THE CENTRAL BANK OF THE REPUBLIC OF ARMENIA BOARD RESOLUTION No. 39

Adopted on February 9, 2007

ON APPROVAL OF REGULATION 2 ON "REGULATION OF BANKING, PRUDENTIAL STANDARDS FOR BANKING"

By virtue of the Law of the Republic of Armenia "On the Central Bank of the Republic of Armenia" article 20 ("e"), the Law of the Republic of Armenia "On Legal Acts" Article 16, the Law of the Republic of Armenia "On Currency Regulation and Currency Control", articles 5, 7, the Law of the Republic of Armenia "On Banks and Banking", chapters 4, 5, the Board of the Central Bank of the Republic of Armenia decides:

1. To approve:

1.1. Regulation 2 on "Regulation of banking, prudential standards for banking" according to Appendix 1 (attached).

1.2 (Repealed according to Resolution N- 354 of 20.12.11)

1.3 "Calculation of credit risk", being an indivisible part of Regulation 2 on "Regulation of banking, prudential standards for banking", according to Appendix 3 (attached).

1.4 "Calculation of market risk" being an indivisible part of Regulation 2 on "Regulation of banking, prudential standards for banking", according to Appendix 4 (attached).

1.5 "Calculation of operational risk", being an indivisible part of Regulation 2 on "Regulation of banking, prudential standards for banking", according to Appendix 5 (attached).

1.6 "Minimum requirements for extending mortgage loans with 50/75 percent risk weight", being an indivisible part of Regulation 2 on "Regulation of banking, prudential standards for banking", according to Appendix 6 (attached).

2. Upon entering into force of this Regulation, to repeal the Central Bank of the Republic of Armenia Board Resolution N237 as of September 20, 2004 Regulation 2 "On approval of Regulation of banking, prudential standards for banking".

3. This Resolution shall enter into force on January 1, 2008.

Chairman of the Central Bank of the Republic of Armenia

T. Sargsyan

<u>Appendix 1</u>

Approved by the Central Bank of the Republic of Armenia Board Resolution N39 as of February 9, 2007

REGULATION OF BANKING, PRUDENTIAL STANDARDS FOR BANKING REGULATION 2

CHAPTER 1. SUBJECT OF REGULATION

1. This Regulation is set pursuant to provisions of the Law of the Republic of Armenia on "Banks and Banking" and shall regulate opening and management of correspondent accounts of banks operating in the territory of the Republic of Armenia and branches of foreign banks, calculation of main prudential standards, components used in calculation and limits thereon.

CHAPTER 2. INVESTMENT AND SUBSCRIPTION ACTIVITY OF BANKS

(Chapter is repealed according to Resolution N- 354 of 20.12.11*)*

CHAPTER 3. ESTABLISHMENT OF CORRESPONDENT ACCOUNTS BY BANKS

8. Banks and foreign bank branches shall establish correspondent accounts with the Central Bank in Armenian Dram and foreign currency.
9. Banks and foreign bank branches may open correspondent accounts in Armenian Dram and foreign currency with banks operating in the Republic of Armenia and abroad. Banks and foreign bank branches may open correspondent accounts in unallocated gold with banks operating in the Republic of Armenia and abroad. The account holder bank shall in writing notify the Central Bank of establishing the account within five business days.
10. For the purpose of this Regulation and other regulations adopted based on this Regulation a "nostro" account shall be the account held by the respective bank with the correspondent bank in Armenian Dram or foreign currency, including accounts in unallocated gold, and a "loro" account shall be the account held by the correspondent bank for the respective bank in Armenian Dram or foreign currency, including accounts in unallocated gold.

CHAPTER 4. PRUDENTIAL STANDARDS FOR BANKING AND THEIR LIMITS

11. The Central Bank shall set prudential standards for banking as follows:

11.1. the minimum statutory capital and the minimum total (equity) capital (hereinafter referred to as total capital)

11.2.the total capital adequacy standards - the ratio of the total capital to risk weighted assets;

11.3. the bank liquidity standards:

10.3.1. the ratio of high liquid assets to total assets (general liquidity);

10.3.2. the ratio of high liquid assets to demand liabilities (current liquidity);

11.4. the maximum risk on a single borrower, major borrowers;

11.4.1. the maximum risk on a single borrower;

11.4.2. the maximum risk on major borrowers;

11.5. the maximum risk on one bank related party, the maximum risk on all bank related parties;

11.5.1. the maximum risk on one bank related party;

11.5.2. the maximum risk on all bank related parties;

11.6. the minimum reserve requirement with the Central Bank;

11.7. the foreign currency disposition standard.

12. No prudential standards shall be set for foreign bank branches except for the minimum reserve requirement with the Central Bank.

13. If a bank has a subsidiary, the prudential standards (except for the minimum reserve requirement with the Central Bank) shall apply to the bank's consolidated reports as well, based on the procedure on "Compilation of bank consolidated reporting to the Central Bank", approved by the Central Bank Board Resolution 87 as of April 2, 2002.

14. The procedure on and the currency of the replenishment of the statutory capital of the bank are determined under Regulation 1 "Registration and Licensing of Banks and Foreign Bank Branches; Registration of Branches and Representative offices", approved by the Central Bank Board Resolution 145 as of April 12, 2005.

15. The minimum statutory capital of a functioning bank is set to be 50 million Armenian Drams.

The statutory capital of the operating and new banks shall be replenished in Armenian Dram only. The fraction of the statutory capital of the banks replenished in foreign currency prior to June 28, 2005 shall not be revalued.

16 The minimum total capital of a bank is set to be an amount equivalent to:

a) AMD 2.400.000.000 by January 1, 2009 (two billion four hundred million)
b) AMD 5.000.000.000 (five billion) for new banks by January 1, 2009.
c) AMD 5.000.000.000 (five billion) for operating and new banks of January 1, 2009 and from that time onward.

17. The minimum ratio of total capital to risk weighted assets (S1) shall be 12 %.

18. The minimum ration of bank's highly liquid assets expressed in all currencies to total assets expressed in all currencies shall be 15 %. 18.1. The minimum ration of banks highly liquid assets expressed in first group currencies to total assets of Group I currencies shall be 4% ($S2^{11}$standard).

18.2. In case when liabilities expressed in any Group II currency exceed 5% of banks total liabilities according to the month's average daily calculation, for each Group II currency shall be calculated $S2^{12}$ standard for the period of month following the relevant month, which is the average ration of US dollars, Euro and highly liquid assets expressed in those currencies to US dollars, euro and total assets expressed in those currencies. The minimum ration of Standard $S2^{12}$ shall be 4 %.

19. The minimum ration of banks highly liquid assets expressed in all currencies to demand liabilities expressed in all currencies shall be 60% ($S2^{2}$ Standard). 19.1. The minimum ration of banks highly liquid assets expressed in Group I currencies to demand liabilities expressed in Group I currencies shall be 10 % ($S2^{21}$ Standard).

19.2. In case when liabilities expressed in any Group II currency exceed 5% of banks total liabilities according to the month's average daily calculation, for each Group II currency shall be calculated $S2^{22}$ standard for the period of month following the relevant month, which is the average ration of US dollars, Euro and highly liquid assets expressed in those currencies to demand liabilities in US dollars, euro and demand liabilities expressed in those currencies. The minimum ration of Standard $S2^{22}$ shall be 10 %.

20. The maximum risk on a single borrower ($S3^1$) shall not exceed 20 % of the total capital.

21. The maximum risk on major borrowers ($S3^2$) shall not exceed 500% of the total capital.

22. The maximum risk on one related party ($S4^1$) shall not exceed 5% of the total capital.

23. The maximum risk on all related parties ($S4^2$) shall not exceed 20 % of the total capital.

24. The minimum reserve requirement with the Central Bank on resources attracted in Armenian Dram for banks and foreign bank branches operating in the Republic of Armenia shall be 8 %.

24.1 The minimum reserve requirement with the Central Bank on resources attracted in foreign currency, as well as in dematerialized metal accounts (hereinafter referred to as metal accounts) for banks and foreign bank branches operating in the Republic of Armenia shall be 12 % which shall be reserved in Armenian Dram.

24.2 The foreign currency disposition standard comprises two components: foreign currency position and foreign currency position by types of foreign currencies.

The maximum ratio of foreign currency position to total capital is set to be 10 %. From April 14, 2010 up to July 31, 2010 the foreign currency position shall equal to a grand total of long positions in all foreign currencies, and starting from August 1, 2010 onward the foreign currency position shall equal to gross foreign currency position.

By types of foreign currencies the maximum ratio of each foreign currency to total capital is set to be 7%. From April 14, 2010 up to July 31, 2010 each foreign currency position shall equal to the long position in each foreign currency, and starting from August 1, 2010 onward each foreign currency position shall equal to the open position in each foreign currency.

CHAPTER 5. CALCULATION OF PRUDENTIAL STANDARDS; COMPONENTS USED IN CALCULATION

25. The minimum statutory capital, the minimum total capital and prudential standards S1, $S2^1$, $S2^{11}$, $S2^{12}$, $S2^2$, $S2^{21}$, $S2^{22}$,S31, $S3^2$, $S4^1$, $S4^2$ shall be calculated on a monthly basis; the reserve requirement standard shall be calculated on a 28-day or 35-day basis in accordance with the reserve schedule set by the Central Bank; the foreign currency disposition standard shall be calculated on a daily basis.

26. Loan and receivables loss reserves, as well as loss reserve on investments in investment securities shall be included in the calculation of the prudential standards and undistributed profit at the amount, calculated according to the procedure on "Classification of loans and receivables of the banks, operating in the Republic of Armenia and loss provisioning", approved by the Central Bank Board Resolution N63 as of March 23, 1999 and the procedure on "Loss provisioning on investments in investment securities of banks, operating in the Republic of Armenia, and its use", approved by the Central Bank Board Resolution N188 as of September 15, 1998.

27. The banks shall ensure the minimum total capital as of the first dates of the schedule determined in this Regulation, Rule 16, and by average daily calculation for each month (grand total of daily value of the total capital divided by the number of days in the month).

28. The total capital of a bank is a grand total of the core capital and the additional capital after the respective deductions. In calculating the prudential standards, the additional capital shall be included in the calculation of the total capital at an amount not exceeding 50 % of the core capital (taking into account the deductions specified in Rule 28.1 of this Regulation).

28.1 The core capital represents the difference of a grand total of the following components and the components deducted from the core capital:

a. statutory capital, including shares premium,
b. general reserve,
c. undistributed profit (revenue reserves). The undistributed profit shall be included in the calculation of the total capital at an amount not exceeding 150% of the replenished statutory capital.

The core capital shall be reduced by:

a. net book value (the value of financial assets, reduced by the amount of loss reserves) of long term subordinated loans provided by the bank to other banks, credit organizations, insurance companies, as well as parties performing financial operations defined in the Law of the Republic of Armenia "On banks and banking", Article 34 (Rule 1) (except for taking to custody, establishing and servicing the information system of creditworthiness of customers)
b. the amount of own shares, equity participation or participation, repurchased by the bank,
c. book value of intangible assets (including intangible assets not in use, as well as capital investments in intangible assets) (except for computer software and rights of use; payments for the right to use Visa, Master Card, American Express, Swift, CBAnet, ArCa and other payment and settlement systems (including servicing electronic plastic cards), if agreed with the Central Bank Board),

d. net book value (value of financial assets reduced by the amount of loss reserves, if available) of investments in statutory capitals of other banks, credit organizations, insurance companies, as well as persons performing financial operations defined in the Law of the Republic of Armenia "On banks and banking", Article 34 (Rule 1) (except for persons taking custody, and activities of establishing and servicing the information system of creditworthiness of customers, "Armenian Card" CJSC)

1. if the investment in the statutory capital constitutes at least 4.99% of the statutory capital of the entity,

2. if the investment in the statutory capital is less than 4.99% of the statutory capital of the entity, yet it exceeds 15% of the book value of the core capital of the bank,

3. if investments in statutory capitals of all entities exceed 35 % of the book value of the core capital of the bank.

The investments, as a result of which the bank acquires 100% participation in the statutory capital of the entity, provided that the investment has the purpose to liquidate the entity or merge the bank with the entity and that the Central Bank has been duly notified of the purpose, shall make an exception.

