

“Registered”

By the Ministry of Justice of the Republic of Armenia

on May 29, 2013

State registration number 05013210

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

April 16, 2013

No 103-N

RESOLUTION

ON APPROVAL OF REGULATION 3/10 ON “MINIMUM REQUIREMENTS OF INTERNAL CONTROL SYSTEM OF THE INSURANCE COMPANY” AND REPEALING RESOLUTION OF THE BOARD OF THE CENTRAL BANK OF THE REPUBLIC OF ARMENIA NUMBER 163-N AS OF JUNE 2, 2009¹

Intending to bring the requirements of the internal control system of the insurance company to compliance with the principles set by the International Association of Insurance Supervisors,

Pursuant to point 4 of part 1, point 5 of part 2, part 3 of Article 76 and Article 153 of the Law of the Republic of Armenia “On insurance and insurance activities”,

In conformity with the provisions of point “e” of Article 20 of the Law of the Republic of Armenia “On the Central Bank of the Republic of Armenia”, Article 16 and part 1 of Article 72 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 the Regulation 3/10 “On minimum requirements of internal control system of insurance companies”, in accordance with the Appendix (attached),

2. From the moment of entering of this Resolution into force, to repeal the Resolution of the Board of the Central Bank of the Republic of Armenia No 163-N as of June 2, 2009 “On approval of Regulation 3/10 on “The minimum requirements of activity of the internal audit unit, internal control system of insurance companies””,

3. This Resolution shall enter into force on July 1, 2014.

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

Arthur Javadyan

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. 103-N, dated 22.06.2018

April 18, 2013

Yerevan

Appendix

Approved by the Resolution of the Board
of the Central Bank of the Republic of Armenia
No 103-N as of April 16, 2014

**MINIMUM REQUIREMENTS OF INTERNAL CONTROL SYSTEM OF THE INSURANCE
COMPANY**

REGULATION 3/10

PART 1. GENERAL PROVISIONS

Chapter 1. General provisions

1. This Regulation defines the minimum requirements of internal control system of the insurance company.

2. This Regulation applies to insurance and reinsurance companies, operating within the territory of the Republic of Armenia, as well as to the branches of foreign insurance and reinsurance companies, operating within the territory of the Republic of Armenia, to the extent applicable.

3. For the meaning of this Regulation, the following concepts are used with the following meanings:

- 1) Central Bank – the Central Bank of the Republic of Armenia,
- 2) Company – insurance and reinsurance company, operating within the territory of the Republic of Armenia, branch of the foreign insurance and reinsurance company, operating within the territory of the Republic of Armenia,
- 3) Customer – policyholder, insured person, beneficiary, including the potential policyholder, insured person, beneficiary,
- 4) Law – the Law of the Republic of Armenia “On insurance and insurance activity”,
- 5) Insurance fraud – an intentional action or inactivity by a person in order to receive certain benefits from the Company or its customer by deceit or abuse of trust in the insurance area,

- 6) Underwriting risk – the probability, that the calculated insurance premiums and technical reserves will not be enough for meeting the liabilities, arising from insurance contracts,
- 7) Credit risk - the probability, that the counterpart will violate the provisions of the contract, signed with the Company, which will have a negative impact on the Company's earnings and/or capital, despite the fact if the transaction was reflected in the Company's balance sheet or was acted as an off-balance sheet item,
- 8) Market risk – the probability that fluctuations of market prices (interest rates, FX rates, prices of equity instruments, etc.) will have a negative impact on the Company's capital and/or earnings,
- 9) Foreign exchange risk – the probability, that FX rates fluctuations will have a negative impact on the Company's capital and/or earnings. The foreign exchange risk is a type of the market risk.
- 10) Liquidity risk - the probability, that the Company will not have enough liquid funds to meet its obligations when they come due.
- 11) Operational risk - the probability of loss of the Company, occurring as a result of insufficient or failed internal processes, systems and human factor or external factors, which can have a negative impact on the Company's capital and/or earnings. Operational risk includes also the legal risk (the probability of suspension of the Company's activities or the probability of negative impact on the Company's activities as a result of provisions of contracts, judicial proceedings, Court decisions, verdicts or other legal processes),
- 12) Risk appetite – the part of the risk, that the Company is able and willing to bear without threatening its financial stability and normal activity,
- 13) The maximum share of participation – the part of the risk (in percentage or in absolute amount) on insurance contracts (including co-insurance contracts and accepted reinsurance contracts), signed by the Company on individual class (and/or subclass) of insurance, which the Company is able to bear independently without threatening its financial stability and normal activity.

PART 2. INTERNAL CONTROL SYSTEM

Chapter 2. Internal control system

4. Internal control system is a set of internal organizational structure, business processes, risk management system, reporting of the Company, as well as the measures of control over them. Internal control system is aimed to keep the Company's assets, ensure

the business continuity of the Company, timely identify, assess and continuously manage the inherent risks of the Company's activities, ensure compliance of accounting and financial reports with current standards, increase the efficiency of transactions, ensure the compliance of the Company's activities to current legislation and internal legal acts of the Company.

5. The main objectives of internal control are:

- 1) disclosure and management of the risks inherent to insurance activity, efficient organization of the Company's activities and efficient management of staff (operational objective),
- 2) ensuring reliable, complete and in time provision of necessary accounting, financial and other reports for decision making in the Company, as well as necessary information flows within the Company (informational objective),
- 3) ensuring the compliance of the Company's activities with the requirements of laws and other legal acts of the Republic of Armenia, internal legal acts (policies, procedures, rules, regulations, orders, guidelines, etc.), approved by the authorized management body of the Company (legal compliance objective).

6. The internal control system includes the internal control systems of the Company's head office and branches, which forms a logical single whole and is based on the same criteria and principles.

7. The Company ensures that its internal control system satisfies at least the requirements defined by this Regulation. If the profile, volume of separate operations provided by the Company, or the financial results of the Company from such operations are not significant for the Company or do not create significant risks for the Company, then the Company might not maintain the requirements of internal control for such operations, defined by this Regulation, with the justifications, approved by the Board resolution of the Company.

8. The Company's Board, executive body, internal oversight functions, the Company's all employees within their responsibilities, defined by the Law and/or other legal acts, are responsible for formulation, operation and effective continuous monitoring of the Company's proper internal control system. In accordance with this Regulation, the responsibilities of the Company's Board are implemented by adopting the Company's internal control standards.

9. The internal control system is described in the Company's internal legal acts, which can be presented as policies, procedures, rules, regulations, orders, guidelines and other acts.

10. The internal control system, its separate parts are assessed and, if necessary, are revised, in frequency defined by the Board, but not less than once a year; and in case of changes of environment, as well as in cases of identification of new risks or any significant risk, significant deficiency or gap of existing system that was previously out of control, the assessment and revision takes place in reasonable terms. The significant changes and their justifications, as well as the justifications of the absence of need of such changes are being properly documented.

11. Changes of the environment are:

- 1) change of the business-strategy of the Company,
- 2) significant changes of the operational environment (significant changes in the insurance and reinsurance markets, significant changes of the reinsurance companies – partners of the insurance company, insurance intermediaries),
- 3) significant changes of the staff,
- 4) implementation of new or modified information systems,
- 5) implementation of new or modified technologies,
- 6) provision of new services, conduction of new types of activities,
- 7) change of the organizational structure,
- 8) the Company's restructuring,
- 9) establishment of subsidiaries and/or affiliated and/or controlled companies by the Company, participation in subsidiaries or affiliated companies,
- 10) extension of international transactions,
- 11) significant changes in economic, financial and/or insurance sector regulation,
- 12) appearance of other internal and external circumstances, which have significant influence on the Company's activities and risk level.

12. The internal control system ensures implementation of secure and normal insurance activity, taking into consideration the profile, volume of the Company's activity, its existing and possible risks, requirements of laws and other legal acts, business traditions and the environment of the Company's activity.

13. The deficiencies and gaps of the internal control system, detected by the Company's executive body, internal oversight functions and the Company's staff, are presented to the Company's Board in the form and terms, defined by the Company's internal legal acts.

14. The Company ensures availability of its internal legal acts, describing its internal control system, to the Company's staff. The executive body of the Company ensures that the Company's staff is informed about the provisions of internal legal acts, describing the internal control system, within the functions operated by the staff.

