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Chairman

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Regulations on sustainable capital requirements for investment companies

1. General provisions

- 1.1. These Regulations have been prepared in accordance with Articles 31.5 and 39.5 of the Law of the Republic of Azerbaijan “On Securities Market” and determine the requirements for capital adequacy of investment companies, as well as their financial risks management.
- 1.2. The terms used in these Regulations shall have the following meanings:
 - 1.2.1. **underwriting** – means the investment service comprised of public offering and placement of securities on behalf of an issuer or third party;
 - 1.2.2. **interim loss** - is the loss up to the current reporting period;
 - 1.2.3. **market risk** – balance sheet and off-balance sheet losses arising from changes in market prices;
 - 1.2.4. **total capital requirement** – is the sum of capital requirements on credit risk, market risk, operational risk, concentration risk, settlement and contragent risks;
 - 1.2.5. **operational risk** – is the risk of loss due to internal processes, disruptions in the system, the human factor and external events;
 - 1.2.6. **commodity price risk** – is the risk of loss arising from volatility in commodity prices;
 - 1.2.7. **settlement and counterparty risk** – is the risk of loss due to late settlement and failure of the counterparty to fulfill its obligation due to default before the settlement;
 - 1.2.8. **investment company** – is a legal entity licensed for investment company activity established as a joint-stock company, the exclusive subject of the activity of which is provision of investment services specified in the Law of Azerbaijan Republic “On Securities Market”.
 - 1.2.9. **capital surplus** – funds gained as a result of spread between the market and nominal values of ordinary or preferred stock during their placement;

- 1.2.10. **concentration risk** – means the risks exceeding 25% of the total capital of an investment company against an individual client or group of clients by positions in the trading book;
- 1.2.11. **collective investments price risk** – is the risk of losses arising from the volatility in the prices of collective investment schemes;
- 1.2.12. **credit risk** – is the risk of loss arising from the borrower's inability to meet its obligations;
- 1.2.13. **financial institutions** – mean credit organizations, insurance companies and investment companies.
- 1.2.14. **market maker** – means a legal person, constantly conducts sale and purchase of securities or derivative financial instruments on its own behalf within price pools agreed with a stock exchange and at prices determined by itself;
- 1.2.15. **total regulatory capital** - difference between the sum of components (elements) included in Tier I (main) and Tier II (supplementary) capital, determined by these Regulations and deductions from them;
- 1.2.16. **intangible assets** – assets that exist in no physical form yet add value, such as software, copyrights, patents, rights to utilize natural resources, licenses, trademarks, know-how, goodwill, etc.;
- 1.2.17. **short position** - the sale of borrowed securities, commodities or currency in anticipation of a decrease in the value of the asset;
- 1.2.18. **stock price risk** - the risk of losses arising from volatility in stock prices;
- 1.2.19. **specific debt instrument price risk** - the risk of price differences arising from factors related to the issuer of debt instruments;
- 1.2.20. **specific position risk** - the risk of price differences arising from factors related to the issuer of finance instruments;
- 1.2.21. **subordinated debt obligations** – liabilities, payable upon maturity, not secured by collateral of assets, not redeemable at holder's option, not granting a right to declare bankrupt or liquidate if not paid upon maturity (interest or principal) under terms and conditions of the issue, and, in case of the liquidation of an investment company, handled after the claims of other creditors have been satisfied in full;
- 1.2.22. **trading book** - a portfolio consisting of positions on securities or other financial instruments, as well as commodities, held by an investment company at its own expense for trading or hedging purposes and mainly exposed to market risks;
- 1.2.23. **long position** – purchase of securities, commodities or currency with expectation of an increase in the value of the asset;
- 1.2.24. **general interest rate risk** - is the risk of loss due to changes in interest rates in accordance with the general market characteristics;
- 1.2.25. **general position risks** - risks arising in connection with the movement of market prices for shares in accordance with the general market characteristics, and changes in interest rates on debt instruments;
- 1.2.26. **foreign currency risk** – is the risk of changes in the value of the investment due to changes in foreign exchange rates.