Such investments shall not be deducted within 6 months upon being invested.

e) book value of tangible assets as property of, and not used by the bank (fixed assets and other tangibles, including assets privatized as a result of collateral disposition or originated from other claims, assets out of use and other fixed assets, as well as capital investments in fixed assets not used for the bank's business) six months after the placement of such assets under the bank's ownership, and one year after recognizing the fixed assets as the bank's property (recognizing the fixed assets in the lessor's balance sheet) in case of acquisition of assets for lease or dissolution of the financial lease contract,

f) book value of tangible assets as property of, and used by, the bank, (including the capital investments in fixed assets including real estate (buildings and premises), other fixed assets, as well as capital investments in fixed assets used for the bank's business) to the extent exceeding 25% of book value of the core capital. For the meaning of this point, the value of the tangible asset equals to the grand total of the original value of the tangible asset and the sum of capital investments less amortizations and depreciations and loss from revaluation; and

g) balance of capital investments made to improve the fixed assets leased by bank,

h) investments in statutory capital of trading organizations other than those provided in point "d" of this Rule and exceptions from those organizations:

1. if the investment in the statutory capital is at least 4.99% of the statutory capital organization,
2. if the investment in the statutory capital is less than 4.99% of the statutory capital of the organization, yet it exceeds 15% of the book value of the core capital of the bank,
3. if investments in statutory capitals of all organizations (including entities specified in this Rule (point "d") exceed 35 % of the book value of the core capital of the bank.

The deductions shall equal to the biggest amount among differences between the investments in the statutory capital of the trading organizations and the values specified in this Rule (sub-points 1, 2 or 3).

28.2 The additional capital comprises:

a. the revaluation reserve for tangible assets as property of, and used in the bank's business. The reserve shall make no more than the difference between 25% of book value of core capital and the value of tangible assets owned by the bank and used in the bank's business (the value of the tangible asset equals to a grand total of the original value of the tangible asset and the sum of capital investments less amortizations and loss from depreciations and revaluation). If this difference is a negative value, the reserve for revaluation of tangible assets owned by the bank and used in the bank's business shall not be included in the calculation of additional capital. It shall be calculated using the following formula:

RR=

$$\textbf{a minimum } (\boldsymbol{RR_b}, \textbf{CC*0.25 - } (\boldsymbol{TA_{OV} + TA_{CI} - TA_{AM} - TA_L - TA_R})), \textbf{ if CC*0.25 - } (\boldsymbol{TA_{OV} + TA_{CI} - TA_{AM} - TA_L - TA_R}) \geq 0$$

$$\textbf{0, if CC *0.25 - } (\boldsymbol{TA_{OV} + TA_{CI} - TA_{AM} - TA_L}) < 0$$

where

RR *= the revaluation reserve for tangible assets owned by the bank and used in the bank's business, which is included in the calculation of the additional capital*

$\boldsymbol{RR_b}$ *= the book value of revaluation reserve for tangible assets owned by the bank and used in the bank's business*

CC = *the book value of the core capital of the bank*

$\boldsymbol{TA_{OV}}$ *= the original value of the assets owned by the bank and used in the bank's business*

TA_{CI} *= the value of capital investments of tangible assets owned by the bank and used in the bank's business*

TA_{AM} *= amortizations on capital investments and the original value of the assets owned by the bank and used in the bank's business*

TA_L *= loss from devaluation of capital investments and the original value of the assets owned by the bank and used in the bank's business*

TA_R *= loss from revaluation of capital investments and the original value of the assets owned by the bank and used in the bank's business*.

The calculation of the additional capital shall not include:

a) the revaluation reserve for tangible assets not used in the bank's business and the revaluation reserve for non-tangible assets deductible from the core capital;

a) the reserve for foreign exchange fluctuations emerged during the balance sheet consolidation;

b) other reserves;

c) long-term subordinated borrowings attracted by the bank. Long-term subordinated borrowings have a priority in being included in the calculation of the total capital of the bank than the other components of the additional capital. The attracted long-term subordinated borrowings must be deducted from the calculation of the additional capital at the amount of 20% of their initial grand total – starting from January 1 of the fifth year prior to the beginning of their repayment period and each following year.

29. For the purpose of this Regulation, tangible assets used in the bank's business shall be the assets used to perform operations specified in the Law of the Republic of Armenia "On Banks and Banking", Article 34. Tangible assets include own buildings and premises (real estate), where the bank and its territorial subdivisions perform the specified operations, as well as the buildings and premises used by the representative offices of the bank.

29.1. For the purpose of this Regulation a borrowing shall qualify for a long-term subordinated borrowing, if all the conditions below are met:

1) the borrowing is provided for a period of at least 5 years, and

2) the borrowing shall not be repaid prior to the maturity term, and in case of repayment prior the maturity term, the whole amount shall be directed to the replenishment of statutory capital of borrower, and

3) the borrowing is fully paid, and

4) the borrowing has not been provided as a security for a definite obligation to the borrower, or for the fulfillment of such obligations, and

5) the borrowing shall not be repaid, if the repayment of the principal amount and/or the interest results in a breach of any of the prudential standards of borrower (if such prudential standards are stipulated by legislation) as of the repayment date.

30. If a legal entity/entities with A-(A3) or a higher long-term deposit rating by Standard and Poor's or Fitch (Moody's) is at least a 51% shareholder/-s of a new or an operating bank, the

amount of the core capital shall be multiplied by five when calculating the minimum total capital standard. This provision shall not apply to the calculation of the total capital used in calculating S1, $S3^1$, $S3^2$, $S4^1$, $S4^2$, as well as the foreign currency disposition standard.

31. The minimum ratio of total capital to risk weighted assets shall be calculated using the following formula:

$$\mathbf{S1} = \frac{\mathbf{C_{tot}}}{\mathbf{RWA}}$$

where:

C_{tot} *= the total capital (using average daily calculations for a month);*

RWA *= grand total of credit, market and operational risk, calculated using the following formula:*

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

CR *= credit risk, calculated in accordance with Appendix 3 of this Regulation,*

MR *= market risk, calculated in accordance with Appendix 4 of this Regulation,*

OR *= operational risk, calculated in accordance with Appendix 5 of this Regulation.*

32. For the days (including non-business days) when the balance sheet of the bank incurs no changes, the calculation of the average daily data shall include the data as of the previous day.

33. The ratio of bank's high liquid assets expressed in all currency to total assets expressed in all currencies shall be calculated using the following formula:

$$\mathbf{S2^1} = \frac{\mathbf{AHL}}{\mathbf{A_{tot}}}$$

where:

AHL *= highly liquid assets by average daily calculations for a month, which shall be calculated using the following formula:*

$$\mathbf{AHL} = \frac{(\mathbf{AHL_1} + \mathbf{AHL_2} + ... + \mathbf{AHL_n})}{\mathbf{n}}$$

where:

$AHL_1 + AHL_2 + ... + AHL_n$ *stands for highly liquid assets of the bank by days, and* ***n*** *is the number of days of the reporting month.*

A_{tot} *stands for total assets by average daily calculations for a month, calculated using the following formula:*

$$\mathbf{A_{tot}} = \frac{(\mathbf{A_{tot\,1}} + \mathbf{A_{tot\,2}} + ... + \mathbf{A_{tot\,n}})}{\mathbf{n}}$$

where:

$A_{tot\,1} + A_{tot\,2} + ... + A_{tot\,n}$ *stands for the total assets of the bank by days, and* ***n*** *is the number of days of the reporting month.*

33.1. $S2^{11}$ Standard shall be calculated by the formula used for $S2^1$ Standard. Meanwhile, highly liquid assets shall include only assets expressed in Group I currencies and specified in point 34 of this Regulation, and total assets shall include the total of all accounts expressed in

Group I currencies of category “Assets” of the “Account chart of banks, credit organizations, investment funds and investment fund managers operating in the territory of the Republic of Armenia” taking into account deductions specified in point 34.10.of this Regulation.

33.2. $S2^{12}$ Standard shall be calculated by the formula used for $S2^{1}$ Standard. Meanwhile, highly liquid assets shall include only highly liquid assets specified in point 34 of this Regulation and expressed in US dollars, Euro and relevant Group II currency specified in point 18.2. of this Regulation, and total assets shall include the total of all accounts expressed in US dollars, Euro and relevant Group II currency of category “Assets” of the “Account chart of banks, credit organizations, investment funds and investment fund managers operating in the territory of the Republic of Armenia” taking into account deductions specified in point 34.10.of this Regulation.

34. The calculation of highly liquid assets shall include below listed assets (excluding interest accrued on such assets (other than the assets specified in sub-points 34.4, 34.5, 34.6 34.7. and 3.4.9. of this Rule), with no restrictive conditions for their use. Highly liquid assets shall also include securities listed in sub points 34.4, 34.5, 34.6, 34.7 and 34.9 this Rule (in current market price) which were acquired by repo agreements and are accounted in the part 82 of the “Account chart of banks, credit organizations, investment funds and investment fund managers operating in the territory of the Republic of Armenia” approved by the decision of the Central Bank Board No 322-N of November 30, 2011. Highly liquid assets shall not include securities pledged or sold through repo agreements:

34.1. cash (including cash in ATMs and in transit), cash equivalent payment documents (excluding payment documents in transit) such as VISA, THOMAS COOK/MASTER CARD, AMERICAN EXPRESS, CITICORP and other payment documents if agreed with the Board of the Central Bank;

34.2. correspondent accounts and deposits (terms of which or the deadline for receipt of resources upon the right to request before repayment term does not exceed 3 working days) with the Central Bank (except for overnight credits borrowed at the credit resources platform at NASDAQA OMX ARMENIA);

34.3. bank gold (including bank gold in transit);

34.4. transfer notes issued by the Ministry of Finance of the Republic of Armenia with maturity up to 1 year, which are subject to be repaid by the Central Bank at the expense of the funds of the consolidated treasury account of the Republic of Armenia Government, T-bills and securities issued by the Central Bank at current (market) value;

34.5. Securities of non-bank organizations rated at least “C-” by the Central Bank at current (market) value;

34.6. Government treasury bills of countries at least rated A+(A1) by Standard & Poor’s or Fitch (Moody’s);

34.7. Corporate bonds rated at least A+(A1) by Standard & Poor’s or Fitch (Moody’s) at current (market) value;

34.8. correspondent accounts with resident and foreign banks (including those in unallocated gold); the amount of such correspondent accounts shall be reduced by the amount of liabilities to the same bank, not exceeding the balance of the relevant “nostro” account. When calculating the bank’s highly liquid assets, the correspondent accounts with resident and foreign banks shall be first reduced by the amount of the balance of “loro” correspondent account with the same bank and then by the amount of remaining liabilities. The remaining liabilities shall not be deducted from the correspondent account if the foreign correspondent bank is rated at least BBB-(Baa3) by Standard & Poor's or Fitch (Moody's). Meanwhile, the calculation of $S2^{11}$ and $S2^{21}$ standard shall include only correspondent accounts expressed in Group I currencies deducted by liabilities specified in this point and expressed in Group I currency. Calculation of $S2^{12}$ and $S2^{22}$ Standards shall include

1) correspondent accounts expressed in US dollars and Euro deducted by liabilities specified in this point and expressed in US dollars and Euro
2) correspondent accounts expressed in relevant Group II currency deducted by liabilities specified in this point and expressed in same currency.

Standard 34.9. Bonds issued by refinancing credit organizations in the current (market) price.

34.10. For the purpose of calculation of $S2^{1}$ standard the calculation of banks total assets (A_{tot}) shall include the total of all accounts expressed in Group I currencies of category "Assets" of the "Account chart of banks, credit organizations, investment funds and investment fund managers operating in the territory of the Republic of Armenia". For the purpose of calculation of Standards $S2^{1}$, $S2^{11}$ and $S2^{12}$ the total of assets shall be deducted

1) In the amount of book value (within secured amount) of the following assets which are secured by

a. transfer notes issued by the Ministry of Finance of the Republic of Armenia with maturity up to 1 year, which are subject to be repaid by the Central Bank at the expense of the funds of the consolidated treasury account of the Republic of Armenia Government,

b. securities issued by the Central Bank and Republic of Armenia Government treasury bonds,

c. banking gold kept in that bank,

d. Armenian drams and Group I currency funds kept in that banks banking and/or deposit accounts

e. Group II currency funds kept in that banks banking and/or deposit account if they are considered a gurantee for for assets expressed in the same currency. Meanwhile, for calculation of $S2^{12}$ Standard shall be deducted from total assets only those assets expressed in Group II currency which are secured by US dollars, Euro or Group II currency kept in banks banking and/or deposit accounts.

2) In the amount of book value of credit expressed in relevant currency which were provided from the targeted funds attracted form foreign banks and financial organizations, the return of which is guaranteed by the Republic of Armenia Government or the Central Bank, terms of provisions does not exceed terms of attraction and the bank has not undertaken additional risks.

3) In the amount of deductions from "nostro" accounts for the purpose of calculation of relevant Standard in accordance with point 34.8 of this Regulation.

4) In the amount of funds not entering in the calculation of highly liquid assets attracted upon one working day (overnight) credit agreement entered into at the NASDAQ OMX credit resources platform and maintained in the Central Banks correspondent accounts, in the amount of securities specified in points 34.4, 34.5, 34.6, 34.7, and 34.9 of this Regulation sold by repo agreements, as well as pledged (in the relevant currency).

