"Registered"
by the Ministry of Justice of the
Republic of Armenia
on December 21, 2007
State registration number 05007462

THE CENTRAL BANK OF ARMENIA
BOARD RESOLUTION
Number 365-N
November 16, 2007

ON APPROVAL OF REGULATION 3/08 ON "THE METHODOLOGY OF CALCULATION OF THE AGGREGATED EVALUATION OF INDICATORS (CARAMELS) OF ACTIVITY OF THE INSURANCE COMPANIES, OPERATING WITHIN THE TERRITORY OF THE REPUBLIC OF ARMENIA"[1]

Pursuant to Article 158 of the Law of the Republic of Armenia "On insurance and insurance activities", part 3 of Article 2, point "e" of Article 20 of the Law of the Republic of Armenia "On the Central Bank of the Republic of Armenia" and Article 16 of the Law of the Republic of Armenia "On legal acts", the Board of the Central Bank of the Republic of Armenia

d e c i d e s:

1. to approve Regulation 3/08 on "The methodology of calculation of the aggregated evaluation of indicators (CARAMELS) of activity of the insurance companies, operating within the territory of the Republic of Armenia", in accordance with the Appendix.
2. This Resolution shall come into force on the tenth day after its official publication.

Chairman of the Central Bank
of the Republic of Armenia **Tigran Sargsyan**

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[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. 317-N, dated 04.11.09; No. 155-N, dated 24.05.11; No. 18-N, dated 22.01.13

Appendix
of Resolution of the Board of the Central Bank
of the Republic of Armenia, number 365-N,
dated November 16, 2007

REGULATION 3/08

ON "THE METHODOLOGY OF CALCULATION OF THE AGGREGATED EVALUATION OF INDICATORS (CARAMELS) OF ACTIVITY OF THE INSURANCE COMPANIES, OPERATING WITHIN THE TERRITORY OF THE REPUBLIC OF ARMENIA"

1. This Regulation defines the procedure of calculation, approval and disclosure of the aggregated evaluation of indicators (CARAMELS) of activity of the insurance companies, operating within the territory of the Republic of Armenia, by the Central Bank of the Republic of Armenia.

1.1. The concepts, used in this Regulation, have the following meanings:

1) Regulation 3/04 – Regulation 3/04 on "The forms of statements of insurance companies, the information, included in them, the procedure and terms of their submission", approved by Resolution of the Board of the Central Bank of the Republic of Armenia number 366-N, dated November 16, 2007,
2) Regulation 3/02 – Regulation 3/02 on "Limits, procedure of formation and calculation of main prudential standards of insurance activity, criteria for qualifying reinsurers as not prohibited", approved by Resolution of the Board of the Central Bank of the Republic of Armenia number 311-N, dated October 2, 2007,
3) Regulation 3/09 – Regulation 3/09 on "The procedure of classification of assets of insurance companies and formation and use of possible loss reserves", approved jointly by Resolution of the Board of the Central Bank of the Republic of Armenia number 73-N, dated march 25, 2008, and the Decree of the Minister of finance and economy of the Republic of Armenia number 285-N, dated April 14, 2008,
4) **(sub-point 4 was repealed by Resolution No. 155-N, dated 24.05.11),**
5) **(sub-point 5 was repealed by Resolution No. 155-N, dated 24.05.11),**
6) Total regulatory capital – the minimum requirement of total capital (S 1.1 standard), defined by Regulation 3/02,

7) Reporting period – the period, for which the CARAMELS rating is being calculated for insurance companies.

(point 1.1 was added by Resolution No. 317, dated 04.11.09; supplemented and amended by Resolution No. 155-N, dated 24.05.11)

1.2. The other concepts, used in this Regulation, have the same meanings, as in the Law of the Republic of Armenia "On insurance and insurance activities" and the normative legal acts, approved by the Board of the Central Bank of the Republic of Armenia, until otherwise is specified by this Regulation.

(point 1.2 was added by Resolution No. 317, dated 04.11.09)

2. The CARAMELS rating is being calculated as an average score of the ratings of capital adequacy (C), assets quality (A), reinsurance (R), actuarial calculations and technical reserves (A(AR)), management (M), earnings (E), liquidity (L), sensitivity to market risk (S) of the insurance company, calculated in accordance with this Regulation.

(point 2 was supplemented by Resolution No. 317, dated 04.11.09; amended by Resolution No. 155-N, dated 24.05.11)

3. For each component of CARAMELS, the rating of the given component is the average of the ratings of sub-component ratios calculated in accordance with Appendix 1 and adjusted in accordance with Appendix 2 of this Regulation.

4. For assessment of each component of CARAMELS (except for the "M" component), the sub-component ratios are being calculated on the basis of the statements, submitted to the Central Bank of the Republic of Armenia by the insurance companies, operating within the territory of the Republic of Armenia, in accordance with Regulation 3/04. The assessment of those sub-component ratios is being conducted in accordance with Appendix 1 of this Regulation. The indicators, used during the calculation of each sub-component ratio, are being adjusted in accordance with Appendix 2, taking into consideration the defined respective adjustment factors and their most probable quantitative impact on the calculated sub-component ratios. The calculation of all components of the CARAMELS is applicable to the companies, conducting life and non-life insurance activity, except for the cases, specified by this Regulation.

(point 4 was amended, edited by Resolution No. 317-N, dated 04.11.09)

5. The rating of the "M" component of the CARAMELS is being calculated in accordance with Appendix 3 of this Regulation.

6. The assessment of the sub-component ratios, calculated in the basis of the adjusted indicators, as well as the assessment of the "M" component is being conducted in a 1-5 scale system, where 5 is the best score, and 1 is the worst score.

7. If the average daily amount of the total regulatory capital of the insurance company in the last month of the reporting quarter is less than the minimum amount of

total capital, set by the Central Bank of the Republic of Armenia, then the rating of “C” component equals to 1.

(point 7 was amended by Resolution No. 155-N, dated 24.05.11)

7.1. If the insurance company breaches the FX disposition ratio (S6.1, S6.2) on the daily average calculation in the last month of the reporting quarter, then the “S” component is being rated 1.

(point 7.1 was added by Resolution No. 18-N, dated 22.01.13)

8. If the total regulatory capital of the insurance company is negative, then the sub-component ratios, in calculation of which the amount of total capital takes part, are being rated 1.

9. If the insurance company’s net profit of the current period is negative after taxation, then the “E” component is being rated 1.

(point 9 was amended by Resolution No. 18-N, dated 22.01.13)

10. If during the quarter the insurance company breaches the liquidity standard S2, set by the Central Bank, then for each infringement the rating of the “L” component decreases by 0.5.

11. The CARAMELS ratings of insurance companies are being calculated at least quarterly, based on the off-site supervision. The CARAMELS rating can be also calculated (adjusted), based on the results of inspections in insurance companies.

12. The CARAMELS ratings of insurance companies are being approved by the Licensing and Supervision Committee of the Central Bank of the Republic of Armenia.

13. After approving the quarterly CARAMELS ratings of insurance companies, the Central Bank of the Republic of Armenia provides them to the insurance companies within 3 days. Furthermore, each insurance company is being provided with its individual CARAMELS rating.

(point 13 was supplemented by Resolution No. 317-N, dated 04.11.09)

14. In those sub-component ratios, where an average annual indicator of activity of the last three years is being calculated, the average annual indicator of activity of two years is being calculated for the insurance companies, operating from two to three years; the indicator of one year is being calculated for the insurance companies, operating from 1 to two years; and for the insurance companies, operating less than one year, the indicator of the whole period of operation is being calculated, unless otherwise is specified by this Regulation.

