

THE REPUBLIC OF ARMENIA

LAW

ON GUARANTEEING COMPENSATION OF BANK DEPOSITS

Adopted 24 November, 2004

The purpose of this Law is to promote reliability of the Republic of Armenia banking system, enhance the public confidence thereto and protect interests of depositors.

CHAPTER 1

GENERAL PROVISIONS

Article 1. Subject of regulation

This Law and other legal acts adopted on basis of this Law shall regulate the relationships pertaining to the guarantee of compensation of bank deposits, including deposits of private entrepreneurs (hereinafter, depositors), within the amount specified by law.

(Article 1 amended according to AL-5-N, 18.03.08)

Article 2. Bank deposit and guaranteed bank deposit

1. Within the meaning of this Law and other legal acts adopted on basis of this Law, bank deposit (hereinafter, bank deposit or deposit) means:

- a) cash on depositor's banking account, owned by depositor or deposited to the benefit of depositor by a third party, which is subject to refund and/or repayment to depositor;
- b) cash deposited on settlement, current, term, savings or other banking accounts of depositor;
- c) cash paid against purchase of nominal stock issued by the bank;
- d) interest accrued on cash as defined in clauses (a), (b), (c) hereof.

Within the meaning of this Law and other legal acts adopted on basis of this Law, cash provided by depositor to bank under depositor's commitment to undertake risks of their use, or to lease or obtain property, property rights, or as compensation for work or service rendered, is not deemed as nominal stock.

Within the meaning of this Law and other legal acts adopted on basis of this Law, all types of shares, secured mortgage bonds and equity interest in the statutory capital of a legal person is not deemed as nominal stock.

2. Guaranteed bank deposit (hereinafter, guaranteed deposit) means dram and foreign currency denominated banking deposit placed by depositor in the bank, within the amount defined in Article 3 of this law.

3. Bank deposit is not deemed guaranteed deposit if:

- a) it is owned by the CEO of the bank and/or his family members,
- b) it is owned by party with significant interest in the bank and/or his family members,

- c) the owner (co-owner) disclaimed his proprietary right over it,
- d) funds are recognized as illegal proceeds, unless counter-argued by its owner, under law and other regulations,
- e) interest rate on deposit is at least 1,5 times higher than interest rate on similar bank deposits indicated in the public offer of the bank.

In the meaning of this Law and other legal acts adopted on basis of this Law, a depositor is an individual (including private entrepreneur) who keeps deposit in the bank.

Within the meaning of this Law and other legal acts adopted on basis of this Law, a joint bank deposit is a deposit in the name of two or more persons, and both of them have property right over it.

In the meaning of this Law and other legal acts adopted on basis of this Law, senior official of the bank is chairman of the board (board of directors or supervisory board), deputy chairman and members of the board, CEO (head of governing board), deputy and members of governing board, chief accountant, chairman of the control committee, and head of the internal audit unit.

In the meaning of this Law and other legal acts adopted on basis of this Law, members of the same family are the father, the mother, the spouse, and the children.

In the meaning of this Law and other legal acts adopted on basis of this Law, a qualified shareholder is qualified shareholder as defined by the Armenian Law on "Banks and Banking".

4. Bank deposits in the banks operating in Armenia (except their branches established in other countries) and in the foreign bank branches established in Armenia shall be guaranteed.

(Changed AL-5N, 08.03.08; AL-104-N, 26.06.08)

Article 3. Amount of guaranteed deposit

1. Amount of guaranteed deposit as defined under this Law is:
 - a) where a depositor keeps only a dram denominated deposit in the insolvent bank, amount of the guaranteed deposit is four million Armenian drams;
 - b) where a depositor keeps only a foreign currency denominated deposit in the insolvent bank, the amount of the guaranteed deposit will be two million Armenian drams;
 - c) where a depositor keeps dram and foreign currency denominated deposits in the insolvent bank, and dram denominated deposit exceeds two million Armenian drams, only up to four million Armenian drams of the dram denominated deposit are guaranteed;
 - d) where a depositor keeps dram and foreign currency denominated deposits in the insolvent bank, and the size of dram denominated deposit is less than two million Armenian drams, subject to guarantee is the full amount of dram denominated bank deposit and foreign currency denominated bank deposit in the amount which is equal to difference between two million Armenian drams and the reimbursed dram denominated bank deposit.
2. All dram denominated deposits kept by a depositor in the same bank shall be deemed single deposit, except non-guaranteed deposits; all foreign currency denominated deposits kept by a depositor in the same bank shall be deemed single deposit, except non-guaranteed deposits.

