

REPUBLIC OF ARMENIA

CENTRAL BANK BOARD

February 12 2008  
Yerevan

No 44-N

RESOLUTION

**“MAIN PRUDENTIAL STANDARDS, THEIR LIMITS, RULES OF CALCULATION,  
COMPOSITION OF ELEMENTS IN CALCULATION, THE EXTENT OF BREACHES OF STATED  
PRUDENTIAL STANDARDS OF INVESTMENT COMPANIES”**

**This Regulation includes the Central Bank Board amendments 231-N dated 28.07.09; 2-N dated 10.01.12; 327 N dated 27.11.12; 274 N dated 15.12.15; 177-N dated 25.10.16; 295N dated 26.12.17; 210-N dated 10.12.18; 160-N dated 11.10.19**

Pursuant to Article 20 (e) paragraph “e” of the Republic of Armenia Law “On the Republic of Armenia Central Bank”, Article 16 part 1 of the Republic of Armenia Law “On Legal Acts” and Article 42 part 2 paragraph 6, Article 71, part 1 paragraph 1 and paragraph 3, Articles 72 and 73 of the Republic of Armenia law “On Securities Market”, the Board of the Central Bank of Armenia **enacts**:

1. Approve Regulation 4/02 on “Main Prudential Standards, their Limits, Rules of Calculation, Composition of Elements in Calculation, the Extent of Breaches of Stated Prudential Standards of Investment Companies” (attached).

2. This Resolution enters into force from April 28, 2008, except for paragraph 3 of chapter 2 of Regulation 4/02 on “Prudential standards, their limits, calculation, composition of elements in calculation, the extent of breaches of stated prudential standards of investment companies” approved by this resolution, which will enter into force from January 1, 2009.

3. Starting from June 30, 2008 Resolution No. 145-N, May 15, 2007 of the Board of the Central Bank of Armenia on approval of Regulation 42 concerning “Prudential standards on activities of specialized persons, the limits, calculation order and composition of values used in calculation”, shall lose validity.

**Republic of Armenia  
Central Bank Governor**

**Tigran Sargsyan**

## Appendix

*Approved by  
the Board of the Central Bank of RA  
Resolution 44-N*

### REGULATION 4/02<sup>1</sup>

#### “MAIN PRUDENTIAL STANDARDS, THEIR LIMITS, RULES OF CALCULATION, COMPOSITION OF ELEMENTS IN CALCULATION, THE EXTENT OF BREACHES OF STATED PRUDENTIAL STANDARDS OF INVESTMENT COMPANIES”

#### CHAPTER 1

##### *OBJECT OF REGULATION*

1. This Regulation establishes the prudential standards, their limits, calculation, composition of elements in calculation, the extent of breaches of stated prudential standards of investment companies, due to which the license of the investment company may lose validity, as well as the additional terms for providing investment services by the branches (subsidiaries) of a foreign investment company in the territory of the Republic of Armenia.

#### CHAPTER 2

##### *MAIN CONCEPTS*

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

- 1) “**Central Bank**”- Central Bank of the Republic of Armenia;
- 2) “**Financial organization**”- legal entity licensed and supervised (registered) by the Central Bank or foreign authority responsible for regulation of the financial sector and conducting the oversight;
- 3) “**Non-bank organization**”- legal entity except for a bank;
- 4) “**Standardized bullion of precious metals**”- standardized bullion, defined by the Republic of Armenia law “On Precious metals”
- 5) “**Chart of accounts**”- chart of accounts of banks, credit organizations, investment companies, managers of investment funds, approved jointly by the Resolution of the Republic of Armenia Central Bank Board No 322-N of November 30, 2011, and order of the Republic of Armenia Minister of Finance No 1032-N of December 16, 2011 “Chart of Accounts of Banks, Credit Organizations, Investment Companies, Managers of Investment Funds”;

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<sup>1</sup> (*Appendix edited 28.07.10 No 231-N, edited, supplemented, amended 10.01.12 No 2-N, 27.11.12 No 327-N, 15.12.15 No 274-N, supplemented 25.10.16 No 177-N, supplemented, amended 26.12.17 No 295-N, supplemented 10.12.18 No 210-N*)

6) **derivative instruments** - forward, futures, options, swaps and other derivative instruments in accordance with the Law of the Republic of Armenia "On Securities Market";

7) **post-balance sheet** - contingent liabilities guaranteed by an investment company;

8) **credit organization carrying out refinancing** - refinancing credit organization defined by Regulation 14 "Regulation of Activities of Credit Organizations, Prudential Norms of Activities of Credit Organizations", approved by Decision 347-N of the Central Bank Board of November 5, 2002.

9) **balance sheet balance (value)** - the amount accrued in the balance sheet on the asset or liability, including interest, penalties and fines, reduced in the amount of allowance for impairment, accumulated amortization and depreciation if any.

*(paragraph 2 edited, supplemented 10.01.12, No 2-N, supplemented 27.11.12, No 327-N)*

3. Other concepts used in this Regulation have the meanings provided for by the Republic of Armenia Law "On Securities Market" unless otherwise provided for by this Regulation.

### CHAPTER 3

#### ***MAIN PRUDENTIAL STANDARDS OF INVESTMENT COMPANIES AND THEIR LIMITS***

4. The Central Bank shall define for investment companies:

- 1) the standard of the minimum amount of statutory capital and total capital; and
- 2) N1 standard of the marginal ratio between total capital and risk-weighted assets.

5. The amount of the total capital for investment companies shall be set to:

1) 20 million Republic of Armenia dram if the investment company accepts and transfers orders of transactions with securities from clients without possessing client's funds (securities and (or) financial means) and (or) provides securities transaction services on its or the client's behalf and on client's expense and (or) provides consultancy services to the clients about investing in securities, (except for the leverage transactions on its behalf and on its own expense, including the provision of investment services referred to in this subparagraph related to forex transactions, in which case the minimum amount of the total capital shall be set to AMD 60 million);

2) 50 million Republic of Armenia dram, if the investment company possesses clients' funds (securities and (or) financial means) and has the right to provide at least one of the following investment services (except for the leverage transactions, including the provision of investment services referred to in this subparagraph related to forex transactions, in which case the minimum amount of the total capital shall be set to AMD 150 million):

- a) acceptance and transfer of securities transaction orders from clients;
- b) undertakes transactions with securities on its own or client's behalf and on client's expense.

3) 50 million Republic of Armenia dram if the investment company manages securities portfolio (except for the leverage transactions on its behalf and on its own expense, including the provision of investment services referred to in this subparagraph related to forex transactions, in which case the minimum amount of the total capital shall be set to AMD 150 million) and (or) undertakes unguaranteed placement of securities;

4) 300 million Republic of Armenia dram if the investment company undertakes transactions with securities on its behalf and on its own expense (except for the leverage transactions on its behalf and on its own expense, including the provision of investment services referred to in this subparagraph related to forex transactions, in which case the minimum amount of the total capital

shall be set to AMD 1 billion)and (or) provides the service of guaranteed placement of securities and (or) provides securities custody.

***(paragraph 5 supplemented 10.12.18, No 210-N)***

6. Within the meaning of paragraph 5 of this regulation investment company possesses client's funds (securities and (or) financial means) if the company keeps client's funds on its account or de facto has the opportunity to possess them.

7. The minimum amount of statutory capital of an investment company is defined to be 1 million Republic of Armenia drams.

8. For investment companies that simultaneously provide the services stated in different subitems of paragraph 5 of this Regulation the strictest of the minimum amount of the total capital for each item shall be used.

9. The marginal ratio between the sums of total capital and the risk-weighted assets of investment company (standard N1) shall be set to 12 percent.

10. Investment companies that only provide advisory services to clients associated with investments in securities and (or) accept and transfer securities transaction orders from clients without possessing client's funds (securities and (or) financial means), do not calculate N1 prudential standard.

11. The investment company shall ensure on average daily basis for each month the minimum amount of statutory capital, total capital and N1 main prudential standard.

11.1 For branches of foreign investment companies the prudential standards shall not be applied.

***(paragraph 11.1 supplemented 10.01.12, No 2-N)***

12. ***(paragraph 12 repealed 26.12.17, No 295-N)***

## CHAPTER 4

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

13.. For the calculation of the minimum amount of total capital and N1 main prudential standard stated in paragraph 5 of this Regulation the total capital of the investment company shall be the sum of core (primary) and supplementary (secondary) capitals after the necessary deductions. When calculating the total capital supplementary capital shall be set to utmost 50 percent of core capital (after considering the deductions defined in paragraph 15 of this chapter).

14. Core capital of investment company shall be the sum of the following elements and the difference of deductible elements from the amount of core capital:

- 1) statutory capital (statutory fund), carried in Section 50 of the Chart of Accounts;
- 2) retained earnings (losses);
- 3) general reserve.

