

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

**RESOLUTION**

April 23, 1999

Number 63

**ON APPROVAL OF “PROCEDURE ON CLASSIFICATION OF LOANS AND  
RECEIVABLES AND CREATION OF POSSIBLE LOSS RESERVES FOR BANKS  
OPERATING IN THE TERRITORY OF THE REPUBLIC OF ARMENIA”**

Guided by the provisions of article 20 of the Law “On Central Bank of the Republic of Armenia”, the Board of the Central Bank of the Republic of Armenia decides to:

1. Approve the amended version (attached) of “procedure on classification of loans and receivables and creation of possible loss reserves for banks operating in the territory of the Republic of Armenia, where the suggestions and comments of the the Ministry of Finance and Economy of the Republic of Armenia and Banks Association of Armenia have been taken into account.
2. Instruct the banking supervision department of the Central Bank of the Republic of Armenia to submit the mentioned procedure for the approval to the Ministry of Finance and Economy in three-day period of time.
3. This resolution enters into force from its adoption.

APPROVED  
Chairman of the Central Bank of the  
Republic of Armenia  
\_\_\_\_\_ T. Sargsyan

APPROVED  
Minister of Finance and Economy  
of the Republic of Armenia  
\_\_\_\_\_ V . Khachatryan

**PROCEDURE ON CLASSIFICATION OF LOANS AND RECEIVABLES  
AND CREATION OF POSSIBLE LOSS RESERVES FOR BANKS OPERATING IN  
THE TERRITORY OF THE REPUBLIC OF ARMENIA**

**1. GENERAL PROVISIONS**

1.1. This Procedure is defined in accordance with article 57 of the RA Law “On Banks and Banking” and paragraph 3 of article 15 of the RA Law “On Credit Organizations” and article 30 of the RA Law “On Profit Tax”, and regulates the classification of loans and receivables (assets), general and special provisioning against possible losses, and writing off loss assets of banks and credit organizations operating in the territory of the RA.

*1.1. Paragraph rev. 29.06.10 147-N)*

1.2. This Procedure aims at the following:

- a) For the purpose of calculating the profit tax, to define reductions of gross income at the amount of allowances to loan loss provisions.
- b) To collect reliable information on the total capital and assets of the bank, used for calculating economic prudential standards regulating banking activities.

1.3. Banks shall be responsible for assets classification and loan loss provisioning.

1.4. Deriving from the objectives of this Procedure:

- a) Banks shall form a general provision for standard assets, and a special provision for problematic (watch, sub-standard, doubtful and loss) assets.
- b) Loans loss provisions for possible losses of assets shall be formed according to the assets classification criteria.
- c) Objective and subjective criteria for asset classification shall be defined.

*(1.4 paragraph amend. 13.03.01 N 67)*

1.5. Based on the results of supervision, the supervisory service of the Central Bank of RA can oblige the bank to adjust its assets classification under this Procedure, as well as its provisioning in accordance with this procedure.

*1.5. Paragraph amend. 29.06.10 147-N)*

**2. DEFINITIONS**

In the context of this Procedure:

2.1. **Loans and receivables** (hereinafter “assets”) are the loans allocated at the bank’s expense (risk), (including overdrafts, credit cards, deposits with banks (except for the RA Central Bank) (including deposits in bank gold), claims on factoring, financial rent (financial leasing), bank guarantees, and letters of credit, receivables from other asset

transactions (out of investments in securities, only notes), and/or other claims to third parties (including payment instruments, equaled to cash, correspondent and frozen accounts with banks (except Central Bank of RA), short-term claims in respect with settlements with banks, receivables from services rendered to customers, other receivables, pre-paid amounts to bank employees, prepayments to suppliers, advances, other current assets), as well as off-balance sheet items involving credit risk for the bank.

*(2.1 paragraph edit. 13.03.01 N 67)*

2.2. Asset classification is the grouping of assets into the following five classes, in accordance with Paragraph 3.11 of this Procedure:

**1) Standard, 2) watch, 3) sub-standard, 4) doubtful, 5) loss.**

*(2.2 paragraph edit. 13.03.01 N 67)*

**2.3 The general provision** shall be recorded in the balance sheet as a counterbalance to the asset account from the allowances (withdrawals) to the general provision. The latter shall be recognized (booked) as expenses in the bank's "income statement", arising from the possibility of the future non-apparent (unrevealed) losses of assets.

