

Regulation on investment operations of insurers

1. General provisions

This Regulation has been developed in accordance with Articles 62.2, 78.2 and 79.4 of the Law of the Republic of Azerbaijan ‘on Insurance activity’ (hereinafter – the Law) and determines procedures for the investment of insurer's own funds, as well as funds that secure insurance reserves, and the calculation of its total capital.

2. Definitions

2.1. The definitions used in this Regulation bear the following meanings:

2.1.1. **carrying value** – balance of corresponding assets in accounts of accounting.

2.1.2. **stock exchange listing** – a list of securities accepted for trading on the stock exchange based on the requirements established by internal rules of the stock exchange.

2.1.3. **mathematical reserves** – the insurer's (reinsurer's) obligation to make insurance payments for insurance events that have not occurred until the reporting date but may occur in future during the validity of the insurance (reinsurance) agreement.

2.1.4. **government security** - a security issued by local and foreign competent public authorities for the purposes of this Regulation.

2.1.5. **credit rating** – a rating issued as a result of assessment by relevant international reputable rating agencies regarding the ability of countries (organizations) to fulfill their long-term financial obligations.

2.1.6. **credit rating group** – classification of countries (organizations) from Group 0, indicating low credit risk, to Group 4, indicating high credit risk, in accordance with Annex 4 of this Regulation.

2.1.7. **international reputable rating agencies** – organizations that issue a relevant credit rating in accordance with the table specified in Annex 4 of this Regulation.

2.1.8. **government guarantee** – a financial liability assumed by the Republic of Azerbaijan in the manner determined by the Law of the Republic of Azerbaijan ‘on Public debt’ for full or partial performance of obligations on that debt to the lender if the main borrower fails to repay the debt to the lender under the repayment terms and the period agreed with the lender.

2.1.9. **multilateral development bank** – an international financial organization established by the World Bank Group, the Asian Development Bank, the European Bank for Reconstruction and Development, the Islamic Development Bank, the European Investment Bank, the European Investment Fund and two or more countries to support economic development.

2.1.10. **eurobond** – an international bond issued by the issuer outside its country in a foreign currency different from its own currency.

2.2. For the purposes of this Regulation, the lowest credit rating issued by international reputable rating agencies and valid during the last 12 calendar months preceding the reporting date is considered a credit rating.

2.3. For the purposes of this Regulation, the definition 'related party' covers the persons specified in Article 49-1.1 of the Civil Code of the Republic of Azerbaijan, as well as legal entities in which the person specified in Article 49-1.1.6 of the Civil Code of the Republic of Azerbaijan participates directly or indirectly with at least a 20 percent share.

2.4. The definition 'insurer' used in this Regulation includes insurers, along with reinsurers in accordance with Article 1.2 of the Law.

2.5. Other definitions used in this Regulation bear meanings specified in the Law.

3. Ratios applied during investment of funds securing insurance reserves

3.1. The following coefficients are applied to the carrying value of assets, where the funds securing insurance reserves are expressed:

3.1.1. Government securities:

3.1.1.1. government securities of the Republic of Azerbaijan – 100%.

3.1.1.2. government securities of foreign countries:

3.1.1.2.1. government securities of foreign countries included in the minimum Group 2 credit rating – 100%.

3.1.1.2.2. eurobonds issued by foreign countries included to Group 3 credit rating – 100%.

3.1.1.2.3. except for sub-item 3.1.1.2.2 of this Regulation, government securities of foreign countries included in the credit rating group lower than Group 2 credit rating – 0%.

3.1.2. Funds in banks accounts:

3.1.2.1. funds in bank accounts opened with banks located in the territory of the Republic of Azerbaijan (hereinafter - in the territory of the country):

3.1.2.1.1. funds in bank accounts opened with banks with a maximum of 5 notches lower than the credit rating of the Republic of Azerbaijan (hereinafter - the country credit rating) – 100%.

3.1.2.1.2. funds in bank accounts opened with banks with a credit rating of 6 notches or lower than the country credit rating or with no credit rating – 80%.

3.1.2.1.3. the remaining part of funds given to portfolio management of investment companies in the form of cash in the bank account as of the reporting date – 80%.

3.1.2.2. funds in bank accounts opened with banks located outside the territory of the Republic of Azerbaijan (hereinafter - outside the country):

3.1.2.2.1. funds in bank accounts opened with banks included in the minimum Group 2 credit rating – 100%.

3.1.2.2.2. funds in bank accounts opened with banks included in the credit rating group lower than the Group 2 credit rating – 0%.

3.1.3. **Carrying value of real estate – 70%.**

3.1.4. Non-government securities:

3.1.4.1. non-government securities issued by multilateral development banks:

3.1.4.1.1. non-government securities issued by multilateral development banks included in the minimum Group 2 credit rating – 100%.

3.1.4.1.2. non-government securities issued by multilateral development banks included in the credit rating group lower than the Group 2 credit rating group – 0%.

3.1.4.2. non-government securities issued by domestic legal entities:

3.1.4.2.1. non-government securities secured with government guarantee – 100%.

3.1.4.2.2. mortgage bonds issued by the Mortgage and Credit Guarantee Fund of the Republic of Azerbaijan – 100%.

3.1.4.2.3. the part of non-government securities issued by legal entities secured by the Mortgage and Credit Guarantee Fund of the Republic of Azerbaijan – 100%.

3.1.4.2.4. non-government securities listed on the Baku Stock Exchange:

3.1.4.2.4.1. non-government securities issued by related party legal entities:

1. non-government securities issued by legal entities with maximum 2 notches lower than the country credit rating – 60%.

2. non-government securities issued by legal entities that are 3 notches or lower than the country credit rating or with no credit rating – 40%.

3.1.4.2.4.2. non-government securities issued by non-related party legal entities:

1. non-government securities issued by legal entities with maximum 2 notches lower than the country credit rating – 80%.

2. non-government securities issued by legal entities that are 3 notches or lower than the country credit rating or with no credit rating – 60%.

3.1.4.2.5. non-government securities not listed on the Baku Stock Exchange:

3.1.4.2.5.1. non-government securities issued by related party legal entities:

1. non-government securities issued by legal entities with maximum 2 notches lower than the country credit rating – 30%.

2. non-government securities issued by legal entities that are 3 notches or lower than the country credit rating or with no credit rating – 20%.

3.1.4.2.5.2. non-government securities issued by non-related party legal entities:

1. non-government securities issued by legal entities with maximum 2 notches lower than the country credit rating – 40%.

2. non-government securities issued by legal entities that are 3 notches or lower than the country credit rating or with no credit rating – 30%.

3.1.4.3. non-government securities issued by foreign legal entities:

3.1.4.3.1. non-government securities issued by foreign legal entities included in the minimum Group 2 credit rating – 100%.

3.1.4.3.2. non-government securities issued by foreign legal entities included in the credit rating group lower than the Group 2 credit rating – 0%.

3.1.5. Insurance and reinsurance premiums to be received on insurance and reinsurance agreements:

3.1.5.1. insurance and reinsurance premiums delinquent for 30 days as of the reporting date – 100%.

3.1.5.2. insurance and reinsurance premiums delinquent for 31-45 days as of the reporting date – 80%.

3.1.5.3. insurance and reinsurance premiums delinquent for over 45 days as of the reporting date – 0%.

3.1.6. **The share of reinsurers in insurance reserves – 100%.**

3.1.7. **Amounts of money lent (principal amount) to policyholders or insured persons under endowment life insurance – 100%.**

3.2. Total amounts of upcoming installments of insurance and reinsurance premiums, which are overdue by more than 45 days under insurance and reinsurance agreements stipulating installment payments to be reimbursed in the future, along with insurance and reinsurance premiums due under agreements whose security period has lapsed by the reporting date, should be accounted for in the allocation specified in sub-item 3.1.5.3 of this Regulation.

4. Diversification norms to be taken into account during the investment of funds that secure insurance reserves

4.1. When calculating total amount of funds securing insurance reserves, only the portion of amounts generated after applying the coefficients specified in Item 3.1 of this Regulation to the carrying values of assets, which meet the diversification norms outlined below, shall be considered:

4.1.1. Government securities:

4.1.1.1. government securities of the Republic of Azerbaijan – up to 100% of insurance reserves.

4.1.1.2. government securities of foreign countries:

4.1.1.2.1. government securities of foreign countries included in the minimum Group 1 credit rating – up to 30% of insurance reserves.

4.1.1.2.2. government securities of foreign countries included in the minimum Group 2 credit rating – subject to a maximum of 10% per country, up to 20% of insurance reserves.

