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Armenia: Law & Practice

Narine Beglaryan, Arianna Adamyan and Ani Mkrtumyan
Concern Dialog

ARMENIA

Law and Practice

Contributed by:
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Contents

Concern Dialog is a top-tier, full-service law firm, headquartered in Yerevan, Armenia. It has been a trusted partner for businesses and individuals seeking legal counsel and representation since 1998. The firm is renowned for its work in the areas of corporate law, labour law, competition law, tax law, contract law, family law (including child abduction cases) and regulatory issues. The firm has extensive experience in regulatory matters in technology, media, and telecommunications (TMT), mining, energy, utilities, banking and finance, medical services, real estate, and not-for-profit sectors. In addition to its renowned consulting and transaction practice, the firm's litigation practice is regarded as one of the leading ones in Armenia for landmark litigation and arbitration cases. The firm's membership of TagLaw and Nextlaw networks, as well as its co-operation with individual law firms from various jurisdictions, allow it to provide services to its Armenian clients virtually worldwide.

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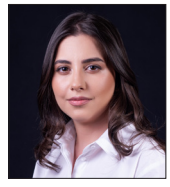

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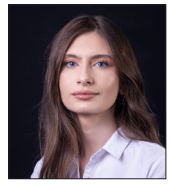

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1. Legislative Framework

1.1 Key Laws and Regulations

Key Laws and Regulations

The principal law regulating the banking sector is the Law of the Republic of Armenia (RA) On Banks and Banking (Banking Law). This law governs the registration and licensing of banks, Armenian and foreign banks' branches and representative offices, as well as corporate governance, banking, and financial operations.

The formation and procedures of corporate governance bodies, as well as the scope of authorities, are governed by rules established under the Law of RA on Joint Stock Companies, even where a bank is a limited liability company or a co-operative bank (currently all banks established and acting in Armenia are joint stock companies).

The process of liquidating banks is governed by the Law of RA On Bankruptcy of Banks, Credit Organisations, Investment Companies, Investment Fund Managers and Insurance Companies.

The following laws of the RA govern specific areas of banking activities:

- the Consumer Credits Law, which establishes rules for interactions with customers (natural persons, individual entrepreneurs, and small commercial organisations), with regards to the provision of small loans;
- the Attraction of Banking Deposits Law, which establishes the rules imposed on banks for attracting deposits from natural persons;
- the Housing Mortgage Crediting Law, which provides protection for natural persons when taking out a mortgage to purchase, build or renovate a house or flat;
- the Bank Secrecy Law, which establishes rules regarding bank secrecy, as well as the processing thereof; and
- the Guaranteeing Compensation of Bank Deposits Law, which provides for the compensation of bank deposits should banks fail to repay them.

There are a number of laws that are applicable to banks and banking activity, for instance:

- the Law of the RA on the Central Bank;
- the Civil Code of the RA;
- the Law of the RA on Combating Money Laundering and Terrorism Financing;
- the Law of the RA on Financial System Mediator; and
- the Law of the RA on Securities Markets.

A lot of technicalities and details related to banks and their activities are regulated under the regulations adopted by the regulator. For instance, Regulation 1 concerns the registration and licensing of banks and branches of foreign banks, the registration of bank branches and representative offices, the qualification and registration of managers of banks and branches of foreign banks. Regulation 2 concerns the regulation of banking and prudential standards of banking.

Regulator

The Central Bank of Armenia (CBA) is the primary regulator of the Armenian financial system, including banks and banking activities. The CBA also has authority with regard to the registration and issuance of banking licences. The Competition Protection Commission of Armenia has authority to grant approval for bank consolidations.

2. Authorisation

2.1 Licences and Application Process

Licences

According to the Banking Law, a bank is recognised as a legal entity authorised to engage in banking activities, provided it holds a valid licence. Banking activities are defined as accepting or soliciting deposits and using those amounts to provide loans or to invest on its behalf.

A banking licence is the only type of licence that gives holders the right to perform banking activities.