***(paragraph 14 edited 10.01.12, No 2-N)***

15. Deductibles from the amount of core capital are:

1) book value of intangible assets (including decommissioned "intangible assets and assets in the form of a right of use (with intangible assets as a basis) and book value of capital investments on intangible assets (except for software used during the provision of investment services by investment companies and the payments for the rights to use those programs, CBA Net, Central Depository of Armenia settlement system and other payment and settlement systems with the consent of the Board

of the Central Bank (including foreign payment and settlement systems used by foreign affiliates of the investment company);

2) bought-back and not paid up capital, accounted in Part 51 of chart of accounts;

3) tangible assets that are the property of the investment company and that are not used in provision of investment services ( book value of capital investments made on fixed assets and other tangible assets, including the assets that have become the property of the company as a result of the disposition of collateral or other claims, other fixed assets out of exploitation, as well as fixed assets not used in provision of investment services) in the amount of book value, in six months after the recognition of those assets as investment company's property in the manner prescribed by law, as well as assets in the form of a right of use (with tangible assets as a basis) in the amount of book value of capital investments thereof, in six months after the recognition of the underlying tangible assets as not used for investment services;

4) the value of tangible assets that are the property of the investment company and that are used in provision of investment services (fixed assets, including real estate (buildings and structures), other fixed assets, as well as capital investments on fixed assets used for investment company's activities) and the value of of assets used in the form of a right to use (with tangible assets used for investment services as a basis) within 25 percent of the book value of fixed capital. In the meaning of this paragraph, the value of tangible asset owned by investment company is equal to the aggregate amount of the initial value of tangible asset and capital investments on it less depreciation allowance and impairment and translation losses, whereas the value of the asset in the form of a right to use (with tangible asset as a basis) is equal to the aggregate of the asset in the form of a right to use (with tangible asset as a basis) and carried balance on capital investments thereof.

5) (paragraph 5 repealed 11.10.19 No 160-N)

6) book value of investments made in statutory capital of other financial organizations (including investment companies), if,

a. the investment is equal to 10 percent or more of the statutory capital of given person

b. the investment is less than 10 percent of the statutory capital of the person, however exceeds 15 percent of investment company's core capital; or

c. all investments in statutory capitals exceed 60 percent of the book value of investment company's core capital.

***(paragraph 15 supplemented, edited 10.01.12, No 2-N, amended 27.11.12, No 327-N, amended 11.10.19, No 160-N)***

16. Supplementary capital of investment company is comprised of:

1) revaluation (re-measurement) reserves of tangible assets that are investment company's property and that are used in provisioning of investment services by the company;

2) foreign exchange difference reserves emerged during consolidation;

3) other items of other comprehensive income, accounted in Part 52 of chart of accounts:

***(paragraph 16 amended, edited 10.01.12, No 2-N)***

17. The revaluation gain/loss, being items of other comprehensive income, on tangible assets, not used in provisioning of investment services, tangible and non-tangible assets deductible from the value of fixed assets, are not included in the calculation of supplementary capital.

***(paragraph 17 amended, edited 10.01.12, No 2-N)***

18. Within the meaning of this Regulation tangible assets used for provisioning of investment services are assets that are used by the investment company to provide investment and (or) non-core

services defined by the Republic of Armenia Law on “Securities markets”. Moreover, own buildings and structures (real estate) that are used to provide investment services are those tangible assets, where investment companies and (or) their branches provide investment and (or) non-core services defined by Republic of Armenia Law on “Securities markets”, as well as those buildings and structures that are occupied by the branches and representative offices of the investment companies.

*(paragraph 17 edited 10.01.12, No 2-N)*

19. The marginal ratio between the total capital and the risk-weighted assets of investment company is defined as the following formula:

$$N1 = \frac{K_{\text{total}}}{\text{RWA}}$$

where:

K<sub>total</sub> - is the total capital based on average daily calculations per month;

RWA=CR+25/3 (MR+OR), where:

CR- is the credit risk calculated according to the formula in Appendix 1 of this Regulation, MR- is the market risk, calculated according to the formula in Appendix 2 of this Regulation, and OR- is the operational risk, calculated by the formula from Appendix 3 of this Regulation.

## CHAPTER 5

### ***THE EXTENT OF BREACHES OF STATED PRUDENTIAL STANDARDS DUE TO WHICH THE LICENSE OF INVESTMENT SERVICES PROVISION MAY LOSE VALIDITY***

20. The license of investment services provision may lose validity as a sanction when the prudential standard (standards) of the investment company drop(s) by 10 and more percent beyond the stated levels.

## CHAPTER 6

### ***ADDITIONAL TERMS OF PROVISION OF INVESTMENT SERVICES BY SUBSIDIARIES OF FOREIGN INVESTMENT COMPANY IN THE TERRITORY OF THE REPUBLIC OF ARMENIA (Chapter repealed 10.01.12, No 2-N)***

## CHAPTER 7

### ***TRANSITIONAL PROVISIONS (Chapter repealed 10.01.12, No 2-N)***

## CREDIT RISK CALCULATION

### CHAPTER 1

#### *CREDIT RISK CALCULATION*

1. For total capital to risk-weighted assets marginal ratio (N1 standard) credit risk shall be calculated by the following formula:

$$CR = (CR1+CR2+\dots+CRN)/N,$$

where:

CR - is the credit risk on average daily basis per month;

CR1, CR2,...,CRN - is the credit risk by days;

N - is the number of reporting days.

2. While calculating the credit risk the assets of the investment company shall be considered except for assets deductible from the core capital of the investment company, off-balance sheet contingent liabilities and off-balance sheet unfinished term operations in accordance with paragraph 15 of this regulation.

*(paragraph 2 amended 10.01.12, No 2-N)*

3. *(paragraph 3 repealed 10.01.12, No 2-N)*

4. Credit risk shall be calculated by following formula:

$$CR = A1*R1 + A2*R2 + \dots + An*Rn, \text{ where:}$$

A1, A2, ..., An – is the sum of assets (except for the assets, which are deducted from the core capital) off-balance sheet contingent liabilities and off-balance sheet derivative instruments of the investment company, grouped by the same weights of risk. The assets are included with their book value, and in case of applying the CRMT in accordance with this Appendix-with the value, adjusted by CRMT. Off-balance sheet contingent liabilities and off-balance sheet derivative instruments are included in the calculation of the credit risk with the amount, defined in paragraph 14 of this Appendix.

R1, R2, ..., Rn – are the risk weights of respective assets.

*(paragraph 4 amended 10.01.12 No 2-N, edited 27.11.12, No 327-N)*

5. For credit risk calculation investment companies shall use the credit risk mitigation techniques (hereafter referred to as CRMT) defined by Chapter 3 of this Appendix.

### CHAPTER 2

#### *RISK WEIGHTS USED IN THE CALCULATION OF CREDIT RISK*

TABLE 1

TABLE OF WEIGHTS USED IN THE CALCULATION OF CREDIT RISK		
Asset types	Risk weights (percent)	
	<i>for assets in Armenian drams</i>	<i>for assets in foreign exchange</i>
1. Cash financial assets (in the Republic of Armenia drams, first group foreign currencies and Russian rubles) as well as by the consent of the Board of the Central Bank cash equivalent payment documents (in the Republic of Armenia drams, first group foreign currencies and Russian rubles)	0	0
2. Bank gold held by registered investment company (including the gold held in deposit accounts of the investment company)	0	-
3. The balance of the capital replenishment accumulation account in the Central Bank and the interest accrued thereon, other claims on the Central Bank	0	0
4. Securities issued by the Central Bank in Armenian drams, Republic of Armenia government treasury bonds (including securities purchased by repo agreements and excluding securities sold by repo agreements) and interest accrued thereon	0	-
5. Claims against the Government of the Republic of Armenia on the prepayments for tax obligations (tax credits) according to tax legislation requirements	0	-
<b>6. (paragraph repealed 15.12.15, No 274-N)</b>		
7. Claims against International Monetary Fund, World Bank, European Central Bank, European Bank for Reconstruction and Development, Asian Development Bank, African Development Bank, InterAmerican Development Bank, European Investment Bank, European Investment Fund, Scandinavian investment Bank, Caribbean Development Bank, Islamic Development Bank and European Development Bank	0	0



8. Foreign currency denominated securities issued by the Central Bank, Government treasury bonds of the Republic of Armenia	-	10
9. Transferrable promissory notes issued by the Ministry of Finance of the Republic of Armenia the redemption period of which is up to 1 year and which are subject to mandatory payment by the Central Bank of Armenia from the funds of the single treasury account of the Government of the Republic of Armenia	10	10
10. Bonds, issued by refinancing credit organizations	0	10
11. Transferable state promissory notes of the Republic of Armenia for funds subject to confiscation from the state budget of the Republic of Armenia based on judicial acts	20	20
12. Cash financial funds on way (in Armenian drams and first group currencies), bank gold, as well as with the consent of the Board of the Central Bank cash equivalent payment documents on way (in Armenian drams and first group currencies)	20	20
Bank account in banks (as well as non-cash gold account) in the territory of the Republic of Armenia and the branches of banks of foreign banks operating in the territory of the Republic of Armenia	20	30
13. Claims against foreign states and their central banks	from /AAA/Aaa/ to /AA-/Aa3/ 0 from /A+/A1/ to /A-/A3/ 20 from /BBB+/Baa1/ to /BBB-/Baa3/ 50 from /BB+/Ba1/ to /B-/B3/ 100 /below (B-)/ below (B3)/ 150 without rating 100	from /AAA/Aaa/ to /AA-/Aa3/ 0 from /A+/A1/ to /A-/A3/ 20 from /BBB+/Baa1/ to /BBB-/Baa3/ 50 from /BB+/Ba1/ to /B-/B3/ 100 /below (B-)/ below (B3)/ 150 without rating 100
14. Claims against foreign local government authorities	from /AAA/Aaa/ to /AA-/Aa3/ 20 from /A+/A1/ to /BBB-/Baa3/ 50 from /BB+/Ba1/ to /B-/B3/ 100 /below (B-)/ below (B3)/ 150 without rating 100	from /AAA/Aaa/ to /AA-/Aa3/ 20 from /A+/A1/ to /BBB-/Baa3/ 50 from /BB+/Ba1/ to /B-/B3/ 100 /below (B-)/ below (B3)/ 150 without rating 100
15. Short-term claims against foreign financial organizations	/A-1+,A-1/F1+,F1/P-1/ 20 /A-2/F2/P-2/ 50 /A-3/F3/P-	/A-1+,A-1/F1+,F1/P-1/ 20 /A-2/F2/P-2/ 50 /A-3/F3/P-