(Amended AL-5-N, 08.03.08; AL-108-S, 24.06.10)

Article 4. The Guarantor

The guarantor of deposits is the Deposit Guarantee Fund (hereinafter the Fund) established under this Law, other laws and regulations.

CHAPTER 2

PROCEDURE, TERMS AND CONDITIONS OF GUARANTEED DEPOSIT COMPENSATION

Article 5. Guaranteed Deposit Compensation Case

Guaranteed deposit compensation case (hereinafter, compensation case) takes place where a bank is recognized insolvent pursuant to "Law on Bankruptcy of Banks, Credit Organizations, Investment Companies and Insurance Companies" and according to decision of the Board of the Central Bank of Armenia (hereinafter, the Central Bank) it is not able to pay back deposits within period set by law and contracts, or the bank is recognized bankrupt pursuant to "Law on Bankruptcy of Banks, Credit Organizations, Investment Companies and Insurance Companies" (hereinafter, insolvent bank).

The Board of the Central Bank shall take a decision on inability of a bank to pay back deposits within period set by law and contracts (on freezing satisfaction of creditors claims) within a week upon identifying such case.

(Amended AL-5-N, 08.03.08)

Article 6. Organization of Guaranteed Deposits Compensation

1. The Central Bank shall notify the Fund about compensation case on the same day.

2. Within ten days after the compensation case, the Central Bank shall provide the Fund with detailed information on the amount of deposits and list of depositors, liabilities of the insolvent bank towards depositors and their size. The Fund can request from the insolvent bank additional information on deposits and depositors. The insolvent bank shall provide the Fund with the requested information within three days.

The list of deposits and depositors shall include name, surname and passport data of the depositor, the amount of all deposited funds in the insolvent bank, interest accrued as of the day of compensation case, the amount of guaranteed deposits which are subject to compensation any other information as set by normative legal acts of the Central Bank. The insolvent bank is responsible for the accuracy of information included in the list of deposits and depositors.

3. The banks shall have electronic information system in order to maintain and provide information defined in paragraph 2 of this Article. Provisions for electronic information system maintenance, input and provision of data are defined by legal normative acts of the Central Bank.

4. Within three working days after a compensation case, the Fund shall issue a statement at least in one newspaper with a number of copies not less than 2000, describing procedure of compensation, including list of the required documents and information, and applicable terms and procedures. In addition, the Fund may issue the statement through other mass media outlets or other information means.

5. The Fund shall compensate the guaranteed deposits based on the list of deposits and depositors as set in paragraph 2 of this Article, or depositor's written claim with the attached supporting documents.

6. Unless otherwise stated by the Fund, written claims of the depositors shall be received by the insolvent bank. Within three days upon receipt of a claim the insolvent bank shall send the claim to the Fund.

7. The depositor may submit the written claim within one year upon the compensation case. If a depositor fails to submit a claim within that period, the Fund shall not compensate any guaranteed deposits of the depositor.

8. Within 30 days upon the compensation case, the Fund shall publish additional information in the press and other mass media to specify:

- a) the name and addresses of the compensating bank and its branches,
- b) the list of required documents to receive the guaranteed deposit.

9. The Fund shall carry out compensation of guaranteed deposits on a depositor's claim within 3 months upon submission of the written claim, except for the cases specified in Article 8(3, 4) of this law. On the basis of the Fund's application, the Board of the Central Bank is entitled to extend the mentioned period for another three months.

10. The depositors may apply to the insolvent bank to obtain information on their account statements and to seek clarification, if errors are identified.

The insolvent bank shall respond to the depositors within a five-day period.

(Amended AL-5-N, 08.03.08)

(Article 6 edited AL-5-N, 08.03.08).

