

ORDINANCE No. 51 of 28.04.2016 on own funds and on the solvency requirements of insurers, reinsurers and groups of insurers and reinsurers

Promulgated - SG, No. 38 / 20.05.2016 effective from 20.05.2016; amended No. 6 / 19.01.2017 effective from 19.01.2017; amended No. 101 / 20.12.2022, effective from 01.01.2023;

Adopted by Decision No. 158-H of 28.04.2016 of the Financial Supervision Commission

PART ONE GENERAL PROVISIONS Chapter One SUBJECT, SCOPE AND GENERAL APPROVAL REGIME

Art. 1. The ordinance defines:

1. the qualitative and quantitative requirements for defining own funds of the insurers with the right of access to the single market and of the reinsurers, as well as the requirements for the classification and eligibility of these own funds;

2. the standard formula and the procedure for calculating the solvency capital requirement according to the standard formula for insurers with the right of access to the single market and of reinsurers;

3. additional requirements for internal models;

4. the items that are included when calculating the amount of own funds;

5. the solvency margin and the methods by which it is calculated for insurers and reinsurers without the right of access to the single market;

6. the supervision of insurers and reinsurers that are part of a group, and the powers of the Financial Supervision Commission (the FSC) and of the Deputy Chairperson in charge of the Insurance Supervision Department (the Deputy Chairperson), with respect to the supervision of a group;

7. the method of carrying out additional supervision in relation to insurers that are part of a group of insurers without access to the single market and whose parent company is an insurance holding company or a mixed-activity financial holding company.

Art. 2. The Ordinance also applies to insurers and reinsurers from a third country, carrying out insurance or reinsurance activity in accordance with the Insurance Code (IC) through a branch on the territory of the Republic of Bulgaria.

Art. 3. (1) To issue a permit or approval under Commission Regulation (EU) 2015/35 of 10 October 2014 of 10 October 2014 supplementing Directive 2009/138/EC of the European Parliament and of the Council on the taking-up and pursuit of the business of Insurance and Reinsurance (Regulation (EU) 2015/35) (OJ, L 12/1 of January 17, 2015) an application is submitted to the FSC, with attached evidence of compliance with the relevant requirements.

(2) On the basis of the submitted documents, the FSC, respectively the Deputy Chairperson, establishes the extent to which the requirements for issuing the requested permit or approval have been met. If the submitted data or documents are incomplete or improper, or if additional information or evidence is needed for the accuracy of the data, the FSC, respectively the Deputy Chairperson, sends a message to the applicant about the detected incompleteness or inconsistencies or about the requested additional information and documents and sets a deadline for their remediation.

(3) If the message under para. 2 is not received at the address for correspondence specified by the applicant, the period for presenting the data or documents starts from the placement of the message in a specially designated place in the FSC's building.

The latter circumstance is certified by a protocol drawn up by officials appointed by order of the Chairperson of the FSC.

(4) The FSC, respectively the Deputy Chairperson, shall make a decision on the application within 14 days of the receipt, and when additional data and documents have been requested -

of their receipt. The Deputy Chairperson notifies the applicant in writing of the decision within 3 days of its issuance.

(5) The provisions of this article shall not apply where the regulation provides for a special regime of supervisory approval or authorization in relation to Regulation 2015/35.

PART TWO OWN FUNDS

SECTION ONE OWN FUNDS OF INSURERS WITH RIGHTS OF ACCESS TO THE SINGLE MARKET AND OF REINSURERS

Chapter Two

GENERAL PROVISIONS

Art. 4. (1) The own funds of the insurer, respectively the reinsurer, include basic own funds and additional own funds.

(2) Every insurer, respectively reinsurer, has at its disposal at all times eligible own funds at least equal to the solvency capital requirement.

(3) Every insurer, respectively reinsurer, has at its disposal at all times eligible basic own funds, at least equal to the minimum capital requirement.

Art. 5. (1) Basic own funds include the following items:

1. the excess of assets over liabilities, assessed according to chapter eleven of the IC;
2. subordinate liabilities.

(2) The excess under para. 1, item 1 is reduced by the value of the own shares held by the insurer, respectively the reinsurer.

Art. 6. (1) Additional own funds include items other than basic own funds that can be provided to absorb losses.

(2) Additional own funds may cover the following items, insofar as they do not form basic own funds:

1. Letters of credit and guarantees;;
2. any other legally binding claims arising in favor of the insurer, respectively the reinsurer.

(3) In the case of mutual insurance cooperatives, the additional own funds may also cover the future claims that the cooperative could have against its members by virtue of a call for additional contributions within the next 12 months.

(4) If the additional own funds have been contributed or their contribution has been demanded, then they are treated as assets and cease to be part of additional own-fund items.

Art. 7. (1) Surplus funds are considered accumulated profits that have not been made available for distribution to policyholders and beneficiaries.

(2) In compliance with the criteria under Art. 9, the surplus of funds is not considered an insurance or reinsurance liability, unless otherwise provided for in a regulatory act.

Chapter Three

CLASSIFICATION OF OWN FUNDS

Art. 8. (1) Own fund items are classified into three tiers. The classification of own-fund items depends on whether they are items of basic own funds or items of additional own funds and the degree to which they have the following characteristics:

1. the item is available or, if necessary, its contribution can be required to fully absorb losses both in the case of a going concern, and in the event of liquidation (permanent availability);

2. in case of liquidation - the total value of the item is available to cover the losses and the payment of the item to its holder is refused until all other obligations are satisfied, including insurance and reinsurance obligations to policyholders and beneficiaries under insurance and reinsurance contracts (subrogation).

(2) When assessing the extent to which the own-fund items possess the features under para. 1, items 1 and 2, at the time of assessment, as well as at any future time, the duration of the item is taken into account, in particular whether the own-fund item has a fixed maturity. Where

the own-fund item has a fixed maturity, the relative duration of the item compared to the duration of the insurance and reinsurance liabilities (sufficient duration) is taken into account.

(3) In addition to the requirements under para. 1 and 2, the following features are taken into account:

1. whether the item is free of requirements or incentives to redeem the nominal value (absence of redemption incentives);

2. whether the items is free of mandatory fixed fees (absence of mandatory service costs);

3 whether the item is free of encumbrances (absence of encumbrances).

Art. 9. (1) Basic own-fund items are classified as Tier 1 capital when they possess to a sufficient extent the characteristics under Art. 8, para. 1, items 1 and 2, taking into account the features under Art. 8, para. 2 and 3.

(2) Basic own-fund items are classified as Tier 2 capital when they possess to a sufficient degree the characteristic under Art. 8, para. 1, item 2, taking into account the marks under Art. 8, para. 2 and 3.

(1) Additional own-fund items are classified as Tier 2 capital when they possess to a sufficient extent the characteristics under Art. 8, para. 1, items 1 and 2, taking into account the features under Art. 8, para. 2 and 3.

(4) All items of basic and additional own funds that do not meet the requirements under para. 1 - 3, are classified as Tier 3 capital.

Art. 10. (1) An insurer, respectively a reinsurer, classifies its own-fund items based on the criteria under Art. 9.

(2) The classification of own-fund items is determined, when applicable, according to the lists under Regulation (EU) 2015/35 and in compliance with the Guidelines on Classification of Own Funds (EIOPA-BoS-14/168) adopted by the European Insurance and Occupational Pensions Authority (European Authority).

(3) In the event that an own-fund item is not contained in the lists under para. 2, the insurer, respectively the reinsurer, evaluates and classifies it in accordance with para. 1. This classification is subject to approval by the FSC on the proposal of the Deputy Chairperson pursuant to Chapter Five, Section III.

Art. 11. (1) Without prejudice to the provisions of Art. 10, the following classifications apply to the below-mentioned own-fund items

1. excess funds under Art. 7 is classified as Tier 1 capital;

2. letters of credit and guarantees which are held in trust for the benefit of insurance creditors by an independent trustee or similar fiduciary relationship for the benefit of creditors having insurance claims from the insurer, are classified as tier two capital;

3. any future claims which mutual or mutual-type associations of shipowners with variable contributions solely insuring risks listed in classes 6, 12 and 17 of Section II, letter A of Annex No. 1 to the IC, may have against their members by way of a call for supplementary contributions, within the following 12 months, are classified as Tier 2 capital.

(2) In accordance with Art. 9, para. 3 all future claims that a mutual insurance cooperative may have against its members by virtue of a call for additional contributions within the next 12 months and which do not fall within the scope of item 3 of the preceding paragraph shall be classified as Tier 2 capital when they possess to a sufficient extent the characteristics under Art. 8, para. 1, taking into account the features under Art. 8, para. 2 and 3.

Chapter Four

ELIGIBILITY OF OWN FUNDS

Art. 12. (1) With regard to the compliance with the solvency capital requirement, the amount of eligible items of Tier 2 and Tier 3 capital is subject to quantitative restrictions, which guarantee compliance with at least the following conditions:

1. the share of Tier 1 eligible own-fund items is greater than one third of the total amount

of eligible own funds;

2. the eligible amount of Tier 3 items is less than one third of the total amount of eligible own funds.

(2) Regarding compliance with the minimum capital requirement, the amount of basic own funds items eligible to cover the minimum capital requirement, which are classified as Tier 2 capital, is subject to quantitative restrictions. The restrictions ensure at least that the share of Tier 1 items in eligible basic own funds is higher than half of the total amount of eligible basic own funds.

(3) The allowable amount of own funds to cover the solvency capital requirement is equal to the sum of the total amount of Tier 1 capital, eligible allowable amount of Tier 2 capital and the eligible amount of Tier 3 capital.

(4) The eligible amount of basic own funds to cover the minimum capital requirement according to Art. 191 of the IC is equal to the sum of the total amount of Tier 1 capital and the permissible amount of basic own-fund items classified as Tier 2 capital.

Chapter Five

PROCEDURE FOR ISSUING PERMITS AND APPROVALS

Section I

Supervisory approval of additional own funds

Art. 13. The approvals of the additional own funds under Art. 167, para. 1, 3 and 4 of the IC are issued in accordance with Commission Implementing Regulation (EU) 2015/499 of 24 March 2015 laying down implementing technical standards with regard to the procedures to be used for granting supervisory approval for the use of ancillary own-fund items in accordance with Directive 2009/138/EC of the European Parliament and of the Council (OJ, L 79/12 of March 25, 2015) and Art. 62 - 67 of Regulation (EU) 2015/35.

Art. 14. When applying the requirements of Art. 62, paragraph 1, letter "d" of Regulation (EU) 2015/35, when assessing the value of an item of additional own funds whether it continues to reflect its ability to absorb losses, the FSC, on the proposal of the Deputy Chairperson, takes into account including:

1. the information obtained through on-site inspections;
2. information received or acquired as part of the supervisory review process;
3. information provided by other competent authorities within the college of supervisors, if applicable;
- 4 other relevant information.

Section II

Supervisory approvals issued in connection with the classification of own funds

Art. 15. (1) To obtain supervisory approval of payment or redemption of a basic own funds item in accordance with Art. 71, paragraph 1, letter "h", Art. 73, paragraph 1, letter "d" and Art. 77, paragraph 1, letter "d" of Regulation (EU) 2015/35 or of a transaction that is not considered payment or redemption in accordance with Article 71, paragraph 2, Article 73, paragraph 2 and Article 77, paragraph 2 of Regulation (EU) 2015/35, the insurer, respectively the reinsurer, submits an application to the FSC to which it attaches an assessment of the payout, redemption or transaction, taking into account:

1. the current impact, the short- to medium-term impact on the overall solvency of the insurer, respectively the reinsurer, and how compatible it is with the company's medium-term capital management plan and its own risk and solvency assessment;
2. its ability to raise additional own funds, if necessary, taking into account economic conditions and its access to capital markets and other sources of additional own funds.

(2) When offering a series of payouts or redemptions in a short period of time, the insurer,

respectively the reinsurer, notifies the FSC in its application under para. 1. The FSC considers the series of transactions as a whole rather than individually.

(3) The insurer, respectively the reinsurer, submits an application under para. 1 for supervisory approval three months before the earlier of the two dates:

1. the necessary contractual notice of payment or redemption to the holders of an item;
2. the proposed repayment or redemption date.

(4) The deadline for the FSC's ruling on the application for payment or redemption is three months from the date of its receipt. The FSC notifies the applicant in writing within 7 days of making the decision.

(5) Art. 3, para. 2 and 3 shall apply accordingly.

(6) After receiving supervisory approval from the FSC for the payout or redemption, the insurer, respectively the reinsurer:

1. may exercise any call or other optional payment or redemption under the terms of the contractual agreement governing the own funds item;

2. reduces the relevant category of own funds without making corrections or recalculating the equalization reserve (equalization reserve), when it excludes an item treated as paid or redeemed from the date of notice to its holders or, if no notice is required, from the date of supervisory approval by the FSC;

3. continues to monitor its solvency for non-compliance or possible non-compliance with the solvency capital requirement, which would cause the suspension of payment or redemption during the period up to the date of payment or redemption;

4. suspend payment or redemption if this would result in non-compliance with the solvency capital requirement, even if a notice of payment or redemption has been given to the item holders.

(7) In the cases under para. 6, item 4, when payment or redemption is temporarily prohibited under these circumstances, the insurer, respectively the reinsurer, may resume the item as eligible own funds, in which case the received supervisory approval under para. 1 for repayment or redemption is cancelled.

