes employed by the undertaking for managing its own funds, including information on the time horizon used for business planning and on any material changes over the reporting period;

2. separately for each tier, information on the structure, amount and quality of own funds at the end of the reporting period and at the end of the previous reporting period, including an analysis of the significant changes in each tier over the reporting period;

3. the eligible amount of own funds to cover the solvency margin;

4. the eligible amount of basic own funds to cover the solvency margin;

5. a description of any item deducted from own funds and a brief description of any significant restriction affecting the availability and transferability of own funds within the undertaking.

(2) The solvency and financial condition report shall include all of the following information regarding the solvency margin and guarantee fund of the insurer:

1. the amounts of the solvency margin and guarantee fund of the insurer at the end of the reporting period, accompanied, where applicable, by an indication that the final amount of the Solvency Capital Requirement is still subject to supervisory assessment;

2. any material change to the solvency margin and guarantee fund of the insurer over the reporting period, and the reasons for any such change.

(3) The solvency and financial condition report shall include all of the following information regarding any non-compliance with the guarantee fund or any significant non-compliance with the solvency margin of the insurer:

1. regarding any non-compliance with the guarantee fund of the insurer: the period and maximum amount of each non-compliance during the reporting period, an explanation of its origin and consequences, any remedial measures taken, as provided for under the second subparagraph of Article 129, point (5), letter „d“ of the Code on Insurance, and an explanation of the effects of such measures;

2. where non-compliance with the guarantee fund of the insurer has not been subsequently resolved: the amount of the non-compliance at the reporting date;

3. regarding any significant non-compliance with the solvency margin of the insurer during the reporting period: the period and maximum amount of each significant non-compliance and, in addition to the explanation of its origin and consequences as well as any remedial measures taken, as provided for under the second subparagraph of Article 129, point (5), letter „d“ of the Code on Insurance, and an explanation of the effects of such measures;

4. where a significant non-compliance with the solvency margin of the insurer has not been subsequently resolved: the amount of the non-compliance at the reporting date.

(4) The solvency and financial condition report shall include in a separate section any other material information regarding the capital management of the insurer.

#### *Additional voluntary information*

**Article 112.** Where an insurer disclose publicly, in accordance with Article 132 of the Code on Insurance, any information or explanation related to their solvency and financial condition whose public disclosure is not legally required, these undertakings shall ensure that such additional information is consistent with any information provided to the supervisory authorities pursuant to Article 127 of the Code on Insurance and this Ordinance.

#### *Solvency and financial condition report: non-disclosure of information*

**Article 113.** (1) Where the Vice Chairman permits insurers, in accordance with Article 130 of the Code on Insurance, not to disclose certain information, such permission shall remain valid only for as long as the reason for non-disclosure continues to exist.

(2) Insurers shall notify the Commission as soon as the reason for any permitted non-disclosure ceases to exist.

#### *Solvency and financial condition report: deadlines, means of disclosure and updates*

**Article 114.** Regarding the deadlines and means of disclosure of the solvency and financial condition report of insurers, without the right of access to the single market, Articles 300 and 301

of Regulation (EU) 2015/35 shall be applied.

#### *Updates*

**Article 115.** (1) Where insurers have to disclose publicly, in accordance with the first subparagraph of Article 131 of the Code on Insurance, appropriate information on the nature and effects of any major development significantly affecting the relevance of their solvency and financial condition report, the insurer shall publish an updated version of that report in accordance with the second paragraph of this Article. Articles 108 to 144 shall apply to that updated version.

(2) Without prejudice to any disclosure which shall be immediately provided by insurance and reinsurance undertakings in accordance with the requirements of the first subparagraph of Article 131 of the Code on Insurance, any updated version of the solvency and financial condition report shall be disclosed as soon as possible after the major development referred to in the first paragraph 1 of this Article, in accordance with the provisions set out in Article 301 of Regulation (EU) 2015/35.