35. The ratio of banks highly liquid assets expressed in all currencies to all demand liabilities shall be calculated using the following formula:

$$S2^2 = \frac{AHL}{DL}$$

where:

$$AHL = \frac{(AHL_1 + AHL_2 + ... + AHL_n)}{n}$$

where :

$AHL_1 + AHL_2 + ... + AHL_n$ *= highly liquid assets by days, and* n *is the number of days of the reporting month.*

DL *= demand liabilities by average daily calculations for a month, which shall be determined using the following formula:*

$$DL = \frac{(DL_1 + DL_2 + ... + DL_n)}{n}$$

where:

$DL_1 + DL_2 + ... + DL_n$ *= demand liabilities by days, and* n *is the number of days of the reporting month.*

35.1. $S2^{21}$ standard shall be calculated by the formula used for $S2^2$ Standard. Meanwhile, highly liquid assets shall include only highly liquid assets specified in point 34 of this Regulation expressed in Group I currency, and demand liabilities shall include demand liabilities expressed in Group I currency as specified in point 36 of this Regulation. Meanwhile, from demand liabilities specified in this point shall be deducted demand liabilities (including incurred interests) deductable from correspondent “nostro” accounts in accordance with point 34.8.

35.2. $S2^{22}$ Standard shall be calculated by the formula used for $S2^2$. Meanwhile, highly liquid assets shall include only highly liquid assets specified in point 34 of this Regulation and expressed in US dollars, Euro and relevant Group II currency specified in point 18.2, and demand liabilities shall include demand liabilities expressed in US dollar, Euro and relevant Group II currency as specified in point 36 of this Regulation. Mean while, from demand liabilities specified by this point shall be deducted demand liabilities (including incurred interests) deductable from correspondent “nostro” accounts in accordance with point 34.8.

36. The calculation of demand liabilities shall include demand resources or resources with no fixed terms of maturity (including accrued demand interest and interest with no fixed terms of maturity) expressed in relevant currencyincluding overdue liabilities, accounted in the category “Liabilities” of the balance sheet. The demand liabilities expressed in relevant currency shall be reduced by the amount of demand liabilities (including interest accrued), deducted from “nostro” accounts pursuant to Rule 34.8. For the purpose of this Regulation, overdue liabilities shall mean liabilities, other than those being in litigation, that have not been performed within the specified period. The liabilities being in the process of examination in court or in arbitrage shall be treated as demand liabilities.

37. The maximum risk on a single borrower ($S3^1$) shall be determined using the following formula:

$$\mathbf{S3^1} = \frac{\mathbf{Risk}}{\mathbf{C_{tot}}}$$

where:

***Risk** = the amount of loans to a single borrower and related parties, including lending to a bank account, all other borrowings, factoring and leasing operations, advances, prepayments, installments for bank service or products, letters of credit, investments in securities issued by the party or related parties (including bills), correspondent accounts and deposits of the bank, receivables, repo agreements, currency swaps, as well as any other liabilities to the bank, including bank's sureties and guarantees issued to other parties (not related to the borrower) for liabilities of the latter to the same bank, any other cover funds (secured by the amount not exceeding the total liability), off-balance sheet contingent liabilities, containing credit risk, borrowings and/or guarantees to the same parties provided by other banks at the expense of, and secured by, monetary assets of the bank (provided that the bank assumed the risk to collect such borrowings). These components are not weighted after they are decreased by the amount of their respective reserves, except for "nostro" correspondent accounts, interbank deposits, interbank loans and claims on foreign governments and central banks, which shall be weighted by respective risk weights pursuant to Rule 6, Appendix 3 of this Regulation after they are decreased by the amount of their respective reserves.*

$\boldsymbol{C_{tot}}$ *= total capital of the bank.*

38. The maximum risk on major borrowers ($S3^2$) shall be determined using the following formula:

$$\mathbf{S3^2} = \frac{\mathbf{Risk}}{\mathbf{C_{tot}}}$$

where:

***Risk** = the amount of loans to a single borrower and related parties, including lending to a bank account, all other borrowings, factoring and leasing operations, advances, prepayments, installments for bank service or products, letters of credit, investments in securities issued by the party or related parties (including bills), correspondent accounts and deposits of the bank, receivables, repo agreements, claims on currency swaps (according to Rule 48 of this Regulation), as well as any other liabilities to the bank, including bank's sureties and guarantees issued to other parties (not related to the borrower and/or not a major borrower) for liabilities of the latter to the same bank, any other cover funds (secured by the amount not exceeding the total liability), borrowings and/or guarantees to the same parties provided by other banks at the expense of, and secured by, monetary assets of the bank (provided that the bank assumed the risk to collect such borrowings), off-balance sheet contingent liabilities,* *containing credit risk. These components shall not be weighted after they are decreased by the amount of their reserve, except for "nostro" correspondent accounts, interbank deposits, interbank loans and claims on foreign governments and central banks, which shall be weighted by respective risk weights pursuant to Rule 6 of Appendix 3 of this Regulation after they are decreased by the amount of their reserves.*

C_{tot} *= total capital of the bank.*

38.1 A major borrower is an entity, on which the risk (calculated using the risk calculation for the prudential $S3^1$ methodology specified in this Regulation) exceeds 5% of the total capital of the bank.

38.2 Legal entities being affiliated with the borrower solely on the grounds that the State owns over 20% of voting shares of the borrower and the legal entity concerned, or has a right to predetermine their decisions in any other legally permitted way, shall not be included in the calculation of $S3^1$ and $S3^2$.

39. Standards $S3^1$ and $S3^2$ shall not apply to the Central Bank and the Government of the Republic of Armenia.

40. The calculation of $S3^1$ and $S3^2$ shall not include the claims on a subsidiary operating in the Republic of Armenia. When calculating $S3^1$ and $S3^2$ for claims on a subsidiary operating in the Republic of Armenia and the related parties, the calculation of risks shall include only:

a. claims on the subsidiary's related parties, and
b. sureties and guarantees of the subsidiary issued to other parties (not related to the subsidiary) for their liabilities to the same bank, as well as any other cover funds (at the amount not exceeding the secured total liability).

40.1. The provisions on subsidiaries specified herein shall apply to the bank's subsidiaries, operating in the Republic of Armenia (banks, credit organizations, other organizations, which carry out activities, specified in the Law of the Republic of Armenia "On Banks and Banking", Article 34, Rule 1), if the bank consolidates the balance sheet of the subsidiary and its balance sheet in accordance with "The procedure for consolidated reporting to the Central Bank by banks operating in the Republic of Armenia", approved by the Central Bank Board Resolution No. 87 as of April 2, 2002.

41. If the bank has a foreign subsidiary, the calculation of $S3^1$ and $S3^2$ risk for consolidated reports shall not include government bonds of the subsidiary's country of incorporation, claims on the central bank of the subsidiary's country of incorporation.

42. The maximum risk on a bank related party ($S4^1$) shall be determined using the following formula:

$$\mathbf{S4^1 = \frac{Risk}{C_{tot}}}$$

where:

Risk *= the amount of loans to a bank related party, including lending to a bank account, all other borrowings, factoring and leasing operations, advances, prepayments, installments for bank service or products, letters of credit, investments in securities issued by the party or related parties, (including bills), correspondent accounts and deposits of the bank, receivables, repo agreements, claims on currency swaps* *(according to Rule 48 of this Regulation), as well as any other liabilities to the bank, including sureties and guarantees issued to another party for liabilities to the same bank, any other cover funds (by the amount not exceeding the secured total liability), sureties and guarantees for the liabilities of the bank related party, borrowings and guarantees to the same party provided by other banks on account of, and secured by, monetary assets of the bank (provided that the bank assumed the risk to collect such borrowings), off-balance sheet contingent liabilities, containing credit risk.*

These components shall not be weighted after they are decreased by the amount of their respective reserves, other than "nostro" correspondent accounts, interbank deposits, interbank loans, claims on foreign governments and central banks, which shall be weighted by respective risk weights pursuant to Rule 6, Appendix 3 of this Regulation after they are decreased by the amount of their respective reserves.

C_{tot} = *the average total capital of the bank.*

43. The maximum risk on all bank related parties ($S4^2$) shall be determined using the following formula:

$$\mathbf{S4^2 = \frac{Risk}{C_{tot}}}$$

where:

Risk = *the amount of loans to bank related parties, including lending to a bank account, all other borrowings, factoring and leasing operations, advances, prepayments, installments for a service rendered or a product provided by the bank, letters of credit, investments in securities issued by the party or related parties, (including bills), correspondent accounts and deposits of the bank, receivables, repo agreements, claims on currency swaps (according to Rule 48 of this Regulation), as well as any other liabilities to the bank, including sureties and guarantees issued to another party (not related to the bank) for liabilities to the same bank, as well as any other cover funds (by the amount not exceeding the secured total liability), sureties and guarantees issued to bank parties, borrowings and/or guarantees to the same parties provided by other banks on account of, and secured by, monetary assets of the bank (provided that the bank assumed the risk to collect such borrowings), off-balance sheet contingent liabilities, containing credit risk.*

These components shall not be weighted after they are decreased by the amount of their respective reserves, other than "nostro" correspondent accounts, interbank deposits, interbank loans, claims on foreign governments and central banks, which shall be weighted by respective risk weights pursuant to Rule 6, Appendix 3 of this Regulation after they are decreased by the amount of their respective reserves.

C_{tot} = *average total capital of the bank.*

44. Standards $S4^1$ and $S4^2$ shall not apply to bank subsidiaries operating in the Republic of Armenia (banks, credit organizations, other organizations, which carry out the activities specified in the Law of the Republic of Armenia "On Banks and Banking", Article 34, Rule 1), if the bank consolidates the balance sheets of the subsidiary and its balance sheet in accordance with "The procedure for consolidated reporting to the Central Bank

by banks operating in the Republic of Armenia”, approved by the Central Bank Board Resolution No. 87 as of April 2, 2002.

45. Standards $S3^1$, $S3^2$, $S4^1$ and $S4^2$ shall be calculated as of the last day of the month, as well as in the event of emergence and each change in the value of components included in the calculation of risks of these standards. When calculating standards $S3^1$, $S3^2$, $S4^1$ and $S4^2$ as of the last day of the month, the “Risk” component (numerator) shall be calculated as of the last day of the reporting month, whereas the total capital shall be calculated based on average daily calculations for the month. When calculating standards $S3^1$, $S3^2$, $S4^1$ and $S4^2$ on the last day of the month, the calculation of risk shall include average daily value of “nostro” correspondent accounts for the month.

45.1. Upon the emergence of components included in the calculation of $S3^1$, $S3^2$, $S4^1$ and $S4^2$ risks, as well as in the event of each change in their value, the standards shall be calculated with respect to the total capital as of the given day. Standards $S3^1$, $S3^2$, $S4^1$ and $S4^2$ shall not be calculated in the event of the emergence and each change in “nostro” correspondent accounts.

46. The calculation of $S3^1$, $S3^2$, $S4^1$ and $S4^2$ risks shall not include Government bonds of the Republic of Armenia and investments deductible from the calculation of the core capital under Rule 28.1(d) of this Regulation.

47. Repo agreements backed by securities issued by the Central bank, Government bonds of the Republic of Armenia shall be included in the calculation of $S3^1$, $S3^2$, $S4^1$ and $S4^2$ risks at 0% risk weight, if the current (market) value of securities purchased as a result of such operations equals or exceeds the grand total of funds provided as a result of the repo operation and the accrued interest to be received on these funds. The portion not secured by bonds shall be risk-weighted at 100% risk weight.

48. Positive difference of currency swaps is included in the calculation of S31, S32, S41 and S42 at 100% risk weight if the bank received Armenian drams, Group I foreign currency or Russian ruble. In case of receipt of Group II currency purchase currency swap shall be included in the calculation of S31, S32, S41 and S42 at 100% risk weight.

48.1. The currency swaps, as a result of which the bank will receive Armenian drams or Group I foreign currency shall be included in the calculation of prudential standards $S3^1$, $S3^2$, $S4^1$ and $S4^2$ at 0% risk weight, if as a result of these operations the purchase and sale of the currency takes place within the same banking day, which may be different from the day of signing the agreement.

49. The calculation of prudential standards $S3^1$, $S3^2$, $S4^1$ and $S4^2$ shall not include the claims which are fully secured by:

a. securities issued by the Central Bank, Treasury bills of the Republic of Armenia,

b. sureties or guarantees provided by the Central Bank and the Government of the Republic of Armenia,

c. securities issued by organizations specified in Rule 6.6, Table 1, Appendix 3 of this Regulation (hereinafter referred to as Appendix 3)
d. sureties or guarantees provided by the organizations specified in Appendix 3, Table 1, Rule 6.6,
e. securities issued by foreign governments and central banks rated at least AA-(Aa3) by Standard & Poor's or Fitch (Moody's),
f. sureties or guarantees provided by foreign governments and central banks rated AA-(Aa3) and higher by Standard & Poor's or Fitch (Moody's),
g. deposits with the given bank, the right of claim arising from loans or borrowings extended to the given bank.

