

LAW OF THE REPUBLIC OF ARMENIA
ON CREDIT ORGANIZATIONS

CHAPTER I
GENERAL PROVISIONS

Article 1. Subject of Regulation of this Law

This Law regulates the procedure for and terms of licensing, activity regulation, and supervision of the activity of credit organizations, including credit unions, savings unions, leasing and factoring organizations and other credit organizations, as well as the procedure for changing the status of banks operating in the Republic of Armenia.

This law does not apply to banks (except for the cases prescribed by Chapter 6 of this law), insurance companies, persons conducting professional operations in the securities' market, pension funds, investment firms, pawnshops, agricultural credit clubs, the activities of which are regulated by other laws and legal acts.

Article 2. Legal Regulation of Credit Organizations Operations

1. The operations of credit organizations shall be regulated by the Constitution of the Republic of Armenia, Civil Code of the Republic of Armenia, this Law, other laws of the Republic of Armenia, international contracts of the Republic of Armenia and in the cases prescribed by this law, by the procedure defined by the normative legal acts of the Central Bank of the Republic of Armenia (hereinafter, 'the Central Bank').

2. The procedure for insolvency and bankruptcy of credit organizations shall be established by Bank and Credit Organization Bankruptcy Act of the Republic of Armenia.

Grounds and procedures for liquidation of credit organizations are established in Chapter 9 of the Law on Banks and Banking of the Republic of Armenia.

3. If International Contracts of the Republic of Armenia define norms other than those prescribed by this law the norms in international contracts shall be applied.

Article 3. Credit Organizations and the Specification of the Activity of Credit Organizations

1. A credit organization is a legal entity chartered in the manner defined by this Law, which has the right to carry out the types of activities, defined by this law.

2. The activity of a credit organization shall be specified as the business activity of borrowing and (or) concluding similar transactions and lending in the form of credits or other investments defined by this law. As per the laws of the Republic of Armenia regulating the activity of credit organizations similar transactions shall include publicly issuing investment (bonds) and payment securities (except for securities issued by investment funds) or concluding transactions that give rise to monetary liabilities of a credit organization but are not related to liabilities that arise from the purchase of goods or services by a credit organization.
3. With the exception of banks and credit organizations, no other person in the Republic of Armenia shall be allowed to conduct any of the activities stipulated by Clause 2 of this Article.
4. A credit organization may be established with the structural status of a limited liability company, joint-stock company or commercial or non-commercial co-operative.
5. The Central Bank may set certain limitations permitting or restricting part of the operations prescribed by Article 8 of this law. These limitations may be set on the attraction of funds by credit organizations, the size of the funds attracted, allocation of funds, the size of funds allocated, as well as the circle of persons from whom the credit organization may take and (or) among whom it may allocate funds. Limitations prescribed by this clause shall be the same for all credit organizations of the same type (group).
6. As per this law and other laws and normative legal acts of the Republic of Armenia regulating the activity of credit organizations the types (groups) of credit organizations are:
 - a) credit unions, that take funds from and lend to their members. In cases prescribed by the normative acts of the Central Bank credit unions may also take funds from and lend to other persons;
 - b) savings unions that take funds from and lend to their members;
 - c) leasing companies(organizations), the main activity of which is to conclude financial lease contracts according to the procedure and terms and conditions set by Paragraph 6 of Chapter 35 of the Civil Code of the Republic of Armenia;
 - d) factoring organizations the main activity of which is concluding funding contracts (factoring contracts) financing monetary claims according to the procedure and terms and conditions set by Chapter 48 of the Civil Code of the Republic of Armenia;
 - e) other credit organizations, the main activity of which is to conduct the activities defined by Clause 2 of Article 3 of this law.
7. Conducting the activities defined by this law without a license for a credit organization shall give rise to the liability defined by the legislation of the Republic of Armenia.

