

THE CENTRAL BANK BOARD  
RESOLUTION  
October 2, 2007 No 311-N

ON APPROVAL OF REGULATION 3/02 ON “LIMITS, PROCEDURE OF  
FORMATION AND CALCULATION OF MAIN PRUDENTIAL STANDARDS OF  
INSURANCE ACTIVITY, CRITERIA FOR QUALIFYING REINSURERS AS  
NOT PROHIBITED”

Having regard to the Republic of Armenia law “On Insurance and Insurance activities” article 58(2), the Republic of Armenia law “On the Central bank” article 20(e) and the Republic of Armenia law “On Legal acts” article 16, the Board of the Central bank of Armenia decides:

- 1.To approve regulation 3/02 on “Limits, procedure of formation and calculation of main prudential standards of insurance activity, criteria for qualifying reinsurers as not prohibited” pursuant to Appendix.
- 2.This resolution shall enter into force on January 1, 2008. Resolution No 663-N of November 7, 2006 approved by the Board of the Central bank of the Republic of Armenia on approval of Regulation 30 “On limits of main prudential standards of insurance activity, procedure of formation and calculation” shall remain valid till January 1, 2008.
- 3.To repeal Resolution No 663-N of November 7, 2006 approved by the Board of the Central bank of the Republic of Armenia on approval of Regulation 30 “On limits of main prudential standards of insurance activity, procedure of formation and calculation” upon entering into force of this Regulation.

Chairman of the Central bank of the Republic of Armenia

T.Sargsyan

**Appendix**  
Approved by the decision No 151-N of the Board of  
the Central Bank of the Republic of Armenia  
as of June 29, 2010

**Appendix**  
of the decision No 311-N of the Board of  
the Central Bank of the Republic of Armenia  
as of October 2, 2007

## REGULATION 3/02

### LIMITS, PROCEDURE OF FORMATION AND CALCULATION OF MAIN PRUDENTIAL STANDARDS OF INSURANCE ACTIVITY, CRITERIA FOR QUALIFYING REINSURERS AS NOT PROHIBITED

#### GENERAL PROVISIONS

1. This regulation establishes limits of main prudential standards of activities of insurance and reinsurance companies operating within the territory of the Republic of Armenia, the procedure of calculation, composition of elements in calculation, as well as criteria for qualifying reinsurers as not prohibited.

2. The concepts used in this regulation have the following meaning:

1) *Insurance company* - insurance and reinsurance company operating within the territory of the Republic of Armenia, branches of foreign insurance and reinsurance companies operating within the territory of the Republic of Armenia,

2) *Standard* - main prudential standards of insurance activity,

3) *Financial institution* - legal entity licensed and/or supervised by the Central bank of the Republic of Armenia (hereinafter Central bank) or by foreign body regulating and supervising financial sector,

4) *Non-financial institution* - legal entity which is not a financial institution,

5) *Derivative instruments* - includes forward, futures, swap, option and other derivative instruments as defined in the law of the Republic of Armenia on 'Securities market',

5.1) Currency swap – an agreement which provides the exchange (purchase/sale) of two currencies with the exchange rates (spot rate) defined in the contract with the provision of reverse exchange (sale/purchase) of those currencies within the dates and exchange rate (forward rate) defined in the contract, as well as the provision of exchanging interest amounts defined beforehand by the contract. Within this type of swap a fixed interest rate can be exchanged with a floating interest rate, as well as two floating rates can be exchanged.

5.2) Foreign exchange (FX) swap – a simplified type of currency swap, which provides the exchange (purchase/sale) of two currencies with the exchange rates (spot rate) defined in the contract with the provision of reverse exchange (sale/purchase) of those currencies within the dates and exchange rate (forward rate) defined in the contract,

6) *First group foreign currency* – this includes the Special Drawing Right (hereinafter

SDR), currencies in the SDR basket, the Swiss franc, the Canadian dollar, the Swedish krona, the Dutch krone, the Australian dollar and the banking gold,

7) *Second group foreign currency* - this includes the currencies, which are excluded from the first group foreign currency,

8) *SDR basket* – this includes the US dollar, the Euro, the Japanese yen and the British pound,

9) *Banking gold* - as defined in the Law of the Republic of Armenia “On currency regulation and currency control”,

9.1) *standardized bullions of precious metals - standardized bullion in accordance with the law of the Republic of Armenia 'On precious metals'*.

10) *Gross insurance premium* - insurance premiums calculated by direct insurance, reinsurance premiums in the reinsurance accepted risks and calculated insurance premiums in the coinsurance accepted risks without deducting the reinsurer’s share in the abovementioned sums and without deducting the discount made by the insurance company at the moment of signing of the contract,

11) *Earned gross insurance premiums* – the difference between the value of gross insurance premiums and unearned insurance premiums reserve (without deducting the share of reinsurer in the unearned insurance premiums reserve),

12) *Gross insurance compensations* - insurance indemnities related to contracts of direct insurance, insurance indemnities for reinsurance taken risks, insurance indemnities calculated for coinsurance taken risks,

13) *Claims reserve* - the sum of incurred but not reported claims reserve (IBNRR) and reported but not settled claims reserve (RBNSR) calculated in accordance with the normative act of the Central bank,

14) *Indemnity* – the sum received or receivable (for example, subrogation, etc.) for the compensation paid by insurance company, except for compensation, received or receivable by reinsurers,

15) *Long-term subordinated loan* - loan, which satisfies the following requirements simultaneously.

a) loan was provided for not less than 5 years, and

b) loan is not payable before the end of maturity, excluding cases provided for by the law, and if in case of early repayment the whole sum of the loan is paid for replenishment of the statutory capital, and

c) loan is paid fully

d) loan was not provided as means of security for performance of obligation or obligations

e) loan is not considered to be paid, if the payment of amount of loan and/or interest thereof by the date of payment should violate one of main prudential standards of the borrower company (if such standards are defined by legislation)

16) Chart of accounts- ‘Chart of accounts of insurance companies’ approved by the jointly agreed decision of the Central Bank Board No 328N as of November 11, 2011 and by the

resolution of the Minister of Finance of the Republic of Armenia No 1030N as of December 16, 2011.

17) Refinancing credit organization- refinancing credit organization pursuant to the Regulation 14 on the ‘‘Regulation of credit organizations’ activity, prudential standards of credit organizations’ activity’’ approved by the Central Bank Board Resolution No 347-N as of November 5, 2002.

18) carrying value (balance) – the sum of the asset or liability accrued in the balance sheet, including the interests, fines and penalties of those items, excluding the provisions on those items, depreciation and accumulated amortization, if such exists.

19) primary collateral – a collateral, in the case of which the pledgee insurance company has a right to receive satisfaction against the debtor from the value of the pledged property with priority ahead of other pledgees of the property.

20) affiliated persons – this concept has the same meaning as in the Law of the Republic of Armenia ‘‘On Insurance and Insurance activity’’, excluding the cases, when the debtor and other legal entities are affiliated only with the reason that the state, International Financial Corporation, the European Bank for Reconstruction and Development and (or) the Asian Development Bank owns (own) more than 20% of stocks (shares, stake) giving the right of vote of the debtor (person) and the legal entity or has (have) right of predetermining their decisions in a manner not prohibited by law.

21) regulated market – in accordance with the Law of the Republic of Armenia ‘‘On Securities Market’’,

22) market maker – participant of the regulated market, which in accordance with the rules of the regulated market, in order to maintain, set or stabilize the price of the security of a certain class, allowed to the trade in the stock market, performs transactions with securities of that class on its own behalf and account.

(Point 2 amended and added by Decisions No 328-N on 09.12.2010, No 368-N on 20.12.2011, No 326-N on 27.11.12, No 176-N on 23.07.2013, [No 225-N on 12.08.2014](#))

3. Reinsurers are considered as not prohibited, if they are licensed in any state. For the purposes of this Regulation those reinsurers are considered to be licensed as well, who are registered in such a state, where licensing of reinsurers is not required.

3.1. Principles stated in the Chapter 4 of the Appendix 2 should be taken into consideration in case of applying ratings provided by rating agencies in cases provided for by this Regulation.

(Point 3.1 added by Decision No 368-N on 20.12.2011)

## MAIN PRUDENTIAL STANDARDS AND THEIR LIMITS FOR INSURANCE COMPANIES' ACTIVITIES

4. The Central bank defines following main prudential standards for insurance companies:

- 1) standard on the minimum amount of statutory capital of company,
- 2) standard on the minimum amount of total capital (S1.1 standard),
- 3) capital adequacy ratio (S1.2 standard),
- 4) liquidity ratio (S2 standard),
- 5) ratio on the maximum size of a single insurance risk underwritten (S3 standard),
- 6) ratio on all and individual assets equal to technical reserves of Company (S4 standard),
- 7) ratio on maximum risk on a single borrower (S5 standard),
- 8) The foreign currency disposition standard, that is comprised of two components:
  - a) foreign currency position standard (S6.1 standard)
  - b) foreign currency position standard by types of foreign currencies (S6.2 standard)

5. Standard on the minimum amount of statutory capital of insurance company is fifty million (50 000 000) Armenian Drams.

6. Standard on the minimum amount of total capital of insurance company (S1.1) calculated in accordance with Chapter 3 of this Regulation is set to:

1) one billion (1 000 000 000) Armenian Drams, if insurance company is licensed to perform non-life insurance activities in classes and sub-classes provided for by paragraphs 1-9 and 16-18 of article 7(2) of the Republic of Armenia law "On Insurance and insurance activities".

2) one billion five hundred million (1 500 000 000) Armenian Drams, if company is licensed to perform non-life insurance activities in classes and sub-classes provided for by paragraphs 10-15 of article 7(2) of the Republic of Armenia law "On Insurance and insurance activities".

3) one billion five hundred million (1 500 000 000) Armenian Drams AMD, if company is licensed to perform life insurance activities in classes and sub-classes provided for by paragraphs 1-6 of article 7(4) of the Republic of Armenia law "On Insurance and insurance activities".

4) one billion five hundred million (1 500 000 000) Armenian Drams, if company is licensed to perform insurance activities in classes and sub-classes provided for by paragraphs 1 and 2 of article 7(5) of the Republic of Armenia law "On Insurance and insurance activities".

(Point 6 amended by Decision No 326-N on 27.11.12)

7. Minimum amount of S1.1 standard for insurance companies performing insurance activities in several classes simultaneously is set the maximum of the amounts defined in paragraphs 1, 2 or 4 of sub-point 6 of this Regulation for the mentioned insurance classes. (Point 7 amended by Decision No 326-N on 27.11.12)

8. Minimum limit of capital adequacy ratio (S1.2 standard) calculated in accordance with Chapter 4 of this regulation is set to 1.

9. Minimum limit of liquidity ratio (S2 standard) calculated in accordance with Chapter 5 of this Regulation is set to 1.

10. The maximum limit of ratio on the maximum size of a single insurance risk underwritten (S3 standard) calculated in accordance with Chapter 6 of this Regulation is set to 10 percent.

11. The maximum limit of ratio on all and individual assets equal to technical reserves (S4 standard) calculated in accordance with Chapter 7 of this regulation is set up in Chapter 7 of this regulation by individual types of assets.

12. The maximum limit of ratio on maximum size of risk on a single borrower (S5 standard) calculated in accordance with Chapter 8 of this Regulation is set to 20 percent.