The claims and their collaterals shall be expressed in the same currency, the maturity of claims shall not exceed the maturity of securities backing the agreement and that of deposits with the given bank; terms of exercising the right of claims arising from loans or borrowings to the bank, the terms of sureties and guarantees provided. Besides, if the borrower does not perform his/her liabilities, there shall be no limitations, provided for in the agreement or based on a mutual arrangement, concerning the factual sale of the collateral or the terms for fulfilling the surety/guarantee.

The claims, which are partly secured by the types of collateral specified in points "a'-"g" herein, shall be included in the calculation of prudential standards $S3^1$, $S3^2$, $S4^1$ and $S4^2$ at the amount of the unsecured portion, whereas the secured portion shall not be included in this calculation. The unsecured parts of claims included in the calculation of prudential standards $S3^1$, $S3^2$, $S4^1$ and $S4^2$, shall not be weighted after being reduced by the amount of their respective reserves, except for "nostro" correspondent accounts, interbank deposits, interbank loans, claims on foreign governments and central banks, which shall be risk weighted in accordance with Rule 6, Appendix 3 of this Regulation after being reduced by the amount of their respective reserves.

50. Resources in Armenian drams and foreign currency attracted by bank and branch of foreign bank operating in the territory of the Republic of Armenia are subject to reserve requirement with the Central Bank. Required reserve on resources attracted in Armenian dram, foreign currency, as well as metal accounts shall be paid in Armenian drams. Reserve requirement on attracted resources shall be paid according to timetable set in Rule 52 of this Regulation. The bank shall bear the exchange rate risk.

51. The value of required reserves on Armenian-dram and foreign-currency denominated deposits shall be adjusted once every 28 or 35 days in accordance with the reserve requirement calendar set by the Central Bank. The adjustment shall involve matching the average daily amounts of the resources actually reserved against the resources to be reserved to make sure that the actual average daily reservation is equal to, or in excess of, the average daily reservation to be made. Required reserves on financial resources attracted in foreign currency shall be calculated based on the average market exchange rate set up in currency markets announced by the Central Bank for each foreign currency for the given day. Required reserves for resources attracted through metal accounts shall be calculated based on book value of gold announced by the Central Bank.

52. Starting from December 17, 2008 the reporting period for the calculation of resources attracted in Armenian drams subject to reservation shall, as a rule, comprise 28 or 35 days from

Wednesday to Tuesday in accordance with the reserve requirement calendar set by the Central Bank. The calculation of actually reserved financial resources shall as a rule comprise 28 or 35 days following the end of the reporting period in accordance with the reserve requirement calendar set by the Central Bank. The deadline for actual reservation shall be the end of the last day, i.e. the operational day of the Central Bank.

52.1 *(Repealed according to Resolution No305-N, 22.11.11)*

52.1.1 *(Repealed according to Resolution No305-N, 22.11.11)*

52.1.2 *(Repealed according to Resolution No 21-N, 01.02.2011)*

52.2 The reserve requirement calendar, approved by the Central Bank Board, i.e. information on the reporting and actual periods for the required reserves of the current year, shall, as a rule, be allocated at the Central Bank webpage prior to November 30 of the preceding year. Appendix 7 of this Regulation shall serve as a template for the reserve requirement calendar.

53. The reserve requirement applies to financial resources attracted in Armenian drams and foreign currencies, except for Lombard and systemic loans, attracted from the Central Bank, financial resources, included in Component-1 of the Economy stabilization crediting program, approved by the Government of the Republic of Armenia Resolution N 717 as of June 26, 2009; resources attracted from National Mortgage Company CJSC credit organization conducting refinancing, resources attracted from "Housing for Youth" CJSC credit organization conducting refinancing; correspondent accounts between banks operating in the Republic of Armenia; other resources attracted from one another; sale currency swaps; resources attracted for the replenishment of statutory funds on accounts with the Central Bank.

53.1 The reserve requirement shall not apply to financial resources, attracted by the bank, which comply with the definition of long-term subordinated borrowings under Rule 29.1 of this Regulation and are included in the calculation of the total capital of the bank.

53.1 *(Annulled according to Resolution No 285-N, 07.10.2008)*

53.2 *(Annulled according to Resolution No 285-N, 07.10.2008)*

53.3 *(Annulled according to Resolution No 285-N, 07.10.2008)*

54. Interest can be accrued and paid on the balance of the cumulative account of the banks with the Central Bank, established for paying the required reserves and replenishing the statutory fund, in accordance with the procedure, terms and amount set by the Central Bank.

55. The foreign branches of the Armenian banks shall independently deposit the attracted resources with the central (national) bank of the host country under the standards and terms of such bank.

56. The paid required reserves on financial resources attracted by the bank in Armenian drams and foreign currencies shall be recorded on the correspondent (required reserves) accounts of the banks with the Central Bank in Armenian drams and foreign currencies on the basis of actual balances indicated in abstracts of these accounts as of the given day provided by the Central Bank. The banks shall independently manage, own and use the resources of the required reserves.

56.1 For the purpose of calculating the foreign currency disposition standard the foreign currency position shall mean the difference between foreign currency assets and liabilities, as well as assets and liabilities in Armenian drams carrying foreign currency risk, calculated according to Rule 56.2 of this Regulation. Assets or liabilities in Armenian drams carry foreign currency risk, when the amounts to be received or paid against them are calculated using foreign currency and/or foreign currency group to Armenian dram exchange rate, which may cause fluctuations in their values as a result of changes in exchange rates. For the meaning of calculating the foreign currency disposition standard a foreign currency asset or liability shall also mean banking or standardized bullions of precious metals, metal accounts, as well as claims and liabilities backed by banking or standardized bullions of precious metals. For the purpose of calculating the foreign currency disposition standard, banking gold, standardized gold bullions with at least 999 purity, claims and liabilities backed by them, metal accounts shall be deemed as a single foreign currency.

Closed foreign currency position shall be the square position of assets and liabilities in a particular foreign currency.

Open foreign currency position shall be the difference between assets and liabilities in a particular foreign currency.

Gross foreign currency position shall be calculated as a grand total of absolute values of foreign currency different positions.

Long foreign currency position shall mean excess of foreign currency assets over foreign currency liabilities.

Short foreign currency position shall mean excess of foreign currency liabilities over foreign currency assets.

If the asset or the liability is attached to a currency group (except for SDR), foreign currencies comprised in the group shall be included in the calculation of relevant foreign currency positions at their risk weight in the structure of the given currency group.

56.2 The position in particular foreign currencies shall be calculated by types of foreign currencies both including and excluding (except for currency swap) the financial derivatives (swap, futures, forward, option) expressed in the currency in question and reviewed by two foreign currency groups. Starting from August 1, 2010 the calculation of foreign currency position excluding financial derivatives shall include:

1. transactions in financial derivatives performed with organizations specified in Rule 6.6, Table 1, Appendix 3.

2. transactions in financial derivatives performed with foreign governments and central (national) banks rated at least A+(A1) for long-term deposits by Standard and Poor’s or Fitch (Moody’s).

3. transactions in financial derivatives performed with foreign banks with A+(A1) and A+(A1) rating for long-term deposits by Standard and Poor’s or Fitch (Moody’s).

56.3 The banks shall update the ratings issued by credit agencies based on the ratings of the agencies, specified in Rule 56.2 (points 2 and 3) of this Regulation, for the given day. If the organization, specified in Rule 56.2 (points 2 and 3), has been rated by at least 2 rating agencies, the bank shall consider the lowest rating. The ratings for the organizations specified in Rule 56.2 shall be considered depending on the currency of financial derivatives.

56.4 The foreign currency position in the foreign currency disposition standard shall be calculated with regard to the gross foreign currency position both including and excluding (except for currency swap) financial derivatives. Starting from August 1, 2010 the calculation of foreign currency position excluding financial derivatives shall include the financial derivatives specified in Rule 56.2 (points 1-3) of this Regulation in accordance with the requirements set in Rule 56.3 of this Regulation. Open foreign currency position shall be calculated as of every day and expressed in the Armenian drams. The passive balance shall be a negative value, indicating the short foreign currency position and the active balance shall be a positive value indicating the long foreign currency position.

57. Foreign currency Group I includes SDR, the SDR basket currencies, Swiss franc, Canadian dollar, Swedish krona, Danish krone, Australian dollar and banking gold. Foreign currency Group II includes the other foreign currencies.

58. The SDR basket includes US dollar, Euro, Japanese yen and British pound.

59. For the meaning of this Regulation "banking gold" shall have the same meaning as defined in the Law of the Republic of Armenia "On currency regulation and currency control", and "standardized bullions of precious metals" shall have the same meaning as defined in the Law of the Republic of Armenia "On precious metals".

60. For the purpose of this Regulation, collateral shall qualify for primary collateral when the pledgee bank has the right of preference for the full compensation of the value of the collateral over other pledgees of the collateral in question.

61. For the purpose of this Regulation all legal entities except for banks shall be considered non-bank organizations.

CHAPTER 6. RESPONSIBILITY

62. In the event of failure to meet the requirements defined in this Regulation, banks and foreign bank branches, operating in the Republic of Armenia, as well as their managers will be held liable under the Laws of the Republic of Armenia "On banks and banking" and "On the Central Bank of the Republic of Armenia".

CHAPTER 7. TRANSITIONAL PROVISIONS

63. *(Repealed according to Resolution No 21-N, 01.02.2011)*

64. *(Repealed according to Resolution No 21-N, 01.02.2011)*

<u>APPENDIX 2</u>

Approved by
the CBA Board Resolution No. 39-N
February 9, 2007

MANAGER'S RESUME

(Appendix repealed according to 20.12.11 No. 354-N)

APPENDIX 3

Approved by

the CBA Board Resolution No. 39-N

February 9, 2007

CALCULATION OF CREDIT RISK

CHAPTER 1. CALCULATION OF CREDIT RISK

1. The credit risk shall be calculated according to the principles specified in this Appendix.

2. In order to be included in the calculation of the capital adequacy standard, the credit risk shall be determined using the following formula:

$$\mathbf{CR} = \frac{(\mathbf{CR_1} + \mathbf{CR_2} + \ldots + \mathbf{CR_n})}{\mathbf{N}}$$

where:

CR *= credit risk by average daily calculations for a month*
$\boldsymbol{CR_1, CR_2, \ldots CR_n}$ *= credit risk by days,*
N *= number of days in the reporting month.*

3. The calculation of credit risk shall include the assets of the bank, off-balance sheet contingent liabilities and off-balance sheet term operations in process pursuant to the principles set in this Appendix. The calculation of credit risk shall not include assets deductible from the core capital specified in Rule 28.1. of this Regulation.

4. To determine the credit risk, the assets of the bank, off-balance sheet contingent liabilities and off-balance sheet term operations in process shall be weighted using the respective risk weights of assets, specified in Rule 6 of this Appendix, after they are decreased by the amounts of their respective reserves paid from expenses. The credit risk shall be determined using the following formula:

CR = (A1- R1)*Rw1 + (A2 – R2)*Rw2 + ... + A10- R10)*Rw10

where
A1, A2, ..., A10 *= total amount of assets of the bank (other than assets deductible from the core capital), off-balance sheet contingent liabilities and off-balance sheet term operations in process, grouped by similar risk-weights;*

R1, R2 ..., R10 *= a grand total of loss reserves on the respective assets of the bank, off-balance sheet contingent liabilities and off-balance sheet term operations in process, grouped by similar risk-weights;*
Rw1, Rw2, ..., Rw10 *= risk weights of respective assets.*
The (A-R) calculation on off-balance sheet contingent liabilities and off-balance sheet term operations in process shall be done pursuant to Rule 12 of this Appendix.

5. To determine the credit risk, banks shall apply credit risk mitigation techniques (hereinafter the CRMT) specified in Chapter 3 of this Appendix.

