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**BOARD OF CENTRAL BANK
OF REPUBLIC OF ARMENIA**

March 25, 2008

Number 73-N

RESOLUTION

**ON APPROVING “ORDER OF CLASSIFICATION OF ASSETS OF INSURANCE COMPANIES AND
FORMATION AND USE OF RESERVES OF POSSIBLE LOSSES ” REGULATION 3/09**

Based on article 68 of the Republic of Armenia Law on Insurance and Insurance Activities, point “jf” of part 2 of article 7 and article 18 of the Republic of Armenia Law on Profit Tax, and part 3 of article 2, point “e” of article 20 of the Republic of Armenia Law on the Central Bank of the Republic of Armenia and being guided by parts 1-4 of article 16 of the Republic of Armenia Law on Legal Acts, the Board of the Central Bank of the Republic of Armenia *decides:*

1. To approve “Order of Classification of Assets of Insurance Companies and Formation and Use of Reserves of Possible Losses” Regulation 3/09 in accordance with Appendix.
2. This resolution comes into effect on the tenth day after its official publication.

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

March 27, 2008

Yerevan

T.Sargsyan

Appendix
of the Board of the Central Bank of the Republic of Armenia
Resolution number 73-N of March 25, 2008

Approved by
the Board of the Central Bank of RA
decision number 73-N of March 25, 2008

Chairman of the RA Central Bank
----- *T. Sargsyan*

Approved by
the RA Finance and Economy Minister
order N 285-N of April 14, 2008

RA Finance and Economy Minister
----- *V. Khachatryan*

**ON APPROVING “ORDER OF CLASSIFICATION OF ASSETS OF INSURANCE COMPANIES AND
FORMATION AND USE OF RESERVES OF POSSIBLE LOSSES ” REGULATION 3/09**

CHAPTER 1

GENERAL PROVISIONS

1. This regulation (hereinafter Regulation) shall define the order of classification of assets of insurance companies, formation, use of reserves of possible losses, including that of writing off assets recognized hopeless.
2. The objectives of the Regulation are as follows:
 - 1) conducting reductions from total income to calculate the profit tax by the sums directed to the reserves of possible losses;
 - 2) obtaining trustworthy information concerning the total capital and size of assets of the insurance company

used for the calculation of basic economic normatives regulating insurance activities.

3. Insurance companies shall be responsible for classification of assets and reserving of possible losses.

4. Proceeding from the objectives of this order

1) insurance companies shall form a general reserve for standard assets (with the exception of investment securities) and a special reserve for problematic (supervised, non standard, suspicious, hopeless) assets (with the exception of investment securities) and a reserve for possible losses for non-risk, risky, average risk, high risk and hopeless investment securities;

2) reserves for possible losses of assets shall be formed in accordance with the criteria of classification of assets;

3) objective and subjective criteria of classification of assets shall be defined.

5. The Central Bank of the Republic of Armenia (hereinafter Central Bank), as a result of supervision, may obligate the insurance company, in accordance with this Regulation, to revise the classification and reserving of assets.

CHAPTER 2

BASIC CONCEPTS USED IN THE REGULATION

6. For the purpose of this Regulation assets are considered:

1) insurance payments to be received from policy holders and insurance intermediaries, insurance payments to be received from policy co-holders, reinsurance payments to be received for reinsured risks, intermediation fees to be received from reinsurers, demands for compensation against reinsurers, policy co-holders and other persons (including demands for subrogation), other sums to be received by insurance contracts, deposits, bank and other accounts of insurance companies in banks (including letters of credit), promissory notes, loans provided by insurance companies, sums in accounts, excess payments, advance payments, prepayments granted to employees, accounts receivable, facilities securing fulfillment of liabilities of other persons (in particular, assets mortgaged and guarantees provided for fulfillment of liabilities of other persons) as well as post-balance articles containing credit risks (articles classified hopeless by this regulation and reflected in post-balance are not considered as such).

2) investment securities of the insurance company.

(point 6 edited on June 2, 2009 number 160-N)

6.1 For the purpose of this Regulation, accounts receivable from the budget and other demands shall not be

considered assets.

