

REPUBLIC OF ARMENIA
LAW
ON CREDIT ORGANIZATIONS*

CHAPTER 1

GENERAL PROVISIONS

ARTICLE 1. Subject Matter of the Law

This Law shall govern the licensing procedure, regulation and supervision of activities of credit organizations, including credit unions, savings unions, leasing and factoring organizations and other credit organizations, as well as it shall govern the procedures for changing type of activity for banks operating on the territory of the Republic of Armenia.

The effect of this Law shall not be applied to banks (except for the cases prescribed by Chapter 6 of this Law), insurance companies, persons with specialized activities in securities market, pension funds, investment companies, lombards, agricultural credit clubs the activities of which shall be governed by other laws and normative regulations.

ARTICLE 2. Legal Regulation

1. Activities of credit organizations shall be governed by the Constitution of the Republic of Armenia, the Civil Code of the Republic of Armenia, this Law, other laws of the Republic of Armenia, international agreements of the Republic of Armenia and, when prescribed by law, legal normative acts of the Central Bank of the Republic of Armenia (hereinafter Central Bank).
2. Insolvency and bankruptcy procedures of credit organizations shall be governed by the law of the Republic of Armenia on *Bankruptcy of Banks, Credit Organizations and Insurance Companies* (hereinafter RA).
Liquidation grounds and procedures of credit organizations shall be determined by Chapter 9 of the Law on Banks and Banking Activity of the RA.

* LA-359-S, passed on 29.05.2002, effective 03.07.02.

Includes changes and supplements according to:

LA-428-S, ARDB 2002/49 (224), 14.11.02,

LA-520-S, ARDB 2003/24(371), 30.04.03,

LA-47-S, ARDB 2004/21(320), 14.04.04,

LA-154-S, ARDB 2004/72(371), 28.12.04,

LA-24-S, ARDB 2005/5(337), 21.01.05,

LA-39-S, ARDB 2007/6(530), 24.01.07,

LA-181-S, ARDB 2007/27(551), 30.05.07.

3. If other norms than norms prescribed by this Law are determined by international agreements of the RA, norms of international agreements shall be applied thereto.

ARTICLE 3. Characteristics of Credit Organizations and their Activities

1. A credit organization shall be a legal entity that has been granted a license and a right to perform the activities prescribed by the provisions of this Law.
2. Credit organizations activities, in the entrepreneurial capacity, shall be to attract credit resources or borrowings and/or execute other alike or similar transactions and/or extend loans, or make other investments permitted by this Law.
In the sense of legislation of the RA regulating activities of credit organizations similar transactions shall include also investment (bonds) and payable securities public offerings (except those issued by investment funds) or execution of such transactions which create money obligations for credit organizations but have no relations to the sale of goods, rendering of services and other jobs by credit organizations to debtors.
3. No persons in the RA may be engaged in any activity specified in Paragraph 2 of this Article except for banks and credit organizations.
4. Credit organizations may be established in the form of a limited liabilities company, Joint Stock Company or commercial or non-commercial cooperative enterprise. Savings unions may be organized exclusively in the form of cooperative enterprises.
5. The Central Bank may set some limitations on credit organizations activities by permitting or restricting a part of the transactions prescribed by Article 8 of this Law. These limitations, in particular, may be placed for funds to be attracted by credit organizations and their respective amounts, for funds to be allocated and their respective amounts, as well as for those persons from whom credit organizations may attract funds and/or where credit organizations may allocate funds to. Limitations prescribed by this Paragraph shall be the same for the same category (group) of credit organizations.
6. In the sense of this Law and other respective laws and legal regulatory acts of the RA, to the categories (groups) of credit organizations shall belong the following:
 - a) credit unions who attract funds from their participants and provide funds to them, and in the cases prescribed by the Central Bank normative acts, attract funds from other persons or provide funds to them;
 - b) savings unions who attract funds from their participants and provide funds to them;
 - c) organizations engaged in financial leasing (leasing) the main activity of which is execution of financial leasing (leasing) transactions in accordance with the provisions of Paragraph 6, Chapter 35 of the Civil Code of the RA;
 - d) factoring organizations who are mainly engaged in executing factoring transactions in accordance with Chapter 48 provisions of the Civil Code of the RA;