**2.4 The special provision** shall be recorded in the balance sheet as a counterbalance of the asset account. It shall be formed in respect with assets classified as watch, sub-standard, doubtful and loss, from the allowances (withdrawals) to the special provision. The latter shall be recognized (booked) as expense in the bank's income statement, arising from the possibility of the apparent (revealed) losses of above mentioned assets.

*(2.4 paragraph add. 13.03.01 N 67)*

**2.5**

*( paragraph repealed 30.11.11 327-N)*

2.6 Assets shall be recognized as non-performing in the following cases:

- a) repayment of principal amount (or parts thereof) or its interests is past due, or
- b) interest payments have been capitalized (added to the amount of the unsettled borrowing (loan) or,
- c) payment terms have been adjusted (refinanced) or transferred to the amount of the new borrowing (loan).

*(Sentence removed 30.11.11 327-N).*

The assets without preliminarily defined (envisaged) repayment terms (overdrafts and other instruments) shall be acknowledged non-performing assets in case the repayments are not made within 90 days, and the funds, available on the account are not sufficient for repaying within 90 days following each initial sum of at least 25% of assets capitalized (accrued) interests during the corresponding period. The cases referred to this paragraph the asset is considered non-performing after 90 days and continues to be considered as non performing asset until the complete repayment

The calculation of the non-performing assets for the purpose of ceasing the interest accrual shall be based on the non-repaid portion of the borrower's principal loan amount, and not its past-due amount.

*(Paragraph removed 13.03.01 N 67)*

*(2.6 paragraph edit., add. 13.03.01 N 67)*

*(2.6 paragraph amend. 29.06.10 N 147)*

**2.7 The assets concurrently meeting the below given conditions shall be classified as unsecured (blank) assets:**

- a) are not secured by a collateral, a warranty, guarantee or budget guarantee of any legal entity, which has been operating with profit for at least the previous and current reporting periods, and
- b) are not provided with sufficient information on the financial condition, (including financial flows), of the borrower,
- c) lack of information backing the collectability of the borrower's debt (business plans, contracts, etc.), as well as essential documents,
- d) are not advance payments or prepayments against the purchase of products, activities or services.

“ If the asset is partially secured by the security types mentioned in subparagraph “a” of this paragraph and concurrently is in accordance with the defined conditions of subparagraphs “b” “c” and “d” of this paragraph, then the unsecured part of the asset is considered as unsecured (blank) asset”.

***(2.7 paragraph edit. 13.03.01 N 67)***

2.7.1 In the sound opinion of the Central Bank of RA, the classification of the asset (or parts thereof) can change under Sub-Paragraphs a) to d) of Paragraph 2.7.

***(2.7.1 paragraph add. 13.03.01 N 67)***

2.7.2. Assets not supported by security mentioned in the sub-paragraph “a” of paragraph 2.7 of this procedure at the same time meeting the requirements of sub-paragraph “d” of Paragraph 2.7 of this procedure in order to be considered as secured by adequate information describing financial condition (including financial flows) of borrower (debtor) and (or) other supporting information or other supporting documents of the recoverability of the loan (debt) and not to be blank the Bank should represent to The Central Bank the internal legal acts regulating the operations of the Bank, where formulation processes and the evaluation principles of the borrower's financial condition to get corresponding opinion from The Central Bank.

The distributed assets that are in accordance with the mentioned legal acts can be considered non blank to the moment, before the opinion of the Central Bank is out.

The opinion of the Central Bank is considered to be positive, if the Central Bank doesn't fulfill the task during 30 days period.

The assets distributed in accordance with internal legal acts mentioned in this paragraph, should be considered blank starting from the day, when the Central Bank issues a negative opinion, and at the same time the negative opinion applies to the assets distributed in accordance with the internal legal acts before the negative opinion is given.

The Central Bank may repeal the positive opinion about previously introduced internal legal acts, if circumstances changed can damage financial stability of the bank or banking system.