(point 6.1 amended on June 2, 2009 number 160-N)

6.2 The *credit risk* is the present or future probability that the other party of the deal will violate the conditions of the contract concluded with the insurance company or will not comply with the conditions of the contract which will affect negatively the profit and/or capital of the insurance company irrespective of the fact whether the deals are reflected in the balance of the insurance company or appear as a post-balance article.

(point 6.2 amended on June 2, 2009 number 160-N)

6.3 For the purpose of this Regulation gross balance value of a given asset is considered the registered amount in the balance for the asset including the accrued interests, fines and penalties of them, without reducing the formulated possible loss reserve of the asset.

7. For the purpose of this Regulation investment securities (hereinafter securities) are the stocks, non state bonds, investments made in charter capitals of other persons.

8. For the purpose of this Regulation investment securities are subdivided by separate characteristics into the following groups and subgroups:

1) By term;

a. term securities – securities with fixed maturity;

b. non-term securities – securities without fixed maturity;

2) By purpose:

a. securities purchased for commercial purposes – all term securities and non-term securities that have been purchased for the purpose of reselling and can promptly become highly liquid assets;

b. securities available for sale – securities which the purchaser does not intend to sell in the nearest (short time) time-period but which can be sold and usually are not kept till maturity (term securities) or are kept for a period of less than a year (non-term securities);

c. securities kept till maturity and non-term securities - term securities that the purchaser intends to keep till the end of the payment term as well as the non-term securities that are kept long term (for the purpose of getting additional profit, influencing those issuing securities and/or controlling them).

3) By method of pricing (only for shares):

a. priced shares – shares regularly priced in stock exchanges operating on the territory of the Republic of Armenia, in other exchanges having stock exchange units as well as in foreign stock exchanges and other institutions (systems) performing exchange operations included in the list defined by the authorized public body regulating and supervising the stock market.

Priced securities must satisfy simultaneously the following criteria:

1. to be included in securities listing in not less than one stock exchange, in another exchange having a stock exchange unit or institution (system) performing exchange operations;

2. according to the data on the previous quarter, the average minimum monthly circulation of the given securities shall be not less than one million drams;

3. publication of securities pricing.

b. Non-priced securities – securities that do not satisfy any of the criteria of paragraph “a” of this point.

9. The insurance company shall simultaneously classify all its assets by the date of its accounting balance (minimum once in every 30 days) in accordance with point 90 of this Regulation in compliance with internal regulation defined by the insurance company with the classification day being the last day of the period under review.

10. Each of the assets shall be classified in one of the classes defined by points 15 and 53 of the Regulation.

11. Classification of assets shall be based on the objective and subjective criteria defined in the table of points 24 and 63 of the Regulation.

12. In case when there are differences while classifying the objective and subjective criteria, the insurance company shall be guided by a stricter criterion.

13. Objective criteria shall be based on the conditions stipulated by points 26 and 61 of the Regulation.

14. Subjective criteria shall be based on the judgements and professional opinion of the insurance company and the Central Bank.

14.1 Requirements for the same person shall be classified by the unified strictest class.

(point 14.1 amended on June 2, 2009 number 160-N)

CHAPTER 3

CLASSIFICATION OF ASSETS (EXCEPT INVESTMENT SECURITIES)

15. Classification of assets (except investment securities) is the grouping of assets in the following 5 classes in accordance with point 24 of this Regulation:

1) standard;

2) supervised;

3) non-standard;

- 4) suspicious;
- 5) hopeless.

16. *Standard* are the assets that are serviced in accordance with the contract and are not problematic. Standard assets are characterized by the following features:

- 1) the financial condition of the debtor (borrower), policy holder raises no doubts;
- 2) sufficient ability of the debtor (borrower), policy holder to pay off (service) the asset is present;
- 3) unlikelihood of bankruptcy or other financial reorganization of the debtor (borrower), policy holder.

Standard assets are sufficiently secured both for the principal sum and the debt interest. Only general reserve is formed for standard assets:

17. *Supervised* are the assets that completely correspond to the definition of standard assets presented in point 16 of the Regulation but the payment of their principal sum (or some part of it) or payment of interest has been delayed for up to 90 days after due date.

