

REPUBLIC OF ARMENIA LAW

Passed by the National Assembly

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 and operation 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.

Articles. 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

1. A banking deposit is the deposit which, according to the provisions of the deal:

- a) is subject to immediate return with or without reimbursement, at the instruction of the depositor, or within the period coordinated between the depositor and the bank,
- b) is given without the consent of the depositor to bear the risks of it's further allocation,

c) is given not as a property, or reimbursement against proprietary or leasing rights, or against works and services done.

2. A banking deposit is also the checking, current, time, savings or similar account, opened in the bank as well as the interest accrued.

Article 6. Use of the word "Bank"

1. The word "Bank" or its derivatives may be used as a title, only by licensed legal entities, their branches, representative offices, operation agencies, 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 that can make a false impression about the financial performance or legal status of that bank.

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) one person is the subsidiary company of the other person; or:

b) is vested with the right of acquisition of more than the half of the voting stocks (shares) of the other person, or capable to influence the decisions of the latter through any other manner not prohibited by the law, acquires more than the half of the voting stocks (shares), or influences the decisions' of the latter through any other manner not prohibited by the law; or c) the majority of members, directors or other participants of its Board, are at the same time members, directors or other participants of the Board of the latter.

2. Physical persons are considered linked persons- if they are members of the same family or carry out joint economic activity.

Article 9. Significant equity interests

According to this law, and other laws regulating banking activities, the following shall be considered as significant equity interests in the statutory capital of a legal person:

a) acquisition of equity interests in the form of the voting stock of a legal person which is a joint-stock company, exceeding 10% of the total,

b) acquisition of equity interest in a form the shares in the statutory fund of a legal person which is a company of limited liability, exceeding 10% of the total,

c) acquisition of equity interests in the form of voting power, exceeding 10% of the total of a legal person which is a cooperative company.

Article 10. Subsidiary bank

According to this law, and other laws regulating banking activities, a bank is considered subsidiary, if another person acquires:

a) voting stock of the bank which is a joint-stock company, exceeding 50% of the total,

b) shares in the statutory fund of a bank which is a company of limited liability, exceeding 50% of the total.

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.

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; he 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 "Law on Joint Stock Companies".

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, or financial operation, as in accordance with this law.

Article 16. Operation agencies (posts) of banks

1. Operation agency (post) of a bank or it's branch, including branches of foreign banks is located in a different territory, and operates within the scope of authorities provided by the bank and may perform some banking and/or financial operations, as defined in this law, on behalf of the bank.

2. Operation agency (post) of a bank is opened as in accordance with the procedure defined by this law.

Article 17. Statutory funds of banks

1. Statutory fund of a bank is stated at the moment of it's 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. Statutory funds of banks are indicated as money (Armenian drams, or foreign currency).

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

1. A person or linked persons which acquired significant equity interests in the statutory fund of a bank, as a result of one or several transactions, shall apply to the Central Bank for the approval, within six months after the acquisition. The application is scrutinized by the Central Bank, within one month after the submission.

2. The Central Bank can reject the application, notifying the applicant thereon within ten days, if:

- a) the applicant has been convicted of organized crimes,
- b) has been convicted of breach of fiduciary duty.
- c) has been adjudged bankrupt, and has overdue liabilities, or:
- d) his previous activities induced bankruptcy of a bank or other person.

3. Within six months, upon receiving the rejection of the application from the Central Bank, as in accordance with clause 2 of this Article, the applicant shall alienate the exceeding part of the equity interests in the statutory fund of a bank.

4. Persons which acquired significant equity interests in the statutory fund of a bank, may not exercise the voting rights and the claims on dividends in the part of their equity interests which exceed 10% of the total statutory fund, until receiving the approval of the Central Bank, as in accordance with this Article.

5. If the person or linked persons has alienated the part of the equity interests exceeding 10% of the total statutory fund, within six months, approval of the Central Bank shall not be required.

Article 19. Restrictions on the acquisition of equity interests exceeding 50% of the total statutory fund

1. A person or linked persons may acquire equity interests (voting stocks in a joint- stock bank) exceeding 50% of the total statutory fund, as a result of one or several transactions, only at the prior approval of the Central Bank. The application is scrutinized by the Central Bank within one month after submission.

2. The Central Bank can reject the application, notifying the applicant thereon within ten days, if the transaction therein is aimed at, or may lead to a restriction in the free market competition, or if the acquisition of equity interests (voting stock in a joint-stock bank) exceeding 50% of the total statutory fund, as a result of the transaction therein, may lead to a monopoly of a person or linked persons at the banking market of RA- thus enabling them to influence on the market rates and conditions of the transactions or at least any of them, as defined in Article 35 of this law.