(point 14 was amended, supplemented by Resolution No. 317-N, dated 04.11.09; amended by Resolution No. 155-N, dated 24.05.11)

Appendix 1
of the Appendix of Regulation 3/08 on
"The methodology of calculation of the aggregated evaluation of
indicators (CARAMELS) of activity of the insurance companies,
operating within the territory of the Republic of Armenia"

C – Capital adequacy

The ratios of this part assess the level of capital adequacy of the insurance company from perspective of satisfying the respective main prudential standards, defined by the Central Bank of the Republic of Armenia, and complying with the riskiness level of the insurance company. For assessment of the "C" component, the C1-C5 sub-component ratios are being calculated.

Ratio	Definition of the ratio	The range and the respective rating of the ratio	The description of the ratio
C1	(Total regulatory capital / (required solvency amount + risk weighted assets)) * 100	$140\% \le C1$ =5 $120\% \le C1 < 140\%$ =4 $100\% \le C1 < 120\%$ =3 $80\% \le C1 < 100\%$ =2 $C1 < 80\%$ =1	The ratio is the S1.2 prudential standard. The indicators of the ratio are being calculated in accordance with Regulation 3/02. The indicators of the ratio are being calculated, based on the data of "Form 3" statement of Regulation 3/04
C2	((Total regulatory capital + possible losses reserve – non-performing assets) / Minimum amount of total capital) * 100	$250\% \le C2$ =5 $150\% \le C2 < 250\%$ =4 $125\% \le C2 < 150\%$ =3 $100\% \le C2 < 125\%$ =2	The ratio assesses the level of excess over the minimum amount of total capital of the insurance company, considering the non-performing assets as a

		C2 < 100% =1	possible loss. In the calculation of the C2 component, the total regulatory capital is included as of the last day of the reporting quarter. The possible losses reserve includes the possible losses reserve, formed in accordance with Regulation 3/09 for watch, non-standard, doubtful assets (except for investment securities), as well as risky, mid-risky and high risky investment securities, as of the last day of the reporting quarter. Non-performing assets include watch, non-standard and doubtful assets (except for investment securities), as well as risky, mid-risky and high risky investment securities, in accordance with Regulation 3/09, as of the last day of the reporting quarter. Furthermore, the watch assets are being included with the 20%, risky securities – 25%, non-standard assets – 50%, mid-risky securities – 70%, doubtful assets and high risky securities – 100% weights in the calculation of the ratio. Furthermore, the possible loss reserves, formed for the non-performing assets, in accordance with Regulation 3/09, are not included in the calculation of the non-performing assets.

			The minimum amount of total capital, set for the given insurance company by Regulation 3/02 as of the last day of the reporting quarter, is being considered as the minimum amount of total capital. The indicators of the ratio are being calculated, based on the data of "Form 3", "Form 9" statements of Regulation 3/04
C3	((Sum insured (amount of liability, assumed by a contract (contracts) on one object of insurance and the affiliated objects) – the share of the reinsurer in the sum insured) / Total regulatory capital) * 100	$10\% < C3 \leq 15\%$ =2 $15\% < C3$ =1	The ratio is the S3 prudential standard, calculated in accordance with Regulation 3/02. The ratio is being calculated on the maximum amount of the grand totals of the sums insured, assumed by the insurance contract(s) on one insurance object and the affiliated objects (deducted by the share of the reinsurer, specified by Regulation 3/02) (hereinafter, Net sum insured). If $C3 \leq 10\%$, then the ratio is not included in the calculation of the "C" component. If $10\% < C3 \leq 15\%$, then the ratio is being calculated for the next 4 biggest Net sums insured as well. If the ratios, calculated for the mentioned 4 Net sums insured, are also within the (10%, 15%] range, then the ratio is being rated 1. The total regulatory capital is included in the

			calculation of the C3 ratio with the average daily amount of the last month of the reporting quarter. The indicators of the ratio are being calculated, based on the data of "Form 3" statement of Regulation 3/04
C4	(Sum of liabilities of one borrower / Total regulatory capital) * 100	20% < C4 ≤ 25% =2 25% < C4 =1	The ratio is the S5 prudential standard, calculated in accordance with Regulation 3/02. The ratio is being calculated on the largest borrower. If C4 ≤ 20%, then it is not included in the calculation of the "C" component. If 20% < C4 ≤ 25%, then the ratio is being calculated for the next 4 largest borrowers as well. If the ratios, calculated for the mentioned 4 borrowers, are also within the (20%, 25%] range, then the ratio is being rated 1. The total regulatory capital is included in the calculation of the C4 ratio with the average daily amount of the last month of the reporting quarter. The indicators of the ratio are being calculated, based on the data of "Form 3" statement of Regulation 3/04
C5	((Compensations receivable from reinsurers + bonuses and other payments receivable from	50% < C5 ≤ 70% =2 C5 > 70% =1	The ratio assesses the level of dependency of the insurance company on reinsurers. High level of this ratio witnesses about danger in continuity of financial

	reinsurers) / Total regulatory capital) * 100		stability of the company. The indicators of the ratio are being taken as of the last day of the reporting quarter. The indicators of the numerator of the ratio are included in the calculation of the ratio with their gross book value. The C5 ratio is not included in the calculation of the "C" component, if C5 ≤ 50%. The calculation of the ratio is being conducted, based on the data of "Form 1" and "Form 3" statements of Regulation 3/04.

A – Assets quality

The ratios of this part assess the assets quality of the insurance company from perspective of their profitability, diversification, etc. For assessment of the "A" component, the A1-A6 sub-component ratios are being calculated.

Ratio	Definition of the ratio	The range and the respective rating of the ratio	The description of the ratio
A1	Financial investments / Total assets	$A1 \geq 40\%$ =5 $20\% \leq A1 < 40\%$ =4	The ratio assesses the share of financial investments

		$10\% \le A1 < 20\%$ =3 $8\% \le A1 < 10\%$ =2 $A1 < 8\%$ =1	in the total assets. The financial investments include deposits, provided loans, repurchase agreements, securities, components of insurance and reinsurance contracts, non-current investments in statutory capital of other entities, other investments. The indicators are included in the calculation of the ratio with their gross book value. The indicators of the ratio are calculated, based on the data of "Form 1" statement of Regulation 3/04, as of the last day of the reporting quarter.
A2	((Fixed assets + intangible assets + future expenses + receivables) / Total assets) * 100	$A2 < 10\%$ =5 $10\% \le A2 < 20\%$ =4 $20\% \le A2 < 30\%$ =3 $30\% \le A2 < 40\%$ =2 $40\% \le A2$ =1	The ratio assesses the share of investments in non- (low-) profitable and non- (low-) liquid assets in the total assets. The indicators of the ratio are included with their book value as of the last day of the reporting quarter. The receivables include the sums receivable on insurance, co-insurance and reinsurance contracts, as well as other receivables, prepayments and other current and non-current assets (except for the cash and equivalents, banking and other accounts, the share of the reinsurer in the technical reserves, components of insurance and reinsurance contracts,