Article 4. Application of the Term ‘credit organization’ 1. The term ‘credit organization’ may only be applied in the official name of chartered credit organizations. Persons that are not a chartered credit organization shall be prohibited from using the term “credit organization” or derivatives of this term in advertisements, public offers or in support of people making similar advertisements.

2. Credit organizations are prohibited from using in their trademark disorienting words, which may give room for misassumption about the financial condition or legal status of the credit organization.

CHAPTER II

STATE REGISTRATION AND LICENSING OF CREDIT ORGANIZATIONS

Article 5. State Registration and Licensing of a Credit Organization

1. For state registration and licensing of a credit organization the founders shall submit to the Central Bank
 - a) an application for registration and licensing;
 - b) six copies of the charter of the credit organization approved by the founder’s meeting;
 - c) the resolution of the founders’ meeting of the credit organization on the appointment of the management of the organization;
 - d) a reference on the background/experience of the management prepared in the manner defined by the Central Bank;
 - e) a statement by participants with significant interest in the statutory fund of the credit organization prepared in the manner defined by the Central Bank about the absence of grounds prescribed by Clause 2 of Article 10 of this law;
 - f) rules for the activity of the credit organization that have been approved by the senior management that include the type, scope, and policies for activity, methods and procedures for taking and allocating funds, procedures and other provisions prescribed by the Central Bank and conform to the legislation of the Republic of Armenia. The Central Bank may establish master rules and regulations for different types (groups) of credit organizations on the basis of legal normative acts approved by it as per different types of activities.
2. Upon receipt of the documents and information specified in Clause 1 of this Article the Central Bank shall register and license a credit organization or reject the registration and licensing within a one month period. A credit organization shall be registered and licensed if the following requirements are met:
 - a) the statutory fund of the credit organization has been fully paid; this should be paid either to the Central Bank or to the cumulative account opened with another bank operating in the Republic of Armenia;

- b) the location of the credit organization meets with technical requirements defined by normative legal acts of the Central Bank;
 - c) managers of the credit organization meet the qualifications and professional aptitude criteria required by the Central Bank;
 - d) persons with a significant interest in the statutory fund of a credit organization have obtained the consent of the Central Bank.
- 3. Upon registration, within three days' from the adoption of the decision on registration, the Central Bank shall issue a registration certificate and license for the credit organization and shall notify the State Registry of the Republic of Armenia so that the latter makes the relevant record about the registration of the credit organization.
- 4. Upon registration in the Central Bank the credit organization shall acquire the status of a legal entity and shall be deemed licensed.
- 5. The Central bank shall decline the registration and licensing of a credit organization if
 - a) false and unreliable information was submitted;
 - b) documents submitted were deficient, incomplete or contradicted the laws and other legal acts of the Republic of Armenia;
 - c) the credit organization did not meet the requirements set out in Clause 2 of this Article.
- 6. In the event an application for registration and licensing is not declined officially within one month, a credit organization shall be deemed registered and licensed.
 - 7. Legal entities that conducted operations of a credit organization as their main activity before this law came into effect may apply to the Central Bank for being re-registered as a credit organization within three months following the term specified in Article 23 of this law, in the manner defined by this law
 - 8. The Central Bank shall re-register and license these legal entities if the requirements and terms set out in Article 5 of this law except for Sub-clause a) of Clause 2 of Article 5 are met. No fees or duties shall be charged for re-registration prescribed by this Article.

Article 6. License of a Credit Organization

- 1. The license for a credit organization shall be provided by the Central Bank for an unlimited period of time.
- 2. The license of a credit organization may not be given to other persons for use, may not be sold, assigned or pledged.
- 3. A credit organization license shall have a license number, date of issue, the full corporate name and the state registration number of the credit organization, and shall set out the permitted operations. A uniform format of the license for financial credit organizations shall be defined by the Central Bank.
- 4. The Central Bank shall maintain a registration book for licenses granted, which shall be public. The format of the license registry book, the maintenance procedure for the book and the information contained in it shall be established by the Central Bank.