Article 7. Payment of guaranteed deposits

1. Compensation of guaranteed deposits shall be carried out by the Fund through the insolvent bank or another bank. The option of the bank shall be decided by the Board of Trustees of the Fund. The relations between the Fund and the payer bank concerning the payment of the guaranteed deposits shall be governed by the agreement signed between them.

2. The Fund shall transfer the required amount on the account of the selected bank and provide all the information necessary for payment of the guaranteed deposits under the procedure provided in paragraph 1 hereinabove.

3. *(Annulled according to AL-5-N, 08.03.08)*

4. The payer bank shall file reports on deposit compensation and other relevant statements to the Fund and the Central Bank through the procedure determined by the Board of the Central Bank.

(Amended AL-5-N, 08.03.08)

Article 8. Procedure of compensation of guaranteed deposits

1. Compensation of guaranteed deposits shall commence upon the publication of the additional announcement as set forth in Article 6(8) of this Law.

2. Where there remained amounts provided for compensation, the payer bank shall, within three business days upon completion of the period specified in paragraph 1 hereinabove, transfer such amounts to the Fund's special account opened with the Central Bank.

3. In the event the information in a depositor's claim for compensation is not adequate to the information in the depositors list provided by the Fund, the payer bank shall contact the Fund within three business days. The Fund shall review the bank's claim and notify the depositor and the payer bank of its decision within three business days. The payer bank shall effect the payment of the guaranteed deposit based on a Fund's written authority. A depositor may apply to the Fund in the event of disagreement between the payer bank and the depositor.

4. A depositor may apply to the court in the event of disagreement with the Fund.

(Amended AL-5-N, 08.03.08)

Article 9. Calculation of guaranteed deposits

1. In calculating the remunerable amount of the guaranteed deposit, the deposits in drams shall be calculated in the first rank, and deposits in foreign currency shall be calculated in second rank. Furthermore, in calculating deposits in drams and foreign currency the funds provided for Article 2 (1)a, b, c of this Law shall be calculated first, and the funds provided Article 2 (1)d shall be calculated second.

The procedure of calculation of the guaranteed deposits is determined by the Board of the Central Bank.

2. Where a depositor holds an individual bank deposit with the insolvent bank and at the same time is an owner of a joint bank deposit with the same bank, the compensation shall be the sum of the individual bank deposit and own portion of the joint bank deposit, as determined hereunder.

3. Where a depositor holds a liability to the insolvent bank, the compensation shall be the positive difference between the bank deposit and the liability, as determined hereunder.

4. A joint deposit of two or more depositors shall be treated as an individual bank deposit of each of the parties, according to the portion as provided by deposit contract. In the event the contract does not provide for the portion of amounts of the joint bank deposit, it shall be divided among the depositors equally.

5. The compensation shall be exclusively in Armenian drams. The dram equivalence of bank deposit denominated in a foreign currency is determined using the currency market exchange rate as of the date of the event of compensation published by the Central Bank.

6. In the event of compensation of guaranteed deposit, the depositor shall retain his/her right of claim to the insolvent bank for the difference between the bank deposit and the compensated guaranteed deposit. The difference between the bank deposit and the compensated guaranteed deposit shall be returned to the deposit under the procedure determined by "Law on *Bankruptcy of Banks, Credit Organizations, Investment Companies and Insurance Companies*".

7. The deposit determined in Article 3(2) of this Law shall not be compensated if as of the event of compensation it is less than 1000 (thousand) Armenian drams.

(Amended AL-153.07, 09.04.07 and AL-5-N, 08.03.08)

Article 10. The Fund's right to reclamation

1. After having compensated the guaranteed amount, the Fund shall obtain a right of claim over the insolvent bank for the actually compensated amount and expenditures for organization of compensation.

2. When recognized bankrupt, the bank shall fulfill its liability to the Fund through a procedure required by "Law on *Bankruptcy of Banks, Credit Organizations, Investment Companies and Insurance Companies*".

3. In case of termination of the functioning of provisional administration according to Article 18(1, a) of "Law on *Bankruptcy of Banks, Credit Organizations, Investment Companies and Insurance Companies*" (a bank financially is rehabilitated), the bank shall fulfill its liability to the Fund, for the amount of deposits actually refunded by the Fund and the expenditures for organization of compensation. The bank shall fulfill such liability to the Fund within a month upon entry of the Central Bank decision into force.