(3) Notwithstanding paragraphs 1 and 2, insurers may decide, for the purposes of Article 301(5) of Regulation (EU) 2015/35, to disclose appropriate information on the nature and effects of any major development significantly affecting the relevance of their solvency and financial condition report in the form of amendments supplementing the initial report.

### **SUPPLEMENTARY PROVISION**

**§ 1.** (1) Within the meaning of this Ordinance:

1. „Net damage quota“ means the ratio of net claims incurred to net earned premiums for the same period.
2. „Underwriting year“ is the calendar year in which the insurance cover enters into force.
3. „Cost of settling claims“ are the costs required for settling insurance or reinsurance obligations.
4. „Material damage claims“ are the claims for compensation of damages to property.
5. „Non-material damage claims“ are the claims for compensation of material or non-material damage after personal injury or death.

(2) This Ordinance shall introduce the provisions of Council Directive 91/674/EEC of 19 December 1991 on the annual accounts and consolidated accounts of insurance undertakings.

### **TRANSITIONAL AND FINAL PROVISIONS**

**§ 2.** Insurers and reinsurers shall not make adjustments for past periods to the amount of technical provisions, resulting from changes in the methods and procedures for their establishment according to this Ordinance.

**§ 3.** The method for the calculation of the maximum amount of the technical interest under the eleventh subparagraph of Article 86 shall be applied exclusively to insurance contracts concluded

after 1 March 2017, where the changes in its value shall apply to contracts concluded after the respective change.

**§ 4.** (1) Until the data on claims reported to the database of the Information centre of the Guarantee Fund meet the quality requirements, insurers shall submit to the Financial Supervisory Commission, in electronic form and certified by electronic signature, data on the number and amount of claims reported and paid at the end of each quarter by the 10<sup>th</sup> day of the following month in the form of a table according to Annex № 8, including for each of the risk groups under the second subparagraph of Article 92. The date, at which the data in the first sentence match the necessary quality, shall be determined with an order by the Vice Chairman.

(2) The market benchmark under the twelfth subparagraph of Article 92 for 2016 may be determined on the basis of general market data, where the risk groups under the second subparagraph of Article 92 are not taken into account.

**§ 5.** This Ordinance is issued on the basis of the sixth subparagraph of Article 120 and the second subparagraph of Article 125 of the Code on Insurance and is established by Decision № 163-H of 23 December 2016 of the Financial Supervisory Commission.

**§ 6.** This Ordinance shall repeal:

1. Ordinance № 27 of 2006 on the procedure and methodology for the establishment of technical provisions by insurers and reinsurers (OJ C 36, 2006).

2. Ordinance № 30 of 2006 on the requirements to the accounting, form and contents of the financial statements, templates, reports and annexes of insurers and reinsurers (OJ C 78, 2006).

**§7.** Under the fourth subparagraph of Article 22 of Ordinance № 31 of 2006 laying down the procedures for testing and recognition of appointed actuary competence, for recognition of competence, obtained outside the Republic of Bulgaria, and on the form of the actuarial certification, the form and contents of the actuarial report and the templates under the Code on Insurance, which the appointed actuary certifies (prom. OJ C 71, 2006; amend. and suppl., C 51, 2008, C 66, 2013, C 54, 2014 and C 38, 2016) the words „Ordinance № 30 of 2006 on the requirements to the accounting, form and contents of the financial statements, templates, reports and annexes of insurers and reinsurers“ are replaced by „Ordinance № 53 of 2016 on the requirements to the reporting, valuation of assets and liabilities and establishment of technical provisions of insurers, reinsurers and the Guarantee Fund (OJ C 6, 2017)“.

**§8.** In Ordinance №51 of 2016 on own funds and the solvency requirements to insurers, reinsurers and groups of insurers and reinsurers (OJ C 38, 2016) the following amendments shall be made:

1. Under the first subparagraph of Article 35 the words „the fourth subparagraph of Article 7 of Ordinance №27 of 2006 on the procedure and methodology for the establishment of technical provisions by insurers and reinsurers (prom., OJ C 36, 2006; amend. and suppl., C 65, 2007)“ are replaced by „the ninth subparagraph of Article 90 of Ordinance №53 of 2016 on the requirements to the reporting, valuation of assets and liabilities and establishment of technical provisions of insurers, reinsurers and the Guarantee Fund (OJ C 6, 2017)“.

