

## **Regulation on requirements for a recovery plan, calculation of its implementation period, form and procedure for submitting reports on its implementation**

### **1. General provisions**

1.1. The Regulation on requirements for a recovery plan, calculation of its implementation period, form and submission of reports on its implementation (hereinafter referred to as the "Regulation") has been developed in accordance with Article 96-2.2 of the Law of the Republic of Azerbaijan "On Insurance Activities" (the "Law") and determines the requirements for a recovery plan, calculation of its implementation period, form and submission of reports on its implementation, which are required to be applied by the Financial Markets Supervisory Authority of the Republic of Azerbaijan (the "Authority") when an insurer's financial condition deteriorates and capital losses occur.

1.2. The terms used in this Regulation shall have the meaning defined in the Law of the Republic of Azerbaijan "On Insurance Activities".

### **2. Requirements for the recovery plan**

2.1. When an insurer's total capital drops to 90 percent of the required amount, the Authority requires the insurer to submit a recovery plan (the "Plan") that includes measures to restore its financial position and lost capital, as well as the timeframe for implementing these measures.

2.2. The Plan is prepared according to the insurer's activities and considers the volume and complexity of the risks to which the insurer is exposed and is approved by the Board of Directors of the insurer.

2.3. The structure of the Plan is composed of two parts:

2.3.1. analysis of the insurer's financial situation;

2.3.2. measures to restore the insurer's financial condition and lost capital.

2.4. The Plan shall include at least the following:

2.4.1. the status of the financial indicators specified in Appendix No. 1 on the analysis of the insurer's financial condition;

2.4.2. description of existing and projected risks for the effective and timely implementation of the Plan;

2.4.3. a detailed description of the process for determining the liquidity and value of the insurer's main business lines, operations, and assets;

2.4.4. additional capital and liquid funds to maintain the insurer's solvency or restore its financial position;

2.4.5. measures to be taken to protect and increase the insurer's capital;

2.4.6. calculations of the expected results at the end of each month regarding the implementation of the Plan for regulatory requirements for aggregate capital and insurance reserves;

2.4.7. measures to identify and regulate the impacts of risks;

2.4.8. evaluation of new insurance (reinsurance) contracts to be concluded, considering the risks in insurance classes with a high loss rate, to restore the financial situation;

2.4.9. reassessment of reinsurers and reinsurance contracts;

2.4.10. measures planned to be implemented as a result of the analysis to improve the insurer's financial situation and restore lost capital;

2.4.11. information on the results to be achieved, including the implementation period of the planned measures and the amount of the predicted indicators.

2.5. The following documents containing information about the Plan (decisions, orders and instructions of the insurer's management bodies (Board of Directors, Management Board) and other supporting documents) are attached:

2.5.1. documents confirming the decisions of the insurer's executive body on reducing the insurer's expenses, as well as on re-evaluating the activities of the insurer's branches and (or) representative offices (if any);

2.5.2. a certified copy of the protocol of the executive body of the insurer on the revaluation of reinsurance contracts and reinsurers under reinsurance contracts;

2.5.3. protocols (if any) confirming the intention of the founders (participants) and third parties to invest additional funds in the insurer's authorized capital, issue additional shares and securities, or provide other financial assistance to improve the insurer's financial situation;

2.5.4. documents confirming the decisions of the insurer's executive body on planned measures to ensure the implementation of regulatory requirements for aggregate capital and insurance reserves stipulated by the legislation;

2.5.5. actuarial opinion on the reassessment and justification of insurance tariffs for insurance classes with a high loss rate;

2.5.6. supporting documents regarding the suspension of the payment of insurer dividends (if any);

2.5.7. decision of the Board of Directors on imposing a duty on the insurer's management to implement specific measures within a specified period;

2.5.8. documents reflecting the composition of the insurer's expenses and the number of the insurer's employees;

2.5.9. forecasted assessments of the insurer's investment operations, insurance, and other activities (forecast of indicators on the insurer's profit and loss statement, forecasting the composition and structure of the insurer's assets and liabilities);

2.5.10. documents reflecting decisions and instructions on the implementation of measures to be taken by the insurer in relation to the indicators in the reporting forms in paragraph 4.1 of this Regulation.

### **3. Plan implementation period**

3.1. The Plan will be prepared and implemented within the following timeframes:

3.1.1. upon receiving the Authority's written request for the Plan's preparation, the insurer shall draft the Plan within the specified timeframe and submit it to the Authority in writing for consideration. The deadline for preparing and submitting the Plan draft for consideration may not exceed 30 business days.