12.1. The maximum ratio of the foreign currency position standard (S6.1 standard) calculated in accordance with Chapter 8.1 of this Regulation, is set to 10 percent, and the maximum ratio of foreign currency position standard by types of foreign currencies (S6.2 standard) calculated in accordance with the same Chapter is set to 7 percent. Maximum ratios mentioned in this point apply to S6.1 and S6.2 standards calculated including all derivative instruments, as well as apply to S6.1 and S6.2 standards including only derivative instruments mentioned in the point 45.3 of this Regulation. The total capital is included by its daily amount in the calculation of S6.1 and S6.2 standards.

(Point 12.1 added by Decision No 368-N on 20.12.2011 and Decision No 326-N on 27.11.12)

13. S1.1, S1.2 standards are calculated on a monthly basis, S2 standard is calculated on a weekly basis, and S3 standard is calculated on a monthly basis and in case of emergence and each change of component “L” of S3 standard, S5 standard is calculated on a monthly basis, and in case of emergence and each change of components included in component “R” of S5 standard, S4, S6.1, S6.2 standards are calculated on a daily basis.

(Point 13 amended and added by Decision No 368-N on 20.12.2011)

14. While calculating prudential standards, the components used in calculation are included after deducting the amounts of loss reserves calculated in accordance with the Regulation 3/09 “On classification of assets of insurance companies and formation and use of loss reserves” (hereinafter Regulation 3/09) approved by the Central bank board resolution No 73-N as of March 25, 2008 and by the order No 285-N as of April 14, 2008 of the Minister of Finance and Economy of the Republic of Armenia, and the retained profit is calculated after considering the deductions made to loss reserve in accordance with Regulation 3/09.

## **CALCULATION OF TOTAL CAPITAL AND THE COMPOSITION OF ELEMENTS IN CALCULATION**

15. The total capital of the insurance company (S 1.1 standard) is the sum of core and additional capital after the necessary deductions. When calculating standards, the additional capital is set to utmost 50 percent of core capital (after considering deductions defined in this regulation).

16. The core capital is the difference of the sum of the following elements and the deductible elements from the amount of core capital.

1) replenished statutory capital, according to Section 50 of the Chart of accounts

2) general reserve

3) retained profit (losses), deducted by the sum of interim dividends, according to Section 52 of the Chart of accounts (hereinafter retained profit). The retained profit of the insurance

company shall be included in calculation of the total capital at an amount not exceeding 150 percent of the replenished statutory capital.

(Point 16 edited by Decision No 368-N on 20.12.11)

17. The core capital is deducted by:

- 1) the book value of long term subordinated loans, provided by the insurance company
- 2) (Sub-point 2 repealed by Decision No 368-N on 20.12.11)
- 3) the book value of intangible assets (including out-of exploitation), as well as the book value of capital investments in intangible assets, except for Computer software and rights of their use used for performing insurance activities.
- 4) the book value of investments in statutory capitals of financial institutions and other parties performing operations defined in the sub-points 1-10 of article 79(1) of the Law of the Republic of Armenia "On Insurance and Insurance Activities",
  - a) if the investment in the statutory capital comprises 5 percent or more of the statutory capital of the entity, or
  - b) if the investment in the statutory capital is less than 5 percent of the statutory capital of the entity, but yet exceeds 15 percent of the book value of total capital of insurance company, or
  - c) if investments in statutory capitals of all entities exceed 35 percent of book value of total capital of insurance company

Investments in accordance with the requirements of the following paragraph, are deducted from the amount of total capital, if those investments have not been already deducted in accordance with paragraphs "a" and "b" of this point.

The exception is made only for investments as a result of which insurance company acquires 100% participation in the statutory capital of entity mentioned in the following sub-point, provided that the investment is purposed to liquidate the entity or merge with the insurance company and that the Central bank has been duly notified of purpose. Such investments shall not be deducted within 6 months upon being invested.

5) the book value of tangible assets, which are property of, and not used by the insurance company, as well as capital investments in tangible assets (including assets as a result of collateral disposition, subrogation or originated from other claims, including assets out of use) starting from the seventh month after the placement of such assets under the ownership of insurance company.

6) (Sub-point 6 repealed by Decision No 326-N on 27.11.12)

7) the book value of tangible assets (fixed assets, including real estate (buildings and premises) other fixed assets), which are property of, and used by the insurance company to the extent exceeding 25 percent of book value of the core capital. The book value of the tangible asset is equal to the amount mentioned in the sub-point 2 of the point 19 of this Regulation.

8) the balance of capital investments made to improve the fixed assets under the contract of lease or free use by the insurance company,

9) by the amount of the biggest of differences between the book value of the investments made in statutory capital of commercial organization, other than financial organizations mentioned in sub-point 4 of this point and the values mentioned in paragraphs "a", "b" and "c" of this sub-point.,

- a) if the investment in statutory capital comprises 5 percent or more of the statutory capital of the organization, or
- b) if investment in statutory capital is less than 5 percent of the statutory capital of organization, but yet it exceeds 15 percent of the book value of the total capital of the insurance company, or

c)if investments in statutory capitals of all organizations exceed 35 percent of book value of the total capital of the insurance company.

Investments in accordance with requirements of this paragraph are deducted from the amount of core capital, if they have not already been deducted in accordance with paragraphs “a” and “b” of this point.

10)the book value of loans provided to natural persons.

(Point 17 amended and added by Decision No 368-N on 20.12.11, amended by Decision No 326-N on 27.11.12, edited by Decision No 176-N on 23.07.13)

18.The book value of the core capital is the sum of the amounts mentioned in the sub-point 1-3 of the point 16 of this Regulation without considering the limitation specified in the sub-point 3.

19)The additional capital is comprised of:

1)long-term subordinated loans attracted by the insurance company. Long-term subordinated loans have a priority in being included in the calculation of the total capital of the insurance company over the other components of the additional capital. The attracted long-term subordinate loans are deducted from the additional capital at the amount of 20 percent of the initial grand total, starting from January 1 of the fifth and each following year prior to the beginning of the payment period.

2) the revaluation changes for tangible assets, which are property of, and used in the insurance activities. The changes shall make no more than the difference between 25 percent of book value of core capital of the insurance company and the book value of tangible assets owned by the insurance company and used in insurance activity. If this difference is a negative value, then the reserve for revaluation of tangible assets owned by the insurance company and used in insurance activity shall not be included in the calculation of additional capital. It shall be calculated using the following formula:

$$RR = \min(RR_b, CC * 0.25 - TA_{CC}), \text{ if } (CC * 0.25 - TA_{CC}) \geq 0 \\ 0, \text{ if } (CC * 0.25 - TA_{CC}) < 0$$

where

RR- the revaluation reserve for tangible assets owned by the insurance company and used in the insurance activity, which is included in the calculation of additional capital,

RR<sub>b</sub>- the book value of revaluation reserve for tangible assets owned by the insurance company and used in the insurance activity

CC- the book value of core capital of the insurance company

TA<sub>CC</sub>- the book value of tangible assets, which are property of and used in the insurance activities, which is equal to the sum of the original value of tangible asset, capital investments and income from revaluation deducted by amortizations on these items, loss from revaluation and loss from devaluation.

3) profit and loss occurring as a result of recalculation of financial statements of foreign units.

4)other items of other comprehensive income, included in Section 54 of the Chart of accounts.

(Point 19 amended and edited by Decision No 368-N on 20.12.11)

20.The calculation of additional capital shall not include the revaluation changes, profits and losses, which are components of other comprehensive income, for tangible assets not used in the insurance activity and for tangible and non-tangible assets deductible from the



core capital.

(Point 20 amended by Decision No 368-N on 20.12.11)

21. For the purposes of this Regulation, the tangible assets used in insurance activity shall be the assets used to perform insurance activities, as well as operations specified in the Republic of Armenia law “On Insurance and insurance activities” article 79 (1)(2).

Tangible assets used for insurance activity are those own buildings and premises (real estate), where the insurance company and its branches perform insurance activity, as well as operations mentioned in the Republic of Armenia law “On insurance and insurance activities” article 79(1)(2).

22. The insurance company shall ensure the minimum total capital by average daily circulation for each month (the grand total of daily amount of the total capital divided by the number of days in the month).

(Point 22 amended by Decision No 326-N on 27.11.12)

### **CALCULATION OF CAPITAL ADEQUACY RATIO AND COMPOSITION OF ELEMENTS IN CALCULATION**

23. The capital adequacy ratio (S1.2) for insurance companies is the marginal ratio between the total capital of insurance company and the sum of solvency amount and amount of risk-weighted assets, which is calculated by the following formula:

**S1.2=TC/(SA+RWA) , where**

TC-is the total capital of insurance company by its average daily amount of the reporting month (the ratio between the sum of daily calculations of total capital per month and days in a month), which is calculated in accordance with chapter 3 of this Regulation.

SA-is the solvency amount required for insurance company, calculated according to Appendix 1 of this Regulation.

RWA-amount of risk-weighted assets of insurance company which is calculated according to the following formula.

$RWA=0,12 (CR+FXR)+OR$ , where

CR-is the amount of credit risk calculated in accordance with Appendix 2 of this Regulation

OR-is the amount of operational risk calculated according to Appendix 3 of this Regulation,

FXR-is the amount of foreign exchange risk calculated according to Appendix 4 of this Regulation.

## CALCULATION OF LIQUIDITY RATIO AND COMPOSITION OF ELEMENTS IN CALCULATION

24. The liquidity ratio (S2 standard) for insurance company shall be the marginal ratio of sum of highly liquid assets of insurance company to liabilities payable, which is calculated by the following formula:

$S2 = A_{hl}/LP$ , where

$A_{hl}$  is the amount of highly liquid assets of insurance company on average daily calculations of the reporting week (the ratio of sum of highly liquid assets of insurance company by the end of each day of reporting week to 7)

LP - is the sum of liabilities payable by the insurance company.

25. The following assets (without interests calculated for those assets except for assets mentioned in the sub-points 4-6 and 9 of this point), which don't have any condition limiting the disposal, are included in the calculation of highly liquid assets. Assets under collateral or sold by repo contract, are not included in highly liquid assets. Assets that are considered to be of high liquidity are the followings.