- e) other credit organizations whose main activity is to implement the activities or one of the activities prescribed by Paragraph 2 of Article 3 of this Law.
7. No person shall engage into activities prescribed by this Law without a proper license and, if not observed, a legal liability shall be imposed thereon by the Legislation of the RA.
(Changes in Article 3, AL-520-N, 31.03.03)

ARTICLE 4. Definition and Use of “Credit organization”

1. “Credit organization” may refer to an organization and be used in the name thereof that has been implicitly granted a credit organization license. The use of this term or its derivatives by unlicensed entities for advertising and public offerings purposes shall be prohibited as well as it shall deem illegal to support such advertising entities.
2. Credit organizations may not use such words or terms in their respective names that may give a rise to any contextual misunderstanding of their financial condition or legal status.

CHAPTER 2

STATE REGISTRATION AND LICENSING OF CREDIT ORGANIZATIONS

ARTICLE 5. State Registration and Licensing of Credit Organizations; Registration of Legal Entities Engaged in Crediting Activities

1. For the purpose of state registration and licensing of a credit organization, the founders thereof shall submit to the Central Bank the following:
 - a) registration and licensing application form;
 - b) credit organization charter in six copies approved by the founding members meeting;
 - c) decision of the founding members meeting on appointment of managerial staff;
 - d) report on managerial activities of the credit organization made according to the Central Bank’s requirements ;
 - e) statement on absence of grounds prescribed in Paragraph 2, Article 10 of this Law made by persons, in a manner the Central Bank requires, who have significant participation in the credit organization’s statutory capital;
 - f) credit organization by-laws which shall be approved by senior managing body and which shall include provisions regarding type and area of activity, regulations, funds attraction and distribution methods, procedures of the credit organization, as well as other statutory provisions prescribed by the Central Bank and other laws of the Republic of Armenia. The Central bank, under its normative acts, may establish standardized

regulations for different types (groups) of credit organizations with respect to their activity categories.

2. The Central bank, upon receipt of the documents and information specified in Paragraph 1 of this Article, shall, within a month, register and grant a license to the credit organization or decline its request. The credit organization shall deem registered and licensed if it has complied with the following requirements:
 - a) the statutory capital of the credit organization is fully paid up; it shall be paid into a cumulative account opened with the Central Bank or another residential bank in the RA;
 - b) the credit organization's facilities are properly saturated with equipment to comply with the Central bank respective norms;
 - c) managerial staff of the credit organization satisfy the required professional qualification competences set by the Central Bank;
 - d) the persons with a significant participation in the credit organization have been approved by the Central Bank.
3. Starting the date the decision on registration and licensing is taken, the Central Bank, within three days period, shall award a registration certificate and grant a license to the credit organization and shall give notice to the State Register of the RA to make respective records thereto.
4. After being registered and licensed by the Central Bank, the credit organization shall acquire a status of legal entity and shall be deemed licensed thereon.
5. The Central Bank shall refuse the registration and licensing of a credit organization if:
 - a) false or invalid information was submitted;
 - b) documents were either incomplete or inconsistent to the laws and normative regulations of the RA;
 - c) Paragraph 2 provisions of this Article were failed to be met;
6. In the event if the registration and licensing application was not rejected officially within a month period, the credit organization thereon shall be considered registered and licensed.
7. Legal persons who, before this Law came into effect, were primarily engaged herein specified credit organization activities, may, within three months after the date indicated in Article 23 of this Law, apply by this Law to the Central Bank to rewrite its registration to become a credit organization.
8. The Central Bank shall reregister and license the aforementioned persons provided the criteria given in Article 5 of this Law were duly satisfied, except for a provision specified in Paragraph 2 (a) of the same article. Moreover, registration and licensing under this Article shall assume no charges or duties thereto.