			included derivative instruments, investments, provided loans and signed repurchase agreements, securities, derivative instruments, deferred tax assets, deposited sum, investments in statutory capital of other entities, dividends on them, other claims on them, fixed assets and intangible assets). The indicators of the ratio are calculated, based on the data of “Form 1” statement of Regulation 3/04.
A3	((Insurance premiums (premiums on reinsurance) receivable + compensations receivable) / (Gross insurance premiums + share of the reinsurer in the insurance compensations + income on compensations from reinsurers)) * 100	$A3 \leq 15\%$ =5 $15\% < A3 \leq 25\%$ =4 $25\% < A3 \leq 30\%$ =3 $30\% < A3 \leq 40\%$ =2 $A3 > 40\%$ =1	The ratio shows the share of receivables on pure insurance activity in the funds, recognized as income on pure insurance activity. The numerator of the ratio includes the insurance premiums receivable, reinsurance premiums receivable on the risk, accepted for reinsurance, sums receivable from reinsurers on compensations, sums receivable from co-insurers on compensation, as of the last day of the reporting quarter. The denominator of the ratio includes the insurance premiums, recognized as income on the insurance, co-insurance contracts, reinsurance premiums on the risks, accepted for reinsurance, the share of reinsurers in insurance compensations, the income from co-insurers on compensations, for the reporting

			and preceding 3 quarters. The numerator of the ratio are calculated, based on the data of "Form 1" statement of Regulation 3/04, and the denominator of the ratio is being calculated, based on the data of "Form 5" statement of Regulation 3/04. If the numerator and denominator of the ratio are 0, then this ratio is not included in the assessment of the "A" component. But if only the numerator of the ratio is 0, then the A3 ratio is being rated 5.
A4	(Non-performing assets / Total assets) * 100	$A4 \leq 2\%$ =5 $2\% < A4 \leq 4\%$ =4 $4\% < A4 \leq 6\%$ =3 $6\% < A4 \leq 8\%$ =2 $A4 > 8\%$ =1	The ratio assesses the share of non-performing assets in the total assets. The numerator of the ratio includes the amount of non-performing assets, in accordance with Regulation 3/09, as of the last day of the reporting quarter. Furthermore, the non-performing assets are included in the calculation of the ratio with their gross book value, and the assets, classified as loss in accordance with Regulation 3/09, are not included in the non-performing assets. The denominator of the ratio includes the assets, specified by Regulation 3/09, with their gross book value.

			The indicators of the ratio are calculated, based on the data of "Form 19" statement of Regulation 3/04 as of the last day of the reporting quarter.
A5	(Possible losses reserve / Non-performing assets) * 100	20% < A5 ≤ 50% =2 A5 > 50% =1	The possible losses reserve includes the possible losses reserve, formed on non-performing assets, in accordance with Regulation 3/09. The indicators of the ratio are being taken as of the last day of the reporting quarter. The denominator of the ratio includes the amount of non-performing assets in accordance with Regulation 3/09. Furthermore, the non-performing assets are included in the calculation of the ratio with their gross book value, and the assets classified as loss in accordance with Regulation 3/09, are not included in the non-performing assets. A5 ratio is not included in the calculation of the "A" component, if the rating of the A4 ratio equals to 5 and/or A5 ≤ 20%. The calculation of the indicators, included in the ratio, is being conducted, based on the data of "Form 19" statement of Regulation 3/04.
A6	The concentration level of financial assets by financial instruments	A6 < 0.2 =5 0.2 ≤ A6 < 0.4 =4	The calculation of assets is being conducted in accordance with "Form 1" statement of Regulation

		$0.4 \leq A6 < 0.5$ =3 $0.5 \leq A6 < 0.7$ =2 $0.7 \leq A6$ =1	3/04, using the Herfindahl-Hirschman index. The Herfindahl-Hirschman index is calculated with the $HHI=\sum Si^2$ formula, where the "Si" is the share of the "i" financial asset in total financial assets. When calculating the Herfindahl-Hirschman index, the grouping of financial assets is being conducted in the following way: 1) deposits in resident banks, other investments in resident banks, loans provided to resident banks and repurchase agreements, signed with them, 2) deposits in non-resident banks, other investments in non-resident banks, loans provided to non-resident banks and repurchase agreements, signed with them, 3) loans provided to residents and repurchase agreements, signed with them (except for the loans provided to resident banks and repurchase agreements, signed with them), 4) loans provided to non-residents and repurchase agreements, signed with them (except for the loans provided to non-resident banks and repurchase agreements, signed with them),

			5) T-bills of the RA and securities, issued by the Central Bank, 6) corporate securities of the RA, 7) government and corporate securities of foreign countries, securities of international financial organizations, 8) non-current investments in the statutory capital of other resident entities, without the dividends receivable on them, 9) non-current investments in the statutory capital of other non-resident entities, without the dividends receivable on them, 10) other investments in resident entities, 11) other investments in non-resident entities When calculating this index, the financial assets are included with their book value. The indicators are included in the calculation of the index as of the last day of the reporting quarter.

R - Reinsurance

The ratios of this part assess the volumes of reinsurance of the insurance company, the risks, emerging from it, from perspective of the volumes of reinsurance, reliability of the reinsurers, diversification of the reinsurers. For assessment of the "R" component, the R1-R6 sub-component ratios are being calculated.

Ratio	Definition of the ratio	The range and the respective rating of the ratio	The description of the ratio
R1	(Share of the reinsurer in the sum insured / Total sum insured) * 100	R1 > 70% =5 50% < R1 ≤ 70% =4 30% < R1 ≤ 50% =3 10% < R1 ≤ 30% =2 R1 ≤ 10% =1	The fewer are the risks that the insurance company reinsures, the higher is the riskiness level of the company. The indicators of the ratio are calculated, based on the data of "Form 1", "Form 10" statements of Regulation 3/04 as of the last day of the reporting quarter.
R2	(Sum reinsured, transferred to reliable reinsurers / total sums reinsured) * 100	50% < R2 ≤ 60% =2 R2 ≤ 50% =1	The R2 ratio is included in the calculation of the "R" component, if R1 > 30% and/or R2 ≤ 60%. When calculating the given ratio, those reinsurers are considered as reliable, which satisfy the 20% and 50% risk weights, in accordance with point 31 of Table 1 of Appendix 2 of Regulation 3/02. The calculation of the ratio is conducted, based on the data of "Form 10" statement of Regulation 3/04 as of

			the last day of the reporting quarter.
R3	Level of concentration of reinsurers by sums insured	$R3 \leq 0.2$ =5 $0.2 < R3 \leq 0.3$ =4 $0.3 < R3 \leq 0.4$ =3 $0.4 < R3 \leq 0.5$ =2 $R3 > 0.5$ =1	The ratio is being calculated if R1 > 30%. The calculation of the ratio is conducted, based on the data of "Form 10" statement of Regulation 3/04 as of the last day of the reporting quarter, using the Herfindahl-Hirschman index. The Herfindahl-Hirschman index is being calculated with the $HHI=\sum Si^2$ formula, where the "Si" is the share of the risk, assumed by the given reinsurer, in the total sum reinsured.
R4	(Share of the reinsurer in compensations / Total insurance compensation) / (Insurance premiums, transferred to the reinsurer / Total insurance premiums)	$R4 > 1.3$ =5 $1.0 < R4 \leq 1.3$ =4 $0.7 < R4 \leq 1.0$ =3 $0.5 < R4 \leq 0.7$ =2 $R4 \leq 0.5$ =1	The indicators of the ratio are being calculated for the reporting quarter and preceding 11 quarters, with an average annual calculation. The ratio is not included in the assessment of the "R" component, if R1 = 0%. The ratio is not being calculated for the insurance companies, operating less than one year. The calculation of the indicators of the ratio is conducted, based on the data of "Form 5" statement of Regulation 3/04.
R5	(Share of the reinsurer in compensations / Insurance	$45\% < R5$ =5 $35\% < R5 \leq 45\%$ =4	The indicators of the ratio are being calculated for the reporting quarter and preceding 11 quarters, with an