4.1.1.2.3. Eurobonds issued by foreign countries included to Group 3 credit rating – subject to a maximum of 5% per country, up to 10% of insurance reserves.

4.1.2. Funds in bank accounts:

4.1.2.1. funds in bank accounts opened with banks located in the territory of the country:

4.1.2.1.1. funds in bank accounts opened with related banks – subject to a maximum of 20% per bank, up to 50% of insurance reserves.

4.1.2.1.2. funds in bank accounts opened with non-related party banks – subject to a maximum of 30% per bank, up to 80% of insurance reserves.

4.1.2.1.3. the remaining part of funds given to portfolio management of investment companies in the form of cash in the bank account as of the reporting date – subject to a maximum of 20% per investment company, up to 50% of insurance reserves.

4.1.2.2. funds in bank accounts opened with banks located outside the country:

4.1.2.2.1. funds in bank accounts opened with related banks:

4.1.2.2.1.1. funds in bank accounts opened with banks included to Group 0 credit rating – subject to a maximum of 5% per bank, up to 15% of insurance reserves.

4.1.2.2.1.2. funds in bank accounts opened with banks included to Group 1 and 2 credit rating – subject to a maximum of 5 % per bank, up to 10% of insurance reserves.

4.1.2.2.2. funds in bank accounts opened with non-related party banks:

4.1.2.2.2.1. funds in bank accounts opened with banks included to Group 0 credit rating – subject to a maximum of 10% per bank, up to 30% of insurance reserves.

4.1.2.2.2.2. funds in bank accounts opened with banks included to Groups 1 and 2 credit rating – subject to a maximum of 10% per bank, up to 20% of insurance reserves.

4.1.3. **Real estate:**

4.1.3.1. real estate owned by the insurer and intended for insurance activities – subject to a maximum of 5% per real estate, up to 10% of insurance reserves.

4.1.3.2. other real estate for insurance purposes owned by the insurer – subject to a maximum of 10% per real estate, up to 20% of insurance reserves.

4.1.4. **Non-government securities:**

4.1.4.1. non-government securities issued by domestic legal entities:

4.1.4.1.1. non-government securities backed with government guarantee – up to 100% of insurance reserves.

4.1.4.1.2. mortgage bonds issued by the Mortgage and Credit Guarantee Fund of the Republic of Azerbaijan – up to 50% of insurance reserves.

4.1.4.1.3. the portion of non-government securities issued by legal entities backed by the Mortgage and Credit Guarantee Fund of the Republic of Azerbaijan – up to 50% of insurance reserves.

4.1.4.1.4. Non-government securities listed in the Baku Stock Exchange:

4.1.4.1.4.1. non-government securities issued by related legal entities:

1. non-government securities issued by legal entities with maximum 2 notches lower than the country credit rating – subject to a maximum of 5% per legal entity, up to 15% of insurance reserves.

2. non-government securities issued by legal entities that are 3 notches or lower than the country credit rating or with no credit rating – subject to a maximum of 5% per legal entity, up to 10% of insurance reserves.

4.1.4.1.4.2. non-government securities issued by non-related party legal entities:

1. non-government securities issued by legal entities with maximum 2 notches lower than the country credit rating – subject to a maximum of 15% per legal entity, up to 30% of insurance reserves.

2. non-government securities issued by legal entities that are 3 notches or lower than the country credit rating or with no credit rating – subject to a maximum of 10% per legal entity, up to 20% of insurance reserves.

4.1.4.1.5. Non-government securities not listed in the Baku Stock Exchange:

4.1.4.1.5.1. non-government securities issued by related legal entities:

1. non-government securities issued by legal entities with maximum 2 notches lower than the country credit rating – subject to a maximum of 2% per legal entity, up to 10% of insurance reserves.

2. non-government securities issued by legal entities that are 3 notches or lower than the country credit rating or with no credit rating – subject to a maximum of 2% per legal entity, up to 5% of insurance reserves.

4.1.4.1.5.2. non-government securities issued by non-related legal entities:

1. non-government securities issued by legal entities with maximum 2 notches lower than the country credit rating – subject to a maximum of 5% per legal entity, up to 10% of insurance reserves.

2. non-government securities issued by legal entities that are 3 notches or lower than the country credit rating or with no credit rating – up to 5% of insurance reserves.

4.1.4.2. non-government securities issued by foreign legal entities:

4.1.4.2.1. non-government securities issued by multilateral development banks:

4.1.4.2.1.1. non-government securities included to minimum Group 1 credit rating issued by multilateral development banks – subject to a maximum 10% per multilateral development bank, up to 30% of insurance reserves.

4.1.4.2.1.2. non-government securities included to Group 2 credit rating issued by multilateral development banks – subject to a maximum 10% per multilateral development bank, up to 20% of insurance reserves.

4.1.4.2.2. non-government securities issued by legal entities included to minimum Group 2 credit rating and that are not a multilateral development bank – up to 10% of insurance reserves.

4.1.4.2.3. non-government securities issued in the territory of the country by multilateral development banks included to minimum Group 2 credit rating – up to 80% of insurance reserves.

4.1.5. Insurance and reinsurance premiums to be received on insurance and reinsurance agreements:

4.1.5.1. insurance and reinsurance premiums delinquent up to 30 days as of the reporting date – up to 30% of insurance reserves.

4.1.5.2. insurance and reinsurance premiums delinquent for 31-45 days as of the reporting date – up to 10% of insurance reserves.

4.1.6. The share of reinsurers in insurance reserves:

4.1.6.1. the share of reinsurers in reported, but not adjusted loss reserves – up to 100% of insurance reserves.

4.1.6.2. the share of reinsurers in other reserves – up to 60% of insurance reserves.

4.1.7. Amounts of money lent (principal amount) to policyholders or insured persons under endowment life insurance – up to 50% of mathematical reserves (less the reinsurers' share in mathematical reserves).

4.2. Total amount of funds securing insurance reserves is equal to the sum of the parts of the amounts generated that do not exceed the diversification norms specified in Item 4.1 of this Regulation after applying the coefficients specified in Item 3.1 of this Regulation to carrying values of the assets in which those funds are expressed.

4.3. Total amount of funds securing insurance reserves should not be less than the amount of those reserves.

4.4. According to Item 4.1 of this Regulation, all investments outside the country are considered in 30% of total insurance reserves.

4.5. All investments under sub-item 4.1.2 of this Regulation are considered in 80%, and all investments under sub-item 4.1.3 of this Regulation are considered in 20% of total insurance reserves.

5. Insurer's own funds and investment of these funds

5.1. Insurer's own funds are calculated with the formula specified in Annex 1 of this Regulation.

5.2. To calculate insurer's total capital the following coefficients are applied to carrying values of the assets its own funds are expressed in:

5.2.1. Government securities:

5.2.1.1. government securities of the Republic of Azerbaijan– 100%.

5.2.1.2. government securities of foreign countries:

5.2.1.2.1. government securities of foreign countries included to minimum Group 2 credit rating – 100%.

5.2.1.2.2. Eurobonds issued by foreign countries included to Group 3 credit rating – 100%.

5.2.1.2.3. except for those specified in sub-item 5.2.1.2.2 herein, government securities of foreign countries included in the credit rating group lower than the Group 2 credit rating group – 0%.

5.2.2. Funds in bank accounts:

5.2.2.1. funds in bank accounts opened with banks located in the territory of the country:

5.2.2.1.1. funds in bank accounts opened with banks with maximum 5 notches lower than the country credit rating – 100%.

5.2.2.1.2. funds in bank accounts opened with banks with maximum 6 notches and lower than the country credit rating or with no credit rating – 80%.

5.2.2.1.3. the remaining part of funds given to portfolio management of investment companies in the form of cash in the bank account as of the reporting date – 80%.

5.2.2.2. funds in bank accounts opened with banks located outside the country:

5.2.2.2.1. funds in banks opened with banks included to minimum Group 2 credit rating – 100%.

5.2.2.2.2. funds in bank accounts opened with bank included to the credit rating group lower than the Group 2 credit rating– 0%.

5.2.3. Carrying amount of real estate – 70%.

5.2.4. Non-government securities:

5.2.4.1. non-government securities issued by multilateral development banks:

5.2.4.1.1. non-government securities included to minimum Group 2 credit rating issued by multilateral development banks – 100%.

5.2.4.1.2. non-government securities issued by multilateral development banks included to the credit rating group lower than the Group 2 credit rating – 0%.

5.2.4.2. non-government securities issued by domestic legal entities:

5.2.4.2.1. non-government securities backed with government guarantee– 100%.

5.2.4.2.2. mortgage bonds issued by the Mortgage and Credit Guarantee Fund of the Republic of Azerbaijan – 100%.