(Amended AL-5-N, 08.03.08)

CHAPTER 3

CONTRIBUTION CHARGES**Article 11. Contributions and banks making contribution**

1. All banks shall make contributions to the Fund, except for the insolvent banks.

2. Banks must pay regular, non-recurrent, and extra contributions to the Fund through a procedure determined hereunder. Calculation of contributions is determined by the Board of the Central Bank.

3. Contributions paid by banks are treated as expense and shall not be refunded.

(Amended AL-5-N, 08.03.08)

Article 12. Regular contributions

1. A bank making contribution shall pay regular contributions once in a quarter. The regular contributions for the quarter are made on the 10-th business day of the first month following the next quarter. The amount of regular contributions shall be 0.05 percent of the average daily indicator of bank deposits of the bank in a reporting quarter, but not less than AMD 1 million per annum.

2. Where the resources of the Fund, other than loans, borrowings, guarantees, grants, donations and gifts (conditional), exceed 5 percent of the previous quarter's average daily indicator of the sum of the bank deposits of all banks making contribution, banks will not make regular contribution charges.

The Fund shall notify this to the banks and the Central Bank by the 5-th of the month following the reporting quarter.

3. The average daily indicator of bank deposits for the period in review is calculated as the total sum of the balance of bank deposits, shown in a bank's balance sheet as of each closing day of that period, divided by the number of days of the period in review.

(Amended AL-5-N, 08.03.08; AL-108-S, 24.06.10)

Article 13. Non-recurrent contributions

New banks, other than banks being created through restructuring, shall pay non-recurrent contribution charges of AND 15 million within ten days upon being licensed for banking.

Article 14. Extra contributions

1. Banks shall pay extra contribution charges only when it turns out that the Fund's resources, other than loans, borrowings, guarantees, grants, donations and gifts, would not suffice for compensation of guaranteed deposits, as and to the extent determined hereof. The insufficiency of the resources shall be decided by the Board of Trustees of the Fund. The Fund shall calculate the extent of extra contribution charges required for compensation of guaranteed deposits.

2. Banks shall pay extra contribution charges to the extent of the amount not sufficing the resources of the Fund, in proportion with a share of bank deposits of all such banks in the average daily figure of bank deposits, as of the last day of the quarter preceding the decision provided for in Article 14(1) of this Law.

3. The amount of extra contribution charges paid by a bank during the current year can not exceed the triple portion of the amount of its regular contributions paid during the preceding financial year.

4. Where a bank is operating for more than 6 (six) months upon being licensed, but not more than one year, the ceiling of the extra contribution to be paid during the current year shall not exceed the 12-fold of the regular contributions actually paid by that bank for the last quarter. Where such amount does not exceed AMD 3 million, the ceiling of the annual extra contributions is defined to be AMD 3 million.

5. Where a bank is operating for less than 6 (six) months upon being licensed, the ceiling of the annual extra contributions is defined to be AMD 3 million.

6. Where a bank was licensed within the period from the last day of the quarter preceding the decision provided for in Article 14(1) of this Law till the first day of the quarter following the decision provided for in Article 14(1) of this Law, it shall pay extra contributions to the extent the amount of AMD 1 million.

7. Banks shall pay extra contributions within ten business days upon receipt of the decision provided for in Article 14(1) of this Law.

(Amended AL-5-N, 08.03.08)

Article 15. Currency of contributions

Banks shall pay contributions in Armenian drams.

Article 16. Contribution charges of insolvent banks

Banks shall not pay contributions upon adoption of a relevant decision by the Board of the Central Bank on recognizing the bank as insolvent, as determined by the Armenian Law on *Bankruptcy of Banks, Credit Organizations, Investment Companies and Insurance Companies*. When the Central Bank decides on financial rehabilitation of a bank, the bank shall, within a month upon such decision, pay regular contributions for the period being in insolvency. The interests provided for in Article 27 of this Law shall not be paid for the period being in insolvency.

(Amended AL-5-N, 08.03.08)

CHAPTER 4

THE FUND

Article 17. Legal status of the Fund

1. Established through a procedure determined by this Law, other laws and regulations, the Fund is a non-profit legal entity whose founder is the Central Bank.