18. *Non-standard* are the assets for which contract obligations are not met due to the financial condition of the debtor (borrower), policy holder or his ability to pay off the debt. Non-standard assets include:

1) term assets, whose pay off in due time is impossible due to insufficient cash flow of the debtor (borrower), policy holder;

2) ***(the subpoint annulled on June 2, 2009 number 160-N)***

3) the assets that the debtor (borrower), policy holder can not pay off according to the preliminary agreement and which are subject to revision and relevant negotiations due to insufficient financial state of the debtor (borrower), policy holder. That is, the primary sources of the assets payment are not sufficient, and the insurance company has to apply for secondary sources such as sale of collateral, property, reconsideration of conditions (refinancing) or getting new sources of capital etc.

(point 18 amended on June 2, 2009 number 160-N)

19. Non-standard assets have obvious shortcomings that endanger the complete payment of the debt.

20. Non-standard assets are also the ones related with higher than usually risk due to lack of current financial information on the debtor (borrower), policy holder or adequate documents on the pledge.

21. The following factors have to be taken into consideration to reveal the appropriate classification of non-standard assets:

- 1) continuous revisions (reformulations) of asset servicing conditions without making a considerable payment;
- 2) proposal by the debtor (borrower), policy holder of more favorable conditions of asset payment due to the financial state of the latter;

3) presence of non-adequate collateral.

22. *Suspicious assets* have all the characteristics of non-standard assets but are more problematic due to which their collection at the moment becomes extremely difficult or impossible. In case of suspicious assets the likelihood of considerable losses is high but the size of the losses is not clear which is basically conditioned by a number of significant and specific factors that can improve the state of the asset. The classification of suspicious assets as hopeless is delayed until specification of the circumstances of the latter.

23. *Hopeless assets* are uncollectible and completely devaluated assets whose entry in the balance as assets is no longer expedient. This classification does not mean that the assets cannot be restored in the future, however at the moment they have to be recognized in accounting as devaluated assets.

24. Criteria of classification of assets are summarized in Table 1:

Table 1

Assets class	Objective criteria	Subjective criteria
Standard	Assets are working and are in the process of servicing according to the contract. For the purpose of this class the contract is considered a primary contract (including the collateral pledge contract)	Corresponds to the definition of standard assets given in point 16 of the Regulation
Supervised	Not working up to 90 days	Corresponds to the definition of supervised assets given in point 17 of the Regulation
Non-standard	Not working from 91 to 180 days	Corresponds to the definition of non-standard assets given in point 18 of the Regulation
Suspicious	Not working from 181 to 270 days	Corresponds to the definition of suspicious assets given in point 22 of the Regulation
Hopeless	Not working for 271 and more days	Corresponds to the definition of hopeless assets given in point 23 of the Regulation

The calculation of non-working days mentioned in point 26 of the Regulation shall start in accordance with

point 24 of the Regulation. In case within the time period specified in the agreement, 1000 AMD or equivalent amount of a foreign currency was not paid from the payable amount (the main amount; interest and (or) fine) for the asset, then the unpayment of the mentioned amount is not a bases to consider the asset as a non-performing asset and (or) to tighten the class of the asset.

25. Rules of this chapter shall not apply to assets without security (blank assets) which are classified as hopeless the moment they are given.

26. *Not working* are the assets whose

- 1) payment of a part of the sum is delayed from the defined due date;
- 2) interest payments have been capitalized (added to the non-paid sum of the loan) or
- 3) payment conditions have been reviewed (refinanced) or transferred to the sum of a new financial investment or that of accounts receivable.

The assets (with the exception of bank and other accounts) that do not stipulate payments dates (terms) shall be considered non-working, if no payments have been made for 90 days; bank and other accounts shall be considered non-working from the moment of not satisfying the first relevant demand by the insurance company.

All non working assets shall be registered as non-accumulative (proceeding from expediency of conducting financial statements – by cash register method).