3.1.2. If the Authority has proposals regarding the draft Plan, it must submit a written notification to the insurer within 10 business days, requesting additions and/or amendments to the Plan.

3.1.3. The insurer is given an additional 5 working days to make additions and/or changes. Within that period, the insurer finalizes the project and resubmits it in writing to the Authority.

3.1.4. If the Authority approves the draft Plan, it will send a written notification to the insurer within 5 business days. Once the plan is approved by the Authority, the insurer begins to implement it.

3.2. The following circumstances are considered when determining the implementation period of the plan:

3.2.1. The implementation period of the measures under the Plan is determined not to exceed 6 months, until the insurer's total capital equals its required capital.

3.2.2. The Plan is considered implemented if there is no capital deficiency within the next 6 months after the insurer's capital requirement is met.

### **4. Reporting forms and submissions regarding the implementation of the Plan**

4.1. Reports on the implementation of the Plan are submitted to the Authority in the following forms and at the following intervals, with an increasing summary:

4.1.1. Report on the implementation status of actions taken under the Plan (Appendix 2), weekly, monthly;

4.1.2. Report on the insurer's financial condition in accordance with the requirements of the Plan (Appendix 3), monthly;

4.1.3. Report on the insurer's assets and liabilities in accordance with the requirements of the Plan (Appendix 4), monthly;

4.1.4. Report on the insurer's income and expenses in accordance with the requirements of the Plan (Appendix 5), monthly;

4.1.5. Report on insurance premiums calculated under insurance contracts, refunded premiums and insurance payments (Appendix 6), monthly;

4.1.6. Report on the investment direction of the insurer's own funds, as well as funds providing insurance reserves, and aggregate capital established by Appendix No. 1 of the Regulations on Investment Operations of Insurers approved by the Resolution No. Q-11 of the Ministry of Finance of the Republic of Azerbaijan dated December 21, 2012, Form No. 6, monthly;

4.1.7. Report on the insurer's own funds, as determined by Appendix No. 2 of the Regulations on Investment Operations of Insurers approved by the Resolution No. Q-11 of the Ministry of Finance of the Republic of Azerbaijan dated December 21, 2012, Form No. 7, monthly;

4.1.8. Report on insurance contracts approved by the Resolution No. Q-08 of the Ministry of Finance of the Republic of Azerbaijan dated March 27, 2014, Form No. 12, monthly;

4.1.9. Report on calculated insurance (reinsurance) premiums, refunded insurance (reinsurance) premiums and insurance payments under insurance (reinsurance) contracts approved by the Resolution No. Q-08 of the Ministry of Finance of the Republic of Azerbaijan dated March 27, 2014, Form No. 13, monthly;

4.1.10. Report on reinsurance operations approved by the Resolution No. Q08 of the Ministry of Finance of the Republic of Azerbaijan dated March 27, 2014, Form No. 15, monthly;

4.1.11. Report on the costs of carrying out work approved by the Resolution No. Q08 of the Ministry of Finance of the Republic of Azerbaijan dated March 27, 2014, Form No. 19, monthly;

4.1.12. Report on commissions calculated for insurance intermediaries approved by the Resolution No. Q08 of the Ministry of Finance of the Republic of Azerbaijan dated March 27, 2014, Form No. 21, monthly;

4.1.13. Report on some indicators of an insurer (reinsurer) and a legal entity insurance broker approved by the Resolution No. Q08 of the Ministry of Finance of the Republic of Azerbaijan dated March 27, 2014, Form No. 23, monthly;

4.1.14. Report on the shareholders of the insurer (reinsurer) and persons participating in their (shareholders') authorized capital approved by the Resolution No. Q08 of the Ministry of Finance of the Republic of Azerbaijan dated March 27, 2014, Form No. 23/I, monthly;

4.1.15. Insurance (Reinsurance) Contract Accounting Journal established by Appendix No. 1 of the Regulations for the formation of insurance reserves for life insurance and non-life insurance approved by the Resolution No. Q-01 of the Ministry of Finance of the Republic of Azerbaijan dated December 6, 2011, monthly;

4.1.16. Loss Accounting Journal established by Appendix No. 2 of the Regulations for Formation of Insurance Reserves for Life Insurance and Non-Life Insurance approved by the Resolution No. Q-01 of the Ministry of Finance of the Republic of Azerbaijan dated December 6, 2011, monthly.

4.2. Reports on the implementation of the Plan must be signed by the Chairman of the Board of Directors and the Chief Accountant and certified with the seal of that insurer.