2. Requirements on capital adequacy

- 2.1. An investment company shall have a total regulatory capital equal to or higher than the total capital requirement calculated in accordance with these Regulations, as well as the minimum authorized capital determined by the State Committee for Securities of the Republic of Azerbaijan (hereinafter - the Committee).
- 2.2. The total capital requirement of an investment company is determined depending on the volume of its trading book. An investment company's trading book shall be considered significant if the average daily volume of transactions in the trading book over the last 250 days exceeds 15,000,000 (fifteen million) AZN or the transactions carried out within at least 4 days amounted for more than 20,000,000 (twenty million) AZN.
- 2.3. The total capital requirement of an investment company, which trading book is considered to be significant, shall be equal to the sum of its capital requirements calculated against credit risks, market risks, operational risks, settlement and counterparty risks and concentration risks.
- 2.4. The total capital requirement of an investment company, which trading book is not considered to be significant, shall be equal to the sum of its capital requirements calculated against credit risks, market risks, operational risks and concentration risks.

3. Trading book of investment company

- 3.1. The following shall be included in the commercial positions on the trading book (Annex 1):
 - 3.1.1. positions related to the company's operations at its own expense, as well as positions related to underwriting and market-making;
 - 3.1.2. positions to be sold for a short period of time;
 - 3.1.3. positions held for the purpose of making a profit from the actual or expected price difference or interest rate difference between purchase and sale prices.
- 3.2. Positions in the trading book shall be valued in the following order:
 - 3.2.1. debt instruments - at market prices;
 - 3.2.2. shares - at market prices;
 - 3.2.3. derivative financial instruments are valued at the market prices of the underlying assets to which they are related.
- 3.3. Positions of an investment company marked in the trading book on a daily basis shall be valued at market prices.

4. Total regulatory capital of investment companies

- 4.1. In accordance with the terms of these Regulations, the total regulatory capital of the investment company is divided into the following groups:
 - 4.1.1. Tier I capital (main capital);
 - 4.1.2. Tier II capital (supplementary capital).
- 4.2. The total regulatory capital of the investment company is equal to the difference between the sum of the components that comprise Tier I and Tier II capital and the deductions applied to them, taking into account the restrictions set forth in these Regulations.
- 4.3. The total regulatory capital of the investment company shall not be less than the minimum authorized capital required at the time of licensing.
- 4.4. Tier I capital components shall have the following main features:
 - 4.4.1. perpetuity: cannot be repossessed at the option of the holder, regardless of the term;
 - 4.4.2. unrestricted use: can be used without additional restrictions to prevent risks and losses that may arise during the operation;
 - 4.4.3. payment independence: the investment company retains independence to pay on its profits.
- 4.5. Tier I and Tier II capital shall be used to reduce the risks that an investment company may face during its operation to a manageable level.
- 4.6. The components of the total regulatory capital of the investment company shall continuously meet the following ratios and limits:
 - 4.6.1. Tier II capital can not exceed Tier I capital;
 - 4.6.2. the amount of subordinated debt liabilities considered in calculation of Tier II capital shall not exceed 50% of Tier I capital;
 - 4.6.3. if any of the components of the total regulatory capital of the investment company exceeds the limits specified in paragraphs 4.6.1 and 4.6.2 of these Regulations, the part in excess of these limits shall not be taken into account when calculating the total regulatory capital, unless otherwise provided by these Regulations.
- 4.7. Tier I capital of an investment company shall be equal to the sum of the following (after deduction of tax liabilities):
 - 4.7.1. fully paid common stock issued to circulation;

- 4.7.2. capital surplus;
 - 4.7.3. retained earnings (losses) of previous years;
 - 4.7.4. capital reserves, i.e., funds established from retained earnings of previous years.
- 4.8. The following is deducted from Tier I capital:
- 4.8.1. repurchased ordinary shares;
 - 4.8.2. intangible assets of investment companies, including increases as a result of revaluation of intangible assets;
 - 4.8.3. current financial year loss or interim loss.
- 4.9. Common stock included in Tier I capital shall meet the following requirements:
- 4.9.1. issued by the investment company and paid in full;
 - 4.9.2. not directly or indirectly financed by the investment company;
 - 4.9.3. decisions on the payment of dividends on common stock shall remain within the competence of the management body of the investment company, be non-cumulative and paid when there are sufficient funds. The amount of dividends to be paid on common stock can never be determined in advance. Payment of dividends in the form of common stock shall not be allowed.
- 4.10. Taking into account the restrictions on the total regulatory capital provided for in paragraph 4.6 of these Regulations, the Tier II capital of the investment company is equal to the sum of the following:
- 4.10.1. profit from the current year;
 - 4.10.2. subordinated debt liabilities issued for at least 5 years;
 - 4.10.3. the following unrestricted and usable revaluation resources intended to prevent risks:
 - 4.10.3.1. unrealized 80% of revalued reserves in relation to shares valued at fair value;
 - 4.10.3.2. 80% of unrealized cumulative earnings from revaluation of real estate in its use, valued at fair value;
 - 4.10.3.3. 80% of unrealized cumulative return on investment valued at fair value (excluding real estate and marketable shares).
 - 4.10.3.4. special reserves.
- 4.11. Subordinated debt liabilities shall be recorded in Tier II capital with 20% decrease per year starting from the beginning of the first year of the remainder period, 5 (five) years prior to maturity.
- 4.12. An investment company may not directly or indirectly provide itself with a subordinated loan.
- 4.13. The following shall be deducted from total regulatory capital:

- 4.13.1. net investments in the capital of other investment companies, in case not recorded in the trading book (if the participation share is more than 10%);
- 4.13.2. net investments in the capital of other financial institutions that are not investment companies and legal entities listed on the stock exchange, in case not recorded in the trading book (if the participation share is more than 10%);
- 4.13.3. investments in insurance and reinsurance liabilities recorded in the calculation of the total regulatory capital of the investment company, investments in pension funds and financial instruments of insurance holdings.

5. Credit risk calculation

- 5.1. When calculating the capital requirement on credit risk, the risk is divided into categories in accordance with these Regulations, the risk weight for each category is determined and the capital requirement on credit risk is set within 8% of the total assets measured at the overall risk level.
- 5.2. Credit risks shall be divided into the following categories:
 - 5.2.1. risks to other states and central banks;
 - 5.2.2. risks to the Central Bank of the Republic of Azerbaijan;
 - 5.2.3. risks to local authorities;
 - 5.2.4. risks to international organizations;
 - 5.2.5. risks to financial institutions;
 - 5.2.6. risks to corporate organizations;
 - 5.2.7. retail risks;
 - 5.2.8. risks to postponed assets;
 - 5.2.9. risks against high-risk assets;
 - 5.2.10. risks to investment funds;
 - 5.2.11. risks to other assets.
- 5.3. The risk weight for each category is determined depending on the quality of the risk (risk assessment of foreign credit rating agencies).
- 5.4. The credit quality rating for other states, central banks, international organizations, local authorities, financial institutions, corporate organizations and investment funds shall be rated from 1 (highest) to 6 (lowest) in accordance with the Table (Annex 2).
- 5.5. Risks to other countries shall be identified in accordance with the Table (Annex 3) for countries with long-term credit ratings.
- 5.6. Risk weight for countries not having a long-term credit rating is 100%.
- 5.7. Risk weight against the government of the Republic of Azerbaijan and the Central Bank of the Republic of Azerbaijan is 0%.

- 5.8. Risk weight against international organizations such as the World Bank, the International Monetary Fund, the European Bank for Reconstruction and Development, the Asian Development Bank, the Islamic Development Bank and the Black Sea Trade and Development Bank is set as 0%.
- 5.9. Risks against local authorities with long-term credit ratings, as well as financial institutions, corporate organizations and investment funds shall be identified in accordance with the Table (Annex 4) as follows:
 - 5.9.1. risks to local authorities that do not have a long-term credit rating, as well as to financial institutions and investment funds, shall be determined by giving the borrower a rating one level lower than the credit rating of other countries;
 - 5.9.2. risk weight for central executive bodies and municipalities of the Republic of Azerbaijan is 20%;
 - 5.9.3. if the borrower does not have a credit rating of other countries, the risk weight is set at 100%;
 - 5.9.4. risk weight for corporate parties is set as 100%.
- 5.10. If the investments in shares issued by financial institutions or other regulatory capital instruments are not deducted from the company's total regulatory capital, the risk weight is set as 100%.
- 5.11. Risk weight on retail risks is defined is 75% if the following conditions are met:
 - 5.11.1. if the risk belongs to one or more individuals or legal entities;
 - 5.11.2. if the total risky amount of the investment company does not exceed 1,000,000 (one million) AZN;
 - 5.11.3. if not invested in securities.
- 5.12. Risk weight for deferred assets is set as 150%.
- 5.13. Risk weight against investments in high-risk assets, including start-ups and high-risk companies and private equity companies operating for less than three years, is set at 150%.
- 5.14. Risk weight against other assets shall be determined as follows:
 - 5.14.1. real estate and equipment - 100%;
 - 5.14.2. advanced payment and unearned income - 100%;
 - 5.14.3. receivables – 20%, cash and its equivalents – 0%;
 - 5.14.4. gold reserves – 0%.