The distributed assets in accordance with internal legal acts should be considered blank in case the Central bank repeals the previously introduced positive opinion, starting from the date of revocation of the positive opinion of the Central Bank, at the same time the Central Bank decision of revocation of positive decision can not apply to previously distributed assets in accordance with the internal legal acts.

If the assets indicated in this paragraph are formulated beyond the internal legal acts introduced to Central Bank, or bank does not have such legal acts, then documentary supported by sufficient information about borrower's (debtor) financial condition (including financial flows) and (or) conforming the recoverability of the loan (debt) should be represented. Those assets should be considered blank by bank before appropriate opinion from the Central Bank, however starting from the date of receiving negative opinion, should

be considered as blank. If the endorsement by the Central Bank regarding the supporting documentation specified in this paragraph is not out within 30 days, it is considered set.

Non-existence of negative opinion by Central Bank on internal legal acts, the principles embodied in the internal legal acts, supporting documents mentioned in this paragraph, does not entail any responsibility for the Central Bank.

*(2.7.2 paragraph add. 29.06.10 147-N)*

2.7.3. Provisions specified in the paragraph 2.7 of this procedure shall not apply to the claims against Central Bank and the Republic of Armenia.

*(2.7.3 paragraph add. 29.06.10 147-N)*

2.7.4. If the allocated asset of the Bank at the same time meets the requirements specified in subparagraphs “b” “c” and “d” of paragraph 2.7 of this procedure and is supported only by guarantee or warranty of legal entity specified in subparagraph “a” of 2.7 paragraph, then the asset should be classified, based on the strictest category specified below.

1) the unified strictest category given by banks concerning classified obligations (on case of) of legal entities against banks providing warranty or guarantee,

2) the strictest criteria of the borrower (debtor) mentioned in paragraph 3.4 of this regulation.

*(2.7.4 paragraph add. 29.06.10 147-N)*

2.8 **Capitalization of interests** is the procedure resulting in adding of the non-paid interests to the unsettled amount of the asset on the interest or loan repayment date, specified in the contract.

2.9 **Assets with revised terms** are the ones which have been refinanced in accordance with the contract or restructured through changing their repayment terms or other conditions, the amounts transferred to new asset (loan) instruments, or terms otherwise more favorably changed for the borrower conditioned by its difficult financial condition and/or its ability to repay the debt.

## **2.10 Refinanced assets are:**

1) the assets, partially repaid by the new taken liabilities due to bad financial condition of borrower (debtor) and (or) insufficient capabilities of borrower (debtor) to fulfill its existing liabilities against bank, independently whether these new liabilities were taken in the same bank or not,

2) the assets that were used to repay the assets (or parts thereof) specified in subparagraph 1 of this paragraph:

*(2.10 paragraph edited 29.06.10 N 147)*

2.10.1. Classification of refinanced assets (or parts thereof) may change by reasonable opinion of supervisory service of Central bank of RA:

*(2.10.1 paragraph added. 29.06.10 N 147)*

2.10.2. In case the terms of assets are reviewed for the benefit of the borrower (debtor), so the assets are not considered by revised terms, the Bank must submit to the Central Bank the operations regulating internal legal acts, where such principles and processes should be identified, which are not allowed to review the assets terms in case of poor financial conditions of the borrower (debtor), to receive corresponding opinion from the Central Bank.

Before an opinion regarding the principles set in the internal legal acts is received from Central Bank, if the assets terms have been revised according to those internal legal acts, then those assets cannot be considered as revised terms.

The Central Bank positive opinion is considered issued, in case the Central Bank doesn't issue opinion on internal legal acts as specified in this paragraph within 30 days period.

The allocated assets should be considered by revised terms in accordance with the internal legal acts specified in this paragraph, in case negative opinion from the Central bank is received, starting from the date of receipt of a negative opinion, which applies to allocated assets corresponding to internal legal acts, before the receipt of negative opinion.

The Central Bank may repeal the previously issued positive opinion regarding the internal legal acts, if the circumstances are changed to damage the financial stability of the bank or banking system in general.