2. The Fund performs the functions and carries obligations provided by this Law.

Article 18. Functions of the Fund

The Fund shall:

- a) collect contributions,
- b) conduct analysis of the Fund assets, the number of guaranteed deposits, depositors, and other analyses,

- c) file claims to the Central Bank for sanctions to the banks that fail to make contributions, determined hereunder; for inspections by the Central Bank to identify accuracy of bank reporting,
- d) manage the Fund's assets, as determined hereunder,
- e) compensate guaranteed deposits as determined hereunder,
- f) receive loans (borrowings), guarantees, grants, gifts (conditional), and donations,
- g) obtain required information for arranging compensation as determined hereunder,
- h) carry out efforts to reveal the procedure of guarantee and compensation of deposits,
- i) perform other functions as determined hereunder.

Article 19. Management of the Fund

1. Management of the Fund involves:

- a) Board of Trustees of the Fund, and
- b) Director of the Fund.

2. The Board of Trustees consists of seven members. Members of the board of trustees are appointed as follows:

Government of Armenia appoints two members,
Board of the Central Bank appoints two members,
Union of banks of Armenia appoints two members.

In the event of more than one union of banks, the Board of the Central Bank shall determine the procedure of nomination and election of the candidates from the unions of banks.

Appointed members of the board of trustees elect one member.

The Chairman of the Board of Trustees is elected by the members of the Board of Trustees, for a five-year term.

Members of the Board of Trustees are appointed (elected) for a five-year term; they may be reappointed or reelected to the same position.

The Board of Trustees carries out activities on a voluntary basis.

The meeting of the Board of trustees is held at least once a quarter.

Members of the Board of Trustees will not involve those who:

- a) have been recognized by court decision incapable or partly capable, or have been convicted of deliberately committed crime, with a criminal record not settled or resolved,
- b) have been declined under the law to hold position or evolve activities in the financial area.

A member of the Board of Trustees is discharged from position, if he/she:

- a) has been recognized by court decision incapable or partly capable, or was convicted of deliberately committed crime,
- b) has been declined under the law to hold position or evolve activities in the financial area,
- c) has been absent from the board meetings more than three times in a year for an inadequate reason,
- d) the appointing (electing) body has decided to discharge him/her prematurely from the position of a member of the Board of Trustees.

3. The meeting of the Board of Trustees is competent if at least five members are present in the meeting. The board of trustees shall adopt decisions at simple majority of votes of the present members. In the event of equal votes, the vote of the Chairman of the Board of Trustees is decisive.

4. In conformity with this Law and the charter of the Fund the Board of Trustees of the Fund shall:

- a) make decision to commence compensation of deposits,
- b) approve the charter of the Fund, amendments and supplements thereto,

- c) approve the internal policies and procedures of the Fund,
- d) approve the asset allocation and ratio policies, in cooperation with the Board of the Central Bank,
- e) determine the investment portfolio benchmark for the Fund's assets management, in cooperation with the Board of the Central Bank. Within the meaning of this Law and other normative legal acts, a portfolio benchmark represents a target indicator or a set of indicators that determine the claims (accepted level of risks) on the resources managed by the Fund. The performance of actual management of the portfolio, i.e. the results of the decisions of the Fund are measured under the limits of such portfolio. The portfolio benchmark may determine a currency composition of foreign currency funds, a share of individual currencies, acceptable instruments, a minimum acceptable credit risk of instruments, a maximum acceptable maturity of individual instruments, an average maturity of the total portfolio, and levels of return on individual assets,
- f) make decision on insufficiency of the resources of the Fund for compensation,
- g) adopt decision to attract more funds and set terms and conditions, when there are not sufficient funds for compensation,
- h) hear director reports at frequency specified by the charter of the Fund,
- i) elect the auditor for the Fund,
- j) elect the member of the Board of trustees, as provided for in paragraph 2 of this Article,
- k) control over performance of its decisions,
- l) control over day-to-day operations and financial and economic activity of the Fund,
- m) make decision on appointment of a director of the Fund, and other bodies, as may be created under the chapter, and on early termination of their authority,
- n) approve administrative expenditures and changes therein, annual financial accounts, and annual activity reports of the Fund,
- o) approve the pay-roll and the bonus package for the staff of the Fund,
- ol) at least once in every five years reviews the issue of revising the size of guaranteed deposit established by this law, with the view to adjust it with the criteria defined by the Fund Charter,
- p) exercise any other authority provided for by the law and the Fund's charter.