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) type 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) procedure on opening and liquidating branches, representative offices, operation agencies (posts),
- i) 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

Article 21. Governing bodies of banks. Committee of control

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) council,
 - 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 "Law on Joint Stock Companies", 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 "Law on Joint Stock Companies" 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.

Article 22. Standards for Governors

1. Governors of a bank are chairman and members of the council managing director, members of the board, chief accountant, chairman and members of the control committee, and heads of departments and branches.
2. No person shall serve as a governor who:
 - a) has been convicted of a crime,
 - b) is prohibited from serving at certain positions,
 - c) has been adjudged bankrupt and has outstanding liabilities,
 - d) has caused bankruptcy of a bank or any other person in the past, as a result of his illegal activity,
 - e) other persons, as defined by the law.
3. The Central Bank shall define the standards and procedure for the appointment or election of the governors of a bank, except for the heads of the departments.
4. Provisions of Articles 65, 66, 67 and 68 of the "Law on Joint Stock Companies" 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 that 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, and the banking license is declared void and shall be returned to the Central Bank within the terms envisaged.

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

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) economic program of the bank, 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.

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 and give a prior approval or rejection. 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,
- 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 it's branches in the country of registration (? Translator).

2. If the Central bank does not formally reject the mediation within the period defined in the first section of this Article, notifying the mediators on the grounds of rejection, then the prior approval is given, and the Central Bank shall produce the resolution on prior approval at the first request of the mediator, within one day.

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 activities 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.
2. The Central Bank shall register the bank or the branch of a foreign bank within one month after receiving all the necessary documents.
 3. After registration in the Central Bank the bank acquires the status of a legal person. The Central Bank shall open correspondent account of the bank or the branch of a foreign bank for it to replenish the statutory fund.
 4. The Central Bank produces a registration certificate to the bank or the branch of a foreign bank within three days after the registration.
 5. 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.
2. Branches of Armenian banks, operating abroad shall be registered by the Central Bank, upon submission of the mediation of the founding bank and economic program for the branch.
3. To open a representative office, banks shall submit the following documents to the Central Bank:
 - a) mediation of the founding bank,
 - b) basis for opening the representative office,
 - c) charter of the founding bank, for the representative office of a foreign bank.
4. The Central Bank shall register the branch, the representative office, and produces a registration certificate within one month after submission of the mediation; in the case of rejection, the Central Bank shall notify the bank on the reasons of rejection within ten days.
5. The Central Bank notifies the state registration bodies on the registration of the branch, or representative office within five days after the registration.

Article 29. Conditions of 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.

2. 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

The Central Bank collects state duties from banks, or branches of foreign banks upon submission of mediation for the prior approve, mediation for the registration, and application for the restoration of lost license, as in accordance with the law "On State Duties".

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 status; corporate name,
- d) address,
- e) list of the founders (shareholders, participants),
- f) magnitude of the statutory fund,
- g) address and corporate name of the subsidiary bank, department, or representative office,
- h) liquidation of a bank.

Article 32. Legal consequences of the withdrawal of licenses

1. Decision on the withdrawal of license shall be taken by the Court on the appeal of the Central Bank, if the bank or branch of a foreign bank obtained the license by providing false documents, or information.

2. The decision on the withdrawal shall be immediately published in newspapers, in accordance with procedure set by the law.

3. After the decision on the withdrawal of license is taken, the bank may not conduct banking activities, unless to meet the liabilities; to sale and finally allocate the assets.

4. The bank, or the branch shall be immediately notified on the decision of the withdrawal of license and its justification.

Article 33. Registration of amendments

1. Banks registered in Armenia, and branches of foreign banks shall notify the Central Bank within one month on the following amendments:
 - a) amendments in the charter,
 - b) amendments in the list of persons with significant equity interests in the statutory fund,
 - c) changes in the list of governors, except the heads of departments,
 - d) change of the location
 - e) changes in the magnitude of the statutory fund,
 - f) information on opening or closing territorial subdivisions, branches, representative offices and operation agencies (posts),
 - g) other amendments, as envisaged by laws and by-laws.
2. The Central Bank shall register the amendments within one month after submission or reject in the registration. The Central Bank shall register the amendments, if they are in compliance with the legislation and were presented in accordance with the set procedures and forms. Procedures and forms shall be set by the Central Bank.
3. Amendments in the constituent documents shall go into effect after the Central Bank's registration.