15. Appropriate control mechanisms should be introduced in the Company for each significant business process of the Company. The control mechanisms may be preventive (to prevent undesirable results), detective (to detect undesirable transactions), as well as removing the undesirable results (to remove undesirable results). The control mechanisms to detect, prevent and remove the undesirable results/transactions are the followings:

- 1) regular study and assessment of the Company's activity by the management bodies of the Company (by requiring reports from employees about their performance, asking the employees some questions about their work and getting answers, clarifications and explanations),
- 2) ensuring the physical protection of the Company's property and more important documents (including insurance contracts), which assumes that the Company's property and more important documents are protected from loss, unauthorized removal or usage,
- 3) definition and maintenance of internal limits, allowed deviations from those limits (for example, for single transactions, for indicators of activities, etc.),
- 4) in case of exceeding the limits – the decision making, approval and/or permission of transactions by appropriate authorized bodies,
- 5) appropriate segregation of duties of employees and recommendation of duties that are free from conflict of interests,
- 6) jointly storing of property ad records, when two or more people are equally accountable for certain processes (for example, when each of two or more keys or passwords, that should be used for getting right to enter the bunker, archive or other depository, are being entrusted to separate individuals),
- 7) double checking,
- 8) comparison of data and records,
- 9) regular inventory,
- 10) requirement of double or multiple signatures,
- 11) giving recommendations to remove the detected violations, shortcomings, as well as the undesirable outcomes, that occur as a result of them, as well as implementing appropriate and timely control over such recommendation and, if necessary, applying appropriate sanctions,
- 12) other control mechanisms by the Company's discretion.

**PART 3. ORGANIZATIONAL STRUCTURE, BUSINESS PROCESSES, HUMAN
RESOURCES MANAGEMENT**

**Chapter 3. Organizational structure, business processes, human resources
management**

16. The internal control system, concerning the Company's organizational structure, at least includes:

- 1) detailed description of the Company's organizational structure in graphical and/or text form,
- 2) properly segregated duties and authorities of Company's divisions and employees. During the segregation of duties and authorities, at least the possible cases and areas of conflict of interests are disclosed and controlled.

17. The internal control system, concerning the Company's business processes, at least includes:

- 1) description of the Company's business processes, which includes the detailed description of all commercial transactions and managerial procedures, implemented by the Company, in graphical or text format, including:
 - a. the sequence of steps for implementing the described business process,
 - b. the final result of the business process, in form of a document, transactions, information, etc.,
 - c. the terms of implementing the business process by steps,
 - d. the connection among separate business processes of the Company,
 - e. necessary links to laws, other legal acts or other internal acts, regulating the process.
- 2) defined and segregated duties and authorities of employees, involved in the business process,
- 3) internal control mechanisms to prevent or minimize the risks of implementing the separate steps of business processes,
- 4) the ways to provide necessary information for sustainable and effective implementation of the business process, as well as the information flows within the Company (divisions, managers, employees, etc.).

18. Implementation and accounting of the Company's separate process and transaction (including further control (post control)) from the beginning to the end is not done by one or affiliated parties.

19. Internal control system, concerning human resources management policy (HR policy), at least includes:

- 1) the procedure of hiring and dismissal of employees,
- 2) the principles of employees' trainings,
- 3) the policy and procedure of employees' remuneration, reward or other form of material stimulation (hereinafter' remuneration policy) and applying disciplinary sanctions,

- 4) the procedure of employees' promotion and rotations,
- 5) the principles of vacation policy,
- 6) the procedure of appraisal of employees' performance,
- 7) the job descriptions of professional employees,
- 8) professional ethic's guide.

20. All employees of the Company are informed in written form at least about the risks, related to their job responsibilities, their role in the internal control system, the requirements to their behavior at workplace and out of it, the consequences of their abuses and gaps.

21. The remuneration policy, approved by the Board, meets at least the following requirements:

- 1) does not stimulate the unreasoned risk-taking by the Company's employees, as well as unfair treatment towards the clients,
- 2) is consistent with the risk appetite and long-term goals of the Company, approved by the Board,
- 3) at least applies to the Company's management, as well as all those employees, whose activities can have significant impact on the risk level of the Company,
- 4) at least possible cases and areas of conflict of interests are being disclosed and controlled during designing, implementing and monitoring of remuneration policy.

Moreover, to exclude possible cases of conflict of interests, which can hinder the effective work of employees, involved in oversight functions, the mechanisms of floating remuneration can be used when defining the remuneration of oversight function employees, based on their work performance. The remuneration of employees, involved in oversight functions, can be derived from the results of the oversight function to meet its goals.

- 5) when using floating elements of remuneration, an effective combination of fixed and floating elements of remuneration is being ensured.

22. In case of defining a floating element of remuneration, based on the results of activities,

- 1) it is ensured, that the criteria to assess the results of activities are clear and objectively measurable,
- 2) the assessment of the results of activities can be based on both financial and non-financial criteria,
- 3) not only the results of activities of the separate individual are being taken into consideration, but also the results of activities of the appropriate business unit, as well as the total results of the Company's activity (if applicable),

- 4) when implementing a growth of remuneration, based on the results of activities, both current and future risks, connected with the activity, are being taken into consideration. Taking into consideration the probability of change of results of activity and the risks, connected with them, during the time, the assessment of the results of the activity is being done for a long-time period, if applicable,
- 5) the limits of floating elements of remuneration are being defined, which are consistent with the Company's capital management strategy and the Company's ability to maintain an effective level of capital, taking into consideration the internal targets of capital and legal requirements.

PART 4. RISK MANAGEMENT

Chapter 4. Risk management system

23. The risks, to which the Company is imposed or can be imposed, include internal and external circumstances, which can threaten the continuity of the Company's activity and have a negative impact on the Company's capital and/or earnings, as well as its business reputation.

24. The Company ensures the existence of effective risk management system, approved by the Board, which is consistent with the risk nature of the Company's activity, the volume and complexity of business processes.

25. Risk management system of the Company at least includes:

- 1) The risk management strategy, which defines the Company's general approaches/goals, concerning risk management. Moreover, during the development of the risk management strategy, at least the business program and business processes of the Company (including the processes outsourced by the Company), approved by the Board of the Company, are being taken into consideration,
- 2) risk appetite of the Company, approved by the Board of the Company,
- 3) individual risks management policies, which at least define:
 - a. reasonably predictable and significant risks, inherent to the Company's activity, by types. Moreover, at least the underwriting, market, credit, liquidity, operational risks, as well as any additional risks arising from being a member of a group (if applicable), should be reviewed by the Company,
 - b. acceptable limits of the risk for each type of risk, cases and sizes of allowed deviations from the defined limits,

- c. implementation of mechanisms of risk mitigation (for example, reinsurance, hedging, etc.),
- 4) processes and tools (including models (if applicable)) of identification, assessment, mitigation, monitoring and reporting of individual risks,
- 5) duties and authorities of the Company's individual business units and employees, involved in the risk management process,
- 6) the policy of the Company's Own Risk and Solvency Assessment (ORSA), in accordance with point 31 of this Regulation:

26. Any operation that can bring to an unauthorized deviation from the risk management strategy, risk appetite and/or risk limits, approved by the Company's Board, should be discussed in details and presented to the Board's approval.

27. In case of implementation of new operations or tools by the Company, the Company assesses their possible impact on the riskiness level of the Company's activity, making changes in the risk management and internal control systems, if necessary.

28. Risk management process is being reviewed and, if necessary, revised with the frequency, defined by the Board of the Company, to ensure the promptness and validity of the process. The justifications of absence of necessity to revise the risk management process should be properly documented. The main areas, subject to review/revision, at least include:

- 1) adequacy of the Company's risk management system to the nature, volume and complexity of the operations, provided by the Company,
- 2) disclosure of large exposures and risk concentrations,
- 3) validity and completeness of input data, used during the assessment of the Company's risk level,
- 4) justification and effectiveness of the methods, scenarios and assumptions, used during the assessment of the Company's risk level.

29. The Company's Board is responsible for developing, functioning and ensuring the continuous monitoring of the effectiveness of the risk management system. The executive body is responsible for effective implementation of the risk management system, as well as ensuring the effective circulation of the policies, procedures and other internal legal acts, approved by the Board, within the whole Company.

Chapter 5. Own risk and solvency assessment (ORSA)

30. As a part of the Company's risk management system, the Company implements the own risk and solvency assessment (ORSA) at least on the quarterly basis, which should

be consistent with the nature, volume and complexity of the risks, inherent to the Company's activity.

31. The Company's Board approves the ORSA policy, which at least includes:

- 1) The description of the processes and procedures, necessary for ORSA implementation. Moreover, the processes of ORSA implementation should be consistent with the Company's organizational structure and risk management system,
- 2) The criteria of identification of significant activities (business processes), as well as considering the risks as significant, the principles and methodology of risk assessment, as well as the methods of assessment of risk management system,
- 3) The principles, methodology of conducting stress-tests, the procedure of definition of the risk-scenarios, the methodology of assessment of the probability of the event to occur,
- 4) The procedures of collection, keeping, reliability assessment of the information, used during the calculations within the ORSA, as well as the Company's requirements towards the quality (including, the reliability and completeness of the data) of the applied data,
- 5) The circumstances, in occurrence of which an extraordinary ORSA should be conducted,
- 6) The internal procedures of calculation of the main prudential standards and meeting the limits, as well as the control mechanisms,
- 7) The internal procedures of calculation of technical reserves (the share of the reinsurer in the technical reserves), the decision-making on necessity of formation of other technical reserves (the share of the reinsurer in the technical reserves), not specified by legal acts, the criteria and methods of selection of the methods of calculation of the technical reserves (the share of the reinsurer in the technical reserves) (in case, such selection is possible by a respective normative legal act of the Central Bank),
- 8) The main responsible parties of conduction of the ORSA process,
- 9) The ways of use of the ORSA results in the managerial decision-making, as well as the risk management processes,
- 10) The procedures of making the ORSA results available to the interested units.