5.2.4.2.3. the portion of non-government securities issued by legal entities backed by the Mortgage and Credit Guarantee Fund of the Republic of Azerbaijan – 100%.

5.2.4.2.4. Non-government securities listed in the Baku Stock Exchange:

5.2.4.2.4.1. non-government securities issued by related legal entities:

1. non-government securities issued by legal entities with maximum 2 notches lower than the country credit rating – 60%.

2. non-government securities issued by legal entities with 3 notches and lower than the country credit rating or with no credit rating – 40%.

5.2.4.2.4.2. non-government securities issued by non-related legal entities:

1. non-government securities issued by legal entities with maximum 2 notches lower than the country credit rating – 80%.

2. non-government securities issued by legal entities with 3 notches and lower than the country credit rating or with no credit rating – 60%.

5.2.4.2.5. Non-government securities not listed in the Baku Stock Exchange:

5.2.4.2.5.1. non-government securities issued by related legal entities:

1. non-government securities issued by legal entities with maximum 2 notches lower than the country credit rating – 30%.

2. non-government securities issued by legal entities that are 3 notches or lower than the country credit rating or with no credit rating – 20%.

5.2.4.2.5.2. non-government securities issued by non-related legal entities:

1. non-government securities issued by legal entities with maximum 2 notches lower than the country credit rating – 40%.

2. non-government securities issued by legal entities that are 3 notches or lower than the country credit rating or with no credit rating – 30%.

5.2.4.3. non-government securities issued by foreign legal entities:

5.2.4.3.1. non-government securities issued by foreign legal entities included to minimum Group 2 credit rating – 100%.

5.2.4.3.2. non-government securities issued by foreign legal entities included to the credit rating group lower than the Group 2 credit rating – 0%.

5.2.5. Funds invested to authorized capital of legal entities:

5.2.5.1. funds invested to authorized capital of related party legal entities – 50%.

5.2.5.2. funds invested to authorized capital of non-related party legal entities – 80%.

5.2.6. Funds lent to own employees – 50%.

6. Diversification norms to be considered during the investment of insurer's own funds

6.1. When calculating the insurer's total capital, only the portion of the amounts generated after applying the coefficients specified in Item 5.2 of this Regulation to the carrying values of the assets considered in this calculation, which conforms to the following diversification norms, is accepted

6.1.1. Government securities:

6.1.1.1. Government securities of the Republic of Azerbaijan – up to 100%.

6.1.1.2. government securities of foreign countries:

6.1.1.2.1. government securities of foreign countries included to minimum Group 1 credit rating – up to 30%.

6.1.1.2.2. government securities of foreign countries included to the Group 2 credit rating – subject to a maximum of 10% per country, in total up to 20%.

6.1.1.2.3. Eurobonds issued by foreign countries included to the Group 3 credit rating – subject to a maximum of 5% per country, in total up to 10%.

6.1.2. Funds in bank accounts:

6.1.2.1. funds in bank accounts opened with banks located in the territory of the country:

6.1.2.1.1. funds in bank accounts opened with related party banks – subject to a maximum of 20% per bank, in total up to 50%.

6.1.2.1.2. funds in bank accounts opened with non-related party banks – subject to a maximum 30% per bank, in total up to 80%.

6.1.2.1.3. the remaining part of funds given to portfolio management of investment companies in the form of cash in the bank account as of the reporting date – subject to a maximum of 20% per investment company, in total up to 50%.

6.1.2.2. funds in bank accounts opened with banks located outside the country:

6.1.2.2.1. funds in bank accounts opened with related banks:

6.1.2.2.1.1. funds in bank accounts opened with banks included to Group 0 credit rating – subject to a maximum of 5 % per bank, in total up to 15%.

6.1.2.2.1.2. finds in bank accounts opened with banks included to Groups 1 and 2 credit rating – subject to a maximum of 5 % per bank, in total up to 10%.

6.1.2.2.2. funds in bank accounts opened with non-related banks:

6.1.2.2.2.1. funds in bank accounts opened with banks included to Group 0 credit rating – subject to a maximum of 10% per bank, in total up to 30%.

6.1.2.2.2.2. finds in bank accounts opened with banks included to Groups 1 and 2 credit rating – subject to a maximum of 10% per bank, in total up to 20%.

6.1.3. Carrying amount of real estate:

6.1.3.1. carrying amount of real estate owned by the insurer and which is intended for insurance activities – subject to a maximum 5% per real estate, in total up to 10%.

6.1.3.2. Carrying amount of other real estate owned by the insurer with investment purposes – subject to a maximum 10% per real estate, in total up to 20%.

6.1.4. Non-government securities:

6.1.4.1. non-government securities issued by domestic legal entities:

6.1.4.1.1. non-government securities backed with government guarantee – up to 100%.

6.1.4.1.2. mortgage bonds issued by the Mortgage and Credit Guarantee Fund of the Republic of Azerbaijan – up to 50%.

6.1.4.1.3. the portion of non-government securities issued by legal entities backed by the Mortgage and Credit Guarantee Fund of the Republic of Azerbaijan – up to 50%.

6.1.4.1.4. Non-government securities listed in the Baku Stock Exchange:

6.1.4.1.4.1. non-government securities issued by related legal entities:

1. non-government securities issued by legal entities with maximum 2 notches lower than the country credit rating – subject to a maximum of 5% per legal entity, in total up to 15%.

2. non-government securities issued by legal entities that are 3 notches or lower than the country credit rating or with no credit rating – subject to a maximum of 5% per legal entity, in total up to 10%.

6.1.4.1.4.2. non-government securities issued by non-related legal entities:

1. non-government securities issued by legal entities with maximum 2 notches lower than the country credit rating – subject to a maximum of 15% per legal entity, in total up to 30%.

2. non-government securities issued by legal entities that are 3 notches or lower than the country credit rating or with no credit rating – subject to a maximum of 10% per legal entity, in total up to 20%.

6.1.4.1.5. Non-government securities not listed in the Baku Stock Exchange:

6.1.4.1.5.1. non-government securities issued by related legal entities:

1. non-government securities issued by legal entities with maximum 2 notches lower than the country credit rating – subject to a maximum of 2% per legal entity, in total up to 10%.

2. non-government securities issued by legal entities that are 3 notches or lower than the country credit rating or with no credit rating – subject to a maximum of 2% per legal entity, in total up to 5%.

6.1.4.1.5.2. non-government securities issued by non-related legal entities:

1. non-government securities issued by legal entities with maximum 2 notches lower than the country credit rating – subject to a maximum of 5% per legal entity, up to 10%.

2. non-government securities issued by legal entities that are 3 notches or lower than the country credit rating or with no credit rating – up to 5%.

6.1.4.2. non-government securities issued by foreign legal entities:

6.1.4.2.1. non-government securities issued by multilateral development banks:

6.1.4.2.1.1. non-government securities included to minimum Group 1 credit rating issued by multilateral development banks – subject to a maximum 10% per multilateral development bank, up to 30%.

6.1.4.2.1.2. non-government securities included to Group 2 credit rating issued by multilateral development banks – subject to a maximum 10% per multilateral development bank, up to 20%.

6.1.4.2.2. non-government securities issued by legal entities included to minimum Group 2 credit rating and which is not a multilateral development bank – up to 10%.

6.1.4.2.3. non-government securities issued in the territory of the country by multilateral development banks included to minimum Group 2 credit rating – up to 80%.

6.1.5. Funds invested to authorized capital of legal entities, provided that the share of a legal entity in authorized capital does not exceed 5% – up to 10%.

6.1.6. Funds lent to own staff, provided that total amount of debt to one employee does not exceed 1% – up to 5%.

6.2. All investments outside the country are considered in 30% of own funds on Item 6.1 of this Regulation.

6.3. All investments under sub-item 6.1.2 of this Regulation are considered in 80%, and all investments under sub-item 6.1.3 are considered in 20% of own funds.

7. Other requirements related to the investment of funds securing insurance reserves and insurer's own funds

7.1. When a part of non-government securities issued by legal entities is secured by the Mortgage and Credit Guarantee Fund of the Republic of Azerbaijan, that part is classified in sub-item 4.1.3 of Annex 2 of this Regulation and relevant coefficients are applied. The unsecured part of that non-government security is classified according to the relevant indicators in sub-items 4.1.4 and 4.1.5 of Annex 2 of this Regulation and relevant coefficients are applied.

7.2. Assets pledged by the insurer are not included to the securitization of insurance reserves and calculation of total capital. Those assets should be only used to secure balance sheet liabilities arising from relevant operations. To distinguish these assets, the words '(Pledged by the Insurer)' should be written in front of the name of the asset in the report form specified in Annex 2 of this Regulation.