Art. 16. In the case of an application for supervisory approval under Art. 15, para. 1 in connection with Art. 71, paragraph 1, letter "g" in connection with letter "h" of Regulation (EU) 2015/35, the FSC, on the proposal of the Deputy Chairperson, takes into account:

1. the current and estimated solvency of the insurer, respectively the reinsurer, taking into account the proposed redemption or redemption and any other proposed buyouts and redemptions or issues;

2. the medium-term plan of the insurer, respectively the reinsurer, for capital management and its own risk and solvency assessment;

3. the variability of own funds and the solvency capital requirement of the insurer, respectively the reinsurer, taking into account the nature, scale and complexity of the risks inherent in its activity;

4. the extent to which the insurer or reinsurer has access to external sources of own funds, as well as the influence of market conditions on the ability of the insurer or reinsurer to raise own funds.

Art. 17. (1) For issuance of approval by exception for payment or purchase of a basic own-fund item in accordance with Art. 71, paragraph 1, letter "k", sub-item (i), Art. 73, paragraph 1, letter "j", sub-item(i) or Art. 77, paragraph 1, letter "h", sub-item (i) of Regulation (EU) 2015/35, the insurer, respectively the reinsurer, submits an application to the FSC, in which it shall:

1. describe the proposed exchange or conversion, as well as its impact on basic own funds, including how the exchange or conversion is regulated in the terms of the contractual agreement that governs the own-funds item;

2 demonstrates how the proposed exchange or conversion is or will be in accordance with the recovery plan under Art. 215, para. 1 of the IC;

3. seeks prior supervisory approval of the transaction in accordance with Art. 15.

(2) The deadline for the FSC's ruling on the application is 30 days from the date of its receipt, and the insurer, respectively the reinsurer, is notified in writing of the decision made within 7 days.

(3) Art. 3, para. 2 and 3 shall apply accordingly.

Art. 18. (1) For issuance by exception of approval of distributions in accordance with Art. 71, paragraph 1, letter m), subitem(i) of Regulation (EU) 2015/35, respectively approval by exception for distributions in accordance with Art. 73, paragraph 1, letter "h", subitem (i) of Regulation (EU) 2015/35, the insurer, respectively the reinsurer, submits an application to the FSC, accompanied by justification, with attached evidence.

With the justification, the insurer, respectively the reinsurer, proves that the distribution can be carried out without leading to a significant reduction in solvency in compliance with the minimum capital requirement.

(2) The FSC, on the proposal of the Deputy Chairperson renders a decision within one month of receiving the application, and the insurer, respectively the reinsurer, is notified in writing of the decision within 7 days.

(3) An insurer, respectively reinsurer, seeking approval for the exception of distributions in respect of redemption through an alternative coupon payment mechanism shall take into account the amount of ordinary share capital to be issued, the extent to which the recovery of compliance with the capital solvency requirement requires the raising of new own funds, and the likely impact of the issue of shares for the purposes of the alternative coupon payment mechanism on the ability of the insurer, respectively the reinsurer, to raise such own funds, as well as to provide such information and analysis to the FSC.

(4) Art. 3, para. 2 and 3 shall apply accordingly.

Section III

Approval of the assessment and classification of items not included in the lists

Art. 19. For approval in accordance with Art. 79 of Regulation (EU) 2015/35 of the assessment and classification of an own-fund item that is not contained in the lists under Art. 10, para. 2, the insurer, respectively the reinsurer, submits to the FSC a written application for approval of each own-fund item. The application is submitted in Bulgarian, in the form of a cover letter, and the following are attached to it:

1. the decision of the managing body of the insurer, respectively the reinsurer, to approve the application;

2. supporting evidence.

Art. 20. (1) In the application, the insurer, respectively the reinsurer, shall confirm that he:

1. considers the legal or contractual terms governing the own-fund items or any other related arrangement to be unambiguous and clearly defined;

2. taking into account the likely future developments, as well as the circumstances applicable at the date of the application, he considers that, in terms of legal form and economic substance, the basic own-fund item will be in accordance with the criteria provided for in Art. 8 and 9, and will have the characteristics determining the classification under Art. 71, 73 and 77 of Regulation (EU) 2015/35;

3. no facts have been omitted which, if known to the FSC, could influence its decision whether to approve the assessment and classification of the own-fund item.

(2) In the application, the insurer, respectively the reinsurer, indicates the other applications submitted by it or which are currently planned within the next six months, for the approval of items together with the relevant dates of the applications.

Art. 21. (1) The insurer, respectively the reinsurer, shall provide a description of the manner

in which the criteria under Art. 8 and 9 and the characteristics determining the classification under Art. 71, 73 and 77 of Regulation (EU) 2015/35 are met, including how the item will contribute to the existing capital structure of the insurer or reinsurer and how the item may enable the insurer or reinsurer to meet current or future capital requirements.

(2) The insurer, respectively the reinsurer, shall provide a description of the basic own-fund item to a sufficient extent to allow the FSC to draw a conclusion about the ability of the item to absorb losses, including the contractual terms of the agreement that governs the own-fund item, and the terms of any other related agreement, together with evidence, if relevant, that a counterparty has entered into the contract and any other related agreement and evidence that the contract and any other related agreements are legally binding and enforceable in all relevant jurisdictions.

Art. 22. (1) The application under Art. 19 is considered complete if it corresponds to Art. 19 - 21.

(2) The FSC, on the proposal of the Deputy Chairperson, within 30 days from the date of receipt of the application, shall notify the applicant in writing whether the accepted application is considered complete.

(3) If the submitted application is incomplete or improper or if additional information or proof of the accuracy of the data is required, the FSC shall send a message within 30 days of receiving the application and set a deadline for remedying the identified deficiencies and inconsistencies or for submitting additional information and documents.

(4) The FSC, on the proposal of the Deputy Chairperson, renders a decision within a reasonable period of time, which cannot exceed three months from the date of receipt of a complete application, except when there are extraordinary circumstances, in which case the FSC renders a decision no later than six months from receipt of the complete application.

(5) Extraordinary circumstances are such circumstances of an unexpected and insurmountable nature that objectively prevent the FSC from making a decision. The extraordinary circumstances are promptly communicated to the applicant before the expiration of the period under para. 4.

(6) If it is necessary for the assessment of the own-fund item, the FSC makes a request for additional information from the insurer, respectively the reinsurer, after notifying the applicant that the application is complete. The term under para. 4, respectively according to para. 5, ceases to pass from the date of the request for the additional information to the date of its receipt.

(7) The insurer, respectively the reinsurer, shall notify the Deputy Chairperson of any change in the circumstances of the application.

(8) The change in the circumstances of the application under para. 7 is considered a new application unless:

1. the change is due to a request by the Deputy Chairperson or the FSC for additional information; or

2. the FSC, on the proposal of the Deputy Chairperson, decides that the change did not have a significant impact on the examination of the application.

(9) The insurer, respectively the reinsurer, may withdraw the application by sending a written notice at any time before the FSC makes a decision. If the insurer or reinsurer subsequently submits the same or an updated application again, it is considered that a new application has been submitted.

(10) Art. 3, para. 2 and 3 shall apply accordingly.

Art. 23. The decision on the application together with the reasons for it is communicated within 7 days to the insurer, respectively the reinsurer.

Chapter six

SPECIFIC REQUIREMENTS REGARDING CERTAIN CATEGORIES OF OWN

FUNDS

Art. 24. (1) With regard of additional own funds insurers, respectively reinsurers, apply the Guidelines on additional own funds (EIOPA-BoS-14/16), adopted by the European Authority.

(2) With regard to the treatment of related undertakings including participations, insurers, respectively reinsurers, apply the Guidelines on the treatment of related undertakings including participations (EIOPA-BoS-14/170 BG), adopted by the European Authority.

(3) In relation to ring-fenced funds, insurers, respectively reinsurers, apply the Guidelines on ring-fenced funds (EIOPA-BoS- 14/169), adopted by the European Authority.

Art. 25. (1) The insurer, respectively the reinsurer, which is a participating undertaking within the meaning of Art. 233, para. 4 of the IC, identifies its related undertakings and holdings based on an assessment from its point of view as a separate entity.

(2) The FSC, respectively the Deputy Chairperson, upon identification of a related undertaking or participation in accordance with Art. 233, para. 6 of the IC also takes into account:

1. shareholdings of the insurer, respectively the reinsurer, which is a participating undertaking in the undertaking, and potential increases due to the holding of options, warrants or similar instruments;

2. the membership rights of the insurer, respectively the reinsurer, which is a participating undertaking in mutual or mutual type undertakings, as well as potential increases in these rights;

3. the representation by the insurer, respectively the reinsurer, holding a share in the administrative, management or supervisory authority of the undertaking;

4. the participation of the insurer, respectively the reinsurer, which is a participating undertaking, in the processes of determining the undertaking's policy, including decision-making on dividend distributions or other distributions;

5. the essential transactions between the insurer, respectively the reinsurer, which is a participating undertaking, and the other undertaking;

6. simultaneous presence or alternation of the same persons who effectively manage the insurer, respectively the reinsurer, which is a participating undertaking, and the other undertaking;

7. the provision of essential technical information to the other undertaking;

8. the governance of the insurer, respectively the reinsurer, which is a participating undertaking, and the of other undertaking.

(3) The FSC, respectively the Deputy Chairperson, examines each

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initial assessment under para. 1 by the insurer, respectively the reinsurer, which is a participating undertaking, in accordance with para. 2, items 1 - 8.

TITLE TWO OWN FUNDS OF INSURERS WITHOUT ACCESS TO THE SINGLE MARKET

Chapter Seven

DETERMINATION OF OWN FUNDS OF INSURERS WITHOUT ACCESS TO THE SINGLE MARKET

Art. 26. (1) The total amount of the own funds of the insurers without the right to access the single market, reduced by the intangible assets, shall at all times be at least equal to the solvency margin, calculated in accordance with the order of this ordinance, or to the minimum amount of the guarantee capital, when it is higher than the solvency margin.

(2) The adjusted solvency of an insurer under Art. 212, para. 1 of the IC shall not be a negative value.

Art. 27. (1) Insurers without the right of access to the single market submit to the FSC a

report on the amount of own funds and the solvency margin together with the annual financial report.

(2) Insurers under Art. 212, para. 1 of the IC submit together with the consolidated financial statement and a report on the adjusted solvency.

(3) The own funds and the solvency margin are calculated based on the data from the reports, statements and annexes prepared in accordance with the requirements provided for in the regulation under Art. 125, para. 2 of the IC.

Art. 28. (1) Own funds are the assets of the insurer free from any foreseeable liabilities, which are formed as a sum of the following items:

1. capital:

a) for joint-stock companies - the subscribed share capital;

b) for mutual insurance cooperatives - SHARE contributions;

2. the reserves and the funds under Art. 118, para. 2 of the IC;

3. retained earnings from previous years, reduced by the expected dividend payments and other deductions;

4. the revaluation reserves formed according to the applicable accounting standards;

5. sums attracted by the insurer through debt-equity (hybrid) instruments;

6. the amounts raised as subordinated debt.

(2) The sum under para. 1 is reduced by:

1. Unpaid capital

2. the nominal value of the redeemed own shares;

3. the loss from the current year and the uncovered losses from previous years;

4. the carrying amount of the participations within the meaning of § 1, item 18 of the additional provisions of the IC, which the insurer owns in an insurer, reinsurer, pension insurance company, insurance holding company, mixed-activity insurance holding company, credit institution, financial institution under Art. 3, para. 1 of the Credit Institutions Act, auxiliary services company under Art. 2, para. 4 of the Credit Institutions Act, investment intermediary, management company, as well as investments in debt-equity (hybrid) instruments and in subordinated debt in such companies in which the insurer has a stake, when they are not consolidated in its report;

5. the carrying amount of the participations that exceed 50 percent of the capital of the related company, which the insurer owns in commercial companies, other than the companies under item 4, as well as investments in debt-equity (hybrid) instruments and in subordinated debt in such companies in which the insurer has a stake, when they are not consolidated in its report.

(3) The Deputy Chairperson may exclude the application of para. 2, item 4 in cases where the insurer has acquired the participation or shares in the capital or has made the investment temporarily and for the purpose of financial assistance to the company in connection with its recovery and protection from insolvency.

Art. 29. The earnings under Art. 28, para. 1, item 3 may be included in the own funds, if the general meeting of shareholders or member-cooperators has taken a decision not to distribute dividends or make other deductions from it.

Art. 30. (1) The funds under Art. 28, para. 1, item 5 shall meet the following requirements:

1. the sums have been paid in full;

2. there is no deadline for their payment;

3. their payment is not guaranteed in any form by the insurer;

4. in case of liquidation or bankruptcy of the insurer, their payment is admissible after the claims of all other creditors are satisfied in full;

5. the claims on them regarding the principal (nominal) cannot become payable without the approval of the FSC on the proposal of the Deputy Chairperson;

6. the conditions under which these funds are raised by the insurer give it the right to postpone the payment of the interest or the dividend on them;

7. the conditions under which these funds were raised are such that in case of non-payment of the principal, respectively the capital or the interest, respectively the dividend on them, the insurer can continue operations.