Banking Activities

A banking licence permits a range of activities, which are as follows:

- accepting deposits;
- providing loans;
- carrying out financing in return for the concession of monetary claims (factoring);
- providing bank guarantees;
- handling transactions with letters of credit;
- providing payment and settlement services, including opening and servicing bank accounts (including correspondent bank accounts);
- issuing and servicing securities, performing transactions with securities and derivative financial instruments;
- providing investment services and non-core investment services, as described under the Law on Securities Market;
- carrying out investment fund (including pension fund) custody activities should the bank meet the additional legal requirements;
- managing funds of other persons (trust management), excluding securities packages managed as part of the bank's investment services;
- purchasing, selling and managing bank gold, standardised bullion, and commemorative coins;
- trading (buying, selling, exchanging) foreign currency;
- leasing activities;
- safekeeping precious metals, jewellery, documents, and other valuables;
- providing financial consultation other than those classified as investment services;
- establishing and supporting a customer creditworthiness information system;
- debt collection;
- selling insurance policies and/or agreements and carrying out insurance agent operations; and
- acting as an account operator in cases allowed under the Law of the RA On Cumulative Pensions.

Banks in Armenia are restricted from engaging in certain business sectors, specifically industry, trade, and insurance. However, the CBA may allow banks to carry out activities and operations beyond those listed, provided that:

- those other activities and operations originate from or closely relate to the named permitted activities of banks; and
- they do not contradict the objectives of the Banking Law or substantially endanger the interests of a bank's depositors and creditors.

Authorisation Process

A banking licence can be obtained if the CBA:

- grants preliminary consent to licensing;
- registers an entity or a branch of a foreign bank; and
- grants a banking licence.

Submission for Preliminary Consent

The process of applying for preliminary consent for a licence involves the submission of several key documents to the CBA. These can be submitted either by a shareholder of the initiating bank or by a foreign bank seeking to establish a branch in Armenia. The required documents include:

- a draft charter, along with any internal acts referred to within the charter;
- a business plan for the next three years;
- a founding agreement for the establishment of a new bank, or a corporate package for a branch of a foreign bank; and
- information about shareholders and affiliated persons, as well as financial balance sheets and audit reports of legal entities.

For the establishment of a foreign bank branch in Armenia, the application process involves additional requirements beyond those for domestic banks. These include:

- regulatory consent: obtaining consent from the regulatory body in the foreign bank's country for the establishment of the branch;
- bank rating document: a document from international rating agencies providing the rating of the foreign bank in terms of attracting long-term deposits;
- regulatory compliance certificate: a certificate from the foreign bank's regulator confirming that the bank has adhered to the applicable banking regulations over the past two years;
- banking supervision compliance: a document certifying that the banking supervision regime of the foreign bank complies with the Basel core principles for effective banking supervision.

Applications for banking licences may be rejected based on several factors, typically relating to:

- financial criteria;
- compliance with laws and regulations; and
- the reputation of the involved entities and natural persons.

Registration

For the registration of a bank or a branch of a foreign bank, the following must be submitted to the CBA:

- corporate documents on incorporation of the entity or branch, including the charter;
- a statement detailing management personnel, with a request for their registration, and all necessary information;
- a request for registration of the firm name;
- statements on the compliance of the significant shareholders with the requirements of the Banking Law; and

- information about the significant shareholders and their affiliates.

The registration of a bank may be rejected, for example, in the following circumstances:

- submission of dubious or false data;
- submission of incomplete or insufficient documents; and
- in the event that the shareholders or their affiliates:
  (a) are in a poor financial state;
  (b) may negatively impact the financial state of the bank; or
  (c) may hinder the effective supervision of the CBA.

Licensing

A registered bank may apply to the CBA for a banking licence within one year of receiving preliminary consent, and it must comply with the following requirements, among others:

- total minimum capital is paid (AMD30 billion);
- office spaces are in line with the technical and security requirements of the CBA, as is the business plan;
- an internal structure and operation system are created; and
- management staff of the bank have the relevant CBA qualification certificates.

The CBA may reject a request for a banking licence:

- if the conditions have significantly changed since the issuance of preliminary consent;
- the bank's management has undertaken illegal discrediting activities after the registration of the bank; or
- the financial status of significant shareholders has changed.