7.3. Assets pledged to the insurer are not included in securitization of insurance reserves. In the calculation of the total capital, appropriate coefficients should be applied to those assets in accordance with the classification of the assets acting as collateral. To differentiate those assets, the words '(Pledged to the Insurer)' should be written in front of the name of the asset in the report form specified in Annex 2 of this Regulation.

7.4. In the report form specified in Annex 3 of this Regulation, balance sheet liabilities related to insurance activity (less insurance reserves) and short-term liabilities not related to insurance activity are secured by other liquid assets, except for real estate and non-government securities.

7.5. In parts 3-6 of this Regulation, credit ratings up to 'B-' or other credit rating equivalent to 'B-' in each case are credit ratings that are maximum 5 notches lower than the country credit rating in relation to banks, and maximum 2 notches lower than the country credit rating in relation to legal entities. In this case, the credit rating of the bank with a lower rating than 'B-' or other credit rating equivalent to it is considered to be lower than 5 notches in relation to the country credit rating, and the credit rating of the legal entity is considered to be lower than 2 notches in relation to the country credit rating.

8. Calculation of insurer's total capital

Total capital is equal to the sum of the parts of the amounts generated after applying the coefficients specified in Item 5.2 of this Regulation to carrying values of assets accepted for the calculation of this capital, which do not exceed the diversification norms specified in Item 6.1 of this Regulation.

9. Reports on insurer's investment operations, own funds, and total capital

9.1. Reports on investment operations, own funds and total capital should be developed quarterly by insurers as per Annexes 2 and 3 of this Regulation, in compliance with the following requirements, and should be submitted through the electronic system

of the Central Bank of the Republic of Azerbaijan (hereinafter – the Central Bank) within 20 (twenty) days after the end of each quarter:

9.1.1. indicators required in reports should be fully and correctly reflected in accordance with the relevant report form.

9.1.2. reports should be approved by enhanced electronic signatures of the chairperson of the Management Board and the chief accountant of the insurer (or persons temporarily performing their duties).

9.1.3. corresponding amounts in reports should be expressed in manat according to the official exchange rate of the Central Bank as of the end of the reporting date.

9.1.4. amounts indicated in reports should be marked as zero if they are less than fifty gapicks, and one manat if they are equal to or greater than fifty gapicks.

9.1.5. it is not allowed to make corrections in any form or have information that is erased or completely or partially illegible.

9.2. Reports that fail to meet the requirements specified in Item 9.1 of this Regulation are returned without being analyzed.

10. Transitional provisions

10.1. In upcoming 1 (one) year from the date of entry into force of this Regulation, insurers should submit reports on investment operations to the Central Bank in accordance with the requirements specified in Annex 5 along with the reports specified in Annexes 2 and 3 of this Regulation.

10.2. The requirements of Part 9 of this Regulation also apply to reports submitted in accordance with Annex 5 of this Regulation.

10.3. In the next 1 (one) year from the date of entry into force of this Regulation, final amount of insurer's own funds and total capital is calculated as follows:

$$\begin{aligned}\ddot{O}_V &= \alpha_1 * \ddot{O}_{V_1} + \alpha_2 * \ddot{O}_{V_2} \\ M_K &= \alpha_1 * M_{K_1} + \alpha_2 * M_{K_2}\end{aligned}$$

where:

\ddot{O}_V – final amount of insurer's own funds.

\ddot{O}_{V_1} – amount of own funds calculated in accordance with the requirements of Annex 5 of this Regulation on the relevant reporting date.

\ddot{O}_{V_2} – amount of own funds calculated in accordance with the requirements of Annexes 2 and 3 of this Regulation on the relevant reporting date.

M_K – final amount of total/aggregate capital of the insurer.

M_{K_1} – amount of total capital calculated as per Annex 5 of this Regulation on the relevant reporting date.

M_{K_2} – amount of total capital calculated as per Annexes 2 and 3 of this Regulation on the relevant reporting date

α_1 – the coefficient reflected in the following table applied to the amount of own funds and total capital calculated as per Annex 5 of this Regulation on the relevant reporting date.

α_2 – the coefficient reflected in the following table and applied to the amount of own funds and total capital calculated as per Annexes 2 and 3 of this Regulation on the relevant reporting date.

Coefficients	Q IV 2023	Q I 2024	Q II 2024	Q III 2024	Q IV 2024
α_1	100%	75%	50%	25%	0%
α_2	0%	25%	50%	75%	100%

10.4. Insurers should submit to the Central Bank only the reports prepared as per Annexes 2 and 3 of this Regulation after 1 (one) year from the date of entry into force of this Regulation.

Procedure of calculation of insurer's own funds

$$A = B - \max (C - (\max (D1 - 0.3 * E, 0) + \max (D2 * 0.8 - 0.1 * E, 0)), 0) - \max (F1, E + (F1 - F2)) - G - H - \dot{I} - J$$

where:

A – insurer's own funds.

B – total carrying amount of insurer's assets.

C – balance sheet liabilities related to insurance activity (less insurance reserves.

D1 – insurance and reinsurance premiums not delinquent for over 30 days.

D2 – insurance and reinsurance premiums delinquent for over 31-45 days.

E – insurance reserves.

F1 – total amount of carrying values of insurer's assets, which represent the funds that secure insurance reserves.

F2 – sum of the parts of amounts that make up total amount of funds that secure insurer's insurance reserves that do not exceed diversification norms.

G – insurer's balance sheet liabilities not related to insurance activity (except for liabilities on assets pledged as collateral).

H – carrying value of assets pledged as collateral.

\dot{I} – insurer's off-balance sheet liabilities (sum of amounts guaranteed to be paid).

J – Total carrying value of assets not attributed to the group of assets specified in Articles 63.1.1-63.1.6 and 64.1.1-64.1.7 of the Law and (or) funds that secure insurance reserves and other assets that are not considered during the investment of insurer's own funds.

Form №HB1

Report on investment of own funds, as well as funds securing insurance reserves and total capital of the insurer

Insurer (reinsurer) name: _____

Reporting period: _____

No	Asset name	Investment of funds securing insurance reserves								Investment of insurer's own funds					
		1	2	3	4	5	6	7	8	9	10	11	12	13	14
		Carrying amounts of assets	Carrying value of assets, which are expressed as funds that secure insurance reserves	Coefficients specified in sub-items 3.1.1.-3.1.7 of the ' insurers' % Regulation on investment operations of	Amounts that make up total amount of funds that secure insurance reserves (Column 4 x Column 5)	Relevant insurance reserves specified in sub-items 4.1.1-4.1.7 of the ' Regulation on investment operations of insurers'	Actual diversification rates ((Column 6 / Column 7) x 100%)	Diversification rates specified in sub-items 4.1.1-4.1.7 of the ' Regulation on investment operations of insurers'	Parts of amounts that make up total amount of funds that secure insurance reserves not exceeding diversification norms (where Column 8 ≤ Column 9, Column 6; otherwise, Column 7 x Column 9)	Carrying values of assets accepted for calculation of total capital	Coefficients specified in sub-items 5.2.1-5.2.6 of the ' Regulation on investment operations of insurers' , %	Amounts that make up total capital (Column 11 x Column 12)	Actual diversification rates ((Column 13 / result of Column 13) x 100%	Diversification rates specified in sub-items 6.1.1-6.1.6 of the ' Regulation on investment operations of insurers' , %	Parts of amounts that make up total capital not exceeding diversification norms (where Column 14 ≤ Column 15, Column 13; otherwise result of Column 13 x Column 15)