	premiums, transferred to the reinsurer) * 100	25% < R5 ≤ 35% =3 15% < R5 ≤ 25% =2 R5 ≤ 15% =1	average annual calculation. The ratio is not being calculated for the insurance companies, operating less than one year. The ratio is not included in the assessment of the "R" component, if R1 = 0%. The calculation of the indicators of the ratio is conducted, based on the data of "Form 5" statement of Regulation 3/04.
R6	(Net reinsurance premiums / sums reinsured) / (Net insurance premiums / sums insured) * 100	R6 ≤ 40% =5 40% < R6 ≤ 70% =4 70% < R6 ≤ 100% =3 100% < R6 ≤ 120% =2 R6 > 120% =1	Indicators of the ratio are calculated on a quarterly basis. Net insurance premiums include the accrued insurance premiums, deducted by the amount of discounts and primary bonuses and by the amount of added premiums. Net reinsurance premiums include the accrued gross reinsurance premiums, deducted by the amount of bonuses, received from the reinsurer, and the profit tax of the non-resident. The ratio is not included in the assessment of the "R" component, if R1 = 0% and/or the numerator and/or the denominator of the ratio are 0. The calculation of the indicators of the ratio is conducted, based on the data of "Form 2", "Form 4"

			statements of Regulation 3/04.

A (AR) – Actuarial calculations and technical reserves

The ratios of this part assess: a) the adequacy of the technical reserves, formed by the insurance company, for meeting the received liabilities, showing the possibility to meet the liabilities, assumed by insurance contracts, as well as b) the extent to which the assessed insurance premiums (tariffs) are adequate to the liabilities, reflecting the possibility of adequacy of the reserves and the risk of tariff policy in a long-term period.

For assessment of the "A (AR)" component, the AR1 - AR3 sub-component ratios are being calculated.

Ratio	Definition of the ratio	The range and the respective rating of the ratio	The description of the ratio
AR1.1	(Technical reserves / Insurance premiums) * 100	AR1.1 > 80% =5 60% < AR1.1 ≤ 80% =4 50% < AR1.1 ≤ 60% =3 30% < AR1.1 ≤ 50% =2 AR1.1 ≤ 30% =1	The ratio assesses how correct the technical reserves are calculated and the extent they are enough to cover the losses. This ratio is being calculated only for life insurance companies. The technical reserves are included in the calculation of the ratio as of the last day of the reporting quarter. The insurance premiums are the average annual gross insurance premiums for the reporting quarter and the preceding 11 quarters. The calculation of the indicators of the ratio is conducted, based on "Form

			1", "Form 5" statements of Regulation 3/04. The ratio is included in the assessment of the "AR" rating with 50% weight.
AR1.2	(Net technical reserves / net insurance premiums) * 100	AR1.2 > 80% =5 60% < AR1.2 ≤ 80% =4 50% < AR1.2 ≤ 60% =3 30% < AR1.2 ≤ 50% =2 AR1.2 ≤ 30% =1	The ratio assesses how correct the technical reserves are calculated and the extent they are enough to cover the losses. This ratio is being calculated only for life insurance companies. Net technical reserves are the technical reserves, calculated in accordance with Regulation 3/03, deducted by the amount of share of the reinsurer in the reserves, as of the last day of the reporting quarter. Net insurance premiums are the average annual insurance premiums for the reporting quarter and the preceding 11 quarters, deducted by the amount of share of the reinsurer. The calculation of the indicators of the ratio is conducted, based on "Form 1", "Form 5" statements of Regulation 3/04. The ratio is included in the assessment of the "AR" rating with 50% weight.

AR2.1	(Technical reserves / insurance compensations) * 100	AR2.1 > 200% =5 150% < AR2.1 ≤ 200% =4 100% < AR2.1 ≤ 150% =3 80% < AR2.1 ≤ 100% =2 80% ≥ AR2.1 =1	The ratio assesses how correct the technical reserves are calculated and the extent they are enough to cover the losses. This ratio is being calculated only for non-life insurance companies. The technical reserves are included in the calculation of the ratio as of the last day of the reporting quarter. Insurance compensations are the average annual gross insurance compensations for the reporting quarter and the preceding 11 quarters. The calculation of the indicators of the ratio is conducted, based on “Form 1”, “Form 5” statements of Regulation 3/04. The ratio is included in the assessment of the “AR” rating with 50% weight.
AR2.2	(Net technical reserves / Net insurance compensations) * 100	AR2.2 > 200% =5 150% < AR2.2 ≤ 200% =4 100% < AR2.2 ≤ 150% =3 80% < AR2.2 ≤ 100% =2 80% ≥ AR2.2 =1	The ratio assesses how correct the technical reserves are calculated and the extent they are enough to cover the losses. This ratio is being calculated only for non-life insurance companies. Net technical reserves are the technical reserves, calculated in accordance with Regulation 3/02,

			deducted by the amount of share of the reinsurer in the reserves, as of the last day of the reporting quarter. Net insurance compensations are the average annual compensations accrued during the reporting quarter and the preceding 11 quarters, deducted by the amount of share of the reinsurer. The calculation of the indicators of the ratio is conducted, based on "Form 1", "Form 5" statements of Regulation 3/04. The ratio is included in the assessment of the "AR" rating with 50% weight.
AR3	(Gross compensations / Gross insurance premiums) * 100	$50\% < AR3 \leq 70\%$ =5 $40\% < AR3 \leq 50\%$ and $70\% < AR3 \leq 80\%$ =4 $30\% < AR3 \leq 40\%$ and $80\% < AR3 \leq 90\%$ =3 $20\% < AR3 \leq 30\%$ and $90\% < AR3 \leq 100\%$ =2	The ratio assesses how correct the technical reserves are calculated and the extent they are enough to cover the losses. Too high or too low level of the ratio may signal about the risk of not right calculation of the insurance tariffs. The ratio is not included in calculation of the "A(AR)" component, if both the numerator and denominator are 0, or only the denominator is 0. The calculation of the indicators of the ratio is conducted, based on "Form 1", "Form 5" statements of Regulation 3/04, as of the average annual

		100% < AR3 and AR3 ≤ 20% =1	calculation of the reporting quarter and preceding 11 quarters. This ratio is not being calculated for the funding activity of life insurance companies.

E – Earnings

The ratios of this part assess the ability of the insurance company to effectively manage the attracted and own funds from perspective of providing income and ensuring the growth of assets of the insurance company, based on the internal potential. Both the ability of the insurance company to create an income and to manage the costs is being assessed.
For assessment of the "E" component, the E1 - E5 sub-component ratios are being calculated.