	3/ 100 Below /A-3 /F3 /NP/ 150 without rating 100	3/ 100 Below /A-3 /F3 /NP/ 150 without rating 100
16. Long-term claims against foreign financial organizations	from /AAA/Aaa/ to /AA- /Aa3/ 20 from /A+/A1/ to /BBB-/Baa3/ 50 from /BB+/Ba1/ to /B-/B3/ 100 /below (B-)/ below (B3)/ 150 without rating 100	from /AAA/Aaa/ to /AA- /Aa3/ 20 from /A+/A1/ to /BBB-/Baa3/ 50 from /BB+/Ba1/ to /B-/B3/ 100 /below (B-)/ below (B3)/ 150 without rating 100
<b>17. (paragraph 17 repealed 15.12.15, No 274-N)</b>		
18. Short-term claims against foreign non-financial organizations	/A-1+,A-1/F1+,F1/P-1/ 20 /A-2/F2/P-2/ 50 /A-3/F3/P-3/ 100 below /A-3 / below F3 /NP/ 150 without rating 100	//A-1+,A-1/F1+,F1/P-1/ 20 /A-2/F2/P-2/ 50 /A-3/F3/P-3/ 100 below /A-3 / below F3 /NP/ 150 without rating 100
19. Long-term claims against foreign non-financial organizations	from /AAA/Aaa/ to /AA- /Aa3/ 20 from /A+/A1/ to /A-/A3/ 50 from /BBB+/Baa1/ to /BB-/Baa3/ 100 /below (BB-)/ below (Ba3)/ 150 without rating 100	from /AAA/Aaa/ to /AA- /Aa3/ 20 from /A+/A1/ to /A-/A3/ 50 from /BBB+/Baa1/ to /BB-/Baa3/ 100 /below (BB-)/ below (Ba3)/ 150 without rating 100
20. Standardized gold bullions (of not less than 999 fineness)	-	50
21. Standardized gold bullions on the way (of not less than 999 fineness)	-	75
22. Other claims against banks and other financial organizations operating in the territory of the Republic of Armenia and branches of foreign banks and other foreign financial organizations operating in the territory of the Republic of Armenia, excluding paragraph 6.2 of this Appendix	50	75
23. Cash funds (in foreign currencies included in the second group, except for Russian rubles) with the consent of the Board of the Central Bank, cash equalized payment documents ((in foreign currencies included in the second group, except for Russian rubles)	-	100
24. Claims against physical and legal persons, off-balance sheet contingent liabilities, on which the following criteria set in this	75	110

paragraph are simultaneously met: 1) the sum of the claims against the borrower and its related persons and the off-balance sheet contingent liabilities does not exceed 5 million Armenian drams, 2) the sum of the claims of the borrower and its related persons meeting the criteria specified in subparagraph 1 of this paragraph shall not exceed 0.2% of the total of the amounts specified in subparagraph 1 of this paragraph.		
25. Claims against the communities of the Republic of Armenia	100	150
26 Frozen or detained funds under court decision	100	150
27. Claims for amounts paid over the tax and duties and other mandatory contribution obligations (overpayments) calculated in accordance with the requirements of tax legislation	100	-
28. Fixed assets and assets in the form of right to use (with tangible assets as a basis), and capital investments thereof at book value.	100	-
29. Claims against investment funds (in case of the availability of a rating)	from /AAA/Aaa/ to /AA-/Aa3/ 20 from /A+/A1/ to /A-/A3/ 50 from /BBB+/Baa1/ to /BB-/Baa3/ 100 /below (BB-)/ below (Ba3)/ 150 below /B+/B1/ 150 /F1+, F1/P-1/A-1+,A-1/ 20 /F2/P-2/A-2/ 50 /F3 and below/P-3/below A-3/ 100	from /AAA/Aaa/ to /AA-/Aa3/ 20 from /A+/A1/ to /A-/A3/ 50 from /BBB+/Baa1/ to /BB-/Baa3/ 100 /below (BB-)/ below (Ba3)/ 150 below /B+/B1/ 150 /F1+, F1/P-1/A-1+,A-1/ 20 /F2/P-2/A-2/ 50 /F3 and below/P-3/below A-3/ 100
30. Claims against non-risky non-foreign funds (in the absence of a rating)	According to paragraph 9.2 of this Appendix	According to paragraph 9.2 of this Appendix
31. Claims against high risk non-foreign funds (in the absence of a rating)	150	150
32. Claims against foreign funds in the absence of a rating)	According to paragraph 9.3 of this Appendix	According to paragraph 9.3 of this Appendix
33. Assets other than assets referred to in paragraph 23 in the second group foreign currency (excluding the Russian ruble)	-	150

34. All of the balance sheets assets not included elsewhere in this table	100	150
35. Claims against RA resident non-financial organizations, rated higher than the rating provided by the Republic of Armenia rating agencies (Standard & Poor's or Fitch or Moody's)	0%	0%
36. Claims against RA resident non-financial organizations, rated in line with the rating provided by the Republic of Armenia rating agencies (Standard & Poor's or Fitch or Moody's)	0%	10%
37. Claims against RA resident non-financial organizations, rated at one rate lower than the rating provided by the Republic of Armenia rating agencies (Standard & Poor's or Fitch or Moody's)	20%	30%
38. Claims against RA resident non-financial organizations, rated at two rates lower than the rating provided by the Republic of Armenia rating agencies (Standard & Poor's or Fitch or Moody's)	50%	75%

*(table supplemented, amended, 10.01.12, No 2-N, edited 27.11.12 No 327-N, edited, amended, supplemented 15.12.15 No 274-N, supplemented 25.10.16 No 177-N, amended 11.10.19, No 160-N)*

6. The assets, defined in Table 1 of this Appendix, shall be used in calculation with their book value. For risk weighting of book derivative instruments their total book value in the asset shall be used.

*(paragraph 6 edited 10.01.12 No 2-N, amended 27.11.12 No 327-N)*

6.1 Claims against resident non-financial organizations of the Republic of Armenia may receive risk weights according to the risk weights specified in Paragraphs 35 to 38 in Table of this Appendix also in the case of local ratings provided by Standard and Poor's, Fitch and (or) Moody's rating agencies.

*(paragraph 6.1 supplemented 15.12.15 No 274-N)*

6.2. Risk weight for claims against the Central depository on cash accounted in the accounts of the Central Depository in the manner prescribed by Regulation 5/09 “Types of Additional Activities of Central Depository, Terms and Rules of their Implementation” approved by the Republic of Armenia Central bank Board resolution No 242-N of December 18, 2012 (hereinafter, referred to as “Regulation”) shall be deemed equal to the risk weight for an entity specified in paragraph 18 of Regulation 5/09, which actually carries out custody of cash.

*(paragraph 6.2 supplemented 25.10.16 No 177-N)*

*7. (paragraph 7 repealed 27.11.12 No 327-N)*

8. The investment companies may weigh the claims against all non-financial organizations (including the non-financial organizations, which have received the credit ratings from the Central Bank) for each asset with the risk weights, which correspond to the assets that are “no-rated”, defined

in Table 1 of this Appendix for given foreign currency, disregarding their individual ratings. When applying this approach, once a year investment companies shall select the approach mentioned in this paragraph, which they shall observe, and shall inform the Central Bank on that matter each year by 31st of December of the previous year.

***(paragraph 8 edited 10.01.12 No 2-N, amended 15.12.15 No 274-N)***

9. If the same claim gets more than 1 risk weights according to Table 1 of this Appendix, the investment company shall choose the lowest risk weight, except for the following cases:

1) in case the claim meets the requirements both paragraph 23 of Table 1 of this Appendix and other risk weights stipulated in Table 1, such claim shall be included in credit risk calculation with 100 % or 150% risk weights, respectively;

2) the frozen or detained assets are weighted by the highest risk weight for those assets pursuant to court ruling;

2.1) in the case criteria that are in line with Table 1 paragraph 24 are also in line with paragraphs 15, 16, 18, 19, 35, 36, 37 and 38 of the same Table, in order to include the claim in the calculation of risk weighted assets, the risk weights according to the ratings set out in paragraphs 15 to 19 and 35 to 38, shall be taken as basis;

3) the assets denominated in foreign currencies of the second group (except for the Russian ruble) shall be weighted by the highest risk weight established for those assets.

4) Repo agreements, securities sold under repurchase agreements, lent securities and interest accrued on them shall be included in credit risk calculation in accordance with the requirements of Chapter 3 of this Appendix.

5) The assets specified in Table 1, paragraph 33, shall be weighed at the highest risk weight established for those assets.

***(paragraph 9 amended, supplemented 27.11.12 No 327-N, amended, edited, supplemented 15.12.15. No 274-N)***

9.1 High risk funds referred to in Table 1 paragraph 31 of this Appendix shall be deemed the specialized funds defined by the Law of the Republic of Armenia "On Investment Funds", except for funds fund, real estate fund and non-public funds. Non-high-risk funds referred to in Table 1 paragraph 31 of this Appendix shall be deemed the funds that are not considered as high-risk funds.

