

REGULATION 14

THE REGULATION OF THE ACTIVITIES OF CREDIT ORGANIZATIONS, THE PRUDENTIAL STANDARDS OF ACTIVITIES OF CREDIT ORGANIZATIONS¹

CHAPTER 1. THE OBJECT OF THE REGULATION

1. This Regulation defines the limitations of activities of credit organization, operating in the Republic of Armenia, the main prudential standards set for credit organizations, their limits, method of calculation, and the elements included in the calculation.

CHAPTER 2. THE FINANCIAL OPERATIONS, PERMITTED FOR THE GROUPS OF CREDIT ORGANIZATIONS

2. The credit unions, operating in the territory of the Republic of Armenia, can provide the following operations, stated in the Article 8 of the Law of the Republic of Armenia “On credit organizations”:

- a) borrow loans and conclude similar type of transactions with legal persons, their own participants, sole entrepreneurs, the Republic of Armenia and its communities, other states and international organizations,
- b) provide credits and loans,
- c) provide guarantees,
- d) (point “d” was repealed by Decision No 47-N on 12.02.08)
- e) (point “e” was repealed by Decision No 47-N on 12.02.08)
- f) buy and sell non-cash foreign currency, including signing non-cash futures and similar contracts for dram and foreign currency, except for cases specified in point 7.1 of this Regulation,

¹ This Regulation includes the amendments and supplements and all other changes endorsed under the following Resolutions of the Board of the Central Bank:

No. 10-N as of 13.01.2003; No. 182-N as of 14.05.2003; No. 265-N as of 30.07.2003; No. 62-N as of 16.03.2004; No. 150-N as of 15.06.2004; No. 445-N as of 30.08.2005; No. 521-N as of 29.08.2006; No. 47-N as of 12.02.2008; No. 239-N as of 12.08.2008; No. 230-N as of 28.07.2009; No. 342-N as of 21.12.2010; No. 95-N as of 12.04.2011; No. 225-N as of 30.08.2011; No. 325-N as of 30.11.2011; No. 333-N as of 06.12.2011; No. 106-N as of 16.04.2013; No. 276-N as of 15.12.2015, No. 73-N as of 25.05.2018, No. 135-N as of 26.09.2019

- g) safe-keep precious metals, gems, jewelry, securities, documents and other valuables for their participants, legal persons and sole entrepreneurs,
- h) provide financial consulting,
- i) create and operate an information system for customer creditworthiness,
- j) undertake debt collection activity,
- k) issue and underwrite on their own behalf:
 - unsecured bonds in amount not exceeding the statutory capital of the credit union,
 - bonds, secured by warranty of the third parties, set that at least 30% of the bonds should be warrantied by international organizations, foreign governments, central banks and other organizations that have a rating from AAA (Aaa) to BBB-(Baa3) granted by Standard and Poor's, Fitch or Moody's rating agencies,
- l) provide the activity of insurance agent in accordance with the Law of the Republic of Armenia "On insurance and insurance activity".

(Point 2 was amended by Decision No 10N on 13.01.03, added by Decision No 182N on 14.05.03, amended by Decision No 150N on 15.06.04, added by Decision No 521N on 29.08.06, added by Decision No 239N on 12.08.08, amended by Decision No 342N on 21.12.10)

3. The saving unions, operating in the territory of the Republic of Armenia, can provide the following operations, stated in the Article 8 of the Law of the Republic of Armenia "On credit organizations":

- a) borrow loans from their participants,
- b) provide credits and loans to their participants,
- c) provide guarantees to their participants,
- d) (point "d" was repealed by Decision No 47-N on 12.02.08)
- e) (point "e" was repealed by Decision No 47-N on 12.02.08)
- f) buy and sell non-cash foreign currency from/to their participants, including signing non-cash futures and similar contracts for dram and foreign currency, except for cases specified in point 7.1 of this Regulation,
- g) safe-keep precious metals, gems, jewelry, securities, documents and other valuables for their participants,
- h) provide financial consulting,
- i) create and operate an information system for customer creditworthiness,
- j) undertake debt collection activity,
- k) issue and underwrite on their own behalf:
 - unsecured bonds in amount not exceeding the statutory capital of the saving union,
 - bonds, secured by warranty of the third parties, set that at least 30% of the bonds should be warrantied by international

organizations, foreign governments, central banks and other organizations that have a rating from AAA (Aaa) to BBB-(Baa3) granted by Standard and Poor's, Fitch or Moody's rating agencies,

- l) provide the activity of insurance agent in accordance with the Law of the Republic of Armenia "On insurance and insurance activity".

(Point 3 was amended by Decision No 10N on 13.01.03, added by Decision No 521N on 29.08.06, added by Decision No 239N on 12.08.08, amended by Decision No 342N on 21.12.10)

4. The leasing organizations, operating in the territory of the Republic of Armenia, can provide the following operations, stated in the Article 8 of the Law of the Republic of Armenia "On credit organizations":

- a) borrow loans and (or) conclude similar type of transactions with legal persons, their own participants, sole entrepreneurs, the Republic of Armenia and its communities, other states and international organizations,
- b) provide credits and loans,
- c) provide guarantees,
- d) provide services of financial agent (representative) to their participants, legal persons and sole entrepreneurs,
- e) conduct professional operations in the government bond market of the Republic of Armenia (operations of a dealer, agent),
- f) buy and sell foreign currency, including signing futures and similar contracts for dram and foreign currency,
- g) undertake financial leasing,
- h) provide debt financing or commercial transaction financing, and factoring, given that the minimum ratio of the total capital and risk-weighted assets (N1 ratio) of the leasing organization is 10 percent,
- i) safe-keep precious metals, gems, jewelry, securities, documents and other valuables for their participants, legal persons and sole entrepreneurs,
- j) provide financial consulting,
- k) create and operate an information system for customer creditworthiness,
- l) undertake debt collection activity,
- m) issue and underwrite on their own behalf:
 - unsecured bonds in amount not exceeding the statutory capital of the leasing organization,
 - bonds, secured by warranty of the third parties, set that at least 30% of the bonds should be warrantied by international organizations, foreign governments, central banks and other organizations that have a rating from AAA (Aaa) to BBB-(Baa3) granted by Standard and Poor's, Fitch or Moody's rating agencies,

n) provide the activity of insurance agent in accordance with the Law of the Republic of Armenia “On insurance and insurance activity”.

(Point 4 was amended by Decision No 10N on 13.01.03, added by Decision No 182N on 14.05.03, amended by Decision No 150N on 15.06.04, added and amended by Decision No 521N on 29.08.06, added by Decision No 239N on 12.08.08, added by Decision No 342N on 21.12.10)

5. The factoring organizations, operating in the territory of the Republic of Armenia, can provide the following operations, stated in the Article 8 of the Law of the Republic of Armenia “On credit organizations”:

- a) borrow loans and (or) conclude similar type of transactions with legal persons, their own participants, sole entrepreneurs, the Republic of Armenia and its communities, other states and international organizations,
- b) provide debt financing or commercial transaction financing, and factoring,
- c) provide credits and loans,
- d) provide guarantees,
- e) undertake financial leasing,
- f) provide services of financial agent (representative) to their participants, legal persons and sole entrepreneurs,
- g) conduct professional operations in the government bond market of the Republic of Armenia (operations of a dealer, agent),
- h) buy and sell foreign currency, including signing futures and similar contracts for dram and foreign currency,
- i) safe-keep precious metals, gems, jewelry, securities, documents and other valuables for their participants, legal persons and sole entrepreneurs,
- j) provide financial consulting,
- k) create and operate an information system for customer creditworthiness,
- l) undertake debt collection activity,
- m) issue and underwrite on their own behalf:
 - unsecured bonds in amount not exceeding the statutory capital of the factoring organization,
 - bonds, secured by warranty of the third parties, set that at least 30% of the bonds should be warrantied by international organizations, foreign governments, central banks and other organizations that have a rating from AAA (Aaa) to BBB-(Baa3) granted by Standard and Poor’s, Fitch or Moody’s rating agencies,
- n) provide the activity of insurance agent in accordance with the Law of the Republic of Armenia “On insurance and insurance activity”.

(Point 5 was amended by Decision No 10N on 13.01.03, added by Decision No 182N on 14.05.03, amended by Decision No 150N on 15.06.04, added by Decision No 521N on 29.08.06, added by Decision No 239N on 12.08.08)

5.1. Credit organizations, performing refinancing, based on the Article 3(6)(e) of the Law of the Republic of Armenia “On credit organizations”, can provide all operations, mentioned in the point 6 of this Regulation, except for services, provided to natural persons, and the operations, mentioned in the third paragraph of the point 6 of this Regulation, in accordance with which the refinancing credit organizations can issue and underwrite, on their own behalf, bonds, secured by property, or bonds, secured by warranty of the third parties. In case of bonds issuance, secured by warranty of the third parties, at least 30% of the bonds should be warrantied by international organizations, foreign governments, central banks and other organizations that have a rating from AAA (Aaa) to BBB-(Baa3) granted by Standard and Poor’s, Fitch or Moody’s rating agencies. Out of operations, mentioned in the Article 8(d1) of the Law of the Republic of Armenia “On credit organizations”, the refinancing credit organizations can only issue traveler’s checks on their own behalf, and buy and sell these checks.