CHAPTER 2. RISK WEIGHTS USED FOR THE CALCULATION OF CREDIT RISK

6. The calculation of credit risk shall include the balances of the following assets at specified risk weights:

Table 1

TABLE OF RISK WEIGHTS USED FOR THE CALCULATION OF THE CREDIT RISK		
Types of assets	Risk weights %	
	Assets in AMD	Assets in foreign currency
6.1. Cash (in Armenian drams and Group I foreign currencies, ruble), and cash-equivalent payment documents (in Armenian drams and Group I foreign currencies, ruble), if agreed with the Board of the Central Bank	0	0
6.1.1. Cash (Group II foreign currencies, except for ruble), as well as cash-equivalent payment documents (in Group II foreign currencies, except for ruble) with the Central Bank Board agreement	-	100
6.2. Banking gold in the bank’s vault	0	-
6.3. Correspondent accounts, deposits, the balance of the cumulative account established for the replenishment of the bank’s statutory capital and the accrued interest, other claims on the Central Bank.	0	0
6.4. Securities issued by the Central bank in Armenian drams, RA Government bonds (including securities sold through repo agreements) and the accrued interest.	0	-
6.5. Claims on the RA Government on advance payments for tax liabilities computed as required by tax legislation	0	-

6.6. Claims on the International Monetary Fund, the World Bank, the European Central Bank, the European Bank for Reconstruction and Development, the Asian Development Bank, the African Development Bank, the Inter-American development Bank, the European Investment Bank, the European Investment Fund, the Scandinavian Investment Bank, the Caribbean Development Bank, the Islamic Development Bank and the European Development Bank Council.	0	0
6.7. Claims secured by banking gold held by the bank (and registered on deposit accounts of the bank), Armenian drams, Group I FX assets and other FX funds (if these are treated as security for assets expressed in the same foreign currency).	0	0
6.8. Repo agreements and the accrued interest if the current (market) value of respective securities obtained as a result of such operations equals or exceeds the total sum of funds provided as a result of the repo agreements and the accrued interest receivable on such assets.	0	0
6.9. Securities sold through repo agreements, if the total sum of assets obtained as a result of such operations and the interest to be paid equals or exceeds the current (market) value of the securities sold through repo agreements.	0	0
6.10. Securities issued by the Central bank in foreign currency, RA Government bonds including securities sold through repo agreements and the calculated interest.	-	10
6.11. Claims on the Government of the Republic of Armenia or claims secured by the Government of the Republic of Armenia, which are considered monetary obligations subject to charge without acceptance under “Procedure for Central Bank Accounting and Fulfilling Monetary Obligations subject to Charge without Acceptance from Bank Accounts Opened with the Central Bank of the Republic of Armenia” approved by the Central Bank Chairman Decision No. 1/202L as of 28.03.2006, as well as T-bills issued by the Ministry of Finance of the Republic of Armenia with maturity up to 1 year, which are subject to be paid by the Central Bank from the funds of the consolidated treasury account of the Government of the Republic of Armenia.	10	10
6.11.1. Bonds issued by refinancing credit organizations (including securities sold through repo agreements) and the calculated interests.		

6.12. T-bills and the calculated interest (including securities sold through repo agreements) against resources subject to confiscation from the State budget of the Republic of Armenia on the basis of judicial acts.	20	20
6.13. Cash in transit (in Armenian drams and Group I foreign currencies), banking gold, cash-equivalent payment documents in transit (in Armenian drams and Group I foreign currencies), if agreed with the Board of the Central Bank.	20	20
6.14. Correspondent accounts (including those in unallocated gold) with banks and foreign bank branches operating in Armenia, and the calculated interest.	20	30
6.15. Claims on foreign governments and 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-/B3/ 150 Not rated 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-/B3/ 150 Not rated 100
6.16. Claims on foreign local governments.	From /AAA/Aaa/ to /AA-/Aa3/ 20 From /A+/A1/ to /BBB-/Baa3/ 50 From /BB+/Ba1/ to B-/B3/ 100 Below /B-/B3/ 150 Not rated 100	From /AAA/Aaa/ to /AA-/Aa3/ 20 From /A+/A1/ to /BBB-/Baa3/ 50 From /BB+/Ba1/ to /B-/B3/ 100 Below /B-/B3/ 150 Not rated 100
6.17. Short-term claims on foreign banks.	/A-1+, A-1/F1+,F1/P-1/ 20	From /A-1+,A-

	/A-2/F2/P-2/ 50 /A-3/F3/P-3/ 100 Below /A-3/F3/NP 150 Not rated 100	1/F1+,F1/P-1/ 20 /A-2/F2/P-2/ 50 /A-3/F3/P-3/ 100 Below /A-3/F3/NP/ 150 Not rated 100
6.18. Long-term claims on foreign banks	From /AAA/Aaa/ to /AA-/Aa3/ 20 From /A+/A1/ to /BBB-/Baa3/ 50 From /BB+/Ba1/ to /B-/B3/ 100 Below /B-/B3/ 150 Not rated 100	From /AAA/Aaa/ to /AA-/Aa3/ 20 From /A+/A1/ to /BBB-/Baa3/ 50 From /BB+/Ba1/ to /B-/B3/ 100 Below /B-/B3/ 150 Not rated 100
6.19. Claims on non-banks rated by the Central Bank	From “A+” to “B-” 20 From “G+” to “G-” 50 From “D+” to “D-” 100 From “E+” to “Z” 150 Not rated 100	From “A+” to “B-” 30 From “G+” to “G-” 75 From “D+” to “D-” 150 From “E+” to “Z” 225 Not rated 150
6.20. Short-term claims on foreign non-banks.	/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 Not rated 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/F3/NP/ 150 Not rated 100
6.21. Long-term claims on foreign non-banks.	From /AAA/Aaa/ to /AA-/Aa3/ 20 From /A+/A1/ to /A-/A3/ 50	From /AAA/Aaa/ to /AA-/Aa3/ 20 From /A+/A1/

	From /BBB+/Baa1/ to /BB-/Ba3/ 100 Below /BB-/Ba3/ 150 Not rated 100	to /A-/A3/ 50 From /BBB+/Baa1/ to /BB-/Ba3/ 100 Below /BB-/Ba3/ 150 Not rated 100
6.22. Mortgage loans with the accrued interest, which meet the “Minimum requirements for providing mortgage loans with 50/75% risk weight” specified in Appendix 6 of this Regulation.	50	75
6.23. Other claims on banks and foreign bank branches operating in Armenia	50	75
6.24. Claims on individuals and legal entities, off-balance sheet contingent liabilities (except for claims on all types of mortgage loans, loans secured by precious metals and stones), which satisfy each of the following conditions: a. total sum of claims on the borrower and related parties (except for claims on all mortgage loans, loans secured by precious metals and stones) and off-balance sheet contingent liabilities does not exceed 5 million Armenian drams, b. the total sum of claims, which satisfy the conditions of point “a” hereinabove, on the borrower and related parties and off-balance sheet contingent liabilities (other than all types of mortgage loans, loans secured by precious metals and stones) does not exceed 0.2% of the total sum specified in point “a”.	75	110
6.25. Claims on communities of the Republic of Armenia	100	150
6.26. Assets frozen or arrested under court decision and the calculated interest.	100	150
6.27. Claims on the Government of the Republic of Armenia for payments exceeding tax liabilities, specified under tax legislation (overpayments).	100	-
6.28. Claims on the Government of the Republic of Armenia or claims secured by the Government of the Republic of Armenia, which are not considered monetary obligations subject to charge without acceptance under “Procedure for Central Bank Accounting and Fulfilling Monetary Obligations subject to Charge without Acceptance from Bank Accounts Opened with	100	150

the Central Bank of the Republic of Armenia" approved by the Central Bank Chairman Decision No. 1/202L as of 28.03.2006.		
6.29. Fixed assets and intangible assets at balance-sheet value	100	-
6.30. Loans and receivables, classified as non-standard and doubtful, securities, classified as average and high risk.	100	150
6.31 The portion of investments specified in Rule 28.1 of Regulation 2 (point "h"), which is not deducted from the core capital.	150	225
6.31.1 Standardized gold bullions (of at least 999 purity)	-	50
6.31.2. Standardized gold bullions on the way (of at least 999 purity)	-	75
6.32 All balance sheet assets which are not included in points 6.1-6.31.1.	100	150

7. The requirements specified in Rule 6 of this Appendix include balance sheet claims and the calculated interest.

8. For the meaning of this Regulation the following derivatives shall be classified as term transactions in process: forward, futures, swap (other than currency swap), options. The calculation of risk-weights of term transactions in process shall be based on their full book value in Assets.

9. The risk-weighting of repo agreements unsecured portions of securities sold through repo agreements, which do not satisfy the conditions of Rules 6.8 and 6.9 of this Appendix, shall be based on the risk weight of the given borrower/instrument.

10. Banks may risk-weight the claims on all non-banks (including non-banks rated by the Central Bank) at a risk weight relevant for "not rated" assets in corresponding currency specified for each type of assets in Rule 6 of this Appendix, regardless of their individual ratings.
In this case, banks shall once a year make a decision on following this approach and inform the Central Bank about it prior to December 31 of the year, preceding each year.

10.1. *(Repealed according to Resolution No163-N, 23.05.08).*

11. If the same claim, once risk-weighted pursuant to the table in Appendix 1, yields over one risk weights, the bank shall opt for the lowest weight, except when:

1. non-standard or doubtful assets, medium-risk and high-risk securities, assets frozen or arrested under court decision shall be risk-weighted at the highest risk-weight set for these assets,
2. the claims simultaneously meet both Rule 6.24 and Rules 6.17-6.21, the risk weights relevant for ratings specified in Rules 6.17-6.21 shall be taken as basis when including the claim in the calculation of credit risk.

12. To be included in the calculation of credit risk, credit risk conversion factors (CRCF) specified in Appendix 13 of this Appendix shall be applied to off-balance sheet contingent liabilities and off-balance sheet term transactions in process. Upon being reduced by the amount of the reserve, off-balance sheet items are converted into balance sheet credit risk equivalents through the use of CRCF and weighted at respective risk-weights specified in Rule 6 of this Appendix. Off-balance sheet contingent liabilities and off-balance sheet term transactions in

process are converted into balance sheet credit risk equivalents through the use of CRCF applying the following formula:

$$BCR = (OBI - R)*CRCF$$

where:

BCR *= off-balance sheet contingent liabilities and off-balance-sheet term transactions in process converted into balance sheet credit risk equivalents through the use of CRCF, which are included in credit risk calculation at respective risk-weights specified in Rule 6 of this Appendix,*

OBI *= off-balance sheet contingent liabilities and off-balance sheet term transactions in process,*

R *= off-balance contingent liabilities reserve,*

CRCF *= credit risk conversion factor specified in Rule 13 of this Appendix.*

13. Credit risk conversion factors

Table 2

Off-balance sheet items	**CRCF**	
	AMD items	**FX items**
13.1.Off-balance sheet term transactions in process	1	1.5
13.2. Off-balance sheet contingent liabilities with maturity up to one year (other than guarantees (sureties))	20	30
13.3. Off-balance sheet contingent liabilities with maturity over one year (other than guarantees (sureties))	50	75
13.4.Guarantees/sureties	100	100

14. Off-balance sheet contingent liabilities specified herein include guaranties/sureties, letters of credit, credit lines, non-used portions of overdrafts and credit cards. If under the same contract for the off-balance sheet term transaction the bank buys and sells foreign currency, the off-balance sheet contract shall be included in the calculation of credit risk only once, at the rate of asset-formation amount.

CHAPTER 3. CREDIT RISK MITIGATION TECHNIQUES (CRMT).

15. The CRMT is used for the calculation of credit risk. The CRMT helps to adjust the bank's credit risk assessment, if credit risk adjustment factors are available. Where CRMT is applied, the secured portion of the claim will receive the risk weight of the security or the security-providing party, whereas the unsecured portion will receive the risk weight of the borrower/instrument.

16. Claims, off-balance sheet contingent liabilities, off-balance sheet term transactions in process, the calculated interest (hereinafter the claim subject to CRMT) may become a CRMT object, if each of the following conditions is satisfied:

a. the claim subject to CRMT has a primary financial collateral specified in Rule 26 of this Appendix, which is revalued at least once in six months, or has a surety/guarantee issued by another party rated by Standard and Poor's/Fitch/Moody's or the Central Bank, as well as a surety/guarantee issued by the Government or the Central Bank of the Republic of Armenia;
b. documents verifying the security are available;
c. the maturity of the collateral, surety/guarantee (hereinafter security) is equal or longer than the maturity of the claim subject to CRTM (there are no negative maturity mismatches);
d. there is no positive correlation between the borrower's creditworthiness and the provider of the collateral, surety/guarantee (e.g. the guarantor is not affiliated with the borrower, or no securities issued by the borrower are pledged as collateral, etc.);
e. if the borrower fails to fulfill the terms of the agreement, the bank has the right to sell the pledge extra-judicially (in case of pledge only);
f. if the borrower fails to fulfill the terms of the agreement, there are no term limitations as to the sale of the collateral or performing the surety/guarantee under the agreement and/or other mutually agreed limitations.
g. the risk weight of the security or the security provider is less than the risk weight of the claim subject to CRMT.

17. CRMT shall not apply to:
a. claims subject to CRMT, which are classified as non-standard and doubtful loans and receivables, average and not high risk securities,
b. repo agreements, securities sold through repo agreements, the interest calculated on them.

18. To provide the application of CRMT, the amount of the claim subject to CRMT and the amount of the security should be adjusted using the value fluctuation ratios specified in Rule 25 of this Appendix, if Rule 25 of this Appendix specifies value fluctuation ratios for them or if the claim subject to CRMT and the respective security are expressed in different currencies.

19. If the value fluctuation ratios are applied:
a. the adjusted value of the claim subject to CRMT will be higher than the value of the claim subject to CRMT pursuant to Rule 20 of this Appendix;
b. the adjusted value of the security will be lower than the value of the security pursuant to Rule 21 of this Appendix.