Ratio	Definition of the ratio	The range and the respective rating of the ratio	The description of the ratio
E1	(Profit (loss) / Total capital) * 100	E1 > 20% =5 10% < E1 ≤ 20% =4 5% < E1 ≤ 10% =3 0% < E1 ≤ 5% =2 E1 ≤ 0% =1	The ratio assesses the return on equity of the insurance company. In the numerator of the ratio, the profit is being calculated as the annualized amount of the profit (after deducting the profit tax expense) accumulated from the beginning of the year. During the annualization, the profit (after deducting the profit tax expense), accumulated from the beginning of the year, is being multiplied by a 12/n coefficient, where the "n" is the period from the beginning of the year till the last day of the reporting quarter, in months. For the insurance companies, established within the year, containing the reporting quarter, the "n" is the

			number of month of operation of the given company. Furthermore, if the insurance company has operated for a non-full month, then "n" is considered as 1 in the calculation of the indicator. The denominator of the ratio represents the book value of total capital, which is being averaged on a daily basis, from the beginning of the year. The calculation of the ratio is conducted, based on the data of "Form 3", "Form 5" statements of Regulation 3/04.
E2	(Profit (loss) / Total assets) * 100	E2 ≥ 10% =5 6% ≤ E2 < 10% =4 2% ≤ E2 < 6% =3 0% ≤ E2 < 2% =2 E2 < 0% =1	The ratio shows the return on assets of the company. In the numerator of the ratio, the profit is being calculated as the annualized amount of the profit (after deducting the profit tax expense) accumulated from the beginning of the year. During the annualization, the profit (after deducting the profit tax expense), accumulated from the beginning of the year, is being multiplied by a 12/n coefficient, where the "n" is the period from the beginning of the year till the last day of the reporting quarter, in months. For the insurance companies, established within the year, containing the reporting quarter, the "n" is the number of month of operation of the given company.

			Furthermore, if the insurance company has operated for a non-full month, then "n" is considered as 1 in the calculation of the indicator. Total assets are being averaged on a monthly basis, from the beginning of the year. Furthermore, for the companies, established during the given year, the average is being calculated for the months of operation. Total assets are included in calculation of the ratio with their book value. The calculation of the ratio is conducted, based on the data of "Form 1", "Form 5" statements of Regulation 3/04.
E3	((Accrued net insurance compensations + net regulatory expenses + change of Net RBNSR and Net IBNRR) / Net earned insurance premiums) * 100	$E3 \leq 15\%$ =5 $15\% < E3 \leq 25\%$ =4 $25\% < E3 \leq 30\%$ =3 $30\% < E3 \leq 35\%$ =2 $35\% < E3$ =1	This ratio represents the "loss ratio". The lower is the loss ratio of the company, the higher is the company's profitability level. The ratio is being calculated only in the case, when the reporting quarter in the last quarter of the year. The indicators of the ratio are being calculated on an annual basis. Net regulatory expenses represent the expenses of the company on insurance compensations (expenses on determination of the size and reasons of the damage, other expenses, related to arrangement of

			the loss), deducted by the share of participation of reinsurers in those expenses. Net RBNSR and Net IBNRR are being calculated as the difference of the amounts of RBNSR and IBNRR, calculated in accordance with Regulation 3/03, and the share of the reinsurer in those reserves. The net earned insurance premiums are being calculated as the difference between the accrued insurance premium (deducted by the share of the reinsurer and the amount of insurance premiums, returned due to terminated contracts) and the change of the amount of reserve of non-earned insurance premiums (deducted by the share of the reinsurer in that reserve). This ratio is not being calculated for the funding activity of life insurance companies. The calculation of the indicators of the ratio is conducted, based on the "Form 1", "Form 4", "Form 5" statements of Regulation 3/04.
E4	(Operational expenses / accrued insurance premiums) * 100	$E4 \leq 15\%$ =5 $15\% < E4 \leq 25\%$ =4 $25\% < E4 \leq 35\%$ =3 $35\% < E4 \leq 50\%$ =2	The ratio shows the operational efficiency of pure insurance activity (underwriting) of the company. The lower the level of this ratio is, the higher is the profitability level of the company.

		50% < E4 =1	The amounts, accumulated from beginning of the year, are used in the calculation of the ratio. Operational expenses include the non-interest expenses of the company (administrative and PR expenses, training expenses, etc.) and other expenses on insurance, except for the insurance premiums, subject to return due to terminated insurance contracts. Accrued insurance premiums include the gross accrued insurance premiums, deducted by the amount of insurance premiums, subject to return due to terminated insurance contracts. If the numerator and the denominator of the ratio are 0, then this ratio is not included in assessment of the "E" component. But if only the denominator of the ratio is 0, then the E4 ratio is rated 1. This ratio is not being calculated for the funding activity of life insurance companies. The calculation of the ratio is conducted, based on the data of "Form 5" statement of Regulation 3/04.
E5	(Income (losses) on financial investments / Financial investments) * 100	15% ≤ E5 =5 10% ≤ E5 < 15% =4 5% ≤ E5 < 10% =3	The ratio assesses the profitability of financial investments.

		$0\% \leq E5 < 5\%$ =2 $0\% > E5$ =1	Financial investments include the deposits in banks, provided loans, repurchase agreements, securities, non-current investments in the statutory capital of other entities, other investments, with their nominal value. The calculation of financial investments is being conducted from the beginning of the year, on an average monthly calculation. The income on financial investments is being annualized. During the annualization, the indicator is being multiplied by a 12/n coefficient, where the "n" is the number of months from the beginning of the year for the companies, operating more than one year; and for the companies, operating les than one year, "n" is the number of months of operation. Furthermore, if the company has operated for a non-full one month, then it is considered as 1 in calculation of this ratio. If the denominator of the ratio is 0, then this ratio is not included in calculation of the "E" component. The calculation of the ratio is conducted, based on the data of "Form 5", "Form 7" statements of Regulation 3/04.

L – Liquidity

The ratios of this part describe the ability of the insurance company to satisfy the claims of the insured, properly manage the possible fluctuations of liquidity without losses and in a timely manner. For assessment of the “L” component, the L1 - L2 sub-component ratios are being calculated.

Ratio	Definition of the ratio	The range and the respective rating of the ratio	The description of the ratio
L1	((Assets on demand + assets with maturity period of up to one year + T-bills of the RA and securities, issued by the Central Bank of the RA with maturity period of more than one year) / (overdue liabilities + liabilities on demand + liabilities with the repayment maturity of up to one year)) * 100	$150\% < L1$ =5 $120\% < L1 \leq 150\%$ =4 $100\% < L1 \leq 120\%$ =3 $90\% < L1 \leq 100\%$ =2 $L1 \leq 90\%$ =1	The calculation of the ratio is conducted, based on the data of “Form 7” statement of Regulation 3/04, as of the last day of the reporting quarter. If the numerator and the denominator of the ratio are 0, then this ratio is not included in calculation of the “L” component. But if only the denominator of the ratio is 0, then the L1 ratio is rated 5; and if only the numerator is 0, then the L1 ratio is rated 1.
L2	(Highly liquid assets / (Overdue liabilities + liabilities on demand + liabilities with maturity period of up to 30 days)) * 100	$L2 \geq 510\%$ =5 $150\% > L2 \geq 120\%$ =4 $120\% > L2 \geq 100\%$ =3 $100\% > L2 \geq 80\%$ =2 $L2 < 80\%$ =1	The calculation of the ratio is conducted, based on the data of “Form 3”, “Form 7” statements of Regulation 3/04, as of the last day of the reporting quarter. If the numerator and the denominator of the ratio are 0, then this ratio is not included in calculation of the

			"L" component. But if only the denominator of the ratio is 0, then the L2 ratio is rated 5; and if only the numerator is 0, then the L2 ratio is rated 1.

S – Sensitivity to market risk

The ratios of this part assess the insurance company's sensitivity to market risks. For assessment of the "S" component, the S1 and S2 sub-component ratios are being calculated.