(Point 5.1 was added by Decision No 225N on 30.08.11, amended by Decision No 73-N on 25.05.2018)

5.2. By the meaning of this Regulation, those credit organizations are considered to be refinancing credit organizations, whose main activity is refinancing the credits, provided by banks and credit organizations (providing of credits and loans to banks and credit organizations by the refinancing credit organization against the credits, provided by banks and credit organization; acquiring of credits of banks and credit organizations or the rights of claims of such credits by refinancing credit organizations; acquiring of bonds, issued by banks and credit organizations, by refinancing credit organizations for the purpose of refinancing).

(Point 5.2 was added by Decision No 225N on 30.08.11)

6. Credit organizations, specified in Article 3(6)(e) of the Law of the Republic of Armenia “On credit organizations” (hereinafter, universal), can provide all operations, mentioned in Article 8 of the Law of the Republic of Armenia “On credit organizations”, as well as provide the activity of insurance agent in accordance with the Law of the Republic of Armenia “On insurance and insurance activity”, except for operations, mentioned in point “f”, and a part of operations, mentioned in point “d” of Article 8 of the Law of the Republic of Armenia “On credit organizations”. In particular, out of operations, mentioned in Article 8(d) of the Law of the Republic of Armenia “On credit organizations”, credit organizations can issue and underwrite on their own behalf:

- unsecured bonds in amount not exceeding the statutory capital of the universal credit organization,
- bonds, secured by warranty of the third parties, set that at least 30% of the bonds should be warrantied by international

organizations, foreign governments, central banks and other organizations that have a rating from AAA (Aaa) to BBB-(Baa3) granted by Standard and Poor's, Fitch or Moody's rating agencies.

Out of operations, mentioned in the Article 8(d1) of the Law of the Republic of Armenia "On credit organizations", the credit organizations can only issue traveler's checks on their own behalf, and buy and sell these checks.

Universal credit organizations can borrow loans and (or) conclude similar type of transactions with legal persons, their own participants, sole entrepreneurs, the Republic of Armenia and its communities, other states and international organizations.

(Point 6 was added by Decision No 10N on 13.01.03, added by Decision No 182N on 14.05.03, amended by Decision No 150N on 15.06.04, edited by Decision No 445N on 30.08.05, amended by Decision No 521N on 29.08.06, added by Decision No 239N on 12.08.08, amended by Decision No 342N on 21.12.10)

6.1. Credit organizations may render investment services without holding an investment services providing license, in accordance with the provisions of the Law of the Republic of Armenia "On securities market".

(Point 6.1 was added by Decision No 239N on 12.08.08)

6.2. Credit unions and saving unions can provide the services, mentioned in sub-points 2-6 of point 6.4 of this Regulation, as well as the non-principal service, mentioned in sub-point 1 of point 6.5 of this Regulation, only in the case, when their total capital is minimum 100 million Drams.

(Point 6.2 was added by Decision No 239N on 12.08.08)

6.3. When providing investment services, the credit organizations should inform the Central Bank about it in a written form, 15 days prior beginning to provide such services.

(Point 6.2 was added by Decision No 239N on 12.08.08, amended by Decision No 230N on 28.07.09)

6.4. In the terms of this Regulation, the investment services shall apply to those services, where credit organization:

- 1) Receives and transfers assignments from customers regarding transactions with securities,
- 2) On its behalf and on behalf of the customer and at the expenses of the customer makes transactions with securities,
- 3) Provides consultancy to customers regarding the investments in securities,
- 4) Executes transactions with securities on its behalf and on its own account,
- 5) Manages the package of securities,
- 6) Carries out guaranteed or non-guaranteed distribution of securities.

(Point 6.4 was added by Decision No 239N on 12.08.08)

6.5. In the terms of this Regulation, non-principal services shall be the following:

- 1) Custody of securities,
- 2) Provision of borrowing to customers for transactions with securities provided that the lender is a party to such transaction,
- 3) Provision of services in connection with organization of issuance and distribution of securities,
- 4) Provision of advisory services to companies on structure of capital, corporate strategy, reorganization of companies and other services,
- 5) Implementation of foreign currency sale/purchase dealer transactions,
- 6) Development and dissemination of researches, financial analyses and other general investment proposals related to securities transactions.

(Point 6.5 was added by Decision No 239N on 12.08.08)

6.6. The activity of a credit organization, defined in sub-point 4 of point 6.4 shall not be considered as provision of investment services, if the latter is not carried out on a periodic basis and does not constitute a part of the main activities of the credit organization.

(Point 6.6 was added by Decision No 239N on 12.08.08)

6.7. The Central Bank can stipulate additional requirements for credit organizations by its regulation in the pursuit of ensuring organizational and financial separateness of investment services in the structure of the above companies.

(Point 6.7 was added by Decision No 239N on 12.08.08)

7. After opening an account in resident and non-resident banks, the account-owner credit organization must inform the Central Bank of the Republic of Armenia about it in a written form within 10 working days.

7.1. Credit unions and saving unions can buy and/or sell foreign currency in a cash form only in the cases and in the amount, which is necessary to service the repayment of the credit provided by them. When performing cash transactions with trading of foreign currency, credit unions and saving unions can round the volume of the transaction within 5000 Armenian Drams (hereinafter, AMD).

(Point 7.1 was added by Decision No 521N on 29.08.06, edited by Decision No 239N on 12.08.08, edited by Decision No 342N on 21.12.10)

7.2. If existing leasing organizations, factoring organizations, universal credit organizations and refinancing credit organizations, according to their charters, buy and/or sell foreign currency in a cash form, then all main prudential standards, specified in point 11 of this Regulation, should apply to them, and the minimum amount of their total capital should be:

- 1) Starting from the 1st day of the month following the 6th month after the official publication of this decision – 200 million AMD,
- 2) Starting from January 1, 2012 – 300 million AMD,
- 3) Starting from July 1, 2013 – 600 million AMD,
- 4) Starting from January 1, 2015 – 1 billion AMD.

A) If a newly opened leasing organization, factoring organization, universal credit organization and refinancing credit organization, according to its charter, buys and/or sells foreign currency in a cash form, then all main prudential standards, specified in point 11 of this Regulation, should apply to them, and the minimum amount of their total capital should be 1 billion AMD. If a newly opened leasing organization, factoring organization, universal credit organization and refinancing credit organization, according to its charter, does not perform trading of cash foreign currency, but afterwards, after amending the charter, it decided to perform such transactions, then all main prudential standards, specified in point 11 of this Regulation, should apply to them from the date of the amendment of the charter, and the minimum amount of their total capital should be 1 billion AMD.

B) The cases, when the trading of foreign currency was performed in such volumes to service the repayment of the credit provided by them, are the exceptions from the first and second paragraphs of this point. When performing cash transactions with trading of foreign currency, leasing organizations, factoring organizations, universal credit organizations and refinancing credit organizations can round the volume of the transaction within 5000 AMD.

C) Credit unions and saving unions should submit the amendments, made in their charters and/or in the charters of their territorial units, to the Central Bank of the Republic of Armenia for registration till June 1, 2011, by bringing their charters and/or the charters of their territorial units into compliance with the requirements of sub-point “f” of point 2 and sub-point “f” of point 3 of this Regulation.

(Point 7.2 was added by Decision No 230N on 28.07.09, edited by Decision No 342N on 21.12.10, amended by Decision No 225N on 30.08.11)

7.3. Bonds of credit organizations can be circulated solely among legal persons, sole entrepreneurs and the participants of credit organizations both in primary and secondary markets, except for cases, defined in point 7.4 of this Regulation. Credit organizations are prohibited from issuing bonds with conditions contradicting this Regulation.

(Point 7.3 was added by Decision No 342N on 21.12.10)

7.4. Leasing organizations, factoring organizations, universal credit organizations (hereinafter, issuing credit organizations) can borrow money from natural persons by a public offer of bonds in the absence of objection of the unit

of the Central Bank, responsible for financial supervision (hereinafter, Financial supervision department). The limitation, specified by the second sentence of point 7.15 of this Regulation, does not apply to the cases of public offer of bonds in accordance with this point. Before submitting the prospectus of issuance of the bonds to the Central Bank, the issuing credit organization applies to the Central Bank, mentioning about its intention to issue and publicly offer the bonds.

(Point 7.4 was added by Decision No 342N on 21.12.10, amended by Decision No 225N on 30.08.11, amended by Decision No 73-N on 25.05.18)

7.5. Only those issuing credit organizations can apply to the Central Bank for borrowing money from natural persons by bonds' public offer, that were subject to all prudential standards, mentioned in point 11 of this Regulation, for at least 6 month prior to the date of application, as well as whose total capital is at least 1 billion AMD as of the date of application. The requirements of this point do not apply to the issuing credit organization that is a refinancing credit organization.