(2) To obtain approval under para. 1, item 5, the insurer submits a motivated application, accompanied by evidence. The FSC, on the proposal of the Deputy Chairperson, renders a decision within one month of receiving the application, and may request additional information or evidence no later than 14 days after receiving the application. The time limit for ruling stops until the requested information or evidence is presented. The FSC, on the proposal of the Deputy Chairperson, decides to refuse if it considers that the application is not substantiated or that the alleged facts and circumstances are not proven by the evidence presented.

Art. 31. (1) The subordinate debt under Art. 28, para. 1, item 6 shall meet the following requirements:

1. the sums on the debt have been paid in full;
2. its repayment is not guaranteed in any form by the insurer;
3. the initial term until its maturity is not less than 5 years - for subordinated debt with a fixed maturity;
4. it becomes payable with a 5-year notice, unless its repayment is made with the approval of the FSC on the proposal of the Deputy Chairperson - for a subordinated debt whose maturity is not fixed;
5. its early repayment cannot be carried out if, as a result, own funds will not be sufficient to cover the solvency margin;
6. acceleration of the debt is not possible;
7. if interest or other income has been agreed upon, their payment cannot be made before the due date of the debt;
8. in case of liquidation or bankruptcy of the insurer, the payment is admissible after the claims of all other creditors are satisfied in full;
9. the terms of the debt may be changed only after the approval of the FSC on the proposal of the Deputy Chairperson.

(2) During the last 5 years until maturity, subordinated debt with a fixed maturity is included in the insurer's own funds with a reduction of 20 percent per year. After the maturity of the debt, it is completely excluded in the calculation of own funds.

(3) When the subordinated debt under para. 1 is without a fixed maturity, its return is made after the approval of the FSC on the proposal of the Deputy Chairperson based on a written application submitted by the insurer at least 6 months earlier, if the requirement of Art. 26, para. 1. The application under sentence one indicates the date of the return of the debt and the total amount of own funds before and after its return.

(4) To obtain approval under para. 1, item 4 or 9 or under para. 3 the order under Art. 30, para. 2.

(5) The insurer shall provide, within 14 days from the occurrence of the legal relationship, information certifying the requirements under para. 1.

Art. 32. (1) The amount of funds under Art. 28, para. 1, items 5 and 6 cannot exceed 50 percent of the smaller value of one of the following two quantities:

1. own funds;
2. the solvency margin.

(2) The portion of subordinated debt with a fixed maturity in the funds under para. 1 cannot exceed 25 percent.

Art. 33. (1) An insurer carrying out insurance activity which covers insurance under

Section I, Items 1 and 2 of Annex No. 1 of the IC, may include in its own funds 50 percent of the future profits under these insurances, and their value may not to exceed 25 percent of the smaller of the following two values:

1. own funds;
2. the solvency margin.

(2) The value of future profits is obtained as a product of:

1. the expected annual profit, which cannot exceed the arithmetic average of the insurance profits under para. 1 received in the last 5 years, and
2. a multiplier equal to the remaining average period until the expiration of the contracts under these insurances, which cannot be greater than 6.

(3) The inclusion in the own funds of the future insurance profits under para. 1 is approved by the FSC on the proposal of the Deputy Chairperson based on a written application accompanied by an actuarial report, in which the probability of the occurrence of future profits is motivated.

(4) The FSC, on the proposal of the Deputy Chairperson, decides on the application within 14 days from the submission of all necessary documents and immediately notifies the applicant, sending a written notification within 3 days of making the decision.

(5) Future profits from the insurances under para. 1 are not included in the own funds, which arise from revaluations of assets already reported and included in own funds.

Art. 34. An insurer carrying out insurance activity that covers insurance under Section I of Annex No. 1 of the IC, when it does not use a Zillmer reserve or when it forms a Zillmer reserve with a quota smaller than the allowance for acquisition costs to the net premium, with the approval of the FSC on the proposal of the Deputy Chairperson, may include in its own funds the difference in amounts between the non-zillmerised or partially zillmerised mathematical reserve and the reserve that would be obtained with zillmerisation with a quota equal to the acquisition cost supplement included in the premium. The amount according to the first sentence cannot exceed 3.5 percent of the difference between the insurance amounts and the corresponding mathematical reserves under the contracts for which zillmerisation is possible. The difference is reduced by the amount of deferred acquisition costs recorded in the asset part of the balance sheet .

Art. 35. (Amended - SG, issue 6 /2017, effective from 19.11.2018; repealed issue 101 / 2022, effective from 01.01.2023)

PART THREE CAPITAL REQUIREMENTS AT INDIVIDUAL LEVEL PART ONE SOLVENCY CAPITAL REQUIREMENT. STANDARD FORMULA

Chapter Eight

BASIC REQUIREMENTS

Art. 36. The Solvency Capital Requirement, calculated on the basis of the standard formula, is the sum of the following items:

1. the basic solvency capital requirement according to Art. 37;
- 2 the capital requirement for operational risk according to Art. 45;
3. the adjustment for the ability to absorb losses of technical reserves and deferred taxes according to Art. 46.

Art. 37. (1) The basic solvency capital requirement covers the individual risk modules, aggregated according to item 1 of Annex No. 1, and contains at least the following risk modules:

1. on-life insurance underwriting risk;
- 2 life insurance underwriting risk;
3. health insurance underwriting risk;
4. market risk
5. counterparty default risk.

(2) For the purposes of para. 1, items 1, 2 and 3, insurance and reinsurance activities are grouped under the underwriting risk module, which best reflects the technical nature of the underlying (basic) risks.

(3) The correlation coefficients for aggregating the risk modules under para. 1, as well as the calibration of the capital requirements for each risk module leads to an aggregate capital requirement for solvency, meeting the principles of Art. 170 of the IC.

(4) Each one of the specified risk modules under para. 1 is calibrated using a Value-at-Risk method subject to a 99.5% confidence interval over a one-year period. Where applicable, diversification effects are taken into account when structuring each risk module.

(5) All insurers and reinsurers use the same structure and specifications for the risk modules both in relation to the basic capital requirement for solvency and in relation to any simplified calculation under Art. 47.

(6) Regarding catastrophic risks, where appropriate, geographical specifications may be used in the calculation of life insurance, non-life insurance and health insurance underwriting risk modules.

(7) The replacement of part of the parameters of the standard formula with parameters specific to the insurer, respectively the reinsurer, is carried out in accordance with Art. 173 of the IC.

(8) The approval under Art. 173, para. 1 of the IC is issued in accordance with Commission Implementing Regulation (EU) 2015/498 of 24 March 2015 laying down implementing technical standards with regard to the procedures to be used for granting supervisory approval for the use of using parameters specific to the undertaking in accordance with Directive 2009/138/EC of the European Parliament and of the Council (OJ, L 79/8 of 25 March 2015).

Art. 38. The basic solvency capital requirement is calculated in accordance with Art. 39 - 43.

Art. 39. (1) The non-life underwriting risk module reflects the risk resulting from non-life insurance liabilities, in respect of the covered insurance risks and the processes used in the activities.

(2) The module under para. 1 takes into account the uncertainty in the results of the insurer, respectively the reinsurer, with respect to the existing insurance and reinsurance liabilities, as well as the new activities expected to be recorded in the next 12 months.

(3) The module under para. 1 is calculated according to item 2 of Annex No. 1 as a combination of the capital requirements at least for the following sub-modules:

1. risk of loss or of an unfavorable change in the value of insurance liabilities as a result of fluctuations in the time of occurrence, frequency and severity of insured events, as well as the distribution over time and the amount of settled claims (risk in non-life insurance with respect to determining premiums and reserves);

2. risk of loss or of an adverse change in the value of insurance liabilities as a result of significant uncertainty related to assumptions in the formation of price and reserves, in relation to extreme or extraordinary events (catastrophic risk in non-life insurance).

Art. 40. (1) The life insurance underwriting risk module reflects the risk resulting from life insurance liabilities, in respect of the covered insurance risks and the processes used in the activities.

(2) The module under para. 1 is calculated according to item 3 of Annex No. 1 as a combination of the capital requirements at least for the following sub-modules:

1. risk of loss or of an unfavorable change in the value of insurance liabilities as a result of changes in the level, trend or volatility of mortality, when an increase in the level of mortality leads to an increase in the value of insurance liabilities (death/mortality risk);

2. risk of loss or of an unfavorable change in the value of insurance liabilities as a result of

changes in the level, trend or volatility of mortality, when an decrease in the level of mortality leads to an increase in the value of insurance liabilities (longevity risk);

3. risk of loss or of an unfavorable change in the value of insurance liabilities as a result of changes in the level, trend or volatility of disability, illness and morbidity (disability/morbidity risk);

4. risk of loss or of an unfavorable change in the value of insurance liabilities as a result of changes in the level, trend or volatility of the costs of servicing the insurance and reinsurance contracts (life insurance costs risk);

5. risk of loss or of an unfavorable change in the value of the insurance obligations as a result of changes in the level, trend or volatility of the update rates applied to annuities, as a result of a change in the legal status quo or the health status of the insured persons (update risk);

6. risk of loss or of an unfavorable change in the value of insurance liabilities as a result of changes in the level trend or volatility of expiration, termination, renewal and buyback of policies (termination risk);

7. risk of loss or of an adverse change in the value of insurance liabilities as a result of significant uncertainty related to assumptions in the formation of price and reserves, in relation to extreme or unusual events (catastrophic risk in life insurance).

Art. 41. (1) The health insurance underwriting risk module reflects the risk arising from writing health insurance liabilities, regardless of whether it is carried out on a technical basis close to that of life insurance or not, in terms of both the covered insurance risks and the processes used in the activity.

(2) The module under para. 1 covers at least the following risks:

1. risk of loss or of an unfavorable change in the value of insurance liabilities as a result of changes in the level, trend or volatility of the costs of servicing the insurance and reinsurance contracts;

2. risk of loss or of an unfavorable change in the value of insurance liabilities as a result of fluctuations in the occurrence, frequency and severity of insured events, as well as the distribution over time and the amount of settled claims at the time of formation of reserves;

3. risk of loss or of an adverse change in the value of insurance liabilities as a result of significant uncertainty related to assumptions in the formation of price and reserves in relation to contagions and epidemics as well as unusual accumulations of risks as a result of these extreme circumstances.

Art. 42. (1) The market risk module reflects the risk arising from the level or volatility of the market prices of financial instruments that affect the value of the company's assets and liabilities. It properly reflects the structural mismatch between assets and liabilities, in particular with respect to their duration.

(2) The module under para. 1 is calculated according to item 4 of Annex No. 1 as a combination of the capital requirements at least for the following sub-modules:

1. the sensitivity of the value of assets, liabilities and financial instruments to changes in the term structure of interest rates or the volatility of interest rates (interest rate risk);

2. the sensitivity of the value of assets, liabilities and financial instruments to changes in the level or volatility of market share prices (equity risk);

3. the sensitivity of the value of assets, liabilities and financial instruments to the change in the level or volatility of market prices of real estate (real estate risk);

4. the sensitivity of the value of assets, liabilities and financial instruments to changes in the level or volatility of credit spreads over the term structure of the risk-free interest rate (interest rate risk);

5. the sensitivity of the value of assets, liabilities and financial instruments to the change in

the level or volatility of currency exchange rates (foreign exchange risk);

6. additional risks for an insurer or reinsurer arising either from a lack of diversification in the portfolio of assets or from a large risk exposure related to the default of one issuer or a group of related issuers (market concentration risk).

Art. 43. (1) The risk module related to counterparty default reflects the possible losses as a result of unexpected default or deterioration of the credit position of the insurer's, respectively reinsurer's, counterparties or debtors over the next 12 months. The counterparty default risk module covers risk mitigation contracts such as reinsurance agreements, securitization and derivatives, receivables from intermediaries, as well as other credit exposures not covered in the interest rate spread risk submodule. It shall take due account of the collateral or other security held by or for the account of the insurer or reinsurer and the risks involved.

(2) The risk module in relation to counterparty default takes into account for each individual counterparty the aggregate risk exposure of the insurer or reinsurer to the counterparty, regardless of the legal form of the contractual obligations to the insurer, respectively the reinsurer.

Art. 44. (1) The sub-module of equity risk calculated in accordance with the standard formula includes a symmetric adjustment of the capital requirement for equity risk applied to cover the risk arising from changes in the level of share prices.

(2) The symmetrical adjustment, which is carried out in relation to the standard capital requirement for equity risk, calibrated in accordance with Art. 37, para. 4 to cover the risk arising from changes in the level of share prices, is based on a function of the current level of a relevant capital index and the weighted average level of this index. The weighted average level is calculated over an appropriate period of time, which is the same for all insurers and reinsurers.

(3) The symmetric adjustment that is made to the standard capital requirement for equity risk, covering the risk arising from changes in the level of share prices, cannot lead to the application of a capital requirement for equity risk, which is more than 10 percentage points lower or 10 percentage points higher than the standard capital requirement for capital risk.

Art. 45. (1) The operational risk capital requirement reflects operational risks, insofar as they are not reflected in the risk modules under Art. 37. This requirement is calibrated in accordance with Art. 170, para. 3 of the IC.

(2) With respect to life insurance contracts where the investment risk is borne by the policyholders, the calculation of the operational risk capital requirement takes into account the sum of the annual costs incurred in connection with these insurance liabilities.