2. Under Article 81:

a) under the second subparagraph, point (1) the words „Article 15 of Ordinance №27 of 2006 on the procedure and methodology for the establishment of technical provisions by insurers and reinsurers (OJ C 36, 2006)“ are replaced by „Article 87 of Ordinance № 53 of 2016 on the requirements to the reporting, valuation of assets and liabilities and establishment of technical provisions of insurers, reinsurers and the Guarantee Fund“;

b) under the third subparagraph, point (1) the words „Article 15 of Ordinance №27 of 2006 on the procedure and methodology for the establishment of technical provisions by insurers and reinsurers“ are replaced by „Article 87 of Ordinance №53 of 2016 on the requirements to the reporting, valuation of assets and liabilities and establishment of technical provisions of insurers, reinsurers and the Guarantee Fund“.

§ 9. The Financial Supervisory Commission shall give instructions on the application of the Ordinance.

§ 10. The Ordinance shall enter into force at the date of its publication in the Official Journal and shall be applied by insurers and reinsurers as of 1 January 2017. At the insurer’s, respectively reinsurer’s discretion, the provisions under Chapter 4, Section IV, may be applied to the reports as of 31.12.2016.

§ 11. In relation to the disclosure of reliable statistical information for the purposes of the calculation of technical provisions insurers and reinsurers shall submit to the Commission preliminary quarterly templates as of 31.12.2016, 31.12.2017 and 31.12.2018 for the purposes of accountancy reporting in accordance with the annexes of this Ordinance by the end of the month following the quarter.

Chairman: **Karina Karaivanova**

Annex № 1 to Article 2(1)  
Annex № 1.1

FINANCIAL CONDITION REPORT  
OF .....  
towards .....

ASSET		Current period (BGN □000)	Previous period (BGN □000)
1		2	3
<b>A.</b>	<b>INTANGIBLE ASSETS, including</b>		
-	Software		
-	Reputation		



-	Other		
<b>B.</b>	<b>INVESTMENTS</b>		
<b>I.</b>	Land and buildings		
<b>1</b>	incl. land and buildings used for business purposes		
<b>II.</b>	Investments in subsidiaries, joint and associate companies and in other companies in which the insurer holds a share participation		
<b>1.</b>	Stock and shares in subsidiaries, joint and associate companies		
<b>2.</b>	Debt securities, issued by subsidiaries, joint and associate companies, and the loans granted to them		
<b>3.</b>	Other share participations		
<b>4.</b>	Debt securities, issued by other companies in which the insurer holds a share participation, and the loans granted to them		
<b>III.</b>	Other financial investments		
<b>1.</b>	Stock and other securities with variable income and shares in investment funds		
<b>2.</b>	Debt securities and other fixed income securities,		
	including securities, issued and guaranteed by the State		
<b>3.</b>	Participation in joint investment pools		
<b>4.</b>	Loans, secured by means of a mortgage		
<b>5.</b>	Other loans		
<b>6.</b>	Deposits in banks		
<b>7.</b>	Other		
<b>IV.</b>	Deposits in ceding undertakings		
	<b>Total under Section B</b>		
<b>C.</b>	<b>INVESTMENTS FOR THE BENEFIT OF UNIT-LINKED AND INDEX-LINKED LIFE INSURANCE POLICIES</b>		
<b>D.</b>	<b>RECEIVABLES</b>		
<b>I.</b>	Receivables from direct insurance operations:		
<b>1.</b>	Receivables from insured/insuring persons, including		