4.3. Weekly report forms must be submitted to the Authority within 3 calendar days after the end of the relevant week, and monthly report forms must be submitted to the Authority within 7 calendar days after the end of the relevant month.

*Appendix No. 1  
to the Regulation  
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**Insurer's financial indicators**

No.	Financial indicators	Current status
1.	Ratio of calculated insurance premiums to total capital	
2.	Ratio of total capital to assets	
3.	Ratio of total capital to insurance reserves	
4.	Ratio of liquid assets to total assets	
5.	Ratio of accrued insurance (reinsurance) premiums to total assets	
6.	Ratio of commissions paid to insurance intermediaries to capital	
7.	Conservation ratio	
8.	Loss ratio	
9.	Expense ratio	

**Note:**

- **Total equity** is calculated by subtracting total liabilities from total assets.
- **The conservation ratio** is calculated as the ratio of insurance premiums, net of reinsurer's share, to total insurance premiums.
- **The loss ratio** is calculated as the ratio of insurance payments and regulatory costs to total earned premiums across the insurance classes and entire insurance portfolio in which the insurer operates.
- **The expense ratio** is calculated as the ratio of expenses for the entire insurance portfolio to the total premiums earned for the entire insurance portfolio.
- **Liquid assets** include cash in banks, government securities, and other cash.
- The financial indicators provided in Appendix 1 are calculated based on the indicators of the last four quarters preceding the reporting period.

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**Report on the status of implementation of actions taken under the Plan**

<b>No.</b>	<b>Name</b>	<b>Expectations</b>	<b>Work done</b>	<b>Results as of the reporting date</b>	<b>Deadline</b>
1.					
2.					
3.					
4.					
5.					
...					

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**Report on the insurer's financial condition in accordance with the Plan's requirements**

<b>I. OPERATIONAL STATUS:</b>	<b>Amount (in manat)</b>
<b>Calculated insurance (reinsurance) premiums – total:</b>	
<b>- Insurance premiums under insurance contracts:</b>	
contracts concluded through insurance intermediaries	
contracts concluded directly with policyholders	
<b>- Reinsurance premiums on reinsurance contracts (risks accepted for reinsurance):</b>	
Reinsurance premiums on reinsurance policyholders	
Reinsurance premiums to be received from brokers	
Reinsurance premiums accepted from abroad	
<b>- Reinsurance premiums on ceded contracts – total</b>	
Reinsurance premiums for non-resident reinsurers	
Reinsurance premiums for resident reinsurers	
<b>- Refundable portion of insurance premiums for terminated contracts</b>	
- the largest portion of the premium refunded for terminated contracts in a class	
class:	
- reinsurer's share in the refundable portion of the insurance premium	
<b>- Accounts receivable under expired contracts – total</b>	
- contracts concluded directly with policyholders	

- contracts concluded with reinsurance policyholders	
- <b>Insurance payments – total:</b>	
- Payments on directly initiated insurance contracts – total	
the largest payment made under one contract	
- Payments under contracts concluded with insurance intermediaries - total	
the largest payment made under one contract	
- Reinsurer’s share of insurance payments under reinsurance contracts (risks accepted for reinsurance)	
the largest payment made under one contract	
- <b>Commission received</b>	
- <b>Paid commission - total</b>	
- Commission paid to insurance agents – total	
highest commission paid per class	
class:	X
- Commission paid to insurance brokers - total	
highest commission paid per class	
class:	X
- <b>Proceeds from the exercise of the right of subrogation</b>	
- <b>Employee expenses</b>	
- <b>Paid general and administrative expenses - total</b>	
- Administrative expenses	
- <b>Other income</b>	
- <b>Other expenses</b>	
<b>II. CASH AND CASH EQUIVALENTS:</b>	
- Cash register	
- Currency account	
- Deposit account	
- Other cash funds	
<b>III. INVESTMENT OPERATIONS STATUS</b>	
- Purchase of government securities	

- Sale of government securities	
- Purchase of non-government securities	
- Sale of non-government securities	
- Purchase of real estate	
- Sale of real estate	
- Debts to employees (life and non-life insurance debts to employees)	
- Debt to policyholders (life insurance debt)	
- Payment for other types of investment transactions	
- Income from other types of investment transactions	
<b>IV. FINANCIAL OPERATIONS STATUS</b>	
- Share capital issuance	
- Dividends paid	
- Sale and repurchase transactions (REPO/REVERSE REPO)	
- Other	