(point 26 edited on June 2, 2009 number 160-N)

27. Assets without security (blank) are the ones (or their parts), that satisfy simultaneously all conditions mentioned in this point:

- 1) are not secured by collateral, by guarantee or warranty of the legal person that operated with profits minimum during the previous and current period under review, and budget warranty;
- 2) sufficient information describing the financial state (including financial flows) of the debtor (borrower), policy holder is not provided;
- 3) information substantiating the returnability of the debt (loan) (contracts etc.) as well as documents acknowledging and grounding the receipt of the sum is not provided;
- 4) are not prepayments or paid sum in account for purchasing goods, work and services.

(point 27 changed on June 2, 2009 number 160-N)

28. The classification of the assets (or some part of them) by the insurance company in accordance with sub-points 1-4 of point 27 of the Regulation can be changed by the substantiated opinion of the Central Bank.

29. Assets with revised conditions are the ones whose payment dates or other conditions have been revised

(reformulated), the sums have been transferred to new assets instruments, or other conditions have been changed in other ways - in a more favorable direction for the debtor (borrower), policy holder due to his bad financial state and/or his ability to pay off the debt.

30. Refinanced assets are the ones whose payment has been made at the expense of sources of newly undertaken obligations.

CHAPTER 4

FORMING GENERAL AND SPECIAL RESERVES OF POSSIBLE LOSSES OF ASSETS (EXCLUDING INVESTMENT SECURITIES), INTEREST AND/OR PENALTY ENTRY DESIST

31. Insurance companies shall have separate accounts for covering possible losses of assets for general and special reserves.

The rates of possible losses reserves apply on the gross balance value of the assets. Moreover, the same reserve rate for the asset expressed in a foreign currency defined by this Regulation apply on the gross balance value of the asset expressed in a foreign currency (including receivable interests, fines and other amounts AMD).

32. *The general reserve* is the reserve registered in the balancesheet as counterbalance to assets; it is formed for standard assets at the expense of general reserve allocations. They are recognized (registered) as expenses in the insurance company's report on "Income and expenses" proceeding from the probability of origination of future but yet not revealed (not clarified) losses for assets.

33. *The special reserve* is the reserve registered in the balancesheet as counterbalance to assets that is formed for assets classified as supervised, non-standard, suspicious and hopeless at the expense of special reserve allocations. They are recognized (registered) as expenses in the insurance company's report on "Income and expenses" proceeding from the probability of origination of future but yet not revealed (not clarified) losses for assets.

34. The insurance company shall form a special reserve with the size of 10% of each supervised assets, 20% of non-standard assets, 50% of suspicious assets and 100% of hopeless assets.

35. The insurance company shall form a general reserve with the size of 1% of the sum of standard assets.

36. The insurance company, in accordance with point 90 of this Regulation and in conformity with the internal regulation adopted by the insurance company, can increase the allocations to the general reserve up to 2% for standard assets and by the following size for the special reserve:

- 1) for supervised assets – up to 15%;
- 2) for non-standard assets – up to 25%;

37. In case assets are recognized as hopeless, they have to be written off the balancesheet of the insurance company within the same day - to the “Special Reserve” account, and the insurance company shall continue to bookenter them in appropriate accounts of balancesheet notice. **Moreover, in the balancesheet notice the assets remain reflected in the value they would be reflected in case they are calculated in a balance without contributing with the complex profit accounts.**

CHAPTER 5

WRITING OFF ASSETS (EXCEPT INVESTMENT SECURITIES) AND INTEREST BOOK ENTERED IN NOTICE ACCOUNTS

44. When receiving the payment (compensation) for assets book entered in notice accounts

1) the written off assets or some part of it is restored in the balancesheet in a written off gross balance value amount corresponding with the “Special reserve” account, and for the asset corresponding in a difference value of an amount booked in the off-balance and the gross balance value in a moment of write off with appropriate accounts provided for income reflection receivable in a form of interests and/or fines and penalties. AT the same time, in case there is a reassessment difference between foreign currency asset or a part of it in the moment of its write off or recovery, then the difference is directed to the loss or income accounts from foreign currency exchange rate differences.

2) the restored assets are paid off corresponding with the account of cash funds or other appropriate assets, and the reserve is adjusted by corresponding with appropriate income accounts from the recovery.