***(paragraph 9.1 supplemented 27.11.12 No 327-N)***

9.2 In determining the risk weight for non-high risk non-foreign funds with a rating not listed in to in Table 1 paragraph 30 of this Appendix, it is necessary to calculate the average weighted risk weights of the fund's assets, whereas the basis for calculating it shall be the information on the total volume of fund assets (grouped risk weights) disclosed (provided) by the fund manager at the moment of calculation, if the information was disclosed (provided) within two months preceding the month of calculation of the capital adequacy standard. If the information specified in this paragraph was disclosed (provided) earlier than two months preceding the month of calculation of capital adequacy standard or was not disclosed (provided), the risk weight for the non-rated, non-high risk, non-foreign funds listed in paragraph 30 of paragraph 1 of this Appendix shall be 100%.

***(paragraph 9.2 supplemented 27.11.12 No 327-N)***

9.3 The risk weight of the demand for non-rated foreign funds specified in Table 1 paragraph 32 of this Table shall be determined in accordance with Table 1.1. Meanwhile, the funds referred to in points 1, 2 and 3 of the table 1.1 of this paragraph shall satisfy the provisions of paragraph 9 of

Regulation 10/10 “Investment Limit Limitations of Investment Funds” approved by the Decree of the Central Bank of the Republic of Armenia Board No 337-N of December 6, 2011.

**Table 1.1.**

	<b>FUND TYPE</b>	<b>RISK WEIGHT</b>
	<b>PUBLIC STANDARD FUNDS</b>	
<b>1.</b>	Capital market funds	<b>20%</b>
<b>2.</b>	Standard funds (diversified)	<b>50%</b>
	<b>PUBLIC SPECIALIZED FUNDS</b>	
<b>3.</b>	Funds fund, whose assets are invested only in public standard diversified funds	<b>50%</b>
<b>4.</b>	Real estate fund (diversified)	<b>75%</b>
<b>5.</b>	Other specialized funds	<b>150%</b>
	<b>FUNDS SPECIFIED IN PARAGRAPHS 1-5</b>	
<b>6.</b>	Funds nit specified in paragraphs 1-5	<b>150%</b>

*(paragraph 9.3 supplemented 27.11.12 No 327-N)*

10. For the meaning of this Appendix the first group foreign currencies include SDR, the currencies in the SDR basket, the Swiss franc, the Canadian dollar, the Swedish krona, the Danish krone, the Australian dollar and bank gold. The second group of foreign currencies includes other foreign currencies, not included in the first group of foreign currencies.

*(paragraph 10 supplemented 27.11.12 No 327-N)*

11. *(paragraph 11 repealed 11.10.19, No 160-N)*

12. The term “bank gold” used in this Appendix shall be used with the meaning prescribed in the Republic of Armenia Law on “Currency Regulation and Currency Control”.

13. *(paragraph 13 repealed 10.01.12 No 2-N)*

## CHAPTER 2.1

### CREDIT RISK CONVERSION FACTORS

*(Heading supplemented 10.01.12 No 2-N)*

14. In order to include off-balance sheet contingent liabilities and off-balance sheet derivative instruments (except for foreign currency swap) in the credit risk calculation, credit risk conversion factors (CRCF) in Table 2 of this Appendix shall be used.

*(paragraph 14 amended 10.01.12 No 2-N, 27.11.12 No 327-N)*

15. Off-balance sheet items, reduced after the amount of their reserves, shall be converted into balance sheet credit risk through CRCFs and then shall be weighted with the appropriate risk weights, stated in Table 1 of this Appendix.

Off-balance sheet contingent liabilities and off-balance sheet derivative instruments are converted to balance sheet credit risk through CRCFs according to the following formula:

$$BCR=(OO-R)*CRCF,$$

Where:

BCR- off-balance sheet contingent liabilities and off-balance sheet derivative instruments, converted into balance sheet credit risk through CRCFs, which for credit risk calculation purposes are weighted with the risk weights, stated in Table 1 of this Appendix;

OO- off-balance sheet contingent liabilities and off-balance sheet derivative instruments with the total value, reflected in the off-balance sheet;

R- value of the reserve for off-balance sheet contingent liabilities;

CRCF- credit risk conversion factors, as stated in Table 2 of this Appendix.

**Table 2**

Off-balance sheet items	CRCF (%)	
	Items in drams currency	Items in foreign currency
1. Off-balance sheet derivative instruments	1	1.5
2. Off-balance sheet contingent liabilities	100	100

*(paragraph 15 10.01.12 No 2-N, edited 27.11.12 No 327-N)*

15.1. If according to the same derivative instrument the investment company simultaneously purchases and sells the underlying asset of the derivative instrument, then the instrument is included once in the calculation of risk weighted assets with the size creating an asset.

*(paragraph 15.1 supplemented 10.01.12 No 2-N)*

### CHAPTER 3

#### ***CREDIT RISK MITIGATION TECHNIQS***

16. CRMTs are used during the calculation of credit risk. CRMTs give the opportunity to adjust the credit risk rating of the investment company if there are credit risk adjustment factors. In case of CRMT application the secured part of the claim gets the risk weight of the security or the person granting the security, while the unsecured part gets the risk weight of the borrower/instrument. If the security is provided through a bond issued by the respective insurance company and available-for-trade in regulated market, the secured part of the claim shall receive 0 percent risk weigh, whereas the secured part of the claim shall be calculated based on market (fair) price of the given day.

*(paragraph 16 supplemented 26.12.17 No 295-N)*

17. Claims, off-balance sheet contingent liabilities, off-balance sheet unfinished term operations, interest accrued thereon (hereafter: requirement subject to CRMT) can be recognized as CRMT object if the following conditions are satisfied simultaneously:

1) there exists primary financial collateral for the claim subject to CRMT defined by paragraph 27 of this Appendix, which is revalued at least every six months, or guarantee or warranty of Standard & Poor's/ Fitch/Moody's credit rating agencies or other entity rated by the Central Bank, as well as the Government of the Republic of Armenia, the Central Bank main market players, the organizations, mentioned in points 1-7 of the table of this Appendix;

2) there are documents verifying the security;

3) the repayment period of the collateral, and the period of the provided guarantee/warranty (hereafter security) is greater or equal to the redemption of the claim subject to CRMT (no negative time discrepancy)

4) there is no positive correlation between the borrower's creditworthiness and the object of collateral, the person who provides guarantee or warranty (e.g. the guarantor is not affiliated with the borrower, or the collateral is not a security issued by the borrower etc.), except for the cases, when the guarantee provider is the Central Bank or the Government of the Republic of Armenia or the collateral is a security, issued by the Central Bank, or a treasury bill of the Republic of Armenia;

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

6) there are no restrictions, specified by the contract and/or other mutual agreement, concerning the possibility of factual sell of the collateral or the terms of the executions of the guarantee/warranty provided to the investment company, in case of failing to fulfill the liabilities by the borrower;

7) the risk weight of the security or the person providing the security is lower than the risk weight of the claim subject to CRMT.

***(paragraph 17 amended, edited 10.01.12 No 2-N, supplemented 27.11.12 No 327-N, amended 15.12.15 No 274-N)***

***18. (paragraph repealed 27.11.12 No 327-N)***

19. In order to ensure the application of CRMTs it is necessary to do an adjustment to the claim subject to CRMT and the secured amount through coefficients of fluctuation in value defined in paragraph 26 of this Appendix, if there are coefficients of fluctuation in value stated in paragraph 26 of this Appendix for them, or the claim subject to CRMT and the appropriate security are expressed in different currencies.

20. In applying the coefficients of fluctuation in values:

1) the adjusted value of the claim subject to CRMT will be greater than the value of the claim subject to CRMT in accordance with paragraph 21 of this Appendix;

2) the adjusted value of the security will be less than the value of the security in accordance with paragraph 22 of this Appendix.

21. In CRMT framework investment companies adjust the amount of claims subject to CRMT through the coefficients of fluctuation in value by the following formula:

$$Cr^a = (C^r - R)(1 + C_v),$$

where,

«  $Cr^a$  – is the adjusted value of the claim subject to CRMT taking into account the coefficients of fluctuation in value;

$C^r$ - is the value of the claim subject to CRMT before deducting the value of the reserve of possible losses and before adjustment

P- is the value of the reserve of possible losses for the claims subject to CRMT;

$C_v$ - is the coefficient of fluctuation in value as defined in paragraph 26.

22. In the CDRM framework investment companies adjust the value of secured amounts through the coefficients of fluctuation in value by the following formula:

$$S_a = S(1 - C_v - C_e),$$

where:



S<sub>a-</sub> is the adjusted value of the secured amount taking into account the coefficients of fluctuation in value,

S-is the value of the secured amount;

C<sub>v</sub> – is the coefficient of fluctuation in value as defined in paragraph 26;

C<sub>e</sub> – is the coefficient of exchange rate fluctuation.

If the claim subject to CRMT and the secured amount are in different currencies 8% is taken as a coefficient of exchange rate fluctuation (hereinafter referred to as C<sub>e</sub>). Otherwise, if the claim subject to CRMT and the secured amount are in the same currency the coefficient of exchange rate fluctuation is set to 0%.

23. If there are no coefficients of fluctuation in value for claims the value of the claim subject to CRMT is equal to the difference of the claim and the reserve of possible losses. If there is coefficient of fluctuation in value for claim, the adjusted value of the claim subject to CRMT is determined in accordance with paragraph 21 of this Appendix. In case of off-balance sheet contingent liabilities, the value of the claim subject to CRMT is determined in accordance with paragraph 14 of this Appendix. The adjusted value of the secured amount shall be calculated in accordance with paragraph 22 of this Appendix.