32. The ORSA at least assumes implementation of the following steps:

- 1) Identification of the significant activities of the Company from the point of view of the Company's business-model and corporate goals. When identifying the significant activities, both quantitative (for example, the share of the activity in

the Company's assets, earnings or capital, the impact on the losses, etc.) and qualitative (for example, the strategic importance, riskiness, planned growth, impact on reputation, etc.) factors should be taken into consideration,

- 2) Assessment of inherent, predictable and significant risks of the Company's significant activities and disclosure of the risks reasons. Moreover, at least underwriting, credit, market, operational and liquidity risks, as well as the additional risks, arising as a result of being a group member, are being assessed,
- 3) Assessment of management of the risks, assessed in accordance with sub-point 2 of this point, which includes the assessment of adequacy and efficiency of both the risk mitigation tools and the control mechanisms, aimed at risk mitigation,
- 4) Assessment of the net risk of the Company's activity and (or) separate significant activities, which is being defined as a result of assessment of the inherent risk level of the Company and the adequacy and efficiency of their management,
- 5) Assessment of adequacy of the technical reserves from the point of view of proper fulfillment of the commitments, received by insurance contracts,
- 6) Assessment of the Company's capital adequacy from the point of view of absorption of the Company's net risks; definition of a targeted level of capital, adequate to the Company's riskiness profile and risk management environment; development and implementation of the programs of compliance of the Company's capital level to the risks undertaken.

33. As a part of the ORSA, the Company performs stress-testing, which at least satisfies the following requirements:

- 1) The stress-testing is being performed at least for underwriting, credit, FX, liquidity risks,
- 2) The stress-testing is being performed at least on the quarterly basis (for the upcoming one-year time horizon). Moreover, the stress-testing for each type of risk is being performed, taking into consideration the main scenario, based on the Company's predictions, which is being exposed to shocks, reflecting at least two levels (moderate and severe) of extreme but probable situations,
- 3) Stress tests can be as a simple sensitivity analysis, depending on the changes of a concrete risk factor, as well as more complex ones, which take into consideration different risk factors, including the results of systemic interconnection. If the situation under the stress testing process for a certain type of the risk can also have an impact on other risks of the Company, then

the Company should assess the impact by each type of risk separately, as well as their total impact,

- 4) If necessary, the Company should also perform one-time (non-regular) stress-testing,
- 5) The stress-testing system forms a part of the Company's risk management process, promotes the improvement of the quality of risk management and ensures additional tools of risk management. The scenarios, used for stress-testing, are forward-looking, extreme but probable and allow assessing the Company's sensitivity to shock situations,
- 6) Use of stress tests is mandatory for identification of those current and potential risks that will not be identified with the use of statistical tools of risk management, based only on historical data, if the historical data does not include stress periods. In particular, the riskiness of tools and operations, which are going to be newly introduced, should be a subject to appropriate stress-testing,
- 7) Based on the results (impact on prudential standards and/or assessed amount of loss) of the performed stress tests, the Company develops its action plan in stress (emergency) situations. The emergency action plans are being regularly updated and tested in order to find out their effectiveness. In the emergency action plans, the Company reflects how much time it will need in stress situations to hedge its positions or otherwise manage the risks.

34. The results of the ORSA, the calculations, including the main assumptions under the ORSA, the main scenarios, the main judgments, used for assessment of the impact of the stress-tests should be documented and submitted to the Company's Board and executive body, are circulated among the people, responsible for the process, as well as the engaged units of the Company.

35. The results of the ORSA have practical importance: they affect the decision making of the Company's managers and executive bodies, including the strategic decisions of the Company's Board and executive body. In particular, the results of the ORSA are used when defining the Company's risk appetite or the limits on separate types of risks. The results of the ORSA are also used during the development of long-term business programs, as well as capital and liquidity planning.

36. The Company's Board is responsible for ensuring the necessary conditions for implementation of the effective process of the ORSA, and the executive body is responsible for consistent implementation of the ORSA.

PART 5. OTHER ELEMENTS OF INTERNAL CONTROL SYSTEM

Chapter 6. The process of assuming the insurance risks and the tariff policy, regulation of insurance claims

37. The internal control system, concerning the process of assuming the insurance risks and the tariff policy, at least includes:

- 1) The Company's targeted markets, the targeted (benchmark) structure of the insurance portfolio,
- 2) The principles of insurance portfolio diversification, the limits of concentrations by the classes and/or sub-classes of insurance and other criteria on the Companies discretion,
- 3) The procedure of calculation, implementation of insurance tariffs (including, fees and other payments) and the control over them,
- 4) The procedures of collection, keeping, reliability assessment of the information, used during the calculation of insurance tariffs, as well as the Company's requirements towards the quality of the applied data,
- 5) The policy of applying discounts on insurance contracts,
- 6) The procedure of performing the prior inspection of the insured object before signing the insurance contract,
- 7) The criteria and procedures of defining the affiliation between the insured objects,
- 8) The minimum documents and information, required from the customers for assessment of the insurance risk. Moreover, the information, required from the customer, should be in a written form,
- 9) The persons, having the authority to sign the insurance contracts, to assess the insurance risk and to apply the concrete insurance tariff, their rights and duties,
- 10) The procedure, limits of signing insurance contracts with parties, related with the Company, as well as applying the tariffs,
- 11) The minimum list of information, kept in the electronic registry, about the insurance risks, assumed by the Company, and the signed insurance contracts.

38. The provisions of point 37 of this Regulation apply also to the procedures of assuming risks by the Company by co-insurance and reinsurance contracts.

39. The internal control system, concerning the process of regulation of the claims on insurance indemnities (hereinafter, also, insurance claims), at least includes:

- 1) The procedure of acceptance, registration and recording of insurance claims,

- 2) The procedure, terms of regulation of insurance claims, including the procedure and terms of providing the opinion on payment of insurance indemnity or its rejection, payment of insurance indemnities, as well as the mechanisms of control over those processes. Moreover, the opinion on rejection or partial rejection of the insurance claim at least includes the reasons and grounds of rejection or partial rejection of the claim,
- 3) The minimum list of information, kept in the electronic registry about the insurance claims,
- 4) The composition and number of the committee, regulating the insurance claims, the rights and obligations of the committee, the order of proceedings, and in case of absence of such a committee – the obligations and authorities of the person/persons, responsible for regulation of the insurance claims,
- 5) The minimum documents and information, required for regulation of the insurance claims, as well as kept in the claims package,
- 6) The requirement on keeping the information about the insurance claims, rejected by the Company, and documentation of justifications of the rejections,
- 7) The principles of selection of the employees, performing the measurement of the damage on the insurance claim, examination of the reasons of the insurance event, and the principles of control over their work,
- 8) The principles of selection of the independent companies, performing the measurement of the damage, and the procedure of cooperation with them.

40. The internal procedures of the Company specify that the opinions, provided by the Company on the claims/insurance indemnities, exceeding the beforehand-defined amount, should be verified also by the respective superior authorized body/bodies.

41. If possible, the Company ensures, that arrival at the place of event, performing the examination and making the respective decision, regulating the claim for the same event, is performed by different persons.

42. The reports, submitted to the Company's Board and executive body on the underwriting process and insurance claims, at least includes:

- 1) the structure of the insurance portfolio, in case of deviations from the targeted (benchmark) structure of the insurance portfolio - the analysis of the reasons of deviation,
- 2) concentrations of insurance portfolio (for example, by individual classes of insurance, by insurance events, etc.) the tendencies of changes,
- 3) the insurance tariffs, applied for individual classes and/or sub-classes of insurance,

- 4) the discounts, applied for insurance contracts, the analysis of effectiveness of application of those discounts,
- 5) the number, amount of the claims, submitted, as well as regulated (including, rejected) on individual classes of insurance, the large insurance claims,
- 6) the level of loss for individual classes and/or sub-classes of insurance, the tendencies of change.