5. The Board of Trustees' authority provided for in Article 19(4) herewith cannot be transferred to any other body, under the charter.

The Board of Trustees is entitled to survey all documents of the Fund.

6. An expert may be invited by a Board decision to participate in the meetings of the Board of Trustees with a consultative voice.

Before holding discussion at the Board of Trustees of an issue provided for herewith, a concerned board member must declare his/her interest, and not participate in the discussion and a respective voting.

For the purpose of this Law, a member of the Board of Trustees is deemed to have interest in an issue under discussion, if the decision to be made as a result of the addressed issue relates to his/her or family members' sources of income, his/her financial interest, and financial interest of parties holding a common household with him/her.

The charter of the Fund shall cover core principles of conduct of ethics, motivation, interest and conflict of interest, in decision-making, of members of the Board of Trustees. The charter shall also cover distribution of functions and scope of responsibility of members of the Board of Trustees.

7. Governance of the day-to-day operations of the Fund is the responsibility of the Director. The Board of the Trustees appoints the director of the Fund. The director of the Fund shall:

- a) ensure normal functioning of the Fund,
- b) draft the Board of Trustees decisions of the Fund, within his/her competence,
- c) manage the Fund's resources in compliance with the benchmark portfolio determined by the Board of Trustees,
- d) appear on behalf of the Fund without a letter of attorney,
- e) issue letters of attorney,
- f) enter into contracts, including employment contracts,
- g) present internal operational rules and regulations, administrative and organizational and staff structures of the Fund to the Board of Trustees for approval,
- h) hire people for employment in the Fund and release them, exercise employee encouragement and disciplinary action procedures,
- i) present administrative expenditures of the Fund to the Board of Trustees for approval,
- j) exercise other authority as determined by the charter of the Fund.

8. The Director of the Fund shall meet the professional integrity and qualification criteria set by the Central Bank for executive directors of banks, and shall have a relevant qualification certificate. The procedure of qualification for the Director of the Fund shall be determined by the Central Bank.

9. The Fund must possess the audit committee or auditor appointed by the Board of Trustees. Authorities of the audit committee or auditor shall be determined by charter of the Fund.

(Amended AL-5-N, 08.03.08; AL-108-S, 24.06.10)

Article 20. Resources of the Fund

1. The Fund's resources are: the funds from contributions, the income from management of such funds, sums received from banks based on the obtained right of claim over the banks for the reimbursed amount and other, other income and resources.

2. The amount of contributions made by banks shall accumulate on the Fund's special account with the Central Bank.

3. The resources of the Fund will be used exclusively for the purposes and the events determined by this Law. For the liabilities of the Fund, its senior officials or third parties, which are not related to compensation of guaranteed deposits (including the loans and borrowings attracted for actual or potential compensation of guaranteed deposits), the resources of the Fund shall not be confiscated, charged or levied, except for the material assets and the administrative expenditures determined by Article 23 of this Law.

(Amended AL-5-N, 08.03.08)

Article 21. The Fund's receipt of loans, guarantees, grants, gifts (conditional) and donations

The Fund may receive on its behalf loans, borrowings, guarantees, grants, gifts (conditional) and donations.

Article 22. Management of the Fund's resources

1. The Fund shall manage the resources of the Fund.

2. The resources of the Fund shall be invested exclusively in financial assets with high payback, as follows:

- a) government securities of the Republic of Armenia,
- b) bank deposits and/or bank accounts with the Central Bank and foreign high-rated prime banks,
- c) securities of the Central Bank,
- d) standardized gold bullions,
- e) government and/or central bank securities of high-rated countries,
- f) securities of high-rated prime institutions and/or banks,
- g) other financial assets, as determined by the board of trustees, in coordination with the Board of the Central Bank.

The board of trustees of the Fund determines the permitted rating limits and the list of rating firms, in coordination with the Board of the Central Bank.