-	receivables from subsidiaries, joint and associate companies		
-	receivables from companies in which the insurer holds a share participation		
<b>2.</b>	Receivables from intermediaries, including		
-	receivables from subsidiaries, joint and associate companies		
-	receivables from companies in which the insurer holds a share participation		
	<b>Total for group I</b>		
<b>II.</b>	Receivables from reinsuring operations, including		
-	receivables from subsidiaries, joint and associate companies		
-	receivables from companies in which the insurer holds a share participation		
<b>III.</b>	Other receivables, including		
-	receivables from subsidiaries, joint and associate companies		
-	receivables from companies in which the insurer holds a share participation		
<b>Da</b>	<b>PARTICIPATION OF REINSURERS IN TECHNICAL PROVISIONS</b>		
<b>1.</b>	Participation of reinsurers in the provision for unearned premiums		
<b>2</b>	Participation of a reinsurer in the provision for unexpired risks		
<b>3</b>	Participation of reinsurers in the mathematical provision		
<b>4</b>	Participation of reinsurers in the provision for claims outstanding		
<b>5</b>	Participation of reinsurers in the capitalised value of pensions		
<b>6</b>	Participation of reinsurers in the provision for bonuses and rebates		
<b>7</b>	Participation of a reinsurer in technical provisions for life insurances where the investment risk is borne by policy holders		
<b>8</b>	Participation of reinsurers in other technical provisions		
	<b>Total for group III</b>		
	<b>Total under Section D</b>		

<b>E.</b>	<b>OTHER ASSETS</b>		
<b>I.</b>	Other tangible assets		
<b>1.</b>	Machinery, installations and equipment		
<b>2.</b>	Other		
<b>II.</b>	Cash and monetary equivalents		
<b>1.</b>	Cash in bank accounts		
<b>2.</b>	Cash in cash-desk		
<b>3.</b>	Monetary equivalents		
	<b>Total for group II</b>		
<b>III</b>	Other		
	<b>Total under Section E</b>		
<b>F.</b>	<b>DEFERRED EXPENSES AND ACCRUED INCOME</b>		
<b>I.</b>	Accumulated interest and rent /lease/		
<b>II.</b>	Deferred acquisition costs		
<b>III.</b>	Other deferred expenses and accumulated income		
	<b>Total under Section F</b>		
	<b>AMOUNT OF ASSET</b>		
<b>G.</b>	<b>CONTINGENCIES</b>		
	<b>LIABILITY</b>		
<b>A.</b>	<b>CAPITAL AND PROVISIONS</b>		
<b>I.</b>	Share capital subscribed or equivalent funds including		
-	equity subscribed but not paid-up (-)		
-	repurchased own stock (-)		
<b>II.</b>	Emission premiums		
<b>III.</b>	Revaluation reserve		
<b>IV.</b>	Provisions		
<b>V.</b>	Undischarged profit		

<b>VI.</b>	Uncovered loss (-)		
<b>VII.</b>	Profit or loss for the financial year (+/-)		
	<b>Total under Section A</b>		
<b>B.</b>	<b>SUBORDINATED LIABILITIES</b>		
<b>Ba</b>	<b>FUND FOR FUTURE APPROPRIATIONS</b>		
<b>C.</b>	<b>TECHNICAL PROVISIONS</b>		
<b>1.</b>	Provision for unearned premiums		
<b>2.</b>	Provision for unexpired risks		
<b>3.</b>	Mathematical provision		
<b>4.</b>	Provision for claims outstanding		
<b>5.</b>	Equalization provision		
<b>6.</b>	Capitalised value of pensions		
<b>7.</b>	Provision for future participation in income		
<b>8.</b>	Provision for bonuses and rebates		
<b>9.</b>	Other technical provisions		
	<b>Total under Section C</b>		
<b>D.</b>	<b>UNIT-LINKED AND INDEX-LINKED LIFE INSURANCE PROVISIONS</b>		
<b>D1.</b>	<b>OTHER PROVISIONS</b>		
<b>1.</b>	Provisions for pensions and other similar obligations		
<b>2.</b>	Provisions for taxes		
<b>3.</b>	Other provisions		
<b>E.</b>	<b>DEPOSITS RECEIVED BY REINSURERS</b>		
<b>F.</b>	<b>LIABILITIES</b>		
<b>I.</b>	Liabilities under direct insurance operations, including		
-	liabilities to subsidiaries, joint and associate companies		
-	liabilities to companies in which the insurer holds a share participation		