3. Control

3.1 Requirements for Acquiring or Increasing Control Over a Bank

Classification of Shareholders

According to the Banking Law, a shareholder may be significant or insignificant. A significant shareholding may be direct or indirect. A significant shareholding is direct when the holder holds 10% or more of the voting shares in the statutory capital of the bank. A significant shareholding is indirect if the holder satisfies one of the following:

- they do not hold shares in the bank's statutory capital, or they hold less than 10% of the voting shares or shares with no voting rights, but have the capacity, as defined by the CBA's criteria, to:
  (a) directly or indirectly predetermine the decisions of the bank's governance bodies;
  (b) significantly influence the decision-making or implementation of the decisions; or
  (c) predetermine the major directions or fields of the bank's operation;
- they do not hold shares in the bank's statutory capital, or they hold less than 10% of the voting shares or shares with no voting rights, but through a right of claim in respect of the bank they have the capacity to:
  (a) predetermine the decisions of the bank's governance bodies;
  (b) significantly influence the decision-making or implementation of the decisions; or
  (c) predetermine the major directions or fields of the bank's operation;
- they hold more than 50% of the allocated shares of a company, which makes them the bank's direct significant shareholder;
- they either have or do not have participation in the statutory structure of a company that is

the bank's significant shareholder, but it has the capacity, under the CBA's criteria, to:

(a) predetermine the decisions of the managing bodies of a company;
(b) significantly influence the decision-making or implementation of the decisions; or
(c) predetermine the major directions or fields of the company's operation of the legal entity.

Shareholding Thresholds

When acquiring a significant shareholding through one or more transactions (ie, those concluded outside of the stock exchange or through stock the exchange but exceeding 20% of a bank's statutory capital), a person or their affiliate must have the CBA's preliminary consent. The following information must be disclosed to the CBA when requesting preliminary consent:

- full information about prospective direct significant shareholders;
- full information about prospective indirect significant shareholders (if applicable); and
- proof of legality of the sources of funds for the purchase.

Physical entities permanently residing or acting in offshore zones as per the CBA's list, as well as legal entities or entities with no legal status determined or incorporated there, and related parties, may acquire participation in the statutory capital of a bank (regardless of the extent of the participation) through one or more transactions only if preliminary consent has been granted.

The CBA's preliminary consent is required for each new transaction purporting to increase the shareholding of a person and/or affiliate thereof in excess of 10%, 20%, 50% and 75%, respectively.

The CBA's preliminary consent must also be issued for transactions under which the participation of the significant shareholder decreases from 75%, 50%, 25% and 10% respectively.

The reasons for rejection of preliminary consent are usually linked to reputation, prudence, competition or general legal non-compliance.

4. Supervision

4.1 Corporate Governance Requirements

Corporate Governance

The bank's corporate governance bodies are:

- the general meeting of shareholders;
- the board;
- the executive director or the chairperson of the directorate (if there is a directorate then the executive director is its chairperson ex-officio); and
- the directorate (if there is one under the bank's charter).

The bank must have a chief accountant, an internal audit department, a person responsible for risk management and a person responsible for compliance.

Managers (management staff) of the bank are:

- the chairman of the board, their deputy and members of the board, the executive director and their deputies;
- the chief accountant and their deputy;
- head of internal audit, members of the internal audit;
- risk managers;
- compliance officers;
- members of the bank's directorate;

- heads of territorial and structural subdivisions (heads of department, division, unit); and
- employees of the departments that, in the CBA's well-reasoned opinion, have direct links to the main activities of the bank, operate under the immediate supervision of its executive director, or have any influence on the decision-making process of the governing body.

The General Meeting of Shareholders

The general meeting of shareholders is the supreme governing body of the bank. The status, powers and operation of this corporate governance body is regulated by the Banking Law, the Law on Joint Stock Companies, the charter and internal regulation on the bank's operation (if adopted by the bank).

Shareholders may participate in the meetings in person or through a representative. The general meeting exercises only the exclusive authorities that are defined under the law.

The Board

The bank's board carries out the general management of the bank's activities. Its actions are guided by procedures outlined in the laws, the bank's charter, and internal acts regarding board procedure. The competencies of the board are prescribed under the law. The board is required to review the external audit(s) at least once a year and the reports of the internal audit, the executive director, and the chief accountant at least once every quarter.