(points 45-48 amended in June 2, 200 number 160-N)

47. The assets (or a part thereof) booked in the off-balance are written off from the off-balance sheets;

1) In case the company assign (or forgive) the asset (or a part of it),

2) in case the statute of limitation of the asset (or a part of it) is expired according to the Law,

3) in case of liquidation of the borrower (debtor) prescribed by the Law,

4) in case of a death of the natural person borrower (debtor), if the person's obligations are not transferred to other persons by inheritance,

5) in case the natural person borrowers (debtors) are declared bankrupt under the Law to the size of the obligations by which the the bankruptcy case of the natural person was finished by the court decision entered into force on releasing from performing the obligations

48. If the statute of limitation for the right of claim for assets and interest (or some part of them) defined by the legal acts of the Republic of Armenia is later than the date of recognizing the debtor bankrupt in accordance with legal acts of the Republic of Armenia, the assets and interest (or some part of them) are written off notice account from the moment the debtor is recognized bankrupt in the order defined by legal acts of the Republic of Armenia.

49. The gross income shall not be increased for the sum of assets and interest (or some part of them), whose statute of limitation for the right of claim has expired and whose sum for each debtor does not exceed 1 million Republic of Armenia drams, reduced from the gross income of previous periods under review (calculation of previous periods under review starts from the year the Regulation came into effect – 2008), and for the sums whose statute of limitation for the right to claim has expired and whose sum for each debtor exceeds 1 million Republic of Armenia drams, the gross income shall not be increased only in case when at the moment of expiring of statute of limitation for the right to claim the above sums or before that the insurance company has brought in a claim for returning the debt.

(point 49 amended in June 2, 200 number 160-N)

50. If the assets (or some part of them) included in the balancesheet of the insurance company are assigned gratis by the insurance company to some other person before they are recognized hopeless or before writing off the balancesheet, they shall be considered paid or forgiven (or transferred gratis or assigned gratis) for the insurance company, and the gross annual income of insurance companies shall be increased by the size of those sums.

51. In case of forgiving (or some other form of the decision and/or agreement by the creditor to not demand the debt) or assigning (transferring including also gratis) the right to claim assets and interest (or some part of them) included in notice account of insurance companies, the assets shall be considered paid and forgiven (or

transferred gratis or assigned gratis) for insurance companies, the gross income of the year in review of insurance companies shall be increased by the size of those sums.

51.1. According to the points 49 and 51 of this Regulation taxable income of the insurance company during the reporting period to calculate income tax increases to the volume of the amount of the asset booked in the off-balance sheet, by which the asset (including the interests, fines and penalties) are written off from the balance.

52. In cases stipulated by points 47, 48, 49, 50 and 51 of the Regulation the insurance company shall within 7 days inform about it the state tax service adjacent to the Government of Republic of Armenia.

CHAPTER 6

CLASSIFICATION OF INVESTMENT SECURITIES AND FORMATION OF RESERVE FOR POSSIBLE LOSSES

53. Classification of investment securities is grouping of investment securities in the following 5 classes in accordance with point 63 of this Regulation:

- 1) non-risk;
- 2) risky;
- 3) average risk;
- 4) high risk;
- 5) hopeless.

54. A reserve for possible losses shall be formed in accordance with the Regulation for investment securities that became non-working.

55. A reserve for possible losses shall be formed for term securities and non-term securities mentioned in point 7 of the Regulation and meeting the requirements of paragraph “c” of subpoint 2 of point 8, and for all investment securities that are not book entered by real value.

56. A reserve for possible losses shall not be formed for both term and non-term securities purchased for commercial purposes or accessible for sale mentioned in paragraphs “a” and “b” of subpoint 2 of point 8 of this Regulation.

57. A reserve for possible losses shall not be formed also for the sums (discount rate, additional payment, dividends) to be received for term and non-term securities mentioned in point 54 of this Regulation. These sums,

included in the income of insurance companies, shall be written off in accordance with point 83 of this Regulation.

58. As soon as the securities (term) kept till maturity, become non-working, a reserve for possible losses shall be formed in the order stipulated by this Regulation assuming as a basis the book value of appropriate securities (nominal value minus the remainder of the discount rate for the day of forming the reserve).