- 1) cash (including cash in transit), cash equal payment documents with the consent of the Board of the Central bank,
- 2) banking gold (as well as banking gold in transit),
- 3) residual account of insurance company in the Central Bank and deposit invested in the Central bank (if the depositor's right to receive the deposit on demand is not limited by the deposit agreement),
- 4) Transferrable promissory notes issued by the Ministry of Finance of the Republic of Armenia, the maturity date of which is up to one year and which will be payable by the Central bank from the funds of the single treasury account of the Government of the Republic of Armenia, bonds of the Republic of Armenia with their current (market) value, securities issued by the Central bank with current (market) value.
- 5) securities of organizations rated as "A", "B" and "C" group by the Central bank with current (market) value.
- 6) bonds with their current (market) value issued by states, central banks that are rated with rating "A+" or higher by Standard and Poor's/Fitch credit rating agencies or rated "A1" or higher by Moody's rating agency or rated as "A" or higher by A.M.Best rating agency, or corporate securities with current (market) value rated with rating "A+" or higher by Standard and Poor's/Fitch credit rating agencies or rated "A1" or higher by Moody's rating agency or rated as "A" or higher by A.M.Best rating agency.
- 7) the residual banking account (as well as unallocated gold account) of insurance company in resident banks of the Republic of Armenia and deposit on demand and time deposit in the mentioned banks (if the depositor's right to receive the deposit on demand is not limited by the deposit agreement),
- 8) Residual account of insurance company in foreign banks rated as "A+" and higher by rating agencies Standard and Poor's/Fitch or rated "A1" or higher by Moody's rating agency or rated "A" or higher by A.M.Best rating agency, as well as term deposits and deposits on demand invested in the mentioned banks (if the depositor's right to receive the deposit on demand is not limited by the deposit agreement).
- 9) Bonds with their current (market) value, issued by refinancing credit organizations
- 10) Non-governmental bonds with their current (market) value issued by European Bank for Reconstruction and Development, European Central Bank, European Investment Bank, other international organizations (to which Armenia has a membership)

(Point 25 was amended and added by Decision No 368-N on 20.12.11, added by Decision No 326-N on 27.11.12 and No 176-N on 23.07.13, [amended by Decision No 225-N on 12.08.2014](#))

26. The liabilities mentioned below are included in Liabilities payable:

- 1) the amount of payables on the basis of insurance indemnity by the end of the day (last day of reporting week) of calculation of S2 Standard.
- 2) Reported but not settled claims reserve (RBNSR) till the calculation day of S2 standard (the last day of reporting week) calculated in accordance to the normative legal act of the Central bank.
- 3) all the liabilities not connected with insurance indemnity which should be met during 7 days following the day of calculation S2 standard (the last day of reporting week) as well as overdue liabilities.

### **CALCULATION OF THE RATIO ON THE MAXIMUM SIZE OF A SINGLE INSURANCE RISK UNDERWRITTEN AND COMPOSITION OF ELEMENTS IN CALCULATION**

27. The ratio on the maximum size of a single insurance risk underwritten (S3) is calculated by the following formula.

$S3 = (L/TC) * 100$ , where

L-is the amount of liabilities undertaken by insurance company related to one insurance object and affiliated objects on the basis of insurance contract (contracts), deducted

1) by the amount of liability of reinsurer on the basis of contract (contracts) appropriate to the risk weight of 20% and 50% according to the 31<sup>st</sup> point of Table 1 of Appendix 2 of the following Regulation.

2) by the amount of liability of reinsurer providing services within the territory of the Republic of Armenia on the basis of the contract (contracts).

3) by 50% of the amount of liability in case of liability of the reinsurer, appropriate to the risk weight of 400% according to the 31<sup>st</sup> point of Table 1 of Appendix 2 of the Regulation on the basis of contract (contracts). The liability of the reinsurer mentioned in this sub-point may be deducted by 100% from the calculation of S3 standard, if the following criteria is satisfied simultaneously:

- a) the liability of the reinsurer is ensured by the guarantee or warranty issued by the reinsurer appropriate to the risk weight of 20% and 50% according to the 31<sup>st</sup> point of Table 1 of Appendix 2 of this Regulation,
- b) There are available documents verifying guarantee or warranty,
- c) the maturity of guarantee/warranty is equal or longer than the maturity of the contract (contracts) covering insurance object and affiliated objects,
- d) There are no limitations on the maturity of guarantee/warranty agreed in the contract and/or other mutual agreement.

TC-is the total capital of insurance company calculated in accordance with the Chapter 3 of this Regulation.

(Point 27 edited by Decision No 328-N on 09.12.2010)

27.1 The reinsurer's liability appropriate to risk weight of 400% in accordance with the point 31 of the Table 1 of the Appendix 2, may be reduced from the calculation of S3 standard by 100% till January 1, 2015, by 80% from January 1, 2015 till January 1, 2016, by 60% from January 1, 2016 till January 1, 2017, if one of the following conditions is

satisfied:

1) For 5 years preceding the calculation of S3 standard, the insurance company has cooperated for at least three years with the appropriate reinsurer, and at least two insurance accidents have occurred during that period, and reinsurer's liability to pay insurance indemnities has occurred and no case of non payment of insurance indemnity by the reinsurer has occurred in the period of the cooperation.

2) For 5 years preceding the calculation of S3 standard, the insurance company has cooperated with the appropriate reinsurer for less than three years, but one insurance accident has occurred during that period, and reinsurer's liability to pay insurance indemnity has occurred, but no case of non payment of insurance indemnity by the reinsurer has occurred during that cooperation.

3) For 5 years preceding the calculation of S3 standard, there is no any case of non payment of insurance indemnity by the appropriate reinsurer in the whole duration of cooperation (if such exists), and by the day of calculation of S3 standard there is an insurance company operating within the territory of the Republic of Armenia, whose cooperation with that reinsurer satisfies the requirements defined in sub-points 1 and 2 of this point.

(Point 27.1 added by Decision No 328-N on 09.12.2010, edited by Decision No 293-N on 06.11.12 and No 255-N on 12.11.13)

27.2 The cooperation defined in sub-points 1, 2, 3 of the point 27.1 is considered as existing, if there is period mentioned in sub-points 1, 2, 3 of the point 27.1, during 5 years preceding the calculation of S3 standard, when the mentioned insurance company (another insurance company, in case of consideration the practice of cooperation of another insurance company, defined in the sub-point 3) had reinsurance contracts in force with the appropriate reinsurer.

(Point 27.2 added by Decision 328-N on 09.12.2010)

28. For the purposes of this Regulation insurance objects are considered affiliated, if with high probability insurance indemnities related to them may be paid in occurrence of one insurance accident.

29. In the event of emergence and each change in the component "L" of S3 standard, in the calculation of S3 standard the total capital and the component "L" are included by the end of the day. In the calculation of S3 standard on monthly basis the total capital is included by the average daily value of the reporting month, and the component "L" is included by the last day of the reporting month.

## **CALCULATION OF RATIO ON ALL AND INDIVIDUAL ASSETS EQUAL TO TECHNICAL RESERVES**

30. All and individual assets equal to technical reserves (hereinafter assets equal to technical reserves) (deducted by the share of reinsurers) established by the insurance company may be placed in the following ways.

Assets equal to technical reserves	The maximum limit in amount of assets equal to technical reserves by all subjects (borrowers)	The maximum limit in amount of assets equal to technical reserves by one subject (borrower)
(1)	(2)	(3)

1.Cash (including cash in transit), cash-equivalent payment documents with the consent of the Board of the Central bank, banking gold (including banking gold in transit)	3%	3%
2.Securities issued by the Republic of Armenia and the Central Bank with their current (market) value, the balance of the account of insurance company in the Central Bank, deposits in the Central Bank, transfer notes issued by the Ministry of Finance of the Republic of Armenia with maturity up to 1 year, which are subject to be repaid by the Central Bank at the expense of the funds of the consolidated treasury account of the Republic of Armenia Government	100 %	100%
3.Government treasury bills with their current (market) value of states rated as “A+” or higher by the rating agencies Standard and Poor’s/Fitch, or rated as “A1” or higher by Moody’s rating agency, or rated “A” or higher by the rating agency A.M. Best, corporate securities with their current (market) value, rated as “A+” or higher by the rating agencies Standard and Poor’s/Fitch, or rated as “A1” or higher by Moody’s rating agency, or rated “A” or higher by the rating agency A.M. Best, non-governmental bonds with their current (market) value issued by the European Bank for Reconstruction and Development, European Central Bank, European Investment Bank, other international organizations (where Armenia has a membership), banking accounts, (as well as unallocated gold accounts) term deposits and deposits on demand (if the depositor’s right to receive the deposit on demand is not limited by the deposit agreement), invested in the foreign banks rated as “A+” or higher by the rating agencies Standard and Poor’s/Fitch, or rated as “A1” or higher by Moody’s rating agency, or rated “A” or higher by the rating agency A.M. Best.	40 %	5 %
4. Securities, issued by financial organizations, operating on the territory of the Republic of Armenia, with their current (market) value, if they are allowed to the trade in the regulated market and have a market maker, securities of organizations, rated as “A” “B” and “C” group by the Central Bank of the Republic of Armenia, with their current (market) value	40 %	10 %
5.Banking accounts (as well as unallocated gold accounts), deposits on demand and term deposits (if the depositor’s right to receive the deposit on demand is not limited by the deposit agreement) in banks operating in the Republic of Armenia and branches of foreign banks providing services within the territory of the Republic of Armenia, as well as loans on demand and loans that do not have contractual maturity, provided to banks operating in the Republic of Armenia and branches of foreign	100 %	20%

banks, providing services within the territory of the Republic of Armenia, if the lender's right to receive the sum of the loan on demand is not limited by the loan agreement.		
6. Loans on demand and loans that do not have contractual maturity, provided to insurance companies, investment companies and those credit organizations, that according to their Charter, attract loans by public offer, operating in the Republic of Armenia, and branches of foreign insurance companies, investment companies and those credit organizations, that according to their Charter, attract loans by public offer, providing services within the territory of the Republic of Armenia, if the lender's right to receive the sum of the loan on demand is not limited by the loan agreement.	20%	5%

(Point 30 amended by Decision No 328-N on 09.12.2010, added by Decision No 368-N on 20.12.2011, No 326-N on 27.11.12, No 176-N on 23.07.13, [edited by Decision No 225-N on 12.08.2014](#))

31. The insurance company cannot float assets equal to technical reserves in derivative securities, pledged assets, assets sold by repurchase agreement, and those assets that have any condition limiting its holding.

(Point 31 amended by Decision No 275-N on 16.10.12)

32. Directions and limits specified in the point 30 of this regulation as well as restrictions mentioned in the point 31 shall not apply to technical reserves established for insurance classes mentioned in the Republic of Armenia law "On insurance and insurance activities" article 7(4), point 3.

Assets equal to technical reserves for the respective class of insurance are floated in assets mentioned in insurance contract. If it is not available, then those assets are floated in assets similar to the assets mentioned in the contract by risk.

33. Technical reserves (deducted by reinsurers' share) and assets equal to technical reserves are included in the calculation of S4 standard by the end of the reporting day with their book value, except for those assets that are included in the calculation of S4 standard of point 30 of this regulation with their current (market) value.

(Point 33 edited by Decision No 368-N on 20.12.11)

34. (Point 34 repealed by Decision No 368-N on 20.12.11)

#### **CALCULATION OF THE RATIO OF THE MAXIMUM RISK ON A SINGLE BORROWER AND COMPOSITION OF ELEMENTS IN CALCULATION**

35. The ratio of the maximum risk of a single borrower (S5) shall be determined using the following formula:

$$S5 = (R/TC) * 100, \text{ where}$$

R-is the grand total (with their balance (off-balance) value) of loans provided by the insurance company to one person and related parties, advance payments, repurchase agreements (according to point 38.1 of this regulation), securities sold by repurchase agreements (according to point 38.2 of this regulation), claims occurring from derivative

instruments, investments in securities issued by the party and related parties, as well as any other claims against the party and related parties, balances of off-balance sheet liabilities, containing credit risk, including guarantees/warranties issued by the party and related parties to another party for liabilities against the insurance company, any other covered funds (by the amount not exceeding the total covered liability,) guarantees for the liabilities of the party and related parties.

TC-the amount of the total capital of insurance company, calculated in accordance with Chapter 3 of this Regulation.

(Point 35 added by Decision No 368-N on 20.12.11, amended by Decision No 368-N on 20.12.11, added by Decision No 326-N on 27.11.12)

36.In case of emergence and any change in the value of components included in the component “R” of the S5 standard, for the calculation of S5 standard the total capital and component “R” are considered as of the end of the current day.