Article 7. Registration of Branches and Representative Offices

1. A credit organization may establish branches and representative offices in the territory of the Republic of Armenia and foreign countries in the manner set by this Law and the normative legal acts of the Central Bank; these may start operation upon their registration in the Central Bank. Branches and representative offices of credit organizations may be established in foreign countries in conformity with the laws of the host country and (or) international contracts of the Republic of Armenia.
2. The procedure for the registration of branches and representative offices, and the information and the list of documents required for registration shall be defined by the normative legal acts of the Central Bank.
3. An application for registration of a branch or representative office shall be accepted or declined by the Central Bank Board within a one-month term. In case the application is accepted the Central Bank shall register the branch or the representative office and issue a registration certificate. In the event of declining the application the Central Bank shall advise the credit organization about the bases for rejection within five days.
4. The Central Bank shall decline an application for registration of a branch or representative office if
 - a) false and unreliable information was submitted;
 - b) the documents submitted were deficient, incomplete or contradicted the laws and other legal acts of the Republic of Armenia;
 - c) the credit organization did not comply with any one of the main prudential standards applicable to it at the moment of applying or during the review of the application.
5. The Central Bank shall withdraw the registration of a credit organization
 - a) upon the request of the credit organization within a week after the request was made;
 - b) if the credit organization is liquidated.

CHAPTER III REGULATION AND SUPERVISION OF OPERATION OF CREDIT ORGANIZATIONS

Article 8. Financial Operations

1. On the basis of its license defined by this law a credit organization may conduct the following financial operations or a part thereof:
 - a) borrow and (or) conclude similar type of transactions;
 - b) extend credits, loans, provide debt financing or commercial transaction financing, and factoring;
 - c) provide guarantees;
 - d) issue, buy (discount), and sell securities, traveler's checks, cards and other instruments and perform similar other transactions;

- e) provide services of a financial agent (representative), manage other persons' securities and investments, conduct trust (fiduciary) management, conduct professional operations in the government bond market (operations of a dealer, broker, agent, and sub-depository); buy, sell and manage precious metals, bank bullion (standardized) and coins;
 - f) buying and selling foreign currency, including gold and foreign exchange futures, options, and similar other transactions;
 - g) undertake financial leasing;
 - h) safe-keep precious metals, gems, jewelry, securities, documents and other valuables,
 - j) provide financial and investment consulting,
 - ja) create and operate an information system for customer creditworthiness, and undertake debt collection activity,
 - jb) undertake transactions with the consent of the Central Bank specific to credit organizations in international practice.
2. A credit organization may extend only business credits or loans and consumer credits and loans in the manner and under the conditions defined by the Central Bank. As per the laws regulating the activity of credit organizations, extending business credits or loans is defined as concluding and effecting transactions where the debtor is a legal entity or a sole entrepreneur, who intends to use the proceeds from the transaction only for its current or future entrepreneurial activity. Consumer lending or credit granting is defined as concluding or effecting a transaction, where the debtor intends to use the proceeds from that transaction only for consumer purposes not related to the entrepreneurial activity of the debtor.
 3. A credit organization may only borrow from and or conclude similar transactions with legal entities, sole entrepreneurs and its members; the Central Bank may set the limitations defined by Clause 5 of Article 3 of this law.
 4. A credit organization shall be prohibited from conducting production, commercial or other activities subject to licensing.