SECTION 4

REGULATION OF BANKING ACTIVITIES

Article 34. Financial transactions

1. Within the framework of the legislation, the banks registered in Armenia, their branches, and branches of foreign banks may:
 - a) take demand, term, savings, or other interest or non-interest bearing deposits,
 - b) provide commercial and consumption credits, including banking loans, 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 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 that are not envisaged directly in this law provided their close correlation with banking activities, or they do not contradict the objectives of this law, and do not endanger the interests of the depositors or creditors of the bank.
3. Banks may sign any legal political contract that 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 significant equity interests 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 clauses "a" and "b" of Section 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. A bank shall combine the balances of such persons in his balance sheet, as defined by the Central Bank, if the equity interests of the bank in the capital of those persons exceed 50% of the statutory fund.

3. The Central Bank, on giving its prior approval for such operations as defined in Section 2 of this Article, shall scrutinize the application within 10 days, and may give approval, provided the activity planned complies with the financial performance of the bank, and is not in contradiction with the other provisions of the legislation.

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 it's 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. Banks may not reduce statutory funds by paying dividends or otherwise during functioning of the bank.

2. Banks may not pay dividends if at the moment of payment the losses incurred are equal to, or exceed net retained earnings of the bank.

Article 37. Repurchase of shares by banks

1. Bank may not repurchase, discount, or acquire through any other way of reimbursement, or extend a loan taking as collateral it's 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.

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 that 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 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

Funds (cash, precious stones), acquired by felony, may not be circulated: invested in banks, transferred, or used for any other type of transaction. The Central Bank shall define procedure on the prevention of circulation of any funds acquired by felony.

Article 41. Restrictions on banking activities

The Central Bank may impose restrictions on loans and investments of certain types, or set a separate procedure on them, in order to limit the operations risk of the banks. Such restrictions may vary for different groups of banks, depending on the magnitude of their core or total capital. A procedure or V restrictions may not be set for a single bank.

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 43. Disclosure of information

Banks shall regularly divulge information on their transactions, procedure and conditions for taking deposits and providing loans.

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. Main banking norms are obligatory and shall be the same for all banks operating in Armenia.
3. The Central Bank shall set limits, computation standards and constituent parts of main banking norms.

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 certain 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.

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

Maximum risk for one borrower is defined as maximum relationship between total capital and the amount of guarantees received against loans provided to one borrower and linked persons.

Article 50. Maximum risk for related parties

Maximum risk for related parties is defined as maximum relationship between total capital and the amount of guarantees received against loans provided to related persons.

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".

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.

SECTION 6.

BALANCE SHEET, ACCOUNTING, REPORTING AND SUPERVISION

Article 55. Balance sheet and 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

Banks shall carry out accounting in accordance with international standards, defined in the joint procedure of the Central Bank and Government.

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.

Article 58. Auditing

1. Every year banks shall be audited by authorized independent auditing companies. Independent auditing company shall be appointed by the bank, in accordance with the procedure set by the Central Bank. 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 it's 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.

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 penalties on banks if:

- a) statutory fund or other parts of the total capital have been supplemented with violation of laws and by-laws,
- b) bank conducted transactions with violation of laws and by-laws,
- c) charter of the bank, or branch has been amended, or supplemented with violation of laws and by-laws,
- d) main banking norms have been violated,
- e) rules of accounting, or procedure and provisions on submission and publication of balance sheet, financial report have been violated, and/or the data in such documents has been wrong.

Article 61. Penalties for violations of laws

1. The Central Bank may apply the following penalties, in the cases defined in Article 60 of this law:
 - a) a warning, and an instruction to correct the violations,
 - b) a fine,
 - c) dismissal of the bank's governors,
 - d) withdrawal of license,

2. Application of penalties, as defined in this Article, shall not exempt banks from responsibilities envisaged by legislation.

Article 62. Warning and instruction to correct the violations

1. Warning is issued as a statement on the violation to notify the bank on the violation.
2. Warning is also an instruction on correcting the violation 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 apply to the Court on imposition of fines within the limits of thousand minimum salaries, against governors of the bank, except heads of departments and members of council, for violations of prudential norms, delay in submission of a report or including wrong data. Fines imposed on these persons are collected from their personal funds.

Article 64. Dismissal of banks' governors

Governors of a bank may be dismissed by the decision of council of the bank, on the presentation of council of the Central Bank if:

- a) a governor, or governors intentionally violate laws and by-laws,
- b) carry out groundless and risky activity,
- c) bank incurred significant losses as a result of activities of governors,
- d) carry out activities which come from their personal interests, and contradict the interests of the bank and the customers
- e) acted dishonestly and unfairly while performing their duties including the liabilities taken toward the bank and the customers of the bank.