ARTICLE 6. Credit Organization Licensing

1. Licenses of credit organizations shall be issued for an indefinite period of time.
2. Licenses of credit organizations shall not be transferred to other persons for use, as well as shall not be subject to alienation or pledge.

3. Licenses of credit organizations shall bear license number, date of issue, full trade name of the credit organization, state registration number, permitted transactions. Standard form of licenses shall be established by the Central Bank.
4. The Central Bank shall keep the provided Register of Licenses, which shall be open for public. Form of Register, its maintenance procedures as well as information kept therein shall be defined by the Central Bank.

ARTICLE 7. Branches and Representative Offices

1. Credit organizations may, accordingly with the provisions of this law and the Central Bank normative regulations, open branches and representative offices on the territory of the Republic of Armenia or foreign states, which shall become operative upon the date of their being accounted by the Central Bank. Branches and representative offices shall be established pursuant to the legislation of the given state and/or in conformance with international agreements of the RA.
2. Accounting procedures and content of information and data required therein shall be stated by the normative regulations of the Central Bank.
3. Application for accounting a branch or representative office of a credit organization shall be approved or refused within a month by the Board of the Central Bank. In case of approval the Central Bank shall account the branch or representative office and award an appropriate certificate and in case of its refusal it shall notify within five days the credit organization about refusal grounds.
4. The Central Bank shall refuse application of credit organization for accounting a branch or representative office in the event if:
 - a) false or invalid information was submitted;
 - b) documents were either incomplete or inconsistent to the laws and normative regulations of the RA;
 - c) at least one of the prudential standards set by the Central Bank was infringed by the credit organization at the time it was applying for and when the application thereof was being discussed.
5. A branch or representative office of a credit organization shall be withdrawn from accounting:
 - a) on the ground of application by the credit organization within a week from the date of the application;
 - b) in case the credit organization was liquidated.

CHAPTER 3

REGULATION AND SUPERVISION OF CREDIT ORGANIZATIONS ACTIVITIES

ARTICLE 8. Financial Operations

1. The license prescribed by this Law shall empower credit organizations to carry out the indicated below financial operations or some of these operations.
 - a) attract borrowings and/or execute alike transactions;

- b) extend loans, borrowings and finance debt or commercial transactions, factoring;
- c) issue guarantees;
- d) issue, purchase (discount), sell securities, travelers checks, cards and other instruments and implement other operations;
- d¹⁾ provide payment and settlement services concerned with activities of credit organization;
- e) provide financial agent (representative) services, manage investments of other persons, carry out accredited management, provide specialized operations in state securities market (dealing, brokerage, agency, sub-depository);
- f) purchase, sell and manage bank gold and standardized bullions and coins;
- g) purchase and sell foreign currency, including execution of Dram and foreign exchange futures, options and other alike transactions;
- h) provide financial leasing;
- i) accept on deposit precious metals, stones, jewelry, securities, documents and other valuables;
- j) provide financial consultancy:
- ja) create and administer customers credit information system, perform debt repayment operations;
- jb) on the Central Bank's consent conduct internationally practiced credit organization operations.

2. Credit organizations may provide solely business loans or borrowings and, to extend consumer loans or borrowings, they shall comply with the Central Bank provisions. In the context of respective legislation regulating credit organizations, the provision of business loans or borrowings shall mean execution of a transaction where the debtor thereof is a legal entity or a sole proprietor and the proceeds obtained thereby are to be used solely for the business he/she carries out or will be carrying out. Extending consumer loans or borrowings shall mean concluding and execution of such transactions the proceeds of which are to be used exclusively for consumer purposes and never concern to the debtor's business activity.
3. Credit organizations shall have a right to borrow funds and/or execute alike transactions solely with legal persons, entrepreneurs and its participants, moreover, the Central Bank may set the limitations indicated in Paragraph 5 of Article 3 of this Law.
4. Credit organizations shall be prohibited to carry out any subject to business commercial or licensing activities.
(Changes in Article 8, AL-154-N, 24.11.04; LA-39-S, 24.01.07)