6. Market risk calculation

6.1. Capital requirement on market risk shall be equal to the sum of the capital requirements for the following risks of investment companies, which trading books are considered significant:

- 6.1.1. stock price risk;
- 6.1.2. specific debt instrument price risk;
- 6.1.3. general interest rate risk;
- 6.1.4. commodity price risk;
- 6.1.5. foreign currency risk;
- 6.1.6. collective investments price risk.

6.2. Capital requirement on market risk shall be equal to the sum of the capital requirements for the following risks of investment companies, which trading books are not considered significant:

- 6.2.1. commodity price risk;
- 6.2.2. foreign currency risk.

6.3. Capital requirement for stock price risk shall be equal to the sum of the capital requirements for specific and general risks.

SQRK: capital requirement on stock price risk;
Sr: specific risks;
Ür: general risks.

6.4. Investment companies shall calculate net long positions and net short positions to calculate the capital requirement on specific and general stock risks.

6.5. The net long position is equal to the portion of the long position on each share that is greater than the short position.

UM: long position in stock;
QM: short position in stock;
XUM: net long position in stock.

6.6. The net short position is equal to the portion of the short position per share that is greater than the long position.

XQM: net short position in stock.

6.7. Capital requirement on specific risks is equal to the sum of the module prices of total net long positions and total net short positions multiplied by risk weight of 8%.

6.8. Capital requirement on general risks is equal to the difference between the module prices of total long positions and total short positions multiplied by risk weight of 8%.

6.9. Capital requirement for debt instruments is equal to the sum of the capital requirements on specific debt instrument price risk and the general interest rate risk.

BAK: capital requirement on debt instruments;

SQR: specific debt instruments price risk;

ÜFR: general interest rate risk.

6.10. Capital requirement on specific debt instruments price risk shall be calculated in the following manner as per the Table (Annex 5):

6.10.1. "low risk" category applies to government agencies assessed with a credit risk weight of 0%;

6.10.2. "medium risk" category applies to organizations with a credit risk weight of 20% or 50%;

6.10.3. "high risk" category applies to organizations with a credit risk weight of 100%;

6.10.4. "other" category applies to organizations with a credit risk weight of 150%.

6.11. Positions on debt instruments reflected in the investment company's trading book are included in the Table (Annex 5) according to the risk category and maturity and are calculated by multiplying the relevant risk factor. The capital requirement on specific debt instrument price risk is calculated by the following formula:

: debt instrument position;

: debt instrument risk ratio.

6.12. Capital requirement on general interest rate risk is calculated according to the Table (Annex 6).

6.13. Positions in the trading book of the investment company are included in the Table (Appendix 5) according to the remaining repayment period and interest rate, and each position is calculated by the product of the relevant risk ratio.

6.14. Capital requirement on general interest rate risk determined by the risk weight is equal to the sum of the capital requirement on the total net position, the time limit and the intervals.

Üxm: capital requirement on the total net position;

: capital requirement on time limit;

At: capital requirement on intervals.

- 6.15. Capital requirement on the total net position is equal to the difference between the total long positions and the total short positions determined by the risk factor and is calculated via the following formula:

UM: long position on debt instruments;
QM: short position on debt instruments;
Ri: risk ratio on debt instruments.

- 6.16. Capital requirement on the time limit is calculated only for overlapping positions and in accordance with the following formula:

ÖRM: overlapping position.

- 6.17. When there are both long and short positions at the same time limit, the positions overlap. In this case, the position that is smaller in quantity overlaps and the capital requirement for the overlapping position is calculated. The non-overlapping part of the position is equal to the difference between the long position and the small position and is used to calculate the capital requirement on the Intervals.

- 6.18. Capital requirement on intervals is calculated by the following formula:

A1öm: overlapping positions in interval 1;
A2öm: overlapping positions i interval 2;
A3öm: overlapping positions in interval 3;
A1A2öm: overlapping positions between intervals 1 and 2;
A2A3öm: overlapping positions between intervals 2 and 3;
A1A3öm: overlapping positions between intervals 1 and 3.