Ratio	Definition of the ratio	The range and the respective rating of the ratio	The description of the ratio
S1	(Gross position of foreign currency / Total regulatory capital) * 100	S1 ≤ 4% =5 4% < S1 ≤ 6% =4 6% < S1 ≤ 8% =3 8% < S1 ≤ 10% =2	The ratio is the S6.1 prudential standard. The indicators of the ratio are being calculated in accordance with Regulation 3/02. S1 ratio is being calculated with the average daily calculation of the last month of the reporting quarter. The indicators of the ratio are being calculated, based on the data of "Form 3" statement of Regulation 3/04.
S2	(Open position of an individual foreign currency / Total regulatory	S2 ≤ 2% =5 2% < S2 ≤ 3% =4	The ratio is the S6.2 prudential standard. The indicators of the ratio are being calculated in

	capital) * 100	$3\% < S2 \leq 5\%$ =3 $5\% < S2 \leq 7\%$ =2	accordance with Regulation 3/02. S2 ratio is being calculated with the average daily calculation of the last month of the reporting quarter. The indicators of the ratio are being calculated, based on the data of "Form 3" statement of Regulation 3/04.

(Appendix 1 was edited by Resolution No. 317-N, dated 04.11.09; Resolution No. 155-N, dated 24.05.11; amended, supplemented, edited by Resolution No. 18, dated 22.01.13)

Appendix 2
of the Appendix of Regulation 3/08 on
"The methodology of calculation of the aggregated evaluation of
indicators (CARAMELS) of activity of the insurance companies,
operating within the territory of the Republic of Armenia"

C – Factors, adjusting capital adequacy

The indicators, used in calculation of the C1-C5 sub-components ratios, calculated on "C" component in accordance with Appendix 1 of this Regulation, are being adjusted, including the disclosure of those expected or happened events, which can have a negative impact on those indicators. In particular, the adjustments are being conducted by analyzing and assessing the following:
1. changes of the capital level and its trends, underlying factors and their nature: furthermore, the adjusting rating may decrease in case of the trend of negative change of the capital level, in particular, when the decrease of capital adequacy is due to decrease of the capital,
2. the impact of expected additional provisions on possible losses due to possible classification of assets and worsening of the class of classified assets on the indicators, describing the capital adequacy,
3. the volume of liabilities assumed by the insurance company on the insurance contracts on affiliated insured objects, trend of their change, the possible effect of toughening of the criteria to consider the insured objects as affiliated,
4. the formation of non-adequate technical reserves and its impact on the indicators, describing the capital adequacy,
5. the impact of increase or decrease of insurance premiums, insurance compensations on the indicators, describing the capital adequacy,
6. Assets concentration (for example, by sectors of economy, by debtors, etc.), riskiness of assets (for example, by types of investments, by credibility of the debtors, etc.), trends of their change, the impact of possible losses, related to them, on the indicators, describing the capital adequacy,

7.	the trends of risks on entities, related with large persons insured and (or) insurance company, their impact on the indicators, describing the capital adequacy,
8.	the trends of change of compensations and other funds, received from reinsurers, existence of instruments (letter of credit, frozen funds, etc.), verifying the payment of the funds, received from reinsurers, the risks related to them and their potential impact on the indicators, describing the capital adequacy,
9.	the facts and trends, known by the supervisor due to new information, but not yet reflected in the statements of the insurance company, that can affect the indicators, describing the capital adequacy of the insurance company,
10.	the probability of expected losses, related to credit, operational, liquidity, market, interest rate and other risks; their volume and possible impact on the indicators, describing the capital adequacy (the results of respective stress-tests (if available), developed by the Central Bank of the Republic of Armenia for insurance companies, may also be used for conducting the analysis and assessments. Furthermore, the results of the stress-tests may be used for adjustment purposes only in case of highly probable scenarios, which should be justified by the supervisor),
11.	in case the insurance company is a member of a group (union) – the probability of expected losses, related to the risks of the given group, their amount and possible impact on the indicators, describing the capital adequacy,
12.	the amendments of requirements of laws and other legal acts of the Republic of Armenia, related to calculation of solvency and other prudential standards and indicators of the insurance company.

A – Factors, adjusting assets quality

The indicators, used in calculation of the A1-A6 sub-components ratios, calculated on "A" component in accordance with Appendix 1 of this Regulation, are being adjusted, reflecting the projections on real volumes of assets of the insurance company and the change of their quality. In particular, the adjustments are being conducted by analyzing and assessing the following:	
1.	the changes and the trends of the share of fixed assets, intangible assets and funds receivable in the total assets of the

	insurance company, their possible impact on the indicators, describing the assets quality,
2.	the changes and the trends of the share of financial investments in the total assets of the insurance company, their possible impact on the indicators, describing the assets quality,
3.	changes of the level of assets security and the quality of the security, their potential impact on the indicators, describing the assets quality,
4.	reliability of classification and accounting of the assets, the expected changes of the assets classes and their trends, their potential impact on the indicators, describing the assets quality,
5.	the conditions in those sectors or areas of economy, where the investments have been done and the assets have been concentrated, the potential effect of their change and other events on the assets quality of the insurance company,
6.	Level of concentration of the assets, its changes and trends, risks related to it and their potential impact on the indicators, describing the assets quality,
7.	the trends of general development of the economy, other events that can have a significant impact on the assets quality of the insurance company,
8.	the amendments of requirements of laws and other legal acts of the Republic of Armenia, related to the changes of directions and limits of allocation of the assets of the insurance company, adequate to its technical reserves, and the changes of other requirements, set on assets,
9.	the probability of expected losses, their volume and possible impact on the indicators, describing the asset quality of the company (the results of respective stress-tests (if available), developed by the Central Bank of the Republic of Armenia for insurance companies, may also be used for conducting the analysis and assessments. Furthermore, the results of the stress-tests may be used for adjustment purposes only in case of highly probable scenarios, which should be justified by the supervisor),
10.	the facts and trends, known by the supervisor due to new information, but not yet reflected in the statements of the insurance company, that can affect the indicators, describing the assets quality of the insurance company.

R – Factors, adjusting reinsurance

The indicators, used in calculation of the R1-R6 sub-components ratios, calculated on “R” component in accordance with Appendix 1 of this Regulation, are being adjusted, reflecting the projections of changes of riskiness and efficiency of reinsurance of the insurance company. In particular, the adjustments are being conducted by analyzing and assessing the following:
1. the level of riskiness of the reinsurer, the possible changes of the rating of the reinsurer and the possible losses of the insurer due to that,
2. the share of insurance premiums, transferred to the reinsurer, in the total insurance premiums; the trends of change, their possible impact on the indicators, describing the reinsurance,
3. the share of the reinsurer in insurance compensations in the total sum of insurance compensations, the trends of change, their possible impact on the indicators, describing the reinsurance,
4. the share of insurance premiums, transferred to the reinsurer, in the total insurance premiums; the trends of change, their possible impact on the indicators, describing the reinsurance,
4.1. the trends of change of “net reinsurance premiums to the sum reinsured” ratio, as well as “net insurance premiums to sum insured” ratio, and their possible impact on the indicators, describing the reinsurance,
5. the amount of own liabilities, the trends of their change and possible impact on the indicators, describing the reinsurance,
6. the amendments of requirements of laws and other legal acts of the Republic of Armenia, related to the requirements on reinsurance, the criteria of assessment of credit risk of the insurance company with respect to reinsurers, their possible impact on the indicators, describing the reinsurance,
7. the level and nature of reliance of the insurance company on reinsurers, the ability of the insurance company to meet its liabilities in case of possible deterioration of the reinsurer’s financial condition,
8. forms, types and specificities of reinsurance, their possible impact on the indicators, describing the reinsurance,
9. the specificities of individual classes of insurance and the reinsurance, conducted against them, and their possible impact on

the indicators, describing the reinsurance,
10. the probability of expected losses, their volume and possible impact on the indicators, describing the reinsurance (the results of respective stress-tests (if available), developed by the Central Bank of the Republic of Armenia for insurance companies, may also be used for conducting the analysis and assessments. Furthermore, the results of the stress-tests may be used for adjustment purposes only in case of highly probable scenarios, which should be justified by the supervisor),
11. the facts and trends, known by the supervisor due to new information, but not yet reflected in the statements of the insurance company, that can affect the indicators, describing the reinsurance of the insurance company.