(3) With regard to insurance and reinsurance activity, other than that under para. 2, the calculation of the operational risk capital requirement takes into account the volume of this activity expressed in received premiums and technical provisions formed in connection with these insurance and reinsurance obligations. In this case, the operational risk capital requirement does not exceed 30% of the basic solvency capital requirement for these insurance and reinsurance activities.

Art. 46. (1) The adjustment for the technical provisions and deferred taxes' ability to absorb losses under Art. 36, item 3, which the insurer, respectively the reinsurer carries out, reflects the potential compensation of unexpected losses by reducing technical provisions or deferred taxes or a combination of both.

(2) The adjustment takes into account the effect of reducing the risk resulting from the future discretionary payments under the insurance contracts, to the extent that the insurer, respectively the reinsurer, can prove that the amounts from the reduction of these payments can be used to compensate for unexpected losses, if any occur.

The risk reduction effect resulting from future discretionary payments cannot be higher than the sum of technical provisions and deferred taxes related to those future discretionary

payments.

(3) For the purposes of para. 2 the value of future discretionary payments under adverse circumstances is compared with the amount of those payments under the assumption underlying the calculation of the best estimate.

Art. 47. An insurer or reinsurer may use a simplified calculation for specific risk modules or sub-modules where the nature, scale and complexity of the risks they face justify it and where requiring all insurers and reinsurers to apply the standard calculation would not be proportionate. The simplified calculation is calibrated in accordance with Art. 170, para. 2 of the IC.

Chapter Nine

SOLVENCY CAPITAL REQUIREMENT AND THE STANDARD FORMULA Section I

Applicable guidelines to the solvency capital requirement and standard formula

Art. 48. The insurer, respectively the reinsurer, under Art. 15, para. 1 of the IC applies the Guidelines on application of outwards reinsurance arrangements to the non-life underwriting risk sub-module (EIOPA-BoS-14/173) adopted by the European Authority.

Art. 49. The insurer, respectively the reinsurer, under Art. 15, para. 1 of the IC when calculating the capital requirements for life insurance underwriting risk applies the Guidelines on application of the life underwriting risk module (EIOPA-BoS-14/175), adopted by the European Authority.

Art. 50. The insurer, respectively the reinsurer, under Art. 15, para. 1 of the IC when determining and calculating the amounts involved in the calculation of capital requirements for catastrophic risk in health insurance, in various possible cases and situations, applies the Guidelines on health catastrophe risk sub-module (EIOPA-BoS-14/176), adopted by the European Authority.

Art. 51. The insurer, respectively the reinsurer, under Art. 15, para. 1 of the IC using the standard formula in the calculation of the market risk related to the Solvency Capital Requirement on an individual basis shall apply the Guidelines on look-through approach (EIOPA-BoS-14/171) adopted by the European Authority.

Art. 52. The insurer, respectively the reinsurer, under Art. 15, para. 1 of the IC with respect to the market risk and counterparty default risk modules in the standard formula applies the Guidelines on the treatment of market and counterparty risk exposures in the standard formula (EIOPA-BoS-14/174), adopted by the European Authority.

Art. 53. The insurer, respectively the reinsurer, under Art. 15, para. 1 of the IC the terms and calculating the capital requirements for market risk applies the Guidelines on basis risks (EIOPA-BoS-14/172), adopted by the European Authority.

Art. 54. The insurer, respectively the reinsurer, under Art. 15, para. 1 of the IC with regard to the calculation of adjustments for the loss-absorbing capacity of technical provisions and deferred taxes for the solvency capital requirement applies the Guidelines on the loss-absorbing capacity of technical provisions and deferred taxes (EIOPA-BoS-14/177), adopted by the European Authority.

Section II

Supervisory authorizations in relation to the Solvency Capital Requirement

Art. 55. The Deputy Chairperson allows the insurer, respectively the reinsurer, when determining the tax consequences of the loss under Art. 207(1) of Regulation (EU) 2015/35 to use an approach based on average tax rates, provided it can demonstrate that average tax rates are appropriate and avoid material inaccuracy of the adjustment.

Art. 56. (1) The Deputy Chairperson allows the insurer, respectively the reinsurer, not to

take into account the conditional deferred tax assets when calculating the adjustment for the ability to absorb losses in cases where it is too difficult for the insurer, respectively the reinsurer to prove their eligibility.

(2) Para. 3 applies accordingly for obtaining the application under para. 1.

Chapter Ten

UNDERTAKING-SPECIFIC PARAMETERS

Art. 57. The insurer, respectively the reinsurer, under Art. 15, para. 1 of the IC with regard to the data quality criteria that are taken into account in the process of calculating the parameters specific to them and the parameters specific to the group, applies the Guidelines on undertaking specific parameters (EIOPA-BoS-14/178) adopted by European Authority.

Art. 58. (1) The insurer, respectively the reinsurer, complies with the requirements for using the parameters specific to it as part of the own risk and solvency assessment.

(2) The insurer, respectively the reinsurer, informs the FSC through the supervisory report for own risk and solvency assessment about significant changes in the information included in the application for approval under Art. 173 of the IC in connection with Art. 1 of Regulation 2015/498, and provides details of all material changes.

(3) In case the use of new data causes significant changes in the information included in the application for approval under Art. 173 of the IC in connection with Art. 1 of Regulation 2015/498, the insurer, respectively the reinsurer, submits to the FSC all data on the calculation of the specific parameters.

(4) In the event that the insurer, respectively the reinsurer, finds that another standardized method provides a more accurate result in order to fulfill the requirements for calibration under Art. 170, para. 2 and 3 of the IC, he submits a new application for approval under Art. 173 of the IC in connection with Art. 1 of Regulation 2015/498 on the use of the alternative standardized method.

Art. 59. (1) When the insurer, respectively the reinsurer, has violated the requirements for using the parameters specific to him, the Deputy Chairperson obliges the insurer, respectively the reinsurer, to discontinue the violation within a period of three months.

(2) In the case under para. 1, the Deputy Chairperson takes into account the degree and scope of the non-compliance, the time needed to correct it, as well as the actions that the insurer, respectively the reinsurer, intends to take to restore the requirements for using the specific parameters.

(3) When the non-compliance cannot be remedied within a period of three months, the FSC, on the proposal of the Deputy Chairperson, cancels the issued approval for the use of the parameters specific for the insurer, respectively the reinsurer, in accordance with Art. 6 of Commission Implementing Regulation (EU) 2015/498 of 24 March 2015 laying down implementing technical standards with regard to the procedures to be used for granting supervisory approval for the use of using parameters specific to the undertaking in accordance with Directive 2009/138/EC of the European Parliament and of the Council.

(4) After the cancellation of the approval, the insurer, respectively the reinsurer, recalculates the capital requirement for solvency by using standard parameters and submits a new application for approval under Art. 173 of the IC in connection with Art. 1 of Regulation 2015/498, in case it intends to use parameters specific to the insurer, respectively the reinsurer.

Art. 60. (1) If the FSC, on the proposal of the Deputy Chairperson, requires the insurer, respectively the reinsurer, to use parameters specific to the insurer, respectively the reinsurer, in accordance with Art. 174 of the IC it instructs with a decision for the insurer, respectively the reinsurer, the parameters under Art. 218 of Regulation (EU) 2015/35 to be replaced.

(2) The FSC, on the proposal of the Deputy Chairperson, obliges the insurer, respectively the reinsurer, within a period of one month to submit an application under para. 1 after

analyzing the available standardized methods.

Art. 61. (1) When assessing whether there is a significant deviation within the meaning of Art. 174 of the IC, the FSC, on the proposal of the Deputy Chairperson, considers the significant factors as follows:

1. the findings resulting from the supervisory review process;
2. the nature, type and size of the deviation;
3. the likelihood and severity of any adverse impact on policyholders and beneficiaries;
4. the level of sensitivity of the assumptions with which the deviation is related;
5. the expected duration and volatility of the deviation during the deviation.

(2) The FSC, on the proposal of the Deputy Chairperson, performs the assessment under para. 1 at the level of each segment for which it is possible to use the parameters specific to the insurer, respectively the reinsurer.

Art. 62. (1) The application for approval of the use of group-specific parameters includes at least the information under paragraphs 2, 3 and 4 of Art. 1 of Implementing Regulation (EU) 2015/498, with any reference to "undertaking-specific parameters" being understood as a reference to "group-specific parameters".

(2) At the request of the FSC, when it is the group supervisor, the participating insurer, respectively the reinsurer, the insurance holding company or mixed activity financial holding company provides additional information necessary for the evaluation of the application.

Art. 63. (1) In the case of an application for approval of the use of parameters specific to the insurer, respectively reinsurer, from an individual insurer, respectively reinsurer, which is included in the scope of the calculation of the solvency of a group, the FSC, upon receiving the application, informs the college of supervisors of the receipt and for its decision. In the event that it has refused to grant approval, the FSC shall inform the college of supervisors of the reasons for its decision.

(2) Before making a final decision on the application for the use of group-specific parameters, the FSC, when it is the group supervisor, shall take into account the decisions of the supervisory authorities regarding the applications of individual insurers, respectively reinsurers, included in the scope of the calculation of the solvency of the group, to use the parameters specific to the insurer, respectively the reinsurer.

SECTION TWO SOLVENCY CAPITAL REQUIREMENT. INTERNAL MODELS

Chapter Eleven

GENERAL RULES

Section I

Rules on implementation and interpretation. Advance application

Art. 64. (1) The insurer, respectively the reinsurer, under Art. 15, para. 1 of the IC regarding the terms and calculating internal models applies the Guidelines on the use of internal model (EIOPA-BoS-14/178), adopted by the European Authority.

(2) Approvals under Chapter Thirteen, Section III of the IC are issued in accordance with Commission Implementing Regulation (EU) 2015/460 of 19 March 2015 laying down implementing technical standards with regard to the procedure concerning the approval of an internal model in accordance with Directive 2009/138/EC of the European Parliament and of the Council (Regulation (EU) 2015/460) (OJ, L 76/13 of 20 March 2015).

(3) Commission Implementing Regulation (EU) 2015/461 of 19 March 2015 laying down implementing technical standards with regard to the process to reach a joint decision on the application to use a group internal model in accordance with Directive 2009/138/EC of the European Parliament and of the Council (OJ, L 76/19 of March 20, 2015).

Section II

Pre-application for an internal model

Art. 65. (1) An insurer, or reinsurer, who intends to submit an application (request) for the

approval of a full or partial internal model, may pre-apply so that the FSC, on the proposal of the Deputy Chairperson, can form an opinion as to whether the insurer, or reinsurer, is prepared to use an internal model to calculate the Solvency Capital Requirement under the IC and to fulfill other requirements regarding internal models.

(2) For the preliminary application under para. 1 the Guidelines on Pre-application for Internal Models (EIOPA CP 13/011 BG) adopted by the European Authority.

(3) The opinion under para. 1 is formed within six months of pre-application.

Section III

Requirements in connection with an application (request) for the use of an internal model of a group

Art. 66. (1) In the case of an application (request) for the use of a group's internal model pursuant to Art. 252 of the IC, the applicant includes for each related undertaking which has submitted an application for using the group's internal model for calculating its solvency capital requirement, the information under Art. 2 of the Implementing Regulation (EU) 2015/460, which is specific to that related undertaking, unless this information has already been submitted by the insurer, respectively the reinsurer, which is a participating undertaking.

(2) The applicant submits information about each related undertaking included in the application (request) under para. 1, to the extent that the creation, implementation or validation of the components of a group's internal model that are necessary for the calculation of the solvency capital requirement of the related undertaking, were carried out by another related undertaking within the group.

Art. 67. (1) In the case of an application (request) for the use of an internal model for a group, the request for additional information from a related undertaking from the relevant participating supervisory authorities within the meaning of Art. 343(2) of Regulation (EU) 2015/35 shall first be submitted to the FSC when it is a group supervisor. In case the FSC is a group supervisor, it forwards the request to the related undertaking or provides the relevant supervisory authority that requested the information with the relevant documents, if already provided to it.

(2) In case of an application (request) for the use of a group's internal model pursuant to Art. 252 of the IC the FSC, when it is a supervisory authority of a related undertaking, within the meaning of Art. 347(3) of Regulation (EU) 2015/35 may directly request additional information from the related undertaking it supervises in order to assess the compliance of the group's internal model with the requirements for internal models in relation to the Solvency Capital Requirement of this affiliate. The FSC shall duly inform the group supervisor of the request for information.

Art. 68. (1) In the case of an application (request) under Art. 252 of the IC as part of the justification under Art. 343, paragraph 5 or Art. 347(6) of Regulation (EU) 2015/35 the applicant indicates the intention, if any, to extend the scope of the internal model in the future to include for the purposes of calculating the Solvency Capital Requirement of a group any of the related undertakings within the scope of supervision of the group, but which are not included in the scope of the internal model in the application (request).

(2) In the case of an application (request) under Art. 252 of the IC as part of the justification of the scope of the internal model, the applicant describes the intention, if any, to extend the scope of the internal model in the future to include the calculation of the Solvency Capital Requirement of any related undertaking that is not included in the calculation scope of its solvency capital requirement with the group's internal model.