- 6.19. Positions overlap when there are both long and short positions in different time ranges of an interval. Capital requirement on overlapping positions within the interval and between the intervals is determined.

- 6.20. Capital requirement on commodity price risk shall be calculated as follows:

- 6.20.1. precious metals, agricultural products, minerals;
- 6.20.2. commodity-based derivative tools.

- 6.21. When calculating capital requirements on commodity price risk, first of all, uniform goods shall be identified.

- 6.22. Uniform commodities shall include:

- 6.22.1. positions held on interchangeable subcategory commodity positions;
- 6.22.2. position on similar substitutable commodities, in which case the correlation between commodity price changes for at least the last year shall not be less than 0.9.

6.23. Capital requirement on commodity price risk is calculated using a simplified approach. According to the simplified approach, each commodity is represented by a standard unit of measurement and the current exchange rate.

6.24. Capital requirement on commodity price risk shall be calculated via the following formula:

ΘmRK : capital requirement on commodity price risk;

XM : net position on commodity price risk;

$\ddot{U}M$: general position on commodity price risk.

6.25. The total net position is equal to the difference between the total long positions and the total short positions for each commodity and uniform goods:

UM : long position on commodity price risk;

QM : short position on commodity price risk.

6.26. The total position is equal to the sum of the modulus prices of the short positions with the total long positions for each commodity and the uniform form.

6.27. If the total net position of the investment company in foreign currency is more than 2% of its total regulatory capital, the capital requirement on foreign exchange risk is calculated according to the following formula:

MK : total regulatory capital;

XM : net position on foreign exchange risk;

$XVRK$: capital requirement on foreign exchange risk.

6.28. The total net position shall be calculated as follows:

XUM : net long position on foreign exchange risk;

XQM : net short position on foreign exchange risk;

QzM : net position on gold.

6.28.1. net positions on each foreign currency and gold are determined and indicated by the current exchange rate;

6.28.2. total net position on foreign currencies is determined by the long positions being greater than the total net short positions;

6.28.3. the net position on gold is determined whether it is long or short.

6.29. The following positions shall be excluded from calculation of the capital requirement on foreign exchange risk:

- 6.29.1. non-commercial long positions held to protect the capital adequacy of the investment company from foreign exchange risk;
- 6.29.2. positions bearing foreign exchange risk deducted from the total regulatory capital of the company when calculating the total regulatory capital.
- 6.30. The Committee shall be informed by the investment company of the positions excluded from the calculation of the capital requirement on foreign exchange risk.
- 6.31. Capital requirements on collective investments price risk are calculated by multiplying each net position by a 16% risk weight by determining the total market risk and specific risks of the positions.

KIRK: capital requirement on collective investments price risk;

Kisr: specific risk on collective investments;

KiÜr: general risk on collective investments;

UM: long position on collective investments;

QM: short position on collective investments.

7. Calculation of operational risk

- 7.1. Capital requirement on operational risks is calculated by taking the positive gross income for the previous three years based on the audited financial statement and using the following formula:

ØRK: capital requirement calculated on operational risks;

: gross income;

: number of years with positive net income.

- 7.2. Gross income is equal to the sum of the following components contained in the profit and loss statement (by cost function) of the National Accounting Standards No.1 for Commercial Entities:

- main operational income;
- commission expenses and service payments (-);
- other opertaional gains;
- gains or losses on financial instruments held for sale;
- dividiend income on financial tools included in the trading book;
- financial profit;
- financial costs (-);
- gross profit =;

8. Calculation of settlement and counterparty risk

- 8.1. Capital requirement on settlement risk in transactions with shares, debt instruments, foreign currency and commodities (excluding repo and counter-repo contracts and lending and borrowing of securities and commodities) is calculated for the difference arising between the agreed settlement price and the market price as a result of late settlement.
- 8.2. Capital requirement on settlement risk is determined in accordance with the Table (Annex 7) and is calculated by multiplying the settlement amount by the appropriate risk weight.

HRK: capital requirement on settlement risk;

HM: settlement amount;

Ri: risk weight on settlement risk.