37.In the calculation of S5 standard on monthly basis the total capital shall be included in the calculation at an average daily amount, the component “R” should be included by the last day of the reporting month, except for the banking accounts of insurance company, that are included in the calculation by the average daily value of the month.

38.S5 standard shall not be calculated in the event of emergence and each change in banking accounts of insurance company.

38.1. In the calculation of component “R” of S5 standard repurchase agreements are considered as a claim towards the counterpart of the repurchase agreement with balance value of the repurchase agreement, and if, according to Chapter 3 of Appendix 2 of this regulation, CRMT is applied, then the claim is applied with the uncovered value of the repurchase agreement.

(Point 38.1 added by Decision No 368-N on 20.12.11, edited by Decision No 326-N on 27.11.12)

38.2. In the calculation of component “R” of S5 standard, the claims occurring from derivative instruments are included only with the amount of derivative instruments reflected in the asset side, except for the case when the insurance company has got Second group foreign currency (except for Russian Rubles) as a result of swap operation, in which case the swap is included in the calculation of “R” component with the whole amount receivable reflected in the off-balance sheet of the insurance company.

(Point 38.2 added by Decision 326-N on 27.11.12)

38.3. In the calculation of component “R” of S5 standard, the securities sold by repo agreements and securities provided as loan, are considered as claim toward:

- 1) the issuer of the security with balance value of the security, and
- 2) the counterpart (borrower) of the repurchase agreement with uncovered value according to point 15.2 of Appendix 2 of this regulation. If the insurance company has got Second group foreign currency (except for Russian Ruble) by the repo agreement, then the latter is not considered as a pledge for repo agreement in respect of the calculation of component “R”.

(Point 38.3 added by Decision No 326-N on 27.11.12)

39.In the calculation of component “R” of S5 standard the following items should not be included:

1) bonds issued by the Republic of Armenia, securities issued by the Central bank, as well as other claims against the Central bank and the Government of the Republic of Armenia,

2) investments specified in the sub-point 4 of point 17 of this Regulation deducted from the core capital, as well as investments specified in the sub-point 9 of the respective point of this Regulation, with the amount of deductions from the core capital,

3) The balance of the cumulative account opened in the bank operating on the territory of Armenia and not related to the insurance company in cases provided for in the Republic of Armenia law “On insurance and insurance activities”, article 14(2). The balance of the cumulative account in the bank operating in the Republic of Armenia and not related to the insurance company, established for the replenishment of the statutory capital, is not included in the calculation of S5 standard until the registration of the change of the statute including the change of the statutory capital of the insurance company by the Central bank.

4) receivables from those reinsurance contracts under which the insurance company reinsure the risks undertaken, as well as the share of reinsurer in the technical reserves.

5) those claims that are fully pledged by.

a. bonds issued by the Republic of Armenia, securities issued by the Central bank,

b. guarantees and warranty issued by the Central bank, the Government of the Republic of Armenia,

c. securities issued by organizations specified in the point 5 of Table 1 of Appendix 2 of this regulation,

d. guarantees and warranty issued by organizations specified in the point 5 of Table 1 of Appendix 2 of this regulation,

e. securities issued by foreign governments and central banks that are rated “AA-“ or higher by Standard and Poor’s/Fitch rating agency, or rated as “Aa3” or higher by Moody’s rating agency, or rated “A+” or higher by A.M. Best rating agency.

f. guarantees and warranty issued by foreign governments and central banks that are rated “AA-“ or higher by Standard and Poor’s/Fitch rating agency, or rated as “Aa3” or higher by Moody’s rating agency, or rated “A+” or higher by A.M. Best rating agency.

Claims and their pledge should be expressed in the same currency and the maturity of claims should not be longer than the maturity of securities that are considered as pledge, the maturity of guarantee and warranty. Besides, in the case when the debtor does not meet his obligations, there should be no contractual and/or other mutually agreed limitations on the timeframe of the guarantee/warranty issued to the insurance company.

(Point 39 added by Decision No 368-N on 20.12.11)

39.1. Claims, that are not fully pledged by the types of pledge specified in paragraphs a-f of sub-point 5 of point 39 of this regulation, are included in the calculation of S5 standard with the unpledged value. The pledged value is not included in the calculation of S5 standard. The unpledged part of the claims included in the calculation of S5 standard are not being weighted after deducting the amounts of loss reserves, except for the claims towards foreign governments and central banks, which, after deducting the amounts of loss reserves, are being weighted with appropriate risk weights of assets mentioned in Table 1 of Appendix 2 of this regulation. This point does not apply to repo agreements, securities sold by repo agreements and securities provided as loan.

(Point 39.1 added by Decision No 368-N on 20.12.11, No 326-N on 27.11.12)

40. The receivables exceeding 500 million Armenian Drams for insurance contracts signed with one policyholder, are not included in the calculation of component “R” of S5 standard, if there is the consent of the Chairman of the Central bank (hereinafter Chairman) based on the conclusion of the Licensing and supervision committee of the Central bank. The Chairman agrees not to include receivables of the insurance contracts in the calculation of S5 standard, if

1) the maturity of the single payment or the first instalment of the insurance premium does not exceed the 14 day-period following the day of entry into force of the insurance contract or it is stated in the insurance contract that it enters into force upon the payment of insurance premium fully or of the amount specified in the contract.



2) installments and the amount of the installments should be prorated for the whole period of insurance if the single payment of the insurance premium is not mentioned in the insurance contract,

3) it is stated in the insurance contract that if the single payment or installment exceeds the time limit, and overdue payment is not paid during 5 days after overdue, then the insurance contract should be terminated unilaterally by the insurer on the fifth day of the overdue payment.

4) it is stated in the insurance contract that the receivable available by the time of insurance indemnity payment on the insurance contract should be set off by the insurer when paying the indemnity. It is stated in the insurance contract that if as a result of one insurance accident the provision specified in this sub-point should be applied while paying insurance indemnity in accordance with one or more insurance contracts, signed with given insured person, then first claims of natural person policyholders not considered as insured person, then claims of legal person policyholders not considered as insured person, and, in the end, claims of policyholders considered as insured (if available) should be satisfied. If as a result of applying this provision, the amount does not satisfy all the claims of natural persons policyholders, not considered as insured person, then while paying insurance indemnity only a part of receivable should be set off in a way to cover all claims of natural person policyholders not considered as insured person.

41. The Chairman does not give the consent not to include receivables from insurance contracts in the calculation of S5 standard, if any of conditions specified in sub-points 1-4 of point 40 of this regulation is absent or if in case of obtaining the consent the safety or/and regular activity of the insurance system (or a separate insurance company) is exposed to danger or if although the mentioned agreement includes all the conditions defined in point 40 of this regulation, but it includes such a statement that provides the opportunity to avoid any of the conditions of point 40 of this regulation.

42. For the purpose of obtaining the consent specified in the point 40 of this Regulation, the insurance company should submit to the Central bank the application attaching the draft of insurance contract. The Central bank may require additional information by necessity.

43. If the insurance company has obtained the Chairman's consent on exclusion of receivables of insurance contract from the calculation of S5 standard, then in three-day period after the conclusion of the insurance contract, the insurance company should submit the copy of insurance contract to the Central bank of Armenia. In case of mismatches between the concluded insurance contract and the draft of the contract submitted in accordance with the point 42, according to which the requirements defined in points 40 and 41 have not been satisfied, then the consent of the Chairman based on the conclusion of the Licensing and supervision committee of the Central bank, is considered as not provided. If insurance company violates the provisions of the insurance contract in accordance with the point 40 of this Regulation, then the consent of the Chairman based on the conclusion of the Licensing and supervision committee of the Central bank is considered as not provided from the commitment of violation.

44. The chairman decides to approve or disapprove the agreement defined in the point 40 of this Regulation in ten days after receiving the application from the insurance company. If the Chairman does not approve or disapprove the agreement in the mentioned period, then the agreement is considered to be provided.

(Point 44 amended by Decision 368-N on 20.12.11)

45. For the purpose of obtaining additional information the period of 10 days specified in the point 44 of this Regulation can be suspended until obtaining of required additional information.

## **CHAPTER 8.1 CALCULATION OF FOREIGN CURRENCY DISPOSITION STANDARD (FOREIGN CURRENCY POSITION AND FOREIGN CURRENCY POSITION BY TYPES OF FOREIGN CURRENCIES) AND THE COMPOSITION OF ELEMENTS IN CALCULATION**

45.1 Foreign currency disposition standard (S6.1) is calculated with the following formula:

$$S6.1 = (D/TC) * 100, \text{ where}$$

D - is the gross position of foreign currency, which is the sum of absolute values of the open positions of different foreign exchange, calculated in accordance with the Appendix 4 of this regulation. Indeed, the gross position of foreign exchange is calculated both including all derivative instruments as well as including only derivative instruments specified in the point 45.3 of this regulation.

TC- is the amount of total capital of the insurance company, calculated in accordance with Chapter 3 of this regulation.

45.2 Foreign currency position by types of foreign currencies (S6.2 standard), is calculated for each type of foreign currency with the following formula:

$$S6.1 = (P_i/TC) * 100, \text{ where}$$

$P_i$  - is the absolute value of open position of foreign currency "i", calculated in accordance with Appendix 4 of this regulation. Indeed open position of foreign currency is calculated both including all derivative instruments as well as including only derivative instruments specified in the point 45.3 of this regulation

TC- is the amount of total capital of the insurance company, calculated in accordance with Chapter 3 of this regulation.

(Point 45.2 amended by Decision No 326-N on 27.11.12)

45.3 Only derivative instruments stated bellow are included in the calculation when S6.1 and S6.2 standards are being calculated, including derivative instruments:

- 1) Derivative instruments concluded with the organizations specified in point 5 of Table 1 of appendix 2 of this regulation,
- 2) Derivative instruments concluded with states, central banks, which have received "A+" or higher rating from Standard and Poor's/Fitch rating agencies, or "A1" or higher rating from Moody's rating agency or "A" or higher rating from A.M. Best rating agency.
- 3) Derivative instruments concluded with foreign financial organizations which have received "A+" or higher rating from Standard and Poor's/Fitch rating agencies, or "A1" or higher rating from Moody's rating agency or "A" or higher rating from A.M. Best rating agency.
- 4) Currency and FX swaps

(Point 45.3 added by Decision No 326-N on 27.11.12)

45.4. In the calculation of foreign currency disposition standard the derivative instruments are included only with the value registered in the off-balance sheet (including, interests registered in the off-balance sheet for derivative instruments) and the value of fines and penalties accrued in the balance sheet (if such exist).

(Point 45.4 added by Decision No 326-N on 27.11.12)

## **Chapter 9. TRANSITIONAL PROVISIONS**

46. In case of the insurance company licensed to engage in one of classes (subclasses) of insurance mentioned in the Republic of Armenia law "On insurance and insurance activities" article 7(2) sub-point "d" of point 8, sub-points "a" "b" of point 9, and point 14,

has been engaged in providing insurance activity for at least seven years, but fails to provide information mentioned in point 8 of the Appendix 1 for the period mentioned in the same point, then the following point shall enter into force for the insurance company by the moment of availability of necessary information, but not later than January 1, 2014.