Article 65. Withdrawal of license

1. License shall be withdrawn if:
 - a) provisions of this law, oilier 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 according to the procedure set by the legislation.
- 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, as envisaged by the 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.

SECTION 8

RESTRUCTURING BANKS

Article 67. Restructuring banks

- t. Restructuring of a bank is its merging with other bank, restructuring into a different organizational type, without starting liquidation process.
- 2. Restructuring of a bank shall be executed at a decision of the senior management of the bank, and the law "On Bankruptcy of Banks", other laws and by-laws-

**Article 68. Approval of the Central Bank
Registration and approval of the operation**

- 1. Merging or acquisition of banks, irrespective of the way, shall be executed only after approval of the Central Bank. The operation of merging or acquisition is considered ineffective without approval of the Central Bank.
 - 2. The Central Bank shall give approval in a possibly shortest time, but not later than in one month on the basis of the mediation and all necessary documents received within the period and framework of the procedure. The Central Bank does not give approval if:
 - a) envisaged operation will lead to monopoly of any of the parties or any of other persons at the banking market,
 - b) performance of the bank which is a party of the envisaged operation will significantly deteriorate.
- If the Central Bank does not notify the parties within one month on the rejection of the operation on the basis of clauses "a" and "b" of this Article, or through any other reason, the approval shall be considered given.
- 3. Within two months after the approval of the Central Bank is received, the parties of the operation shall apply to the Central Bank, attaching the documents as required by the Central Bank. The Central Bank confirms and registers the operation within three days.

Article 69. Merger of banks

1. One or several banks may merge, if the highest governing body of the parties of operation take a decision on it, in accordance with the provisions of their charters and adopt the program on merge.
2. Program on merge specifies name of the merging bank, and the bank with which it merges, procedure on merge, terms, conditions and other provisions as required by the Central Bank.

Article 70. Merge of a subsidiary with the head bank

1. A bank (head bank) which has 90% or over of each type of the stocks (shares) of the subsidiary bank, may merge the subsidiary by the decision of the board of directors without the agreement of the bank's or subsidiary bank's stockholders.
2. Program on merge shall specify:
 - a) corporate names of the head bank and subsidiary bank,
 - b) terms, conditions and procedure of merge
 - c) procedure on total or partial replacement of the stocks of the subsidiary bank with the stocks, bonds or other securities, cash or other assets of the head bank or other person.
3. The head bank shall notify every stockholder of the subsidiary bank on the summary of merge program. Within thirty days after the notification the head bank submits the documents for the approval and registration of the Central Bank, in accordance with Article 68 of this law.

Article 71. Legal consequences of merge

After the Central Bank approves and registers the merge operation:

- a) banks which are parties of the operation merge with the preserved bank, and cease to operate, except the preserved bank, and their licenses are withdrawn;
- b) all property and other assets pass under the proprietary rights of the preserved bank;
- c) the preserved bank takes all the obligations of merged banks;
- d) all the legal proceedings filed against the merged banks may continue with participation of the preserved bank;
- e) amendments and additions in the charter of the preserved bank, envisaged by the program on merge, go into effect;
- f) the stocks (shares) of the merged bank which are subject to replacement with the stocks (shares), bonds or other securities, cash or other assets of the preserved bank or other person, are considered as replaced;
- g) stockholders of any merged bank may be vested only with the rights specified in the program on merge.

SECTION 9

LIQUIDATION OF BANKS

Article 72. Reasons for liquidation

A bank shall be liquidated in following cases:

- a) on withdrawal of the license,
- b) on considering the license ineffective,
- c) on merging with other bank, or liquidating for insolvency,
- d) on self-liquidation,
- e) on other reasons, as defined in the legislation.

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 extent,
 - 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. Liquidation committee is appointed in accordance with the bank's charter, to liquidate the bank, sell its property (assets) and meet the legitimate claims of the debtors. It shall consist of at least five members.
2. Liquidation committee acquires the rights and liabilities of the bank.
3. Within three days after liquidation committee is appointed, the banks posts an announcement in newspapers, and notifies the Central Bank on the liquidation of the bank and terms of accepting the claims of the debtors.

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 state register of enterprises.
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 tins 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 "Law on Joint Stock Companies", before January 1,1997.

President of Armenia L. Ter-Petrossian Yerevan, June 30,1996

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