<b>II.</b>	Liabilities under reinsurance operations, including		
-	liabilities to subsidiaries, joint and associate companies		
-	liabilities to companies in which the insurer holds a share participation		
<b>III.</b>	Debenture loans		
<b>1.</b>	Convertible loans, including		
-	liabilities to subsidiaries, joint and associate companies		
-	liabilities to companies in which the insurer holds a share participation		
<b>2.</b>	Other debenture loans, including		
-	liabilities to subsidiaries, joint and associate companies		
-	liabilities to companies in which the insurer holds a share participation		
<b>IV.</b>	Liabilities to credit institutions, including		
-	liabilities to subsidiaries, joint and associate companies		
-	liabilities to companies in which the insurer holds a share participation		
<b>V.</b>	Other liabilities, including		
-	liabilities to subsidiaries, joint and associate companies		
-	liabilities to companies in which the insurer holds a share participation		
-	Payables to employees		
-	appropriations to the budget		
-	social security contributions		
	<b>Total under Section F</b>		
<b>G.</b>	<b>ACCUMULATION AND INCOME FOR FUTURE PERIODS</b>		
<b>I.</b>	Reinsurers' share in deferred acquisition costs		
<b>II.</b>	Other accumulations and income for future periods		
	<b>Total under Section G</b>		
	<b>AMOUNT OF LIABILITY</b>		
<b>3.</b>	<b>CONTINGENT LIABILITIES</b>		
	Date: .....	Chief accountant:	Representing:

**STATEMENT OF PROFIT AND LOSS**  
**OF .....**  
**towards .....**

		<b>Current period (BGN □000)</b>	<b>Previous period (BGN □000)</b>
1		2	3
<b>I.</b>	<b>Technical account – non-life insurance</b>		
1.	Earned premiums, net of reinsurance:		
(a)	gross premiums written		
	including premiums returned and receivables written-off under surrendered contracts, concluded during the reporting period (deducted from gross premiums written)		
(b)	outward reinsurance premiums		
(c)	change in the gross provision for unearned premiums (+/-)		
	including additional sum for unexpired risks		
(d)	change in the provision for unearned premiums, reinsurers' share (+/-)		
	<b>Total for 1</b>		
2.	Allocated investment return transferred from the non-technical account ( <b>item III 6</b> )		
3.	Other technical income, net of reinsurance		
4.	Claims incurred, net of reinsurance:		
(a)	claims paid, net of reinsurance		
(aa)	gross amount		
(ab)	reinsurers' share		
	Total for „a“		
(b)	change in the provision for claims outstanding, gross amount		
(c)	change in the provision for claims outstanding, reinsurers' share		
	<b>Total for 4</b>		
5.	Changes in other technical provisions, net of reinsurance, not shown		

	under other headings		
(a)	change in other insurance provisions, gross amount (+/-)		
(b)	change in other insurance provisions, reinsurers' share (+/-)		
	<b>Total for 5</b>		
6.	Bonuses, rebates and participation in the positive financial result, net of reinsurance		
7.	Net operating expenses		
(a)	acquisition costs		
(b)	change in deferred acquisition costs (+/-)		
(c)	administrative expenses		
(d)	reinsurance commissions and profit participation		
	<b>Total for 7</b>		
8.	Other technical charges, net of reinsurance		
	including premiums returned and receivables written-off under surrendered contracts, concluded during previous reporting periods		
9.	Change in the equalization provision (+/-)		
10.	Sub-total – balance on the technical account for non-life-insurance business		
<b>II.</b>	<b>Technical account – life insurance</b>		
1.	Earned premiums, net of reinsurance:		
(a)	gross premiums written		
	including premiums returned and receivables written-off under surrendered contracts, concluded during the reporting period (deducted from gross premiums written)		
(b)	outward reinsurance premiums		
(c)	change in the provision for unearned premiums, gross amount (+/-)		
(d)	change in the provision for unearned premiums, reinsurers' share (+/-)		
	<b>Total for 1</b>		
2.	Investment income		
(a)	income from participating interests,		
	including income from subsidiaries, joint and associate companies		