Chapter 7. Reinsurance

43. The internal control system, concerning the risks, transferred by the Company to the reinsurance, at least provides the approval of the annual program of reinsurance, which at least includes:

- 1) The strategy of reinsurance, which defines the goals and general approaches of the Company towards the reinsurance,
- 2) The calculation of the maximum amount of own participation for each class (and/or sub-class) with a detailed methodology, as well as the sources of statistical data, used during the calculation. When performing the calculations, specified by this sub-point, the Company takes into consideration the requirement, specified by part 2 of Article 76 of the Law. Besides, the calculations, provided in this sub-point, at least satisfy the following principles:
 - a. The calculations are being performed in accordance with actuarial methods,
 - b. The assumptions, made during the calculations, the adjustments due to deviations are being based on reasonable and justified judgments,
 - c. The statistical data, used during the calculations, are reliable,
 - d. As a result of the maximum amounts of own participation, obtained from the calculation, the Company does not violate the limits of prudential standards, as well as other internal limits (if available), approved by the Board of the Company, in the reporting year,
- 3) The criteria and procedure of assessment of probability of loss occurrence for individual insurance risks (insurance events),
- 4) The criteria and/or methods of selection of reinsurance forms, types, sub-types, as well as the results of the selection, performed for the reporting year,
- 5) The criteria of selection of the reinsurers by the Company, as well as the methods of assessment of financial conditions (reliability) of the reinsurers,
- 6) The maximum coverage table, which includes the maximum amounts of own participation, prepared for each class (and/or sub-class) of insurance, based

on the calculations, specified in this Chapter, by clearly mentioning the indicator, towards which each of the maximum amounts of own participation has been calculated (for example, the insurance cover, insurance indemnity, loss indicator, etc.).

- 7) The criteria of selection of a reinsurance broker by the Company, if the reinsurance is conducted with the intermediation of a broker.

(Point 43 is amended by Resolution No 103-N dated 22.06.18)

44. The annual program of reinsurance is consistent with the nature, volume and complexity of the risks, inherent to the Company's activity. It is considered as a part of the Company's risk and capital management strategy, during development of which at least the Company's risk appetite, the new risks (credit risk, operational risk, FX risk, concentration risk by the reinsurer, legal risk, liquidity risk, etc.), arising as a result of reinsurance, their limits, specified by the Company's risks policy, as well as the underwriting forecasts are being taken into consideration.

(Point 44 is amended by Resolution No 103-N dated 22.06.18)

45. The annual program of reinsurance is being approved by the Company's Board for each financial year before February 1 of the reporting year.

46. Any operation that can bring to an unauthorized deviation from the annual program of reinsurance, approved by the Company's Board, should be discussed in details and presented to the Board's approval.

47. The internal control system, concerning the risks, transferred by the Company to the reinsurance, at least includes also:

- 1) The procedure and terms of preparing the annual program of reinsurance,
- 2) The scope of the persons, responsible for developing the annual program of reinsurance, as well as the scope of their obligations,
- 3) The procedure of collecting, keeping the information, necessary for performing the calculations of the annual program of reinsurance, as well as the persons, responsible for it,
- 4) The procedures of identification, assessment and prevention of the risks, arising as a result of reinsurance, including:
 - a. the description of the procedures, ensuring identification and management of credit risk, related to the credibility of reinsurers,
 - b. the description of procedures, ensuring identification and management of liquidity risk, in particular related to the time mismatch between the payment of insurance indemnities and the sums, received from the reinsurer on insurance indemnities,

- c. the description of procedures, ensuring identification and management of concentration risk.
- 5) The description of the procedures, which ensure the compliance of information flows, transferred to the reinsurer and received from the reinsurer, with the requirements of the reinsurance contracts,
 - 6) The description of the procedures, which ensure the comparison of the conditions of insurance contracts and their reinsurance contracts, including the comparison of insured and reinsured risks, in order to identify the possible unforeseen differences.
 - 7) The description of procedures, ensuring accurate and proper documentation of reinsurance contracts, clear legal formulation and conclusion of reinsurance contracts, which will ensure the proper provision of adequate reinsurance coverage,
 - 8) The description of procedures, ensuring the monitoring and approval of facultative reinsurance on each facultative risk.

(Point 47 is supplemented by Resolution No 103-N dated 22.06.18)

48. The reports, submitted to the Company's Board and executive body on the reinsurance, at least includes:

- 1) The amounts of the risks, transferred to the reinsurance, the amounts of reinsurance premiums, the indemnities, received from reinsurers,
- 2) The analysis of efficiency of the applied forms, types and sub-types of reinsurance,
- 3) The result of assessment of financial conditions (reliability) of the reinsurers,
- 4) Concentrations by reinsurers/reinsurance markets,
- 5) The deviations (if any) of the maximum amounts of own participation for individual class (and/or sub-class) of insurance, the analysis and explanations of the reasons.
- 6) The impact of reinsurance on the riskiness level of the insurer by individual risks.

(Point 48 is supplemented by Resolution No 103-N dated 22.06.18)

48.1. The reports, submitted to the Company's Board and executive body, concerning the reinsurance, should ensure, that it is possible to identify the possible mismatches with the reinsurance annual plan, based on the necessary and timely provided information.

(Point 48.1 is added by Resolution No 103-N dated 22.06.18)

Chapter 8. Investment activity, management of fixed assets, cash desk operations

49. The internal control system, concerning its investment activity, at least includes:
- 1) The investment policy,
 - 2) The targeted (benchmark) structure, profitability and maturity of investment portfolio (separate groups of investment instruments),
 - 3) The internal procedures of decision making about the investments, the necessary minimum information for decision making about the investments,
 - 4) The composition, duties and authorities of the investment committee or other responsible division, and in case of absence of such division - duties and authorities of the person, responsible for investments,
 - 5) The investment limitations (for example, by borrowers or by ratings of financial instruments),
 - 6) The limits of permissible concentrations (for example, by investment instruments, by counterparties/securities issuers/borrowers, by sectors of economy, by related parties, etc.),
 - 7) The principles of investments diversification,
 - 8) The acceptable types of collateral for loans,
 - 9) The policy of performing operations with derivatives, internal procedures of the implementation, including:
 - a. existence of an effective system of identification, measurement and management of risks, occurring from operations with derivative instruments,
 - b. methods of measurement of prices of derivative instruments, in case of performing operations with derivatives in over-the-counter market.
 - 10) The requirement of assessment of credibility of the issuers and borrowers of the acquired securities; the procedure, terms and periodicity of implementation of such assessment, responsible persons and their duties,
 - 11) The principles and procedures of the Company's investments classification and provisioning against not-performing assets; the scope and duties of persons, responsible for its measurement and regular monitoring, as well as procedures of recovering the Company's overdue assets,
 - 12) The procedures to ensure the compliance of the Company's investment activity with the structure and nature of the Company's liabilities, as well as the procedure of management of the risks, occurring as a result of existing non-compliances. Moreover, the Company should have also a policy of the Company's assets and liabilities management and respective procedures.

50. The reports, submitted to the Company's Board and executive body, concerning the Company's investment activity, at least include:

- 1) The structure of investments,
- 2) The schedule of repayments,
- 3) The profitability of investments,
- 4) The analysis of quality of investments,
- 5) The problematic investments and the implemented measures for their recovery,
- 6) The pledged investments expressed both in absolute amount and as percentage of investment portfolio,
- 7) The performed derivative operations.

51. The internal control system, concerning the management of fixed assets, at least includes:

- 1) The rules of acquisition, alienation and write off of the fixed assets,
- 2) The criteria to define the reasonability of acquisition/alienation of the fixed assets,
- 3) The principles, terms and procedures of alienation or use of fixed assets, which have become the property of the Company as a result of subrogation or on other basis,
- 4) The internal procedures of maintenance and accounting of fixed assets,
- 5) The frequency and internal procedures of inventory,
- 6) The periodicity, procedure of revaluation of fixed assets, the principles of definition of necessity of revaluation.

52. The internal control system, concerning cash desk operations, at least includes:

- 1) The maximum limits of cash funds under disposal of the cashiers,
- 2) The internal procedures, control mechanisms of implementation of cash operations,
- 3) The mechanisms, ensuring the security of maintenance and transportation of cash funds,
- 4) The periodicity of cash funds inventory.

Chapter 9. Business continuity management

53. The Company identifies, assesses, manages and decreases the risks, which threaten the Company's business continuity.

54. The goal of business continuity management is to decrease or prevent the possible negative impact of emergency situation on the Company's operations, reputation, profitability, clients and other creditors, financial system and/or other interested parties.

55. Those operations, that are not performed directly by the Company and have been outsourced to other parties, are also included in the business continuity management system.

56. Business continuity management (hereinafter, BCM) is a complex and complete process, which includes all those measures and actions, that are aimed at ensuring and/or recovering the continuity of key business processes in emergency situations within the predefined periods and amounts.

57. For the meaning of this Chapter, the ***emergency situation*** is the situation, the occurrence of which is possible but hardly forecasted (having low probability), and which imposes or can impose significant material losses or other negative impact on the Company, its clients or other creditors. Emergency situations include both external disasters (for example, natural disasters, technical accidents, war (military actions), ruffian attacks, mass activity, epidemic, sabotage, protest strikes) and internal disasters, which occur as a result of intentional (malware) or unintentional (negligent, rash) actions or inactivity of the Company's employees, including the results of making non-professional or wrong decisions during formation and operation of security systems.