**Appendix 1**  
of the Regulation 3/02 on  
“Limits, procedure of formation  
and calculation of main prudential standards  
of insurance activity, criteria for  
qualifying reinsurers as not prohibited”

## **CALCULATION OF SOLVENCY AMOUNT REQUIRED**

### **Chapter 1. CALCULATION OF SOLVENCY AMOUNT REQUIRED FOR INSURANCE COMPANIES PERFORMING ACTIVITIES OF NON-LIFE INSURANCE**

1. For the calculation of capital adequacy ratio, the solvency amount required (SA) for insurance companies performing activities of non-life insurance shall be calculated according to the following chapter.
2. For insurance companies performing activities of non-life insurance for more than three years, the SA is the maximum value out of values calculated through the methods of insurance premiums and insurance indemnities.
3. For insurance companies performing activities of non-life insurance for less than three years, the SA is calculated through the method of insurance premiums.
4. If the SA for insurance company performing activities of non-life insurance calculated in accordance with this Regulation for the reporting month is less than the value calculated for the month preceding the reporting month, then the SA for the reporting month is equal to the SA for the month preceding the reporting month multiplied by the index of the claims reserve, except for the cases, when the mentioned value is less than the solvency amount required calculated for the reporting month.  
Index of claims reserve is calculated as a ratio between the values of claims reserves for the last days of the reporting month and month preceding the reporting month (deducted by the share of reinsurers in the claims reserve). If index of claims reserve is bigger than 1, it is included in the calculation at a rate of 1.  
(Point 4 amended by Decision No 328-N on 09.12.2010)
5. The value through the method of insurance premiums is calculated in accordance with the following formula.

$IPM = I * SSI * 0.2$ , where

IPM- is the value calculated through the method of insurance premiums

I-is the maximum value out of the total value of accrued gross insurance premiums and earned gross insurance premiums calculated for the reporting period and for eleven months preceding the reporting month related to non-life insurance deducted by the amount of insurance premiums returned or returnable by terminated (dissolved) insurance contracts for the reporting month and eleven months preceding the reporting month.

If insurance company has been engaged in non-life insurance for less than one year, then the maximum value out of the values of gross insurance premiums planned by the business plan for this year and accrued gross insurance premiums for the whole period of factual activity is included in the calculation of component "I".

Insurance premiums for each insurance classes of non-life insurance specified in the Republic of Armenia law "On insurance and insurance activities" article 7(2) points 11-13, deducted by the amount of insurance premiums returned or returnable by the terminated (dissolved) insurance contracts are included in the calculation of the component "I" at a rate of 150 percent.

SSI - self-storage index-is the ratio of the difference (net indemnities) between the accrued insurance indemnities related to non-life insurance and the share of reinsurers participation in those indemnities for the reporting month and eleven months preceding the reporting month to the total sum on accrued insurance indemnities related to non-life insurance calculated for the reporting month and eleven months preceding the reporting month. If the self-storage index is less than 0.5, then it is included in the calculation at a rate of 0.5.

6.The value through the method of insurance indemnities is calculated in accordance with the following formula:

$$IIM=C*SSI*0.3$$

where,

IIM-is the value calculated through the method of insurance indemnities,

C-is the total amount of claims which is calculated in accordance with the following formula,

$$C=(I-R+CR_{\text{change}})/3$$

where,

I-is the grand total of insurance indemnities calculated for the reporting month and thirty five months preceding the reporting month related to the non-life insurance activities performed by the insurance company.

R-is the sum of book values of reimbursements received and receivable for the reporting month and thirty five months preceding the reporting month,

CR<sub>change</sub>- is the change in the claims reserve for the reporting month and thirty five months preceding the reporting month without deducting the reinsurers' share,

SSI - Self-storage index-is the ratio of the difference (net indemnities) between the accrued insurance indemnities related to non-life insurance and the share of reinsurers participation in those indemnities for the reporting month and thirty five months preceding the reporting month to the total sum of accrued insurance indemnities related to non-life insurance calculated for the reporting month and thirty five months preceding the reporting month. If the self-storage index is less than 0.5, the it is included in the calculation at a rate of 0.5.

7.Insurance indemnities, reimbursements and change in claims reserve related to each class of non-life insurance mentioned in the Republic of Armenia law "On insurance and insurance activities" article 7(2), points 11-13 are included in the calculation of component "C" specified in the point 6 of this Appendix at 150% risk weight.

8.If the insurance company has been performing activities by any of the classes (subclasses) mentioned in the Republic of Armenia law “On insurance and insurance activities” article 7(2) sub-point “d” of point 8, sub-point “a” and “b” of point 9 and point 14 for at least seven years, then the values of insurance indemnities, insurance reimbursements and claims reserve change mentioned in the point 6 of this Appendix related to the following insurance classes (sub-classes) are calculated for the reporting month and 83 months preceding the reporting month, and for the calculation of component “C” of the same point the denominator of the formula is considered as 7.

## **Chapter 2. CALCULATION OF SOLVENCY AMOUNT REQUIRED FOR INSURANCE COMPANIES PERFORMING ACTIVITIES OF LIFE INSURANCE**

9.For the purpose of including in the calculation of capital adequacy ratio the solvency amount required (SA) for insurance companies performing activities of life insurance shall be calculated according to the current chapter.

10.The SA for insurance companies performing activities of life insurance is the grand total of solvency amounts calculated for each classes of life insurance in accordance with the current chapter.

11.The SA for insurance company performing activities of life insurance by classes specified in the Republic of Armenia law “On insurance and insurance activities” article 7(4) points 1 and/or 2 (except for accident insurance, health insurance in addition to the contract of life insurance) is the sum of values calculated through the method of mathematical reserve and risk capital method.

12.In case of life insurance the value through the method of mathematical reserve is calculated in accordance with the following formula:

$IRM=MR*RI*0.04$ , where

IRM-is the value calculated through the method of mathematical reserve in case of life insurance,

MR-is the value of mathematical reserve for insurance contracts by appropriate class (classes) of life insurance by the last day of the reporting month,

RI-Reinsurance index- is the index of reinsurance,that is the ratio of the mathematical reserve value (deducted by the share of the reinsurer in the mathematical reserve) related to life insurance contracts by appropriate class (classes) by the last day of the reporting month to the mathematical reserve value related to life insurance contracts by appropriate class (classes) by the last day of the reporting period. If the index of reinsurance is less than 0.85, then it shall be considered 0.85 in the calculation of the formula.

13.In case of life insurance risk capital value is calculated by the following method.

$RCM=RC*RI*0.003$ , where

RCM-is the value calculated through the risk capital method,

RC-is the value of risk capital by the last day of the reporting month, which is the difference between the insurance amount and the value of mathematical reserve related to contracts of the appropriate class (classes) of life insurance. If the payment of insurance sum by means of annuity or partly payment or other forms of regular payments is defined in the insurance contract, then the risk capital should be calculated as the difference between the present (discounted) value of the appropriate sums and the mathematical reserve related to those contracts.

RI-The index of reinsurance, which is the ratio between the difference (net risk capital) of the value of risk capital related to the class (classes) of life insurance by the last day of the reporting month and the share of reinsurer in that value to the total value of risk capital calculated for the class (classes) of life insurance by the last day of the reporting

month. If the reinsurance index is less than 0.5, then it is included in the calculation at rate of 0.5.

14.If the risk capital related to individual contracts of life insurance is a negative value, then it is included in the calculation of value through the risk capital method at a rate of 0.

15.In cases of contracts of life insurance, under which insurance indemnities are paid only for death during the specified period (term life insurance), and the duration of contract does not exceed 3 years, in case of applying risk capital method, 0.001 index is used instead of 0.003 in the formula specified in the point 13 of this Appendix. If the duration of contract exceeds 3 years, but does not exceeds 5 years, then 0.0015 index is applied.

16.The SA for insurance companies, performing activities of accident insurance, health insurance in addition to life insurance contract specified in the Republic of Armenia law “On insurance and insurance activities” article 7(4) point 1, is calculated in accordance with the requirements for insurance companies performing activities of non-life insurance in accordance with Chapter 1 of this Appendix.

17.The SA for insurance companies performing activities of life insurance by the classes specified in the Republic of Armenia law “On insurance and insurance activities” article 7(4) point 3, is calculated as 25 percent of management expences (management expenses, social relations expences, educational expences and other non-interest expences) for the reporting month and eleven months preceding the reporting month.

The calculation of management expences related to the following class is carried out proportionally, which means that the share of insurance premium accrued for the current class of insurance in the gross accrued insurance premiums of the insurance company for the reporting period and eleven months preceding the reporting month, is applied to total management expenses accrued for the insurance company for the same period.

18.The SA for insurance companies performing activities of life insurance by classes specified in the Republic of Armenia law “On insurance and insurance activities” article 7(4) point 4 and/or 6 is calculated through the method of mathematical reserve for the mentioned classes.

19.The SA for insurance companies performing activities of life insurance by classes specified in the Republic of Armenia law “On insurance and insurance activities” article 7(4) point 5 for the appropriate class is equal to 1 percent of assets accumulated under tontine.

## **Appendix 2**

“Limits, procedure of formation  
and calculation of main prudential standards  
of insurance activity, criteria for  
qualifying reinsurers as not prohibited”

Regulation 3/02

## **CALCULATION OF CREDIT RISK**

### **Chapter 1. CALCULATION OF CREDIT RISK AND RISK WEIGHTS USED IN THE CALCULATION OF CREDIT RISK**

1. For the purpose of including in the calculation of capital adequacy ratio, the credit risk (CR) of insurance company shall be calculated using the following formula:

$$CR = (CR_1 + CR_2 + \dots + CR_n) / N, \text{ where:}$$

$CR_1, CR_2, \dots, CR_n$  = is the credit risk by days of the reporting month

$N$  - number of days in the reporting month.