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<b>ASSETS</b>	<b>As of the beginning of the year</b>	<b>As of the end of the reporting period</b>
<b>I. LONG-TERM ASSETS</b>		
<b>Land, buildings and equipment</b>		
<b>Capitalization of costs related to land, buildings and equipment</b>		
<b>Investments made to real estate</b>		
<b>Intangible assets</b>		
<b>Deferred tax assets</b>		
<b>Long-term receivables</b>		
<b>Long-term financial assets:</b>		
government securities		
non-government securities		
other financial assets		
<b>Investments accounted for using the equity method</b>		
<b>Settlements with founders or shareholders</b>		
<b>Other assets</b>		
<i><b>Total long-term assets</b></i>		
<b>II. SHORT-TERM ASSETS</b>		
<b>Reserves</b>		
<b>Accounts receivables:</b>		
direct insurance		
<b>reinsurance operations:</b>		
reinsurance		
reinsurance policyholder		
associate entities		
budget		

claims		
staff		
debts granted to policyholders		
other receivables		
<b>Cash and cash equivalents:</b>		
cash register		
settlement account		
currency account		
deposit accounts		
other cash funds		
<b>Short-term financial assets</b>		
government securities		
non-government securities		
other financial assets		
<b>Reinsurers' share in insurance reserves:</b>		
in life insurance		
in non-life insurance		
<b>Other short-term assets</b>		
expenses of future reporting periods		
advances given		
imprest accounts		
<b>Other assets</b>		
<i>Total short-term assets</i>		
<b>TOTAL ASSETS</b>		

<b>CAPITAL AND LIABILITIES</b>		
<b>I. CAPITAL</b>		
<b>Paid-up nominal (authorized) capital</b>		
<b>Emission revenue</b>		
<b>Repurchased capital (shares)</b>		
<b>Capital reserves:</b>		
revaluation reserve		
other capital reserves		

<b>Retained earnings (unpaid loss)</b>		
Net profit (loss) for the reporting period		
Adjustments to profit (loss) due to changes in accounting policies		
Retained earnings from previous years (unpaid loss)		
Dividends declared		
<i>Total capital</i>		
<b>II. LONG-TERM LIABILITIES</b>		
<b>Insurance reserves:</b>		
life insurance		
non-life insurance		
<b>Preventive measures fund</b>		
<b>Liabilities generating long-term interest expenses</b>		
<b>Long-term estimated liabilities</b>		
<b>Deferred tax liabilities</b>		
<b>Accounts payable:</b>		
remuneration		
budget		

social insurance and security		
other mandatory payments		
associate entities		
other		
<b>Other long-term liabilities</b>		
income of the next reporting period		
received advances		
<b>Liabilities for reinsurance operations:</b>		
reinsurer		
policyholder under reinsurance		
<b>Settlements with founders or shareholders</b>		
Other liabilities		
<i>Total long-term liabilities</i>		
<b>III. SHORT-TERM LIABILITIES</b>		
<b>Liabilities generating short-term interest expenses</b>		
<b>Current estimated liabilities</b>		
<b>Tax and other mandatory payment obligations</b>		
<b>Accounts payable:</b>		
remuneration		
budget		
social insurance and security		
other mandatory payments		
associate entities		
other		
<b>Other short-term liabilities</b>		
income of the next reporting period		
received advances		
<b>Settlements with founders or shareholders</b>		

<i>Total short-term liabilities</i>		
<b>TOTAL LIABILITIES</b>		
<b>TOTAL CAPITAL AND LIABILITIES</b>		
Note: Total amounts guaranteed to be paid*		

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**Report on the insurer's income and expenses according to the Plan's requirements**

Income	Amount
<b>Main operating income:</b>	
- from insurance premiums for direct insurance	
- from reinsurance premiums	
- from the share of reinsurers in insurance payments	
- from commissions on contracts ceded to reinsurance	
<b>Change in net insurance reserves (positive or negative)</b>	
<b>Investment income</b>	
<b>Subrogation proceeds</b>	
<b>Other</b>	
<b>TOTAL INCOME</b>	
Expenses	
<b>Main operating expenses:</b>	
- insurance payments and insurance amounts	
- regulatory costs for refunded insurance premiums	
- insurance premiums ceded to reinsurance	
- allocations to the preventive measures fund	
- other costs for insurance activities	
<b>Costs for carrying out works</b>	
<b>Other</b>	

<b>TOTAL EXPENSES</b>	
<b>Financial profit (loss)</b>	
<b>The portion of profit allocated to the authorized capital</b>	
<b>Profit (loss) before tax</b>	
<b>Profit tax</b>	
<b>Net profit (loss) for the reporting period</b>	



