

# REPUBLIC OF ARMENIA

## LAW

Passed by the National Assembly  
on June 30, 1996.

### ON BANKS AND BANKING

#### SECTION 1 GENERAL PROVISIONS

##### **Article 1. Framework of the law**

This law defines the procedure and provisions for registration, licensing, regulation and suspension of activities and supervision of the banks registered in Armenia, branches of foreign banks, and representative offices of the banks.

##### **Article 2. The banking system of RA and legislation on banking**

1. The banking system in Armenia includes the Central Bank, banks registered in Armenia (including affiliated companies), subsidiary branches, representative offices, operation agencies, and branches and representative offices of foreign banks,

2. Banking in Armenia is regulated by the present law, the laws: “On the Central Bank of Armenia”, “On Bankruptcy of Banks”, “On Banking Secret”, other laws of RA, and in cases provisioned in these laws, by by-laws of the Central Bank.

##### **Article 3. The main objective of the law**

The main objectives of this law are to develop the banking system, promote safety and regular operation of the banks and the establishment of grounds for free economic competition between the banks.

##### **Article 4. Banks and banking**

1. A bank is a legal entity, which on the basis of the license received in accordance with this law, may perform banking transactions.

2. Banking transactions include taking deposits or offering to take deposits and allocating them on behalf and at the risk of the deposit’s collector, through loans, deposits and /or investments.

It is prohibited to perform banking transactions without banking license, granted by the Central Bank.

##### **Article 5. Banking deposit**

A bank deposit is considered to be the funds, provided to a person in compliance with the requirements of the bank deposit contracts, stipulated by the RA Civil Code which do not assume any consent of the depositor to undertake any risks in respect with their utilization;

neither should it be recognized as a means to lease or acquire property or property rights, compensation against any activities or rendered services or a security against an obligation.

#### **Article 6. Use of the word “Bank”**

1. The word “Bank” or its derivatives may be used as a title, only by licensed entities, their branches, and representative offices, , except the cases when the use of the word “Bank” is envisaged in the law or international agreement; or the use of the word “Bank” implies that it is not related to banking activity.

2. Banks cannot use as a title such disorienting words, which can make a false impression about the financial performance or legal status of that bank.

3. It is prohibited to use the word “Bank” or its derivatives in commercials, public offerings or to somehow support in advertising by persons without a banking license if the use of the word “Bank” or its derivatives implies banking (activity).

#### **Article 7. Banking unions and associations**

Banks may form and participate in non-profit banking unions and associations in order to systematize activities, exchange information and solve other banking objectives in a joint manner. Banking unions and associations cannot be involved in banking transactions. Within 10 days after the registration by the authorized state agency, banking unions and associations shall notify the Central Bank.

#### **Article 8. Linked persons**

1. According to this law and other laws regulating banking activities, the legal persons shall be considered linked, if:

- a) a legal entity has 20 % and more interest in voting stocks of another entity or may influence/predetermine the decisions of the other entity through his participation or due to a contract concluded between these legal entities;
- b) a participant (shareholder) and/or participants (shareholders) and/or members of their family with the ownership of more than 20% of voting stocks (shares) of the shares granting a right to vote to one of them or having the possibility of predetermining his decisions in a manner not prohibited by law, shall have the right to possess directly or indirectly (including on the basis of trading, trust management, joint operation contracts, directives or other transactions) more than 20% of other entity’s voting stocks (shares) or an ability to predetermine the decisions of the latter in any other manner not prohibited by law;
- c) The one third of their administration or other persons that perform such duties, as well as the members of their families, are at the same time considered a member of administration of another person or any other person that fulfils such obligations.

2. According to this law and other laws regulating banking activities the natural persons shall be considered as affiliated, if they are members of the same family and run a joint business or joint venture activities or have acted in agreement based on the common economic interests.

3. According to this law and other laws regulating banking activities natural and legal persons shall be considered affiliated if that natural person or any member of his/her family is a participant that possesses more than the 20% of the shares of the given legal person, or a person having an ability to predetermine the decisions of the legal person in any other manner not prohibited by the law, or is a chairman of the board, deputy chairman of the board, a board member, executive director, deputy executive director, a member of division, chief accountant, deputy chief accountant, chairman of the control committee, a member of control committee or a member of any other similar entities, as well as a staff member of territorial and structural sub-divisions (including any influence in making of decisions by the department, division, section as well as justified by the criteria defined by the Central Bank, entities anyhow related to the main activities of the legal person in the opinion of the Central Bank or working directly under the leadership of the executive director or having any influence in the making of the decision by the administration bodies of the legal person).

4. According to this law and other laws regulating banking the father, the mother, the spouse, the spouse's parents, the grandmother, the grandfather, the sister, the brother, the children, the spouse of the sister and the brother, and the children shall be considered as members of the same family."

#### **Article 9. Significant equity interests**

According to this law and other laws regulating banking activity "Significant participation" in a legal entity means:

- a) ownership of 10% or more of voting stocks (shares) of the legal entity;
- b) ownership of less than 10 percent of voting stocks (shares) or ownership with no voting power but in the opinion of the Central Bank having an ability to predetermine the decisions of the management or exercise a significant influence over decision making and application or to predetermine the targets and spheres of legal entity's activity through participation, directly or indirectly, business reputation and standing.

According to this law and other laws regulating banking activities significant interest means a legal entity that has an ability to predetermine the decisions of the management or influence over the decision making or application, or to predetermine the targets and spheres of legal entity's activity, with the force of the right to demand having towards that bank.

#### **Article 11. Powers of banks**

1. Managers of banks may not be influenced on implementing their duties, neither the activities of banks be interfered, except when it is envisaged by the law. In the manner defined by law, the bank managers may be entitled to carry weapons.

2. Losses incurred by banks through illegal influence on the managers of the banks or illegal interference in the activities of the banks shall be setoff according to procedure, stipulated in legislation.

3. The Government and the banks shall not be responsible for each other's obligations, except on a mutual agreement. The Central Bank and the banks shall not be responsible for each other's obligations.

4. Banks are independent in managing and allocating their fixed assets, including revaluation of the property. Revaluation of the property shall be performed according to the procedure defined in the “Company law” and other legal acts.

## **SECTION 2**

### **TYPES OF BANKS AS OF ORGANIZATION, STRUCTURE AND GOVERNANCE**

#### **Article 12. Types of banks as of organization**

1. According to this law banks may be constituted as joint-stock companies, companies of limited liabilities or cooperative banks.

2. Activities of the banks are regulated through the laws on joint-stock companies, companies of limited liabilities and other by-laws, unless envisaged otherwise in this law.

3. A bank shall be considered as a cooperative, if a participant has the power of only one vote, regardless of his equity share in the statutory fund.

A cooperative bank shall be comprised of at least three participants.

If the number of participants is less than three, the bank shall be adjudged bankrupt, or supplement the number of participants.

Procedures for the payment of dividends, admission of participants, suspension of participation and allocation of the capital between the participants of a liquidated bank are defined in the charter of the cooperative bank.

#### **Article 13. Participants of banks**

1. Participants of the bank are the founders, stockholders of a joint-stock bank, participants of a bank of limited liabilities, or cooperative bank (shareholders, members).

2. State and local administration organs of RA may become participants of banks when it envisaged by the law.

3. Governments and trade unions may not be participants of banks.

#### **Article 14. Branches of banks**

1. Banks operating in RA may open branches in RA and abroad, according to the procedure defined in this law.

2. A branch of a bank is a separate subdivision, which does not have the legal status of a bank and is located out of the territory of the bank; and operates within the scope of authorities provided by the bank, and performs banking transactions and/or financial operations, as defined by this law, on behalf of the bank.