2. CR is calculated in accordance with the following formula.

$$CR = A_1 * R_{w1} + A_2 * R_{w2} + \dots + A_n * R_{wn}, \text{ where}$$

$A_1, A_2, \dots, A_n$  - is the total amount of assets of the insurance company (other than assets deductible from the core capital), off-balance sheet contingent liabilities and off-balance sheet derivative instruments, grouped by similar risk-weights;

The component "A" for off-balance sheet contingent liabilities and off-balance sheet derivative instruments is calculated in accordance with the chapter 2 of this Appendix. In calculation of credit risk, insurance companies can apply credit risk mitigation techniques (hereinafter the CRMT) specified in the Chapter 3 of this Appendix,

(Point 2 amended by Decision No 368-N on 20.12.11, edited by Decision No 326-N on 27.11.12)

3. The calculation of credit risk of insurance company includes the balances of the following asset accounts at specified risk weights:

Table 1

<b>TABLE OF RISK WEIGHTS USED IN THE CALCULATION OF THE RISK WEIGHTED ASSETS</b>			
	<i>Types of assets</i>	<i>Risk weights (percent)</i>	
		<i>Assets in AMD</i>	<i>Assets in foreign currency</i>
1.	Cash in cashdesk (in Armenian drams and foreign currencies of first group, ruble), and cash-equivalent payment documents (in Armenian drams and foreign currencies of first group, ruble), if agreed with the Board of the Central Bank	0	0
2.	Account balances of insurance company in the Central bank, Correspondent accounts, deposits, the balance of the cumulative account established for the replenishment of the bank's statutory capital, other claims against the Central Bank.	0	0
3.	Securities issued by the Central bank in Armenian drams, Republic of Armenia state securities in Armenian Drams	0	-
4.	Claims against the Government of the Republic of Armenia on advance payments for tax liabilities computed according to the tax legislation requirements	0	-

5.	Claims against the International Monetary Fund, the World Bank, the European Central Bank, the European Bank for Reconstruction and Development, the Asian Development Bank, the African Development Bank, the Inter-American development Bank, the European Investment Bank, the European Investment Fund, the Scandinavian Investment Bank, the Caribbean Development Bank, the Islamic Development Bank and the European Development Bank Council.	0	0
6.	(Point 6 repealed by Decision No 176-N on 23.07.13)		
7.	(Point 7 repealed by Decision No 326-N on 27.11.12)		
8.	(Point 7 repealed by Decision No 326-N on 27.11.12)		
9.	Securities issued by the Central bank in foreign currency, Republic of Armenia state securities in foreign currency	-	10
10.	Transferrable promissory notes issued by the Ministry of Finance of the Republic of Armenia, the maturity date of which is up to one year and which will be payable by the Central bank from the funds of the single treasury account of the Government of the Republic of Armenia	10	10
10.1	Bonds issued by refinancing credit organizations	10	-
11.	Transferable promissory notes of the Republic of Armenia for funds subject to confiscation from the State budget of the Republic of Armenia based on the judicial acts.	20	20
12.	Cash in transit (in Armenian drams and first group foreign currency), cash-equivalent payment documents in transit (in Armenian drams and foreign currency first group), if		



	agreed with the Board of the Central Bank.	20	20
13.	Bank accounts (as well as unallocated gold accounts) and deposits in banks and branches of foreign banks operating within the territory of the Republic of Armenia	20	30
14.	Claims against insurance companies, including share in technical reserves of reinsurers operating on the territory of the Republic of Armenia	20	30
15.	Claims against foreign governments and central banks	<u>Standard and Poor's/Fitch</u> From "AAA" to "AA-" 0 From "A+" to "A-" 20 From "BBB+" to "BBB-" 50 From "BB+" to "B-" 100 Below "B-" 150 <u>Moody's</u> From "Aaa" to "Aa3" 0 From "A1" to "A3" 20 From "Baa1" to "Baa3" 50 From "Ba1" to "B3" 100 Below "B3" 150 <u>A.M.Best</u> From "A++" to "A+" 0 From "A" to "A-" 20 From "B++" to "B+" 50 From "B" to "C+" 100 Below "C+" 150 Not rated 100	<u>Standard and Poor's/Fitch</u> From "AAA" to "AA-" 0 From "A+" to "A-" 20 From "BBB+" to "BBB-" 50 From "BB+" to "B-" 100 Below "B-" 150 <u>Moody's</u> From "Aaa" to "Aa3" 0 From "A1" to "A3" 20 From "Baa1" to "Baa3" 50 From "Ba1" to "B3" 100 Below "B3" 150 <u>A.M.Best</u> From "A++" to "A+" 0 From "A" to "A-" 20 From "B++" to "B+" 50 From "B" to "C+" 100 Below "C+" 150 Not rated 100
16.	Claims against foreign local government bodies	<u>Standard and Poor's/Fitch</u> From "AAA" to "AA-" 20 From "A+" to "BBB-" 50 From "BB+" to "B-" 100 Below "B-" 150 <u>Moody's</u> From "Aaa" to "Aa3" 20 From "A1" to "Baa3" 50 From "Ba1" to "B3" 100 Below "B3" 150 <u>A.M.Best</u> From "A++" to "A+" 20 From "A" to "B+" 50 From "B" to "C+" 100 Below "C+" 150 Not rated 100	<u>Standard and Poor's/Fitch</u> From "AAA" to "AA-" 20 From "A+" to "BBB-" 50 From "BB+" to "B-" 100 Below "B-" 150 <u>Moody's</u> From "Aaa" to "Aa3" 20 From "A1" to "Baa3" 50 From "Ba1" to "B3" 100 Below "B3" 150 <u>A.M.Best</u> From "A++" to "A+" 20 From "A" to "B+" 50 From "B" to "C+" 100 Below "C+" 150 Not rated 100
17.	Short-term claims against foreign financial organizations.	Standard and Poor's "A-1+", "A-1" 20 "A-2" 50 "A-3" 100	Standard and Poor's "A-1+", "A-1" 20 "A-2" 50 "A-3" 100

		Below "A-3" 150 Fitch "F1+", "F1" 20 "F2" 50 "F3" 100 Below "F3" 150 Moody's "P-1" 20 "P-2" 50 "P-3" 100 "NP" 150 A.M.Best "AMB-1+", "AMB-1" 20 "AMB-2" 50 "AMB-3" 100 "AMB-4", "d" 150 Not rated 100	Below "A-3" 150 Fitch "F1+", "F1" 20 "F2" 50 "F3" 100 Below "F3" 150 Moody's "P-1" 20 "P-2" 50 "P-3" 100 "NP" 150 A.M.Best "AMB-1+", "AMB-1" 20 "AMB-2" 50 "AMB-3" 100 "AMB-4", "d" 150 Not rated 100
18.	Long-term claims against foreign financial organizations	<u>Standard and Poor's/Fitch</u> From "AAA" to "AA-" 20 From "A+" to "BBB-" 50 From "BB+" to "B-" 100 Below "B-" 150 <u>Moody's</u> From "Aaa" to "Aa3" 20 From "A1" to "Baa3" 50 From "Ba1" to "B3" 100 Below "B3" 150 <u>A.M.Best</u> From "A++" to "A+" 20 From "A" to "B+" 50 From "B" to "C+" 100 Below "C+" 150 Not rated 100	<u>Standard and Poor's/Fitch</u> From "AAA" to "AA-" 20 From "A+" to "BBB-" 50 From "BB+" to "B-" 100 Below "B-" 150 <u>Moody's</u> From "Aaa" to "Aa3" 20 From "A1" to "Baa3" 50 From "Ba1" to "B3" 100 Below "B3" 150 <u>A.M.Best</u> From "A++" to "A+" 20 From "A" to "B+" 50 From "B" to "C+" 100 Below "C+" 150 Not rated 100
19.	Claims against organizations rated by the Central bank	From "A+" to "B-" 20 From "C+" to "C-" 50 From "D+" to "D-" 100 From "E+" to "F" 150	From "A+" to "B-" 20 From "C+" to "C-" 50 From "D+" to "D-" 100 From "E+" to "F" 150
20.	Short-term claims against foreign non-financial institutions	<u>Standard and Poor's</u> "A-1+", "A-1" 20 "A-2" 50 "A-3" 100 Below "A-3" 150 <u>Fitch</u> "F1+", "F1" 20 "F2" 50 "F3" 100 Below "F3" 150 <u>Moody's</u> "P-1" 20	<u>Standard and Poor's</u> "A-1+", "A-1" 20 "A-2" 50 "A-3" 100 Below "A-3" 150 <u>Fitch</u> "F1+", "F1" 20 "F2" 50 "F3" 100 Below "F3" 150 <u>Moody's</u> "P-1" 20

		“P-2” 50 “P-3” 100 “NP” 150 <u>A.M.Best</u> “AMB-1+”, “AMB-1” 20 “AMB-2” 50 “AMB-3” 100 “AMB-4”, ” d” 150 Not rated 100	“P-2” 50 “P-3” 100 “NP” 150 <u>A.M.Best</u> “AMB-1+”, “AMB-1” 20 “AMB-2” 50 “AMB-3” 100 “AMB-4”, ” d” 150 Not rated 100
21.	Long-term claims against foreign non-financial institutions	<u>Standard and Poor’s/Fitch</u> From ”AAA” to “AA-” 20 From ”A+” to “A-” 50 From ”BBB+” to “BB-” 100 Below ”BB-” 150 <u>Moody’s</u> From ”Aaa” to “Aa3” 20 From”A1” to “A3” 50 From ”Baa1” to “Ba3” 100 Below ”Ba3” 150 <u>A.M.Best</u> From ”A++” to “A+” 20 From ”A” to “A-” 50 From ”B++” to “B-” 100 Below ”B-” 150 Not rated 100	<u>Standard and Poor’s/Fitch</u> From ”AAA” to “AA-” 20 From ”A+” to “A-” 50 From ”BBB+” to “BB-” 100 Below ”BB-” 150 <u>Moody’s</u> From ”Aaa” to “Aa3” 20 From”A1” to “A3” 50 From ”Baa1” to “Ba3” 100 Below ”Ba3” 150 <u>A.M.Best</u> From ”A++” to “A+” 20 From ”A” to “A-” 50 From ”B++” to “B-” 100 Below ”B-” 150 Not rated 100
21.1	Standardized gold bullions (with not less than 999 purity)	-	50
21.2	Standardized gold bullions in transfer (with not less than 999 purity)	-	75
22.	Other claims against banks and other financial institutions (except insurance companies) and branches of foreign banks, other financial institutions (except foreign insurance companies) operating on the territory of the Republic of Armenia	50	75
22.1	Cash (in foreign currencies of second group, except for ruble), and cash-equivalent payment documents (in foreign currencies of second group except for ruble), if agreed with the Board of the Central Bank	-	100
22.2	Assets other than assets mentioned in point 22.1 in foreign currencies (except for ruble)	-	150

23.	Claims against individuals and legal entities, off-balance sheet contingent liabilities which satisfy the following conditions simultaneously: a. total sum of claims and off-balance sheet contingent liabilities (hereinafter Claim) against the borrower and related parties does not exceed 5 million Armenian drams, b. the Claim, which satisfies the conditions of point "a" hereinabove, does not exceed 0.2% of the total sum of all Claims satisfying the conditions of point "a".	75	110
24.	Claims against communities of the Republic of Armenia	100	150
25.	Assets frozen or arrested under court decision	100	150
26.	Claims against the Government of the Republic of Armenia for payments exceeding tax liabilities (overpayments), specified under tax legislation.	100	-
27.	(Point 27 repealed by Decision on 368-N on 20.12.11)		
28.	Fixed assets and intangible assets	100	-
29.	Assets classified as non-standard and doubtful, securities, classified as average and high risk.	100	150
30.	The portion of investments specified in the sub-points 4 and 9 of the point 17 of this Regulation, which is not deducted from the core capital of the insurance company, with the exception for investments in the statutory capital of other insurance companies in cases provided for by sub-point 4 of the Regulation	150	225
31.	Claims against foreign reinsurers, including the share of reinsurers in the technical reserves	<u>Standard and Poor's/Fitch</u> From "AAA" to "AA-" 20 From "A+" to "A-" 50 From "BBB+" to "BBB-" 400 Below "BB+" 830 <u>Moody's</u> From "Aaa" to "Aa3" 20 From "A1" to "A3" 50 From "Baa1" to "Baa3" 400 Below "Ba1" 830	<u>Standard and Poor's/Fitch</u> From "AAA" to "AA-" 20 From "A+" to "A-" 50 From "BBB+" to "BBB-" 400 Below "BB+" 830 <u>Moody's</u> From "Aaa" to "Aa3" 20 From "A1" to "A3" 50 From "Baa1" to "Baa3" 400 Below "Ba1" 830