1	Government securities, including:			X	X	X	X	X	X		X		X	X	X
1.1.	Government securities of the Republic of Azerbaijan			100				100			100			100	
1.1.1.				100				100			100			100	
1.1.2.				100				100			100			100	
...				100				100			100			100	
Interim total on 1.1		X	X	X	X	X	X	X		X	X	X	X	X	
1.2.	government securities of foreign countries			X	X	X	X	X	X		X		X	X	X
1.2.1.	government securities of foreign countries included to the minimum Group 1 credit rating			100				30			100			30	
1.2.1.1.				100				30			100			30	
1.2.1.2.				100				30			100			30	
...				100				30			100			30	
Interim total on 1.2.1		X	X	X	X	X	X	X		X	X	X	X	X	
1.2.2.	government securities of foreign countries included to the Group 2 credit rating			100				20			100			20	
1.2.2.1.				100				10			100			10	
1.2.2.2.				100				10			100			10	
...				100				10			100			10	

interim total on 1.2.2		X	X	X	X	X	X	X		X	X	X	X	X	
1.2.3.	eurobonds issued by foreign countries included to the Group 3 credit rating			100				10			100			10	
1.2.3.1.				100				5			100			5	
1.2.3.2.				100				5			100			5	
...				100				5			100			5	
interim total on 1.2.3		X	X	X	X	X	X	X		X	X	X	X	X	
1.2.4.	Except for sub-item 1.2.3, government securities of foreign countries included to the credit rating group lower than the Group 2 credit rating			0				0			0			0	
1.2.4.1.				0				0			0			0	
1.2.4.2.				0				0			0			0	
...				0				0			0			0	
interim total on 1.2.4		X	X	X	X	X	X	X		X	X	X	X	X	
interim total on 1.2		X	X	X	X	X	X	X		X	X	X	X	X	
Interim total on 1		X	X	X	X	X	X	X		X	X	X	X	X	
2	Funds in bank accounts			X	X	X	X	X	X		X		X	X	X

2.1.	funds in bank accounts opened with banks located in the territory of the country			X	X	X	X	X	X		X		X	X	X
2.1.1.	funds in bank accounts opened with related banks			X	X	X	X	X	X		X		X	X	X
2.1.1.1.	funds in bank accounts opened with banks with maximum 5 notches lower than the country credit rating			100				50			100			50	
2.1.1.1.1.				100				20			100			20	
2.1.1.1.2.				100				20			100			20	
...				100				20			100			20	
interim total on 2.1.1.1		X	X	X	X	X	X	X		X	X	X	X	X	
2.1.1.2.	funds in bank accounts opened with banks with 6 notches and lower credit rating than the country credit rating or with no credit rating			80				50			80			50	
2.1.1.2.1.				80				20			80			20	
2.1.1.2.2.				80				20			80			20	
...				80				20			80			20	
interim total on 2.1.1.2		X	X	X	X	X	X	X		X	X	X	X	X	

interim total on 2.1.1		X	X	X	X	X	X	X		X	X	X	X	X	
2.1.2.	funds in bank accounts opened with non-related banks			X	X	X	X	X	X		X		X	X	X
2.1.2.1.	funds in bank accounts opened with banks with maximum 5 notches lower than the country credit rating			100				80			100			80	
2.1.2.1.1.				100				30			100			30	
2.1.2.1.2.				100				30			100			30	
...				100				30			100			30	
interim total on 2.1.2.1		X	X	X	X	X	X	X		X	X	X	X	X	
2.1.2.2.	funds in bank accounts opened with banks with 6 notches and lower credit rating than the country credit rating or with no credit rating			80				80			80			80	
2.1.2.2.1.				80				30			80			30	
2.1.2.2.2.				80				30			80			30	
...				80				30			80			30	
interim total on 2.1.2.2		X	X	X	X	X	X	X		X	X	X	X	X	

interim total on 2.1.2		X	X	X	X	X	X	X		X	X	X	X	X	
2.1.3.	the remaining part of funds given to portfolio management of investment companies in the form of cash in the bank account as of the reporting date			80				50			80			50	
2.1.3.1.				80				20			80			20	
2.1.3.2.				80				20			80			20	
...				80				20			80			20	
interim total on 2.1.3		X	X	X	X	X	X	X		X	X	X	X	X	
interim total on 2.1		X	X	X	X	X	X	X		X	X	X	X	X	
2.2.	funds in bank accounts opened with banks located outside the country			X	X	X	X	X	X		X		X	X	X
2.2.1.	funds in bank accounts opened with related banks			X	X	X	X	X	X		X		X	X	X
2.2.1.1.	funds in bank accounts opened with banks included to Group 0 credit rating			100				15			100			15	
2.2.1.1.1.				100				5			100			5	
2.2.1.1.2.				100				5			100			5	

...				100				5			100			5	
interim total on 2.2.1.1		X	X	X	X	X	X	X		X	X	X	X	X	
2.2.1.2.	finds in bank accounts opened with banks included to Groups 1 and 2 credit rating			100				10			100			10	
2.2.1.2.1.				100				5			100			5	
2.2.1.2.2.				100				5			100			5	
...				100				5			100			5	
interim total on 2.2.1.2		X	X	X	X	X	X	X		X	X	X	X	X	
2.2.1.3.	funds in bank accounts opened with banks included to the credit rating group lower than the Group 2 credit rating			0				0			0			0	
2.2.1.3.1.				0				0			0			0	
2.2.1.3.2.				0				0			0			0	
...				0				0			0			0	
interim total on 2.2.1.3		X	X	X	X	X	X	X		X	X	X	X	X	
interim total on 2.2.1		X	X	X	X	X	X	X		X	X	X	X	X	
2.2.2.	funds in bank accounts opened with non-related banks			X	X	X	X	X	X		X		X	X	X

2.2.2.1.	funds in bank accounts opened with banks included to Group 0 credit rating			100				30			100			30	
2.2.2.1.1.				100				10			100			10	
2.2.2.1.2.				100				10			100			10	
...				100				10			100			10	
interim total on 2.2.2.1		X	X	X	X	X	X	X		X	X	X	X	X	
2.2.2.2.	finds in bank accounts opened with banks included to Groups 1 and 2 credit rating			100				20			100			20	
2.2.2.2.1.				100				10			100			10	
2.2.2.2.2.				100				10			100			10	
...				100				10			100			10	
interim total on 2.2.2.2		X	X	X	X	X	X	X		X	X	X	X	X	
2.2.2.3.	funds in bank accounts opened with banks included to the credit rating group lower than the Group 2 credit rating			0				0			0			0	
2.2.2.3.1.				0				0			0			0	
2.2.2.3.2.				0				0			0			0	
...				0				0			0			0	
interim total on 2.2.2.3		X	X	X	X	X	X	X		X	X	X	X	X	

interim total on 2.2.2		X	X	X	X	X	X	X		X	X	X	X	X	
interim total on 2.2		X	X	X	X	X	X	X		X	X	X	X	X	
interim total on 2		X	X	X	X	X	X	X		X	X	X	X	X	
3	Real estate, including:			X	X	X	X	X	X		X		X	X	X
3.1.	carrying amount of real estate owned by the insurer and which is intended for insurance activities			70				10			70			10	
3.1.1.				70				5			70			5	
3.1.2.				70				5			70			5	
...				70				5			70			5	
interim total on 3.1		X	X	X	X	X	X	X		X	X	X	X	X	
3.2.	Carrying amount of other real estate owned by the insurer with investment purposes			70				20			70			20	
3.2.1.				70				10			70			10	
3.2.2.				70				10			70			10	
...				70				10			70			10	
interim total on 3.2		X	X	X	X	X	X	X		X	X	X	X	X	

interim total on 3		X	X	X	X	X	X	X		X	X	X	X	X	
4	Non-government securities, including			X	X	X	X	X	X		X		X	X	X
4.1.	non-government securities issued by domestic legal entities			X	X	X	X	X	X		X		X	X	X
4.1.1.	non-government securities backed with government guarantee			100				100			100			100	
4.1.1.1.				100				100			100			100	
4.1.1.2.				100				100			100			100	
...				100				100			100			100	
interim total on 4.1.1		X	X	X	X	X	X	X		X	X	X	X	X	
4.1.2.	Mortgage bonds issued by the Mortgage and Credit Guarantee Fund of the Republic of Azerbaijan			100				50			100			50	
4.1.2.1.				100				50			100			50	
4.1.2.2.				100				50			100			50	
...				100				50			100			50	
interim total on 4.1.2		X	X	X	X	X	X	X		X	X	X	X	X	
4.1.3.	the portion of non-government securities issued by legal entities backed			100				50			100			50	

	by the Mortgage and Credit Guarantee Fund of the Republic of Azerbaijan														
4.1.3.1.				100				50			100			50	
4.1.3.2.				100				50			100			50	
...				100				50			100			50	
interim total on 4.1.3		X	X	X	X	X	X	X		X	X	X	X	X	
4.1.4.	Non-government securities listed in the Baku Stock Exchange			X	X	X	X	X	X		X		X	X	X
4.1.4.1.	non-government securities issued by related legal entities			X	X	X	X	X	X		X		X	X	X
4.1.4.1.1.	non-government securities issued by legal entities with maximum 2 notches lower than the country credit rating			60				15			60			15	
4.1.4.1.1.1.				60				5			60			5	
4.1.4.1.1.2.				60				5			60			5	
...				60				5			60			5	
interim total on 4.1.4.1.1		X	X	X	X	X	X	X		X	X	X	X	X	
4.1.4.1.2.	non-government securities issued by legal entities that are 3 notches or lower than the country			40				10			40			10	

	credit rating or with no credit rating														
4.1.4.1.2.1.				40				5			40			5	
4.1.4.1.2.2.				40				5			40			5	
...				40				5			40			5	
interim total on 4.1.4.1.2		X	X	X	X	X	X	X		X	X	X	X	X	
interim total on 4.1.4.1		X	X	X	X	X	X	X		X	X	X	X	X	
4.1.4.2.	non-government securities issued by non-related legal entities			X	X	X	X	X	X		X		X	X	X
4.1.4.2.1.	non-government securities issued by legal entities with maximum 2 notches lower than the country credit rating			80				30			80			30	
4.1.4.2.1.1.				80				15			80			15	
4.1.4.2.1.2.				80				15			80			15	
...				80				15			80			15	
interim total on 4.1.4.2.1		X	X	X	X	X	X	X		X	X	X	X	X	
4.1.4.2.2.	non-government securities issued by legal entities that are 3 notches or lower than the country credit rating or with no credit rating			60				20			60			20	
4.1.4.2.2.1.				60				10			60			10	