A (AR) – Factors, adjusting actuarial calculations and technical reserves

The indicators, used in calculation of the AR1-AR3 sub-components ratios, calculated on "A(AR)" component in accordance with Appendix 1 of this Regulation, are being adjusted, reflecting the adequacy of technical reserves and insurance tariffs of the insurance company to its incurred liabilities, the assessment of their stability and trends. In particular, the adjustments are being conducted by analyzing and assessing the following:
1. the changes and trends of insurance compensations, insurance premiums, their possible impact on the indicators, describing the actuarial calculations and technical reserves,
2. the changes and trends of technical reserves, the share of the reinsurer in the technical reserves, their possible impact on the indicators, describing the actuarial calculations and technical reserves,
3. the amendments of requirements of laws and other legal acts of the Republic of Armenia, related to the procedure of formation of technical reserves, the changes of indicators, describing the actuarial calculations and technical reserves of the insurance company, due to the amendments,
4. the probability of expected losses, their volume and possible impact on the indicators, describing the actuarial calculations and technical reserves (the results of respective stress-tests (if available), developed by the Central Bank of the Republic of

Armenia for insurance companies, may also be used for conducting the analysis and assessments. Furthermore, the results of the stress-tests may be used for adjustment purposes only in case of highly probable scenarios, which should be justified by the supervisor),
5. the facts and trends, known by the supervisor due to new information, but not yet reflected in the statements of the insurance company, that can affect the indicators, describing the actuarial calculations and technical reserves of the insurance company.

E – Factors, adjusting earnings

The indicators, used in calculation of the E1-E5 sub-components ratios, calculated on "E" component in accordance with Appendix 1 of this Regulation, are being adjusted, reflecting the assessment of stability and trends of the indicators, describing the earnings of the insurance company. In particular, the adjustments are being conducted by analyzing and assessing the following:
1. the changes and trends of the level of earnings, their stability and nature,
2. the changes and trends of share of profitable assets in the total assets, their impact on the indicators, describing the earnings of the insurance company,
3. the concentration of earnings (for example, by sectors of economy, by sources, etc.), the trends of change, their possible impact on the indicators, describing the earnings of the insurance company,
4. the changes and trends of the level of expenses, the underlying factors and their nature,
5. the impact of expected additional provisions on possible losses due to possible classification of assets and worsening of the class of classified assets on the indicators, describing the earnings of the insurance company,
6. the ratings of the indicators, got as a result of annualization, may be adjusted, taking into consideration the indicators, specified by the business-program of the insurance company: for example, if the low level of profit is due to seasonal fluctuations (or implementation of new services) and is projected by the business-program, then it might not be deemed as a

negative phenomenon,
7. the peculiarities of individual classes of insurance and their impact on the indicators, describing the earnings of the insurance company,
8. the probability of expected losses, their volume and possible impact on the indicators, describing the earnings of the company (the results of respective stress-tests (if available), developed by the Central Bank of the Republic of Armenia for insurance companies, may also be used for conducting the analysis and assessments. Furthermore, the results of the stress-tests may be used for adjustment purposes only in case of highly probable scenarios, which should be justified by the supervisor),
9. the facts and trends, known by the supervisor due to new information, but not yet reflected in the statements of the insurance company, that can affect the indicators, describing the earnings of the insurance company.
10. the amendments of requirements of laws and other legal acts of the Republic of Armenia, related to the calculation of technical reserves and other issues, their possible impact on the indicators, describing the earnings.

L – Factors, adjusting liquidity

When adjusting the indicators, used in calculation of the L1-L2 sub-components ratios, calculated on “L” component in accordance with Appendix 1 of this Regulation, the results of analysis of actual abilities of the insurance company to meet its obligations and fund its assets in a timely manner and without significant losses, their trends and expected changes are being taken into consideration. In particular, the adjustments are being conducted by analyzing and assessing the following:
1. the expected changes and trends of amount of highly liquid assets of the insurance company. The adjustments may be tightened in case of negative trends of the mount of highly liquid assets of the insurance company, if the liquidity ratio of the insurance company is close to its threshold,
2. the changes and trends of amount of liabilities of the insurance company, the comparability of trends of the share of

	overdue demand liabilities, liabilities with the maturity period of up to 30 days in the total liabilities; and the highly liquid assets,
3.	the real level of highly liquid assets, because in some cases the insurance company might not have possibility to be in command of the funds, considered as highly liquid. In such a case, the supervisor should make appropriate adjustments in calculation of the respective indicators, describing the liquidity, by not including the amount of such assets in calculation of highly liquid assets,
4.	the level of concentration of the allocated funds by the type of instrument and the borrower. In this respect, it is necessary to analyze the impact of possible unfavorable event on the real level of liquidity of the insurance company,
5.	the amendments of requirements of laws and other legal acts of the Republic of Armenia, related to the calculation of liquidity of the insurance company, the expected changes of the level of liquidity of the insurance company, due to the amendments,
6.	the ability of the insurance company to attract additional liquidity in case of possible deterioration of liquidity of the insurance company,
7.	the affiliation of the insured objects, the probability of payment of large insurance compensations due to one insurance event, the probability of payment of large insurance compensations due to numerous simultaneous insurance events and their possible impact on the indicators, describing the liquidity of the insurance company,
8.	the probability of expected losses, their volume and possible impact on the indicators, describing the liquidity of the company (the results of respective stress-tests (if available), developed by the Central Bank of the Republic of Armenia for insurance companies, may also be used for conducting the analysis and assessments. Furthermore, the results of the stress-tests may be used for adjustment purposes only in case of highly probable scenarios, which should be justified by the supervisor),
9.	the facts and trends, known by the supervisor due to new information, but not yet reflected in the statements of the insurance company, that can affect the indicators, describing the liquidity of the insurance company.

S – Factors, adjusting sensitivity to market risks

The indicators, used in calculation of the S1-S2 sub-components ratios, calculated on "S" component in accordance with Appendix 1 of this Regulation, are being adjusted, taking into consideration the supervisor's opinion about the level of exposure of the insurance company to market risks, related to specificities of activity of the insurance company and the nature of the conducted transactions. The analysis of this sector is generally based on the information, disclosed in the previous sectors. In particular, the adjustments are being conducted by analyzing and assessing the following:
1. the expected changes and trends of assets or liabilities denominated in foreign currency, their impact on the foreign exchange position of the insurance company. Those assets and/or liabilities should also be included here, which though were deemed as not containing FX risk by the insurance company, but were deemed as containing FX risk under a justified opinion of the supervisor,
2. **(point 2 was repealed by Resolution No. 18-N, dated 22.01.13)**
3. Efficiency and reliability of the instruments used for mitigation of risks,
4. the probability of expected losses, their volume and possible impact on the indicators, describing the sensitivity of the company to market risks (the results of respective stress-tests (if available), developed by the Central Bank of the Republic of Armenia for insurance companies, may also be used for conducting the analysis and assessments. Furthermore, the results of the stress-tests may be used for adjustment purposes only in case of highly probable scenarios, which should be justified by the supervisor),
5. the facts and trends, known by the supervisor due to new information, but not yet reflected in the statements of the insurance company, that can affect the indicators, describing the sensitivity of the company to market risks,
6. the amendments of requirements of laws and other legal acts of the Republic of Armenia, related to the capital, foreign currency position, etc., their possible impact on the indicators, describing the profitability.