In case of revocation of previously issued positive opinion of the Central Bank, the allocated assets in accordance with internal legal acts must be considered by revised terms, starting from the date of receipt of Central Bank decision, at the same time Central Bank decision about revocation cannot apply to allocated assets in accordance with internal legal acts.

If the assets terms were revised by bank for the benefit of the borrower (debtor) beyond internal legal acts specified in this paragraph, then the bank should represent to the central bank supporting documents describing financial condition (including financial flows) of the borrower (debtor) and (or) conforming the recoverability of the loan (debt) should be represented, in order to receive Central bank opinion about assets not to be considered by revised terms. Before receiving the opinion of the Central Bank, the Bank may not consider the revised terms of assets of this paragraph, and in case of negative opinion by Central Bank these assets should be revised in accordance with the terms of the Central Bank starting from the date of receipt. The positive opinion is considered issued in case the Central bank doesn't issue the opinion regarding the supporting documents during 30 days period.

Non provision of a negative opinion on the internal legal acts, principles embodied in the internal legal acts as well as supporting documents mentioned in this paragraph, by the Central Bank does not entail any responsibility for the Central Bank.

*(2.10.2 paragraph add. 29.06.10 N 147)*

2.11. The provisions of this procedure do not apply to assets not exceeding 1000 Armenian Dram.

*(2.11 paragraph add. 29.06.10 N 147)*

### **3. CLASSIFICATION OF ASSETS**

3.1. Banks shall at least once in a month concurrently classify all the assets in accordance with Paragraph 7.2 of this Procedure and the internal regulation, defined by the bank. Moreover, the classification date shall coincide with the last bank day of the reporting month.

*(3.1 paragraph edit. 13.03.01 N 67)*

3.2. Each asset shall be classified as standard, watch, sub-standard, doubtful, or loss.

*(3.2 paragraph edit. 13.03.01 N 67)*

3.3 Asset classification shall be based on objective and subjective criteria defined in this Procedure.

*(3.3 paragraph change. 29.06.10 N 147)*

3.4. In case of differences arising in the process of asset classification on the basis of objective and subjective criteria, the bank shall primarily base on the stricter criteria.

3.4.1. The Bank must implement the classification of loans and receivables given to the borrower taking into account the unified strictest category by all banks to the same borrower based on the information received from the credit register of the Central Bank or Credit

Bureau on quantity of outstanding days of borrower's loans and in accordance with of the objective criteria specified in paragraph 3.11 of this regulation.

**(3.4.1 paragraph add. 29.06.10 N 147)**

3.5. Objective criteria shall be based on the conditions, stipulated in Paragraph 2.6 of this Procedure.

**(3.5 paragraph edit. 13.03.01 N 67)**

3.6. Subjective criteria shall be based on the judgment and professional opinion of the supervisory service of the banks and Central bank of RA. These judgments shall be in accordance with the definitions of standard, watch, sub-standard, doubtful and loss, specified in this Procedure.

**(3.6 paragraph edit. 13.03.01 N 67)**

3.7. The portfolio of standard assets represents the difference of gross and problematic assets. Assets, which are serviced in compliance with the contract and are not problematic, shall be classified as standard. As a rule, standard assets have the following characteristics:

- a) The financial condition of the borrower is not doubtful, and
- b) The borrower has sufficient ability to repay (service) the debt.

Standard assets are sufficiently secured (by collateral, guarantee, warrantee, financial flows and etc) in respect with both the principal amount and interest repayments (payments) set by contract. Only a general provision shall be formed for standard assets.

**(3.7 paragraph change. 13.03.01 N 67)**

**(3.7 paragraph change. 29.06.10 N 147)**

3.7.1 The assets are classified watch, which are served by the initial agreement, but the financial condition of the borrower (debtor), worsened or appeared such conditions, under which it is possible that financial condition of borrower (debtor) worsens, as a result of which sufficient ability of borrower (debtor) for repaying (serving) asset could be endangered.