		<u>A.M.Best</u> From "A++" to "A+" 20 From "A" to "A-" 50 From "B++" to "B+" 400 Below "B" 830  Not rated 800	<u>A.M.Best</u> From "A++" to "A+" 20 From "A" to "A-" 50 From "B++" to "B+" 400 Below "B" 830  Not rated 800
32.	Claims against investment funds (in the existence of ratings)	<u>Standard and Poor's</u> From "AAA" to "AA-" and "A-1+", "A-1" 20 From "A+" to "A-" and "A-2" 50 From "BBB+" to "BBB-" and from "BB+" to "BB-" and below "A-3" 100 Below "B+" 150  <u>Moody's</u> From "Aaa" to "Aa3" and "P-1" 20 From "A1" to "A3" and "P-2" 50 From "Baa1" to "Baa3" and from "Ba1" to "Ba3" and below "P-3" 100 Below "B1" 150  <u>Fitch</u> "F1+", "F1" 20 "F2" 50 "F3" and below 100	<u>Standard and Poor's</u> From "AAA" to "AA-" and "A-1+", "A-1" 20 From "A+" to "A-" and "A-2" 50 From "BBB+" to "BBB-" and from "BB+" to "BB-" and below "A-3" 100 Below "B+" 150  <u>Moody's</u> From "Aaa" to "Aa3" and "P-1" 20 From "A1" to "A3" and "P-2" 50 From "Baa1" to "Baa3" and from "Ba1" to "Ba3" and below "P-3" 100 Below "B1" 150  <u>Fitch</u> "F1+", "F1" 20 "F2" 50 "F3" and below 100
33.	Claims against not high risky not foreign funds (in the case of absence of ratings)	According to point 6.2 of this Appendix	According to point 6.2 of this Appendix
34.	Claims against high risky not foreign funds (in the case of absence of ratings)	150	150
35.	Claims against foreign funds (in the case of absence of ratings)	According to point 6.3 of this Appendix	According to point 6.3 of this Appendix
36.	All the balance sheet assets which are not included in other points of this Table	100	150

(Table 1 added, amended, edited by Decision No 368-N on 20.12.11, amended, added, edited by Decision No 326-N on 27.11.12)

4.Assets specified in Table 1 of this Appendix are included in the calculation of credit risk by book value.

(Point 4 edited by Decision No 326-N on 27.11.12)

5. The weighting of the balance sheet derivative instruments by their risks should be based on their book value in Assets.

(Point 5 amended by Decision No 368-N on 20.12.11, No 326-N on 27.11.12)

6. (Point 6 edited by Decision No 368-N on 20.12.11, repealed by Decision No 326-N on 27.11.12)

6.1. Specialized funds (except for funds of funds, funds of real estate and non-public funds), specified in the Law of the Republic of Armenia “On investment funds” are considered as high risky in terms of point 34 of Table 1 of this Appendix. Funds, not considered as high risky, are considered as not high risky in terms of point 33 of Table 1 of this Appendix.

(Point 6.1 added by Decision No 326-N on 27.11.12)

6.2. To determine the risk weight of the claim against not high risky not foreign funds without ratings, as specified in point 33 of Table 1 of this appendix, the weighted average value of risk weights of assets of the fund should be calculated, for calculation of which the information, disclosed (provided) by the fund manager by the moment of calculation, about total volume of fund assets (grouped by risk weights) is taken as a basis, if the information was disclosed (provided) not earlier than two months preceding the month of calculation of capital adequacy ratio. If the information, prescribed in this point, was disclosed (provided) earlier than two months preceding the month of calculation of capital adequacy ratio, or it was not disclosed (provided) at all, then the risk weight of the claim against not high risky not foreign fund, as specified in point 33 of Table 1 of this appendix, is considered to be 100%.

(Point 6.2 added by Decision No 326-N on 27.11.12)

6.3. The risk weight of the claim against foreign funds without ratings, as specified in point 35 of Table 1 of this appendix, is determined according Table 1.1. The funds, mentioned in points 1, 2 and 3 of Table 1.1, should satisfy the requirements defined in point 9 of “Investments limitations of investments funds” Regulation 10/10, approved by the Decision No 337-N of the Board of the Central Bank of Armenia on December 6, 2012.

Table 1.1.

	Type of funds	Risk Weight
	Standard Public Funds	
1.	Funds of money market	20%
2.	Standard funds (diversified)	50%
	Public Specialized Funds	
3.	Funds of funds, whose assets are invested only in public standard diversified funds	50%
4.	Funds of real estate (diversified)	75%
5.	Other specialized funds	150%
	Funds, not mentioned in points 1-5	
6.	Funds, not mentioned in points 1-5	150%

(Point 6.3 added by Decision No 326-N on 27.11.12)

7. Insurance companies may weight the claims against all non-financial institutions (including non-financial institutions rated by the Central Bank) with a risk weight defined for assets in appropriate currency classified as “not rated” according to Table 1 of this appendix, regardless the individual ratings of those claims.

In this case, insurance companies shall once a year choose an approach to follow and inform the Central Bank about it prior to December 31 of the year, preceding each year.

(Point 7 amended by Decision No 368-N on 20.12.11)

8. If the same claim, once weighted pursuant to the table 1 of the Appendix, gets more than one risk weight, the insurance company should choose the lowest weight, except for the following cases:

1) in case when the claim simultaneously satisfies point 25 or 29 of the Table 1 of this Appendix and other risk weights specified in Table 1, then in the calculation of credit risk such claims should be included appropriately with risk weight of 100 percent or 150 percent

2) in case when non-standard and doubtful claims, as well as claims frozen or arrested under court decision, in accordance with points 17-21 of the Table 1 of this Appendix, get 150 percent of risk weight, then such claims should be included in calculation of risk-weighted assets at a risk weight of 150 percent,

3) in case when the claims satisfying the requirements specified in the point 23 of Table 1 of this appendix, simultaneously satisfy the requirements mentioned in points 17-21 of the same Table, then the risk weights relevant for ratings of point 17-21 should be taken as basis when including the claim in calculation of risk-weighted assets.

4) in case when the claim simultaneously satisfies the risk weights of point 31 of Table 1 of this Appendix and other risk weights specified in Table 1, then the claim should be including in calculation of risk-weighted assets with risk weights relevant for ratings specified in point 31 of Table 1.

5) in the case, when the investments satisfying the point 30 of Table 1 of this appendix simultaneously satisfy other points of the same table, then such investments should be included in the calculation or risk-weighted assets with the highest risk weight, defined for the investment.

6) Repo agreements, securities sold by repo agreements, securities provided by loans and interests calculated for these items are included in the calculation of credit risk according to the requirements of Chapter 3 of this appendix.

7) Assets in second group foreign currency (except for Russian Ruble) are being weighted with the highest risk weight defined for those assets.

(Point 8 added by Decision No 236-N on 27.11.12)

8.1. During the calculation of credit risk, insurance companies might not check the compliance with the requirements defined by the point 23 of Table 1 of this appendix and may weight the assets with the risk weight defined for assets in appropriate currency according to Table 1 of this appendix, without taking into consideration the fact of compliance of the asset to the requirements, specified in point 23 of Table 1 of this appendix.

In this case, insurance companies shall once a year choose an approach to follow and inform the Central Bank about it prior to December 31 of the year, preceding each year.

(Point 8.1 added by Decision No 368-N on 20.12.11)

## **Chapter 2. CREDIT CONVERSION FACTORS**

9. For the purpose of including in the calculation of credit risk, credit conversion factors (CCF) specified in this Chapter shall be applied to off-balance sheet contingent liabilities and off-balance sheet derivative instruments (except for currency swaps) .

After being deducted by the amount of loss reserves, off-balance sheet items are being converted into balance sheet credit risk equivalents through the use of CCF and weighted at respective risk weights specified in Chapter 1 of this Appendix. Off-balance sheet contingent liabilities and off-balance sheet derivative instruments are converted into balance sheet credit risk equivalents through the use of CCF according to the following formula:

$$BCR = (OBI - R) * CCF$$

where:

*BCR* = off-balance sheet contingent liabilities and off-balance-sheet derivative instruments (except for currency swap) converted into balance sheet credit risk equivalents through the use of CCF,

*OBI* = off-balance sheet contingent liabilities and off-balance sheet derivative instruments (except for currency swap) with the whole value reflected in the off-balance sheet,

*R* - loss reserve of off-balance contingent liabilities and off-balance sheet derivative instruments (except for currency swap),

*CCF* - credit risk conversion factor specified in the current Chapter.

(Point 9 amended by Decision No 368-N on 20.12.11, amended and added by Decision No 326-N on 27.11.12)

10. Warranties issued by insurance companies (including warranties issued by insurance companies to ensure compensation for damage caused by insurance agents due to professional negligence) are included in the off-balance sheet liabilities specified in this Regulation.

(Point 10 amended by Decision No 368-N on 20.12.11)

11. Credit risk conversion factors are.

**Table 2**

Off-balance sheet items	CCF (%)	
	AMD items	Foreign exchange items
Off-balance sheet derivative instruments	1	1,5
1. Off-balance sheet contingent liabilities	100	100

(Point 11 amended by Decision No 368-N on 20.12.11, No 326-N on 27.11.12)

12. If under the same derivative instrument contract, the insurance company simultaneously purchases and sells asset in the basis of derivative instrument, then the off-balance sheet derivative instrument should be included in the calculation of risk weighted assets only once at the asset-formation amount.

(Point 12 amended by Decision No 368-N on 20.12.11)

### **Chapter 3. CREDIT RISK MITIGATION TECHNIQUES**

13. Claims, off-balance sheet contingent liabilities, off-balance sheet derivative instruments, the accrued interest thereon (hereinafter the claim subject to CRMT) may become a CRMT object, if each of the following conditions is satisfied:

- 1) there is a primary collateral, guarantee or warranty for the claim subject to CRMT (hereinafter security). The collateral should be revalued at least once in six months,
- 2) There are documents verifying the existence of the security,
- 3) the maturity of the collateral, guarantee/warranty is equal or longer than the maturity of the claim subject to CRMT (no negative maturity mismatches),



4) There is no positive correlation between the borrower's creditworthiness and the object of the collateral, guarantee/warranty issuer (e.g. the guarantor is not affiliated with the borrower, or no securities issued by the borrower are pledged as a collateral, etc.), except for cases, when the Central Bank or the Government of the Republic of Armenia are the guarantors, or the security issued by the Central Bank or Government bonds of Armenia are the object of collateral.

5) Insurance company has right to realize the collateral out-of-court (only in the case of collateral) if the borrower fails to comply with the obligations stipulated in the contract,

6) if the borrower fails to fulfill the terms of the agreement, there are no term limitations as to the sale of the collateral or performing the guarantee/warranty under the agreement and/or other mutually agreed limitations.

7) the risk weight of the security or the security provider is less than the risk weight of the claim subject to CRMT.

(Point 13 amended by Decision No 368-N on 20.12.11, amended and added by Decision No 326-N on 27.11.12)

14. CRMTs are not applied to those claims subject to CRMT, that are classified as non-standard and doubtful assets, average and not high risk securities.

(Point 14 amended by Decision No 368-N on 20.12.11, edited by Decision No 326-N on 27.11.12)

15. Where CRMT is applied, the secured portion of the claim will receive the risk weight of the security or the security-providing party, whereas the unsecured portion will receive the risk weight of the borrower/instrument. If the risk weight of the secured portion of the claim subject to CRMT is less than 20 % in accordance with Table 1 of this Appendix, then while calculation of credit risk it should be considered 20%, except for the cases mentioned in subpoints 1-3 of this point.