(Point 7.5 was added by Decision No 342N on 21.12.10, added by Decision No 225N on 30.08.11, added by Decision No 106N on 16.04.13)

7.6. Financial supervision department satisfies the application of the issuing credit organization to issue and publicly offer bonds for borrowing money from natural persons, if all the following conditions are satisfied simultaneously:

- 1) The issuing credit organization has not violated any of the prudential standards, set for credit organizations, for the last one year (this requirement does not apply to the issuing credit organization that is a refinancing credit organization),
- 2) During the last one year the issuing credit organization has not essentially violated the requirements of the Law of the Republic of Armenia “On securities market” and other normative legal acts of the Central Bank, adopted based on the law,
- 3) Appropriate mechanisms, procedures (for granting credits, issuing bonds, managing liquidity) for restraining and managing new (additional) risks, occurring from public offer of bonds, are in place in the issuing credit organization,
- 4) The issuing credit organization has a Board, consisting of at least 3 members,
- 5) The issuance of bonds does not incur risks for the stability of the financial system of the Republic of Armenia.

(Point 7.6 was added by Decision No 342N on 21.12.10, Decision No 225N on 30.08.11)

7.7. Financial supervision department can reject the application of the issuing credit organization to issue and publicly offer bonds for borrowing money from natural persons within a 30-day period` by sending a letter to the applicant,

clearly mentioning the bases of rejection. If no such letter of rejection is received within 30 days, then the application of the issuing credit organization to issue and publicly offer the bonds is considered to be satisfied. The issuing credit organization can issue and publicly offer the bonds within one year after the day of satisfaction of the application. In case of bond issuance and public offer after the mentioned period, the issuing credit organization must again submit the application to, specified in point 7.4 of this Regulation, to the Central Bank.

(Point 7.7 was added by Decision No 342N on 21.12.10)

7.8. To get some information, the 30-day period, specified in point 7.4 of this Regulation, can be suspended by decision of the Head of Financial supervision department of the Central Bank, until getting the necessary information. After getting the necessary information, the period after the decision of resuming the examination of the application cannot exceed the difference between a 30-day period and the number of days before the suspension of the period.

(Point 7.8 was added by Decision No 342N on 21.12.10)

7.9. When borrowing money from natural persons by public offer of bonds, the issuing credit organization must include a provision in the prospectus of the issuance of bonds that the repayment of such bonds is not guaranteed by the Deposit Guarantee Fund.

(Point 7.9 was added by Decision No 342N on 21.12.10)

7.10. If within a 30-day period of submitting the application about bond issuance and public offer for borrowing money from natural persons, no objection letter is received, then all prudential standards, specified in point 11 of this Regulation, are being applied for the issuing credit organization until the full repayment of all bonds, actually underwritten as a result of bonds' issuance and public offer. Starting from the day of satisfaction of the application of issuing credit organizations, specified in this Point, the minimum ratio of total capital and risk-weighted assets (N1 ratio) is set to be 12%.

(Point 7.10 was added by Decision No 342N on 21.12.10)

7.11. Total capital of the issuing credit organization should be at least 1 billion AMD until the full repayment of all bonds, actually underwritten as a result of bonds' issuance and public offer.

(Point 7.11 was added by Decision No 342N on 21.12.10)

7.12. Issuing credit organization (except for refinancing credit organizations) can make a public offer of bonds to borrow money from natural and/or legal persons only in the regulated market. The following re-sale of bonds, purchased in the regulated market, to other natural and/or legal persons is performed only in the regulated market.

(Point 7.12 is added by Decision No 342N on 21.12.10, Decision No 225N on 30.08.11)

7.13. Non-public offer of bonds outside the regulated market can be performed only among legal persons and such bonds should contain a provision “Not transferable among natural persons”.

(Point 7.13 was added by Decision No 342N on 21.12.10)

7.14. If the application of the issuing credit organization is being rejected by the Financial supervision department, the issuing credit organization can again submit the application, specified in point 7.4 of this Regulation, to the Central Bank not earlier, than in 3 months after the day of rejection.

(Point 7.14 was added by Decision No 342N on 21.12.10)

7.15. Credit unions and saving unions can borrow money from their natural person participants only in cases, when the share of that participant in the statutory capital of the credit organization is at least 5 percent. Leasing organizations, factoring organizations, universal credit organizations and refinancing credit organizations can borrow money from their natural person participants only in cases, when the share of that participant in the statutory capital of the credit organization is at least 5 percent or if the sum of the money is at least 30 million AMD. When borrowing 30 million AMD or higher from the participant who is a natural person and whose share in the statutory capital of leasing organization, factoring organization, universal credit organization and refinancing credit organization is less than 5 percent, then the total capital of leasing organization, factoring organization, universal credit organization and refinancing credit organization should be at least 1 billion AMD until the full repayment of such borrowing. A provision must be included in the loan contract, stating that the repayment of the loan is not guaranteed by the Deposit Guarantee Fund.

(Point 7.15 was added by Decision No 342N on 21.12.10, was amended by Decision No 225N on 30.08.11)

7.16. In cases, when the credit union or saving union has a borrowed loan from its participant who is a natural person and whose share in its statutory capital is less than 5 percent as of March 1, 2011, then it must fully repay such liabilities before January 1, 2012. In cases, when the leasing organization, factoring organization, universal credit organization or refinancing credit organization has a borrowed loan of less than 30 million AMD from its participant who is a natural person and whose share in its statutory capital is less than 5 percent as of March 1, 2011, then it must replenish the amount of the loan to 30 million AMD, or replenish the participation of such participant in its statutory capital to 5 percent, or fully repay such liabilities before January 1, 2012.

(Point 7.16 was added by Decision No 342N on 21.12.10, was amended by Decision No 225N on 30.08.11)

7.17. When providing guarantee (guarantees), credit organizations should have internal legal acts, regulating the function of providing and servicing the guarantee, that should at least contain the conditions of providing and servicing the guarantee.

(Point 7.17 was added by Decision No 342N on 21.12.10)

8. Credit organizations are not allowed to open and maintain banking accounts for their clients and participants. Credit organizations perform non-cash money settlements by the bank, servicing the credit organization.

9. Central Bank of the Republic of Armenia can open and maintain special accounts for credit organizations for ensuring the final settlement in individual payment-settlement systems, if the credit organization is a participant of that payment-settlement system and the final settlement is being provided by the Central Bank of the Republic of Armenia.

10. (Point 10 was repealed by Decision No 150N on 15.06.04)

CHAPTER 3. MAIN PRUDENTIAL STANDARDS AND THEIR LIMITS

11. The Central Bank of the Republic of Armenia defines the following main prudential standards for credit organizations:

11.1. Minimum amounts of statutory capital and total (own) capital (hereinafter, total capital) of the credit organization,

11.2. Total capital adequacy ratio – minimum ratio of amounts of total capital and risk-weighted assets (N1 ratio),

11.3. Large exposure ratio (N3 ratio),

11.4. (Point 11.4 was repealed by Decision No 239N on 12.08.08)

12. Prudential standards of activities of credit organizations are set with the following limits, except for cases, specified by this Regulation:

	Saving unions	Credit unions	Leasing organizations	Factoring organizations	Universal credit organizations	Refinancing credit organizations
Minimum amount of statutory capital (mln AMD)	50	50	100	150	150	4000
Minimum amount of total capital (mln AMD)	50	50	100	150	150	4000
Minimum ratio of amounts of total capital and risk-weighted assets (N1 ratio)	2%	6%	8%	10%	10%	10%
Large exposure ratio	25%	25%	25%	25%	25%	Until 31.12.2014

							- 40%
							From 01.01.2015 - 30%

(Point 12 was edited by Decision No 62N on 16.03.04, Decision No 150N on 15.06.04, amended by Decision No 239N on 12.08.08, edited by Decision No 225N on 30.08.11)

12.1. If according to the charter, the credit organization does not borrow money by public offer, then the total capital adequacy ratio and the large exposure ratio, specified by point 11 of this Regulation, do not apply to that credit organization. The amount of non-repaid guarantee (guarantees), provided to a single person and affiliated persons by the credit organization, mentioned in the first sentence of this point, cannot exceed the amount of total capital of the credit organization, and the amount of non-repaid guarantees, provided to all persons, cannot exceed the triplicate of total capital of the credit organization.

(Point 12.1 was added by Decision No 62N on 16.03.04, edited by Decision No 150N on 15.06.04, amended and added by Decision No 230N on 28.07.09)

13. (Point 13 was edited by Decision No 265N on 30.07.13, repealed by Decision No 150N on 15.06.04)

13.1. Re-registering credit organizations, that provide activities of credit organizations, should replenish the minimum amounts of statutory and total capitals within 6 months after their registration and licensing.

(Point 13.1 was added by Decision No 265N on 30.07.03)

14. The statutory capital of the credit organization is being replenished, including, the payments against shares (stocks) are being made solely in Armenian Drams, except for cases of reorganization of credit organizations, when the payment and replenishment of statutory capital can be done by conversion of shares and/or stocks.