20. If the value fluctuation ratios are applied within CRMT, banks shall adjust only those claims subject to CRMT, for which value fluctuation ratios are specified under Rule 25 of this Appendix. The calculation shall be done using the following formula:

$$\mathbf{CR^a = (CR - R)\,(1+F)}$$

where

$\boldsymbol{CR^a}$ = *the adjusted amount of the claim subject to CRMT with the value fluctuation ratio considered,*

CR = *the amount of the claim subject to CRMT after deducting the amount of loss reserves and before adjusting the value,*

R = *loss reserve for the claim subject to CRMT,*

F = *value fluctuation ratio specified in Rule 25.*

21. If the value fluctuation ratios are applied within CRMT as well as in case the claim subject to CRMT and the security are expressed in different currencies, banks shall adjust the

value of the security if Rule 25 of this Appendix specifies value fluctuation ratios for them. The calculation shall be done using the following formula:

$$\mathbf{S^a = S(1\text{-}R_{vf} - R_{exr})}$$

where

$\boldsymbol{S^a}$ *= the adjusted value of the security with the value fluctuation ratio considered,*

S *= the value of the security,*

$\boldsymbol{R_{vf}}$ *= the value fluctuation ratio specified in Rule 25,*

$\boldsymbol{R_{exr}}$ *= exchange rate fluctuation ratio.*

If the claim subject to CRMT and the security are expressed in different currencies, the exchange rate fluctuation ratio (hereinafter referred to as R_{exr}) will be set at 8%. If they are expressed in the same currency, R_{exr} will be set at 0%.

22. If no value fluctuation ratios are set for the claim, the value of the claim subject to CMRT shall equal to the difference of the claim and loss reserves. If there is a value fluctuation ratio set, the adjusted value of the claim subject to the CMRT shall be determined pursuant to Rule 20 of this Appendix. For off-balance sheet contingent liabilities, the value of the claim subject to CRMT shall be determined under Rule 12 herein. The adjusted value of the security shall be calculated pursuant to Rule 21 of this Appendix.

23. Within CMRT the secured portion of the claim subject to CRMT will receive at least 20% risk-weight, except for the cases described in Rules 23.1, 23.2 and 23.3 of this Appendix.

23.1. The claim subject to CRMT and secured by financial collateral, shall be included in credit risk calculation at 0% risk weight, if all the following conditions are satisfied concurrently:

a. the collateral is a security issued by the Central Bank in Armenian drams, a Government bond of the Republic of Armenia or a security issued by central banks or governments of foreign countries, which is included in credit risk calculation at 0% risk weight pursuant to Rule 6 of this Appendix;
b. the collateral is revalued every day;
c. the borrower/debtor complies with the definition of a core market participant under Rule 27 of this Appendix.

23.2. The claim secured by surety/guarantee shall be included in credit risk calculation at 0% risk weight, if the surety/guarantee provider:

a. is the Government or the Central Bank of the Republic of Armenia,

b. complies with the definition of a core market participant under Rule 27 of this Appendix and the claims on them are included in credit risk calculations at 0% risk weight pursuant to Rule 6 of this Appendix.

23.3. The secured portion of the claim shall be included in credit risk calculation at 10% risk weight, if:

a. the collateral is a security issued by the Central Bank in foreign currency, a Government bond of the Republic of Armenia, which is included in the calculation of credit risk at 10% risk weight pursuant to Rule 6 herein, and the conditions specified in Rule 23.1 (except for point “a”) are satisfied as well, or
b. the transaction satisfies the conditions set in Rule 23.1 (except for point “c”).

24. If the claim subject to CRMT has more than one type of security with different risk weights and their total amount exceeding the amount of the claim, the risk weight of the secured portion of the claim subject to CRMT shall be calculated on the basis of all risk weights of the collaterals in ascending order (starting with the risk weight of the collateral with the lowest risk weight, then taking the risk weights of subsequent collaterals).

25. Value fluctuation ratios

Table 3

Types of securities and ratings	**Term to maturity**	**Value fluctuation ratios**	
		Central banks/ Government/Local governments	**Other issuers**
25.1. Armenian dram denominated securities issued by the Central Bank, RA Government bonds.	< 1 year	1	-
	≥ 1 year, < 5 years	2	-
25.2. Bonds issued by foreign central banks, governments, local governments rated from /AAA/Aaa/ to /AA-/Aa3/	≥5 years	4	-
25.3. Bonds issued by foreign banks and non-banks rated from /AAA/Aaa/ to /AA-/Aa3/	< 1 year	-	1
	≥ 1 year, < 5 years	-	4
25.4. Bonds issued by foreign banks and non-banks rated /A-1+, A-1/F1+, F1/P-1/	≥ 5 years	-	8
25.5. FX denominated securities issued by the Central Bank, RA Government bonds.	< 1 year	2	-
	≥ 1 year, < 5 years	3	-
25.6. Bonds issued by foreign central banks, governments, local governments rated from /A+/A1/ to /BBB-/Baa3/.	≥ 5 years	6	-
25.7. Bonds issued by banks, credit organizations and foreign bank branches operating in Armenia.	< 1 year	-	2
25.8. Bonds of foreign banks and non-	≥ 1 year, < 5 years	-	6

banks rated from /A+/A1/ to /BBB-/Baa3/. 25.9. Bonds issued by foreign banks and non-banks rated /A-2/F2/P-2/.	≥ 5 years	-	12
25.10. Bonds issued by foreign central banks, governments, local governments rated from /BB+/Ba1/ to /BB-/Ba3/. 25.11. Bonds issued by foreign banks and non-banks rated from/BB+/Ba1/ to /BB-/Ba3/. 25.12. Bonds issued by foreign banks and non-banks rated /A-3/F3/P-3/. 25.13. Shares of banks and credit organizations operating in Armenia. 25.14. Bonds issued by non-banks rated at least "G-" by the Central Bank. 25.15. Shares of banks and non-banks rated from AAA/Aaa/ to /AA-/Aa3/.	20		
25.16. Shares of non-banks rated at least "G-" by the Central Bank. 25.17. Shares of banks and non-banks rated from /A+/A1/ to /BBB-/Baa3/.	30		

26. The following items are financial collaterals, which may be used in CRMT:

26.1. securities issued by the Central Bank;

26.2. Republic of Armenia Government bonds, T-bills issued by the Ministry of Finance of the Republic of Armenia with maturity up to 1 year, which are subject to be paid by the Central Bank from the funds of the consolidated treasury account of the Government of the Republic of Armenia, Republic of Armenia T-bills against amounts to be confiscated from the Armenian State budget under judicial acts;

26.3. Securities issued by banks, credit organizations and foreign bank branches operating in Armenia;

26.4. Bonds issued by non-banks rated at least "G-" by the Central Bank.

26.5. Bonds issued by foreign central banks, governments and local governments rated at least /BBB-/Baa3/;

26.6. Bonds rated at least /BBB-/Baa3 and issued by foreign banks;

26.7. Bonds rated at least /A-/A3/ and issued by foreign non-banks;

26.8. Bonds rated at least /A-2/F2/P-2/ and issued by foreign bank and non-banks;

26.9. Shares of non-banks rated at least "G-" by the Central Bank;

26.10. Shares of banks and credit organizations operating in Armenia;

26.11. Shares of foreign banks rated at least /BBB-/Baa3/ and included in stock indices, defined in Rule 28 of this Appendix;

26.12. Shares of foreign non-banks rated at least /A-/A3/ and included in stock indices, specified in Rule 28 of this Appendix.

26.13. Bonds issued by refinancing credit organizations.

27. Core market participants. For the purpose of this Regulation core market participants shall be:

27.1. States/governments, central banks and local governments;
27.2. Banks, credit organizations and foreign bank branches operating in Armenia;
27.3. Foreign banks;
27.4. Other financial organizations (including investment and insurance companies), the claims on which shall be included in credit risk calculation at 20% risk weight pursuant to Rule 6 of this Appendix.

28. **Stock indices**. For the purpose of this Regulation stock indices shall be indices specified in Table 4 of this Appendix.

Table 4

Stock Indices	**Country**
All Ords	Australia
ATX	Austria
BEL20	Belgium
Euronext 100	International
CAC 40	France
IBEX 35	Spain
AEX	Netherlands
Hand Seng	Hong Kong
Nikkei225	Japan
DAX	Germany
SMI	Switzerland
OMX	Sweden
S&P500	USA
Dow Jones	USA
NASDAQ	USA
FTSE100	United Kingdom

FTSE mid-250	United Kingdom

CHAPTER 4. PRINCIPLES OF APPLYING RATINGS FOR CREDIT RISK CALCULATION

29. To risk-weight the claims on non-banks rated by the Central Bank, the ratings issued by the Central Bank shall be applied. In this case the daily ratings available on the Central Bank web page shall be used.

30. To risk-weight claims on foreign central banks, governments, local governments, foreign banks and non-banks, ratings issued by Standard & Poor's / Fitch / Moody's only shall be used. The grades of long-term ratings by Standard&Poor's and Fitch coincide.

31. The banks shall update the ratings of rating agencies based on the ratings as of the given day set by the rating agencies specified in Rule 30 of this Appendix.

32. If the claim has been rated by only one rating agency, the risk-weight of such claim is determined on the basis of this one rating. If there are two different ratings for the same claim issued by different rating agencies, the bank shall use the lowest one. If there are three or more ratings issued for the same claim, the bank shall use the lower rating of the two highest ones.

33. To include the claims on foreign central banks, governments, local governments in credit risk calculation, the ratings shall be applied with a consideration of the type and the currency of the instruments. For the claims on foreign banks and non-banks the ratings shall be applied with a consideration of maturity and foreign currency of the claim and the type of instruments.

34. For the purpose of this Appendix, short-term claims shall be demand claims and claims with maturity up to 90 days (including), and long-term claims shall be claims with maturity over 90 days and claims with unfixed maturity.

35. When applying CRMT in risk-weighting of claims secured by sureties/guarantees of foreign governments, central banks, foreign commercial banks, banks shall apply long-term deposit ratings issued by rating agencies, and if the claims are secured by sureties/guarantees of rated foreign non-banks, the "issuer rating" ratings shall be applied.

36. If a short-term rating is not available, the risk weight of short-term claims on foreign banks and non-banks may be determined based on the risk weights, which are one category more favorable than the respective risk weights for long-term ratings specified in Rules 6.18 and 6.21 of this Appendix. For the purpose of applying this Rule, the exceptions shall be 20% and 150% risk weights (i.e. the short-term claims shall be risk-weighted at 20% and 150%, respectively).

37. The risk-weighting of both short-term and long-term claims on foreign governments and central banks, local governments, non-banks rated by the Central Bank, as well as the application of ratings, specified in this Regulation, to the above parties shall be based exclusively on long-term ratings.

38. If the risk weight of the short-term claim on a party/instrument is 150%, any unrated claims (short-term or long-term) on this party shall be included in credit risk calculation at 150% risk weight.

39. *(Annulled according to the Resolution No 163-N, 23.05.08).*

40. The rating of any party, included in a financial group, shall not apply to the financial group or other parties in the group.

41. The rating of the financial group shall not apply to parties included in the group.

APPENDIX 4

Approved by

the CBA Board Resolution No. 39-N

February 9, 2007

CALCULATION OF MARKET RISK

CHAPTER 1. CALCULATION OF MARKET RISK

1. The market risk is calculated according to principles, specified in this Appendix

2. The market risk is a grand total of foreign exchange, interest rate and capital instruments price risks and shall be determined using the following formula:

MR = FXR + IRR +EPR,

where

MR *= market risk,*
FXR *= foreign exchange risk,*
IRR *= interest rate risk by average daily calculations for a month,*
CIPR *= capital instruments price risk by average daily calculations for a month.*

3. In calculating the market risk the interest rate and capital instruments price risks shall be calculated only if by average daily calculations for the previous or the reporting month:

a. The total amount of assets available for trading and accounted by real value re measured by profit/loss exceeds 3% of total balance sheet assets, or
b. the total amount of assets available for trading and accounted by real value re measured by profit/loss exceeds 20% of the bank's regulatory total capital.

CHAPTER 2. FOREIGN EXCHANGE RISK CALCULATION

4. For the purpose of calculating the capital adequacy standard, the foreign exchange risk shall be calculated using Standard or VaR methodology.

5. The banks shall choose the methodology for foreign exchange risk calculation once a year and inform the Central Bank about it prior to December 31 of the year preceding each year.

6. Foreign exchange risk calculation using Standard methodology.

6.1. Both assets and liabilities contain foreign exchange risk when their values in Armenian drams, as well as payables and receivables in Armenian drams incur changes as a result of fluctuations in foreign currency/Armenian dram exchange rate. For the meaning of foreign exchange risk calculation, banking or standardized bullions of precious metals, meal accounts, as well as assets and liabilities expressed in banking or standardized bullions of precious metals also contain foreign exchange risk.

6.2. When calculating foreign currency positions, assets and liabilities shall also include off-balance sheet transactions (including currency swap) in process, which contain FX-risk, at the amount of their off-balance sheet value.