4.1.4.2.2.2.				60				10			60			10	
...				60				10			60			10	
interim total on 4.1.4.2.2		X	X	X	X	X	X	X		X	X	X	X	X	
interim total on 4.1.4.2		X	X	X	X	X	X	X		X	X	X	X	X	
interim total on 4.1.4		X	X	X	X	X	X	X		X	X	X	X	X	
4.1.5.	Non-government securities not listed in the Baku Stock Exchange			X	X	X	X	X	X		X		X	X	X
4.1.5.1.	non-government securities issued by related legal entities			X	X	X	X	X	X		X		X	X	X
4.1.5.1.1.	non-government securities issued by legal entities with maximum 2 notches lower than the country credit rating			30				10			30			10	
4.1.5.1.1.1.				30				2			30			2	
4.1.5.1.1.2.				30				2			30			2	
...				30				2			30			2	
interim total on 4.1.5.1.1		X	X	X	X	X	X	X		X	X	X	X	X	
4.1.5.1.2.	non-government securities issued by legal entities that are 3 notches or lower than the country			20				5			20			5	

	credit rating or with no credit rating														
4.1.5.1.2.1.				20				2			20			2	
4.1.5.1.2.2.				20				2			20			2	
...				20				2			20			2	
interim total on 4.1.5.1.2		X	X	X	X	X	X	X		X	X	X	X	X	
interim total on 4.1.5.1		X	X	X	X	X	X	X		X	X	X	X	X	
4.1.5.2.	non-government securities issued by non-related legal entities			X	X	X	X	X	X		X		X	X	X
4.1.5.2.1.	non-government securities issued by legal entities with maximum 2 notches lower than the country credit rating			40				10			40			10	
4.1.5.2.1.1.				40				5			40			5	
4.1.5.2.1.2.				40				5			40			5	
...				40				5			40			5	
interim total on 4.1.5.2.1		X	X	X	X	X	X	X		X	X	X	X	X	
4.1.5.2.2.	non-government securities issued by legal entities that are 3 notches or lower than the country credit rating or with no credit rating			30				5			30			5	
4.1.5.2.2.1.				30				5			30			5	

4.1.5.2.2.2.				30				5			30			5	
...				30				5			30			5	
interim total on 4.1.5.2.2		X	X	X	X	X	X	X		X	X	X	X	X	
interim total on 4.1.5.2		X	X	X	X	X	X	X		X	X	X	X	X	
interim total on 4.1.5		X	X	X	X	X	X	X		X	X	X	X	X	
interim total on 4.1		X	X	X	X	X	X	X		X	X	X	X	X	
4.2.	non-government securities issued by foreign legal entities			X	X	X	X	X	X		X		X	X	X
4.2.1.	non-government securities issued by multilateral development banks			X	X	X	X	X	X		X		X	X	X
4.2.1.1.	non-government securities included to minimum Group 1 credit rating issued by multilateral development banks			100				30			100			30	
4.2.1.1.1.				100				10			100			10	
4.2.1.1.2.				100				10			100			10	
...				100				10			100			10	
interim total on 4.2.1.1		X	X	X	X	X	X	X		X	X	X	X	X	
4.2.1.2.	non-government securities included to			100				20			100			20	

	Group 2 credit rating issued by multilateral development banks														
4.2.1.2.1.				100				10			100			10	
4.2.1.2.2.				100				10			100			10	
...				100				10			100			10	
interim total on 4.2.1.2		X	X	X	X	X	X	X		X	X	X	X	X	
4.2.1.3.	non-government securities issued by multilateral development banks included to the credit rating group lower than the Group 2 credit rating			0				0			0			0	
4.2.1.3.1.				0				0			0			0	
4.2.1.3.2.				0				0			0			0	
...				0				0			0			0	
interim total on 4.2.1.3		X	X	X	X	X	X	X		X	X	X	X	X	
interim total on 4.2.1		X	X	X	X	X	X	X		X	X	X	X	X	
4.2.2.	non-government securities issued by foreign legal entities that are not multilateral development banks			X	X	X	X	X	X		X		X	X	X
4.2.2.1.	non-government securities issued by			100				10			100			10	

	foreign legal entities included to minimum Group 2 credit rating														
4.2.2.1.1.				100				10			100			10	
4.2.2.2.2.				100				10			100			10	
...				100				10			100			10	
interim total on 4.2.2.1		X	X	X	X	X	X	X		X	X	X	X	X	
4.2.2.2.	non-government securities issued by foreign legal entities included to the credit rating group lower than the Group 2 credit rating			0				0			0			0	
4.2.2.2.1.				0				0			0			0	
4.2.2.2.2.				0				0			0			0	
...				0				0			0			0	
interim total on 4.2.2.2		X	X	X	X	X	X	X		X	X	X	X	X	
interim total on 4.2.2		X	X	X	X	X	X	X		X	X	X	X	X	
4.2.3.	non-government securities issued in the territory of the country by multilateral development banks			X	X	X	X	X	X		X		X	X	X
4.2.3.1.	non-government securities issued in the territory of the			100				80			100			80	

	country by multilateral development banks included to minimum Group 2 credit rating														
4.2.3.1.1.				100				80			100			80	
4.2.3.1.2.				100				80			100			80	
...				100				80			100			80	
interim total on 4.2.3.1.		X	X	X	X	X	X	X		X	X	X	X	X	
4.2.3.2.	non-government securities issued in the territory of the country by multilateral development banks included to the credit rating group lower than the Group 2 credit rating			0				0			0			0	
4.2.3.2.1.				0				0			0			0	
4.2.3.2.2.				0				0			0			0	
...				0				0			0			0	
interim total on 4.2.3.2.		X	X	X	X	X	X	X		X	X	X	X	X	
interim total on 4.2.3		X	X	X	X	X	X	X		X	X	X	X	X	
interim total on 4.2		X	X	X	X	X	X	X		X	X	X	X	X	

6.1.	The share of reinsurers in reported, but not adjusted loss reserves			100				100		X	X	X	X	X	X
6.2.	the share of reinsurers in other reserves			100				60		X	X	X	X	X	X
interim total on 6		X	X	X	X	X	X	X		X	X	X	X	X	X
7															
7	Funds (principal amount) lent to policyholders and the insured on endowment life insurance			100				50		X	X	X	X	X	X
7.1.				100				50		X	X	X	X	X	X
7.2.				100				50		X	X	X	X	X	X
...				100				50		X	X	X	X	X	X
interim total on 7		X	X	X	X	X	X	X		X	X	X	X	X	X
8															
8	Funds invested to authorized capital of legal entities, including:		X	X	X	X	X	X	X		X		X	X	X
8.1.	Funds invested to authorized capital of related party legal entities		X	X	X	X	X	X	X		50			10	
8.1.1.			X	X	X	X	X	X	X		50			5	
8.1.2.			X	X	X	X	X	X	X		50			5	
...			X	X	X	X	X	X	X		50			5	

interim total on 8.1		X	X	X	X	X	X	X	X	X	X	X	X	X	
8.2.	Funds invested to authorized capital of not related party legal entities		X	X	X	X	X	X	X		80			10	
8.2.1.			X	X	X	X	X	X	X		80			5	
8.2.2.			X	X	X	X	X	X	X		80			5	
...			X	X	X	X	X	X	X		80			5	
interim total on 8.2		X	X	X	X	X	X	X	X	X	X	X	X	X	
interim total on 8		X	X	X	X	X	X	X	X	X	X	X	X	X	
9															
9	Funds lent to own staff, including per employee:		X	X	X	X	X	X	X		50			5	
9.1.			X	X	X	X	X	X	X		50			1	
9.2.			X	X	X	X	X	X	X		50			1	
...			X	X	X	X	X	X	X		50			1	
interim total on 9		X	X	X	X	X	X	X	X	X	X	X	X	X	
10															
10	Other assets, including:		X	X	X	X	X	X	X	X	X	X	X	X	X
10.1.			X	X	X	X	X	X	X	X	X	X	X	X	X
10.2.			X	X	X	X	X	X	X	X	X	X	X	X	X
...			X	X	X	X	X	X	X	X	X	X	X	X	X
TOTAL				X	X	X	X	X			X		X	X	

Note:

1. 'Other assets' in Column 2 means other assets on the active part of the balance sheet, except for the assets specified in Items 1-9 of that column, and they should be written in the report sequentially (according to the active part of the balance sheet).