1) The claim subject to CRMT shall be included in the calculation of the credit risk at 0% risk weight, if Armenian Dram, first group foreign currency, or Ruble, held in the insurance company are acting as collateral or if the following conditions are satisfied simultaneously:

a) the collateral is a security issued by the Central Bank, a Government bond of the Republic of Armenia in Armenian drams or a security issued by central banks or governments of foreign countries, which is included in credit risk calculation at 0% risk weight pursuant to Table 1 of this Appendix;

b) the collateral is revalued every day,

c) the borrower/debtor is classified as a core market participant

2) The claim secured by guarantee/warranty shall be included in credit risk calculation at 0% risk weight, if the guarantee/warranty provider:

a) is the Government or the Central Bank of the Republic of Armenia,

b) is classified as a core market participant and the claims against them are included in the calculation of credit risk at 0% risk weight pursuant to the Table 1 of this Appendix,

c) is an organization mentioned in point 5 of Table 1 of this Appendix.

3) The secured portion of the claim shall be included in credit risk calculation at 10% risk weight, if:

a) the collateral is a security issued by the Central Bank, a Government bond of the Republic of Armenia in foreign currency, which is included in the calculation of credit risk at 10% risk weight pursuant to Table 1 of this Appendix, and the conditions specified in sub-point 1 of this point (except for paragraph "a" of sub-point 1) are satisfied as well, or

b) the transaction satisfies the conditions set in sub-point 1 of this point (except for paragraph "c" of 1 sub-point).

(Point 15 added by Decision No 326-N on 27.11.12, No 176-N on 23.07.13)

15.1. Repo agreements and accrued interests thereon are included in the calculation of credit risk according to the following formula:

$$RA = \text{Max}[MF*CR; RV], \text{ where}$$

RA – the value of repo agreement and accrued interests, included in the calculation of credit risk

MF – the value of money funds provided by repo agreement

MR – the risk weight of money funds provided by repo agreement, in accordance with Table 1

RV – the value of repo agreement, included in the calculation of credit risk, if CRMTs are applied in the manner and situation specified in this chapter. If CRMTs are not applied, then RV is the product of book value of repo agreement and the credit risk weight (in accordance with Table 1 of this appendix, taking in to account the currency of provided money funds by repo agreement) of the counterpart of repo agreement.

(Point 15.1 added by Decision No 326-N on 27.11.12, amended by Decision No 176-N on 23.07.13)

15.2. Securities sold by repo agreement are included in the calculation of credit risk according to the following formula.

$$SS = \text{Max} [UP*RC; BV*RI], \text{ where}$$

SS – the value of securities sold by repo agreement, included in the calculation of credit risk,

UP – the uncovered portion of the security sold by repo agreement, which is determined as a positive difference between

- a. book value of securities sold by repo agreement
- b. the sum of received money funds and funds paid for them

RC – the credit risk weight of the counterpart of repo agreement in accordance with Table 1 of this appendix, taking in to account the currency of security sold by repo agreement

BV – the book value of securities sold by repo agreement

RI – the credit risk weight of the issuer of the security (instrument) sold by repo agreement, in accordance with Table 1 of this appendix

Securities provided as loan are included in the calculation of credit risk in the form defined in this point.

(Point 15.2 added by Decision No 326-N on 27.11.12)

16. If the claim subject to CRMT has more than one type of security with different risk weights and their total amount exceeds the amount of the claim, the risk weight of the secured portion of the claim subject to CRMT shall be calculated on the basis of all risk weights of the collaterals in ascending order (starting with the risk weight of the collateral with the lowest risk weight, then taking the risk weights of subsequent collaterals).

17. For the purposes of this Regulation core market participants are:

- 1) states/governments, central banks and local government bodies
- 2) financial institutions operating in the Republic of Armenia, branches of foreign financial institutions providing services within the territory of the Republic of Armenia,
- 3) Foreign financial institutions the claims against which could be included in the calculation of credit risk at risk weight of 20% pursuant to Table 1 of this Regulation.

#### **Chapter 4. PRINCIPLES OF APPLYING RATINGS DURING CREDIT RISK CALCULATION**

18. To risk-weight the claims against non-financial institutions rated by the Central Bank, the ratings issued by the Central Bank shall be applied. In the case of applying ratings

issued by the Central bank, the daily ratings available on the Central Bank web page should be considered.

19. To risk-weight claims against foreign central banks, governments, local government bodies, foreign financial and non-financial institutions, only ratings issued by Standard and Poor's / Fitch / Moody's/A.M. Best rating agencies shall be used.

20. Insurance companies should update the ratings of rating agencies based on the ratings as of the given day set by the rating agencies specified in the point 19 of this Regulation.

21. If the asset has been rated only by one rating agency, the risk-weight of such claim is determined on the basis of this one rating. If there are two different ratings for the same asset issued by different rating agencies, the insurance company shall use the lowest one. If there are three or more ratings issued for the same claim, the insurance company shall use the lower rating of the two highest ones.

22. For the purpose of including the claims against foreign central banks, governments, local government bodies, foreign reinsurers in the calculation of risk-weighted assets, the ratings shall be applied with a consideration of the type and the currency of the instruments. For the claims against foreign financial institutions (except for foreign reinsurers) and non-financial institutions the ratings shall be applied with a consideration of maturity and currency of the claim and the type of instruments.

23. For the purposes of this Regulation, short-term claims shall be considered claims on demand and claims with maturity up to 90 days (including), and long-term claims shall be claims with maturity over 90 days and claims without fixed maturity.

24. If there is no rating with consideration of type and currency of the instrument, then the rating of the issuer of the instrument should be applied. If a short-term rating is not available, the risk weight of short-term claims against foreign financial (except foreign reinsurers) and non-financial institutions may be determined based on the risk weights, which are one category more favorable than the respective risk weights for long-term ratings specified in points 18 and 21 of Table 1 of this Appendix. For the purposes of applying this point, the exceptions shall be 20% and 150% risk weights (i.e. the short-term claims shall be risk-weighted at 20% and 150%, respectively).

25. The risk-weighting of both short-term and long-term claims against foreign governments and central banks, local government bodies, non-financial institutions rated by the Central Bank, as well as the application of ratings, specified in this Regulation, to the above mentioned parties shall be based exclusively on long-term ratings.

26. If the risk weight of the short-term claim against a party/instrument is 150%, then any unrated claims (short-term or long-term) against this party shall be included in credit risk calculation at 150% risk weight.

27. The rating of any party, included in a financial group, shall not apply to the financial group or other entities within the group.

28. The rating of the financial group shall not apply to entities within the group.

**Appendix 3**  
“Limits, procedure of formation  
and calculation of main prudential standards  
of insurance activity, criteria for  
qualifying reinsurers as not prohibited”  
Regulation 3/02

**CALCULATION OF OPERATIONAL RISK**

1. For the purpose of including in the calculation of the capital adequacy ratio, the operational risk (OR) of insurance company shall be calculated using the following formula:

$OR = (P_Y * 0.15 + P_{Y-1} * 0.15 + P_{Y-2} * 0.15) / N$  where,

$P_Y$  - the profit for the year from January 1 to December 31 (hereinafter the reporting year) preceding the year of calculation of capital adequacy ratio, without considering deductions of expenses related to profit tax and payment of dividends,

$P_{Y-1}$  - the profit of the second reporting year preceding the year of calculation of capital adequacy ratio, without considering deductions of expenses related to profit tax and payment of dividends,

$P_{Y-2}$  - the profit for the third reporting year preceding the year of calculation of capital adequacy ratio, without considering deductions of expenses related to profit tax and payment of dividends,

$N$  - number of years during the last three years which yielded positive profit (before deductions of expenses related to profit tax and payment of dividends)

2. If the profit for any of the years (before deductions of expenses related to profit tax and payment of dividends) is less than 0, then the profit for the given year shall be excluded from the calculation of operational risk.

3. If during each of the three years preceding the reporting month the insurance company yielded profit (before deductions of expenses related to profit tax and payment of dividends) that is less or equal to 0, then the operational risk shall not be calculated for the given year.

4. The calculation of the profit (before deductions of expenses related to profit tax and payment of dividends) for the given year excludes profit/losses from the sale of classified securities held to maturity.

(Point 4 amended by Decision No 368-N on 20.12.11)

**Appendix 4**  
“Limits, procedure of formation  
and calculation of main prudential standards  
of insurance activity, criteria for  
qualifying reinsurers as not prohibited”  
Regulation 3/02

**CALCULATION OF FOREIGN EXCHANGE RISK**

1. For the purpose of including in the calculation of the capital adequacy ratio, the foreign exchange (FX) risk of insurance company is the biggest value of maximum FX positions of insurance company by the end of the each day of the reporting month.
  2. The maximum FX position is the total value of the sum of :
    - a) The maximum value out of absolute values of FX long positions and FX short positions,
    - b) a grand total of absolute values of open positions in banking gold, standardised bullions of precious metals and metal accounts.(Point 2 edited No 368-N on 20.12.11)
  3. FX position is the difference between assets and liabilities of insurance company containing foreign exchange risk. FX positions are defined as follows:
    - a. long position, if the difference is bigger than zero;
    - b. short position, if the difference is less than zero;
    - c. closed position, if the difference is equal to zero;
    - d. open position, if the difference is bigger or less than zero.
  4. The FX position shall be calculated by types of foreign currencies. In the meaning of calculation of foreign exchange risk, banking gold, standardised bullions of gold of at least 999 purity, claims and liabilities expressed in the latters, as well as metal accounts shall be considered as a single type of foreign currency. Items, containing FX risk, which are deducted from core capital, in accordance with this Regulation, are not included in the calculation of FX positions.  
(Point 4 added No 368-N on 20.12.11)
  5. FX positions should be calculated as of each day and should be expressed in Armenian Drams considering the average exchange rate set in FX markets and announced by the Central bank, and in case of banking gold, standardised bullions of precious metals, and metal accounts FX positions should be calculated based on the settlement price of precious metals announced by the Central bank.
- If the insurance company has open foreign currency position for the type of foreign currency, exchange rate of which to Armenian dram is not announced on the official web

page of the Central bank, then the exchange rate between the US dollar and that foreign currency adopted by the central bank of that country, and the exchange rate between the US dollar and Armenian Dram announced by the Central bank should be considered.  
(Point 5 added No 368-N on 20.12.11)

6. For the days when the foreign currency positions of insurance companies incurred no changes, the daily data calculation shall include the data as of the previous day.

7. Assets or liabilities are considered to possess foreign currency risk, when their size, the values receivable and payable in monetary terms may be changed over time due to the exchange rate change between the foreign currency and Armenian drams. In the meaning of calculation of foreign exchange risk, banking gold, standardized bullions of precious metals, metal accounts as well as assets and liabilities expressed in banking gold or standardised bullions of precious metals also contain foreign exchange risk.  
(Point 7 added No 368-N on 20.12.11)

8. When calculating FX positions, assets and liabilities should also include off-balance sheet derivative instruments, which contain foreign exchange risk, at the amount of their off-balance sheet value (including interests registered in the off-balance for those items), value of fines and penalties (if such exist) accrued in the balance sheet, as well as insurance (reinsurance) payments containing foreign currency risk at the amount of 0.07% of off-balance sheet value.  
(Point 8 amended by Decisions No 368-N on 20.12.11, No 326-N on 27.11.12)