Art. 69. In an application (request) for use of an internal model of a group pursuant to Art. 252 of the IC the applicant shall explicitly indicate how much the technical specifications of the group's internal model may differ when the internal model is used for the calculation of the group's Solvency Capital Requirement and the calculation of the Solvency Capital

Requirement of the related undertakings, including:

1. treatment of transactions within a group for the calculation of the solvency capital requirement of the related undertakings and where applicable - the solvency capital requirement of the group;
2. a list of the parameters within the internal model that can be defined differently for the different calculations performed with the group's internal model for the purposes of calculating the group's Solvency Capital Requirement and the calculation of the individual Solvency Capital Requirement; and
3. a description of the group-specific risks that are relevant only in the calculation of the group's solvency capital requirement.

Section IV Model Changes

Art. 70. (1) The insurer, respectively the reinsurer, shall notify the FSC of minor changes to the internal model at least once every three months within 15 days after the end of the respective quarter. Minor changes to the internal model shall be included in a report that describes the quantitative and qualitative impact of the changes and the estimated cumulative quantitative and qualitative impacts of the changes on the approved internal model.

(2) The insurer, respectively the reinsurer, shall use the latest internal model approved by the FSC as a reference for assessing whether a combination of non-material changes is considered a material change, unless otherwise approved by the FSC.

Art. 71. (1) Application for extensions of the internal model of a group under para. 2 shall be submitted by the applicant to the group supervising authority, attaching the procedure for a substantial change of the internal model under Art. 7 of the Implementing Regulation (EU) 2015/460.

(2) The extensions under para. 1 contain:

1. the extension for calculating the solvency capital requirement of a related undertaking - insurer or reinsurer, included at the relevant time in the scope of the group's internal model for calculating the group's solvency capital requirement, but which at the relevant time does not use the group's internal model for the calculation of its Solvency Capital Requirement;
2. the extension to cover new items at the group level; and
3. the extension to cover new items at the level of a related undertaking - insurer or reinsurer, which at the relevant time uses an internal group model to calculate its Solvency Capital Requirement, including the extension related to items already used at group level or of other related undertakings.

Section V

Projection of probability distribution

Art. 72. To form an opinion in application of Art. 177, para. 2, sentence three of the IC, the Deputy Chairperson takes into account at least:

1. the risk profile of the insurer, respectively the reinsurer, and to what extent it is reflected by the probability distribution projection;
2. current progress in actuarial science and generally accepted market practice according to Art. 229, letter a) of Regulation (EU) 2015/35;
3. with regard to the level of completeness of the probability distribution projection, all measures that the insurer, respectively the reinsurer, undertakes to ensure compliance with each of the tests and standards of the internal model under Art. 176 - 182 of the IC;
4. for a specific considered risk, the way in which the selected techniques and the probability distribution forecast obtained by the insurer, respectively the reinsurer, interact with other risks within the scope of the internal model in relation to the level of completeness of the probability distribution projection according to Art. 232 of Regulation (EU) 2015/35;
5. the nature, scale and complexity of the considered risk, as specified in Art. 577, para. 3 of the IC.

Section VI

Internal models for groups. Functioning of the colleges

Art. 73. (1) When assessing the suitability of the scope of the internal model, when the FSC is the group supervisor, another participating supervisory authority within the meaning of Art. 343, paragraph 2 of Regulation (EU) 2015/35 or another supervisory body designated by the college under Art. 344, paragraph 2 of Regulation (EU) 2015/35, reports at least:

1. the significance of the related undertakings within the group in relation to the risk profile of the group;

2. the risk profile of the related undertakings within the group, compared with the overall risk profile of the group;

3. a transition plan from the group for expanding the scope of the model at a later stage and relevant timelines, if applicable;

4. the suitability of the standard formula or other internal model, which has been approved or is in the process of being approved, for calculating the solvency capital requirement of any related undertaking - insurer or reinsurer, included in the scope of the internal model;

5. the suitability of the standard formula or other internal model that has been approved or is in the process of being approved for the calculation of the solvency capital requirement of any related undertaking - insurer or reinsurer, within the group, but not included in the scope of the group's internal model.

(2) When assessing the suitability of the exclusion of related undertakings within the group from the scope of the internal model, the FSC, when acting in the capacity of a body under par. 1, shall assess whether the exclusion of the insurer, respectively the reinsurer, may lead to:

1. improper allocation of own funds based on the solvency capital requirements of the individual insurer, respectively reinsurer, and not its contribution to the risk profile of the group;

2. inconsistencies arising from the use of the internal model to calculate the Solvency Capital Requirement of a group and the use of the standard formula or a different internal model approved or in the process of being approved by any related undertaking within the group to calculate its solvency capital requirement;

3. weaknesses in the risk management of the group and related undertakings within the group as a result of the limited scope of the internal model; or

4. inappropriate solvency capital requirement of the group in relation to the risk profile of the group.

Art. 74. (1) When the FSC is group supervisor, in consultation with the other relevant supervisory bodies, it draws up a work plan for the assessment and approval of an internal model and communication rules to be followed by these bodies during the process of assessment and approval of the internal model for the group.

(2) When necessary, the FSC, when it is group supervisor, in consultation with the other relevant supervisors, updates the work plan of the internal model.

(3) In relation to the evaluation of the internal model, the FSC, when it is the group supervisor, ensures that the work plan covers the schedule, the main steps and the results for this evaluation. In the case of an internal model of a group according to Art. 252 of the IC, the FSC, when it is the group supervisor or of another relevant supervisory body, considers the inclusion in the work plan of the internal model of specific provisions between them. Where the FSC is the group supervisor, the work plan shall at least:

1. establish when and how to consult and engage in the assessment the other participating supervisors under Art. 343, paragraph 2 of Regulation (EU) 2015/35;

2. establish when and how to allow the other supervisors within the college of supervisors under Art. 344, paragraph 2 of Regulation (EU) 2015/35 shall participate in the evaluation;

3. identify the priorities for the assessment, taking into account the scope of the internal

model, the specific features of each related undertaking within the group, the risk profile of the group and related undertakings within the group, and the available and relevant information about the internal model;

4. establish when and how to report the results of the assessment made by the relevant supervisory authorities to the other relevant supervisory authorities.

(4) In relation to the decision on the application (request) under Art. 252 of the IC, the FSC when it is a group supervisor, shall, in consultation with the other supervisors concerned, ensure that the work plan covers the timetable for all steps and results to reach a joint decision as set out in Implementing Regulation (EU) 2015/461 .

Art. 75. Where the FSC, in its capacity as a participating supervisor, identifies a significant consideration regarding the approval process, it shall notify the group supervisor and the other participating supervisors as soon as possible.

Art. 76. (1) The FSC, when it is a group supervisor or a participating supervisor, may request and coordinate the organization of joint on-site inspections with other participating supervisors to confirm information regarding the assessment of an internal model for a group in order to ensure process efficiency.

(2) The FSC, when it is the supervisor of the group, shall notify the other relevant supervisors, the European Authority and, where necessary, the other members and participants of the college who may be affected or interested in the participation or in the outcome of the joint on-site inspection.

(3) When the FSC participates in a joint on-site inspection, it shall discuss and agree the final scope, purpose, structure, distribution of tasks and the head of the inspection with the other supervisors.

(4) The FSC, in case it is not the group supervisor, shall inform that respective supervisor of the progress and findings of a joint on-site inspection.

(5) When the FSC leads the on-site inspection, if it is not the group supervisor, shall provide the relevant documentation to the group supervisor. The FSC, in case it is the group supervisor, shall provide the relevant available documentation received from the relevant supervisors to the other supervisors participating in the joint on-site inspection and to the European Authority. The FSC, in case it is the group supervisor, shall provide the other members of the college and the participants with a list of the relevant documentation received and provide them with documents upon specific request.

(6) On the basis of a report containing the main findings of the joint on-site inspection, when the FSC is the supervisor leading the on-site inspection, it shall discuss with the participating supervisors the result of it and the actions to be taken.

(7) Where the FSC is the group supervisor, it shall notify the other members of the college and the participants of the outcome and actions as part of the agreed communication within the college.

Art. 77. (1) The FSC, when it is a participating supervisor, shall exchange and discuss with the participating supervisors the main findings of the activities carried out remotely and on-site.

(2) The FS , when it is a participating supervisor, shall inform the participating supervisors of the approach it applies in verifying the elements of the internal model with the group supervisor and the other participating supervisors.

(3) If as a result of the exchange under para. 2 the FSC, when it is a participating supervisor, shall identify significant differences in the applied approaches, discuss and agree with the participating supervisory authorities a process to create consistent approaches when they consider such alignment appropriate.

(4) If appropriate, the FSC, when it is a participating supervisor, shall discuss the tools and techniques used to review the elements of the internal model with the other participating

supervisory authorities.

Art. 78. (1) The FSC, when it is the group supervisor, together with the other participating supervisory authorities, decide whether and which third-country supervisory authorities to consult.

(2) Before consulting a third-country supervisor, the FSC, when it is a group supervisor, together with the other participating supervisory authorities, shall take the necessary measures to ensure that the confidentiality legislative provisions of the jurisdiction where the third-country supervisor is located, are equivalent to the requirements for professional secrecy according to Directive 2009/138/EC of the European Parliament and of the Council on the initiation and pursuit of insurance and reinsurance business.

Art. 79. In connection with the evaluation of the application (request) for approval of a significant change to the internal model of a group under Art. 252 of the IC, the FSC, when it is the group supervisor, together with the other participating supervisors, jointly decide whether to delegate the assessment of the changes to the supervisor of a related undertaking.

SECTION THREE SOLVENCY MARGIN OF INSURERS WITHOUT RIGHT OF ACCESS TO THE SINGLE MARKET

Chapter Twelve SOLVENCY MARGIN

Section I

General Provisions

Art. 80. The solvency margin is the minimum amount, which shall be equal to the own funds reduced by intangible assets, necessary to ensure the fulfillment of the contractual obligations of an insurer in the long term in accordance with the total volume of their business.

Section II

Methods for calculating the solvency margin of an insurer carrying out insurance activity, which covers insurance under Section I of Annex No. 1 of the IC.

Art. 81. (Amended - SG, issue 6 /2017, effective from 19.11.2018; repealed issue 101 / 2022, effective from 01.01.2023)

Art. 82. The solvency margin of an insurer carrying out insurance activity, which covers insurance under Section I, Item 3 of Annex No. 1 of the IC, is defined as the sum of:

1. four percent of the gross reserves under unit-linked life insurance, multiplied by a factor equal to the ratio between the net and gross reserves unit-linked life insurance - when the insurer bears investment risk; the ratio cannot be less than 0.85;

2. one percent of the gross reserves under unit-linked life insurance, multiplied by a factor equal to the ratio between the net and gross reserves unit-linked life insurance - when the insurer does not bear investment risk, and the transferred amount to cover the administration fees is fixed for a period over 5 years;; the ratio cannot be less than 0.85;

3. twenty-five percent of the net administrative costs under this type of insurance for the last year - when the insurer does not bear investment risk and the transferred amount to cover administration costs is not fixed for a period exceeding 5 years;

4. three tenths of one percent of the venture capital, multiplied by a factor equal to the ratio between the amount of venture capital, reduced by the share of reinsurers, and the amount of venture capital, including the share of reinsurers, determined for the last financial year - when the insurer covers the risk "death"; the factor cannot be less than 0.5.

Art. 83. The solvency margin of an insurer carrying out insurance activity, which covers insurance under Section I, Item 4 of Annex No. 1 of the IC, is defined in accordance with Art. 81, para. 1, item 1.

Art. 84. The solvency margin of an insurer carrying out insurance activity, which covers

insurance under Section I, Item 1 letter "c", of Annex No. 1 of the IC, is defined in accordance with Art. 86.

Art. 85. (1) The solvency margin of an insurer carrying out insurance activity, which covers insurance under Section I of Annex No. 1 of the IC, is a sum of the results under Art. 81, para. 1, Article 82, 83 and 84.

(2) The solvency margin of an insurer carrying out insurance activity, which covers insurance under section I and under section II, letter "A", item 1 or 2 or item 1 and 2 of Annex No. 1 of the IC, is a sum of the result under paragraph 1 and its solvency margin for the insurances under section II, letter "A", item 1 or 2 or item 1 and 2 of Annex No. 1 of the IC, determined in accordance with Art. 86.

Section III

Methods for calculating the solvency margin of an insurer carrying out insurance activity, which covers insurance under Section II of Annex No. 1 of the IC.

Art. 86. (Repealed - SG, issue 101 / 2022, effective from 01.01.2023)

Art. 87. (1) Upon a reasoned request of an insurer, to which written evidence is attached regarding the reliability of a special purpose scheme for the alternative transfer of insurance risk, the Deputy Chairperson may approve that claims to such a scheme may be considered as reinsurance for the purposes of calculations of the ratios K1 according to Annex No. 2 and K2 according to Annex No. 3 in the indicators for the share of reinsurers in payments made on claims in the last 3 financial years and for changes in the share of reinsurers in the reserve for upcoming payments in the last 3 financial years.

(2) Para. 30, para 2 applies accordingly for obtaining the approval under para. 1.

Art. 88. If the solvency margin determined in accordance with Art. 287, is lower than the solvency margin for the previous year, then the solvency margin will be at least equal to the solvency margin for the previous year multiplied by a factor equal to the ratio of the net outstanding claims reserve at the end of the financial year and the net outstanding claims reserve at the beginning of a financial year. The factor cannot be greater than one.