ARTICLE 9. Managers of Credit Organizations, Competences and Qualifications

1. Credit organization managers shall be the chairman of the board of the credit organization (board of directors or observers board) and its deputy and board members, executive director and its deputy, managing director and its deputy and members, chief accountant, its deputy, audit committee chairman, its deputy and audit committee members:

2. Credit organization managers shall not be:
 - a) persons who have been already convicted of an intended crime;
 - b) persons who have been deprived by law of a right to hold positions in financial, banking, tax and customs duty, commercial, economic and legal areas;
 - c) persons recognized as insolvent and have unpaid liabilities;
 - d) persons whose qualification or professional skills do not comply with professional competences or eligibility criteria stated by the Central Bank;
 - e) persons who are arraigned for a crime as a suspect, accused or defendant;
 - f) persons who are by the laws of the RA recognized as disabled or partially disabled;
3. Qualification and professional eligibility criteria for credit organizations managers (regardless structural subdivision heads) and procedures for testing thereof shall be established by the Central bank.
4. A person may hold a managerial position of a credit organization upon his/her registration in the Central Bank. Before registration he/she shall obtain the required qualification certificate. Registration prescribed by this Article shall be effected within five days after the application.

ARTICLE 9¹. Requirements for Submission of Credit Organization Charters

Credit organization charters shall incorporate provisions concerning the distinct functions of the board of directors and internal audit group, duties and responsibilities of directors, top managers, chief accountant and chief financial specialist, the interaction mechanisms of the board of directors and internal audit group, as well as the reporting principles of accounting statements and external auditing mechanisms.
(Article 9¹ is supplemented, AL-520-N, 31.03.03)

ARTICLE 10. Limitations on Acquisition of Significant Participation in the Statutory Capital of Credit Organizations

1. A significant participation in the statutory capital of a credit organization may be acquired by a person or interrelated persons as a result of one or more transactions in case when a preliminary approval of the Central Bank has been achieved.
In the context of this Law and the Central Bank normative regulations ensuing thereof, significant participation shall mean a participant's participation in a credit organization's statutory capital that exceeds 10% of that capital.
The Central Bank shall determine the form and the list of data and documents to be submitted to the Central Bank by a person or interrelated persons through a credit organization for obtaining the preliminary approval thereof on significant participation in the statutory capital.
Upon receipt of the data and documents required by this Paragraph and the Central Bank normative regulations the Central Bank shall examine them within a month period. This period may be suspended by a decision of the Board of the Central Bank in view of additional clarifications but not further than three months. If the

application fails to be rejected or if the person fails to be notified of such suspension by the Central Bank within a month the approval shall be deemed reached.

2. The Central Bank shall reject the application and notify the applicant within ten days after the date of its rejection in the event if the applying person

- a. has a prior conviction of an intended crime;
- b. has been recognized by the laws of the RA as disabled or partially disabled;
- c. has been legally disqualified or deprived of a right to hold positions in financial, banking, tax and customs services, commercial, economic and legal areas;
- d. has been recognized bankrupt and has unpaid liabilities;
- e. such transaction thereof is directed to, results or may result in free economic competition constraints;
- f. documents have submitted inconsistently with the submission norms set by the Central Bank or false and invalid documents or information have been provided;
- g. if funds to be invested in credit organizations statutory capital or to be provided against alienation of participation, in a Central Bank's justified opinion, have been acquired through criminal channels or in an illegal manner. Any contracts on acquisition of a significant participation in the statutory capital of the credit organization shall be void without the Central Bank's preliminary approval.

ARTICLE 11. Interrelated and Related Parties

Under this Law and construed thereon normative regulations of the Central Bank, parties shall be regarded as interrelated or related if interrelation and/or relation thereof comply with the respective provisions of Article 8 and 39 of the RA Law on Banks and Banking Activity.