58. For the meaning of this Chapter, key processes are those operations, processes, resources and infrastructures of the Company, the failure, interruption or absence (hereinafter, failure) of which will have a significant negative impact on the Company's operations, reputation, profitability, clients and other creditors; and/or which were recognized as such by the Board of the Central Bank.

59. The Company's business continuity management system at least includes:

- 1) The Company's business continuity management policy, approved by the Board of the Company,
- 2) The analysis of the Company's business processes, including the assessment of risks,
- 3) The goals and strategy of recovery of business processes,
- 4) The action plan of ensuring the business continuity, including the plan of management and recovery of emergency situations,
- 5) The program of holding seminars for the Company's employees and raising the level of awareness,
- 6) The plan of regular testing and updating the action plan of ensuring the business continuity.

60. The Company's business continuity management system is being adapted to the nature, size and complexity of the Company's activity.

61. The Company's business continuity management policy defines the principles and directions of implementation of the BCM system, which should at least include:

- 1) The goals and objectives of the BCM and the Company's approach of implementation of the BCM system,
- 2) The list of persons, teams and/or committees, responsible for implementation of the BCM, their clear rights, duties and authorities.

62. The purpose of analysis of the Company's business processes is to disclose all those business processes, that have high importance, assess the impact of their failure on the Company and to decide the priorities of recovery.

63. During the analysis of business processes, the followings are taken into consideration:

- 1) The probable emergency situations (scenarios),
- 2) The possible negative impact of failure of the business process on the Company's clients or other creditors, as well as the assessment of the impact from financial, legal or reputational point of view,
- 3) The maximum permissible time of failure of business processes.

64. During the risk assessment, those possible risks (reasons) are being disclosed, which can bring to a failure of the key business processes. For those risks, the probability of emerging and the possible impact in case of emerging are being taken into consideration.

65. The goals of recovery are the predefined levels (volumes) of implementation of the Company's key business processes, according to which the business processes should be recovered after occurrence of an emergency situation, within the predefined recovery terms.

66. The Company defines and documents the goals of recovery of business processes and the strategy to achieve that, based on the results of analysis of the Company's business processes, the nature, size and complexity of the Company's activity.

67. The Company ensures the compliance of the action plan of ensuring the business continuity with the Company's business continuity management policy.

68. All the actions and required information, which will allow the Company to effectively manage the emergency situation in initial phase, as well as to recover the key business processes afterwards, are being mentioned in the action plan of ensuring the business continuity.

69. The action plan of ensuring the business continuity at least includes:

- 1) The list of key business processes,
- 2) The recovery level and recovery terms of each key business process,
- 3) The strategy of recovery of each key business process and the required measures and their sequence,

- 4) The description of resources and infrastructures, required for the measures of ensuring the business continuity,
- 5) The rights, duties and authorities of the Company's employees and teams during the emergency situations and afterwards,
- 6) The communication plans.

70. The Company's action plan of ensuring the business continuity is being tested at least once a year or more frequently, in cases of significant changes, connected with the composition, structure or nature of business processes. The results of testing of the action plan of ensuring the business continuity are being documented and submitted to the Board of the Company.

71. The peculiarities, connected with ensuring and managing the Company's IT systems continuity, are defined by another normative legal act of the Central Bank.

Chapter 10. The related parties

72. The internal control system supposes the existence of effective procedures of collecting, maintenance (archiving) and regular update of information about the parties, related with the Company, as well as effective procedures of performing transactions with the parties, related with the Company.

73. The procedures of performing transactions with the parties, related with the Company, at least disclose and oversee the possible cases and areas of conflict of interests.

74. The Company ensures receiving and examination of reports (information) about the legal entity-major shareholders of the Company, affiliated parties of the Company, as well as the parties affiliated with the parties affiliated with the Company, which are being regularly submitted to the Central Bank, according to Regulation 3/01 on "Procedure of licensing, registration, providing consent, issuing permission, evaluation of professional integrity and qualification in the insurance sector", approved by the Decision of the Board of the Central Bank of the Republic of Armenia No 344-N as of October 10, 2007.

75. The information about the parties, related with the Company, at least includes:

- 1) The name and address of the party (for legal persons – the name and location),
- 2) The occupation (for legal persons – the type of activity),
- 3) The form of relationship,
- 4) The transactions (signed insurance contracts, the loans, provided to the Company or received from the Company, other receivables, etc.), signed with the Company (and if possible, with other Companies as well).

Chapter 11. Business conduct, protection of consumers' rights

76. The internal control system, concerning the business conduct and protection of consumer rights, at least includes:

- 1) The detailed description of the service, provided by the Company for each class and/or sub-class of insurance, including the insurance rules, the samples of insurance contracts/policies and the information included, the conditions of applying the non-indemnified sums, bonuses and discounts, the fees of the services provided, the terms and procedure of their amendments, which should be clear and accessible, should not contain misleading and confusing provisions and should not violate the customers' interests,
- 2) The list of documents (information), required from customers for providing the services,
- 3) The policy of providing additional services along with the main services,
- 4) All conditions, limiting the availability of services, provided by the Company, to the customer,
- 5) The criteria and procedures of rejecting transactions (refusing to provide the service) by the Company,
- 6) The procedures of correcting the mistakes, made during the provision of service,
- 7) The procedures of interrupting the provision of the services by the Company with the Company's initiative both for the concrete customer and in general,
- 8) The procedures of providing services with conditions, other than the defined general conditions (signing contracts with more/less favorable conditions), including the criteria, based on which the Company's authorized body will make such decisions,
- 9) The procedures aimed at disclosing and excluding the cases of possible conflicts of interests while servicing the customers,
- 10) The procedures of accepting, discussing the customers' claims and/or requests (written, oral), decision-making, providing information to the person, submitting the claim and/or request, about the current status of examination of the claim and/or request (if there is a such request), as well as the procedures of performing a monitoring over those processes. Moreover, the function of accepting and examination of customers' claims or requests (written or oral) cannot be performed by the employee, who performs the function of regulating the claims on insurance indemnities, signing the

insurance contracts or in any other way is directly involved in providing the services to the customers,

- 11) The procedures, describing the process of performing advertising by the Company, the procedure of assessment of advertising and other disclosed materials from the point of view of protection of customers' rights,
- 12) The list of information, subject to disclosure about the Company and the services, provided by the Company; the description of forms, means, procedures (media, internet, informational bulletin, pamphlet, brochure, booklet, etc.) of making the information accessible for the customers; the internal procedures, ensuring timely updating, reliability and consistency of information, disclosed in different forms,
- 13) The principles, procedure and forms of communication between the Company and the customer,
- 14) The list of information (including the list of minimum information, concerning oral information), provided to the customer before signing the insurance contract, during signing the contract and during the term of contract; the procedure of providing that information and servicing the customers,
- 15) The code of conduct for the Company's staff, servicing the customers, the insurance agents and the employees, directly consulting the customers,
- 16) The mechanisms of evaluation of the knowledge and skills of the natural persons, providing the functions of insurance agent on behalf of the Company, the Company's staff, servicing the customers, the employees, directly consulting the customers, as well as the mechanisms of increasing their professional integrity, including the information about the persons, on the trainings and/or examinations of which the Company's process of evaluations of the knowledge and skills of the insurance agents and respective employees is based (if such trainings or examinations are organized), as well as the procedure, describing the process of providing the registry certificate to the insurance agent and the return of the registry certificate in case of termination of the contract with the insurance agent,
- 17) The internal procedures of collecting, keeping and providing to the authorized persons, pursuant to legislation, of information, containing insurance secrecy.

77. The processes and procedures, developed by the Company, concerning the business conduct and protection of consumers' rights, ensure the fair treatment to the customers, which at least assumes:

- 1) The monitoring of customers' needs and interests while developing and providing insurance products,

- 2) Providing clear, reliable and timely information, adequate to the customer's needs, before signing the insurance contract with the customer and during the term of the contract,
- 3) Avoidance from providing servicing, not matching the customer's needs,
- 4) Ensuring high quality of consultation, provided to the customer,
- 5) Fair and timely examination of the customers' claims and/or requests,
- 6) Protection of information about the customers, containing insurance secrecy,
- 7) Justification of the customers' reasonable expectations,
- 8) Provision of services with conditions other than the ones generally defined (signing contracts with more/less favorable conditions) only in case of existence of appropriate criteria.

78. Fair treatment to the customers must be defined as an objective by the Company's business program and it should be taken into consideration in decision-making procedures.

79. The Company must ensure the observance of the developed processes and procedures, concerning the business conduct and protection of consumers' rights, as well as the code of high professionalism and behavior both by the Company's employees and the Company's insurance agents.

80. The Company ensures the existence of appropriate mechanisms of assessment of the process of developing and providing services from the point of view of consumers' rights protection; and the procedures of informing the executive body and the Board about the results, received as a result of application of those mechanisms.