**(3.7.1 paragraph edit.. 13.03.01 N 67)**

**(3.7.1 paragraph edit. 29.06.10 N 147)**

3.8 The assets in respect of which the borrower, due to its financial condition or inability of repayability, fails to discharge its obligations under the contract shall be classified as sub-standard assets. Sub-standard assets include:

- a) Term assets, which cannot be timely, settled because of the insufficient cash flow of the borrower (debtor).
- b) Those loans, advances and other liabilities of the borrower that have an insufficient ratio of equity capital to the attracted funds, defined under the internal regulation of the bank in compliance with Paragraph 7.2 of this Procedure.
- c) Those assets, which cannot be repaid by the borrower in accordance with the preliminary arrangement, and which are to be adjusted and negotiated due to the deteriorated financial condition of the borrower. This means that the primary sources of the asset settlement are insufficient, and the bank needs to apply to secondary repayment sources, such as sale of collateral and property, adjustment of terms (refinancing), or identification of new sources of capital, etc.

Sub-standard assets have obvious risks which impede the probability of full repayment of the debt.

Non-standard classification applies also to those assets, which involve more than a normal level of risk connected with the borrower's current financial information or using the asset (or parts thereof) improperly.

In order to determine the relevant classification of any sub-standard asset, the following factors shall be taken into account:

- a) On-going adjustments of the asset servicing terms (restructuring) without any significant repayments.
- b) Borrower's application on defining more favorable asset repayment conditions, due to the latter's financial condition.
- c) Inadequate collateral.

*(3.8 paragraph change. 13.03.01 N 67)*

*(3.8 paragraph change. 29.06.10 N 147)*

**3.9 Doubtful assets** have all the peculiarities of sub-standard assets, but are more problematic, which makes the collectability of these assets more difficult or even impossible. The likelihood of losses in case of doubtful assets increases, while their size still remains indefinite mainly due to a number of important and special factors, which can improve the asset status. Thus, these assets are not classified as a loss until all the relevant circumstances are clarified.

**3.10. Loss assets** are non-collectable and completely impaired assets, which cease to represent any significance for the bank in order to be booked in its balance sheet. This classification does not imply that the asset cannot be recovered in the future, still at the given moment it should be recognized as an impaired asset in the accounting records.

*(3.10 paragraph edit. 13.03.01 N 67)*

3.11. Asset classification criterias are summarized in table below: The circumstances of assets classified as non-performing based on subparagraph "c" of paragraph 2.6 of this procedure assets are defined by 3.15-3.17 paragraphs if this procedure.

Asset class	Objective criteria	Subjective criteria
Standard asset	A performing asset which is being repaid in accordance with the contract*.	Corresponds to the definition of standard asset set in Paragraph 3.7 of this Procedure.
Watch	Is non-performing up to 90 days	Corresponds to the definition of watch asset set in Paragraph 3.7.1 of this Procedure.
Sub-standard asset	Is non-performing from 91 to 180 days	Corresponds to the definition of sub-standard asset set in Paragraph 3.8 of this Procedure.
Doubtful asset	Is non-performing from 181 to 270 days past due status	Corresponds to the definition of doubtful asset set in Paragraph 3.9 of this Procedure.
Loss	With a 271 days and more past due status	Corresponds to the definition of loss asset set in Paragraph 3.10 of this Procedure.

\*Contract is the original contract (including collateral contract) according to this Procedure

*(3.11 paragraph edit. 13.03.01 N 67)*

*(3.11 paragraph edit. 29.06.10 N 147-N)*

3.12. The calculation of past due days specified in Paragraph 3.11 of this Procedure shall start in accordance with Paragraph 2.6.



3.13. The classification assets considered as non-performing in accordance with “a” subparagraph of Paragraph 2.6 of this procedure, is implemented based on the maximum number of days overdue of classification date of asset.

*(3.13 paragraph add. 13.03.01 N 67)*

*(3.3 paragraph edit. 29.06.10 N 147-N)*

3.14. Non efficient use of assets by borrower (debtor), that led or may lead to non fulfillment of the contractual obligations in asset, the asset must be classified non standard, doubtful or loss, taking into account the non-standard, doubtful or loss asset definitions accordingly specified in this procedure starting from the day the Supervisory service of the Central Bank identifies the fact of non efficient use of asset.