PART FOUR GROUP SOLVENCY

Chapter Thirteen

GROUP SOLVENCY OF INSURERS AND REINSURERS WITH THE RIGHT OF ACCESS TO THE COMMON MARKET

Art. 89. The insurer, respectively the reinsurer, under Art. 15, para. 1 of the IC with regard to some aspects of the requirements for calculating the group solvency of insurers and reinsurers with the right to access the common market applies the Guidelines on group solvency (EIOPA-BoS- 14/181), adopted by the European Authority.

Art. 90. (1) Pursuant to Art. 236 of the IC, when there is a subgroup specified in Art. 234, para. 1, items 1 and 2 of the IC, the FSC, when it is the group supervisor under Art. 281, para. 2 of the IC, after consultation with the other supervisory authorities concerned, supervises the group at the level of the final parent company in the European Union and the European Economic Area (EEA).

(2) When an insurer or reinsurer that is a parent undertaking, the insurance holding company or the mixed-activity financial holding company is based outside the EEA and is subject to equivalent group supervision in a third country, the FSC, when it is a group supervisor under Art. 281, para. 2 of the IC, recognizes the group supervision carried out by the supervisory authorities in the third country, according to Art. 279 of the IC and exempts the third-country group from final level group supervision in the European Union on a case-by-case basis, provided that this would lead to more effective supervision of the group and does

not impede the supervisory activities of the FSC and the supervisory authorities concerned.

(3) After consultation with the other supervisors, the FSC, when it is the group supervisor under Art. 281 of the IC, considers that more effective group supervision is achieved if the following criteria are met:

1. global group supervision allows a reliable assessment of the risks to which the EEA subgroup and its companies are exposed, taking into account the structure of the group, the nature, scale and complexity of risks and the distribution of capital within the group;

2. the ongoing cooperation between the group supervisor in the third country and the EEA supervisory authorities for the relevant group is structured and managed appropriately through regular meetings and appropriate exchange of information within the college of supervisors;

3. at these regular meetings of the supervisory authorities involved in the group supervision, an annual work plan is agreed, including joint on-site inspections.

(4) When an insurer or reinsurer that is a parent undertaking, an insurance holding company or a mixed-activity financial holding company has its seat of business outside the EEA and is not subject to equivalent supervision in a third country, group solvency supervision shall be applied at the level of the final parent undertaking in the European Union, if there is a group within the meaning of Art. 234, para. 1, items 1 and 2 of the IC. When such a group does not exist, the FSC decides whether to require pursuant to Art. 280, para. 1, item 1 of the IC the creation of an insurance holding company or a mixed-activity financial holding company with headquarters in the European Union and to place this group from the EEA under group supervision and calculation of group solvency.

Art. 91. When the parent company is a mixed-activity insurance holding company, the calculation of group solvency shall be applied to each part of the group fulfilling the criteria of Art. 234, para. 1, item 1, 2 or 3 of the IC, but does not apply to the mixed-activity insurance holding.

Art. 92. When deciding whether the exclusive application of method 1 is inappropriate according to Art. 328, paragraph 1, letter e) of Regulation (EU) 2015/35, when the Deputy Chairperson performs the functions of a group supervisor, take into account the existence of transactions within a group between the related undertaking, which is assessed for deduction and aggregation, and all other companies within the scope of the group solvency calculation.

Art. 93. (1) When a related undertaking is related to another undertaking according to Art. 12, paragraph 1 of Directive 83/349/EEC, the insurer, respectively the reinsurer that is a participating undertaking, the insurance holding company or the mixed activity financial holding company determines the proportional share that is used when calculating group solvency, regardless of the choice of calculation method.

(2) The proportional share used is 100 %. In the event that the group requests the use of another percentage to the Deputy Chairperson who performs the functions of a group supervisor, it submits an application in which it sets out reasons for the appropriateness of using another proportional share. After consultation with the other supervisory authorities concerned and with the group itself, the Deputy Chairperson shall decide on the appropriateness of the proportional share.

(3) When calculating group solvency according to method 1, the insurer, respectively the reinsurer, which is a participating undertaking, insurance holding company or mixed activity financial holding company, determines the proportional share it owns in its related undertakings, using:

1. 100%, if a subsidiary is included according to Art. 335, paragraph 1, letters a) and b) of Regulation (EU) 2015/35, unless decided otherwise in accordance with Art. 94;

2. the percentage used to prepare the consolidated accounting statements, if undertakings are included according to Art. 335, paragraph 1, letter c) of Regulation (EU) 2015/35;

3. the proportional share of the subscribed capital, owned directly or indirectly by the insurer, respectively the reinsurer, which is a participating undertaking, insurance holding or the mixed activity financial holding, if related undertakings are included according to Art. 335, paragraph 1, letter e) of Regulation (EU) 2015/35.

Art. 94. (1) In order to prove that the liability of the parent company is strictly limited to the share of the capital of the insurance or reinsurance subsidiary, as provided in art. 242, para. 4 of the IC, the parent company provides the Deputy Chairperson, when performing the functions of a group supervisor, with evidence that the criteria below are met:

1. no profit and loss transfer agreement has been concluded and no guarantees have been agreed, nor net worth maintenance agreements or other agreements of the parent undertaking or any other related undertaking providing financial support;

2. the investment in the subsidiary is not considered a strategic investment for the parent company;

3. the parent undertaking does not take advantage of its participation in the subsidiary undertaking when entering into intra-group transactions, including loans, reinsurance agreements or service agreements;

4. the subsidiary is not a major component in the group's business model, including regarding product offering, customer base, underwriting activity, brokerage, investment strategy and management; in addition, the subsidiary does not operate under the same name or brand and there are no overlapping responsibilities at the level of management or control bodies of the group;

5. a written agreement between the parent undertaking and the subsidiary expressly limits the support of the parent undertaking in case of shortage of funds to the share of the parent undertaking in the capital of the subsidiary;

the subsidiary prepares a strategy to overcome any shortage of funds, including guarantees from minority shareholders.

(2) When a subsidiary is included in the scope of the internal model for calculating a group's solvency capital requirement, the Deputy Chairperson, when performing the functions of a group supervisor, shall not allow the parent undertaking to account for the subsidiary's lack of funds on a proportional basis.

(3) The Deputy Chairperson, when performing the functions of a group supervisor, evaluates the criteria under para. 1 after consultation with the other supervisory authorities concerned and with the group itself on a case-by-case basis, taking into account the specific characteristics of the group.

(4) The strictly limited liability status of the parent undertaking is subject to an annual review by the Deputy Chairperson when performing the functions of a group supervisor.

(5) The parent undertaking and the subsidiary disclose the authorization to recognize the shortage of funds on a proportional basis for the purpose of informing policyholders and investors as material information in the capital management part of the group and individual solvency and financial condition reports.

(6) When preparing consolidated data according to method 1, own funds and the solvency capital requirement of the subsidiary are calculated on a proportional basis instead of applying full consolidation.

(7) When preparing aggregated data according to method 2, the own funds and the solvency capital requirement of the subsidiary are calculated by using a proportional share of the subsidiary, also in case of shortage of funds.

Art. 95. (1) The participating insurer, respectively reinsurer, insurance holding company or the mixed activity financial holding company assesses the availability of own funds according to Art. 243, para. 3 and 4 of the IC and according to Art. 330 of Regulation (EU) 2015/35 of related insurers or reinsurers, intermediate insurance holding companies and

intermediate mixed activity financial holding companies that are not related undertakings, and for related third-country insurers or reinsurers, intermediate insurance holding companies and mixed activity intermediate financial holding companies that are not related undertakings, when the own-fund items of these undertakings significantly affect the amount of own funds of the group or the solvency of the group. The persons under the sentence one notify the Deputy Chairperson when he is the group supervisor how the assessment was made.

(2) When performing the function of a group supervisor, the Deputy Chairperson, in close cooperation with the other participating supervisory authorities, reviews the assessment made by the group.

Art. 96. The participating insurance or reinsurance undertaking, the insurance holding company or the mixed-activity financial holding company shall calculate the amount of minority participations in the eligible own funds, which are deducted from the own funds of the group, for each subsidiary in the following order:

1. calculation of the eligible own funds exceeding the subsidiary's contribution to the group's solvency capital requirement;

2. identification and deduction of the amount of non-available own funds exceeding the subsidiary's contribution to the group's solvency capital requirement from the eligible own funds calculated under item 1;

3. calculation of the part of the minority participations that is deducted from the group's own funds by multiplying the minority participation by the result under item 2.

Art. 97. (1) In the case of a cross-border group, when the FSC is the group supervisor, the Deputy Chairperson discusses his assessment of the non-available own funds with the other supervisory authorities concerned within the college and with the participating insurer, respectively reinsurer, insurance holding company or mixed activity financial holding company.

(2) In its periodic supervisory report, the participating insurance or reinsurance undertaking, the insurance holding company or the mixed activity financial holding company shall provide the FSC, when it is a group supervisor, with an assessment of the non-available own funds for all undertakings included in the calculation of the group's solvency. The persons per sentence one explain the adjustments made to deduct the non-available own funds.

(3) When the FSC is the group supervisor, the Deputy Chairperson discusses the evaluation of the non-available own funds within the college as well as with the group.

(4) The Deputy Chairperson assesses at the group level the available own funds of the supervised entities.

(5) When the FSC is a group supervisor, the Deputy Chairperson discusses with the other supervisory authorities concerned whether the available own funds change when an assessment is carried out on an individual or group level.

Art. 98. (1) In the case of a national group, the Deputy Chairperson discusses his assessment of the non-available own funds with the participating insurance or reinsurance undertaking, insurance holding company or mixed activity financial holding company.

(2) In its periodic supervisory report, the participating insurance or reinsurance undertaking, the insurance holding company or the mixed activity financial holding company shall present to the FSC an assessment of the non-available own funds for all undertakings included in the calculation of the group's solvency. The persons per sentence one explain the adjustments made to deduct the non-available own funds.

(3) When the FSC is the group supervisor, the Deputy Chairperson discusses the evaluation of the non-available own funds with the group.

Art. 99. Where addition of the capital of a related undertaking is ordered in relation to its risk profile and that related undertaking is consolidated using method 1, and the FSC is a group supervisor, it shall assess at group level the significance of the deviation of the risk profile from

the assumptions underlying the Solvency Capital Requirement, as calculated using the standard formula or internal model, and assesses the need for an order to add capital to the Solvency Capital Requirement of the group.

Art. 100. Where addition of the capital of a related undertaking from a group is ordered in relation to its management and that related undertaking is consolidated using method 1, and the when FSC is a group supervisor, it shall assess at group level the significance of the deviation of the risk profile from the standards under Art. 76 - 79 and Art. 86-100 of the IC and assesses the need to add capital to the Solvency Capital Requirement of the group.

Art. 101. (1) When a significant deviation under Art. 76 - 79 and Art. 86 - 100 of the IC is identified at the group level, the FSC, on the proposal of the Deputy Chairperson, assesses whether the deviation stems from the risk profile, or from the management system at the level of the related insurance or reinsurance undertaking based in the Republic of Bulgaria.

(2) In the cases under para. 1, the FSC, on the proposal of the Deputy Chairperson, assesses the significance of the deviation under Art. 76 - 79 and Art. 86 - 100 of the IC from the risk profile or from the standards of the system of governance and assesses the need for an order to add capital at the level of the related insurance or reinsurance undertaking based in the Republic of Bulgaria.

Chapter fourteen

ADDITIONAL SUPERVISION OF INSURERS WITHOUT ACCESS TO THE SINGLE MARKET WHICH PARTICIPATE IN AN INSURANCE GROUP

Section I General

Art. 102. Insurers without the right to access the single market that participate in an insurance group are subject to additional supervision in order to establish their solvency in view of their links with other companies.

Art. 103. (1) An insurer without the right of access to the single market, who has received a license to operate under the Insurance Code, is subject to additional supervision if:

1. it is a participating undertaking in at least one insurer;
2. its parent undertaking is an insurance holding or a mixed activity financial holding;
3. its parent undertaking is a mixed activity insurance holding.

(2) When carrying out the supervision under para. 1 the activity of companies that are:

1. related to the insurer;
2. participating in the insurer, and
3. related to companies participating in the insurer is taken into account.

(3) The insurer under para. 1 provides information for the purposes of the FSC's additional supervision under the terms and conditions of the IC and the Financial Supervision Commission Act. When the information under the first sentence is not provided, the Deputy Chairperson may request it from any of the persons under para. 2, as well as to carry out an on-site inspection in each of the persons under para. 2 for its establishment or confirmation.

(4) When carrying out the additional supervision under para. 1, the FSC, on the proposal of the Deputy Chairperson, may choose not to take into account the status of any of the persons under para. 2, when it is located in a third country where there are legal restrictions on providing the necessary information.

In this case, the rules for assessing the insurer's indicators in the absence of information apply.

(5) When carrying out the additional supervision under para. 1, the FSC, on the proposal of the Deputy Chairperson, may, in a specific case, not take into account the status of a person under para. 2, when the person represents an insignificant interest in view of the objectives of the additional supervision of the insurer or the reflection of his financial status is inappropriate or misleading in view of the objectives of the additional supervision of the insurer.