59. As soon as the investments in charter capitals of other persons become non-working, a reserve for possible losses shall be formed in the order stipulated by this Regulation assuming as a basis the book value of appropriate securities.

60. Securities (term) kept till maturity shall be considered non-working, if the securities maturity date has expired and no redemption was made.

61. Non-term securities shall be considered non-working, if the insurance company finds out information about one of the cases defined by subpoints listed below:

- 1) the securities issuer (hereinafter issuer) has considerable financial difficulties;
- 2) the likelihood of the issuer's financial reorganization is high;
- 3) disappearance of the functioning market for those securities or group of securities due to financial difficulties;
- 4) analysis of previous experience showing that the complete nominal value of the given securities will not be collected by the insurance company.

62. Employees of the financial supervision department of the Central Bank, in their fact based opinion, are authorized to qualify the investment in the securities as non-working if

- 1) the insurance company has received very small or no profit at all for the given investment;
- 2) other cases not stipulated by point 61 of the Regulation are present, due to which issuer's securities can be devaluated.

63. Reserve allocations of possible losses of the securities purchased by the insurance company and mentioned in point 55 of the Regulation shall be made applying the rates defined in the table to the securities gross balance value.

Table 2

Classification of securities by the number of days passed after becoming non-working	Class of securities and the size of appropriate reserve allocations (%)
1. At the moment of purchasing the securities	non-risk 2
1. From the moment of the securities payment period expiring to the 60 th day inclusive	risky 20
2. From the 61 st day of the securities payment period expiring to the 90 th day inclusive	average risk 50
3. From the 91 st day of the securities payment period expiring to the 180 th day inclusive	highly risk 70
4. From the 181 st day of the securities payment period expiring	hopeless 100

64. Reserve allocations of possible losses of priced (listed) securities shall be made for the complete portfolio of the issuer's securities in case if their average market value decreases compared to the book (purchasing) average value (i.e. it becomes *non-working*). The average book value of the securities of the given issuer shall be defined as average weighed value of their actual purchasing values.

65. For the purpose of this Regulation the average market value of priced (listed) securities of the given issuer shall be defined as the average price of sale and purchase weighed for the volume of circulation of the given securities in the stock exchange during the preceeding three months including the month of the day of purchase. If the pricing (listing) date of the securities is less than 3 months, the average market value of the securities shall be defined as the average price of sale and purchase weighed for the volume of circulation of the given securities in the stock exchange during the days preceeding the day of purchase.

66. The sum of reserve allocations for listed securities shall be determined by the following formula:

$$S_{(1)} = (BV - MV) \times Q - PR,$$

where

$S_{(1)}$ is the sum of reserve allocations;

BV is the average book value of securities;

MV is the average market value of securities;

Q is the quantity of securities of the given issuer;

PR is the value of previous reserve formed in the past for the portfolio of the given securities.

67. If the priced (listed) securities have been classified by the insurance company as ones purchased for commercial purposes or accessible for sale, but have not been alienated within one year, a reserve of possible losses shall be formed for them in the order stipulated by point 66 of the Regulation. And if in that period market reductions of the given securities have been reflected in their market value adjustment accounts, an adjustment shall be made by the size of credit remainders (corresponding them with appropriate accounts of the costs or capital division), formulating that sum as an initial value of reserve formed for securities.

68. If the insurance company intends to sell the securities classified in paragraph “c” of part 2 of point 8 of the Regulation and calculates them in the “Securities accessible for sale” account, an adjustment of the sum reserved for them in the past shall be made (appropriately reducing the costs) simultaneously reflecting the same sum by the account of adjustment of the market value of the securities, corresponding with appropriate account of capital division.

69. Reserve allocations of non-priced (listed) securities (investments) shall be done for the complete sum of each issuer’s securities and/or investment in case if their current value decreases (becomes *non-working*) as compared with average book (purchase) value. If the value is negative, the formerly formed reserve is reduced by that sum.