3. Foreign banks may open branches and representative offices in RA, according to the procedure defined in this law. A branch of a foreign bank may perform banking transactions and financial operations on the basis of the banking license. Board of the Central Bank of Armenia may set additional provisions for a branch of a foreign bank to take deposits. These provisions shall be the same for all the branches of foreign banks operating in Armenia.

## **Article 15. Representative offices of banks**

1. Banks operating in Armenia may open representative offices in Armenia and abroad, according to the procedure defined in this law.

2. A representative office of a bank is a separate subdivision, which does not have the legal status of a bank and is located out of the territory of the bank; and represents the bank, investigates the capital market, signs contracts on behalf of the bank, and carries out other activities of a similar nature. A representative office may not perform banking transactions, neither financial operations, as in accordance with this law.

## **Article 17. Statutory funds of banks**

1. Statutory fund of a bank is stated at the moment of its foundation and is registered in the charter of the bank (stated statutory fund). Actually paid-up statutory capital consists of the investments of the participants. Actually paid-up capital equals to:

- a) The amount paid by the participants of a bank of limited liabilities, or a cooperative bank, as a subscription to the shares,
- b) Proceeds on sale of all types of stocks of a bank, which is a joint-stock company.

2. The statutory fund of banks shall be replenished with money (both with Armenian drams and the types of foreign currency set by the CBA).

## **Article 18. Restrictions on the acquisition of significant equity interests in the statutory funds of banks**

1. An individual or affiliated persons may acquire a significant participation in the statutory fund of a bank as a result of one or several transactions only upon the prior consent of the Central Bank. The Central Bank of Armenia shall set forth the list and format of the documents, information to be submitted to the Central Bank by a person or affiliated persons with the mediation of the bank for the prior consent of the Central Bank to acquire a significant participation in the statutory fund of the bank.

Within a month after the Central Bank receives all the documents required under this Paragraph it shall examine them. To clarify several facts required by the Central Bank, the one-month period may be suspended under the resolution of the Board of the Central Bank. The consent shall be deemed obtained in case the Central Bank does not decline the application within a month or does not advise the person or affiliated persons about the suspension of the one-month period.

2. The Central Bank shall decline the application notifying the applicant hereof within ten days, if:

- a) the applicant has been convicted for committing a deliberate crime;
- b) the applicant has been denied the right to working in financial, banking, tax, customs, trade, economic, legal positions by a court decision;
- c) the applicant has been recognized bankrupt and has overdue /non-forgiven/ liabilities;

- d) his/her previous activities induced bankruptcy of a bank or other person;
- e) the given person or affiliated persons have previously performed in such a way, which as justified by the guidelines approved by the Central Bank , in the opinion of the Central Bank, gives grounds to doubt that the actions of a member having a right to voting during the decision making of the highest body of the bank's management may lead to the bankruptcy of the bank or the deterioration of the financial status , or discrediting of the prestige and business reputation .
- f) this transaction is directed to or results in or may result in restriction of free economic competition;
- g) as a result of this transaction the person or his/her affiliated persons acquiring a significant participation in the statutory fund of the bank shall acquire a dominant position in the banking market of the Republic of Armenia as a result of the given transaction, which enables them to predetermine the tariffs or terms of operations or at least one of them stipulated by Article 34 of this law;
- h) the documents have been submitted with the violations of the format and procedure established by the Central Bank or have reflected fraudulent and unreliable information.

3. A contract on the acquisition of a significant participation in the statutory fund of the bank without the prior consent of the Central Bank shall be annulled.”

4. The restrictions set in this Article do not refer to the acquisition of the participation in the statutory capital of the bank that is considered to be the reported issuer according to the law of the Republic of Armenia on “Regulation of the securities market”, if that has happened in the Stock Exchange and does not exceed 20% of the statutory capital of the bank, while in the case when it exceeds the latter the preliminary consent of the CBA shall be obtained according to the procedure set by this law.

5. The natural persons that have a permanent place of residence or operate in offshore areas, as well as legal persons founded and registered in such zones, individuals without legal status or affiliated persons to the ones stipulated by this Paragraph may obtain participation in the statutory capital of the bank due to one or several transactions (irrespective of the proportion of the participation) according to procedure exclusively set by this Article with the preliminary consent of CBA. The list of offshore zones is set by the Board of CBA. The legal entities created by the participation of the persons or affiliated to them persons set by this paragraph may obtain participation in the statutory capital of the bank (irrespective of the proportion of the participation) exclusively in the manner defined by this Article with the preliminary consent of CBA.

## **Article 20. Charter of banks**

1. Constituent paper of a bank is the charter, the provisions of which shall be obligatory for the founders, participants and governing bodies of the bank.

2. The charter sets:

- a) full and short corporate name of the bank,
- b) place of location,
- c) form of organization,

- d) types of issued equity securities of a joint-stock bank (preferred and common stock), quantity, face value, types of preferred stock, interest powers of proprietors of each type of stock,
- e) magnitude of the stated statutory fund,
- f) structure of governance, powers and procedure on taking decisions,
- g) procedure and arrangement of general assemblies of the bank's founders and shareholders, including the list of questions to be adopted by a majority of the governor's votes or unilaterally,
- h) information on bank branches, representations, as well as the procedure for the creation and termination of activities of the branches and representations by the bank.
- i) the powers given to the bank by the founding bank (in case of foreign subsidiary);
- j) the supervisory procedure over the bank by the founding bank (in case of foreign branch);
- ja) the procedure for bank liquidation
- jb) miscellaneous provisions defined by the law and by-laws.

The charter may limit the proportion of equity interest (voting stock in a joint-stock bank) in the statutory fund which one founder/participant may acquire.

3. The bank shall provide within five days the charter, appendices and amendments to the charter at a request of any person. The bank shall provide a copy of the charter in effect to that person. Fees collected for the provision of the copy of the charter may not exceed its preparation cost.

4. Amendments and supplements to the charter, or new editing the charter anew shall be approved at the general assembly of the bank, by the 3/4 majority of voices.

**Article 21. Governing bodies of banks.**  
**Committee of control**  
**The internal supervision of the bank**

1. Governing bodies of banks are:

- a) general assembly of the participants. Functions of the general assembly in a state joint-stock bank are performed by the state or local administrative organs,
- b) board of directors or observer board ,
- c) managing director,
- d) board, when envisaged by the charter. In this case the charter shall separate the authorities of the board and managing director, Procedures for the formation and functioning of banks' governing bodies are defined in the " Company Law", and the charter of the bank, unless envisaged otherwise by the legislation.

2. Committee of control shall consist of at least three persons, appointed by the general assembly of the bank. Members of the council of the bank may not be members of the committee of control at the same time.

3. Committee of control:

- a) controls accounting and reporting of the bank

- b) reports to the council on the conformity of the bank's activity with the laws and by-laws, and timely execution of the resolutions of the Central Bank.
- c) comments on the proposals of the council
- d) executes other powers, as defined in the "Company Law" and charter of the bank.

Sessions of the control committee shall be convened at least four times in a year. An extraordinary session is called at a request of at least two members of the control committee.

4. In order to supervise the current activities of banks, banks shall establish a structural unit for internal supervision (internal control group or supervisor, inspector), who shall be accountable to the bank's executive body. The minimum conditions for internal supervision shall be established by the Central Bank. The Bank's board members, members of examination commission or other bank management shall not be appointed to the structural unit of internal supervision."

5. The Board of CBA shall be authorized to convene an extraordinary CBA board meeting (directors or Board observers) by its own decision to discuss the problems relating to the bank supervision and regulation, and to make appropriate decisions.