(Point 14 was edited by Decision No 239N on 12.08.08)

14.1. The credit organization, which is changing the type of its activities, after getting the prior consent of the Central Bank to change the type of its activities, in order to be registered as a bank and be given a banking license, should satisfy the requirements of all prudential standards, defined by the decision No 39-N of the Board of the Central Bank as of February 9, 2007 «On adopting the Regulation 2 on «Regulation of banking activities and main prudential standards of banking activities»», except for minimum amounts of bank's statutory capital and total capital and the minimum reserve requirement, for at least 6 months preceeding the month of applying to the Central Bank.

(Point 14.1 was added by Decision No 333N on 06.12.11)

CHAPTER 4. THE CALCULATION PROCEDURE OF MAIN PRUDENTIAL STANDARDS

15. The minimum amount of total capital of the credit organization, N1, N3 main prudential standards are calculated on a monthly basis.

(Point 15 was amended by Decision No 239N on 12.08.08)

16. Total capital of the credit organization is the sum of its core and additional capital, after making appropriate deductions. When calculating the values of main prudential standards, the additional capital is included in the calculation of the total capital with the amount not exceeding 50% of core capital (taking into account the deductions, made in accordance with this Regulation).

(Point 16 was added by Decision No 239N on 12.08.08)

16.1. The core capital is the difference between the sum of the following elements and the elements deductible from the core capital:

(Point 16.1 was edited by Decision No 239N on 12.08.08)

16.1.1. Nominal value of fully paid ordinary shares, stocks or equity participation (hereinafter referred to as ordinary shares) plus income on issue from ordinary shares and deducted discount,

(Point 16.1.1 was edited by Decision No 135N on 26.09.19)

16.1.2. General reserve,

16.1.3. Undistributed profit (revenue reserves). Meanwhile, the undistributed profit of the credit organization shall be included in the calculation of the total capital of the credit organization at an amount of maximum 150% of nominal value of fully paid ordinary shares and preferential shares that meet the requirements of Appendix 4 plus income on issue and deducted discount,

(Point 16.1.3. was edited by Decision No 342N on 21.12.10, Decision No 135N on 26.09.19)

16.1.4. Nominal value of preferential shares that meet the requirements of Appendix 4 plus income on issue of shares and deducted discount. Meanwhile, the preferential shares shall be deducted at an amount of preferred shares meeting the requirements of Appendix 4 of this Regulation, which were bought back by the credit organization (unless they are already deducted from the core capital in accordance with accounting standards) or they are acquired buy an organization in which the credit organization is a significant participant (qualified holder) or which the credit organization is obliged or is committed to acquire in future according to any legal document (except for cases of mandatory buyback provided by legislation). The preferential shares shall be included in the core capital of the credit organization at an amount of maximum 20% of difference between the sum

of components, specified in points 16.1.1-16.1.3 of this Regulation, and the deductions, made in accordance with point 16.2 of this Regulation.

(Point 16.1.4 was added by Decision No 135N on 26.09.19)

16.2. The core capital shall be reduced by:

16.2.1. Book value of long-term subordinated loans provided by the credit organization. Meanwhile, for the purpose of this paragraph, the long-term subordinated loan shall be considered a subordinated loan, specified by the Civil Code of the Republic of Armenia, provided for at least five years.

(Point 16.2.1. was edited by Decision No 239N on 12.08.08, Decision No 135N on 26.09.19)

16.2.2. The amount of own shares, equity participation or participation, repurchased by the credit organization,

(Point 16.2.2. was edited by Decision No 239N on 12.08.08)

16.2.3. Book value of intangible assets (including intangible assets not in use) (except for computer software used during the activities of the credit organization and right of use),

(Point 16.2.3. was edited by Decision No 239N on 12.08.08)

16.2.4. Net book value (value of financial assets reduced by the amount of loss reserves, if available) of investments in statutory capitals of other banks, credit organizations, insurance companies, as well as persons performing financial operations defined in the Article 8(1) of the Law of the Republic of Armenia “On credit organizations (except for persons taking custody and activities of establishing and servicing the information system of creditworthiness of customers), if:

16.2.4.1. The investment constitutes 10% or more of the statutory capital of the entity, or

16.2.4.2. The investment is less than 10% of the statutory capital of the entity, but it exceeds 15% of the book value of the core capital of the credit organization, or

16.2.4.3. The investments in statutory capitals of all entities exceed 60% of the book value of the core capital of the credit organization.

(Point 16.2.4. was edited by Decision No 239N on 12.08.08)

16.2.5. Book value of tangible assets as property of, and not used for activities of the credit organization (fixed assets and other tangibles, including assets privatized as a result of collateral disposition or originated from other claims, assets out of use and other fixed assets, as well as capital investments in fixed assets not used for the activities of the credit organization) six months after the placement of such assets under the ownership of the credit organization, and one year after recognizing the fixed assets as the property of the credit organization

(recognizing the fixed assets in the lessor's balance sheet) in case of acquisition of assets for lease or dissolution of the financial lease contract,

(Point 16.2.5. was edited by Decision No 62N on 16.03.04, added by Decision No 150N on 15.06.04, added by Decision No 239N on 12.08.08, amended by Decision No 95N on 12.04.11)

16.2.6. Book value of tangible assets as property of, and used for activities of the credit organization (fixed assets, including real estate (buildings and premises), other fixed assets, as well as capital investments in fixed assets used for the activities of the credit organization) to the extent exceeding 25% of book value of the core capital. For the meaning of this sub-point, the value of tangible assets equals to the grant total of the original value of the tangible asset and the sum of capital investments less amortizations and depreciations and loss from revaluation,

(Point 16.2.6. was edited by Decision No 239N on 12.08.08)

16.2.7. Balance of capital investments made to improve the fixed assets, leased by the credit organization,

(Point 16.2.7. was added by Decision No 62N on 16.03.04)

16.2.8. Book value of capital investments made in the fixed assets of the credit organization,

(Point 16.2.8. was added by Decision No 62N on 16.03.04)

16.2.8.1. (Point 16.2.8.1. was added by Decision No 239N on 12.08.08, edited by Decision No 342N on 21.12.10, repealed by Decision No 135N on 26.09.19)

16.2.9. Investments in statutory capital of trading organizations other than those provided in point 16.2.4. of this Regulation,

1) If the investment in the statutory capital is at least 10% of the statutory capital of the entity, or

2) If the investment in the statutory capital is less than 10% of the statutory capital of the entity, but it exceeds 15% of the book value of the core capital of the credit organization, or

3) If investments in statutory capitals of all organizations, including entities, specified in point 16.2.4 of this Regulation, exceed 60% of the book value of the core capital of the credit organization.

The deductions shall equal to the biggest amount among differences between the investments in the statutory capital of the trading organizations and the values, specified in sub-points 1, 2 or 3 of this point.

(Point 16.2.9. is added by Decision No 342N on 21.12.10)

16.3. The additional capital comprises:

16.3.1. The revaluation reserve of fixed assets. In the calculation of the additional capital, only the revaluation reserve for own buildings and premises necessary for activities of the credit organization is included. For the purpose of this Regulation, own buildings and premises (real estate), necessary for activities

of credit organizations shall be the territories, where the credit organization and its territorial units perform their activities.

16.3.2. The reserve for foreign exchange fluctuations emerged during the balance sheet consolidation,

16.3.3. Other reserves.

16.3.4. (Point 16.3.4. was repealed by Decision No 239N on 12.08.08)

16.3.5. The preferential shares that meet the requirements of Appendix 4 of this Regulation (at the amount exceeding the amount included in the calculation of core capital), which shall be included in the calculation of additional capital at their nominal value plus income on issue from preferred shares and deducted discount. Meanwhile, with regard to inclusion in the calculation of total capital of the credit organization, the amount, specified in this point, shall have the priority than other components of additional capital.

(Point 16.3.5 was added by Decision No 135N on 26.09.19)

16.3.6. Long-term subordinated borrowings, attracted by the credit organization. For the purpose of this Regulation (except for sub-point 1 of point 16.2.1 of this Regulation), the long-term subordinated borrowing shall be considered a borrowing, which meets all the requirements, provided by Appendix 5 of this Regulation. Meanwhile, with regard to inclusion in the calculation of the total capital of the credit organization, the long-term subordinated borrowing shall have the priority than other components of additional capital, except for the preferential shares. The attracted long-term subordinated borrowings must be deducted from the calculation of the additional capital at the amount of 20% of their initial grand total, starting from January 1 of the fifth year prior to the beginning of their repayment period and each following year.

(Point 16.3.6 was added by Decision No 135N on 26.09.19)

16.4. (Point 16.4 was repealed by Decision No 239N on 12.08.08)

16.5. (Point 16.5 was repealed by Decision No 239N on 12.08.08)

17. The credit organizations shall ensure the minimum amount of total capital as of January 1 of each year, and by average calculation for each month (grand total of daily values of the total capitals of the month divided by the number of days in the month).