Article 9. Managers of Credit Organizations, Their Professional Criteria and Qualifications Procedure

1. The managers of credit organizations are the Chairman of the Board of the credit organization (board of directors or observers), his/her deputy and Members of the Board, the Executive Director, his/her deputy, the Chairman of the Operating Committee, his/her deputy, Members of the Operating Committee, Chief Accountant, his/her deputy, the Chairman of the Audit Committee, his/her deputy and Members of Audit committee.
2. The following may not be managers of a credit organization:
 - a) people who have been convicted of an intentional crime;
 - b) people who have been deprived of the right to hold positions in financial, banking, tax, customs, commercial, economic, and legal sectors by a court decision ,
 - c) people who have been recognized as bankrupt and having outstanding (non forgiven) liabilities,

d) persons, whose qualification and professional knowledge do not meet the professional and qualification criteria defined by the Central Bank,

e) persons, who are involved as suspects or defendants in a criminal case,

f) persons, who have been recognized as incapable or have limited capability in the manner defined by the legislation of the Republic of Armenia

3. The criteria and procedure for qualifications, professional aptitude of managers of credit organizations (except for division level management) shall be defined by the Central Bank.

4. Upon registration in the Central Bank a person may work as a manager of a credit organization. To be registered in the Central Bank the person should have the qualification for a credit organization manager and a certificate of professional aptitude. Registration prescribed herein shall be performed (by the Central Bank) within 5 days of applying.

Article 10. Limitations to Acquiring a Significant Interest in the Statutory Fund of Credit Organizations

1. A person or affiliated persons thereto may acquire a significant interest in the statutory fund of a credit organization as a result of one or several transactions, only upon the prior consent of the Central Bank.

As per this law and the normative legal acts adopted by the Central Bank on the basis of this law a significant interest shall be considered a participation by which the interest of the relevant participant in the statutory fund of a credit organization exceeds 10% of the statutory fund.

The list and format of documents and information to be submitted to the Central Bank by a person or affiliated persons with the motion of the credit organization for acquiring the prior consent of the Central Bank for the acquisition of a significant interest in the statutory fund of a credit organization shall be defined by the Central Bank.

Upon receipt of all the documents and information required by this Clause and other normative acts of the Central Bank, the Central Bank shall review them within a one month period. The period of one month required for the clarification of certain facts required by the Central Bank may be suspended by the decision of the Board of the Central Bank but no longer than for three months

In the event an application is not declined by the Central Bank within one month or the person is not advised of the suspension of the one month period, the consent shall be deemed given.

2. The Central Bank shall decline an application by notifying the applicant within ten days' period upon making the decision on declining the application if:

a) the person has been convicted of an intentional crime;

b) the person has been recognized as incapable or as having limited capability in the manner defined by the legislation of the Republic of Armenia;

c) the person has been deprived of the right to hold positions in the financial, banking, tax, customs, commercial, economic, legal sectors by a legally effective verdict;

- d) the person has been recognized as bankrupt, and has outstanding (non forgiven) liabilities;
- e) the relevant transaction is targeted at or is leading to or may bring about the restriction of free economic competition;
- f) the documents - presented to the Central Bank did not conform to the format and procedure defined by the Central Bank, or the documents presented or information therein reflected false or unreliable information;
- d)
- g) in the informed opinion of the Central Bank the funds to be paid into the statutory fund of the credit organization or funds to be received for disposing of an interest were obtained criminally or illegally.

Without the prior consent of the Central Bank a contract on the acquisition of a significant interest in the statutory fund of a credit organization shall be annulled.

Article 11. Affiliated and Related persons

Persons shall be considered as affiliated or related as per this law and the normative legal acts of the Central Bank based on this law, if their affiliation and (or) interrelationships comply with the provisions of Articles 8 and 39 of the Law of the Republic of Armenia on Banks and Banking.