## **Article 22. Standards for Governors**

1. Governors of a bank are the Chairman of the CBA board (directors or Board observers), the deputy chairman and board members, executive director, his deputies, the chairman and members of the bank division, chief accountant, his deputy, the chairman of the examination commission, his deputy and members of control committee or members of bodies undertaking similar authorities prescribed by the founding documents of the bank, as well as heads of territorial and structural sub-divisions of the bank, justified by the bank department, division, section as well as the criteria set by the Central Bank, the staff of the sub-division having some impact in the decision making by the authorities under the direct leadership of the executive director or bank administration or related to the bank's main activities in the opinion of the Central Bank.

2. Persons having had any of the following may not be acting as bank managers:
- a) have been convicted for committing an intentional crime;
  - b) have been denied by the court of the right to work in financial, banking, tax, customs, trade, economic, legal sectors.
  - c) have been recognized as bankrupt and having (non-forgiven) outstanding liabilities;
  - d) the qualification or professional skills of whose do not meet the qualification or professional adequacy criteria set by the Central Bank;
  - e) have previously performed in such a way, which as justified by the guidelines approved by the Central Bank, in the opinion of the Central Bank provides grounds to doubt that this person, as a manager of the bank, may not manage adequately the corresponding area of bank's operation, or his activities may lead to the bankruptcy of the bank, the deterioration of the financial conditions or the discrediting of the prestige and business reputation of the bank.
  - f) are considered as suspected, accused or defendant in a criminal case."



3. The Central Bank shall define the standards and procedure for the governors of a bank, except for the heads of the departments.

4. Regardless of the form of the bank, provisions of Articles 65, 66, 67 and 68 of the “Company Law” shall apply to governors of all banks.

### **SECTION 3 PROCEDURE OF LICENSING THE BANKS**

#### **Article 23. Banking license**

1. Banking license is a document issued by the Central Bank which authorizes banking activity.

2. The Central Bank has an exclusive authority on issuing banking licenses.

3. Banking license is provided for an unlimited period of time and is non- negotiable or transferable in any other manner.

4. Banking license shall have a license number, date of issue, corporate name of the bank or branch of a foreign bank and the registration number. The single form of the license is fixed by the Central Bank.

5. Banking license may be declared void or non-valid by the resolution of the Central Bank.

6. Shall a bank or a branch of a foreign bank be liquidated, the banking license is declared void and shall be returned to the Central Bank within the terms envisaged.

7. Shall a bank or a branch of a foreign bank lose the license for bank activity, the Central Bank must be immediately notified. The Central Bank shall provide a new banking license within one month after the appeal.

8. The procedure for the licensing of the banking shall be defined by this law and the legal acts of the Central Bank. In the event there are other provisions about the licensing of the banking defined by other laws, the provisions of this law shall be prevailing.

#### **Article 24. Licensing stages**

1. Licensing process starts from the moment of submitting a mediation letter and ends by issuing a license or a denial.

2. Licensing consists of the following stages:

a) prior approval

b) registration of the bank or the branch of a foreign bank

c) issuing a license

#### **Article 25. Documents to be submitted for a prior approval**

The following documents shall be submitted for a prior approval:

a) a mediation letter from the initiative group or a foreign bank,

b) draft charter of the bank, or constituent documents and draft charter of a branch of a foreign bank.

c) the economic program of actions of the bank under creation or the foreign bank branch in the manner defined by the Central Bank, which should be

consisting of the banks activities for the coming three years and should contain the organizational chart, incomes and expenditures estimates, long-term financial development tendencies, description of markets projected for investments, the main tools of attracting resources, techniques to withstand competition, principles for bank management and potential risk assessment.

d)

other documents defined by the Central Bank.

#### **Article 26. Prior approval on obtaining license**

1. Within one month after the submission of the necessary documents, as defined in Article 25, the Central Bank shall scrutinize the mediation. The Central Bank shall reject the mediation if:

- a) activities of the bank the branch of a foreign bank contradict the existing legislation,
- b) economic program of the bank or the branch of a foreign bank does not comply with the norms defined by the Central Bank, and/or as justified by the norms approved by the Central Bank, by acting in conformity with the program, in view of the Central Bank, the bank shall not be able to undertake regular banking activity, or the economic program is unrealistic.
- c) the foreign bank of the mediating branch is not authorized to conduct banking activity in the country of registration, or the Central Bank considers that there is adequate supervision, implemented by the state banking supervision bodies, over the bank and its branches in the country of registration.

2. In order to receive certain information required by the Central Bank the one-month period of examining the motion may be suspended by the decision of the Board of the Central Bank. In the event the Central Bank does not reject the application within a month or does not inform about the suspension of the one-month period to the person, the initial approval shall be deemed as obtained. The Central Bank shall make available its decision on prior approval to the person submitting the motion within a day upon the first request of the applicant.

3. The CBA Board Decision on the provision or rejection of the prior approval shall not be subject to appeal.

#### **Article 27. Registration of banks and branches of foreign banks**

1. The following documents shall be submitted to the Central Bank by a bank or branch of a foreign bank for the registration:

- a) application on registration; resolution of the general assembly or other authorized body of the bank or foreign bank on adopting the charter of the bank or the branch of a foreign bank and the election (appointment) of bank's governors.
- b) information on previous work of the governors of the bank or the branch of a foreign bank, according to norms defined by the Central Bank.
- c) charter of the bank or the branch of a foreign bank,

- d) list of governors of the bank or the branch of a foreign bank, with the list of authorized signatures
- e) for persons with sufficient equity interests in the statutory fund of the bank, declaration on the absence of reasons indicated in Article 18 of this law, in accordance with the norms set by the Central Bank.
- f) Other documents defined by the Central Bank.

2. The Central Bank shall register the bank or foreign bank branch or reject their registration within a month upon the receipt of all the documents defined by the part 1 of this Article. To obtain further information required by the Central Bank the one-month period for consideration of application for registration may be suspended for an indefinite period. In case the Central Bank does not notify the person on the non-declining of the application or the suspension of the one-month period the bank shall be deemed as registered.

3. The Central Bank shall decline the motion for the bank or a foreign bank branch registration, if the submitted documents contain untrustworthy or fraudulent information (data) or incomplete or deficient documents have been submitted.

4. A bank or a foreign bank branch shall be registered only in the appropriate account opened in the Central Bank if the bank has the minimum statutory fund set by the Central Bank.

5. After registration in the Central Bank the bank acquires the status of a legal person.

6. The Central Bank produces a registration certificate to the bank or the branch of a foreign bank within three days after the registration.

7. The Central Bank notifies the state registration bodies on the registration of the bank or the branch of a foreign bank within five days after the registration.

## **Article 28. Registration of branches and representative offices**

1. Branches of the banks registered in Armenia shall be registered by the Central Bank upon submission of the following documents:

- a) resolution of the general assembly or other authorized body of the bank on opening the branch,
- b) mediation of the bank,
- c) charter of the branch
- d) information on previous professional experience of the governors of the established bank or the branch of a foreign bank, in accordance with the norms defined by the Central Bank
- e) economic program of the branch, in accordance with the norms defined by the Central Bank, including the organization chart, the main areas of activity, preliminary estimation of the composition of the assets and liabilities, estimation of profit and loss account for the period of two years.
- f) a document on providing space to the branch, and information on the level of equipment, adequate to the norms set by the Central Bank.
- g) other documents defined by the Central Bank.

2. For registration of a representative office in the Republic of Armenia of the banks operating in the Republic of Armenia and foreign banks, the banks shall submit the following documents:

- a) motion of the founding bank;
- b) evidence (justification) for opening a representation;
- c) a copy of the charter of the founding bank;
- d) the charter of the representative office; and
- e) other documents defined by the Central Bank.

3. When establishing branches and representations outside the Republic of Armenia the banks operating in the Republic of Armenia shall obtain the consent of the Central Bank by submitting the motion of the founding bank, the economic program for establishing the branch and other documents defined by the Central Bank, and after being registered (licensed, patented) in other country, in the manner stipulated by the law of the corresponding country, they shall be registered in the Central Bank by providing evidence that documents the registration.