Executive Governance Body and Other Managers

The executive director and directorate (if any) are charged with the day-to-day management of the bank. Also, the executive director and directorate have authority regarding the issues not within the remit of the general meeting, the board or the internal audit.

The other managers of the bank are responsible for specific areas of the bank's activities, as defined by their job titles and descriptions.

4.2 Registration and Oversight of Senior Management

Designation

The bank's board must consist of at least five and at most 15 members. The members of the board are elected by general meeting and/or appointed by a shareholder or group of shareholders holding 10% or more of the voting shares. The board member must be a natural person and may be a member of boards of other banks.

Board members may be a member of boards of other banks provided that they have six years' relevant experience in banking, insurance or the securities market, three of which must have been spent holding one of the following positions:

- executive director or deputy thereof;
- board member;
- directorate member;
- representative of an international financial institution; or
- has a PhD in economics or four years of research expertise.

A board member cannot be a member of an executive body or hold another position in the bank.

It is prohibited to appoint a person to a managerial position if they:

- have committed a crime deliberately as per a final judicial act;

- are deprived by the court of the right to hold certain relevant positions;
- are bankrupt or have outstanding liabilities;
- do not comply with CBA requirements as regards qualifications, professional integrity, ability or capacity; or
- are involved in a criminal case as a suspect, defendant or accused.

Under the law, the board is entitled to appoint the executive director, their deputies, the members of the directorate, and the chief and members of the internal audit. The appointment of other managers is determined in accordance with the bank's charter.

Generally, an acting manager can be appointed without qualification or registration for a period of three months, within which the qualification and registration processes must be fulfilled. In some cases, certain managers may be appointed acting manager for a period longer than three months, for instance, the deputy of an executive director may be appointed executive director in this way.

Qualifications

Managers of a bank and branches of foreign banks, who are required to pass an exam and register with the CBA as a manager, include:

- board members;
- executive directors and their deputies;
- members of the directorate;
- heads of a foreign bank's branch;
- chief accountants;
- chiefs of the internal audit;
- employees responsible for risk management; and
- chief compliance officers.

The managers of the bank must be qualified and must meet the standards of professional compliance defined by the applicable law. The process of such qualification is prescribed by Regulation 1.

Generally, managers can become qualified by passing an exam. The exam must be organised by the banks and branches of foreign banks for which the latter must have adopted the relevant internal procedure. The banks and branches of foreign banks can organise the exam itself or delegate it to the qualified organisation.

While establishing a bank or branch of a foreign bank, the examination of the managers must be organised by the founder or can be delegated to the qualified organisation.

Registration

The CBA registers the managers as follows:

- The CBA assesses the professional compliance of a candidate for a managerial position by examining the information submitted about their qualifications and experience.
- Candidates are typically required to undergo a verbal interview. However, in certain cases, the CBA may decide that a candidate can be appointed without interview.

Once a candidate is registered by the CBA, this registration serves as evidence that the manager holds a qualification certificate as defined by the Banking Law.

A manager is considered registered and qualified until the CBA issues a decision to remove them from their position. The CBA shall deregister a manager when:

- the bank or branch of a foreign bank requests it;
- the bank goes into liquidation and a liquidation manager is appointed;
- the manager breaches the legislation;
- the manager ceases to comply with the requirements defined for a person to be appointed as a manager;
- the manager is disqualified; and
- a board member, after serving in the bank for five years, fails an interview with the CBA.

4.3 Remuneration Requirements

The regulation adopted under Armenian legislation regarding remuneration is that the CBA may limit a bank's payment of bonuses and other incentive payments in the following cases:

- the payment leads or may lead to a decline in the bank's financial condition; or
- there have been bank payment breaches or potential breaches of at least one prudential standard or maximum/minimum threshold of prudential norms.

5. AML/KYC

5.1 AML and CFT Requirements

The primary legal framework governing AML and CFT for banks is the Law on Combating Money Laundering and Terrorist Financing. Banks must also adhere to recommendations issued by the CBA and relevant international institutions.

Banks are obliged to have internal acts regarding AML and CFT, such as policies, risk assessment regulations, and KYC processes.