*(3.14 paragraph added. 29.06.10 N 147-N)*

3.15. The assets referred in paragraphs 2.9-and 2.10 are classified as non-standard on the day of the assets classification while reviewing the terms of the asset, if in accordance with paragraph 3.4 there is no strictest class. The classification of assets is carried out in accordance with the table below.

<b>Asset class</b>	<b>Objective criteria</b>
Sub-standard asset	In a revised status up to 90 days
Doubtful asset	In a revised status from 91 to 180 days
Loss	In a revised status for more than 181 days

If the assets are classified non standard or doubtful assets at the moment of assets revision according to this procedure, then those assets can remain in the same class if are consistent with “nonstandard” or “doubtful” assets definitions set in this procedure accordingly. Further classification of the assets mentioned in this part is implemented according to paragraph 3.11 of this procedure.

*(3.15 paragraph added. 29.06.10 N 147-N)*

3.16. The banks in order to obtain the Central bank approval may submit their internal legal acts on assets further classification after assets terms revision described in 2.9 and 2.10 paragraphs in this procedure, according to which, the further improvement of assets class will be possible in case of terms existence specified in the internal legal acts. In the internal legal acts reasonable minimum quantities of the principal amount payments (repayments) volume as well as quantity of initial contract of Internal legal acts should be defined as well as any reasonable maximum time period between two consecutive repayments, in which case, it will be possible to improve the asset class if services according to the revised contract. It should be envisaged in the internal legal acts that at the moment of classifying at a higher (improved) class the asset must satisfy to the criteria established for this asset class by this procedure. Internal legal acts cannot refer to the assets that were previously reviewed at least once, as well as those assets which were classified as sub-standard, doubtful or loss at the moment of revision.

The assets can be classified according to these internal legal acts before the Central Bank opinion on principles set in internal legal acts, as well as internal legal acts.

The Central Bank positive opinion is considered issued, if the Central Bank fails to provide the opinion regarding internal legal acts mentioned in this paragraph during 30 days.

In case of receipt of negative opinion from the Central bank the assets which meet the requirement of internal legal acts specified in this paragraph, must be classified set forth in paragraph 3.15 of this procedure, starting from the day of receipt of negative opinion, moreover the negative opinion applies to assets distributed in accordance with internal legal acts before the negative opinion was set.

□ The Central bank may repeal previously introduced positive opinion on internal legal acts, if such a change in the circumstances occurred, where these internal legal acts can damage the financial stability of the bank or the banking system.

In case of revocation of the positive opinion previously issued by the Central Bank, the assets meeting the requirements of internal legal acts shall be classified in accordance with the procedure set forth in paragraph 3.15, starting from the day of receipt of the revocation decision of the positive opinion from the Central Bank, however revocation decision of the positive opinion from the Central Bank can not apply to assets previously classified according to internal legal acts.

Non provision of negative opinion on internal legal acts and principles set in internal legal acts mentioned in this paragraph does not entail any responsibility for the Central Bank.

**(3.16 paragraph add. 29.06.10 N 147-N)**

3.17. In case bank does not have internal legal acts mentioned in paragraph 3.16 of this regulation, assets classification is implemented according to paragraph 3.15 of this procedure, in case asset revision terms or servicing terms of revised contract are not consistent with internal legal acts mentioned in paragraph 3.16 of this procedure.

**(3.17 paragraph add. 29.06.10 N 147-N)**

3.18. Asset classified on the basis of subjective criteria obliged by Central bank supervision, continues to remain in the same class until the subjective criteria (criterias) for classifying assets has been changed or other bases have not become available for classifying asset with stricter criteria according to paragraph 3.4 of this procedure. In case of change of criteria (criterias) on which asset classification is based, banks change asset class independently (including improving), except cases, when criterias, timing and procedure of further classification of that asset were defined by Central bank supervisory service in advance. **(3.18 paragraph add. 29.06.10 N 147-N)**

## **4. GENERAL AND SPECIAL PROVISIONING**

4.1. Each bank shall maintain separate accounts for general and special provisions for covering possible asset losses. The size of the provisions shall be adjusted on every date of asset classification, in accordance with Paragraph 3.1 of this Procedure, except unsecured (blank) assets, for which provisions are adjusted on the date of asset formation.