4. Within a one-month period after the Central Bank presents the motion and the documents required by this Article, the Central Bank shall register the branch, representation and issues a Certificate of registration, and in the case of the rejection of the registration shall notify the bank on the grounds for rejection within a period of ten days. The one-month period for examination of the application to obtain further information required by the Central Bank may be suspended. The initial approval shall be deemed obtained in case the Central Bank does not notify the person on declining the application or on suspending the one-month period within a one-month period. The grounds for rejection of registration of bank branches and representative offices shall be specified by the Central Bank.

5. The Central Bank notifies the state registration bodies on the registration of the branch, or representative office within five days after the registration.

6. The CBA may reject the motion of the bank on registering the branch in or out of the territory of RoA, if:

- a) documents submitted contain inaccurate or false information,
- b) documents submitted are incomplete,
- c) space and technical adequacy of the bank's subsidiary do not meet requirements defined by the Central Bank,
- d) the professional know-how or the qualifications of the management of the bank's subsidiary do not meet the criteria defined by CBA,
- e) the bank has violated prudential economic standards in course of one year preceding time of presentation of subsidiary registration documents to CBA, or the final evaluation of the bank's indicators are lower than the size defined by the Central Bank, or the opening of the subsidiary by standards defined by the Central Bank will lead to the deterioration of the financial status of the Bank,
- f) In the case of establishing a subsidiary outside the territory of the Republic of Armenia the bank does not justify the need for the opening of the subsidiary in that country and in the opinion of the Board of the Central Bank it is planning to circulate the assets obtained in the criminal manner,
- g) Other grounds defined by the Central Bank.

7. The CBA may reject the motion on the registration of the representation of the bank or foreign bank created in the territory of the Republic of Armenia or the may not give its consent on the creation of representation of the bank that operates in the territory of the Republic of Armenia outside the territory of the Republic of Armenia, if:

- a) the documents submitted contain inaccurate or false information,
- b) documents submitted are incomplete,
- c) to the CBA's opinion opening of the representative office would harm the financial condition of the bank
- d) other grounds set by the CBA Board are available.

8. The procedure for the termination, including the procedure, conditions for the temporary termination of the activities of the subsidiaries and representations shall be defined by the Central Bank. The Central Bank may not allow to terminate or temporarily terminate the activities of the branches and representations in the case, procedure and terms defined by itself.

### **Article 29. Conditions on obtaining license**

1. Bank shall apply to the Central Bank on obtaining a license within one year after the prior approval. The Central Bank issues license to the bank or branch of a foreign bank within one month, if the following conditions are met:

- a) completion of the minimum statutory fund, as set by the Central Bank,
- b) the allocated space and level of the equipment are adequate to the requirements of the Central Bank and economic program of the bank,
- c) the organizational structure and operation systems of the bank, or branch of a foreign bank have been set,
- d) standards for the governors of the bank, or branch of a foreign bank, except the heads of departments are adequate to the requirements of the Central Bank. The Central Bank can examine governors of the bank, or branch of a foreign bank, to establish the level of adequacy,
- e) agreement of the domestic state banking supervision body on conducting banking activities in Armenia, for the branches of foreign banks.
- f) other conditions defined by the Central Bank.

2. The one-month period for consideration of the application for getting a license for banking, to meet certain other conditions required by the Central Bank may be suspended.

3. The Central Bank may reject to grant a license to the bank if according to the conditions defined by itself the conditions under which the preliminary approval for granting a license to the bank had been obtained, have changed essentially after the preliminary approval of the license and registration of the bank, and /or/ after the registration of the bank illegal, discrediting actions have been undertaken by the managers of the bank, the financial status of the persons with significant participation in the statutory fund of the bank has changed.

4. Prior approval and registration of the Central Bank shall be considered void, if the application for license has not been submitted to the Central Bank within the period of time specified in the first section of this Article.

### **Article 30. Registration and licensing fee**

Stamp duty shall be charged for registration and licensing of banks, foreign bank branches, other persons; for registration of bank branches and representations, as well as for recovery of the lost license or registration certificate in the amount and manner stipulated by the law of the Republic of Armenia on “The State Duty.” The Central Bank may charge a fee for service from persons passing professional adequacy and qualification test at the Central Bank in the amount set by the Central Bank.

### **Article 31. Registration log**

The Central Bank shall keep a log for the registration of the banks, branches of the domestic and foreign banks and representative offices of the domestic and foreign banks, where the following data shall be registered:

- a) number of the registration certificate,
- b) date of registration,
- c) legal form ; corporate name,
- d) place of business ,
- e) list of the founders (shareholders, participants),
- f) magnitude of the statutory fund,
- g) address and corporate name, department, or representative office,
- h) liquidation of a bank.

### **Article 32. Legal consequences of the withdrawal of licenses**

1. The Board of the Central Bank may revoke the banking license of a bank in case the bank or foreign bank branch has obtained the license on the basis of fraudulent documents or information in the licensing proceeding.

In this law “fraudulent information” is the information or documents, on the basis of which the Central Bank has made a decision that would not have been made were those information accurate and/or reliable.

2. The Central Bank Board decision on revoking a license shall be published immediately in mass media.

3. The bank shall be deprived of the right to undertake banking activity starting from the day the license is recognized as invalid, except for those transactions which are targeted at the execution of liabilities assumed by the bank and the sale of the assets and their final distribution in the manner defined by law.

4. The CBA Board decision on cancellation of the license together with the grounds for cancellation shall be immediately submitted to the bank in writing or the branch of the foreign bank. The appealing of the CBA Board decision on the cancellation of the bank’s banking license to the court shall not suspend the effectiveness of the said decision during the whole course of the court examination.

5. The bank’s operating license shall be recognized as invalid exclusively in the manner defined by this law. In the case of having other provisions defined on the recognition of the license as invalid by other laws, the provisions of this law shall apply.

### **Article 33. Registration of amendments**

1. Banks and branches of foreign banks operating in the territory of Armenia shall be obliged to present the following amendments to be registered with the CBA:

- a) any amendments made in the Charter of the bank and the branch of the foreign bank;
- b) amendments made in the management structure (except for the management of the structural divisions);

other amendments, stipulated by Law or the legal acts of the Central Bank.

2. The Central Bank shall either register the amendments stipulated by the Paragraph 1 of this Article or reject the registration within one month period, since the moment of the receiving the documents required for the registry of the above mentioned amendments. For the purpose of the clarification of certain facts required by the Central Bank the one-month period may be suspended. The amendment shall be considered registered in the event the bank is not notified about the non-rejection of the registration within one month by the Central Bank or the suspension of the one-month period.

The Central Bank shall register the amendments, if they do not contradict the laws and other legal acts and have been presented in the procedure and manner defined. The procedure and the format of presenting the amendments to registration shall be defined by the Central Bank.

3. The amendments stipulated under this Article shall enter into force since the moment of their registration by the CBA.

4. In the case of changing the size of the statutory fund the banks acting in the territory of the Republic of Armenia shall open an accrual account in the Central Bank. The funds of the accrual account shall be frozen by the Central Bank and the Bank may not possess, dispose and use those funds unless the changes are registered in the Central Bank in the procedure defined by this Article.

The banks that operate in the territory of the Republic of Armenia may not open an accrual account in other banks in the case the size of the statutory fund is changed.

#### **Article 33.1 The recognition of the registration as invalid**

In the manner defined by this law the decision of the Board of the central bank or the chairman (decree) approving the facts registered in the Central Bank by the decision (decree) of the Board of the Central Bank or the Chairman shall be recognized as invalid, if the bank branch, representation either for the purpose of registration of the changes defined by this law, or for the purpose of getting a certificate of the bank management qualification, professional adequacy, or other cases defined by this law has submitted to the Central Bank false documents or information.