2. Total of Column 10 shows total amount of funds securing insurance reserves.

3. Total of Column 16 shows amount of total capital.

4. Total of Column 11 should not be more than the amount of insurer's own funds calculated in Form №HB2.

5. Assets listed in Column 2 are listed in Column 1 by items, sub-items, and sub-clauses.

6. In each of Columns 10 and 16 columns of the sub-items of the sub-clauses divided into sub-items, on the lines 'Interim total', the sum of amounts of parts of amounts channeled to individual assets for a specific group of assets not exceeding the diversification rates set for those assets and amounts channeled to that group of assets in general for this group of assets the smaller of the part not exceeding the specified diversification rate, the sum of the 'Interim totals' of corresponding sub-items is shown in the 'Interim totals' of the subsections, and the sum of the 'Interim totals' of the corresponding sub-items is shown in the 'Interim totals' of the items.

7. In Columns 10 and 16, within each 'Interim total' row for the sub-items not divided into subsections, the sum of the amounts allocated to individual assets within a specific asset group should not exceed the diversification rates set for those assets. The 'Interim total' for the items displays the smaller value between the part that adheres to the specified diversification rate and the sum of the 'Interim totals' from corresponding subsections.

Form №HB2

Report on insurer's own funds

Insurer's (reinsurer's) Name: _____

Reporting period: _____

No	Indicator	code of the row	amount (in manat)
1	Total asset value	1000	
2	Insurance and reinsurance premiums non-delinquent for over 30 days	1100	
3	Insurance and reinsurance premiums delinquent for 31-45 days	1150	
4	Insurance reserves	1200	
5	Interim total (if «1100» - «1200» * 0,3 ≥ 0, then «1100» - «1200» * 0,3; if «1100» - «1200» * 0,3 < 0 then 0) + (if «1150» * 0,8 - «1200» * 0,1 ≥ 0, then «1150» * 0,8 - «1200» * 0,1; if «1150» * 0,8 - «1200» * 0,1 < 0 then 0)	1300	
6	Insurance related balance sheet liabilities (less insurance reserves)	1400	
7	Interim total (if «1400» - «1300» ≥ 0, then «1400» - «1300»; if «1400» - «1300» < 0 then 0)	1500	
8	Total value of assets that secure insurance reserves	1600	
9	Total of the parts of the amounts that make up total amount of funds securing insurance reserves not exceeding diversification norms	1650	
10	Interim total (if «1650» - «1200» ≥ 0, then «1600»; if «1650» - «1200» < 0 then «1200» + («1600» - «1650»))	1700	

11	Not insurance related balance sheet liabilities (except for liabilities on pledged assets)	1800	
12	Carrying value of pledges assets	1850	
13	Off-balance sheet liabilities (total guaranteed amount to be paid)	1900	
14	Total carrying value of other assets not attributed to the group of assets specified in Articles 63.1.1-63.1.6 and 64.1.1-64.1.7 of the Republic of Azerbaijan 'on Insurance activity' and/or not considered during the investment of funds that secure insurance reserves and insurer's own funds	2000	
15	Insurer's own funds («1000» - «1500» - «1700» - «1800» - «1850» - «1900» - «2000»)	2100	

Credit rating groups issued by international reputable rating agencies

Credit rating group	Credit rating			
	Standard & Poor's (S&P)	Fitch Ratings Inc.	Moody's Investors Service	A.M. Best Company
0	AAA	AAA	Aaa	aaa
1	AA+	AA+	Aa1	aa+
	AA	AA	Aa2	aa
	AA-	AA-	Aa3	aa-
2	A+	A+	A1	a+
	A	A	A2	a
	A-	A-	A3	a-
3	BBB+	BBB+	Baa1	bbb+
	BBB	BBB	Baa2	bbb
	BBB-	BBB-	Baa3	bbb-
4	BB+	BB+	Ba1	bb+
	BB	BB	Ba2	bb
	BB-	BB-	Ba3	bb-

Transitional adjustments related to investment operations of insurers

1. Coefficients used in the investment of funds that secure investment reserves

1.1. The following coefficients are applied to carrying values of assets that represent funds that secure insurance reserves:

1.1.1. Government securities – 100%.

1.1.2. Funds in bank accounts – 100%.

1.1.3. Real estate – 80%.

1.1.4. Non-government securities – 80%.

1.1.5. insurance and reinsurance premiums to be received under insurance and reinsurance agreements:

1.1.5.1. insurance and reinsurance premiums non-delinquent and/or delinquent for less than 90 days as of the reporting date – 100%.

1.1.5.2. insurance and reinsurance premiums delinquent for over 90 days as of the reporting date – 0%.

1.1.6. The share of reinsurers in insurance reserves – 100%.

1.1.7. funds lent to policyholders or the insured on endowment life insurance–100%.

2. Diversification norms to be considered during the investment of funds that secure insurance reserves

2.1. During the calculation of total amount of funds securing insurance reserves, the part of amounts that meets the following diversification norms is accepted after applying the coefficients specified in Item 1.1 of this Annex to carrying values of the assets in which those funds are expressed:

2.1.1. Government securities – up to 100% of insurance reserves.

2.1.2. Funds in bank accounts – subject to a maximum 30% per bank, up to 80% of insurance reserves.

2.1.3. Real estate – subject to a maximum 10% per real estate, up to 20% of insurance reserves.

2.1.4. Non-government securities – up to 15% of insurance reserves.

2.1.5. insurance and reinsurance premiums to be received under insurance and reinsurance agreements, not delinquent and/or delinquent for up to 90 days as of the reporting date – up to 30% of insurance reserves.

2.1.6. The share of reinsurers in insurance reserves (except for the share of reinsurers in reported, but not adjusted loss reserves) is taken as 75% of insurance reserves. The share of reinsurers in reported, but not adjusted loss reserves is taken in actual amount.

2.1.7. funds lent to policyholders or the insured on endowment life insurance – up to 50% of mathematical reserves (less the share of reinsurers in mathematical reserves).

2.2. Total amount of funds allocated for insurance reserves equals the aggregate of received amounts not exceeding the diversification norms outlined in Item 2.1 of this Annex, adjusted by the coefficients specified in Item 1.1 of this Annex applied to the carrying values of the assets backing those reserves.

2.3. Total amount of funds securing insurance reserves should not be less than the amount of those reserves.

3. Insurer's own funds and the investment of these funds

3.1. Insurer's own funds are calculated with the below formula:

$$A = B - \max (C - \max (D - 0,3 * E, 0), 0) - \max (F1, E + (F1 - F2)) - G - \dot{I} - J$$

where:

A – insurer's own funds.

B – total carrying value of insurer's assets.

C – insurer's insurance related balance sheet liabilities (less insurance reserves).

D – insurance and reinsurance premiums not delinquent for up to 90 days.

E – insurance premiums.

F1 – total amount of carrying values of assets securing insurer's insurance reserves.

F2 –sum of the parts of amounts that make up total amount of funds that secure insurer's insurance reserves not exceeding diversification norms.

G – insurer's balance sheet liabilities not related to insurance activities.

\dot{I} – insurer's off-balance sheet liabilities (total amounts guaranteed to be paid).

J – total carrying value of assets not attributed to the group of assets specified in Articles 63.1.1-63.1.6 and 64.1.1-64.1.7 of the Law.