- 8.3. Capital requirement on delivery risk shall be calculated by the investment company on the following conditions:
- 8.3.1. if the investment company pays before accepting securities, foreign currency or commodities or delivers the mentioned instruments before accepting payment;
- 8.3.2. one or more days after the payment or delivery by the investment company for cross-border operations.
- 8.4. Capital requirement on delivery risk is calculated in accordance with the Table (Annex 8).
- 8.5. The counterparty risk arises from the default of the counterparty before the settlement of the transaction, and the capital requirement on the counterparty risk is calculated at the following positions in the investment company's trading book:
- 8.5.1. positions on over-the-counter derivatives and credit derivatives;
- 8.5.2. repo, counter-repo agreements, as well as positions on lending or borrowing of securities and commodities;
- 8.5.3. positions on margin trading in securities and commodities;
- 8.5.4. positions on long-term settlement deals.
- 8.6. If the counterparty's risk ratio is greater than the issued collateral, the capital requirement on counterparty risk shall be calculated on the following formula by setting the difference at 8% of the assets measured on the credit risk level:

R: the final amount exposed to the counterparty risk;*

: the amount of price subject to counterparty risk adjusted for volatility;

: the amount of collateral adjusted for volatility;

Ri: credit risk weight;

KKR: capital requirement on counterparty risk.

- 8.7. The amount of collateral adjusted for volatility shall be calculated as follows:
G: collateral price
: volatility determined by collateral
: volatility determined by exchange rate difference
- 8.8. The amount of volatility-adjusted price subject to counterparty risk shall be calculated in the following manner:

: volatility determined by the amount subject to counterparty risk;
R: the amount exposed to counterparty risk.
- 8.9. In the case of over-the-counter transactions on derivative financial instruments, the volatility-adjusted amount of the price exposed to the counterparty risk is equal to the amount exposed to the counterparty risk.

9. Calculation of concentration risk

- 9.1. Concentration risk is the risk to an individual client or group of clients that arises from certain assets and liabilities that constitute a significant portion of the company's total regulatory capital, which may jeopardize the continuity of the investment company's operations at its own expense.
- 9.2. Concentration risk contains the balance and off-balance components, except:
- 9.2.1. deductions from total regulatory capital of the investment company;
 - 9.2.2. risks related to settlements within two business days during foreign currency transactions;
 - 9.2.3. risks associated with settlements in securities transactions within five business days after payment or delivery;
 - 9.2.4. accounts opened in the name of the client during the underwriting by the investment company.
- 9.3. The investment company shall determine the concentration risks for the trading book and for the individual client by calculating the sum of the following:
- 9.3.1. the part of long positions that exceeds short positions (if positive) on all financial instruments issued by an individual client;
 - 9.3.2. risks related to the total receivables of the individual customer;
 - 9.3.3. net risks associated with the purchase of an individual client's debt instrument or shares for underwriting purposes;
 - 9.3.4. counterparty risks against an individual client arising from transactions or agreements;
 - 9.3.5. the sum of the risks to an individual customer on the trading book and out of the trading book.
- 9.4. When the investment company's risks to an individual client or group of clients are equal to or greater than 10% of its liquid assets, it is considered concentration risk.

- 9.5. The concentration risk limit of an investment company for an individual client or group of clients (excluding financial institutions) shall not exceed 25% of its total regulatory capital.
- 9.6. The concentration risk limit of an investment company on financial institutions shall not exceed 100% of its total regulatory capital.
- 9.7. When an investment company registers an individual client as a new client, it shall determine whether it belongs to the same group as other clients.
- 9.8. Positions against countries with 0% credit risk and the Central Bank of the Republic of Azerbaijan are exempted from the calculation of capital requirement on concentration risk.
- 9.9. An investment company shall calculate the capital requirement for transactions that exceed the concentration risk limit in its trading book based on the capital requirement on specific risk and, if needed, on settlement and counterparty risks.
- 9.10. If the risk exceeds the limit for 10 days or less, the additional capital requirement on concentration risk is set as 200% of the capital requirement on specific risks or settlement and counterparty risks.
- 9.11. If the risk exceeds the limit for more than 10 days, the additional capital requirement on concentration risk is calculated in accordance with the Table (Annex 9) as the total of capital requirements on specific risk and / or counterparty / settlement risk for these transactions.