***(paragraph 23 amended 27.11.12 No 327-N)***

23.1 Repo agreements and interest accrued on them shall be included in the credit risk calculation in accordance with the following formula:

$$RA = \text{Maximum} [CXCR; CA],$$

where:

RA - the amount included in the calculation of credit risk equal to the sum of principals of repo agreements and the interest accrued on them;

C – the amount of cash provided under repo agreement;

CR – risk weight of cash provided under repo agreement in accordance with Table 1 of this Appendix;

CA - the adjusted amount of the repo agreement claim calculated as a result of CRMT application in manner and in cases established in this Chapter, and in case CRMT has not been applied, the derivative of the carried amount of repo agreement and the risk weight of person (counterpart) of the repo operation (in accordance with the currency of cash provided under repo agreement as per Table 1 of this Appendix);

***(paragraph 23.1***

***supplemented 27.11.12 No 327-N, amended 15.12.15 No 274-N)***

23.2. Securities sold under repo agreements shall be included in the credit risk calculation according to the following formula:

$$RSS = \text{Maximum} [NS \times RO; SV \times IR], \text{ where:}$$

RSS - the value securities sold under repo agreement included in the credit risk calculation;

NS – non-secured part of securities sold under repo agreement, which shall be calculated as the positive balance between:

a. the adjusted book value of security sold by the repo agreement (using the coefficients of the value fluctuation set out in this Chapter), and

b. the sum of money received and the amounts payable on it;

RO – the weight of credit risk of a person (counterpart) of repo operation (in accordance with the currency of cash provided under repo agreement as per Table 1 of this Appendix);

SV – book value of securities sold under repo agreement;

IR – the weight of credit risk of the issuer (instrument) of securities sold under repo agreement in accordance with Table 1 of this Appendix.

Lent securities shall be included in the calculation of credit risk in the manner prescribed by this paragraph.

***(paragraph 23.2 supplemented 27.11.12 No 327-N)***

24. In CRMT framework the secured amount of the claim subject to CRMT shall get 20% and more risk weight, except for the cases defined in this paragraph:

1) Claim subject to CRMT that is secured by a financial collateral is included with 0% risk weight in the calculation of the credit risk, if funds in the Republic of Armenia's dram, the currency of the first group, or the ruble kept in the given investment company serve as a pledge, or if the following conditions are simultaneously satisfied:

a. the securing asset is a security in Armenian dram issued by the Central Bank of the Republic of Armenia, other state treasury bond of the Republic of Armenia, or security issued by central banks and governments of other countries which are included in the credit risk calculation with 0% risk weight according to Table 1 of this Appendix;

b. the collateral is revalued every day;

c. the borrower (debtor) is classified as a main market player in accordance with paragraph 28 of this Appendix.

2) claim that is secured by guarantee or warranty is included in the credit risk calculation with 0% risk weight if the party providing the guarantee or warranty is:

a. the Government or the Central Bank of the Republic of Armenia;

b. classified as a main market player in accordance with paragraph 28 of this Appendix, claims against which are included in credit risk calculation with 0% risk weight according to Table 1 of this Appendix;

c. the organization, specified in paragraphs 1-7 of the table of this Appendix.

3) The secured part of the claim is included in the credit risk calculation with 10% risk weight, if:

a. the collateral is a security issued in foreign currency by the Central Bank, state treasury bond of the Government of the Republic of Armenia, which is included with 10% risk weight in credit risk calculation according to Table 1 of this Appendix, as well as the conditions stated in sub-paragraph 1 of this paragraph are met (except for clause “a”), or

b. The transaction meets the requirements of sub-paragraph 1 of this paragraph (except for clause “c”).

***(paragraph 24 supplemented 27.11.12 No 327-N, supplemented 15.12.15 No 274-N)***

25. If the claim subject to CRMT has more than one type of security, the sum of which exceeds the aggregate amount of the claim, and which have different risk weights, in order to determine the risk weight of the secured part of the claim subject to CRMT, it is necessary to consider the risk weights of the securing assets in ascending order of risk weights ( first considering the risk weight of the securing asset that has lower risk weight, afterwards, consecutively the risk weights of the successive securing assets till the value of claim is covered).

26. Coefficients of fluctuation in value

Table 3

Types of securities and ratings	Time to maturity	Coefficients of fluctuation in value (%)	
		Central banks/Government/Local authorities	Other issuers
1. Securities in Armenian dram issued by the Central Bank, the Republic of Armenia Government Treasury Bills,	< 1 year	1	-
	≥1 year, < 5 years	2	-
2. Bonds issued by foreign central banks, governments, local government authorities with /AAA/Aaa/ to /AA- /Aa3/ rating,	≥5 years	4	-
3. Bonds of foreign banks and non-bank organizations with /AAA/Aaa/ to /AA- /Aa3/ rating,	< 1 year	-	1
	≥1 year, < 5 years	-	4
4. Bonds of foreign banks and non-bank organizations with /A-1+,A1/F1+,F1/P-1/ rating,	≥5 years	-	8
5. Securities in foreign currency issued by the Central Bank, the Republic of Armenia Government Treasury Bills,	< 1 year	2	-
	≥1 year, < 5 years	3	-
6. Bonds issued by foreign central banks, governments, local government authorities with /A+/A1/ to /BBB- /Baa3/ rating,	≥5 years	6	-
7. Bonds issued by banks, credit organizations operating in the territory of the Republic of Armenia and branches of foreign banks operating in the territory of the Republic of Armenia, 8. Bonds of foreign banks and non-bank organizations with /A+/A1/ to /BBB- /Baa3/ rating,	< 1 year	-	2
	≥1 year, < 5 years	-	6
8. Bonds of foreign banks and non-bank organizations with /A+/A1/ to /BBB- /Baa3/ rating,	≥5 years	-	12
9. Bonds of foreign banks and non-bank organizations with /A-2/F2/P-2/ rating,			
10. Bonds issued by foreign central banks, governments, local government authorities with /BB+/Ba1/ to /BB- /Ba3/ rating, 11. Bonds of foreign banks and non-bank organizations with /BB+/Ba1/ to /BB-/Ba3/ rating, 12. Bonds of foreign banks and non-bank organizations with /A-3/F3/P-3/,		20	

<p>13. Shares of banks and credit organizations operating in the territory of the Republic of Armenia,</p> <p>14. Bonds issued by non-financial resident organizations rated by the Central Bank with rating higher equal or higher than rating provided by lower by one point than the rating assigned to the Republic of Armenia by rating agencies (Standard &amp; Poor's or Fitch or Moody) minus one,</p> <p>15. Shares of banks and non-bank organizations with /AAA/Aaa/ to /AA-/Aa3/ rating,</p>	
<p>16. Shares of non-financial organizations resident rated by the Central Bank, with rating higher equal or higher than rating provided by lower by one point than the rating assigned to the Republic of Armenia by rating agencies (Standard &amp; Poor's or Fitch or Moody) minus one,</p> <p>17. Shares of banks and non-bank organizations with /A+/A1/ to /BBB-/Baa3/ rating /</p>	30

***(paragraph 26 edited 15.12.15 No 274-N)***

27. Subjects of financial collateral in CRMT are:

- 1) Securities issued by the Central Bank,
- 2) the Republic of Armenia Government Treasury Bills, transferrable promissory notes issued by the Ministry of Finance of the Republic of Armenia, the maturity date of which is up to one year and which will be payable by the Central Bank from the funds of the single treasury account of the Government of the Republic of Armenia for funds confiscated from the state budget of the Republic of Armenia based on judicial acts;
- 3) Bonds issued by banks and credit organizations operating in the territory of the Republic of Armenia and branches of foreign banks operating in the territory of the Republic of Armenia;
- 4) Bonds issued by non-financial RA resident organizations rated by the Central Bank with rating higher equal or higher than rating provided by lower by one point than the rating assigned to the Republic of Armenia by rating agencies (Standard & Poor's or Fitch or Moody) minus one;
- 5) Bonds issued by foreign central banks, governments, local government authorities with /BBB-/Baa3/ and higher rating;
- 6) Bonds issued by foreign banks with /BBB-/Baa3/ and higher rating,
- 7) Bonds issued by foreign non-bank organizations with /A-/A3/ and higher rating,
- 8) Bonds of foreign banks and non-bank organizations with /A-2/F2/P-2/ and higher rating,
- 9) Shares issued by non-financial RA resident organizations rated by the Central Bank with rating higher equal or higher than rating provided by lower by one point than the rating assigned to the Republic of Armenia by rating agencies (Standard & Poor's or Fitch or Moody) minus one;
- 10) Shares of banks and credit organizations operating in the territory of the Republic of Armenia,
- 11) Shares of foreign banks with /BBB-/Baa3/ and higher rating, that are included in stock exchange indices stated in paragraph 29 of this Appendix,
- 12) Shares of foreign non-bank organizations with /A-/A3/ and higher rating that are included in the stock exchange indices stated in paragraph 29 of this Appendix,

13) Bonds, issued by refinancing credit organizations.

*(paragraph 27 supplemented 10.01.12 No 2-N, edited 15.12.15 No 274-N)*

28.. For the purpose of this regulation main participants in the market are:

- 1) States/governments, central banks and local government authorities,
- 2) Banks, credit organizations operating in the territory of the Republic of Armenia, and branches of foreign banks operating in the territory of the Republic of Armenia,
- 3) Foreign banks,
- 4) Other financial institutions (including investment and insurance companies) claims against which are included in credit risk calculation with 20% risk weight in accordance with Table 1 of this Appendix.