6.3. Foreign currency position is the difference between assets and liabilities containing foreign exchange risk. Foreign currency positions are defined as follows:

a. long position, if the difference is bigger than zero;
b. short position, if the difference is less than zero;
c. closed position, if the difference is equal to zero;
d. open position, if the difference is bigger or less than zero.

6.4. The maximum foreign currency position is the total amount of the magnitudes below:

a. the maximum value out of absolute values of total amounts of foreign currency long positions and foreign currency short positions;
b. a grand total of absolute values of open positions in banking or standardized bullions of precious metals and metal accounts.

6.5. The foreign currency position shall be calculated by types of foreign currencies. For the purpose of calculating foreign exchange risk, banking gold, standardized bullions of gold of at least 999 purity, claims and liabilities expressed in the latters, as well metal accounts shall be considered a single type of foreign currency. When calculating the foreign currency position, assets, containing FX risk, which are deducted from the core capital calculation, shall not be included.

6.6. Foreign currency positions shall calculated as of each day and be expressed in Armenian drams.

6.7. Under the Standard methodology, to be included in the calculation of the capital adequacy standard, the foreign exchange risk shall be determined using the following formula:

$$\mathbf{FXR = max\ (FXMP_1, FXMP_2, \ldots, FXMP_n),}$$

where

FXR *= FX risk, calculated using Standard methodology,*

$FXMP_1$, $FXMP_2$,...., $FXMP_n$ *= 12% of maximum FX position by days of the reporting period,*

n *= number of days in the reporting period.*

6.8. For the days (including non-business days) when the bank's balance sheet incurred no changes, the daily data calculation shall include the data as of the previous day.

7. To calculate the foreign exchange risk using VaR methodology, banks shall calculate the values described in Rules 7.1. to 7.8. on a daily basis.

7.1. The banks shall calculate their foreign currency positions in Armenian drams pursuant to Rules 6.1, 6.2 and 6.3 of this Appendix. On the basis of the calculated positions they shall build a uniform-sized "1xA" matrix of FX positions:

$$\mathbf{P = (P_1, P_2, \ldots, P_t),}$$

where

$(P_1, P_2, \ldots, P_t)$ *= values of FX positions by types of foreign currencies,*

t *= types of foreign currencies.*

7.2. Banks shall develop time series of daily foreign currency to Armenian drams exchange rates, announced by the Central Bank, containing open positions during the reporting period. The time series shall include data as of the given day and data for 250 preceding business days. Exchange rates shall be calculated based on foreign currency to Armenian drams exchange rates, announced by the Central Bank. Banking and standardized bullions of precious metals, as well as metal accounts shall be calculated based on the settlement price of precious metals announced by the Central Bank.

7.3. For each type of the foreign currency banks shall calculate a natural logarithm of fluctuations of the average foreign currency to Armenian dram exchange rate, shaped in the foreign currency market and announced by the Central Bank by days:

$$\mathbf{Ln(F_0/F_{0-1}),}$$

where

F_0 = *average exchange rate of the given foreign currency to Armenian dram, shaped in the foreign currency market and announced by the Central Bank "0" days before the given day*

"0" = *the day of calculating foreign exchange risk or one of the 250 preceding business days.*

7.4. For each type of foreign currency banks shall calculate the mathematical expectation of natural logarithmic values of fluctuations in the given currency to Armenian dram exchange rate, announced by the Central Bank (the length of series shall be 250 business days). The mathematical expectation shall be calculated using the following formula:

$$E^i = \frac{1}{250} \sum_{0=1}^{250} L_n(F^i{}_0 / F^i{}_{0-1}),$$

where

E^i = *the mathematical expectation of natural logarithmic values of the **i**-th foreign currency fluctuation,*

$L_n(F^i{}_0 / F^i{}_{0-1})$ = *the natural logarithmic value of the **i**-th foreign currency fluctuation by days.*

7.5. Banks shall calculate all possible covariance ratios between foreign currencies. A foreign exchange "AXA"-sized covariance matrix shall be built based on covariance ratios, where "A" denotes the number of foreign currency types. The covariance ratio shall be calculated using the following formula:

$$Cov_{ik} = \frac{1}{250} \sum_{0=1}^{250} (L_n(F^i{}_0 / F^i{}_{0-1}) - E^i)\,(L_n(F^k{}_0 / F^k{}_{0-1}) - E^k),$$

where

$\boldsymbol{Cov_{ik}}$ **=** *covariance ratio between the **i**-th and **k**-th currencies,*

$\boldsymbol{E^i, E^k}$ = *mathematical expectations of the **i**-th and **k**-th foreign currencies, respectively, calculated pursuant to Rule 7.4 of this Appendix.*

7.6. The calculation of foreign exchange risk using VaR methodology shall be based on 99% level of confidence.

7.7. The foreign currency VaR for the given day (hereinafter FX daily VaR) shall be calculated using the following formula:

$$\mathbf{VaR = 2.33\sqrt{M*Cov*M^t}\ ,}$$

where

M = *matrix of the foreign currency positions of the bank,*

Cov *= covariance matrix of foreign currency positions of the bank,*

$\boldsymbol{M^t}$ *= transposed matrix of foreign currency positions of the bank.*

7.8. To calculate the capital adequacy standard using VaR methodology, the foreign exchange risk shall be calculated using the following formula:

$$\textbf{Foreign exchange risk} = \mathbf{3*(maximum\ (VaR_{-10};\ E\ \frac{1}{N}\sum_{I=1}^{N} VaR_I)),}$$

where

$\boldsymbol{VaR_{-10}}$ = *VaR for ten days as of the last day of the reporting period, which is calculated using the formula:* $\boldsymbol{VaR_{-10} = \sqrt{10}*VaR_N,}$

N *= number of days in the reporting period,*

I = *days in the reporting period,*

E = *will have the following values depending on the number of days within 250 preceding business days, when as a result of the exchange rate fluctuations the net daily loss of the bank exceeded foreign exchange VaR for the given day:*

Table 1

Number of exceeding days	**E**
4 days and less	3
5	3.4

6	3.5
7	3.65
8	3.75
9	3.85
10 and more	4

CHAPTER 3. CALCULATION OF INTEREST RATE RISK

8.The interest rate risk shall be calculated as a grand total of the interest rate special risk and general risk using the following formula:

IR = ISR + GIR,

where

IR ***=*** *interest rate risk (by average daily calculations for a month),*
ISR ***=*** *interest rate special risk (by average daily calculations for a month),*
GIR ***=*** *interest rate general risk (by average daily calculations for a month).*

9. The special and general risks of the interest rate shall be calculated for securities and available for sale and accounted by real value re measured by profit/loss. Debt securities shall be included in the calculation of foreign currency positions at current market value.

10. For the purpose of this Regulation debt securities are as follows:

a. government bonds and bills,
b. other bonds and bills (other than convertible bonds and other securities),
c. certificates of deposit,
d. non-convertible preferred shares,
e. non-equity shares containing interest rate risk.

11. The calculation of positions in debt securities shall also include securities sold through repo agreements, liabilities on securities acquired through repo agreements, pledged debt securities, as well as off-balance sheet derivatives backed by debt securities. The calculation of positions in debt securities shall not include debt securities purchased through repo agreements and borrowed securities, securities received as pledge, as well as securities managed under securities portfolio management agreement, as well as securities managed within brokerage services.

12. The position in debt securities is the difference between the value of debt securities (including the debt securities backing off-balance sheet derivatives) and debt securities as liabilities (including debt securities backing off-balance sheet derivatives). The positions in debt securities shall be defined as follows:

a. long position, if the difference is bigger than zero;
b. short position, if the difference is less than zero;
c. closed position, if the difference equals to zero.

The gross position in debt securities shall be calculated as a grand total of absolute values of long and short positions in debt securities.

13. To determine the interest rate risk, the positions in debt securities shall be calculated with regard to the debt securities grouped on the principles below. Debt securities included in the calculation of the same positions shall:

13.1. be issued by the same issuer,

13.2. be expressed in the same currency,

13.3. have the same yield, or the difference between the yield on them shall not exceed 0.2 percentage points, and

13.4. the maturity of the debt securities shall be:

a. the same, if the maturity is one month or less, or
b. the difference between maturities shall not exceed 7 days, if their maturity is 1 to 12 months, or
c. the difference between maturities shall not exceed 30 days, if the maturities exceed one year.

14. When calculating interest rate risk, the maturities of debt securities shall be calculated as follows:

14.1. for debt securities with fixed interest rate – based on the number of days left to maturity (for debt securities with partial redemption - based on the number of days left to each partial redemption);

14.2. for debt securities with changing interest rate – based on the number of days left to the forthcoming interest rate revision;

14.3. for debt securities sold through repos – based on maturity;

14.4. for debt securities backing off-balance sheet derivatives – based on the maturity of the derivative transaction.

15. Calculation of interest rate special risk:

15.1. To calculate the interest rate special risk, the positions in debt securities shall be calculated for debt securities grouped pursuant to the principles specified in Rule 13 of this Appendix.

15.2. The calculation of positions shall be followed by a calculation of the gross position in debt securities.

15.3. To be included in the calculation of the gross position at differentiated weights, the debt securities shall be classified as follows:

a. government debt securities, i.e. debt securities of countries/governments, central banks and local governments,
b. reliable debt securities, i.e. debt securities issued by international financial organizations specified in Rule 6.6. of Appendix 3, debt securities issued by banks, credit organizations and foreign bank branches, operating in the Republic of Armenia, debt securities issued by foreign banks and rated at least /BBB-/Baa/, debt securities issued by foreign non-banks and rated at least /A-/A3/, as well as debt securities issued by non-banks rated at least “B-“ by the Central Bank,
c. other debt securities, which are neither government, nor reliable debt securities.

15.4. The positions in debt securities shall be included in the calculation of the gross position at weights specified in Table 2 below (column 4):

Table 2.

Types of debt securities	Issuer/rating	Maturity	Weight (%)
(1)	(2)	(3)	(40)
1. Government debt securities	1.1. Securities issued by the Central Bank in Armenian drams, RA government bonds, 1.2. Debt securities issued by foreign central banks, governments, local governments rated /AAA/Aaa/ to /AA-/Aa3/	< 1 year	1
		≥ 1 year, < 5 years	2
		≥ 5 years	4
	1.3. Securities issued by the Central Bank in FX, RA government bonds, 1.4. Debt securities issued by foreign central banks, governments, local governments rated /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 governments rated /BB+/Ba1/ to /B-/B3/	-	8
	1.6. Debt securities issued by foreign central banks, governments, local governments rated below /B-/B3/	-	12
	1.6. Unrated	-	8
2. Reliable debt securities		< 1 year	2
		≥ 1 year, < 5 years	6
		≥ 5 years	12
3.Other debt securities		-	20

15.5. The interest rate special risk shall be calculated as of each day and be expressed in Armenian drams.

15.6. The interest rate special risk shall be calculated using the following formula:

$$\mathbf{ISR = (ISR_{1} + ISR_{2} + ... + ISR_{N})/N,}$$

where

ISR = *interest rate special risk by average daily calculations for a month,*

ISR_1, ISR_2, ... , ISR_N *= gross position in debt securities by days. When calculating the gross position, the positions in debt securities shall be included at weights determined in Rule 15.4*

N *= number of days in the reporting month.*

15.7. For the days (including non-business days) when the bank's balance sheet incurred no changes, the daily data calculation shall include the data as of the previous day.

16. Calculation of interest rate general risk.

16.1. To calculate the interest rate general risk, the positions in debt securities shall be calculated for debt securities grouped pursuant to the principles specified in Rule 13 of this Appendix. The gross net position in debt securities shall be calculated as the difference between the total amount of long positions and total amount of short positions (at absolute value) in debt securities.

16.2. After calculating the positions in debt securities, the long or short positions in debt securities shall be classified into time-bands by respective weights under Table 3 below:

Table 3.

Time-band	N	Maturity of debt securities	Risk weight (%)
(1)	(2)	(3)	(4)
first band	1	up to one month	0
	2	from 1 to 3 months	0.5
	3	from 3 to 6 months	1
	4	from 6 to 12 months	2
second band	5	from 1 to 2 years	3
	6	from 2 to 3 years	4
	7	from 3 to 4 years	6
third band	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 more	15

16.3. After determining the risk weights of positions in debt securities pursuant to Rule 16.2. of this Appendix, the values defined in Rules 16.4-16.10 shall be calculated.

16.4. The minimum position in debt securities for each term to maturity defined in Table 3 shall be the minimum value of the total amount of all long positions and short positions (at their absolute value).

16.5. The net position (long or short) in debt securities for each maturity defined in Table 3 shall be the difference between the total amount of all long and short positions (at absolute values).

16.6. The minimum position in debt securities for each time-band defined in Table 3 shall be the minimum value of the total amount (at absolute value) of net long positions in debt securities and net short positions in debt securities of the given time-band.

16.7. The net position (long or short) in debt securities for each time-band defined in Table 3 shall be the difference between a grand total of net long positions in debt securities and a grand total of net short positions in debt securities in the given time-band.