ARTICLE 12. Prudential Standards (Main Economic Standards) Set for Credit Organizations

1. Prudential standards for credit organizations shall be the prudential standards set for banks under the RA Law on Banks and Banking Activity and normative regulations of the Central Bank, regardless the prudential standards that are excluded by the Board of the Central Bank. Prudential standards shall establish a smoother regime of regulation for credit organizations than they do for banks.
2. Prudential standards shall be mandatory and have the same power for the same type (group) of all credit organizations except for those acting under the limitations defined by this Law.
3. Prudential standards shall be defined in the RA Law on Banks and Banking Activity.
4. Size limits of prudential standards, calculation and composition of components used in calculation thereof shall be defined by the Central Bank .

5. Whenever the regime of prudential standards is tightened by the Central Bank they shall take effect within six months after their official publication by the Central Bank.
6. Whenever the regime of prudential standards is smoothened by the Central Bank they shall take effect upon their official publication if a later term is not set by the Central Bank.

ARTICLE 13. Supervision Over Credit Organizations Activities

1. Supervision over credit organizations activities shall be held exclusively by the Central Bank. The Central Bank shall carry out supervision over credit organizations in accordance with its own regulations and procedures established for this purpose.
2. The Central Bank employees shall carry out examinations and inspections in the credit organizations in accordance with the regulations, terms, cases and periodicity established by the Central Bank.
3. The Central Bank shall conduct inspections in non-bank entities, non-credit institutions or other entities, not licensed by the Central Bank, whose balance sheets are consolidated in the bank's balance sheet as determined herewith, as determined in chapter 5¹ of the RA law "On the Central Bank of the Republic of Armenia".

ARTICLE 14. Preventing Circulation of Criminally Obtained Funds (Annulled, AL-24-N, 14.12.04)

CHAPTER 4.

SUBMISSION AND PUBLICATION OF FINANCIAL STATEMENTS, AUDIT REPORT, INFORMATION. AUDITING

ARTICLE 15. Accounting and Financial Statements

1. Credit organizations accounting shall be effected according to an agreed procedure achieved between the Central Bank and the government agency of the RA in consistence with Accounting Standards of the RA.
2. Credit organizations shall, under the Central Bank regulations and terms, prepare, publish and submit to the Central Bank financial statements required by the laws and other normative regulations of the RA and other statements stated by the Central Bank.
3. Provisioning for possible loss in investment securities of credit organizations and its use, classification of loans and receivables and possible loss provisioning thereof shall be carried out in accordance with the provisions prescribed for banks by the RA Law on Banks and Banking and the RA Law on Profit Tax.

ARTICLE 16. Credit Organization Auditing

1. Each year the activities of credit organizations shall be subject to auditing by independent certified auditing companies assigned thereto by credit organizations.
2. Audit report of independent audit company shall be submitted by credit organization to the Central Bank after six months from the end of the financial year.

ARTICLE 17. Financial Statements and Audit Report Publication

1. Credit organizations shall publish their annual financial statements and audit reports in press within six months after the end of the financial year.
2. Credit organizations shall publish their quarterly financial statements before the 15th day of a month following each quarter.
3. Credit organizations shall periodically publish information on their activities according to procedures and periodicity stated by the Central Bank.

CHAPTER 5

LAW INFRACTIONS AND REMEDIAL MEASURES

ARTICLE 18. Law Infractions

The Central Bank may impose sanctions against credit organizations in the event if it determines that:

- a) financial operations performed by the credit organization have been inconsistent with and violated the laws and normative regulations of the RA;
- b) prudential standards set forth for credit organizations have been violated;
- c) terms and regulations for submission and publishing of balance sheet, financial statements and other statements have not been duly followed, and/or a false and invalid information has been provided therein;
- d) warning instructions of the Central Bank prescribed by this Law (Article 19, Paragraph 1, “a”) have not been satisfied.