70. The average book value of non-priced (listed) securities shall be defined as the average weighed value of their purchase value during the previous months. The current value of non-listed securities of each issuer shall be defined by the following formula:

$$CV_{(1)} = \frac{(A - L) \times F}{AM},$$

where

$CV_{(1)}$ is the current value of one securities of the given issuer;

A is the sum of the issuer's assets;

L is the issuer's liabilities;

AM is the total amount of allocated securities;

F is the value specification factor that characterizes the financial stability of the issuer.

71. The value of the F factor characterizing the financial stability of the issuer shall be defined depending on the ratio of the issuer's current assets (A_c) and general assets (A_g) in the following ranges:

a/ $F = 1$, if $A_c/A_g > 0.5$

b/ $F = 0.7$, if $0.5 > A_c/A_g > 0.3$

c/ $F = 0.5$, if $A_c/A_g < 0.3$.

72. The current value of investments shall be defined by the following formula:

$$CV_{(2)} = (A - L) \times I (\%) \times F,$$

where

I (%) is the investment (securities) in the charter capital in per cents;

A, L, F are the elements mentioned in point 70.

73. The sum of reserve allocations shall be defined by the following formulae:

a) for non-priced (listed) securities:

$$Al_{(2)} = (BV - CV_{(1)}) \times Am - PR,$$

where

$Al_{(2)}$ is the sum of reserve allocations;

BV is the average book value of the securities;

CV is the current value of one securities of the given issuer;

Am is the amount of securities of the given issuer;

PR is the value of the previous reserve formed formerly for the given securities.

p) for investments:

$$M_{(3)} = BV - CV_{(2)} - PR,$$

where

BV is the book value of investments;

CV is the current value of investments;

PR is the value of the previous reserve formed in the past for the given investment.

74. In cases of reclassification of non-priced (listed) securities by the insurance companies (from subpoints “a” and “b” to subpoint “c” of point 8 of the Regulation and vice-versa) specification of reserve value shall be made in the ordered stipulated in points 67 and 68 of the Regulation.

75. The assessment of non-priced (listed) securities and investments and/or adjustment of the reserve value shall be done by insurance companies themselves, at a periodicity chosen by them but not less than once a reporting year (by the results of issuer’s financial reports).

CHAPTER 7

RECOGNIZING INVESTMENT SECURITIES HOPELESS

76. (Term) securities kept till maturity shall be recognized hopeless on the 181st day of becoming non-working as well as in the case when the issuer has been recognized bankrupt in the order stipulated by legislation, has been liquidated without legal successors or the impossibility of paying the debt by the latter has been ratified despite the maturity date of securities and their purpose.

77. Non-term securities shall be recognized hopeless on the 181st day of becoming non-working as well as in the case when the issuer has been recognized bankrupt in the order stipulated by legislation or has been liquidated without legal successors.

78. Remainders of additional payments recognized in the balancesheet for term and non-term securities shall continue to be amortised in the defined time-period till recognizing securities hopeless, and immediately after recognizing the above securities hopeless and being written of the balancesheet they shall be amortised for the total sum and continue to be calculated in the appropriate off-balance accounts. Moreover, the securities continue to be calculated in the off-balance sheet in a value by which they would be reflected in case to be reflected in the balancesheet without corresponding to the gross income accounts.

CHAPTER 8

ORDER OF USING THE RESERVE OF POSSIBLE LOSSES OF INVESTMENTS IN INVESTMENT SECURITIES

79. The reserve shall be used exclusively for writing off securities recognized hopeless in accordance with this Regulation. If the reserve formed for the given securities is not sufficient for writing off their value, an allocation shall be made to the reserve equal to that difference and later the value of the securities recognized hopeless shall be written off to the account of reserves.

80. If securities become working, i.e. cases stipulated by points 60 and 61 of the Regulation desist, the reserve formed to the account of expenses in line with those securities shall correspond with appropriate income account.

81. If the securities are recognized hopeless they have to be written off the balancesheet the same day to the account of possible losses of investment securities and continue to be book entered in appropriate post-balancesheet accounts.

82. At the moment of complete or partial payment of obligations in securities the total value of the reserve shall be adjusted directing the sums of allocations to the income of the given reporting period of the Company.