3.2. To calculate insurer's total capital, the following coefficients are applied to carrying values of its assets, which represent its own funds:

3.2.1. Government securities – 100%.

3.2.2. Funds in bank accounts – 100%.

3.2.3. Outstanding value of real estate – 80%.

3.2.4. Non-government securities – 80%.

3.2.5. Funds invested to authorized capital of other legal entities – 80%.

3.2.6. Funds lent to own staff – 80%.

4. Diversification norms to be considered during the investment of insurer's own funds

4.1. During the calculation of insurer's total capital, the coefficients specified in Item 3.2 of this Annex are applied to carrying values of the assets considered in this calculation. The portion of the ratio between generated amounts and total sum of those amounts that adheres to the following diversification norms is then accepted:

4.1.1. Government securities – up to 100%.

4.1.2. Funds in bank accounts – subject to a maximum 30% per bank, up to 80%.

4.1.3. Real estate – subject to a maximum 10% per real estate, up to 20%.

4.1.4. Non-government securities – up to 15%.

4.1.5. funds invested in authorized capital of other legal entities, provided that the share in authorized capital of one legal entity does not exceed 5% and does not exceed 45% of the authorized capital of the relevant legal entity, except for the cases provided for in Article 66.4 of the Law – up to 10%.

4.1.6. Funds lent to own staff, provided that total amount of debt to one employee does not exceed 1% – up to 10%.

5. Procedure of the calculation of insurer's total capital

Total capital is equal to the sum of parts of amounts generated after applying the coefficients specified in Item 3.2 of this Annex to carrying values of the assets accepted for the calculation of this capital, not exceeding the diversification norms specified in Item 4.1 of this Annex.

Form № HB3

Report on the investment of insurer's own funds, as well as funds securing insurance reserves and total capital

Insurer's (reinsurer's) name: _____

Reporting date: _____

No	Asset name	Carrying value of assets	Investment of funds securing insurance reserves							Investment of insurer's own funds					
			Carrying value of assets, which are expressed as funds that secure insurance reserves	Coefficients specified in sub-item 1.1.1-1.1.7 of this Annex, %	Amounts that make up total amount of funds that secure insurance reserves (Column 4 x Column 5)	Relevant insurance reserves specified in sub- 2.1.1-2.1.7 of this Annex	Actual diversification rates ((Column 6 / Column 7) x 100%)	Diversification rates specified in sub-items 2.1.1-2.1.7 -of this Annex, %	Parts of amounts that make up total amount of funds that secure insurance reserves not exceeding diversification norms (where Column 8 ≤ Column 9, Column 6; otherwise, Column 7 x Column 9)	Carrying values of assets accepted for calculation of total capital	Coefficients specified in sub-items 3.2.1-3.2.6 of this Annex, %	Amounts that make up total capital (Column 11 x Column 12)	Actual diversification rates ((Column 13 / result of Column 13) x 100%)	Diversification rates specified in sub-items 4.1.1-4.1.6 of this Annex %	Parts of amounts that make up total capital not exceeding diversification norms (where Column 14 ≤ Column 15, Column 13; otherwise result of Column 13 x Column 15)
1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16
1	Government securities, including on issues:			100				100			100			100	
1.1				100				100			100			100	

1.2				100				100			100			100	
1.3				100				100			100			100	
...				100				100			100			100	
interim total on 1		X	X	X	X	X	X	X		X	X	X	X	X	
2															
2	Funds in bank accounts, including per bank:			100				80			100			80	
2.1				100				30			100			30	
2.2				100				30			100			30	
2.3				100				30			100			30	
...				100				30			100			30	
interim total on 2		X	X	X	X	X	X	X		X	X	X	X	X	
3															
3	Real estate, including per property:			80				20			80			20	
3.1				80				10			80			10	
3.2				80				10			80			10	
3.3				80				10			80			10	
...				80				10			80			10	
interim total on 3		X	X	X	X	X	X	X		X	X	X	X	X	
4															
4	Non-government securities, including on issues:			80				15			80			15	
4.1				80				15			80			15	

4.2				80				15			80			15	
4.3				80				15			80			15	
...				80				15			80			15	
interim total on 4		X	X	X	X	X	X	X		X	X	X	X	X	
5	Insurance and reinsurance premiums to be received under insurance and reinsurance agreements			X	X	X	X	X	X	X	X	X	X	X	X
5.1	insurance and reinsurance premiums not delinquent over 90 days			100				30		X	X	X	X	X	X
5.2	insurance and reinsurance premiums delinquent over 90 days			0				0		X	X	X	X	X	X
interim total on 5		X	X	X	X	X	X	X		X	X	X	X	X	X

6	The share of reinsurers in insurance reserves, including:			X	X	X	X	X	X	X	X	X	X	X	X
6.1	The share of reinsurers in reported, but not adjusted loss reserves			100				100		X	X	X	X	X	X
6.2	the share of reinsurers in other reserves, except for reported, but not adjusted loss reserves			100				50		X	X	X	X	X	X
interim total on 6		X	X	X	X	X	X	X		X	X	X	X	X	X
7	Funds lent to policyholders and the insured on endowment life insurance			100				50		X	X	X	X	X	X
8	Funds invested in authorized capital of other legal entities, including per legal entity:		X	X	X	X	X	X	X		80			10	
8.1			X	X	X	X	X	X	X		80			5	
8.2			X	X	X	X	X	X	X		80			5	
8.3			X	X	X	X	X	X	X		80			5	
...			X	X	X	X	X	X	X		80			5	

interim total on 8		X	X	X	X	X	X	X	X	X	X	X	X	X	
9	Funds lent to own staff, including per employee:		X	X	X	X	X	X	X		80			10	
9.1			X	X	X	X	X	X	X		80			1	
9.2			X	X	X	X	X	X	X		80			1	
9.3			X	X	X	X	X	X	X		80			1	
...			X	X	X	X	X	X	X		80			1	
interim total on 9		X	X	X	X	X	X	X	X	X	X	X	X	X	
10	Other assets, including:		X	X	X	X	X	X	X	X	X	X	X	X	X
...	...		X	X	X	X	X	X	X	X	X	X	X	X	X
TOTAL				X	X	X	X	X			X		X	X	

Note:

1. 'Other assets' in Column 2 means other assets on the active part of the balance sheet, except for the assets specified in Items 1-9 of that column, and they should be written in the report sequentially (according to the active part of the balance sheet).
2. Total of Column 10 shows total amount of funds securing insurance reserves.
3. Total of Column 16 shows amount of total capital.
4. Carrying amounts of assets specified in rows 5, 6 and 7 are written in full amount in Column 9.
5. Total of Column 11 should not be more than the amount of insurer's own funds calculated in Form №HB4.
6. Except for the 'Interim final' rows relating to assets 5 and 6 in Column 2, in other 'Interim total' rows in Column 10, the amounts allocated to individual assets within a specific asset group do not surpass the diversification rates designated for those assets. The allocation is capped at the lesser of the sum of its parts and the total amount designated for that asset group, ensuring it does not exceed the specified diversification rates for that group of assets.

7. In Column 10 on the 'Interim total' on assets 5 and 6 in Column 2 the sum of the parts of the amounts directed to individual assets for a specific group of assets that do not exceed the diversification rates set for those assets.

8. In column 16 of each 'Interim total' row, the displayed sum is the smaller of two values: the total of amounts allocated to individual assets within a specific asset group, ensuring they do not surpass the diversification percentages set for those assets, and the total sum allocated to that asset group overall, ensuring it does not exceed the diversification percentage determined for that group of assets.

Form № HB4

Report on insurer's own funds

Insurer's (reinsurer's) name: _____

Reporting period: _____

No	Indicator	Code	amount (in manat)
1	Total asset value	1000	
2	Insurance and reinsurance premiums non-delinquent for over 90 days	1100	
3	Insurance reserves	1200	
4	Interim total (if «1100» - «1200» * 0,3 ≥ 0, then «1100» - «1200» * 0,3; if «1100» - «1200» * 0,3 < 0 then 0)	1300	
5	Insurance related balance sheet liabilities (less insurance reserves)	1400	
6	Interim total (if «1400» - «1300» ≥ 0, then «1400» - «1300»; if «1400» - «1300» < 0 then 0)	1500	
7	Total value of assets that secure insurance reserves	1600	
8	Total of the parts of the amounts that make up total amount of funds securing insurance reserves not exceeding diversification norms	1650	
9	Interim total (if «1650» - «1200» ≥ 0, then «1600»; if «1650» - «1200» < 0 then «1200» + («1600» - «1650»))	1700	
10	Not insurance related balance sheet liabilities	1800	
11	Off-balance sheet liabilities (total guaranteed amount to be paid)	1900	
12	Total carrying value of other assets not attributed to the group of assets specified in Articles 63.1.1-63.1.6 and 64.1.1-64.1.7 of the Republic of Azerbaijan 'on Insurance activity'	2000	
13	Insurer's own funds («1000» - «1500» - «1700» - «1800» - «1900» - «2000»)	2100	