## **SECTION 4**

### **REGULATION OF BANKING ACTIVITIES**

#### **Article 34. Financial transactions**

1. Within the framework of the legislation, the banks registered in Armenia, their branches, branches of foreign banks may:

- a) to accept demand and time deposits
- b) provide commercial and consumption credits, including mortgage loans, crediting debts or trade operations, factoring,
- c) issue guarantees and letters of credit,
- d) open and keep accounts, including correspondent accounts of other banks,
- e) provide paying and accounting services or otherwise service the accounts of customers,
- f) issue, purchase, sell and service securities, payment instruments, traveler checks, cards and other instruments, etc.,
- g) make investments and subscriptions
- h) perform financial dealing, manage securities and investments of other persons (authorized management)
- i) buy, sell and manage precious bullions and souvenir coins,
- j) buy and sell (change) foreign exchange, sign dram and foreign exchange futures, options, etc.,
- k) conduct leasing,
- l) to take on saving precious metals, stones, jewelry, securities, documents, etc.,
- m) give financial and investment consulting,
- n) to establish and maintain an information system on the solvency of customers, take measures on the collection of arrears.

2. The Central Bank may allow the banks to carry out types of operations which are not envisaged directly in this law, provided their close correlation with banking activities, or they don't contradict the objectives of this law, and don't endanger the interests of the depositors or creditors of the bank.

3. Banks may sign any legal political contract which is necessary or expedient to fulfill their objectives within the framework of this law.

Banks may not perform manufacturing, trading, or insurance operations, unless envisaged otherwise by the law.

### **Article 35. Investments and subscriptions**

1. Banks may perform investment activities, on their or their customers' behalf and expense buy, sell or otherwise acquire shares, bonds, or other securities, or acquire shares, bonds and other securities of other persons (issuers), for the purpose of allocation (subscription activities).

Banks may not subscribe to the securities of a person, and at the same time provide loans to him against the liabilities mentioned in the securities.

2. Without permission of the Central Bank, banks may not perform operations resulting to:

- a) acquisition of 4.99% and above participation in the statutory fund of any other person,
- b) acquisition of equity interests in the statutory fund of one person, exceeding 15% of the bank's total capital,



c) acquisition of equity interests in the statutory funds of other persons, exceeding in total 35% of the bank's total capital.

Restrictions, as defined in subparagraphs "a" and "b" of Paragraph 2 of this Article shall not apply to the persons, conducting solely the activities or transactions defined in this Article, including equity interests of banks in the capital of other banks. The bank, in the manner defined in this paragraph, when obtaining participation in the statutory fund of other persons, shall consolidate the balance sheets of those persons in its balance sheet in the manner set by the Central Bank. The Central Bank in the manner and conditions defined by itself shall execute supervision over those persons, the balance sheets of which in the manner defined by this article are consolidated in its balance sheet (consolidated balance sheet).

In the manner defined by this Paragraph the Central Bank's prior consent shall be required in the case of execution of every new transaction or transactions, as a result of which the bank's participation in the statutory fund of another or the same person shall exceed 9%, 15%, 35%, 50%, 70% or shall be 100%.

3. The Central Bank in the cases defined by Paragraph two of this Article, shall review the application on giving a prior consent about the planned transaction within one-month period and gives its consent, if the planned transaction is adequately meeting the financial conditions of the bank, and will contribute to the development of activities of the given bank in the financial market according to the conditions and manner approved by the Central Bank and will not be in contrast with the conditions defined by the Central Bank."

4. A prior approval, as defined in Section 2 of this Article may not be required if:
- a) equity interests in the statutory fund of other person were acquired against his outstanding liabilities. Equity interests, acquired through this procedure, shall be alienated in the possibly shortest terms, but not later than in six months. The Central Bank, on considering the situation at the securities market, and financial performance of the bank, may extend the terms of alienation of the equity interests for another six months, for the purpose of their better allocation.
  - b) A bank acquired equity interests in the statutory fund of other person on behalf and at the expense of its customer, or while making subscription on commission, provided the bank has to setoff the issuer only the cost of the sold (allocated) securities.

5. If the bank has not alienated equity interests thus acquired within the terms specified in clause "a" of Section 3 of this Article, the Central Bank may oblige the bank to consider the amount of equity interests as a loss, and immediately sell it, or fine the bank through the Court, at the amount of 1% of equity interests per each day of delay.

**Article 36. Prohibition to minimize the capital  
Payment of dividends only from the profit**

1. The banks may pay dividends by exclusively the annual results.

2. The minimization of the bank's real statutory fund during its activity, by paying dividends from it, the recalling of participation, share separation or otherwise shall be prohibited. In the case of payment of the dividends with the breach of the Article the Central Bank shall recognize the license for the banking activities of the bank as invalid.

3. The Central Bank shall restrict or prohibit the participants to pay dividends, if at the moment of their distribution the losses incurred by the bank (loses) shall be equal to the amount of the net retained earnings available in the bank at that moment or exceed that. The distribution of the dividends to the banks' s shareholders shall be prohibited , if at that moment the losses incurred by the bank (loses) are equal or exceed the amount of the net retained earnings available at the bank.

**Article 37. The purchase or acquisition of the bank's own shares, and restrictions on loans to purchase or acquire bank stock**

1. Bank may not repurchase, discount, or acquire through any other way of reimbursement, or extend a loan taking as collateral its shares, unless it is necessary to prevent losses which may be incurred through non-fulfillment or inadequate fulfillment of the liabilities to the bank, and at that it must sell them within two months after the acquisition.

2. The Central Bank may extend the terms defined in Section 1 of this Article for another six months, taking into account the current situation at the securities market, and performance of the bank.

3. The Bank shall be prohibited to lend or make other extensions of credit to the borrower or affiliate persons for the purpose of acquiring participation in the statutory fund of the bank, as well to guarantee or give a guarantee for receiving a loan or borrowing from the third person. The transactions concluded with the breach of this Article shall be considered as void.

**Article 38. Relations between banks and customers**

1. Relations between banks and customers shall be of contractual character.

2. Banks shall set such rules for activities which will preclude conflict of interests, particularly:

a) liabilities of the bank to one customer may not interfere with its liabilities to any other customer

b) interests of the bank and the employees shall not interfere with the liabilities of the bank to its customers

3. On signing a loan or any other agreement with a customer, the bank may not oblige the customer to sign any additional banking agreement.

4. Bank shall provide banking data subject to disclosure at a request of the customer, except the cases defined in the legislation.

5. Bank is liable for violation of rules defined in Sections 2,3 and 4 of this Article, in the manner envisaged by the legislation.

**Article 39. Transactions with related parties**

1. Other transactions with related parties shall not contain any preferential provisions, compared to the same kind of transactions with other persons. Preferential transactions with related parties are considered void.

2. The following are the related parties, as in accordance with this law and other banking laws:

a) bank's governors,

b) persons with sufficient equity interests

- c) persons linked and/or cooperating with related parties, as defined in clauses “a” and “b”.
- d) persons linked with the bank

**Article 40. Prohibition on the circulation of funds acquired by felony**

The circulation of resources acquired through the criminal ways in banks (money, precious metals, etc.) in the form of participation in the bank statutory fund, opening an account or a deposit account with the bank, transferring funds or executing other transactions and operations through these accounts shall be prohibited. The Central Bank may define a procedure for execution of bank operations, special procedure and formats for the submission by the banks of statements to prevent the circulation of the resources that have been acquired through the criminal manner, as well as exercise other authorities stipulated by this Law and other legal acts. The Central Bank may require from the bank, its customers or participants any document or information relating to the legitimacy of the origin of the resources stipulated under this Article. In case there are any doubts regarding the legitimacy of the origin and circulation of the said resources, the Central Bank shall be authorized to reject any prior consent, agreement, approval, registration or any other such application or motion, as well as to apply any sanctions prescribed by this law.