18. The ratio of total capital to risk-weighted assets of the credit organization shall be calculated using the following formula:

$$N1 = \frac{C_{tot}}{RWA}$$

where:

C_{tot} – the total capital (using average daily calculation),

RWA – risk-weighted assets, off-balance sheet liabilities and term transactions in process (using average daily calculation)

(Point 18 was amended by Decision No 239N on 12.08.08)

19. For the days (including non-business days) when the balance sheet of the credit organization incurs no changes, the calculation of the average daily data shall include the data of the previous day.

20. When calculating the total capital adequacy ratio of the credit organization, the assets of the credit organization (the assets deducted from the calculation of the core capital, in accordance with point 16.2 of this Regulation, are not included in the calculation of risk-weighted assets) shall be weighted by respective risk weights pursuant to point 23 of this Regulation, after they are decreased by the amount of their respective loss reserves. The calculation of risk-weighted assets is performed using the following formula:

$$RWA = (A_i - R_i) * R_{w_i} + C * FXR$$

where:

A_i – total amount of assets of the credit organization (other than assets deductible from the core capital) and off-balance sheet contingent liabilities, included in the calculation, grouped by similar risk-weights,

R_i – loss reserves on the respective assets and off-balance sheet contingent liabilities,

R_{w_i} – risk weights of respective assets,

C – adjustment coefficient, which equals to

- a. 50, for saving unions,
- b. 50/3, for credit unions,
- c. 12.5, for leasing organizations,
- d. 10, for factoring organizations,
- e. 10, for universal credit organizations.

FXR – foreign exchange risk, calculated in accordance with Appendix 2 of this Regulation

(Point 20 was edited by Decision No 62N on 16.03.04, amended by Decision No 239N on 12.08.08)

21. (Point 21 was repealed by Decision No 62N on 16.03.04)

22. The average daily calculation of total capital and risk-weighted assets shall be performed by the following formulas:

$$C_{tot} = \frac{(C_{tot1} + C_{tot2} + \dots + C_{totn})}{n}$$

$$RWA = \frac{(RWA_1 + RWA_2 + \dots + RWA_n)}{n}$$

where “C_{totn}” and “RWA_n” are the total capital and risk-weighted assets of the credit organization by days, and “n” is the number of days in the reporting month.

23. The calculation of risk-weighted assets of the credit organization shall include the balances of the following assets at specific risk weights:

Types of assets	Risk weights (%)	
	Assets in AMD	Assets in foreign currency
1. Cash (in AMD and Group I foreign currencies, ruble) and cash-equivalent payment document (in AMD and Group I foreign currencies), if agreed with the Board of the Central Bank	0	0
2. Deposits in the Central Bank, the balance of the cumulative account established for the replenishment of the credit organization's statutory capital and the accrued interest, other claims on the Central Bank	0	0
3. Claims on the RA Government on advance payments for tax liabilities computed as required by tax legislation	0	-
4. Claims, off-balance sheet contingent liabilities, term transactions in process and the accrued interest, secured by Armenian Drams, Group I foreign currency, other foreign currency funds (if these are treated as a security for assets expressed in the same foreign currency) held by the credit organization	0	0
5. Securities issued by the Central Bank in AMD, RA Government bonds in AMD (including the securities sold through repo agreements) and the accrued interest	0	-
6. Claims on 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	0	0
7. Securities issued by the Central Bank in foreign currency, RA Government bonds in	-	10

foreign currency (including securities sold through repo agreements) and the accrued interest		
8. Repo agreements and the accrued interests if the current (market) value of respective securities obtained as a result of such operations equals or exceeds the total sum of funds provided as a results of the repo agreements and the accrued interest receivables on such funds	0	0
9. Securities sold through repo agreements, if the total sum of funds obtained as a result of such repo operations and the interest to be paid equals or exceeds the current (market) value of the securities sold through repo agreements	0	0
10. Claims on the Government of the Republic of Armenia or claims secured by the Government of the Republic of Armenia and the accrued interest, which are considered monetary obligations subject to charge without acceptance under the “Procedure for Central Bank Accounting and Fulfilling Monetary Obligations Subject to Charge Without Acceptance from Bank Accounts Opened with the Central Bank of the Republic of Armenia” approved by the Central Bank Chairman Decision No. 1/202L as of 28.03.2006, as well as transferable notes issued by the Ministry of Finance of the Republic of Armenia with maturity up to 1 year, which are subject to be paid by the Central Bank of the Republic of Armenia from the funds of the consolidated treasury account of the Government of the Republic of Armenia	10	10
10.1. Bonds issued by refinancing credit organization (including securities sold through repo agreements) and the accrued interests	10	-
11. Transferrable notes as well as claims, off-balance sheet contingent liabilities, term transactions in process, secured by such notes, and the accrued interest (including securities sold through repo agreement) against resources subject to confiscation from the State budget of the Republic of Armenia on the basis of judicial acts	20	20
12. Cash in transit (in AMD and Group I foreign currencies), cash-equivalent payment documents in transit (in AMD and Group I foreign currencies), if agreed with the Board of the	20	20

Central Bank		
13. The balance of the cumulative account established for the replenishment of the credit organization's statutory capital, correspondent accounts in AMD and foreign currencies of the SDR basket, and the accrued interest with banks and foreign bank branches operating in Armenia	20	30
14. Short-term claims on foreign governments and central banks	A-1+, A-1, P-1 0 A-2, P-2 20 A-3, P-3 50 B, C, D, NP 100 Not rated 100	A-1+, A-1, P-1 0 A-2, P-2 20 A-3, P-3 50 B, C, D, NP 100 Not rated 100
15. Long-term claims on foreign governments and central banks	From AAA (Aaa) to A- (A3) 0 From BBB+ (Baa1) to BBB-(Baa3) 20 From BB+ (Ba1) to B- (B3) 50 Below B- (B3) 100 Not rated 100	From AAA (Aaa) to A- (A3) 0 From BBB+ (Baa1) to BBB-(Baa3) 20 From BB+ (Ba1) to B- (B3) 50 Below B- (B3) 100 Not rated 100
16. Short-term claims on foreign banks	A-1+, P-1 0 A-2, P-2 20 A-3, P-3 50 B, C, D, NP 100 Not rated 100	A-1+, P-1 0 A-2, P-2 20 A-3, P-3 50 B, C, D, NP 100 Not rated 100
17. Long-term claims on foreign banks	From AAA (Aaa) to AA- (Aa3) 0 From A+ (A1) to A- (A3) 20 From BBB+ (Baa1) to B- (B3) 50 Below B- (B3) 100 Not rated 100	From AAA (Aaa) to AA- (Aa3) 0 From A+ (A1) to A- (A3) 20 From BBB+ (Baa1) to B- (B3) 50 Below B- (B3) 100 Not rated 100
18. (Point 18 was repealed by Resolution No. 276-N as of 15.12.15)		
18.1. Claims against RA resident non-financial organizations having a rating higher, than the rating provided to the Republic of Armenia by rating agencies (Standard and Poor's or Fitch or Moody's)	0%	0%
18.2. Claims against RA resident non-financial organizations having a rating equal to the rating provided to the Republic of Armenia by rating agencies (Standard and Poor's or Fitch or Moody's)	0%	10%
18.3. Claims against RA resident non-financial organizations having a rating lower in one grade, than the rating provided to the Republic of Armenia by rating agencies (Standard and Poor's or Fitch or Moody's)	20%	30%
18.4. Claims against RA resident non-financial organizations having a rating lower in two grades, than the rating provided to the Republic of Armenia by rating agencies (Standard and	50%	75%

Poor's or Fitch or Moody's)				
19. Short-term claims on foreign non-bank organizations	A-1+, P-1	0	A-1+, P-1	0
	A-2, P-2	20	A-2, P-2	20
	A-3, P-3	50	A-3, P-3	50
	B, C, D, NP	100	B, C, D, NP	100
	Not rated	100	Not rated	100
20. Long-term claims on foreign non-bank organizations	From AAA (Aaa) to AA- (Aa3)	0	From AAA (Aaa) to AA- (Aa3)	0
	From A+ (A1) to A- (A3)	20	From A+ (A1) to A- (A3)	20
	From BBB+ (Baa1) to B- (B3)	50	From BBB+ (Baa1) to B- (B3)	50
	Below B- (B3)	100	Below B- (B3)	100
	Not rated	100	Not rated	100
21. Non-used portions of credit lines		50		75
22. Book value of own buildings and premises, necessary for activities of the credit organization		50		-
23. Mortgage loans and the accrued interest, which meet the "Minimum requirements for providing mortgage loans with 50/75% risk weight", specified in Appendix 3 of this Regulation		50		75
24. Other claims and accrued interest on banks, credit organizations and foreign bank branches, operating in Armenia		50		75
25. Claims on individuals and legal entities, off-balance sheet contingent liabilities (except for claims on all types of mortgage loans, loans secured by precious metals and stones), which satisfy each of the following conditions: 1) total sum of claims on the borrower and affiliated parties (except for claims on all mortgage loans, loans secured by precious metals and stones) and off-balance sheet contingent liabilities does not exceed 5 million Armenian Drams, 2) the total sum of claims on the borrower and affiliated parties, off-balance sheet contingent liabilities (other than all types of mortgage loans, loans secured by precious metals and stones), which satisfy the conditions of point 1 hereinabove, does not exceed 0.2% of the total portfolio of claims, specified in point 1		75		110
26. Claims on communities of the Republic of Armenia		100		150
27. Assets frozen or arrested under the Court decision, and the accrued interest		100		150
28. Claims on the Government of the Republic of Armenia for payments exceeding tax liabilities, calculated under tax legislation (overpayments)		100		-
29. Claims on the Government of the Republic of		100		150