Annex 1

(investment company)

Type of securities	Number of securities	Issuer	State registration number of securities	Nominal value of securities	Long position (AZN)	Short position (AZN)
1	2	3	4	5	6	7
Positions						
Total positions						

Annex 2

**to the Regulations on sustainable capital requirements
for investment companies**

Credit quality rating

Credit quality rating	Credit rating		
	Fitch Ratings	Moody's Investors Service	Standard and Poor's Rating Services
1	from AAA to AA-	from Aaa to Aa3	from AAA to AA-
2	from A+ to A-	from A1 to A3	from A+ to A-
3	from BBB+ to BBB-	from Baa1 to Baa3	from BBB+ to BBB-
4	from BB+ to BB-	from Ba1 to Ba3	from BB+ to BB-
5	from B+ to B-	from B1 to B3	from B+ to B-
6	CCC+ i and lower	Caa1 i and lower	CCC+ i and lower

Annex 3

**to the Regulations on sustainable capital requirements
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Table for credit assessment by credit risk category against other states

Credit quality rating	1	2	3	4	5	6
Credit risk weight	0%	20%	50%	100%	150%	150%

Annex 4

**to the Regulations on sustainable capital requirements
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**Table for credit assessment by credit risk category against local authorities,
financial institutions, corporate organizations and investment funds**

Credit quality rating	1	2	3	4	5	6
Credit risk weight	20%	50%	100%	100%	150%	150%

Annex 5

**to the Regulations on sustainable capital requirements
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**Table for calculating the capital requirement on specific
debt instrument price risk**

Risk categories	Balance payment period (month)	Credit risk weight	Risk ratio on debt instruments (%)
Low		0%	0
Medium	< 6	20%, 50%	0,25
	6 – 24		1
	> 24		1,60
High		100%	8
Other		150%	12

Annex 6

**to the Regulations on sustainable capital requirements
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Table for calculating the capital requirement on general interest rate risk

Intervals	Payment limit				Risk ratio on debt instruments (%)	Intended interest rate change (%)	
	3% or more		3% or less				
Interval 1	Time limit	0 ≤ 1 ay	Time limit	0 ≤ 1 ay	0,00	-	
		> 1 ≤ 3 ay		> 1 ≤ 3 ay	0,20	1,00	
		> 3 ≤ 6 ay		> 3 ≤ 6 ay	0,40	1,00	
		> 6 ≤ 12 ay		> 6 ≤ 12 ay	0,70	1,00	
Interval 2		> 1 ≤ 2 il		> 1,0 ≤ 1,9 il	1,25	0,90	
		> 2 ≤ 3 il		> 1,9 ≤ 2,8 il	1,75	0,80	
		> 3 ≤ 4 il		> 2,8 ≤ 3,6 il	2,25	0,75	
Interval 3		> 4 ≤ 5 il		> 3,6 ≤ 4,3 il	2,75	0,75	
		> 5 ≤ 7 il		> 4,3 ≤ 5,7 il	3,25	0,70	
		> 7 ≤ 10 il		> 5,7 ≤ 7,3 il	3,75	0,65	
		> 10 ≤ 15 il		> 7,3 ≤ 9,3 il	4,50	0,60	
		> 15 ≤ 20 il		> 9,3 ≤ 10,6 il	5,25	0,60	
		> 20 il		> 10,6 ≤ 12,0 il	6,00	0,60	
				> 12,0 ≤ 20,0 il	8,00	0,60	

			> 20 il	12,50	0,60
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Annex 7

**to the Regulations on sustainable capital requirements
for investment companies**

Table for calculating the capital requirement on settlement risk

Number of working days since the settlement date	Risk weight (%)
5-15	8
16-30	50
31-45	75
46 and more	100

Annex 8

**to the Regulations on sustainable capital requirements
for investment companies**

Table for calculating the capital requirement on delivery risk

Type of transaction	Delivery
Until the first payment or delivery	No capital requirement is implied
Up to 4 days after the second payment or delivery	It is considered as credit risk and capital requirement is calculated in accordance with these Regulations
From 5 business days after the second payment or delivery until the end of transaction	Value of the transaction should be deducted from the total regulatory capital

Annex 9

**to the Regulations on sustainable capital requirements
for investment companies**

Table of calculation of capital requirement on concentration risk

Capital requirement in excess of the concentration risk limit	Ratio
up to 40%	200%
from 40% to 60%	300%
from 60% to 80%	400%
from 80% to 100%	500%
from 100% to 250%	600%
more than 250%	900%