3. The primary criterion for allocation of the assets is their safety and liquidity.

Article 23. The Fund's expenditures and capital investment program

1. The expenditures of the Fund are as follows:

- a) operational expenditures;
 - expenditures for compensation of deposits,
 - accrued interest on loans and borrowings,
 - bank commission fees paid by the Fund for asset management and organization of compensation,
 - loss from assets revaluation and disposal at price lower than balance value,
 - payment for the Fund audit and consulting services,
 - expenditures for commentary of the procedure of guarantee and compensation of deposits;
- b) administrative expenditures:
 - personnel maintenance costs, including salary, bonuses, compulsory social insurance contributions, payments to pension fund, personnel training, business-trip and hospitality costs, maintenance of office vehicles, other expenditures for social insurance,
 - expenditures for office communications facilities,
 - purchase of information publications and professional literature,
 - expenditures for writing-off of high-wearing equipment,
 - fixed assets and premises amortization costs, expenditures for preservation, maintenance, insurance costs,
 - expenditures on taxes, duties, other compulsory contributions, rental, banking and public utility service fees, which are needed in order to ensure regular operation of the Fund.

2. The program of capital investment shall be as follows:

- a) capital investment for the Fund's principal activity,
- b) capital investments for administrative purposes.

3. For day-to-day operation and performance of the functions of the Fund, provided for herewith, the Board of Trustees of the Fund shall approve the annual administrative, operational expenditures of the Fund and the capital investment program.

4. Administrative expenditures, operational expenditures and the capital investment program of the Fund shall be made at the expense of the Fund's resources. For making administrative expenditures, operational expenditures and the capital investment program the Fund may open accounts with the banks operating in Armenia.

5. Annual administrative expenditures and operational expenditures of the Fund shall not exceed 0.03 percent of the previous year's average daily figure of bank deposits of all contribution-making banks.

6. Where expenditures made by the Fund in the current year are less than its annual approved administrative and operational expenditures, as determined

herewith, the Fund shall transfer the difference to the special account provided for in Article 20 hereinabove.

(Amended AL-5-N, 08.03.08; AL-108-S, 24.06.10)

Article 24. Exchange of information; Reporting by the Fund; Control over Activity

1. The Fund and the Central Bank shall exchange necessary information as and when appropriate under this Law, as determined by law and the Central Bank regulations.

Banks shall prepare and present to the Central Bank quarterly statements on calculation of contributions, the number of the depositors and the amount due to be compensated, in conformity with the format and procedure determined by the Board of the Central Bank. The Fund may receive the statements from the Central Bank within ten days upon their submission to the Central Bank.

2. Except for the statements provided for in paragraph hereinabove, the Fund may obtain information pertaining to bank secrecy from the Central Bank and/or banks solely upon occurrence of the event of compensation provided for hereunder, as determined by the Armenian Law on *Bank Secrecy*. Employees of the Fund shall adhere to public, banking, commercial and official secrecy requirements, and make use thereof, as determined by Civil Code of the Republic of Armenia, and other laws.

3. Each year the activities of the Fund shall undergo an audit carried out by an independent audit firm, as determined by law and other regulations. The audit firm's opinion and audited financial accounts shall be presented to the Central Bank. The Fund will publish a concise independent auditor's opinion in the press within four months following closing of a financial year.

4. Information on the resources of the Fund, except for the information on administrative, operational expenditures of the Fund and capital investment program, can not be made public, made available to other parties and public bodies. The storage, provision and publishing of such information are carried out as determined by the Armenian Law on *Bank Secrecy*.

5. Control over the activity of the Fund, determined hereunder, other laws and relevant regulations governing the activity of the Fund, shall be exercised by the Central Bank, under the Armenian Law on *the Central Bank of the Republic of Armenia*.

The Central Bank shall submit the report on the audit of the activities of the Fund to the National Assembly of the Republic of Armenia as the part of the annual report provided for by the Armenian Law on *the Central Bank of the Republic of Armenia*.

6. The Central Bank is entitled to issue a warning to the Fund for the violations provided for in Article 24(8) of this Law, and issue a instruction to eliminate such violations in a specified period of time. The warning shall also provide for a instruction to eliminate the violation within the time set by the Central Bank, and/or to take action to prevent the violation.