(b)	income from other investments, including income from subsidiaries, joint and associate companies		
(ba)	income from land and buildings		
(bb)	income from other investments		
	<b>Total for b</b>		
(c)	value re-adjustments on investments		
(d)	gains on the realization of investments		
	<b>Total for 2</b>		
3.	Other technical income, net of reinsurance		
4.	Claims incurred, net of reinsurance:		
(a)	Sums and benefits paid		
(aa)	gross amount		
(ab)	reinsurers' share		
	<b>Total for „a“</b>		
(b)	change in the provision for claims outstanding		
(ba)	gross amount		
(bb)	reinsurers' share		
	<b>Total for b</b>		
	<b>Total for 4</b>		
5.	Change in other technical provisions, net of reinsurance, not shown under other headings		
(a)	Mathematical provision, net of reinsurance		
(aa)	gross amount		
(ab)	reinsurers' share		
	<b>Total for „a“</b>		
(c)	Other insurance provisions, net of reinsurance		
	<b>Total for 5</b>		
6.	Bonuses, rebates and participation in the positive financial result, net of reinsurance		
7.	Net operating expenses:		
(a)	acquisition costs		
(b)	change in deferred acquisition costs (+/-)		



(c)	administrative expenses		
(d)	reinsurance commissions and profit participation		
	<b>Total for 7</b>		
8.	Investment charges:		
(a)	investment management charges, including interest		
(b)	value adjustments on investments		
(c)	losses on the realization of investments		
	<b>Total for 8</b>		
9.	Other technical charges, net of reinsurance		
	including premiums returned and receivables written-off under surrendered contracts, concluded during previous reporting periods		
10.	Allocated investment return transferred to the non-technical account <b>(item III 4)</b>		
10a.	Transfer to or from the Fund for future appropriations		
11.	Sub-total – balance on the technical account - life insurance business		
<b>III.</b>	<b>NON-TECHNICAL ACCOUNT</b>		
1.	Balance on the technical account - non-life-insurance business <b>(item I 10)</b>		
2.	Balance on the technical account - life-insurance business <b>(item II 11)</b>		
3.	Investment income		
(a)	income from participating interests, including income from subsidiaries, joint and associate companies		
(b)	income from other investments, including income from subsidiaries, joint and associate companies		
(ba)	income from land and buildings		
(bb)	income from other investments		
	Total for b		
(c)	value re-adjustments on investments		
(d)	gains on the realization of investments		
	<b>Total for 3</b>		

4.	Allocated investment return transferred from the life-insurance technical account ( <b>item II 10</b> )		
5.	Investment charges:		
(a)	investment management charges, including interest		
(b)	value adjustments on investments		
(c)	losses on the realization of investments		
	<b>Total for 5</b>		
6.	Allocated investment return transferred to the non-life insurance technical account ( <b>item I 2</b> )		
7.	Other income		
8.	Other charges, including value adjustments		
9.	Profit or loss on ordinary activities		
10.	Extraordinary income		
11.	Extraordinary charges		
12.	Extraordinary profit or loss		
13.	Corporate tax		
14.	Other taxes		
15.	Profit or loss for the financial year		
	Date: _____ Chief accountant: _____	Representing: _____	

Annex № 1.3

	Template							
	for flows of own assets of .....							
	towards .....							
	<b>(BGN□000)</b>							
	INDEXES	Book value of fixed assets	Subsequent valuation	Revalued amount	Depreciation	Subsequent valuation	Revaluated depreciation at	Balanc e value at





1.	Stock and shares: – in related undertakings – in other undertakings														
2.	Debt securities, issued by related undertakings, including by: ..... . ..... . ..... .														
3.	Other share participations														
4.	Debt securities, issued by undertakings, in which the														