**(4.1 paragraph add. 29.06.10 N 147-N, change 30.11.11 327-N)**

4.2. Banks form special provisions in the amount of

1. For assets denominated in Armenian drams:

- a) for watch assets: 10%,
- b) for sub-standard assets: 20%,
- c) for doubtful assets: 50%,
- d) for loss assets: 100%:

2) For assets denominated in foreign currency.

- a) for watch assets: 12%,
- b) for sub-standard assets: 24%,
- c) for doubtful assets: 60%,
- d) for loss assets: 100%.

**(4.2 paragraph edit. 13.03.01 N-67)**

**(4.2 paragraph edit. 29.06.10 N 147-N)**

4.3. Banks form a general provision in the amount of 1% of standard assets.

4.4. Based on the internal regulation, drafted in accordance with Paragraph 7.2 of this Procedure, banks may at their own discretion, without any interference of the Central Bank Supervision Service, increase the allowances to the general provision up to 2% for standard assets, and the following sizes for special provision:

- 1) For assets denominated in Armenian Dram:
  - a) for watch assets – up to 15%,
  - b) for sub-standard assets - up to 25%,
  - c) for doubtful assets - up to 70%.
- 2) for assets denominated in foreign currency
  - a) for watch assets – up to 18%,
  - b) for sub-standard assets – up to 30%,
  - c) for doubtful assets - up to 85%.

*(4.4 paragraph edit. 13.03.01 67-N)*

*(4.4 paragraph edit. 29.06.10 N 147-N)*

4.5. In case the asset is acknowledged as a loss, then it shall be removed from the bank's balance sheet at the asset classification day, and booked in the "Special Provision" Account, and the bank shall continue recording it in the corresponding off-balance sheet accounts (hereafter: notice accounts), except unsecured (blank) assets (or parts thereof) which are removed from bank's balance sheet at the moment of asset formation. Adjustments of provisions against assets classified on the basis of subjective criteria obliged by Central bank supervisory service, may be implemented on the day specified by supervisory service of Central bank as requested by Central bank supervisory service.

*(4.5 paragraph edit. 29.06.10 N 147-N, change. 30.11.11 327-N)*

4.6. The supervision service of the Central bank, as defined by the Central Bank, may oblige the bank to establish reserve for a particular asset or asset group as a result of supervision, without asset (assets) classification.

*(4.6 paragraph add. 29.06.10 N 147-N)*

## **5. SUSPENSION OF INTEREST (AND/OR PENALTIES) ACCRUAL**

*(Chapter 5 repealed 30.11.11 num 327-N)*

## **6. WRITING OFF ASSETS AND INTERESTS BOOKED IN MEMORANDUM ACCOUNTS**

**(Title change. 30.11.11 num 327-N)**

6.1. In case of receiving payments (compensation) on assets recorded in Memorandum accounts:

*(Paragraph 6.1 change. 30.11.11 num 327-N)*

6.1.1. the written off asset shall be fully or partially recovered in the balance sheet, offsetting with the "Special Provision" Account,

6.1.2. the recovered asset shall be repaid, offsetting with the "cash" account or other respective account.

6.2. During the regular classification of assets and adjustment of provisions, the bank shall book the surplus balance amounts of the general and special provisions in the income account.

6.3. In case of receiving payments (compensation) on interests booked in Memorandum accounts:

(Paragraph 6.3 change. 30.11.11 num 327-N)

6.3.1. the written off interest shall be fully or partially recovered, offsetting with the “Interest Income” Account,

6.3.2. the recovered interest shall be repaid, offsetting with the “cash” account or any other respective account.

6.4. Assets and interests (or parts thereof), booked in the Memorandum Accounts shall be removed from the Memorandum Accounts in the following cases:

***(Paragraph repealed 10.07.08 num 207-N)***

(Paragraph 6.4 add. 25.03.08 num 74-N, change. 10.07.08 num 207-N, 30.11.11 num 327-N)

***(6.4 paragraph add. 25.03.08 numb 74-N, change. 10.07.08 number 207-N)***

6.4.1. the assets and interests (or parts thereof) are assigned (or forgiven) by the bank, or

6.4.2. the term, set by the RA legislation for the right to claim on assets and interests (or parts thereof), is due.