Chapter 12. Combating money laundering and financing of terrorism

81. The internal control system, concerning anti-money laundering and combating financing of terrorism, at least includes:

- 1) Those mandatory procedures, that should be maintained by the Company while performing financial and/or other operations with customers, creditors and other parties,
- 2) The documents (information), required by the Company while performing financial or other operations,
- 3) The collection of minimum information about the real beneficiary and the minimum procedures, necessary for identification of the customers,
- 4) The criteria for the operations to be considered as suspicious,

- 5) The procedure of recording and maintaining information about the customers, as well as collecting, registering and maintaining information about suspicious transactions,
- 6) In case of disclosure of suspicious transactions – the procedures of information transfer among the respective employees of the Company, the procedures of informing the Company’s management and the Central Bank about suspicious transactions,
- 7) The actions, performed mandatory by the employees when disclosing suspicious transactions while performing financial or other operations,
- 8) The procedure and conditions of performing the control over the legal requirements and the Company’s internal procedures, aimed at preventing the money laundering and terrorism financing.

Chapter 13. Combating insurance fraud

82. The internal control system, concerning combating insurance fraud, at least includes:

- 1) The policy of identification, mitigation, prevention and reporting of insurance fraud,
- 2) The procedures of identification, mitigation and prevention of insurance fraud,
- 3) The persons, responsible for combating the insurance fraud; their authorities and duties,
- 4) The criteria for insurance claims, transactions and other events to be considered as suspicious from the point of view of insurance fraud, i.e. those signals, the existence of which can point about possible cases of insurance fraud; as well as the typologies of frauds,
- 5) The actions, performed mandatory when disclosing suspicious events from the point of view of insurance fraud,
- 6) In case of disclosure of suspicious events from the point of view of insurance fraud – the procedures of information transfer among the respective employees of the Company; the procedures of informing the person, responsible for combating insurance fraud, and the Company’s management about the suspicious events,
- 7) The procedure of recording and maintaining information about the persons, involved in the insurance fraud, as well as the procedure of collecting, registering and maintaining information about suspicious insurance events,

8) The procedure and conditions of performing the control over the legal requirements and the Company's internal procedures, aimed at preventing insurance fraud,

9) The procedure of cooperation with other Companies and bodies.

83. The processes and procedures, developed by the Company concerning combating insurance frauds, should ensure to the possible maximum extent the disclosure, mitigation and prevention of the insurance frauds, performed by the following persons:

1) Customers and third parties (experts, manager or employees of the repairing (maintenance) organization, doctors or other professionals, other parties, involved in the process of insurance compensation),

2) Insurance intermediaries,

3) The Company's employees (including the managers).

84. The Companies should include a provision, warning about the punishability of insurance fraud in the samples of application (regardless of the form of submission) on receiving insurance indemnity, signing insurance contract, as well as in the insurance contracts.

85. The reports, submitted to the Company's Board and executive body, concerning combating insurance fraud, at least include:

1) The number and short description of suspicious events,

2) The analysis, performed on the suspicious transactions,

3) The number, short description of the disclosed events of insurance fraud; the measures, performed on the disclosed events of insurance fraud.

PART 6. INFORMATION AND REPORTING SYSTEMS

Chapter 14. Information and reporting systems

86. The internal control system provides for existence of valid and effective information and reporting systems in the Company.

87. The Company's accounting and other recordings, the information used within the Company should be valid, complete, timely and protected from unauthorized use.

88. The information flows within the Company are used in all levels of management for performing different insurance operations/procedures and implementing monitoring over them.

89. The Company's internal legal acts define the forms of reports, submitted to the Company's Board and executive body, the procedure and frequency of submission, the division/person, responsible for submission. At least, reports about the areas, mentioned in parts 4 and 5 of this Regulation, are being submitted to the Company's Board and

executive body, and should comply with the minimum requirements, defined by this Regulation, and allow the Company's Board and executive body:

- 1) To assess the current situation of the area, the trend of changes, their impact on the Company's activity and level of riskiness,
- 2) To react timely and adequately and, if necessary, to undertake appropriate measures to solve the problems, identified in the area,
- 3) To assess the quality of work performed by the divisions/persons, responsible for the specific area, as well as the effectiveness of their activity,
- 4) To increase the effectiveness of decision-making process of the Board and executive body by submitting the information, necessary for decision-making, to the Board and executive body.

90. The Company's internal acts define the information (reports, references, etc.), necessary for decision-making, the procedure and periodicity of submission of the information.

91. The Company ensures the security and continuity of electronic systems of information storage and processing.

92. The Company clearly regulates the procedures of collecting information from appropriate divisions of the Company and the Company's branches, accounting, preparing of the reports and their submission to the Central Bank.

93. The information about each branch of the Company, submitted to the Company's Board and executive body with periodicity, defined by the Board, at least includes:

- 1) The analysis of the branch's activity, including:
 - a. The structure, concentrations of the branch's insurance portfolio and trends of their change,
 - b. The loss level for individual classes and/or sub-classes of insurance, included in the branch's insurance portfolio, and trends of their change.
- 2) The economic analysis of the region, serviced by the branch,
- 3) The claims submitted by customers,
- 4) The dynamics of change of the number of customers.

94. The Company provides for such procedures that will allow it to ensure the validity of reports, submitted to the Central Bank. Such procedures at least include:

- 1) Before performing the accounting of the Company's transactions - checking of existing data by a person, who has not performed those transactions, has not made the decision to perform them and has in no way participated in the process of performing the transactions,
- 2) Before submitting the reports to the Central Bank - checking of reports by a person, who has not prepared them, has not performed the transactions, has

not made the decision to perform them and has in no way participated in the process of performing the transactions,

- 3) Recording of differences, identified as a result of checking, examination of their reasons and proposal and implementation of measures to eliminate such cases in future.

95. Validity of information, reflected in reports, which form a part of internal reporting system, is being proved and, if possible, checked by the head of the division, providing the report, and in case of absence of such division - by the employee, responsible for submitting the report.

96. The Company ensures the existence of effective system of storage of the Company's more important documents (insurance contracts, important documents, referring investments, insurance indemnities, etc.). It allows ensuring the protection of those documents from loss, unauthorized removal or usage. The Company's internal legal acts define also the form, terms and procedures of storage (archiving) of the Company's more important documents.

PART 7. OVERSIGHT FUNCTIONS

Chapter 15. General provisions

97. As an element of risk management and internal control system, the Company should have at least the following oversight functions:

- 1) Risk management function,
- 2) Compliance function,
- 3) Actuarial function,
- 4) Internal audit function.

98. Appointment of people, responsible for implementation of oversight functions (except for internal audit function and actuarial function), early termination of their authorities, approving the conditions of compensation, regular assessment of their activity, applying stimulation measures and disciplinary sanctions against them is implemented by the Company's executive body, with the consent of the Board.

99. Existence of oversight functions does not exempt the Company's Board and executive body from meeting their responsibilities.

100. The Company integrates its oversight functions and appropriate reporting system in its organizational structure in such a way that gives opportunity to effectively implement the abovementioned functions.

101. Authorities and duties of a person/persons, responsible for implementation of each oversight function, are defined by the Board. The person, responsible for

implementation of each oversight function, regularly reviews those documents and, if necessary, provides his/her suggestions to change them to the executive body or the Board.

102. Possible cases of conflict of interests should be brought to minimum for each oversight function. If, nevertheless, there is a case of conflict of interests, which cannot be regulated by the Company's executive body, then the problem should be brought to the discussion and solution by the Board.

103. The Company ensures sufficient authority, independence and resources for each oversight function to effectively meet the responsibilities and reach the goals, defined for the function.

104. The person, responsible for implementation of each oversight function, must:

- 1) have opportunity to express independent and objective opinion about the problems under his/her responsibility, actual and possible violations,
- 2) have opportunity, if necessary, to implement control over the taken remedial measures and implementation of given suggestions,
- 3) have opportunity to talk to any employee with his/her own initiative and to get the documents and information, necessary for meeting his/her responsibilities,
- 4) have opportunity to directly talk and regularly meet (without the presence of the executive body) with the Chairman of the Board,
- 5) have opportunity to involve employees, having necessary qualification and knowledge, to properly implement the function,
- 6) have opportunity to effectively use the appropriate information technologies systems, as well as the management information systems (MIS).

105. The person, responsible for implementation of each oversight function, regularly discusses with the Company's CEO the adequacy of the function's resources and, if necessary, asks for adjustments. If the person, responsible for implementation of the function, does not come to agreement with the CEO about the necessary resources, then the problem is being brought to the discussion and solution by the Board.

106. The person, responsible for implementation of each oversight function, regularly assesses the effectiveness of the function; if necessary, initiates the necessary reforms and implements monitoring over them. The results of the mentioned assessment are being submitted to the Board, according to the procedure, defined by the Board.