[SEE attachments](#)

Annex № 6 to Article 85(3)

**Determining the need for establishing the provision for unexpired risks**

The result for determining the need for establishing the provision for unexpired risks shall be calculated with the following formula:

$$P_T = \Pi + \underset{\text{н}}{\text{ПП}} - \underset{\text{н}}{\text{ПП}} - O + \underset{\text{н}}{\text{ПП}} - \underset{\text{н}}{\text{ПП}} - P,$$

where:

$P_T$  is the result for the establishment of the provision for unexpired risks;

$\Pi$  – the premium income during the current year under insurance and inward reinsurance activities;

$\underset{\text{н}}{\text{ПП}}$  – the provision for unearned premiums in the beginning of the year;

$\underset{\text{кп}}{\text{ПП}}$  – the provision for unearned premiums at the end of the year;

$O$  – benefits and sums paid during the current year under insurance and inward reinsurance activities;

$\underset{\text{н}}{\text{ПП}}$  – the provision for claims outstanding in the beginning of the year;

$\underset{\text{кп}}{\text{ПП}}$  – the provision for claims outstanding at the end of the year;

$P$  – expenses during the current year.

Annex № 7 to the fourth subparagraph of Article 85

**Determining the amount of the provision for unexpired risks**

The amount of unexpired risks shall be determined with the following formula:

$$PHP = \underset{\text{кп}}{\text{ПП}} \times (K - 1),$$

where:

$PHP$  is the provision for unexpired risks;

$\underset{\text{кп}}{\text{ПП}}$  is the provision for unearned premiums, gross of acquisition costs, at the end of the year;

$K$  is the adequacy factor of the provision for unexpired risks.

The adequacy factor shall be defined as the sum of the damage factor and the factor for expenses:

$$K = KИЦ + KP,$$

where:

$$KИЦ = (O - ППН + ППкр) / (\Pi + ППН - ППкр)$$

O are the benefits and sums paid during the current year under insurance and inward reinsurance activities;

ППН is the provision for claims outstanding in the beginning of the year;

ППкр is the provision for claims outstanding at the end of the year;

$\Pi$  is the premium income during the current year under insurance and inward reinsurance activities;

ППН is the provision for unearned premiums in the beginning of the year;

ППкр is the provision for unearned premiums at the end of the year.

$$KP = (P) / (\Pi + ППН - ППкр),$$

where:

P are the expenses during the current year.

Annex № 8 to the first subparagraph of Article 92

**The reasoned request for approval of the method for the establishment of the provision for claims incurred but unfiled shall contain:**

1. With regard to point (1):

A detailed description shall be presented of the methods applied in determining the amount of the provision. With regard to the way of determining the factors for development, used in the estimation of the amount of claims, that will be reported with a delay, the following shall be examined:

a) the amount of the factors for development for each event year or the ratio of the claims, reported during a given year of development, and the previous year;

b) the trend in the increase, decrease and change in the amount of factors.

Where such a trend is present it shall be reflected in determining the factor used for estimation of the claims not reported. In view of this the factors for development may be determined as weighted or arithmetic averages based only on the previous several periods in which their values were close. Determining the factors value may be done also by giving different weight to the factors for previous periods, where the closer the period until the moment of valuation of the provision, the higher is the weight. The approach chosen may be applied in determining all factors for development or only those showing certain trend;

c) large fluctuations in the values of the factors for development.

Where smoothing of the value of the factors for development is made, it is necessary that the methods used are described in detail by comparing the value of the factors and the value of the results on the amount of the provision, before and after the smoothing;

d) the way of determining the value of the ultimate factor for development (called tail factor),









*I, the undersigned **Emilia Veselinova Marinchevska**, certify that this is a true and accurate translation done by me from Bulgarian into English of the attached document: Certificate. The translation consists of 1 (one) page.*

*Translator: **Emilia Veselinova Marinchevska***