6.4.3. In case of borrower’s (debtor’s) liquidation according to legislation of Republic of Armenia.

***(6.4.3 paragraph add. 29.06.10 N 147-N)***

6.5. If the assets and interests (or parts thereof), booked in the bank’s balance sheet, are assigned (or forgiven) by the bank to another person prior to recognizing them as a loss and/or writing off from the balance sheet, they shall not be considered as gross income deductions, for the purpose of profit tax calculation.

***(Paragraph repealed 10.07.08 numb 207-N)***

***(Paragraph repealed 10.07.08 numb 207-N)***

***(6.5 paragraph change. 13.03.01 N 67, add. 25.03.08 numb 74-N change. 10.07.08 num 207-N)***

6.5.1. If the asset (or parts thereof) registered in memorandum accounts has been written off from memorandum accounts before the end of suit limitation period mentioned in the Paragraph 6.4.2 of this procedure or the borrower’s (debtor’s) mentioned in the Paragraph 6.4.3 of this procedure, liquidation as a result of asset’s (or part thereof) concession or forgiven, according to which the bank’s claim right toward borrower (debtor) is stopped, then the taxable income for the reporting period increases by the asset amount of that asset (or parts thereof) for the profit tax calculation purpose.

***(6.5.1 paragraph added 29.06.10 N 147-N, change. 30.11.11 num 327-N)***

6.5.2. If the asset (or parts thereof) registered in memorandum accounts has been written off on the basis of end of suit limitation period of bank’s rights protection, then the taxable income for the reporting period increases by the asset amount of that asset (or parts thereof) for the profit tax calculation purpose, except when the amount of asset (or parts thereof) not exceed 1 million Armenian dram.

***(6.5.2 paragraph add. 29.06.10 N 147-N, change. 30.11.11 num 327-N)***

6.6. In cases, specified in Paragraphs 6.4 and 6.5 of this Procedure, the bank shall notify the State revenue Committee by the Government of the Republic of Armenia about the latter within 7 days.

*(6.6 paragraph change. 13.03.01 N 67)*

*(6.6 paragraph change. 29.06.10 N 147)*

## **7. TRANSITIONAL PROVISIONS AND ENTERING THE PROCEDURE INTO FORCE**

7.1. To repeal the Procedures “On formation of loan loss provisions by Banks operating in the territory of the Republic of Armenia and writing off bad loans” and “On formation of provisions for receivables losses of banks operating in the territory of the Republic of Armenia, and classification of receivables as losses and their writing off”, jointly approved by the Central Bank and Ministry of Finance and Economy of RA on 19.02.1997 and 20.05.1998 respectively.

7.2. Within three months from the date this Procedure enter into force, banks shall develop an internal regulation on classification of loans and receivables (assets) and formation of provisions for possible losses in accordance with the provisions of this Procedure.

7.3 Starting from the date when this Procedure enter into force, until the end of the reporting period (month) banks shall compute the size of the provision, required for problem assets (sub-standard, doubtful and loss) after the classification of assets. Prior to the date when this Procedure comes into force banks shall fully transfer the formed provision to the special provision, and create a general provision for standard assets. In case the amounts, allocated to the special provision exceed the required size, the surplus funds shall be transferred to the general provision. In case the general provision exceeds the required amount, the surplus funds shall be added to the bank’s revenues.

At the date this Procedure comes into force, not only assets booked in the balance sheet, but also the ones, recorded in the Memorandum accounts, shall be classified.

*(7.3 paragraph change 13.03.01 N 67, 30.11.11 num 327-N)*

7.4. This Procedure is drafted exclusively for the purpose of regulating banking activity and keeping track of the bank’s tax obligations, and none of its provisions or concepts shall be interpreted, quoted or applied by the court, state management bodies, the bank, its customers or shareholders or any other person as a document, regulating or defining the scope of the legal relations between the bank and customer (borrower) in respect with signing, implementation, prolongation of terms of contract, calculation of interests and penalties, as well as collateral and any other issue.

*(The procedure was approved by resolution 04.06.99 N 214-A )*