Article 12. Main Prudential Standards for Credit Organizations

1. The main prudential standards, defined in the Law of the Republic of Armenia On Banks and Banking and the normative legal acts of the Central Bank, shall be applicable for credit organizations, save for those standards that have been excluded by the Central Bank Board. The main prudential standards established for credit organizations shall define a less rigorous regime of regulation than is the case of prudential standards defined for banks.
2. The main prudential standards shall be mandatory and shall be the same for all credit organizations of the same type (group) with the exception of the credit organizations that operate within the limitations defined by this law
3. The concepts of the main prudential standards shall be defined by the Law on Banks and Banking.
4. Values, procedures (rules) for calculation and the composition of the elements in the calculation of the main prudential standards shall be defined by the Central Bank.
5. In case the Central Bank makes the regime of the main prudential standards more rigorous, the changed standards shall become effective six months following their official publication defined by the Central Bank.
6. In case the Central Bank makes the regime of the main prudential standards less rigorous, the changed standards shall become effective after official publication by the Central Bank if the Central Bank does not set a later date for them to be effective.

Article 13. Supervision of Credit Organizations Activity

1. The Central Bank shall have the exclusive right to supervise the activity of credit organizations. The Central Bank shall conduct the supervision of credit organizations as set out in procedures established by the Central Bank.
2. Central Bank staff shall conduct examinations in credit organizations under the procedures, within terms, in instances and at the frequency determined by the Central Bank.

Article 14. Preventing the Circulation of Criminally Obtained Funds

Circulation of criminally obtained funds (money, precious metals, etc.) through any transaction or operation shall be prohibited in credit organizations. In order to prevent the circulation of criminally acquired funds, the Central Bank may establish a procedure for effecting transactions prescribed by this law and special procedures/rules and forms for submitting returns by credit organizations, as well as exercise other authority prescribed by this law and other legal acts. The Central Bank may require any document or information on the validity of the origination of funds from credit organizations, customers or members of credit organizations. In the event of having doubts about the validity of the origination and circulation of funds, if the person does not prove the opposite, the Central Bank shall have the authority to withhold its prior consent, consent, approval and registration or to decline any other similar application or motion as set out in this law, as well as to exercise the sanctions prescribed by this law.

CHAPTER IV.

DISCLOSURE OF FINANCIAL STATEMENTS, AUDIT REPORTS, INFORMATION AND AUDITS

Article 15. Accounting and Financial Statements

1. Credit organizations shall maintain their accounting in the manner agreed with the Central Bank and the authorized body of the Government of the Republic of Armenia in compliance with the Accounting Standards of the Republic of Armenia.
2. Credit organizations shall prepare, disclose and file with the Central Bank the financial statements envisaged by Armenian law and other legal acts, as well as other reports defined by the Central Bank in the manner and within the terms set by the Central Bank.
3. Credit organizations shall make and use provisions for investment securities and loan and receivable loss provisions according to the procedures established for banks in accordance with the Armenian Laws on Banks and Banking and The Profit Tax.

Article 16. Audit of Credit Organizations

1. The operation of a credit organization shall be audited on an annual basis by an independent, chartered auditing firm (organization), engaged by the credit organization.
2. The independent auditors' report shall be submitted to the Central Bank by a credit organization within a six-month period following the end of the fiscal year.

Article 17. Disclosure of Audit Reports and Financial Statements

1. Credit organizations shall publish their annual financial statements and audit reports in the press within six months of the end of the fiscal year.
2. Credit organizations shall publish their quarterly financial statements by the 15th date of the month following each quarter.
3. Credit organizations shall regularly publish their performance data in the manner and at the frequency set by the Central Bank.

CHAPTER V.

LEGAL VIOLATIONS AND APPLICATION OF RELEVANT SANCTIONS

Article 18. Legal Violations

The Central Bank may apply sanctions against credit organizations in the following cases:

- a) a credit organization has violated laws and other legal acts in conducting its financial operations;
- b) a credit organization has not complied with the prudential standards established for credit organizations;
- c) the manner and terms for disclosing the balance sheet, financial statements and other reports have been violated and (or) these documents contained false data;
- d) a credit organization has failed to carry out the directive of the Central Bank stipulated by sub-clause a) in Clause 1 of Article 19 of this law.