107. Effectiveness of implementation of each oversight function is being regularly assessed by the Board of the Company according to criteria, defined by the Board. To perform the assessment, the Board of the Company defines the content, format and frequency of reports, submitted to the Board by the persons, responsible for implementation of oversight functions. The reports, submitted to the Board by the

persons, responsible for implementation of oversight functions, at least give opportunity to the Board to:

- 1) assess the current situation of the areas of responsibility of the persons, responsible for implementation of oversight functions, the trends of change, their impact on the Company's activity and level of riskiness,
- 2) timely and adequately respond and, if necessary, undertake appropriate measures to solve the problems, identified by the persons, responsible for implementation of the oversight functions,
- 3) assess the quality of work, done by the persons, responsible for implementation of oversight functions, effectiveness of their activity from the point of view of achieving the goals, defined for oversight functions,
- 4) increase the effectiveness of decision-making process of the Board, by submitting the information, necessary for decision-making, to the Board.

Chapter 16. Risk management function

108. The Company must have an effective risk management function, which should support the Company in procedure of timely identification, measurement, control, monitoring and communication of its risks.

109. The person/persons, responsible for implementation of risk management function:

- 1) support the Company's Board and executive body in meeting their responsibilities, by implementation of professional analysis, risk reviews and other means,
- 2) identify the risks, inherent to the Company's activity,
- 3) assess, monitor, help to effectively manage the identified risks. The latter includes the assessment of the Company's ability to absorb risks, taking into consideration the nature, probability of emerging, correlation and the level of possible negative impact of the risks,
- 4) give the general description of the insurer's risk both by solo and group levels, if the Company is a member of a group,
- 5) regularly assess the internal and external environment for early identification and assessment of potential risks,
- 6) monitor the risks, arising as a result of the Company's remuneration policy, regularly send signals to the Board about the incentives, created as a result of the Company's remuneration policy, as well as the impact of the remuneration policy on the risk-taking behavior,

- 7) develop the risk management strategy, risk appetite, as well as policies of management of individual risks, subject to approval by the Company's Board,
 - 8) according to the procedure, approved by the Board, participate in the ORSA process within their functions, regularly perform stress-tests, in accordance with the requirements of point 33 of this Regulation,
 - 9) regularly submit reports to the Board, executive body, if necessary – also to the persons, implementing oversight functions, about the Company's risk profile and risk management processes,
 - 10) document and submit to the Board the significant changes, which have affected or can affect the Company's risk management system, providing suggestions aimed at keeping and improving the effectiveness of risk management system.
110. At least on a quarterly basis, the person, responsible for implementation of risk management function, submits reports to the Board at least about the followings:
- 1) assessment of the Company's risks and the measures undertaken to manage the risks,
 - 2) assessment of changes of description of the Company's risks,
 - 3) assessment of the predefined limits of risks (if applicable),
 - 4) problems, concerning the risk management, related to large programs and investments (if applicable),
 - 5) assessment of risky events and undertaking of necessary preventive/remedial measures.
111. The person, responsible for implementation of risk management function, properly and in timely manner informs the Board and the executive body about all those circumstances, which can have significant negative impact on the Company's risk management system.

Chapter 17. Compliance function

112. The Company ensures existence of effective compliance function, which should support the Company to deal in compliance with the requirements of legislation, as well as encourage and save the corporate culture of ensuring the compliance.

113. The person/persons, responsible for implementation of compliance function, at least perform:

- 1) encouragement and support of formation of ethical corporate culture in the Company, which values responsible behavior and compliance of employee's activity with requirements of laws and other legal acts, including the Company's internal legal acts. This includes regular organization of seminars and discussions about the rules of behavior, presenting the Company's corporate values, intended to encourage the high professionalism and define the behavior, expected from the employees,
 - 2) identification, assessment, management of risks, related to general legal and supervisory requirements and ensuring their compliance with the Company's activity; and ensuring appropriate circulation,
 - 3) assessment of impact of possible changes of legal system on the Company's activity and its related risks,
 - 4) ensuring existence of proper policy, processes and oversight mechanisms in the main areas of legal, supervisory and ethical responsibilities, and implementation of proper monitoring,
 - 5) regular organization of seminars about the main legal and supervisory liabilities for employees, bearing high responsibility as well as dealing with high risky activity,
 - 6) identification of shortcomings and violations, concerning compliance of the Company's activity, and, if necessary, undertaking of preventive measures.
114. The person/persons, responsible for implementation of compliance function, submits reports to the Board at least on a quarterly basis, which at least include:
- 1) assessment of risks, related to the compliance of the Company's activity and the measures, undertaken for risk management,
 - 2) assessment of compliance of activity of the Company's different units (divisions, business units, etc.) from the point of view of following internal standards and goals,
 - 3) any issue, related to compliance, concerning the managers and other responsible positions in the Company; the results of investigation, related to them, and the steps undertaken,
 - 4) significant violations and issues, related to compliance, concerning the Company's other employees of organizational units; the results of investigation, related to them, and the steps undertaken,
 - 5) the fines or other sanctions, applied against the Company or any employee by the regulatory or supervisory body.
115. The person, responsible for implementation of compliance function, must have authority and duty to properly and directly inform the Chairman of the Board about the

cases of significant incompliance by the Company's managers, as well as the cases of the Company's significant incompliance in part of the Company's liabilities.

Chapter 8. Actuarial function

116. The Company should have an effective actuarial function, which should support the Company in calculation of technical reserves (the share of the reinsurer in the technical reserves), insurance premiums; as well as in ensuring their compliance with the legal requirements and other processes, defined by the Law. The Company's responsible actuary is the person, responsible for implementation of the actuarial function.

117. The actuarial function performs the functions, specified by part 2 of Article 36 of the Law, including:

- 1) Ensures the compliance of calculation of the insurance premiums and formation of technical reserves (the share of the reinsurer in the technical reserves) with the requirements of legal acts,
- 2) Assesses the adequacy of the calculated insurance premiums and formed reserves (the share of the reinsurer in the technical reserves) to the liabilities arising out of insurance contracts,
- 3) Assesses the adequacy and quality of the information, used during calculation of the technical reserves (the share of the reinsurer in the technical reserves),
- 4) Ensures the compliance of the Company's main prudential standards, annual program of reinsurance, investment activity with the requirements of the laws and other legal acts, assesses their adequacy from the point of view of ensuring the fulfillment of the liabilities, arising out of insurance contracts, by the Company,
- 5) Ensures the proper performance of other actuarial calculations, required by the Law and other legal acts,
- 6) According to the procedure, approved by the Board, participates in the ORSA process within his/her functions,
- 7) In case of approval or change of the annual program of reinsurance by the Company's Board, submits his/her written position about the annual program of reinsurance or its changes,
- 8) Submits a written opinion about the general underwriting policy of the Company.

118. At least on a quarterly basis, the person, responsible for implementation of the actuarial function, submits reports to the Board at least on the followings:

- 1) The assessment of adequacy and legal compliance of the calculated insurance

premiums and formed reserves (the share of the reinsurer in the technical reserves),

- 2) The assessment of adequacy and legal compliance of the Company's prudential standards, annual program of reinsurance, investment activity,
- 3) The assessment of justification of the deviations from the calculated insurance tariffs, as well as the discounts, applied during signing the insurance contracts,
- 4) The responsible actuary's opinion on the general underwriting and reinsurance policy of the Company,
- 5) All the circumstances from the point of view of actuarial calculations, which can threaten the meeting of the liabilities arising out of the insurance contracts, by the Company.

Chapter 19. Internal audit function

119. The Company must have an effective internal audit function, which at least assumes provision of independent and impartial assurance, aimed at increasing the effectiveness of Company's management, internal control and risk management systems and processes and ensuring the targeting.

120. The internal control system, concerning the internal audit activity, at least includes:

- 1) The objective, role, authorities and responsibilities, principles of activity of the internal audit,
- 2) The procedure of selecting and appointing the head and members of the internal audit,
- 3) The scope of activities of the internal audit, the nature of assurance services, provided by the internal audit,
- 4) The procedure of long-term planning of the internal audit work, the procedure and terms of developing the annual working plan, the methodology of risk assessment while doing the planning,
- 5) The minimum work that shall be done by the internal audit,
- 6) The procedure and terms of performing the internal audit, preparing and submitting the audit reports.