16.8. The lowest position between the first and the second time-bands defined in table 3 shall be calculated as the lowest value of net long (or short) position in the first time-band (at absolute value) and net short (or long) position (at absolute value)in the second time-band.

16.9. The minimum position between the second and the third time-bands defined in table 3 shall be the lowest of the values below:

a. (net position in the second time-band (at absolute value)) – (the lowest position between the first and the second time-bands),

b. (net position in the third time-band (at absolute value)).

16.10. The minimum position between the first and the third time-bands defined in table 3 shall be the lowest of the values below:

a. (net position in the first zone (at absolute value)) – (the lowest position between the first and the second time-bands),
b. (net position in the third zone (at absolute value)) – (the lowest position between the second and the third time-bands).

16.11. The interest rate general risk shall be calculated using the following formula:

$$\mathbf{GIR = (GIR_1 + GIR_2 + ... + GIR_N)/N,}$$

where

G*IR* = *interest rate general risk by average daily calculations for a month,*
G*IR₁*, G*IR₂*, ... , G*IR* $_N$ *= general risks of interest rates by days,*
N *= number of days in the reporting month.*

16.12. The interest rate general risk for the given day shall be a grand total of the values below:

a. 10% of the minimum position in maturity;
b. 40% of the minimum position in the first time-band;
c. 30% of the minimum position in the second time-band;
d. 30% of the minimum position in the third time-band;
e. 40% of the minimum position between the first and the second time-bands;
f. 40% of the minimum position between the second and the third time-bands;
g. 150% of the minimum position between the first and the third time-bands;
h. 100% of net gross position in debt securities.

16.13. For the days (including non-business days) when the bank's balance sheet incurred no changes, the daily data calculation shall include the data as of the previous day.

CHAPTER 4. CALCULATION OF CAPITAL INSTRUMENTS PRICE RISK.

17. The definition of "share securities" (hereinafter referred to capital instruments) shall be based on the definition of "own capital instruments" specified in IAS 39. The price risk of capital instruments shall be calculated for securities available for sale and accounted by real value re measured by profit/loss.

18. For the purpose of this Appendix the capital instruments shall be as follows:

18.1. shares (other than non-convertible preferred shares);

18.2. other securities as equity, membership or other shares with similar right of participation in the statutory capital of a legal entity;

18.3. bonds and other securities convertible into securities defined in Rules 18.1 and 18.2,

18.4. options and other agreements (right) to subscribe or buy securities defined in Rules 18.1 and 18.2,

18.5. other financial instruments, which can be qualified as capital instruments.

19. The calculation of positions in capital instruments shall also include capital instruments sold through repo agreements, liabilities on securities acquired through repo agreements, pledged capital instruments, as well as off-balance sheet derivatives backed by capital instruments specified in Rule 18 herein. The calculation of positions in capital instruments shall not comprise

capital instruments purchased through repo agreements and borrowed capital instruments, capital instruments as a pledge, as well as capital instruments managed under securities portfolio management agreement, as well as capital instruments managed within brokerage services.

20. To calculate the price risk of capital instruments, the positions in capital instruments shall be calculated for capital instruments grouped pursuant to the principles below. Capital instruments included in the calculation of the same positions shall be:

20.1. issued by the same issuer,

20.2. issued in the same currency.

21. The position in capital instruments shall be the difference between the value of capital instruments as assets (including the capital instruments backing off-balance sheet derivatives) and capital instruments as liabilities (including capital instruments backing off-balance sheet derivatives). The positions in capital instruments shall be defined as follows:

a. long position, if the difference is bigger than zero;
b. short position, if the difference is less than zero;
c. closed position, if the difference equals to zero.

22. The gross position in capital instruments shall be determined as a grand total of absolute values of different positions (long and short) in capital instruments.

23. The gross net position in capital instruments shall be calculated as a difference between a grand total of long positions and a grand total of short positions in capital instruments (at absolute value).

24. The capital instruments shall be included in the calculation of positions at their current market values.

25. The positions in capital instruments shall be calculated as of each day and be expressed in Armenian drams.

26. The capital instruments deducted when calculating the core capital shall not be included in the calculation of positions in capital instruments.

27. The positions in capital instruments shall be calculated for capital instruments grouped pursuant to the principles specified in Rule 20 of this Appendix.

28. The price risk of capital instruments shall be a grand total of the general price risk and the special price risk of capital instruments and shall be calculated using the following formula:

$$\mathbf{CIPR = (GPR_1 + GPR_2 + ... + GPR_N)/N + (SPR_1 + SPR_2 + ... + SPR_N)/N,}$$

where

CIPR *= the price risk of capital instruments by average daily calculations for a month,*

$\boldsymbol{GPR_1, GPR_2, ..., GPR_N}$ *= general price risk of capital instruments by days,*

$\boldsymbol{SPR_1, SPR_2, ..., SPR_N}$ *= special price risk of capital instruments by days,*

N *= number of days in the reporting month.*

29. The general price risk of capital instruments for the given day equals to the absolute value of 8% of the gross net position in capital instruments as of the given day.

30. The special price risk of capital instruments for the given day equals to the gross position in capital instruments, calculated at weights specified in Rule 33 of this Appendix.

31. To be included in the calculation of the gross position at differentiated weights, the capital instruments shall be classified as follows:

a. liquid and diversified capital instruments,
b. other capital instruments.

32. Capital instruments shall be classified as liquid and diversified if they meet all the following requirements:

a. the capital instrument is an instrument of a bank or a credit organization, operating in the Republic of Armenia, or an instrument of a bank rated at least /BBB-/Baa3/ and is included in one of the stock indices specified in Appendix 3; or is an instrument of a non-bank rated at least "G-" by the Central Bank, or is an instrument of a foreign non-bank rated at least /A-/A3/ and included in one of the stock indices specified in Appendix 3, and
b. the position (short or long) in any capital instrument, defined in Rule 32 (point "a") of this Appendix, does not exceed 10% of the gross position in capital instruments.

33. When calculating the special price risk of capital instruments, the positions in capital instruments (at absolute values) shall be included in the calculation of the gross position at the following weights:

a. 4% weight - for positions in capital instruments classified as a capital instrument under Rule 31 (point "a"),
b. 8% weight – for positions in capital instruments classified as a capital instrument under Rule 31 (point "b").

34. For the days (including non-business days) when the bank's balance sheet incurred no changes, the daily data calculation shall include the data as of the previous day.

APPENDIX 5

Approved by

the CBA Board Resolution No. 39-N

February 9, 2007

CALCULATION OF OPERATIONAL RISK

1. CHAPTER 1. CALCULATION OF OPERATIONAL RISK

1. The operational risk shall be calculated using Basic Indicator Approach or Standardised Approach.

2. Once a year the banks shall decide which approach to apply (either Basic Indicator or Standardised) and inform the Central Bank about it prior to December 31 of the year preceding each year. If the bank has once applied standardized approach of operational risk calculation it is not permitted to apply basic indicator approach for operational risk calculation for subsequent years without Central Bank's approval.

CHAPTER 2. BASIC INDICATOR APPROACH

3. According to the Basic Indicator Approach the operational risk shall be calculated using the following formula:

$$\mathbf{OR = (NI_Y * \alpha + NI_{Y-1} * \alpha + NI_{Y-2} * \alpha)/N,}$$

where

OR *= operational risk calculated using Basic Indicator Approach,*

NI_Y *= annual net income for the year from January to December (hereinafter referred to as reporting year) preceding the year of calculating the capital adequacy standard,*

NI_{Y-1} *= annual net income for the second reporting year preceding the year of calculating the capital adequacy standard,*

NI_{Y-2} *= annual net income for the third reporting year preceding the year of calculating the capital adequacy standard,*

α *= 15%,*

N *= number of years in the last three years, which yielded net positive income.*

4. If annual net income for any of the years is negative, the net income for the given year shall be excluded when calculating the operational risk.

5. If each of the three years preceding the reporting month yielded negative or 0 net income, the operational risk shall not be calculated for the given year.

6. The net income for the given year shall be calculated as a grand total of net interest income and net non-interest income. The calculation of the net income for the given year excludes profit/losses from the sale of securities, as well as income derived from insurance as compensation and extraordinary expenses/income.

CHAPTER 3. STANDARDISED APPROACH

7. To calculate the operational risk under Standardised Approach the net income defined in Rule 6 of this Appendix shall be divided into groups as follows:

7.1. **Corporate finance (CF).** This group includes income/losses resulting from the following operations/instruments: capital instruments, subscription activities, assets securitization, primary allocation of securities, financial and investment advisory.

7.2. **Trading & sales (TS).** This group includes income/losses resulting from assets and liabilities held for trade.

7.3. **Payment & settlement services (PSS).** This group includes income/losses resulting from payment and settlement services (including money transfers).

7.4. **Trust management, brokerage and custody (TBC).** This group includes income/losses resulting from financial agency (representative) services, trust management, brokerage and custody.

7.5. **Banking (B).** This group includes income/losses resulting from operations, which are not included in Rules 7.1-7.4.

8. Net income groups and respective factors (denoted beta) assigned under Standardised Approach.

Table 1

G	**Net income groups**	**β**	
I	Corporate finance (CF)	β_1	18%
II	Trading & sales (TS)	β_2	18%
III	Payment & settlement services (PS)	β_3	18%
IV	Trust management, brokerage and custody	β_4	18%
V	Banking	β_5	14%

9. Under Standardised Approach the operational risk shall be calculated using the following formula:

$$\mathbf{OR} = \left(\sum_{Y=1}^{N} \sum_{G=1}^{5} \left(NI^{Y}_{G} * \beta_G\right)\right)/N,$$

where

OR *= operational risk calculated using Standardised Approach,*

G *= net income groups as defined in Rule 7 of this Appendix,*

$\boldsymbol{NI^{Y}_{G}}$ **=** *net positive income of "G"-th group calculated in the "Y" reporting year preceding the calculation of the standard,*

$\boldsymbol{\beta_G}$ **=** *beta factor for "G"-th group defined in Rule 8 of this Appendix,*

Y *= reporting years preceding the calculation of the standard,*

N **=** *number of years in the last three years, which yielded net positive income.*

10. If the net income of a group in any of the reporting years is a negative value, the net income of the given year shall be excluded from operational risk calculation.

11. Net income of the groups defined in Rule 7 of this Appendix shall be calculated as net interest income of the given group plus its net non-interest income. The calculation of net income of the given year excludes profits/losses resulting from the sale of securities, as well as income resulting from insurance and extraordinary expenses/income.

APPENDIX 6

Approved by

the CBA Board Resolution No. 39-N

February 7, 2007

MINIMUM REQUIREMENTS FOR EXTENDING MORTGAGE LOANS WITH 50/75% RISK WEIGHT

A loan extended by a bank shall qualify for a mortgage loan (hereinafter referred to as a loan) satisfying the “Minimum requirements for extending mortgage loans with 50/75% risk weight” if it meets all the following requirements:

i. The loan is extended to an individual (hereinafter referred to as borrower) for acquisition or renovation of a house or an apartment in the Republic of Armenia (hereinafter referred to as residential property) and is secured by the primary pledge of the same property.

ii. The loan is provided for at least 10 years, except for loans for renovation.

iii. The borrower (co-borrower) has the right of ownership to the property from the moment of the loan extension up to the end of the loan agreement.

iv. *(Annulled according to Resolution No 163-N, 23.05.08).*

v. Maximum 2 months before the loan extension the property was valued pursuant to the Law of the Republic of Armenia “On Real Estate Valuation Activities”.

vi. The amount of the loan at the moment of extension does not exceed 70% of the lower value of market price of the property or of its acquisition price.

vii. Monthly loan repayments (principal, interest, insurance premium) do not exceed 40% of the borrower’s (co-borrower’s) monthly income (gross income less all tax and social insurance payments).

viii. The total amount of the borrower’s monthly loan repayments (principal, interest rate, insurance premium) and other regular payments on loan obligations does not exceed 50% of the borrower’s monthly income (gross income less all tax and social insurance payments).

ix. According to the loan agreement the property is insured against destruction, damage and spoiling as of any moment of the period, starting from the loan extension up to the complete fulfillment of obligations under the loan agreement, minimum at the value of the loan balance.

APPENDIX 7

to Central Bank Board Resolution No 305-N of November 22, 2011

RESERVE REQUIREMENTSCALENDAR

sample

Reserve requirement calendar for _______ year.

N	Reporting period	Actual period	Number of actual days		
1.	*2.*	*3.*	*8.*	*5.*	*6.*
yy-1	$dd_1.mm_1.yy_1$- $dd_2.mm_2.yy_2$	$dd_1.mm_1.yy_1$- $dd_2.mm_2.yy_2$	...	$dd_1.mm_1.yy_1$- $dd_2.mm_2.yy_2$	...
yy-2	...	...	...	...	...
...	...	...	...	...	...
yy-11	...	...	...	...	...
yy-12	...	...	...	...	...