Article 19. Sanctions for Legal Violations

1. In cases stipulated by Article 15 hereby the Central Bank may apply one of the following sanctions against a credit organization:

- a) warning and a directive to rectify the violations;
- b) penalty;
- c) revoking the qualification certificate of the head of the credit organization;
- d) canceling the license.

2. Subject to resolution by the Central Bank penalties may be applied to the executive head and chief accountant of a credit organization as additional sanctions in an amount not exceeding a thousand times the minimum salary.

3. The application of the sanctions stipulated by this Article shall not imply any release of obligations of a credit organization defined by laws, other legal acts or contracts.

4. The sanctions in this Article in respect of a credit organization shall be applied in accordance with the bases, limitations, cases and manner defined in the Law of the Republic of Armenia On Banks and Banking. In addition to these bases, the license of a credit organization may be cancelled if false data were presented during its registration and licensing.

5. The license of a credit organization is canceled by the decision of the Central Bank Board. The said resolution shall become effective upon being announced in the mass media.

CHAPTER VI TRANSITIONAL PROVISIONS: CHANGE OF BANK STATUS

Article 20. An Alternative for Changing a Bank's Status

A bank may change its status in the manner set by this Law and the legislation of the Republic of Armenia through its re-registration as a credit organization.

Article 21. Procedures for Changing a Bank's Status

1. Senior management of a bank shall make a decision on changing the bank's status that shall also approve a program for changing the bank's status. Within a week after

making that decision, the motion on changing the bank's status, the decision and plan shall be submitted to the Board of the Central Bank for approval.

2. The Board of the Central Bank shall review the presented documents within a one-month period and make a decision to either approve or reject the motion. In case no decision is taken within the above term on approving the motion, the Central Bank Board resolution on approval shall be deemed made.

3. The Central Bank Board may not approve the above motion in the following cases:

a) the submitted documents are not conform to with the legislation of the Republic of Armenia, the required documents are not filed in the proper manner and format or are incomplete;

b) the change of the bank's status will cause harm to the bank's depositors.

)The procedure and manner for submitting to the Central Bank Board for approval the motion on changing a bank's status and the list of other documents supporting and disclosing respect to the process of changing the bank's status shall be established by the Central Bank.

Article 22. Legal Implications of Changing Bank Status

1. Within the terms defined in the program on changing a bank's status, a bank shall take the initiatives envisaged under the program, approve the charter of the re-registered legal person and submit it for re-registration. During the change of the status the Central Bank may set for the bank changing its status a regime of main prudential standards other than the one for banks.

2. A bank shall honor all the obligations undertaken under the bank deposit and bank account contracts or transfer them to another bank in accordance with the Civil Code of the Republic of Armenia under the terms defined in the program on changing the bank's status.

3. In the event of transferring to another bank the obligations of a bank under the bank deposit and bank account contracts, the bank shall advise the Central Bank of the name of the bank undertaking the obligations prior to the conclusion of the relevant transaction along with submitting all documents related to the transactions of transferring the debt. The Central Bank shall have authority to prohibit the bank from concluding the transaction on transferring the debt based on the financial state of the bank undertaking the obligations.

4. Upon re-registration of the bank which is in the process of changing its status the activity of the bank shall be considered ceased, and its rights and obligations (except the ones, undertaken under the bank deposit and bank account contracts) shall be transferred by right of legal succession to the re-registered person and a relevant record made in the bank registry on termination of the bank's activity notifying the body that conducts the state registration of legal entities. Under the decision on re-registration of the bank the Board of the Central Bank shall cancel the banking license of the bank.

5. Upon re-registration as a credit organization the newly established credit organization shall be considered as chartered for implementing the relevant activity. No fees or duties shall be charged for re-registration and licensing.

CHAPTER VII
CONCLUDING PROVISIONS

Article 23. Concluding Provisions

1. The activity of credit organizations set by this law shall be subject to licensing in six months following the promulgation of the law.
2. This Law shall come into force from the moment it is proclaimed.

President of the
Republic of Armenia

R. Kocharyan