Armenia or claims secured by the Government of the Republic of Armenia and the accrued interest, which are not considered monetary obligations subject to charge without acceptance under the “Procedure for Central Bank Accounting and Fulfilling Monetary Obligations Subject to Charge Without Acceptance from Bank Accounts Opened with the Central Bank of the Republic of Armenia” approved by the Central Bank Chairman Decision No. 1/202L as of 28.03.2006		
30. Book value of fixed assets and intangible assets, except for those, specified in point 22	100	-
31. Loans and receivables, classified as non-standard and doubtful; securities, classified as average and high risk	100	150
32. The portion of investments, specified in point 16.2.8.0 of Regulation 14, which is not deducted from the core capital of the credit organization	150	225
33. All balance sheet assets, off-balance sheet contingent liabilities and term transactions in process, which are not included in points 1-32	100	150

(Point 23 was amended and added by Decision No 62N on 16.03.04, Decision No 239N on 12.08.08, edited by Decision No 342N on 21.12.10, added by decision No 225N on 30.08.11, amended by Decision No 325N on 30.11.11, amended by Decision No 276-N as of 15.12.15)

24. Off-balance sheet contingent liabilities, specified in the table, include warranties and non-used portions of credit lines.

(Point 24 was amended by Decision No 342N on 21.12.10)

25. The following derivatives shall be classified as term transactions in process: forward, futures, swap and options. The calculation of risk-weights of these transactions shall be based on the full book value in assets.

(Point 25 was amended by Decision No 239N on 12.08.08)

26. (Point 26 was repealed by Decision No 342N on 21.12.10)

27. For the purpose of this Regulation, the claims, off-balance sheet contingent liabilities, term transactions in process and accrued interests are considered secured, if document verifying the security is available (contract of collateral, guarantee, warranty, etc.) for the full maturity of the contract.

27.1. The claims against RA resident non-financial organizations may receive risk weights, equal to those specified by points 18.1-18.4 of the table specified in point 23, also in case of existence of local ratings, provided by Standard and Poor’s, Fitch and (or) Moody’s rating agencies.

(Point 27.1 was added by Resolution No. 276-N as of 15.12.15)

28. The ratings and rating methodology defined by Standard and Poor's and Moody's rating agencies are used in points 14-17 and 19-20 of the table, mentioned in point 23 of this Regulation, ~~and the ratings and rating methodology defined by the Central Bank of the Republic of Armenia are used in point 18 of the table, mentioned in point 23 of this Regulation.~~

(Point 28 was edited by Decision No 342N on 21.12.10, amended by Decision No. 276-N as of 15.12.15)

29. Within one month after their registration and licensing, and afterwards once a year credit organizations choose one of the abovementioned rating agencies and inform the Central Bank of the Republic of Armenia about it prior January 31 of the next year.

30. The credit organizations must update the ratings once a month based on the latest updated data, published by the abovementioned rating agencies.

(Point 30 was edited by Decision No 62N on 16.03.04)

31. (Point 31 was repealed by Decision No 62N on 16.03.04)

32. To determine the risk weights of the claims on foreign governments and foreign banks, the ratings of the claims on governments and/or banks shall be applied with a consideration of the maturity of the claim, type and the currency of the instrument.

For the purpose of points 14-17 and 19-20 of the table of risk-weighted assets of the credit organization, short-term claims shall be demand claims and claims with maturity up to one year (including), and long-term claims shall be claims with maturity over one year and claims with unfixed maturity.

(Point 32 was edited by Decision No 62N on 16.03.04, amended by Decision No 342N on 21.12.10)

33. The SDR basket includes US dollar, Euro, Japanese yen and British pound. Swiss franc, Canadian dollar, Swedish krona, Danish krone and Australian dollar are equated to the foreign currencies of the SDR basket.

34. Large exposure ratio (N3) for credit organizations (except for saving unions) is calculated using the following formula:

$$N3 = \frac{Risk}{C_{tot}}$$

where:

Risk – the amount of loans to a single borrower and affiliated parties, all other borrowings, factoring and leasing operations, advances, prepayments, investments in securities issued by the borrower, as well as any other liabilities to the credit organization (except for banking accounts of the credit organization), credit organization's guarantees and warranties issued to other parties, borrowings

and/or guarantees to the same parties provided by other banks at the expense of, and secured by, monetary assets of the credit organization (provided that the credit organization assumed the risk to collect such borrowings). The abovementioned components shall be weighted by respective risk weights, specified in point 23 of this Regulation, after they are decreased by the amount of their loss reserves.

C_{tot} – the average amount of total capital of the credit organization in the reporting period, which is calculated in accordance with point 22.

(Point 34 was edited by Decision No 62N on 16.03.04)

34.1. The large exposure ratio (N3) for saving unions is calculated by the formula, mentioned in point 34, but all types of borrowings and other types of instrument that contain credit risk, provided to affiliated parties of the borrower are not included in the calculation.

(Point 34.1. was added by Decision No 62N on 16.03.04)

35. At the moment of providing the loan, and in the case of emerging of other liability, specified in this point, at the moment of emerging of the liability, the ratio shall be calculated with respect to the total capital as of the given day.

36. (Point 36 was edited by Decision No 62N on 16.03.04, edited by Decision No 150N on 15.06.04, repealed by Decision No 239N on 12.08.08)

37. (Point 37 was edited by Decision No 62N on 16.03.04, repealed by Decision No 239N on 12.08.08)

38. (Point 38 was edited by Decision No 62N on 16.03.04, repealed by Decision No 239N on 12.08.08)

39. (Point 39 was repealed by Decision No 239N on 12.08.08)

40. (Point 40 was repealed by Decision No 239N on 12.08.08)

41. (Point 41 was edited by Decision No 62N on 16.03.04, repealed by Decision No 239N on 12.08.08)

42. (Point 41 was edited by Decision No 62N on 16.03.04, repealed by Decision No 239N on 12.08.08)

43. The foreign currency position shall be calculated by types of foreign currencies both including and excluding (except for currency swap) the financial derivatives (swap, futures, forward, option) expressed in the currency in the question and reviewed by two foreign currency groups.

(Point 43 was edited by Decision No 62N on 16.03.04, added by Decision No 325N on 30.11.11)

43.1. Group I foreign currencies include the SDR basket currencies, Swiss franc, Canadian dollar, Swedish krona, Danish krone, Australian dollar.

43.2. Group II foreign currencies include the other foreign currencies.

44. (Point 44 was repealed by Decision No 239N on 12.08.08)

CHAPTER 5. RESPONSIBILITY

45. In the event of failure to meet the requirements defined in this Regulation, the credit organizations, operating in the Republic of Armenia, as well as their managers will be held liable under the Laws of the Republic of Armenia “On credit organizations” and “On the Central Bank of the Republic of Armenia”.

CHAPTER 6. TRANSITIONAL PROVISIONS

46. The short name of this Regulation is “Regulation 14 of the CBA”.

“On the regulation of the activities of credit organizations, the prudential standards of activities of credit organizations”

THE CALCULATION OF FOREIGN EXCHANGE RISK

1. For the purpose of calculating the capital adequacy ratio, the foreign exchange risk shall be calculated using Standard or VaR methodology.

2. The credit organizations shall choose the methodology (Standard or VaR methodology) for foreign exchange risk calculation once a year and inform the Central Bank about it prior to December 31 of the year preceding each year.

3. Foreign exchange risk calculation using Standard methodology.

1) Both assets and liabilities contain foreign exchange risk when their values in Armenian Drams, as well as payables and receivables in Armenian Drams incur changes as a result of fluctuations in foreign currency/Armenian Dram exchange rate. For the meaning of this Regulation, assets and liabilities expressed in banking or standardized bullion of precious metals also contain foreign exchange risk.

2) When calculating foreign currency positions, assets and liabilities shall also include off-balance sheet term transactions in process, which contain FX risk, at the amount of their off-balance sheet value.

3) Foreign currency position is the difference between assets and liabilities of the credit organization, containing foreign exchange risk. Foreign currency 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 maximum foreign currency position is the total amount of the magnitudes below:

- a) the maximum value out of absolute values of total amounts of foreign currency long positions and foreign currency short positions,
- b) a grand total of absolute values of open positions in banking or standardized bullions of precious metals.

5) The foreign currency position shall be calculated by types of foreign currencies. When calculating the foreign currency position, items, containing FX risk, which are deducted from the core capital calculation, shall not be included.