29. For the purpose of this regulation the stock exchange indices are classified as stated in Table 4 of this Appendix.

**Table 4**

Stock Exchange Name	Country
All Ords	Australia
ATX	Austria
BEL20	Belgium
Euronext 100	Multinational
CAC 40	France
IBEX 35	Spain
AEX	Netherlands
Hang Seng	Hong Kong
Nikkei225	Japan
DAX	Gemrany
SMI	Switzerland
NASDAQ Composite	USA
NASDAQ 100	USA
OMX Stockholm 30	Sweden
S&P500	USA
Dow Jones	USA
FTSE100	United Kingdom
FTSE mid-250	United Kingdom

### CHAPTER 3

#### *CREDIT RATING APPLICATION PRINCIPLES IN CREDIT RISK CALCULATION*

30. *(paragraph repealed 15.12.15 No 274-N)*

31. For risk weighting of claims against foreign central banks, governments, local government authorities, foreign banks and non-bank organizations only credit ratings by Standard and Poor's/Fitch/Moody's/ credit rating agencies shall be used. In addition, the scale of long-term ratings established by Standard and Poor's/Fitch/Moody's shall match with each other.

32. Investment companies shall update the credit ratings established by credit rating agencies based on the credit ratings of the day by the credit rating agencies according to paragraph 31 of this Appendix.

33. If the claim has only one rating given by a credit rating agency, only that rating is applied for risk weight identification of the claim. If there are two different ratings for the same claim granted by different credit rating agencies, the lowest rating shall be applied. In case of three and more ratings for the same claim the lowest rating out of two highest shall be applied.

34. To include the claims against foreign central banks, governments, local government authorities in the credit risk calculation credit ratings depending on type of the instrument and currency shall be applied. For claims against foreign banks and non-bank organizations ratings depending on the term, currency and type of instrument shall be applied.

35. For the meaning of this Appendix short-term claims are demand and up to 90 days (included) maturity claims, while long-term claims are claims with more than 90 days maturity and claims with no fixed maturity requirements.

36. If there is no short-term rating in order to determine the risk weight for short-term claims against foreign banks and non-bank organizations one level more favorable risk weight of long-term ratings as stated in paragraphs 18 and 21 of Table 1 is applied. For the application of this paragraph 20% and 150% risk weights are exceptions (meaning that short-term claims shall be weighed by 20% and 150% risk weights respectively).

37. For risk weighting of short and long-term claims against foreign governments and central banks, local government authorities, non-financial organizations rated by the Central Bank, as well as for application of risk weights to the following entities exceptionally long-term ratings shall be applied.

*(paragraph 37 amended 15.12.15 No 274-N)*

38. If the risk weight of the short-term claim against an entity/instrument is 150%, any claim (short and long-term) against that entity/instrument that does not have rating shall be included with 150% risk weight in credit risk calculation.

39. The credit rating given to any entity in a financial group does not apply to the financial group or entities within the group.

40. The credit rating given to the group does not apply to entities within the group.

*(Appendix amended, supplemented, edited 10.01.12 No 2-N, 27.11.12 No 327-N, 15.12.15 No 274-N, supplemented 25.10.16 No 177-N, 26.12.17 No 295-N)*

**Appendix 2**  
**Regulation 4/02 approved by**  
**the Central Bank Board**  
**Resolution No 44-N of February 12, 2008**

**MARKET RISK CALCULATION**

**CHAPTER 1**

***MARKET RISK CALCULATION***

1. For calculation of marginal ratio between total capital and risk weighted assets (N1 standard) market risk shall be calculated by the following formula:

$$MR=FR+IRR+ESPR,$$

where:

MR- is the market risk,

FR- is the foreign currency risk on average daily basis in month,

IRR- is the interest rate risk on average daily basis in month,

ESPR- is the price risk of equity securities on daily average basis in month.

2. Interest rate and equity securities' price risks are calculated in market risk only when during the month preceding the reporting period or by average daily estimates of the reporting month:

1) the sum of held for trading and available-for-sale financial assets is higher than 3 percent of the total balance sheet assets, or

2) the aggregate of financial assets remeasured at fair value through profit or loss and measured as fair value through any other financial asset exceeds the 20% of the total regulatory capital of the investment company. is higher than 20 percent of total capital of investment company.

*(paragraph 2 amended 10.01.12 No 2-N, 26.12.17 No 295-N)*

**CHAPTER 2**

***FOREIGN CURRENCY RISK CALCULATION***

3. In marginal ratio of total capital and risk-weighted assets (N1 standard) foreign currency risk shall be calculated by Standard and VaR methodologies of foreign currency risk calculation.

4. Once a year investment companies choose the methodology (Standard or VaR) which they apply to foreign currency risk calculation informing the Central Bank before December 31 of the preceding year. In addition, with standard methodology the calculation is done according to paragraphs 5 to 13 of this Appendix, while with VaR methodology according to paragraph 14 of this Appendix.

5. Assets and liabilities of investment companies have foreign currency risk when their size, the values receivable and payable in monetary terms may change over time due to the exchange rate

change between the foreign currency and Armenian dram. In addition, for the meaning of this Appendix, bank or standardized bullions of precious metals, metal accounts, as well as assets and liabilities, expressed in bank or standardized bullions of precious metals, also have foreign currency risk.

***(paragraph 5 edited 10.01.12 No 2-N)***

6. While calculating the foreign currency positions, off-balance sheet derivative instruments are also included only with values, recorded in off-balance sheet (including the interest, recorded in off-balance sheet thereon), and the fines and penalties, accrued in on-balance sheet, if any.

***(paragraph 6 amended 10.01.12 No 2-N, edited 27.11.12 No 327-N)***

7. Foreign currency position is the difference between assets containing foreign currency risk and liabilities containing foreign currency risk of the investment company. Foreign currency positions are defined as:

- 1) long, if the difference is greater than 0;
- 2) short, if the difference is less than 0;
- 3) closed, if the difference is equal to 0;
- 4) open, if the difference is greater or less than 0.

8. Maximum foreign currency position is the sum of the below mentioned values:

- 1) maximum absolute value of the sum of foreign currency long positions and foreign currency short positions;
- 2) sum of the absolute values of open positions of bank or standardized bullions of precious metals and metal accounts.

***(paragraph 8 amended 10.01.12 No 2-N)***

9. The calculation of foreign currency positions is based on separate types of currencies. For the purpose of calculation of foreign exchange risk, the bank gold, standardized gold bullions of no less than 999 fineness, the claims and liabilities denominated therein and metal accounts are considered as one type of the foreign currency.

***(paragraph 9 supplemented 10.01.12 No 2-N)***

10. Foreign currency risk containing assets that are deductible from core capital are not included in the foreign currency positions calculation.

11. Foreign currency positions are calculated every day and are expressed in Armenian dram` based on the average exchange rate, established in currency markets, published by the Central Bank for given day, and in case of bank gold, standardized bullions of precious metals, metal accounts- the reference prices of precious metals, published by the Central bank. If the investment company has open foreign exchange position for a foreign currency, for which the exchange rate to the Republic of Armenia dram is not published on the official web site of the Central Bank, then USA dollar/the Republic of Armenia dram exchange rates, approved by the Central Bank of that country, shall be used.

***(paragraph 11 amended 10.01.12 No 2-N)***

12. For inclusion in the marginal ratio between total capital and risk-weighted assets (N1 standard) foreign currency risk shall be calculated by the following formula:

$FR = \max(MFP1, MFP2, \dots, MFPn)$ , where:

FR- is the foreign currency risk  $MFP1, MFP2, \dots,$

$MFPn$ - is the 12% of maximum foreign currency position based on days of reporting month,



n- is the number of reporting days.:

13. On those days when the balance sheet of the investment company is not changed (including non-working days) data of the previous day are used in daily calculations.

14. Within VaR methodology for foreign risk calculation investment companies shall calculate values stated in paragraphs 1 to 8 of this Appendix on daily basis:

1) Calculate foreign currency positions of the investment company expressed in Armenian dram according to requirements set in paragraphs 5,6 and 7 of this Appendix. Based on the identified positions one dimension "1xA" matrix of foreign currency positions shall be constructed. The calculation is done by the following formula:

$$2) ) P=(P1, P2 ,..., Pc),$$

Where:

P – is the absolute value of foreign currency positions by foreign currency types,

c- is the foreign currency type.

3) Form the daily foreign exchange time series announced for the Armenian dram of those foreign currencies for which there was open position in the reporting period. The time series shall include the data of that day and data for preceding 250 working days of foreign currency risk calculation. For exchange rate calculation the foreign exchange rates to Armenian dram announced by the Central Bank shall be used, and for bank or standardized bullions of precious metals and metal accounts-reference prices for precious metals announced by the Central Bank.

4) For each type of foreign currency calculate natural logarithms of average exchange rate volatilities formed in the foreign currency market announced by the Central Bank on daily basis by the following formula:

$$\text{Ln}(EO/EO-1),$$

where:

EO- is the foreign currency market average exchange rate of the currency announced by the Central Bank to Armenian dram O days before that day,

O- is the day of foreign currency risk calculation or one of 250 days preceding that day.

5) For each type of foreign currency calculate mathematical expectation of natural logarithms ( the length of time series shall be 250 working days) of foreign exchange rate volatilities of the foreign currency to Armenian dram announced by the Central Bank that shall be calculated by the following formula:

$$E^i = \frac{1}{250} \sum_{\alpha=1}^{250} \text{LN} \left( \frac{P^{i\alpha}}{P^{i\alpha-1}} \right)$$

Where:

$E^i$  - is the mathematical expectation of natural logarithms of i-th foreign currency volatility;

$\text{LN}(P^{i\alpha}/ P^{i\alpha-1})$  - is the natural logarithm of volatility of i-th foreign currency on daily basis.