ARTICLE 19. Sanctions for Law Infractions

1. With respect to the provisions prescribed in Article 15 of this Law the Central Bank may apply against credit organizations one of the sanctions given below:
 - a) issue written warnings and remedial sanctions to liquidate the infractions;
 - b) fine;
 - c) disqualify and revoke the manager’s certificate;
 - d) revoke the license;

2. In addition to the above measures, fines, on the Central Bank decision, may be applied against the executive manager or chief accountant of the credit organization in an amount not exceeding a thousand-fold size of the minimum salary.
3. Application of sanctions stated in this Article may not otherwise impair effects of the laws and other normative regulations or contracts with respect to credit organizations.
4. Sanctions prescribed by this Article against credit organizations and managers thereof shall be applicable in the cases, on the grounds, in the frame and under regulations of the Law on Banks and Banking Activity of the RA. In addition to these grounds, licenses of the credit organizations may become void if invalid data have been submitted during their registration and licensing.
5. Licenses of credit organizations shall become void upon a respective decision of the Board of the Central Bank. This decision shall enter into effect upon its publication in the press.

CHAPTER 6

TRANSITIONAL PROVISIONS, CHANGING THE TYPE OF ACTIVITY OF BANKS

ARTICLE 20. Possibilities for Banks to Change the Type of Activity

Banks may change their type of activity to become a credit organization through passing reregistration in accordance with the provisions of this Law and laws of the RA.

ARTICLE 21. Procedure for Changing Type of Activity

1. For the purpose of changing type of activity the superior body of the bank shall take a decision under which a respective program shall be approved. Upon the date of approval of such decision, the application (solicitation) on change of activity together with the decision and the program shall be within a week period submitted to the Central Bank Board's approval.
2. The Board of the Central Bank, within in a month, shall consider the documents and take a decision to approve or reject the application. If, within the mentioned period, no any decisions are taken the decision on approval of the Board of the Central bank shall be deemed reached.
3. The Board of the Central Bank may give no approval to or reject the application if:
 - a) the submitted documents were inconsistent to the laws of the RA, failed to be duly submitted or were incomplete;
 - b) as a result, the change will jeopardize the interests of the bank depositors.
4. The Central Bank shall be empowered to approve the procedures for submission of the application and attached thereto other documents of banks to the Central Bank approval as well as the list of other respective documents supporting and disclosing the type of activity changing process.

ARTICLE 22. Legal Implications

1. The bank shall approve the legal entity charter and submit to reregistration, and carry out other actions prescribed by Bank Activity Changing Program within reasonable terms as stated therein. Throughout of bank activity changing process the Central Bank, for the given bank, may establish regulations on prudential standards (prudential regulations) other than stated for banks.
2. Under the time frame fixed by the Program the bank shall be liable to discharge all its liabilities incurred with respect to bank deposit and bank account contracts or transfer to another bank in accordance to the provisions of the Civil Code of the RA.
3. In the event when the bank transfers its liabilities under bank deposit and bank account contracts to another bank, before executing such a transaction, it shall notify the name of the transferee bank to the Central Bank by providing all the documents related to such transaction. Taking into account the financial condition of the transferee bank, the Central Bank shall be authorized to ban the execution of such a transaction by the bank.
4. Starting the date the bank has been reregistered the activity thereof shall deem terminated and the rights and obligations thereof (except those incurred under bank deposit and bank account contracts) shall be transferred to the reregistered person as a legal successor, as well as respective records shall be effected in the bank Register on termination of the bank activity by notifying about this to the state registration agency. The decision on reregistration of the bank shall serve a ground for the Board of the Central Bank to void the license of the bank on bank activity.
5. The credit organization upon the date of its reregistarion shall be deemed licensed. Moreover, no charges or duties with respect to reregistarion and licensing shall be placed.

CHAPTER 7

FINAL PROVSIONS

ARTICLE 23. Final Provisions

1. Activities of credit organizations prescribed hereby shall be deemed subject to licensing within six months after this Law takes effect.
2. This Law shall enter into effect on the following day of its publication.

Robert Kocharyan
President of the Republic of Armenia
22 June 2002, Yerevan
AL-359-N