121. The Company ensures that the head and members of the internal audit division follow the following principles when performing their functions:

- 1) Principle of independence, for ensuring of which, along with other requirements, defined by legislation, the head and members of the internal audit division:
 - a. are free of intervention of the third parties in matters of planning and performing the auditing, summarizing and circulating the results,
 - b. refrain from assessment of those functions, for performing of which they have been the responsible person during the year preceding the audit review,
 - c. exclude other cases of conflict of interests during performing their work (for example, conflict of interest can occur as a result of being a large customer of the Company or providing consulting services about the area, subject to auditing).
- 2) Principle of integrity, for ensuring of which the head and members of the internal audit division:
 - a. perform their activity, showing integrity, diligence and high responsibility towards the work,
 - b. are not involved in illegal activity or do not become a participant of such actions, that can harm the reputation of the auditing profession or the Company.
- 3) Principle of objectivity, which assumes, that while collecting, processing and circulating the information about the examined activity or process, the head or members of the internal audit division use high professional objectivity (impartiality). The head and members of the internal audit division perform balanced assessment of all material circumstances and are not pushed by their personal or other parties' interests while making judgments. To ensure the principle of objectivity, the head and members of the internal audit division:
 - a. are not involved in any activity, action or relation, which can harm their impartial assessments, bringing to violation of the Company's interests and/or decrease of quality of the auditors' professional judgments,
 - b. disclose all the significant facts, they are aware of, in case of non-disclosure of which, the reports, concerning the activity under the auditing, will be false.
- 4) Principle of confidentiality, which assumes that the head and members of the internal audit division ensure the confidentiality of information, got by them, and do not disclose it without appropriate authority due to legal or professional obligation for the disclosure (if there is no legal obstacle of

providing the confidential information). To ensure the principle of confidentiality, the head and members of the internal audit division:

- a. exercise caution in using and storing the information, received while performing their duties,
- b. do not use the information for their personal interests or in any other way, which will contradict the laws or the Company's objectives and ethic norms (if there is no any legal requirement to provide the confidential information).

5) Principle of competency, which assumes, that the head and members of the internal audit division have appropriate knowledge, skills and experience that are necessary for effective performance of the functions of internal audit. To ensure the principle of competency, the head and members of the internal audit division:

- a. are involved only in those areas, for which they have necessary knowledge, skills and experience,
- b. continuously improve (upgrade) their abilities and effectiveness and quality of their work.

122. Planning of work of the internal audit is done on the basis of risk assessment, the results of which are being properly documented. The head of internal audit division is responsible for long-term planning of risk-based audit work, as well as for developing the risk-based annual working program. The head of internal audit regularly assesses and, if necessary, revises the results of the long-term planning of work, as well as the annual working program. Each revision (including the grounds of the revision) is being properly documented.

123. While setting the priorities of work when planning the work of internal audit, at least the followings are being taken into consideration:

- 1) The Company's risk management system, including the risk management strategy, risk appetite, risk management policies for separate risks,
- 2) The results of assessment of riskiness of the Company's operations and processes,
- 3) The importance of the Company's operations and processes from the point of view of reaching the Company's objectives; complexity, volumes, the level of professional competency of employees of the area,
- 4) The results of similar audit examination in the past.

124. The annual working plan of the internal audit includes the information, specified by part 5 of Article 35 of the Law, as well as the schedule of performing the audit.

125. The internal audit work at least includes:

- 1) monitoring and assessment of adequacy and effectiveness of the Company's policy, processes, their documentation and implementation of control mechanisms, from the point of view of the Company, group (if the Company is a member of a group), branches of the Company (if any), business unit, business area, as well as division or other organizational unit,
- 2) regular assessment of effectiveness of risk management, compliance and actuarial functions,
- 3) assessment of processes of the Company's management and decision-making in different levels, assessment of credibility of information, used in the decision-making process,
- 4) assessment of undertaking of effective and timely steps for risk identification and management,
- 5) assessment of completeness and adequacy of working documents and records, as well as proper accounting of transactions,
- 6) assessment of proper representation of the Company's assets in the financial statements, and, if necessary, assessment of physical existence and ways of maintenance of assets (for example, cash) and assessment of liabilities to be fully disclosed and reasoned,
- 7) assessment of compliance of activity of the Company and its managers with the requirements of laws, normative and other legal acts, including the Company's procedures (regulations, procedures, orders, guidelines, etc.),
- 8) assessment of compliance of operations of the Company's employees and organizational units with the Company's internal policies and procedures (regulations, procedures, orders, guidelines),
- 9) assessment of justification of income accounting and expenses, from the point of view of their compliance with legislation and the Company's internal regulations (for example, examination of legitimacy of the discounts, applied for the insurance premiums, penalties for delays of payments, fees for services),
- 10) assessment of performance of each employee's functions within his/her authorities in the internal control system,
- 11) assessment of effectiveness of the internal control system and its adequacy to the Company's risks,
- 12) examination and assessment of authorities, provided to the Company's employees (for example, signing of contracts, signing of letters of attorney,

signing of legal or accounting documents), to exclude possible violations and abuses,

- 13) assessment of internal information and reporting systems of the Company,
- 14) examination and assessment of effectiveness of implementation of the ORSA process,
- 15) assessment of effectiveness and adequacy of the business continuity management system, implemented in the Company; assessment of compliance of the plan of measures of ensuring the business continuity with the Company' business continuity management policy; assessment of effectiveness of testing and updating the plan of measures, ensuring the business continuity,
- 16) assessment of effectiveness of the functions, outsourced by the Company.

126. The internal audit function ensures, that the Company's all significant risky areas and liabilities are audited in reasonable terms and frequency.

127. For each auditing, the internal auditors develop a program, which defines the objective, scope, duration, resource allocation of the audit, as well as other necessary details.

128. During planning of the audit, the internal auditors take into consideration:

- 1) the objectives of functions, subject to auditing, control mechanisms of performing those functions,
- 2) significant risks, connected with the functions, objectives, resources, operations, subject to auditing, and those measures, which are being used to keep the possible impact of the risks within its permissible levels,
- 3) adequacy and effectiveness of management of functions, subject to auditing, risk management and internal control,
- 4) possibilities of significant improvement of management of functions, subject to auditing, risk management and control systems.

129. During planning of the audit, the internal auditors perform a preliminary assessment of the risks, inherent to the functions under auditing, as well as assessment of probabilities of occurrence of significant errors, frauds, mismatches and other risky factors, related to the functions, subject to auditing. The objectives of the audit should be consistent with the results of assessment.

130. The scope of the audit should be sufficient for reaching the objectives of the audit.

131. The internal auditors should perform an effective allocation of resources for reaching the defined objectives of the audit, taking into consideration the nature and complexity of the functions under auditing, maturity limitations and available resources.

132. The internal audit rejects the requirement of the executive body of the

Company to perform an audit or other actions, if it does not comply with the objectives of functions of the internal audit, approved by the Board, or can hinder the effective implementation of the annual plan of audit.

133. During planning of the audit, the internal auditors also develop a work implementation program, defining the procedures of disclosure, analysis, assessment and documentation of information. The working plan is being approved before the beginning of the audit, and any change in it is being approved within reasonable terms.

134. The internal auditors disclose, analyze, assess and document sufficient information for reaching the objectives of the audit.

135. The employees of internal audit are given enough authorities to meet their responsibilities. They should be authorized to receive all the necessary documents (information), and enter the examined division and other areas, where the documents (archives), cash, other values (bunker), electronic data processing are kept, with mandatory involvement of the head of the examined division or an employee, authorized by him.

136. The internal auditors summarize the results of each audit, performed in the Company, in a report, specified by Article 35 of the Law. The mentioned report is being submitted to the head of examined unit. The latter provides a written opinion about the report, expressing his/her consent or disagreement with appropriate justifications, which is being signed by the head of the examined unit and forms an inseparable part of the report.

137. The internal audit performs a follow-up control over implementation by the Companies' units of at least those measures, which were recommended as a result of internal and external audit and were approved by the Board of the Company, or were recommended as a result of examinations, performed by the Central Bank.

138. Based on the results of the follow-up control, within the defined terms, and in case of absence of such terms – at least quarterly, reports are being prepared and submitted to the Board of the Company by appropriate responsible persons about implementation of suggestions and/or recommendations, made as a result of internal and external audit, as well as examinations of the Central Bank. Reports, submitted to the Board, describe the significant risks, existing in the Company, the control mechanisms, issues in corporate governance (if such exist).

139. The internal audit properly documents and stores all the main documents, concerning the audit, performed by him, including the results of monitoring and analysis, justifying the internal audit's conclusions, the methodology of the audit's sampling, the justification of selection of that methodology. The working documents of the internal audit contain information about all stages and processes of the internal audit, including the

planning and implementation of the audit work, the summarizing of results, implementation of the further control.

PART 8. OUTSOURCING OF THE FUNCTIONS

Chapter 20. Outsourcing of the functions

140. The internal control system, concerning the outsourcing of the functions by the Company, at least includes:

- 1) The internal procedures of decision-making on outsourcing of the functions by the Company,
- 2) The internal procedures of assessment of compliance of the counterparty with the requirements of current legislation and the Company's internal legal acts,
- 3) The internal procedures of receiving information about the outsourced functions and implementation of the control,
- 4) The internal procedures on identification and management of the risks, arising as a result of the outsourcing.

141. The existence of the functions, outsourced by the Company, should not weaken the internal control system. For the outsourced functions, the Company should at least keep the same level of control and risk management, which it would have applied over the non-outsourced functions.

142. When outsourcing the oversight functions, the conditions of remuneration, defined by the contract, signed with the counterpart, should be consistent with the objectives and criteria of the remuneration policy of the Company.