(6) The additional supervision under para. 1 does not constitute supervision of the insurance holding company, the mixed activity financial holding company or the mixed activity insurance

holding company on an individual basis.

(7) For the purposes of establishing or confirming essential information necessary for the additional supervision under para. 1, which is found for the person under para. 2 based in a Member State, the FSC or the Deputy Chairperson may request the assistance of the competent authorities of that Member State subject to local legislation.

Section II

Adjusted solvency of insurers under Art. 212, para. 1 of the IC.

Art. 104. (1) The adjusted solvency of an insurer under Art. 212 of the IC is determined according to method 2 of Annex No. 4.

(2) The adjusted solvency of the insurers under para. 1 may be determined by method 1 of Annex No. 4 with a decision of the Deputy Chairperson.

Art. 105. (1) When determining the adjusted solvency of an insurer under Art. 212 of the IC, the proportional share they own in related companies is taken into account.

(2) Proportional share under para. 1 is:

1. the share of the subscribed capital that the insurer owns directly or through related parties - when method 1 under Annex No. 6 is applied, or
2. the percentage used when compiling the consolidated report - when method 2 of Appendix No. 6 is applied.

(3) Regardless of the method used under Annex No. 6, when the related company is a subsidiary and there is a shortfall in the coverage of the solvency margin with own funds, the entire shortfall in the coverage of the solvency margin is taken into account. Where, at the discretion of the Deputy Chairperson, the liability of the parent undertaking holding a share of the capital is limited only to the amount of that share, the Deputy Chairperson may allow the shortfall in the solvency of the subsidiary to be accounted for on a proportional basis.

(4) When there are no capital ties between some of the companies in the insurance group, the proportional share, on the basis of which the adjusted solvency is calculated, is determined by the Deputy Chairperson.

(5) When determining the proportional participation, Art. 330, paragraph 4 of Regulation (EU) 2015/35 and Art. 96 of this ordinance is applied.

Art. 106. (1) Regardless of the method used under Annex No. 6 when calculating the adjusted solvency of an insurer under Art. 212 of the IC, the double use of items included in the insurers' own funds, taken into account when calculating the adjusted solvency, is eliminated.

(2) For the purposes of para. 1 when calculating the adjusted solvency and when this is not provided for in the method used under Annex No. 6, the following amounts are eliminated:

1. the asset value of the insurer under Art. 212 of the IC, which represent financing of items included in the own funds of an insurer that is a company related to it;
2. the asset value of an insurer which is a related company to the insurer under Art. 212 of the IC, which represent financing of items included in the own funds of the insurer under Art. 212 of the IC;
3. the asset value of an insurer that is a related company to the insurer under Art. 212 of the IC, which represent the financing of items, included in the own funds of another insurer that is a related company to the insurer under Art. 212 of the IC.

(3) Subject to para. 1 and 2 the future profits under Art. 33, which are expected to occur with an insurer carrying out insurance or reinsurance, which covers insurance under Section I of Annex No. 1 of the IC, which is a related company to the insurer under Art. 212 of the IC, can be taken into account in the calculations of the adjusted solvency, provided that their

inclusion in the own funds of the related insurance company is allowed.

(4) Subject to para. 1 and 2 the subscribed but unpaid capital of an insurer that is a related company to the insurer under Art. 212 of the Insurance Code, can be taken into account in the calculations of the adjusted solvency, provided that its inclusion in the own funds of the related insurance company is allowed. The first sentence does not apply where the subscribed but unpaid capital represents a potential liability for the participating company.

(5) When calculating the adjusted solvency, the subscribed but unpaid capital of an insurer - a related company of the insurer under Art. 212 of the IC, which represents a potential liability for another insurer - a company related to the insurer under Art. 212 of the IC.

(6) When the FSC, on the proposal of the Deputy Chairperson, considers that certain own-fund items of the insurer which is a related company to the insurer under Art. 212 of the IC, other than those listed in para. 3 - 5, which can be taken into account when calculating the adjusted solvency, but cannot be effectively used to cover the solvency margin of the insurer under Art. 212, para. 1 of the IC for which an adjusted solvency is calculated, these items may be included in the calculation only to the extent that they can be taken into account for the coverage of the solvency margin of the related company.

(7) The sum of the items under para. 3-6 cannot exceed the amount of own funds of the insurer which is a related company.

Art. 107. (1) When calculating the adjusted solvency, items included in own funds that arose from reciprocal financing between insurers under Art. 212 of the IC and:

1. a related company;
2. a participating company;
3. a related company with a participating company, shall not be taken into account.

(2) When calculating the adjusted solvency, the items included in the own funds of an insurer or reinsurer that is a related company of the insurer under Art. 212 of the IC, which result from reciprocal financing with another company related to the insurer under Art. 212 of the IC.

(3) Reciprocal financing is available when an insurer or a company related to it owns shares in the capital or has granted loans to another company that directly or through related persons owns an item included in the own funds of the insurer or the company related to it.

Art. 108. (1) When an insurer under Art. 212 of the IC has more than one related company that is an insurer, when calculating the adjusted solvency, all related companies that are insurers are included.

(2) In case of consecutive participations, the adjusted solvency is calculated at the level of each participating insurance company that has at least one related insurance company. Consecutive participation is present when an insurer under Art. 212 of the IC is a participating company in another insurer, which, in turn, is a participating company in at least one other insurer.

Art. 109. When an insurer under Art. 212 of the IC has an interest in another insurer through an insurance holding or a mixed-activity financial holding, the solvency of the insurance holding is taken into account when calculating the adjusted solvency. The solvency of the insurance holding or the mixed activity financial holding is determined according to the procedure of Art. 111.

Art. 110. When the information regarding a related company, necessary for the calculation of the adjusted solvency of an insurer under Art. 212 of the IC, has not been presented to the FSC, the value of this company in the insurer's balance sheet under Art. 212 of the IC is deducted from the items included in the calculation of his adjusted solvency. In this case, unrealized gains related to that participation are not taken into account in calculating the adjusted solvency.

Section III

Additional supervision of insurers under Art. 213, para. 1 of the IC.

Art. 111. (1) Insurers under Art. 213 of the IC are subject to additional supervision. For the insurance holding, respectively for the mixed activity financial holding, section II shall apply accordingly.

(2) For the purposes of para. 1 the insurance holding, respectively the mixed activity financial holding is considered an insurer that has zero solvency margin.

Art. 112. When the information regarding a related company, necessary for the implementation of the additional supervision under this section, is not presented to the FSC, the value of this company in the balance sheet of the insurance holding, respectively of the mixed activity financial holding, is deducted from the items included in the calculation of its solvency. In this case, unrealized gains related to that participation are not taken into account in applying the measures for implementation of the supervision under this section.

SUPPLEMENTARY PROVISIONS

§ 1. Pursuant to this ordinance:

1. **"Zillmerised reserve"** is the net premium reserve less the outstanding portion of the acquisition costs.

2. **"Net amount of the mathematical reserve"** is the gross amount of the mathematical reserve less the reinsurer's portion.

3. **"Venture Capital"** is the difference between the amount payable on death and the mathematical reserve.

4. **"Net amount of reserve under unit-linked life insurance,"** is the gross amount of the life insurance reserve associated with an investment fund, reduced by the reinsurer's portion.

5. **"Premium income"** is the premium income recognized in the financial statements of an insurer.

6. **"Net outstanding claims reserve"** is the gross amount of the mathematical reserve less the reinsurer's portion.

7. **"Credit institution"** is a credit institution within the meaning of Art. 4, para. 1, item 1 of Regulation (EU) No. 575/2013 of the European Parliament and of the Council of June 26, 2013 on prudential requirements for credit institutions and investment intermediaries and amending Regulation (EU) No. 648/2012.

§ 2. This ordinance:

1. Introduces the requirements of Art. 93 - 96, Art. 98 and Art. 103 - 109 of Directive 2009/138/EC of the European Parliament and of the Council of 25 November 2009 on the taking-up and pursuit of the business of insurance and reinsurance (Solvency II)(OJ, No. L 335, p. 1, of 17 December 2009).

2. Introduces the requirements of Art. 308b (9) and (10) of Directive 2009/138/EC, introduced by Art. 2 of Directive 2014/51/EU of the European Parliament and of the Council of 16 April 2014 amending Directives 2003/71/EC and 2009/138/EC and Regulations (EC) No 1060/2009, (EU) No 1094/2010 and (EU) No 1095/2010 in respect of the powers of the European Supervisory Authority (European Insurance and Occupational Pensions Authority) and the European Supervisory Authority (European Securities and Markets Authority) (OJ, No. L 153, p. 1, of 22 May 2014).

3. Introduces the requirements of Art. 308b (12) of Directive 2009/138/EC, introduced by Art. 2 of Directive 2014/51/EU of the European Parliament and of the Council of 16 April 2014 amending Directives 2003/71/EC and 2009/138/EC and Regulations (EC) No 1060/2009, (EU) No 1094/2010 and (EU) No 1095/2010 in respect of the powers of the European Supervisory Authority (European Insurance and Occupational Pensions Authority) and the European Supervisory Authority (European Securities and Markets Authority) (OJ, No. L 153, p. 1, of

22 May 2014).

4. Provides measures for the implementation of:

a) Commission Regulation (EU) 2015/35 of 10 October 2014 supplementing Directive 2009/138 / EC of the European Parliament and of the Council on the taking-up and pursuit of the business of insurance and reinsurance (OJ, L 12, page 1 of 17 January 2015);

b) European Commission Implementing Regulation (EU) No. 2015/499 of 24 March 2015 laying down implementing technical standards with regard to the procedures to be used for granting supervisory approval for the use of items of additional own funds in accordance with Directive 2009/138/EC of the European Parliament and of the Council (OJ, L 79, p. 12, of 25 March 2015);

b) Commission Implementing Regulation (EU) No. 2015/498 of 24 March 2015 laying down , implementing technical standards with regard to the procedures to be used for granting supervisory approval for the use of using parameters specific to the undertaking , in accordance with Directive 2009/138/EC of the European Parliament and of the Council (OJ, L 79, p. 8 , of March 25, 2015);

d) Commission Implementing Regulation (EU) No. 2015/460 of 19 March 2015 laying down implementing technical standards with regard to the procedure concerning the approval of an internal model in accordance with Directive 2009/138/EC of the European Parliament and of the Council (OJ, p. 13, of 20 March 2015).

e) Commission Implementing Regulation (EU) No. 2015/461 of 19 March 2015 laying down implementing technical standards with regard to the process to reach a joint decision on the application to use a group internal model in accordance with Directive 2009/138/EC of the European Parliament and of the Council (OJ, L 76 p.19 , of March 20, 2015).

TRANSITIONAL AND FINAL PROVISIONS

§ 3. Regardless of the provisions of Art. 9 basic own funds shall be included in the Tier 1 basic own funds for a period of up to 10 years after 1 January 2016, provided that these funds:

1. were issued before 18 January 2015;

2. on 31 December 2015 could be used to reach the available solvency margin up to 50% of the solvency margin according to the legal, regulatory and administrative provisions adopted pursuant to Article 16, paragraph 3 of Directive 73/239/EEC Article 1 of Directive 2002/13/EC, Article 27(3) of Directive 2002/83/EC and Article 36(3) of Directive 2005/68/EC;

3. otherwise, they could not be classified as Tier 1 or Tier 2 in accordance with Art. 9.

§ 4. Without prejudice to provisions of Art. 9 , basic own funds shall be included in the Tier 2 own funds for a period of up to 10 years after 1 January 2016, provided that these funds:

1. were issued before 18 January 2015;

2. on 31 December 2015 could be used to reach the available solvency margin up to 25% of the solvency margin according to the legal, regulatory and administrative provisions adopted pursuant to Article 16, paragraph 3 of Directive 73/239/EEC Article 1 of Directive 2002/13/EC, Article 27(3) of Directive 2002/83/EC and Article 36(3) of Directive 2005/68/EC.

§ 5. (1) Each insurer, respectively reinsurer, shall evaluate all basic own-fund items issued before 18 January 2015, in order to determine whether the items have the features determining their classification according to Art. 71 and 73 of Regulation (EU) 2015/35. If such items have the specific features determining their classification as Tier 1 or 2, the insurer or reinsurer shall classify them in that tier, even if the specific item as of 31 December 2015 could not be used to cover the solvency margin under Art. 81 of the repealed IC.

(2) If items that are available as basic own funds in accordance with § 3 or 4 are exchanged or converted into another item of basic own funds after 18 January 2015, the insurer, respectively the reinsurer, shall consider the converted or exchanged item as a new item that does not comply with § 3, item 1 or § 4, item 1.

(3) The own funds items under § 3 and 4, which were ineligible as of 31.12.2015 only as a

result of the application of restrictions in accordance with the repealed Ordinance No. 21 of 16.03.2005 on own funds and the solvency margin of insurers and reinsurers are treated as eligible if they meet the requirements of § 3, item 2, respectively § 4, item 2.

§ 6. Without prejudice to the provisions of Art. 164, para. 2, Art. 169 and Art. 170, para. 3 of the IC and of Art. 37 of this ordinance, the following applies:

1. Until 31 December 2017, the default parameters used in the calculation of the concentration risk sub-module and the spread risk sub-module, in accordance with the standard formula, in respect of exposures to central governments or central banks of Member States denominated and funded in the national currency of any Member State are the same as those that would be applied to those exposures denominated and funded in their national currencies.