**Article 41. Restrictions on banking activities**

The Central Bank may impose restrictions on the bank’s credit, deposit, financial operations, individual types of investments in order to limit the operations risk of the banks.

**Article 42. Prohibition on restricting free competition**

Banks may not conduct transactions, aimed or causing restriction of free market competition between banks, or resulting to a monopoly of the bank or linked persons at the banking market, thus allowing them to influence on conditions and rates of banking activities and transactions, as defined in Article 34, or at least one of them,. This restriction shall not apply on a bank, if it is capable of influencing market rates of definite types of transactions because it is the sole performer of such transactions.

**Article 42.1 The long-term development programs of the banks**

The banks shall be obliged to present to the Central Bank their long-term development programs in the format, frequency and procedure defined by the Central Bank.

**Article 43. Disclosure of information**

1. The banks shall be obliged to disclose information on a regular basis, no lesser than on a quarterly basis on their performance, terms and conditions for accepting deposits and providing loans, in the manner, set by the Central Bank.

2. Apart from the information, specified in Paragraph 1 of this Article, the Central Bank may require that banks disclose any other additional information through the press and

mass media in the manner and frequency defined by the Central Bank, except for the information that contain commercial, banking or other confidential data.

3. The banks shall notify to the Central Bank on convening their shareholders general meeting no later than 15 days prior to the date of holding the shareholders general meeting.

## **SECTION 5 MAIN AND OTHER BANKING NORMS**

### **Article 44. Main banking norms**

1. The Central Bank may set the following main banking norms:
  - a) minimum magnitude of the statutory fund and total capital,
  - b) norms on adequacy of the total capital,
  - c) liquidity,
  - d) maximum risk for one borrower,
  - e) maximum risk for related parties,
  - f) maximum risk for debtors,
  - g) minimum magnitude of obligatory reserves to be placed in the Central Bank,
  - h) foreign reserves management.
2. The main economic normatives shall be mandatory and must be the same for all banks, operating in the territory of the Republic of Armenia with the same type of license, except for the main economic normative for the total capital stipulated in sub-Paragraph “a” of Paragraph 1 of this Article defined for the newly established banks, as well as other cases envisaged by Law.”
3. The Central Bank shall set limits, computation standards and constituent parts of main banking norms.
4. The Central Bank may define more stricter main economic normatives for separate banks other than the ones defined for other banks, in case the CAMELS rating of the given bank is below the ranking defined by the Central Bank, or the financial indicators of the given bank have deteriorated, or the bank functions in highly risky sectors.

### **Article 45. Total capital**

1. Total capital of the bank is the sum of its core and supplementary capital.
2. Constituent parts of the total capital are the statutory fund, retained earnings, and other constituents set by the Central Bank.
3. Constituent parts of the supplementary capital are set by the Central Bank. In computing banking norms, the Central Bank may limit the weight of the supplementary capital in the total capital.

### **Article 46. Minimum magnitude of statutory capital and total capital**

1. The Central Bank may set the minimum magnitude of statutory fund and total capital of banks as definite amounts. The Central Bank may amend the minimum magnitude of the statutory fund and total capital, but not more than once in a year.

2. On amending the minimum magnitude of statutory fund or total capital, the Central Bank may also fix the period during which the banks shall supplement the amended portion of the statutory fund or total capital. The period shall not be less than two years.

3. The Central Bank may define a different minimum size, i.e. at a certain amount, of the total capital for newly established banks. The Central Bank may revise the minimum total capital requirement for the newly established banks, but not more than once a year. The minimum total capital requirement defined for the newly established banks, defined by the Central Bank, shall become effective from the moment of its approval.

#### **Article 47. Adequacy of the capital**

Norms on the adequacy of total capital:

- a) minimum relationship between total capital and risk weighted assets
- b) minimum relationship between core capital and risk weighted assets

#### **Article 48. Liquidity**

Norms on total liquidity:

- a) minimum relationship between highly liquid assets and total assets (total liquidity)
- b) minimum relationship between highly liquid assets and demand liabilities (current liquidity)

#### **Article 49. Maximum risk for one borrower**

The maximum size of risk per borrower shall be defined as the maximum ratio of the loans provided by the bank to one borrower and its affiliated persons, including lending of bank accounts, all other borrowings, factoring, leasing transactions, awarded prepayments, advance payments, diverse maturity payments for the bank services or products, letters of credit, investments in securities issued by the borrower or its affiliated persons, as well as any other accounts receivable of the bank arising under any grounds, amount of warrants and guarantees provided against its liabilities (except for the bank's correspondence accounts) and the total capital of the bank.

#### **Article 50. Maximum risk for related parties**

The maximum risk connected with the bank's affiliated persons shall be defined as the maximum amount of the ratio of the loans, provided by the bank to its affiliated persons, including lending of the bank accounts, all other borrowings, factoring, leasing transactions, awarded prepayments, advance payments, diverse maturity payments against the services or products of the bank, letters of credit, investments in securities, issued by the borrower or its affiliated persons, as well as any other accounts receivable of the bank arising under any grounds, amount of warrants and guarantees (except for the bank's correspondence accounts) provided against its liabilities and the bank's total capital.

#### **Article 51. Minimum magnitude of obligatory reserves**

Minimum magnitude of obligatory reserves to be placed in the Central Bank is set as in accordance with the law “On the Central Bank of Armenia”. The decision of the CBA Board on strictening the minimum size of the mandatory reserves shall become effective from the moment the said decision is taken, unless a later period is defined by the said decision.

**Article 52. Foreign exchange management**

The Central Bank sets the factor on foreign exchange position of banks and branches of foreign banks, as in accordance with the law “On the Central Bank of Armenia”.

**Article 53. Going into effect**

1. If the Central Bank toughens main banking norms, the decision shall go into effect after six months from the date of adoption, unless envisaged otherwise by this law.
2. If the Central Bank weakens main banking norms, the decision shall go into effect from the date defined by the Central Bank.

**Article 54. Special economical normatives**

1. For the purpose of stabilizing the banking system, the CBA, in extraordinary cases, may establish special economical normatives up to 6 months duration.

2. The CBA exercises the special economical normatives within such time period that will enable the banks to comply with the normative requirements

**SECTION 6**  
**ACCOUNTING, REPORTING AND SUPERVISION**

**Article 55. Financial reporting**

1. Banks and branches of foreign banks shall compile, publish and submit to the Central Bank annual and quarterly financial reports. The Central Bank may also set other types of reports to be submitted.

2. The Central Bank shall also set formats, terms, and procedures for submitting the reports, taking into account international standards.

**Article 56. Accounting**

The banks shall maintain accounting in the manner, approved by the Central Bank and the authorized body of the Government of the Republic of Armenia in compliance with the National Accounting Standards of the Republic of Armenia

**Article 57. Supervision of banks**

1. The Central Bank has the exclusive right of supervising banks. The Central Bank executes the supervision in accordance with principles set in the legislation.

2. Employees of the Central Bank shall carry out on-site checks of banks, in accordance with procedures and within terms set by the Central Bank.

3. All banks and branches shall accept and assist employees of the Central Bank. No person may interfere with supervision and checks of the employees of the Central Bank.

4. The Central Bank may disclose such information on the findings of the examination of the given bank to a relevant state authority having the exclusive right to supervise the banks of another country, national bank or any other agency, which are necessary for them to supervise the regional branch of any Armenian bank, operating in its territory or issuing authorization for establishment of a regional branch in its territory, in the manner, set under the international agreement, concluded between the Central Bank and the relevant state authority of the particular foreign country with the exclusive right to implement the supervision of the banks of the given country. The Central Bank may provide the information, specified under this Paragraph even in case the said information represents a bank or other secret.