(Appendix 2 was edited by Resolution No. 317-N, dated 04.11.09; amended, edited, supplemented by Resolution No. 155-N, dated 24.05.11; amended by Resolution No. 18-N, dated 22.01.13)

Appendix 3
of the Appendix of Regulation 3/08 on
"The methodology of calculation of the aggregated evaluation of
indicators (CARAMELS) of activity of the insurance companies,
operating within the territory of the Republic of Armenia"

M – Management

1. The management rating reflects the efficiency of internal control system of the insurance company, the ability of management bodies of the insurance company to manage the risks of the insurance company, to ensure the business continuity of the insurance company.
2. The rating of the "M" component is being calculated by summing up the points given to the questions, listed in this Appendix. Furthermore, each question shall be given "0", "1", "2" or "3" points. The highest score is "3", and the lowest one is "0".
3. When using the scoring system, the supervisor should also consider the importance of the given question. For example, if the insurance company is fully in compliance the requirements of the given question, but at the same time it does not have a high importance for assessment of the "M" component of the given insurance company, then the supervisor can grant a score lower than 3 to the given question, showing by that the relatively low importance of the given question.
4. Depending on the total value of the points, the "M" component is given the following rating:
   a) the "M" component is being rated "5" only in the case, if all the questions, mentioned below, have been given "2" or "3" points. Furthermore, the "M" component is being rated "5" if the total value of the points is equal or greater than 81,
   b) the "M" component is being rated "4" if the total value of the points is in the range of 72-80,
   c) the "M" component is being rated "3" if the total value of the points is in the range of 54-71,

d) the “M” component is being rated “2” if the total value of the points is in the range of 36-53,
e) the “M” component is being rated “1” if the total value of the points is below 36.

N.	Question	Point (0-3)
1.	Is the structure of the insurance company commensurate with the specificities of the operations, performed by the insurance company?	
2.	Is there a clear segregation of authorities and responsibilities in the insurance company among the different management bodies (in particular, the Board, executive director, etc. of the insurance company)?	
3.	Do the management bodies and managers of the insurance company properly conduct their duties, as specified by law and other legal acts?	
4.	Does the Board of the insurance company receive sufficient information to oversee the activity of the executive body of the insurance company, as well as to make prudent and efficient decisions?	
5.	Does the Board of the insurance company follow up the implementation of recommendations and suggestions, received from the external auditors, internal audit unit or the supervisors of the Central Bank?	
6.	To what extent does the management information system of the insurance company provide the executive management of the insurance company with the information, which is necessary for effective management of the insurance company and oversight of activities of employees of the insurance company?	
7.	Is the executive body of the insurance company capable to maintain the sufficient balance between the financial stability of the insurance company and the results of financial activity (that is, does not the insurance company threaten its financial condition or reputation by conducting operations with excessive risk)? The score can be either “0” or “3”	
8.	Assess the efficiency of information sharing between the territorial and administrative units of the insurance company.	
9.	Assess to what extent the internal acts and/or written policies, related to individual sectors of activity of the insurance company, are in compliance with the requirements, specified by the legal acts of the Central Bank of	

	the Republic of Armenia; to what extent they commensurate with specificities and riskiness of activity of the insurance company, and to what extent the insurance company acts in compliance with the above-mentioned acts and (or) written policies.	
10.	Do the managers of the insurance company perform proper supervision over maintenance of requirements of internal acts and/or policies, and to what extent is it efficient?	
11.	Assess the tariff (pricing) policy of the insurance company: to what extent are the tariffs, applied by the insurance company, justified?	
12.	Assess the insurance company's progress and results of implementation of the instructions, given by the Central Bank.	
13.	Assess the co-operation of the insurance company with the reinsurers from perspective of reliability, diversification of reinsurers, clauses of reinsurance contracts, efficiency of relations with the reinsurers and other aspects.	
14.	Assess the relations and level of co-operation of the insurance company with the participants of the insurance market (insurance brokers, insurance agents, actuarial, audit organizations, loss appraisal organizations, etc.). To what extent does that co-operation impact the efficiency of activity of the insurance company?	
15.	Does the insurance company have relevant programs in place for enhancing the professional qualifications of the managers and for developing a new "generation" of managers? The score can be either "0" or "3"	
16.	Assess the efficiency of internal control system of the insurance company: to what extent does it comply with the minimum requirements on internal control system, defined by the legal acts of the Central Bank?	
17.	Assess the efficiency of activity of internal audit unit of the insurance company: do the head and members of the internal audit unit have the necessary qualitative and professional skills to properly conduct their responsibilities; is the internal audit unit able to conduct independent and unbiased judgments about the results of performed audit review and inspections?	
18	Assess the proficiency (education, professional experience, trainings) of employees, in particular, the middle	

	and top management.	
19.	Assess the number of acting managers in top positions of the insurance company, the duration of acting as an acting manager, the reasons of being an acting manager, the frequency of changing managers in the insurance company.	
20.	To what extent is the decision-making process decentralized in the insurance company, with regard to the functions of employees and different structural units of the insurance company?	
21.	To what extent are the quality and number of employees of the insurance company commensurate with the volume and complexity of operations, performed by the insurance company?	
22.	Assess the business-program of the insurance company, assess whether it is realistic, in particular, are the indicators of the insurance company, projected by the business program, and the actual ones, in general, comparable?	
23.	Are the statements and documents submitted to the Central Bank of the Republic of Armenia within the terms, defined by the Central Bank of the Republic of Armenia, and without errors? The score can be either "0" or "3"	
24.	Assess the violations of laws and other legal acts by the insurance company within the reporting period. If the insurance company has no more than 2 violation during the reporting period, then the "3" score is being granted; in case of 3-5 violations – "2"; 6-10 violations – "1"; in case of more than 10 violations – "0"	
25.	Assess the difference between the level of wages of the managers of the insurance company and the average level of wages of the insurance company. "0" point should be given if the difference between the levels of wages is extremely large.	
26.	Assess the efficiency of marketing policy, performed by the insurance company, from perspective of strengthening the position of the insurance company in the market.	
27.	Are there facts of using the funds of the insurance company and (or) receiving insurance compensations by the executive managers of the insurance company?	
28.	Assess the growth rates of net insurance premiums and gross insurance premiums over the previous period	

	(the permissible range is from -30% to + 30%) and management of possible underlying risks of the company. The drastic fluctuations of this indicator may mean a change of the reinsurance policy (with respect to net insurance premiums) or a drastic increase/decrease in the insurance volumes. In any case, the risk to business increases. In case of significant increase of the volumes of activity, as a rule, the control level decreases in the company, the level of compensations increases, the insurance premiums are being undervalued (the insurance policies are being sold at lower tariffs). The significant decrease of the volumes of activity may signal about low quality of insurance services, problems with sales.	
29.	Assess the "total assets/number of employees" ratio and the trends of its change, which can show the efficiency of assets management in the insurance company.	
30.	Assess the "gross insurance premiums/number of employees" ratio and the trends of its change, which can show the efficiency of core activity of the insurance company.	
31.	This point should specify those issues (or issue), related to the management of the insurance company, which are not disclosed by this table, yes could be considered when assessing the management. The issue should be described in details,	
Total points		
The rating of component "M"		

(Appendix 3 was edited by Resolution No. 317-N, dated 04.11.09)