6) Foreign currency positions shall be calculated as of each day and be expressed in Armenian Drams.

7) Under the Standard methodology, to be included in the calculation of the capital adequacy ratio, the foreign exchange risk shall be determined using the following formula:

$$\text{FXR} = \max (\text{FXR}_1, \text{FXR}_2, \dots, \text{FXR}_n)$$

where:

FXR – FX risk, calculated using the Standard methodology,

$\text{FXR}_1, \text{FXR}_2, \dots, \text{FXR}_n$ – 12% of maximum FX position by days of the reporting period,

n – number of days in the reporting period

8) For the days when the credit organization's balance sheet incurred no changes (including non-business days), the daily data calculation shall include the data as of the previous day.

4. To calculate the foreign exchange risk using VaR methodology, credit organizations shall calculate the values described in points 4.1-4.8 on a daily basis.

1) The credit organizations shall calculate their foreign currency positions in Armenian Drams, according to points 3.1-3.3 of this Appendix. On the basis of the calculated positions, they shall build a single-dimensional "1xA" matrix of FX positions:

$$P = (P_1, P_2, \dots, P_t)$$

where:

(P_1, P_2, \dots, P_t) – absolute values of FX positions by types of foreign currencies,

t – types of foreign currencies

2) Credit organizations shall develop time series of daily foreign currency/Armenian Dram exchange rates, announced by the Central Bank, containing open positions during the reporting period. The time series shall include data as of the given day and data for 250 preceding business days. Exchange rates shall be calculated based on foreign currency/Armenian Dram exchange rates, announced by the Central Bank. Banking and standardized bullions of precious metals shall be calculated based on the settlement price of banking and standardized bullions of precious metals announced by the Central Bank.

3) For each type of the foreign currency, on a daily basis, credit organizations shall calculate a natural logarithm of fluctuations of foreign currency to Armenian Dram exchange rate, announced by the Central Bank by days:

$$\ln(F_0/F_{0-1})$$

where:

F_0 – exchange rate of the given foreign currency to Armenian Dram, announced by the Central Bank “0” days before the given day,

“0” – the day of calculating foreign exchange risk or one of the 250 preceding business days.

4) For each type of foreign currency credit organizations shall calculate the mathematical expectation of natural logarithmic values of fluctuations in the given currency to Armenian dram exchange rate, announced by the Central Bank (the length of series shall be 250 business days). The mathematical expectation shall be calculated using the following formula:

$$E^i = \frac{1}{250} \sum_{0=1}^{250} \ln\left(\frac{F_0^i}{F_{0-1}^i}\right)$$

where:

E^i – the mathematical expectation of natural logarithmic values of the i-th foreign currency fluctuations,

$\ln(F_0^i / F_{0-1}^i)$ – the natural logarithmic value of the i-th foreign currency fluctuation by days

5) Credit organizations shall calculate all possible covariance coefficients between foreign currencies. A foreign exchange “AxA”-sized covariance matrix shall be built based on covariance coefficients, where “A” denotes the number of foreign currency types. The covariance coefficient shall be calculated using the following formula:

$$Cov_{ik} = \frac{1}{250} \sum_{0=1}^{250} \left(\ln\left(\frac{F_0^i}{F_{0-1}^i}\right) - E^i \right) \left(\ln\left(\frac{F_0^k}{F_{0-1}^k}\right) - E^k \right)$$

where:

Cov_{ik} – covariance coefficient between the i-th and k-th foreign currencies,

E^i, E^k – mathematical expectations of the i-th and k-th foreign currencies, respectively, calculated according point 4.4 of this Appendix

6) The calculation of foreign exchange risk using VaR methodology shall be based on 99% level of confidence.

7) The foreign currency VaR for the credit organization for the given day (hereinafter, FX daily VaR) shall be calculated using the following formula:

$$VaR = 2.33 \sqrt{M * Cov * M^t}$$

where:

M – matrix of the foreign currency positions of the credit organization

Cov – foreign currency covariance matrix of the credit organization

M^t – transposed matrix of foreign currency positions of the credit organization

8) To calculate the capital adequacy ratio, the foreign exchange risk, using VaR methodology, shall be calculated using the following formula:

$$\text{Foreign exchange risk} = 3 * (\text{maximum} \left(VaR_{-10}; E \frac{1}{N} \sum_{i=1}^N VaR_i \right))$$

where:

VaR_{-10} – VaR for ten days as of the last day of the reporting period, which is calculated using the formula

$$VaR_{-1} = \sqrt{10} * VaR_N$$

N – number of days in the reporting period

i – days in the reporting period,

E – will have the following values, depending on the number of days within 250 business days preceding the last day of the reporting month, when as a result of the exchange rate fluctuations the daily loss of the credit organization exceeded foreign exchange VaR for the given day:

Table 1

Number of exceeding days	E
4 days and less	3
5	3.4
6	3.5
7	3.65
8	3.75
9	3.85
10 days and more	4

(Appendix 2 was added by Decision No 239N on 12.08.08)

“On the regulation of the activities of credit organizations, the prudential standards of activities of credit organizations”

MINIMUM REQUIREMENTS FOR EXTENDING MORTGAGE LOANS WITH 50/75% RISK WEIGHT

A mortgage loan extended by a credit organization shall qualify for a mortgage loan (hereinafter referred to as a loan), satisfying the “Minimum requirements for extending mortgage loans with 50/75% risk weight” if it meets all the following requirements:

1. The loan is extended to an individual (hereinafter referred to as borrower) for acquisition or renovation of a house or an apartment in the Republic of Armenia (hereinafter referred to as residential property) and is secured by the primary pledge of the same property,

2. The loan is provided for at least 10 years, except for loans for renovation,

3. The borrower (co-borrower) has the right of ownership to the property from the moment of the loan extension up to the end of the loan agreement,

4. Maximum 2 months before the loan extension the property was valued pursuant to the Law of the Republic of Armenia “On real estate valuation activities” and the “Standard on real estate valuation in the Republic of Armenia”,

5. The amount of the loan at the moment of extension does not exceed 70% of the lower value of the market price of the property or of its acquisition price,

6. Monthly loan repayments (principal, interest, insurance premium) do not exceed 40% of the borrower’s monthly income (gross income less all tax and social insurance payments),

7. The total amount of the borrower’s monthly loan repayments (principal, interest, insurance premium) and other regular payments on obligations do not exceed 50% of the borrower’s monthly income (gross income less all tax and social insurance payments),

8. According to the loan agreement, the property is insured against destruction, damage and spoiling risks as of any moment of the period, starting from the loan extension up to the complete fulfillment of obligations under the loan agreement, minimum at the value of the loan balance.

(Appendix 3 was added by Decision No 239N on 12.08.08, amended and edited by Decision No 342N on 21.12.10)

“On the regulation of the activities of credit organizations, the prudential standards of activities of credit organizations”

MINIMUM REQUIREMENTS OF PREFERRED SHARES INCLUDED IN THE
CALCULATION OF CORE CAPITAL

1. Preferred share is included in the calculation of core capital of the credit organization if it meets all the following requirements:

- 1) It is fully paid and accounted, in the manner provided by law, in the category “Preferred shares” of statutory capital of balance sheet;
- 2) In case of liquidation of the credit organization, the claims of preferred shareholder (including claims on dividends) shall be satisfied after satisfaction of all other claims of the creditors of the credit organization, except for ordinary shareholder’s claims;
- 3) It is not secured by guarantee or surety of parties, affiliated with the credit organization, and/or the preferred shareholder economically and/or legally does not appear in a more favorable status as a matter of fact that, according to the Charter or otherwise, his/her claim is subject to be satisfied earlier than the order of the claim satisfaction prescribed by law in case of liquidation of the credit organization. Meanwhile, the preferred shareholder’s claim shall not be set-off (netted) against other debt obligations of the preferred shareholder to the credit organization;
- 4) It is issued for a non-fixed term;
- 5) The dividend on preferred share is not subject to payment, either fully or partially, if this would result in violation of any of prudential standards of the credit organization or lead to the deterioration of its financial situation. Meanwhile:
 - a. Nonpayment of dividends, either fully or partially, is not subject to accumulation and repayment subsequently;
 - b. Any legal document between the credit organization and the preferred shareholder shall not prescribe any restriction for the credit organization in case of nonpayment of dividend, either fully or partially, as well as any legal document shall not prescribe the provision of right to the preferred shareholder to prescribe such restriction, unless the restriction refers to the payment of dividends on ordinary shares. Meanwhile, the restriction on payment of dividend on ordinary share as defined by this paragraph shall refer

only to the period during which the dividend on preferred share has not been paid, either fully or partially;

- 6) Dividends on that share shall be paid only from the net income and/or funds established at the expense of net income of the credit organization. Meanwhile, dividends shall be paid only in money;
- 7) The amount of dividends paid on those shares shall not depend on the rating of the credit organization, any index describing its financial situation or the actual size of formerly paid dividends on preferred shares;
- 8) The credit organization has not indirectly financed the acquisition of those shares;
- 9) There has been no agreement (decision, contract, agreement) according to which the owner of the preferred share shall have the right to prescribe any restriction or obstacle for further issue of additional ordinary or preferred share or attraction of subordinated borrowings by the credit organization;
- 10) Any legal document (except for the Charter of the credit organization), which regulates the relations between the credit organization and the preferred shareholder with regard to preferred shares, provides that in case of changes in requirements/conditions provided in this appendix, those changes shall be submitted to the prior consent of the Central Bank. Without the prior consent of the Central Bank the changes have no mandatory legal force (parties shall not incur legal consequences).