6) Calculate all possible co-variation coefficients between foreign currencies. Based on co-variation coefficients foreign currency "AxA" dimensional co-variation matrix shall be constructed, where, A is the quantity of foreign currency types. Co-variation coefficient shall be calculated by the following formula:

$$\text{Cov}_{ij} = \frac{1}{250} \sum_{\alpha=1}^{250} (\text{Ln}(P_{i\alpha} / P_{i\alpha-1}) - E^i) (\text{Ln}(P_{j\alpha} / P_{j\alpha-1}) - E^j),$$

where

$\text{Cov}_{ij}$  - is the co-variation coefficient between i-th and j-th foreign currencies;

$E^i, E^j$  - are respectively mathematical expectations of i-th and j-th foreign currencies calculated according to sub-paragraph 4 of paragraph 14 of this Appendix.

7) For foreign currency risk calculation with VaR methodology 99% confidence interval shall be applied.

8) Foreign currency VaR of the investment company for that day (hereafter: foreign currency daily VaR) shall be calculated by the following formula:

$$\text{VaR} = 2.33 \sqrt{P^* \text{Cov}^* P^t},$$

where:

$P$  - matrix of foreign exchange positions of the investment company;

$\text{Cov}$  - foreign exchange covariation matrix of the investment company;

$P^t$  - is the transposed matrix of the foreign exchange positions of the investment company.

9) According to the VaR methodology, for the calculation of marginal ratio between total capital and risk weighted assets - N1 standard, the foreign currency risk shall be calculated by the following formula:

$$\text{Foreign exchange risk} = 3 * (\text{max foreign currency risk} = 3 * (\text{max} \left( \frac{\text{VaR}_{-10}}{N} ; C \frac{\sum_{I=1}^N \text{VAR}_i}{I} \right) ))$$

where:

$\text{VaR}_{-10}$  - is the 10-days VaR of the last day of the reporting period calculated by the following formula:

$$\text{VaR}_{-10} = \sqrt{10} * \text{VaR}_{-N},$$

$N$  - is the number of days of the reporting period;

$I$  - days in the reporting period;

$C$  - takes on the values stated in Table 1 of this Appendix depending on how many days during the 250 working days prior to the reporting month's last day the daily net losses of investment company have exceeded the foreign currency VaR for that day due to changes in foreign exchange rate.

Table 1

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

*(paragraph 14 amended 10.01.12 No 2-N)*

### CHAPTER 3

#### *INTEREST RATE RISK CALCULATION*

15. Interest rate risk SHALL BE calculated as the sum of specific interest rate risk and general risk by the following formula:

$$\text{IRR} = \text{SIRR} + \text{GIRR},$$

where:

IRR – is the average daily interest rate risk in month,

SIRR- is the average daily specific interest rate risk in month,

GIRR- is the average daily general interest rate risk in month.

16. Specific and general interest rate risks are calculated for securities held for trading and available for sale, as well as held to maturity debt securities with variable interest rates. In addition, debt securities are included in positions calculations with current market value.

*(paragraph 16 amended 10.01.12 No 2-N, 26.12.17 No 295-N)*

17. Within this Regulation debt securities include:

- 1) Government debt securities and state promissory notes;
- 2) Other debt securities and promissory notes (excluding convertible debt securities and other securities);
- 3) Deposit certificates;
- 4) Non-convertible preferable stocks;
- 5) Securities other than equity securities that contain interest rate risk.

18. Calculation of positions for debt securities also includes securities sold by repo agreements, liabilities for securities acquired by repo agreements, pledged debt securities, as well as off-balance sheet derivative instruments with underlying debt security. Securities acquired through repo agreements and received through borrowing by the investment company, debt securities, received as pledge, as well as debt securities under securities portfolio management, as well as debt securities

managed under brokerage services by the investment company are not included in calculation of positions for debt securities.

*(paragraph 18 edited 10.01.12 No 2-N, amended 27.11.12 No 327-N)*

19. Debt position of the investment company is the difference between the values of debt securities (including debt securities underlying off-balance sheet derivative instruments) and debt security as liability (including debt securities underlying off-balance sheet derivative instruments). The positions of debt securities shall be defined as:

- 1) long, if the difference is greater than 0,
- 2) short, if the difference is less than 0,
- 3) closed, if the difference is equal to 0.

*(paragraph 19 amended 27.11.12 No 327-N)*

20. Aggregate position of debt securities is calculated as the sum of absolute values of long and short positions of debt securities.

21. For interest rate risk calculation purposes positions of debt securities shall be calculated in respect to securities classified by principles defined in this paragraph:

- 1) shall be issued by the same entity,
- 2) shall be expressed by the same currency,
- 3) shall have the same yield or the difference in the yields shalln't exceed 0.2 percentage points,
- 4) terms till maturity shall satisfy the following requirements:
  - i) have the same time to maturity, if the time to maturity is less than or equal to 1 month,
  - ii) the differences in time to maturity shall not exceed 7 days, if the term of the latter is 12 months, or
  - iii) the difference between the time to maturity shall not exceed 30 days, if the time to maturity is more than 1 year.

22. The time to maturity of debt securities in interest rate risk calculation shall be performed by the following formula:

- 1) for fixed interest rate debt securities days to maturity of the debt securities shall be considered (for securities with partial redemption the days left till partial redemption are considered);
- 2) for floating interest rate debt securities, the days left to upcoming revision of interest rate shall be considered;
- 3) for the securities sold through repo agreements the time to maturity of the debt securities shall be considered;
- 4) for debt securities underlying off-balance sheet derivative instruments the time to maturity of the derivative operation shall be considered.

*(paragraph 22 amended 27.11.12 No 327-N)*

## CHAPTER 4

### *SPECIFIC INTEREST RATE RISK CALCULATION*

23. Specific interest rate risk positions of debt securities are calculated in respect to debt securities grouped by the principles of paragraph 21 of this Appendix.

24. After the calculation of positions the aggregate position of debt securities is calculated.

25. For inclusion of debt securities in aggregate position with differentiated weights they are classified into the following categories:

1) Government debt securities: debt securities of states/governments, central banks and local government authorities,

2) Reliable debt securities, which include as classified by paragraph 9 of Table 1 in Appendix 1 of this regulation debt securities issued by international financial organizations, debt securities of banks, credit organizations and branches of foreign banks operating in the territory of the Republic of Armenia, /BBB-/Baa3/ and higher rated debt securities of foreign banks, /A-/A3/ and higher rated debt securities of foreign non-bank organizations, as well as debt securities of non-financial RA resident organizations, rated by the Central Bank at one rate lower than the rating provided by the Republic of Armenia rating agencies (Standard & Poor's or Fitch or Moody's),

3) Other debt securities that are not classified into government debt and reliable debt securities. *(paragraph 25 amended 15.12.15 No 274-N)*

26. Positions of debt securities in aggregate position calculation are included with the weights defined in column 4 of Table 2 of this Appendix.

**Table 2**

Debt securities types	Issuer/rating	Time to maturity	Weight (%)
(1)	(2)	(3)	(4)
1. Government Debt Securities	1.1 Securities issued by the Central Bank in Armenian drams, Republic of Armenia Government Treasury Bills, 1.2 Debt securities issued by /AAA/Aaa/ to /AA-/Aa3/ rated foreign central banks, governments, local government authorities,	< 1 year	1
		≥1 year, < 5 years	2
		≥5 years	4
	1.3 Debt securities in foreign currency issued by the Central Bank Republic of Armenia Government Treasury Bills, 1.4 Debt securities issued by foreign central banks, governments, local government authorities rated from /A+/A1/ to /BBB-/Baa3/,	< 1 year	2
		≥1 year, < 5 years	3
		≥5 years	6
1.5 Debt securities issued by foreign central banks, governments, local government authorities rated from /BB+/Ba1/ to /B-/B3/,	-	8	
1.6 / Debt securities issued by foreign central banks, governments, local government authorities rated below /B-/B3/ 1.7 Debt securities issued by foreign central banks, governments, local government authorities without rating	-	12	
	-	8	

2. Reliable Debt Securities:	< 1 year	2
	≥1 year, < 5 years	6
	≥5 years	12
3. Other debt securities	-	20

27. Specific interest rate risk is calculated on daily basis and is expressed in Armenian drams.

28. Specific interest rate risk is calculated by the following formula:

$$SIRR = (SIRR1 + SIRR2 + \dots + SIRR_N) / N,$$

Where:

SIRR – is the average daily specific interest rate risk in month,

SIRR1, SIRR2, ..., SIRR<sub>N</sub> – is the daily aggregate position of debt securities. Positions of debt securities in the aggregate position calculation are included according to weights stated in column 4 of Table 2 in this Appendix,

N – is the number of days in the reporting month.

29. On those days when the balance sheet of the investment company has not changed (including: non-working days) data for the previous day are applied for daily calculations.

## CHAPTER 5

### *GENERAL INTEREST RATE RISK CALCULATION*

30. In order to calculate the general interest rate risk positions in debt securities, the calculation is carried out in respect to debt securities classified by the principles of paragraph 21 of this Appendix. In addition, aggregate net position of debt securities is calculated as the difference between the sum of long positions and the sum of short positions of debt securities (in absolute values).

31. After calculation of positions of debt securities the long and short positions of debt securities are distributed between the times to maturities as stated in column 4 of Table 3 in this Appendix with the appropriate weights.

32.