5. The procedures for formation and utilization of the reserve for the potential investment losses in the investment securities of the banks, classification of loans and receivables and formation of reserves for potential losses shall be defined by the authorized body of the RA Government jointly with the Central Bank.

#### **Article 58. Auditing**

1. Every year banks shall be audited by authorized independent auditing companies. An independent auditing company:

- a) assists in compilation of financial reports
- b) prepares and (or) checks annual financial reports and gives auditing conclusion, whether financial reports adequately reflect financial situation of the bank
- c) checks conformity of formation and operation of control committee to the legislation.

If the statutory fund of the bank does not exceed the magnitude set by the Central Bank, audit may be performed by control committee of the bank, unless a different procedure is defined by the Central Bank.

2. The Central Bank may oblige the banks to invite an independent auditing company within six months, and to publish its auditing statement.

3. Statement of the independent auditing company shall be submitted to the Central Bank within six months after submission of the annual report.

4. Upon the request of the Central Bank the independent auditing company shall be obliged to present to the CBA all the necessary documents regarding the audit of the bank irrespective whether they represent any commercial, bank or other secrets. In case of default of the obligations, specified under this paragraph, the auditing company shall carry a liability in the manner defined by the legislation of the Republic of Armenia.

#### **Article 59. Publication of balance sheet, auditing statement and financial report**

1. Banks shall publish in the newspapers summary of the balance sheet and auditing statement, and annual report within six months after the end of the financial year.

2. Banks shall publish quarterly reports after each quarter. before the 15-th of the following month.

## **SECTION 7 VIOLATIONS OF LAW AND PENALTIES**

### **Article 60. Violations of laws**

The Central Bank may apply sanctions against the banks, if:

- a) the statutory fund or other parts of the total capital have been replenished with the breach of laws and other legal acts;
- b) the requirements of this Law, other laws regulating banking activity and other legal acts adopted based on them are violated;
- c) the charter of the bank's branch is changed and are supplemented with the violations of the laws and other legal acts;
- d) the main economic normatives of the bank's performance are violated, or in the opinion of the Central Bank, the bank has undertaken such actions (activity), which may risk the interests of the depositors or the creditors of the bank;
- e) the regulations on the maintenance of accounting are violated, as well as the procedure and the conditions for the presentation and publication of the financial statements, and (or) those documents reflect false or unreliable information;
- f) the bank failed to fulfill the directive issued by the Central Bank in the manner, set by this Law;
- g) the CAMELS rating of the bank is below the scale, defined by the Central Bank for the banks' rating;
- h) the bank has failed to pay-in the guarantee fees to the deposit insurance fund under the laws and other legal acts.

### **Article 61. Penalties for violations of laws**

1. In the cases, specified in Article 60 of this Law the CBA may apply the following sanctions towards banks:

- a) warning and directive on elimination of violations;
- b) fine;
- c) deprivation of the bank manager's qualification certificate;
- d) recognition of the license as ineffective."

2. The application of sanctions specified in this Article shall not release the banks and the bank managers from the liability set by the laws, other legal acts and contracts.

3. For each violation of legislation the Central Bank may simultaneously issue a warning to the bank and (or) the bank management (except for the board members) along with the directive on eliminating the violations, and (or) a fine to the bank or the bank manager, and (or) deprivation of the qualification certificate of the bank managers.

### **Article 62. Warning and instruction to correct the violations**



1. Warning is issued as a statement on the violation to notify the violating bank on the violation.

2. Warning is also an instruction on correcting and/or termination of certain transactions, operations concluded by the bank, modification of their terms the violation and/or taking measures on preventing such violations in future, within the period set by the Central Bank. The instruction is mandatory for the warned bank.

3. Warning as a punitive measure may be applied if any of the provisions, defined in Article 60 are evident.

### **Article 63. Fines**

1. Fine is imposed upon the appeal of the Central Bank, by the decision of the Court if the bank disagrees on the imposition of the fine or its size. The amount is withdrawn from the correspondent account in favor of the state budget.

2. Fine as a punitive measure may be imposed if any of the provisions defined in Article 60 are evident.

3. The size of the fine imposed for each violation is set by the Central Bank:

a) fine imposed for every violation of banking norms, or for the delay in submission of reports to the Central Bank may not exceed 5% of minimum statutory fund, set by the Central Bank. This provision does not apply on the violations of mandatory reserves.

b) fine imposed for any other violation of banking legislation may not exceed 1% of minimum statutory fund set by the bank.

4. The size of the fine shall not lead to law performance of the bank.

5. The Central Bank may assign a fine to the bank managers (except for the board members) in the amount not exceeding the 1000-fold size of the minimum salary in cases when the institution exposes itself to unjustified risks, violates the core economic normative of the maximum risk amount related to the per borrower maximum risk amount or the maximum risk amount of the bank affiliate at the moment of issue, files the statements with delay or reflects unreliable information in the statements, hinders the examinations of the Central Bank or fails to perform the directives by the Central Bank in the manner, set in this Law. The fine shall be charged by the court decision, upon the claim of the CBA, when the bank manager objects to the fine or its size. The fines, imposed on the said persons shall be charged from their personal resources to the state budget.

### **Article 64. Deprivation of the Bank Managers' of the Qualification Certificate**

1. The bank managers shall be deprived of the qualification certificate upon the decision of CBA in case:

a) they have intentionally violated the laws and other legal acts;

b) have conducted unjustified and dangerous activity during his/her office term, have hindered the Central Bank, the activities of its employees in the execution of supervision;

c) have carried out such activities, as a result of which the bank has undergone or may undergo significant financial or other losses;

d) bank managers have undertaken actions evolving from his/her personal interests which are in conflict with the interests of the bank or its customers;

- e) bank managers have discharged his/her responsibilities in a dishonest and negligent manner, including the trusteeship obligations assumed towards the bank and bank's customers;
- f) bank managers do not meet the qualification requirements, set by the CBA;
- g) they have not performed the directive of the Central Bank or have failed to follow the warning of the Central Bank.

2. Since the moment the decision of the Central Bank on deprivation of the bank manager of the qualification certificate comes into force, the authorities of the given person, issued to the latter under the legislation of the Republic of Armenia, the Bank Charter and other internal documents shall be terminated.

#### **Article 65. Withdrawal of license**

1. License shall be withdrawn if:

- a) provisions of this law, other banking laws and by-laws have been violated,
- b) bank did not operate within one year after obtaining license,
- c) bank did not eliminate the violations, as instructed by the Central Bank, within terms set by the Central Bank,
- d) bank seized to function.

2. Banking license is withdrawn upon the CBA decision. The Bank's license on banking shall be recognized as ineffective exclusively in the manner defined by this law. In the event there are other provisions on the recognition of the license as ineffective by other laws the provisions of this law shall supersede.

3. License shall be withdrawn from branches of foreign banks also if the banking license was withdrawn from the foreign bank in the country of its registration, or functioning.

#### **Article 66. Publication of the resolution on license withdrawal and legal consequences**

1. The resolution of the Central Bank on withdrawal of license, as in accordance with Article 65, shall be published immediately. The resolution goes in effect from the day of publication, unless other terms are envisaged in the decision.

2. From the moment the resolution on license withdrawal becomes effective, the bank may not perform banking activities, except the activities on covering the liabilities, sale of funds and their final allocation and shall be liquidated in the manner defined by law.

3. Copy of the resolution on withdrawal of license with the explanatory note on the reasons shall be submitted to the bank or branch of a foreign bank within three days. The appeal of the decision of the CBA Board on the recognition of the license of the banking of the bank as ineffective to the court shall not suspend the effectiveness of that decision during the whole process of the court examination.