(Appendix 4 was added by Decision No 135N on 26.09.19)

“On the regulation of the activities of credit organizations, the prudential standards of activities of credit organizations”

MINIMUM REQUIREMENTS FOR LONG-TERM SUBORDINATED BORROWINGS
INCLUDED IN THE CALCULATION OF ADDITIONAL CAPITAL

1. Long-term subordinated borrowing (hereinafter also borrowing) shall be included in the calculation of additional capital of the credit organization, if the borrowing (loan agreement) meets all the following conditions:

- 1) The borrowing has not been provided as a security for a definite obligation to the credit organization;
- 2) The borrowing has been attracted in Armenian dram or Group I currency;
- 3) In the case of liquidation of the credit organization the lender's claims (including claims on accrued interest rates) shall be satisfied after satisfaction of all other creditors' claims;
- 4) The borrowing is not secured by guarantee or surety of the credit organization and/or parties, affiliated with the credit organization, and/or the lender economically and/or legally does not appear in a more favorable status as a matter of fact that his/her claim is subject to be satisfied earlier, than the order of claim satisfaction prescribed by law in case of liquidation of the credit organization. Meanwhile, the lender's claim shall not be set-off (netted) against other debt obligations of the lender to the credit organization;
- 5) The borrowing is provided for at least 5 years. Meanwhile, according to the loan agreement, repayment of principal amount may be provided only during one calendar year preceding the deadline for full repayment of the loan amount, and in case of loan agreement extension, the repayment of principal amount may be provided only during one calendar year preceding the deadline for extended full repayment (except for cases of early repayment of full amount of the loan in the manner provided by sub-point 7 of point 1 of this Appendix);
- 6) The loan agreement does not include such provisions (incentives), which may economically or otherwise force (encourage) the credit organization to repay the loan amount ahead of schedule, either fully or partially. For the purpose of this sub point, the provision on conversion of the loan to the shares, prescribed by sub-point 17 of point 1 of this Appendix, shall not be considered as an incentive;

- 7) The borrowing (principal amount and accrued interests) shall not be repaid prior to maturity term, except:
 - a. in cases provided by Armenian legislation,
 - b. if in the case of repayment prior to maturity term the whole amount of borrowing is directed to the replenishment of statutory capital of the credit organization (in the form of shares included in the core capital according to point 16.1 of this Regulation),
 - c. if the repayment of borrowing prior to maturity term is initiated by the credit organization and all the following requirements are met:
 - c1. The credit organization has got the Central Bank's prior approval for early repayment of borrowing,
 - c2. The difference between the dates of early repayment and borrowing disbursement shall be at least 5 calendar days.
- 8) For the purpose of acquiring the prior consent, prescribed in sub-point 7 of point 1 of this Appendix, the credit organization shall submit to the Central Bank information and/or documents justifying the rationality and nonappearance of negative results of early repayment of the subordinated borrowing. The Central Bank shall decide to provide the consent or reject the provision of the consent within 30 days upon receipt of documents, on which a written notice shall be given to the credit organization within two business days upon end of 30 days period. For the purpose of clarifications of any facts, required by the Central Bank, and/or in case of necessity to make any changes, adjustments in the documents submitted by the credit organization, the 30-day period may be suspended upon the Central Bank's decision. The Central bank shall give prior consent, prescribed in sub-point 7 of point 1 of this Appendix, if:
 - a. the credit organization substitutes the subordinated borrowing with another long-term subordinated borrowing, which shall meet the requirements of this Appendix, or with preferred shares, which shall meet the requirements of Appendix 4 of this Regulation, and the substitution would not negatively affect the financial situation of the credit organization, or
 - b. the credit organization justifies that the level of its regulatory capital, without subordinated borrowing defined in this point, is high enough and there is no need to substitute it with a new capital instrument.
- 9) According to the agreement, the borrowing (principal amount and accrued interests) are not subject to repayment by the credit organization if the repayment of principal amount and/or accrued

interest on the date of the repayment would result in violation of any of prudential standards of the credit organization. Meanwhile, the agreement between the credit organization and the lender or local or individual legal act of the credit organization shall not prescribe any restrictions for the credit organization in case of nonpayment, either fully or partially, of the amount of borrowing and accrued interests, as well as provide the right to the lender to prescribe such restrictions, unless such restriction refers to the payment of dividends on shares issued by the credit organization and/or payments with regard to other subordinated borrowings included in the calculation of additional capital;

- 10) In cases, prescribed by sub-point 9 of point 1 of this Appendix, nonpayment, either fully or partially, of principal amount and accrued interests shall not be considered as nonperformance or improper performance of obligations by the credit organization;
- 11) The sum of accrued interests on borrowing shall not depend on the rating of the credit organization, any index describing its financial situation or level of actual payments of principal amount and/or accrued interests on the borrowing. The amount of interests, payable on the borrowing, shall not decline in case when the credit organization makes the required payments on the borrowing fully and in a timely manner;
- 12) There has not been any legal document providing a right for lender to require paying of the loan ahead of the schedule only for the reason that the credit organization has not duly met its liabilities with regard to other obligations;
- 13) The borrowing is not provided by a legal entity in which the credit organization is a significant participant (qualified holder) and/or the credit organization has not financed directly or indirectly the attraction of the borrowing;
- 14) There has not been any legal document providing that the lender can anyhow restrict or impeditment attraction of new borrowings by the credit organization from other lenders;
- 15) The schedule of payments on borrowing is clearly prescribed by the loan agreement;
- 16) In case, where the loan amount is provided to the credit organization in tranches, each tranche shall meet the conditions prescribed by this Appendix for the purpose of including in the calculation of additional capital, including that each tranche shall be provided for minimum 5 years;

- 17) The loan agreement provides that in case of deterioration of financial situation of the credit organization the borrowing shall be repaid by the credit organization in the amount of borrowing and the lender is obliged to immediately direct the amount of the repaid borrowing to the replenishment of the statutory capital of the credit organization (hereinafter conversion) in the form of shares included in the core capital according to the point 16.1 of this Regulation. Meanwhile, for the purpose of this sub-point, the amount of borrowing shall be the amount, which in the Central Bank's opinion, is required to eliminate (alleviate) the grounds of deterioration of financial situation of the credit organization, but not exceeding the maximum amount at which the borrowing has been included in the calculation of total capital of the credit organization during 120 days preceding the situation described in point 2 of this Appendix. If the borrowing is attracted in Group I currencies, then the amount directed to the replenishment of the statutory capital of the credit organization shall be converted into Armenian dram, based on the Armenian dram's financial market based average exchange rates vis-à-vis the given foreign currency on the date of conversion, announced by the Central Bank;
 - 18) The loan agreement shall specify the ratio at which the borrowing shall be converted into shares included in the core capital for the purpose of conversion prescribed by sub-point 17 of point 1 of this Appendix;
 - 19) The loan agreement provides that amendment and/or cancelation of the loan agreement requires the Central Bank's prior consent. Without such consent any amendment and/or cancelation shall not have mandatory legal force (parties shall not incur legal consequences).
2. For the purpose of this Regulation, deterioration of financial situation shall be considered any of the following situations:
- 1) Core capital adequacy ratio falls below:
 - a. 2.5% for saving unions,
 - b. 6.5% for credit unions,
 - c. 8.5% for leasing organizations,
 - d. 10.5% for factoring organizations, universal credit organization and refinancing credit organizations,
 - 2) The Central Bank notifies the credit organization in written form that the capital instrument check-out or conversion into the shares included in the core capital is required, as without it the grounds for insolvency or bankruptcy of the credit organization, specified by the law, will (possibly) appear.

3. In cases, where as a result of attraction of borrowing, the value of amount of subordinated borrowing attracted from that lender will exceed 10 percent of the voting shares of the credit organization, or the sum of participation of the lender with voting right in the statutory capital of the credit organization and the borrowing provided to the credit organization will exceed 10 percent of the voting shares of the credit organization, then prior to the inclusion of the amount (or part thereof) of the borrowing in the calculation of total capital of the credit organization, the lender shall get the prior consent of the Central Bank for acquisition of significant participation (qualified holding) in the credit organization, according to Regulation 13 “On procedures of licensing, registration, giving consent and permission, appraisal of the professional adequacy and qualification in the area of activity of credit organizations”, approved by the Central Bank Board Resolution No 194-N on July 1, 2008.

(Appendix 5 was added by Decision No 135N on 26.09.19)