83. The sums mentioned in point 57 of the Regulation that have been book entered to the income of the company according to the accepted order but have not been paid in stipulated periods, shall be written off:

- 1) on the 90th day after they expire;
- 2) on the day of writing off the securities recognized hopeless in accordance with this Regulation.

CHAPTER 9

WRITING OFF SECURITIES, INTEREST AND/OR DISCOUNT RATE CALCULATED IN NOTICE ACCOUNTS

84. When receiving payments (compensation) for securities calculated in notice or when alienating them

1) the written off securities or some part of it shall be restored corresponding with appropriate possible loss reserve account of the securities, and in a size of the amount reflected in the off-balance sheet of the the security and in a difference size of gross balance value in the moment of writing off corresponding with the appropriate accounts provided for reflecting the incomes of interests and/or fines and penalties. At the same time, if there is a difference from the reassessment in the moment of writing off and recovery of the foreign currence securities or a part of it, then the difference is directed to loss or income accounts from foreign currency exchange rate ;

2) the restored assets shall be paid off corresponding with cash funds or other appropriate asset account;

3) the restored reserve shall be completely book entered to the incomes of the given reporting period of the Company.

(point 85 60-N)

86. Securities, interest and/or discount rate (or some part of them) calculated in notice accounts are written off notice accounts:

1. in case if the company assigns gratis (or forgives) the securities (or some part of them);

2. in case if the statute of limitation defined by the legislation of the Republic of Armenia for the right to claim for the securities (or some part of them) expires.

3. in case of the liquidation defined by the legislation of the Republic of Armenia of the borrower (debtor);

4. in case of a death of a natural person borrower (debtor), if the obligations of the person are not transferred to the other persons by the inheritance;

5. in case the natural person borrower (debtor) is declared bankrupt defined by the legislation of the Republic of Armenia for the obligations, by which the natural person's bankruptcy case is over according to the court decision that entered in to frce on releasing the person from pewrforming the obligations.

87. If the securities, interest and/or discount rate calculated in the company's balancesheet are assigned gratis by the insurance company to another person (or are forgiven) before recognizing them hopeless and/or writing off the balancesheet, they shall not be reductions of total income for the purpose of profit tax calculation.

88. In case of forgiving (assigning gratis) the securities, interest and/or discount rate (or some part of them) calculated in notice accounts of the insurance company and already written off, those sums shall be considered paid off or forgiven (or transferred gratis or assigned gratis) and the total income of insurance companies shall be increased by the size of those sums.

89. In the previous reporting years (the calculation of the reporting years shall start from the year the

Regulation came into effect – 2008) the total income shall not be increased by the sum of securities and interest (or some part of them) reduced from total income whose statute of limitation for right to claim has expired and whose sum for each issuer does not exceed one million Republic of Armenia drams. For the sums whose statute of limitation for right to claim has expired and whose sum for each issuer is one million or exceeds one million Republic of Armenia drams, the total income shall not be increased only in the case, when at the moment of the expiration of the statute of limitation or before that the insurance company had submitted to court a claim to return the debt.

(point 89 amended on June 2, 2009 number 160-N)

CHAPTER 10

TRANSITION PROVISIONS

90. Within three months after the Regulation comes into effect insurance companies, proceeding from the necessity of providing normal activities, shall develop an internal regulation for classification of assets and formation of reserves of possible losses in accordance with the provisions of the Regulation.

91. From the moment the Regulation comes into effect, not only the assets calculated in the balancesheet but also the ones calculated in notice accounts shall be classified.

92. The Regulation is defined exclusively for the purpose of regulating activities of insurance companies and regulating tax calculations of insurance companies and no provision or concept of the Regulation can be interpreted, quoted or applied by the court, state governing bodies, insurance companies or policy holders or any other person as a provision regulating legal relations between insurance company and policy holders or third persons or limiting those relations.

93. The Regulation shall not apply to the securities (except the ones mentioned in point 56 of the Regulation) that are listed in stock exchanges defined by the resolution number 174-N of June 12, 2007 of the Board of the Central Bank of the Republic of Armenia.