**Table 3**

Term zones	N	Time to maturity of debt securities	Կշիռ (%)
(1)	(2)	(3)	(4)
Zone 1	1	Up to 1 month	0
	2	from 1 to 3 months	0.5
	3	from 3 to 6 months	1
	4	from 6 to 12 months	2

Zone 2	5	from 1 to 2 years	3
	6	from 2 to 3 years	4
	7	from 3 to 4 years	6
Zone 3	8	from 4 to 5 years	7
	9	from 5 to 7 years	8
	10	from 7 to 10 years	10
	11	from 10 to 15 years	11
	12	from 15 to 20 years	13
	13	20 years and higher	15

***(paragraph 32 edited 10.01.12 No 2-N)***

33. After calculation of positions of debt securities according to weights defined in column 4 of Table 3 in this Appendix the values stated in paragraphs 34 to 39 of this Appendix shall be calculated.

34. For each time to maturity in Table 3 the minimum position for debt security is the difference between the sum of all long positions and short positions (in absolute value) for the period.

35. For each time to maturity in Table 3 the net position of debt securities (long or short) is the difference between the sum of all long positions and short positions (in absolute value).

36. For each time zone in Table 3 the minimum position of debt security is the minimum of the sum of long net positions and the sum of short net positions (in absolute value) of debt securities in the appropriate time zone.

37. For each time zone in Table 3 net position (long or short) of debt security is the difference between the sum of long net positions and the sum of short net positions of debt securities in the appropriate time zone.

38. The minimum position between first and second zones in Table 3 is the minimum value of long net (or short) position (in absolute value) of the first zone and short net (or long) position (in absolute value) of the second zone.

39. The minimum position between second and third zones in Table 3 is the minimum of the following values:

1) (net position of the second zone (in absolute value))-(the minimum position between the first and the second zones),

2) the net position of the third zone (in absolute value).

40. The minimum position between the first and the third zones in Table 3 is the minimum of the following values:

1) (the net position of the first zone (in absolute value))-(the minimum position between the first and the second zones),

2) (the net position of the third zone (in absolute value))- (the minimum position between the second and the third zones).

41. General interest rate risk is calculated by the following formula:

$$GIRR=(GIRR1+GIRR2+\dots+GIRRN)/ N,$$

Where:

GIRR- is the daily average general interest rate risk in month,  
GIRR1, GIRR2,..., GIRR<sub>N</sub> – are the daily general interest rate risks,  
N – is the number of days in the reporting month.

42. The general interest rate risk for the day is the sum of the following values:

- 1) 10% of the minimum position for each time to maturity,
- 2) 40% of the minimum position of the first zone,
- 3) 30% of the minimum position of the second zone,
- 4) 30% of the minimum position of the third zone,
- 5) 40% of the minimum position between the first and the second zones,
- 6) 40% of the minimum position between the second and the third zones,
- 7) 150% of the minimum position between the first and the third zones,
- 8) 100% of the aggregate net position of the debt securities.

## CHAPTER 6

### *PRICE RISK OF EQUITY SECURITIES*

44. The equity securities are used in accordance with definitions of own equity instruments, defined by IFRS 39.

*(paragraph 44 edited 10.01.12 No 2-N)*

45. The price risk of equity securities is calculated for equity securities remeasured at profit and loss at fair cost, as well as for equity securities measured through comprehensive financial income.

*(paragraph 45 amended 10.01.12 No 2-N, 26.12.17 No 295-N)*

46. Within the meaning of this Appendix equity securities are:

- 1) shares (except for non-convertible preferred shares),
- 2) securities granting right to a share, membership or other similar participation in the statutory capital of a legal entity,
- 3) debt securities and other securities convertible to securities defined in sub-paragraphs 1 and 2 of this paragraph,
- 4) option or other agreement (right) to subscribe or to buy securities defined in sub-paragraphs 1 and 2 of this paragraph,
- 5) other financial instruments that can be recognized as equity securities.

47. Positions calculation of equity securities also include equity securities sold through repo agreements, the liabilities on equity securities, acquired through repo agreements, pledged equity securities as well as off-balance sheet derivative instruments that are based on equity securities defined in paragraph 46 of this Appendix. Equity securities positions calculations do not include equity securities purchased by repo agreements, liabilities for equity securities purchased by repo agreements, equity securities received as collateral as well as equity securities under securities portfolio management, as well as equity securities, managed under brokerage services.

*(paragraph 47 edited 10.01.12 No 2-N, amended 27.11.12 No 327-N)*



48. For price risk calculation of equity securities the positions of equity securities shall be calculated in regard to equity securities grouped by the principles stated in this paragraph. Equity securities that are included in the calculation of the same positions shall be:

- 1) issued by the same entity,
- 2) issued in the same currency.

49. Equity securities position is the difference between considered as asset equity securities (as well as equity securities underlying off-balance sheet derivative instruments) and considered as liability equity securities (including equity securities underlying off-balance sheet derivative instruments). The positions of equity securities shall be defined as:

- 1) long, if the difference is greater than 0,
- 2) short, if the difference is less than 0,
- 3) closed, if the difference is equal to 0.

***(paragraph 49 amended 27.11.12 No 327-N)***

50. The aggregate position of equity securities is calculated as the sum of absolute values of different positions (long and short) of equity securities.

51. The aggregate net position of equity securities is calculated as the difference between the sum of long positions and the sum of short positions (in absolute value) of the equity securities.

52. For calculation of the positions, equity securities are included under their current market value.

53. Positions of equity securities are calculated on daily basis and are expressed in Armenian drams.

54. Equity securities that have been deducted from core capital calculation are not included in equity securities positions calculation.

55. Positions calculation of equity securities is carried out in respect to equity securities classified by principles in paragraph 48 of this Appendix.

56. Price risk of equity securities is the sum of general and specific price risks of equity securities that is calculated by the following formula:

$$ESPR = (GR1 + GR2 + \dots + GRN) / N + (SR1 + SR2 + \dots + SRN) / N,$$

where:

ESPR- is the average daily equity securities price risk in month,

GR1+ GR2+...+ GRN – is the daily equity securities general price risk,

SR1+ SR2+...+ SRN – is daily equity securities specific price risk,

N – is the number of days in the reporting month.

57. Equity securities general price risk for the day is equal to absolute value of 8% of aggregate net position of equity securities of that day.

58. Equity securities specific price risk for the day is equal to aggregate position of equity securities of that day calculated by risk weights in paragraph 60 of this Appendix.

59. In aggregate position calculation for differentiated inclusion of equity securities, they are classified into the following categories:

- 1) liquid and diversified equity securities,
- 2) other equity securities.

60. Equity securities are classified to liquid and diversified equity securities if the following conditions are met simultaneously:

1) an equity security of bank, credit organization or other financial organization operating in the territory of the Republic of Armenia, or is /BBB-/Baa3/ and higher rated foreign bank equity security which enters in any stock exchange index defined by the table in paragraph 29 of Appendix 1 of this regulation, or equity security of non-financial organization with “C-“ credit rating rated by the Central Bank, or equity security of /A-/A3/and higher rated foreign non-bank organization which is included in any stock exchange index defined in the table on paragraph 29 of Appendix 1 of this regulation.

2) equity security position (short or long) does not exceed 10 % of the aggregate position of the equity security.

*(paragraph 60 edited 15.12.15 No 274-N)*

61. In equity securities specific price risk calculation positions of equity securities (in absolute value) are included with the following weights for aggregate position calculation:

i) positions for equity securities classified into the category of equity securities defined by subparagraph 1 of paragraph 59 of this Appendix: 4 %,

ii) positions for equity securities classified into the category of equity securities defined by subparagraph 2 of paragraph 59 of this Appendix: 8%.

62. On those days when the balance sheet of the investment company has not changed (including: non-working days) data for the previous day are used for daily calculations.

*(Appendix amended, edited, supplemented 10.01.12 No 2-N, edited, amended 27.11.12 No 327-N, 15.12.15 No 274-N, amended 26.12.17 No 295-N)*

**Appendix 3**  
**Regulation 4/02 approved by**  
**the Central Bank Board**  
**Resolution No 44-N of February 12, 2008**

**OPERATIONAL RISK CALCULATION**

1. For the marginal ratio between the total capital and risk weighted assets (N1 standard) operational risk is calculated by the main characteristics' approximation approach.

2. According to main characteristics' approximation approach operational risk is calculated by the following formula:

$$OR = (NIT * G + NIT-1 * G + NIT-2 * G) / N,$$

where:

OR- is the operational risk calculated in accordance with main characteristics' approximation approach,

NIT- is the net income for the year from January to December (hereafter: reporting year) preceding the year of calculation of the marginal ratio between total capital and risk weighted assets (N1 standard),

NIT-1 - is the net income for 2-nd reporting year preceding the year of calculation of the marginal ratio between total capital and risk weighted assets (N1 standard),

NIT-2- is the net income for 3-rd reporting year preceding the year of calculation of the marginal ratio between total capital and risk weighted assets (N1 standard),  $G=15\%$  ,

N- is the number of years with greater than 0 net income during the last three years.

3. If the net income for any year is less than 0 the net income for that year is not included in operational risk.

4. If during each of the three years preceding the reporting month the net income of the investment company had been less than or equal to 0 operational risk during that year is not calculated.

5. Net income of the year is calculated as the sum of income received for investment services and provision of non-core services. Profit/loss from sales of securities as well as insurance incomes received as compensation, extraordinary expenses/income are not included in the calculation of current year's net income.

*(paragraph 5 amended 10.01.12 No 2-N)*

*(Appendix amended 10.01.12 No 2-N)*