2. In 2018, the standard parameters used in the calculation of the concentration risk sub-module and the spread risk sub-module in accordance with the standard formula shall be reduced by 80 % in relation to exposures to central governments or central banks of Member States, denominated and financed in the national currency of any other member state.

3. In 2019, the standard parameters used in the calculation of the concentration risk sub-module and the spread risk sub-module in accordance with the standard formula shall be reduced by 50 % in relation to exposures to central governments or central banks of Member States, denominated and financed in the national currency of any other member state.

4. After 1 January 2020 the standard parameters used in the calculation of the concentration risk sub-module and the spread risk sub-module in accordance with the standard formula shall not be reduced in relation to exposures to central governments or central banks of Member States, denominated and financed in the national currency of any other Member State.

§ 7. The ordinance is issued on the basis of Art. 168, Art. 172, para. 2, Art. 183, Art. 208, para. 2, Art. 209, para. 3, Art. 212, para. 1, Art. 213, para. 1 and Art. 232, para. 5 of the Insurance Code and was adopted by Decision No. 158-H of 28.04.2016 of the Financial Supervision Commission.

§ 8. The Ordinance becomes effective on the day of its promulgation in the State Gazette and repeals Ordinance No. 21 of 16.03.2005 on the own funds and solvency margin of insurers and reinsurers.

§ 9. In Annex No. 1 to Art. 21, para. 1 of Ordinance No. 31 of 2006 on the conditions and procedure for conducting an examination and for the recognition of legal capacity as a responsible actuary, for the recognition of legal capacity acquired outside the Republic of Bulgaria, for the form of actuarial certification, the form and the content of the actuarial report and the statements under the Insurance Code that the responsible actuary certifies (amended SG issue 71 /2006; amended and supplemented, issue 51 /2008, No. 66 /2013, No. 54/2014) Section VII is amended as follows:

“Section VII

Analysis of the solvency of insurers without the right to access the single market

Lists the constituent items of actual solvency (own funds, reduced by the intangible assets reported on the balance sheet) and the required solvency, calculated according to the methods defined by Ordinance No. 51 of 28.04.2016 on own funds and solvency requirements of insurers, reinsurers and groups of insurers and reinsurers, analyzing the result obtained by the different methods.

§ 10. The Financial Supervision Commission gives instructions on the implementation of the Ordinance.

Chairperson: Stoyan Mavrodiev

Annex No. 1 to Art. 37, para. 1 Standard Solvency Capital Requirement Formula

1. Calculation of the Basic Solvency Capital Requirement

The Basic Solvency Capital Requirement set out in Article 88, para. 1 shall be equal to the following:

$$\text{Basic SCR} = \sqrt{\sum_{i,j} \text{Corr}_{i,j} \times \text{SCR}_i \times \text{SCR}_j}$$

where SCR_i denotes the risk module i and SCR_j denotes the risk module j , and where ‘ i,j ’ means that the sum of the different terms should cover all possible combinations of i and j . In the calculation, SCR_i and SCR_j are replaced by the following:

- $\text{SCR}_{\text{non-life}}$ - non-life underwriting risk module,
- SCR_{life} - life underwriting risk module,
- $\text{SCR}_{\text{health}}$ - health underwriting risk module,
- $\text{SCR}_{\text{market}}$ - market risk module,
- $\text{SCR}_{\text{default}}$ - counterparty default risk module,

The factor $\text{Corr}_{i,j}$ denotes the item set out in row i and in column j of the following correlation matrix:

j	Market	Default	Life insurance	Health insurance	Non-life insurance
i					
Market	1	0,25	0,25	0,25	0,25
Default	0,25	1	0,25	0,25	0,5
Life	0,25	0,25	1	0,25	0
Health	0,25	0,25	0,25	1	0
Non-life	0,25	0,5	0	0	1

The basic solvency capital requirement includes an additional risk module in order to include specific risks from intangible assets as they are recognised and evaluated for solvency purposes, which are not included elsewhere in the solvency capital requirement.

2. Calculation of the non-life underwriting risk module

The non-life underwriting risk module set out in Article 90 shall be equal to the following:

$$SCR_{\text{non-life}} = \sqrt{\sum_{i,j} \text{Corr}_{i,j} \times SCR_i \times SCR_j}$$

where SCR_i denotes the sub-module i and SCR_j denotes the sub-module j , and where 'i,j' means that the sum of the different terms should cover all possible combinations of i and j . In the calculation, SCR_i and SCR_j are replaced by the following:

- $SCR_{\text{nl premium and reserve}}$ - non-life premium and reserve risk sub-module,
- $SCR_{\text{nl catastrophe}}$ - non-life catastrophe risk sub-module,

3. Calculation of the life underwriting risk module

The life underwriting risk module set out in Article 91 shall be equal to the following:

$$SCR_{\text{life}} = \sqrt{\sum_{i,j} \text{Corr}_{i,j} \times SCR_i \times SCR_j}$$

where SCR_i denotes the sub-module i and SCR_j denotes the sub-module j , and where 'i,j' means that the sum of the different terms should cover all possible combinations of i and j . In the calculation, SCR_i and SCR_j are replaced by the following:

- $SCR_{\text{mortality}}$ - mortality risk sub-module,
- $SCR_{\text{longevity}}$ - longevity risk sub-module,
- $SCR_{\text{disability}}$ - morbidity risk sub-module,
- $SCR_{\text{life expense}}$ - the life expense risk sub-module,
- SCR_{revision} - the revision risk sub-module,
- SCR_{lapse} - the lapse risk sub-module,
- $SCR_{\text{life catastrophe}}$ - the life catastrophe risk sub-module,

4. Calculation of the market risk module

Structure of the market risk module

The market risk module, set out in Article 93 shall be equal to the following:

$$SCR_{\text{market}} = \sqrt{\sum_{i,j} \text{Corr}_{i,j} \times SCR_i \times SCR_j}$$

where SCR_i denotes the sub-module i and SCR_j denotes the sub-module j , and where 'i,j' means that the sum of the different terms should cover all possible combinations of i and j . In the calculation, SCR_i and SCR_j are replaced by the following:

- $SCR_{\text{interest rate}}$ - interest rate risk sub-module,
- SCR_{equity} - equity risk sub-module,

- SCR_{property} - property risk sub-module,
- SCR_{spread} - spread risk sub-module,
- SCR_{concentration} - market risk concentrations sub-module,
- SCR_{currency} - currency risk sub-module.

**Annex No. 2 to Art. 86, para. 2 (repealed - SG, No. 101 /2022, effective from 01.01.2023)
Solvency margin, calculated in relation to the premiums**

Annex No. 3 to Art. 86, para. 3 Solvency margin calculated against the average annual amount of claims

It is obtained by one of the following two formulas:

1. (amended - SG, No. 2 /2008)

$MPy = (PM + COCR - RR) \times F1 \times 0.26 \times F2$, when $(PM + COCR - RR) \times F1 < 74,400,000$.

2. $MPy = \{0.26 \times 74,400,000 + 0.23 \times [(PM + COCR - RR) \times F1 - 74,400,000]\} \times F2$, when $(PM + COCR - RR) \times F1 > 74\,400\,000$

where:

MPy is the solvency margin, calculated based on the average annual amount of payments;

PM- the total amount of claims payments made (including active reinsurance payments) during the last 3 financial years, respectively the last 7 financial years, when one or more of the risks "storm", "hail", "freeze", without deducting reimbursed benefits and amounts from reinsurers;

COCR - the change in the outstanding claims reserve for the last 3 financial years, respectively the last 7 financial years, when one or more of the "storm", "hail", "freeze" risks are mainly covered, such as:

$COCR = OCRe - OCRs$, where:

OCRe is the outstanding claims reserve (including the outstanding claims reserve for active reinsurance) at the end of the financial year;

OCRs is the outstanding claims reserve (including the outstanding claims reserve for active reinsurance) at the start of the first financial year;

RR- revenue from recourse claims in the last 3, respectively 7, financial years;

F1 - factor equal to:

a) 1/3 - when the total amount of claims payments made, respectively the change in the outstanding claims reserve and the revenue from recourse claims, is for the last 3 financial years;

a) 1/7 - when the total amount of claims payments made, respectively the change in the outstanding claims reserve and the revenue from recourse claims, is for the last 7 financial years;

$F2 = NCI/GCI$

$NCI = PM - SR - COCR - CROCR$

$GCI = PM + COCR$

$COCR = OCRe - OCRs$

$CROCR = ROCRE = ROCRs$

The factor cannot be lower than 0.50, or $K2 > 0.50$,

where:

NCI is the net claims incurred in the last 3 financial years;
GCI - claims incurred in the last 3 financial years;
PM - claims payments made in the last 3 financial years;
SR - the share of reinsurers in claims payments made in the last 3 financial years;
COCR- the change in the outstanding claims reserve for the last 3 financial years;
OCRe - the outstanding claims reserve at the end of the financial year;
OCRs is the outstanding claims reserve at the start of the first financial year;
CROCR- the change share of reinsurers in the outstanding claims reserve for the last 3 financial years;
ROCRE- the reinsurer's share in the outstanding claims reserve at the end of the financial year;
ROCRs - the reinsurer's share in the outstanding claims reserve at the start of the first financial year.

Annex No. 4 to Art. 104 Methods for calculating adjusted solvency of insurers under Art. 212, para. 1 of the IC

Method 1:

Deduction and aggregation method

The adjusted solvency of an insurer under Art. 212, para. 1 of the IC is the difference between:

1. the sum of:
 - a) the insurer's own funds, reduced by intangible assets, and
 - b) the proportional share of the insurer in the own funds of a related insurance company, reduced by the intangible assets, and
2. the sum of:
 - a) the solvency margin of the insurer;
 - b) the proportional share of the solvency margin of a related insurance company.

When the participation in a related insurance company is wholly or partly through related persons, in item 1, letter "b" and item 2, letter "b" the corresponding proportional shares in the own funds of a related insurance company, reduced by intangible assets, are included, respectively from the solvency margin of a related insurance company.

Method 2:

Method based on accounting consolidation

Calculation of the adjusted solvency of an insurer under Art. 212, para. 1 of the IC is made on the basis of consolidated accounting statements.

The adjusted solvency of an insurer under Art. 212, para. 1 of the IC is the difference between:

1. the insurer's own funds, reduced by the intangible assets, calculated on the basis of the consolidated data, and
2. one of two values:
 - a) the solvency margin of the insurer and the proportional share of the solvency margin of a related insurer, based on the percentage used when preparing the consolidated statements;
 - b) the solvency margin of the insurer, calculated on the basis of the consolidated data.

Note: When calculating the adjusted solvency of the insurer under Art. 212, para. 1 of the IC by any of the specified methods, when the value of the minimum guarantee capital is higher than the value of the solvency margin, the minimum guarantee capital is included instead of the solvency margin.

Transitional and final provisions to ORDINANCE No. 53 of 23.12.2016 on the requirements for reporting, the assessment of assets and liabilities and the formation of technical provisions of insurers, reinsurers and

the Guarantee Fund (SG, No. 6 of 19.01.2017, effective from 19.01.2017)

§ 8. In ORDINANCE No. 51 of 2016.2016 on own funds and on the solvency requirements of insurers, reinsurers and groups of insurers and reinsurers (SG, No. 38 / 2016) the following amendments are made:

1. In Art. 35, para. 1 the words “Art. 7, para. 4 of Ordinance No. 27 of 2006 on the procedure and methodology for the formation of technical provisions by insurers and reinsurers (promulgated, SG No. 36 /2006; amended and supplemented, issue 65 of 2007) the words “Art. 90, para. 9 of Ordinance No. 53 of 23.12.2016 on the requirements for reporting, the assessment of assets and liabilities and the formation of technical provisions of insurers, reinsurers and the Guarantee Fund (SG, No. 6/2017)”.

2. In Art. 81:

a) in para. 2, item 1 the words "Art. 15 of Ordinance No. 27 of 2006 on the procedure and methodology for the formation of technical provisions by insurers and reinsurers (SG, issue 36/2006)” are replaced with “and Ordinance No. 53 of 2016 on the requirements for reporting, the assessment of assets and liabilities and the formation of technical provisions of insurers, reinsurers and the Guarantee Fund”

b) in para. 3, item 1 the words "Art. 15 of Ordinance No. 27 of 2006 on the procedure and methodology for the formation of technical provisions by insurers and reinsurers" are replaced by "Art. 87 of Ordinance No. 53 of 2016 on the requirements for reporting, the assessment of assets and liabilities and the formation of technical provisions of insurers, reinsurers and the Guarantee Fund".

Transitional and final provisions to Ordinance to amend and supplement Ordinance No. 53 of 23.12.2016 on the requirements for reporting, the assessment of assets and liabilities and the formation of technical provisions of insurers, reinsurers and the Guarantee Fund (SG, No. 101 / 20.12.2022, effective from 01.01.2023;)

§ 42. In Ordinance No. 51 of 28.04.2016 on own funds and on the solvency requirements of insurers, reinsurers and groups of insurers and reinsurers (prom. SG No. 38 /2016; amended No. 6 / 2017) the following amendments are made:

1. Articles 35, 81 and 86 are repealed.

2. Annex No. 2 to Art. 86, para. 2 is repealed.