## **SECTION 8 REORGANIZATION OF BANKS**

#### **Article 67. Reorganization of banks**

1. A bank may be reorganized into a bank through the merging with another bank and re-structuring of the bank.

2. The re-structuring of the bank (change of its organizational-legal status) shall be carried out in the manner set by the RoA Civil Code and other laws.

3. The merging of the banks shall be executed in the manner set by this Chapter.

### **Article 68. Bank Merging Procedure**

1. In case of merging of one or several banks into another bank the merger banks shall conclude a contract on merging, upon the prior approval of the Central Bank.

2. In order to receive the prior approval on concluding a contract on merging, the bank shall, in the manner, procedure and terms defined by the Central Bank, present to the Central Bank the essential conditions, the relevant documents and information on the transaction as defined by the Central Bank.

3. The CBA Board shall take a decision on the prior approval or rejection prescribed in Paragraph 1 of this Article within a one-month period following the receipt of the essential conditions, the relevant documents and information on the respective transaction specified in Paragraph 2 of this Article. In case the CBA Board fails to take any decision within the term, specified in this Paragraph, the decision of the CBA Board shall be automatically considered adopted.

4. The CBA Board may refuse to approve the contract on merging in the following cases:

- a) the process of re-organization of bank(s) or submitted documents do not comply with the legislation of the Republic of Armenia; the required documents have not been filed in the proper manner and format or are incomplete;
- b) the financial state of the merger-bank will be put at an essential risk;
- c) as a result of merging the bank's financial state will be gaining predominating or monopolistic position in the banking market;
- d) the interests of any of depositors and other creditors of any of the parties of the transaction will be exposed to risks.

5. From the moment of receiving a prior approval of the Central Bank the merging banks shall within one-month period present the contract on merging, as well as other relevant documents attached to the motion to the CBA board for its approval. The Board of the Central Bank shall approve and register the contract on merging within a two-week term following the receipt of the contract, provided the said contract meets the requirements of the prior approval.

### **Article 69. Legal Consequences of Bank Merging**

1. The banks having decided on merging within the terms, specified in the contract on merging, shall take all the initiatives under the contract on merging, approve the statement on transfer and file it with the CBA for registration together with the charter of the successor

bank or amendments and supplements to it in the manner, set by this Law and the CBA legal acts.

2. Since the moment of filing the charter of the successor bank or its amendments and supplements with the CBA a record shall be made in the banks registry log on termination of the activity of the merged bank. The successor bank shall be recognized as reorganized from the moment of recording the termination of the merged bank specified in this Clause.

## **SECTION 9 LIQUIDATION OF BANKS**

### **Article 72. Reasons for liquidation**

1. The bank shall be liquidated in these cases:
  - a) Recognition of license as invalid;
  - b) Recognition of license as having lost its force;
  - c) All cases specified in the Law of the Republic of Armenia “On the Bankruptcy of Banks”;
  - d) Self-liquidation of banks;
  - e) Other grounds stipulated by Laws.”
2. In the cases defined by sub-Paragraph “c” of Paragraph 1 of this Article banks shall be liquidated in the manner set by the RoA Law “On the Bankruptcy of the Banks.”

### **Article 73. Self-liquidation of banks**

1. The highest governing body of the bank may resolve on the self-liquidation of the bank, and apply to the Central Bank for approval, attaching documents, as required by the Central Bank.
2. The council of the Central Bank may reject the application if:
  - a) the self-liquidated bank will not be able to cover its liabilities to the full extend,
  - b) self-liquidation may lead to the destabilization in the banking system of Armenia. In this case, the Central Bank may prolong the period of the bank’s functioning for a period up to two years.
3. If the bank is self-liquidated, the highest governing body of the bank shall adopt a draft on self-liquidation. The draft shall be approved by the council of the Central Bank.

### **Article 74. Liquidation committee**

1. The bank’s Liquidation Committee shall be created at least within 5 days following the relevant decision of the CBA Board or the court specified in Article 72 of this Law, in the manner, set by the bank charter for the purpose of liquidating the bank, transferring the bank assets (property) and satisfying the legitimate claims of the bank creditors. The liquidation committee shall consist of at least five members. Prior to the creation of the liquidation committee the authorities of the liquidation committee shall be exercised by the executive director of the bank or another relevant official entitled to managerial authorities, unless otherwise prescribed by the banks charter.

2. Since the moment of creation of the liquidation committee the authorities of management of the bank shall be transferred to the liquidation committee.

3. Within three days following its creation, the liquidation committee shall place an announcement in the media and notify the Central Bank about the liquidation of the bank and the manner and terms of filing the claims of the creditors, which shall not be less than two months.

4. In case there is no liquidation committee established, the bank's liquidation committee shall be established by the decision of the Board of the Central Bank.

#### **Article 75. Actions of liquidating committee**

1. Within three weeks after the appointment, liquidating committee:
  - a) makes inventory and evaluates the assets and liabilities of the liquidated bank,
  - b) finds debtors of the bank and sets the terms for premature coverage of the loans extended by the bank,
  - c) takes measures on the optimal sale of the bank's assets,
  - d) takes measures on coverage of liabilities to the bank,
  - e) sets the procedure of allocation of the assets among the shareholders, after covering the liabilities.

#### **Article 76. Report of the liquidating committee**

Liquidating committee shall submit report on actions to the Central Bank at least once in a month.

#### **Article 77. Suspension of liquidating committee**

1. After allocation of assets liquidation committee shall submit a report on its performance to the Central Bank.
2. After the report is approved by the Central Bank, the bank shall be considered liquidated, and liquidation committee released from liquidating obligations.
3. A relevant entry on the liquidation shall be made in the banking log of the Central Bank and in the agency in charge of registration of legal entities.
4. Liquidating committee shall issue a memorandum on liquidation of the bank.

#### **Article 78. Wages of members of liquidating committee**

Wages of the members of liquidating committee shall be paid from the funds of the liquidated bank.

#### **Article 79. Responsibilities of the members of liquidating committee**

The members of liquidating committee are responsible for violations and losses, as in accordance with the legislation.

**Article 80. Liquidation assets of banks**

Claims of the debtors shall be covered from liquidation assets of banks, i.e. property (assets) under the proprietary right of the bank.

**SECTION 10  
MISCELLANEOUS PROVISIONS**

**Article 81. Going into effect. Miscellaneous provisions**

1. This law shall go into effect after 60 days from publication.

2. After this law goes into effect, the law “On Banks and Banking” as of 1993; Decree of the RA Supreme Council “ Procedure on the execution of the laws “On the Central Bank”, and “On Banks and Banking” are declared void, except clause “d” of Section 2. The latter shall become void after an adequate amendment is made in the RA law “On State Duties”.

3. Functioning banks (and their branches and representative offices) which were licensed before July 1, 1996 shall be considered as licensed, as in accordance with the provisions of this law.

4. Within one month after this law goes into effect, the Central Bank:

- a) reviews resolutions of the Central Bank and brings them in accordance with this law,
- b) adopts the norms defined in this law which are necessary for the execution of this law,
- c) defines the procedure on punitive actions against the banks, as in accordance with this law.

5. After this law goes into effect, the Government of RA together with the Central Bank:

- submit to the National Assembly proposals on the magnitude and types of licensing fees within one month,
- submit to the National Assembly draft laws “On the Amendments to the Criminal Code” and “On the Amendments in the Administrative Violations Code” within two months.

6. Existing norms and regulations stay in effect until the amendments, as defined in this law, are made to the relevant laws and by-laws.

7. Banks operating in Armenia, irrespective of organizational structure shall reassess the fixed assets as in accordance with “The Company Law”, before January 1, 1997.