7. For the violations provided for in Article 24(8) of this Law, The Central Bank is entitled exercise sanctions to the Director of the Fund, as follows:

- a warning and a direction to eliminate the violation in a specified period of time, and/or
- a penalty, or
- depriving him/her from qualification certificate.

8. The Central Bank is entitled exercise the sanctions provided for herewith to the Fund and/or the Director of the Fund, if the Fund and/or the Director of the Fund:

- a) infringed the requirements of this Law, other laws and relevant regulations governing the activities of the Fund,

- b) infringed the bookkeeping rules and the procedure and terms for presentation and publishing of financial and other statements, and/or if such documents contain false or inaccurate data,
- c) failed to accomplish the instructions issued by the Central Bank under this Law.

9. The Central Bank shall issue sanctions provided for herewith to the Fund and/or the Director of the Fund as determined by the Armenian Law on *the Central Bank of the Republic of Armenia*.

(Amended AL-5-N, 08.03.08)

CHAPTER 5

FINAL PROVISIONS

Article 25. Announcing terms and conditions for deposit guarantee

1. To ensure transparency, banks must notify the depositors in writing on the terms and conditions for guarantee of compensation of deposits by delivering such notification to the depositor. The notification shall be drawn up in two copies, one of which remaining with the bank shall be signed by the depositor.

The notification delivered to the depositor shall contain:

- a) ceiling of the guaranteed deposit, and the method of calculation,
- b) list of the deposits not guaranteed,
- c) notice whether or not the depositor's deposit is guaranteed
- d) event of compensation,
- e) terms and conditions for compensation of guaranteed deposits,
- f) the Fund's location, address and telephone,
- g) other information, as appropriate.

The Board of The Central Bank is entitled define a sample form of notification delivered to the depositor.

2. The absence of the notification provided for herewith is not a ground for guaranteeing or not guaranteeing the deposit, and does not entail the annulment of the contract of the bank deposit.

Article 26. Control over banks' adherence to the requirements of this Law

Control over the banks' (including insolvent banks) adherence to the requirements of this law shall be exercised by the Central Bank.

Article 27. Liability for infringement

1. Nonpayment of contributions by banks under this Law shall entail accruals on such contributions using an interest rate three times the reference rate of the Central Bank as of the day.

2. For infringement of the requirements of this Law and relevant regulations, banks and their senior officials shall also be held liable as, and to the extent, stipulated by the Armenian Law on *Banks and Banking*.

Article 28. Recognition of the Fund as insolvent (bankrupt). Liquidation of the Fund

The Fund can be liquidated or recognized as insolvent (bankrupt) only by law.

Article 29. Transitional provisions

1. This Law shall enter into force on the 10-th day following an official promulgation, except for paragraph 3 of Article 6, which shall enter into force on April 30, 2009.

2. Upon entry of this Law into force, but before creation of the Fund as determined by the law, banks shall pay contributions to the benefit of the special bank deposit guarantee account with the Central Bank as, and to the extent, determined herewith. Contributions paid by banks, the funds accumulated, the interest paid on these funds, and other resources intended for the special bank deposits guarantee fund shall be booked in the account of the special bank deposits guarantee fund.

3. Resources in the account of the special bank deposits guarantee fund, provided for in Article 29(2) hereinabove, shall be handed over to the Fund within ten business days upon creation of the Fund under the law.

4. Within 45 days upon entry of this Law into force, the Government of the Republic of Armenia, the Central Bank and the Union of Banks of Armenia shall appoint members of the Board of Trustees of the Fund, as defined in Article 19 of this law.

5. Within 45 days upon entry of this Law into force, members of the Board of Trustees of the Fund appointed by the Government of the Republic of Armenia, the Central Bank and the Union of Banks of Armenia shall elect the seventh member.

6. Within 45 days upon entry of this Law into force, the seven members of the Board of Trustees of the Fund shall elect Chairman of the Board.

7. Within a month after the period defined in clause 6 of this Article, the Board of Trustees of the Fund shall approve the Charter of the Fund, review and authorize registration of the Fund.

8. Costs for registration of the Fund shall be covered by the Central Bank.

President of the Republic of Armenia

ROBERT KOCHARYAN

December 21, 2004

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