The banks are obliged to:

- conduct customer due diligence at both the initiation of a business relationship and during ongoing service provision;
- conduct due diligence to evaluate the potential risks associated with transactions and business relationships;
- report transactions subject to mandatory reporting and suspicious transactions;
- suspend or terminate a transaction or business relationship if it is deemed impossible to comply with KYC requirements, resolve suspicious activity concerns, or if instructed to do so by the regulator; and
- freeze the assets directly or indirectly owned or controlled by persons related to terrorism or the proliferation of weapons of mass destruction.

If a transaction is suspicious, a bank may suspend it and report it to the regulator; it must then act as per the instructions of the regulator.

Transactions subject to mandatory reporting are:

- wire transactions in an amount equal to or above AMD20 million; and
- transactions using cash (money) in amounts equal to or above AMD5 million.

Suspicious transactions or business relationships, including attempted ones, are those where there is a suspicion, or reasonable grounds to suspect, that the property involved:

- is the proceeds of criminal activity;
- is related to terrorism, terrorist acts, terrorist organisations, or individual terrorists, or to those who finance terrorism; or
- was used in or is intended to be used for terrorism or by terrorist organisations or individual terrorists, or by those who finance terrorism.

6. Depositor Protection

6.1 Depositor Protection Regime

Administrator and Funding

The Deposit Guarantee Fund of Armenia (the "Fund") is a non-commercial legal entity established by the CBA. All banks in Armenia are required to contribute to the Fund on a regular basis. The amount of each contribution is calculated based on the bank's total attracted deposits and is paid quarterly. Newly established banks are required to make an additional, non-regular contribution. The Fund may also impose extra contributions if it deems necessary to maintain sufficient funds.

The Fund is responsible for the management of funds, as well as payment of compensation where there is a "compensation event".

Covered Deposits

The deposit compensation guarantee covers deposits within the following limits:

- AMD16 million if a depositor only keeps an Armenian dram-denominated deposit in the insolvent or bankrupt bank;
- AMD7 million if a depositor only keeps a foreign currency-denominated deposit in the insolvent or bankrupt bank;
- AMD16 million for deposits in Armenian drams if a depositor keeps Armenian dram- and foreign currency-denominated deposits in the insolvent or bankrupt bank, and the dram-denominated deposit exceeds AMD7 million; and
- all amounts of deposits in Armenian dram in an amount equal to the difference between AMD7 million and the reimbursed deposit in drams if a depositor keeps Armenian dram- and foreign currency-denominated deposits in the insolvent or bankrupt bank, and the size of the dram-denominated deposit is less than AMD7 million.

A compensation guarantee is not provided in the following cases:

- a depositor is a manager of the bank or a family member;
- a depositor is a significant shareholder of the bank or their family member;
- a depositor disclaimed their ownership rights;
- funds in the deposit are recognised as proceeds of illegal activities, unless otherwise provided by a depositor; and
- the interest rate on the deposit is at least 1.5 times higher than the interest rate on similar bank deposits indicated in the public offer of the bank.

According to the depositor protection legislation, a depositor is a natural person (including an individual entrepreneur) who has a deposit in a bank.

It is important to note that the deposit, within the meaning of its guaranteed compensation, refers to:

- funds provided by or for a depositor that must be returned or repaid to a depositor;
- a fund in any type of bank account belonging to a person;
- a fund attracted by a bank through the allocation of its securities; and
- interest accrued to the funds listed above.

Compensation

A compensation event occurs when:

- a bank is declared insolvent and, according to a decision of the CBA, is unable to pay back

deposits within the period determined by law and contracts; or
- a bank is declared bankrupt.

The CBA shall notify the Fund about a compensation event, and also provide a list of deposits subject to compensation. The Fund shall provide a public notice regarding compensation and pay compensation should a depositor apply for it within three years of that public notice.

7. Bank Secrecy

7.1 Bank Secrecy Requirements

Bank secrecy is the information belonging to a customer of which a bank becomes aware during the course of their business relationship. This includes customer account information, information on transactions made upon the instruction of the customer or in favour of the customer, trade secrets, facts related to any project or plans of its activity, inventions, industrial designs, and other information that the customer intended to keep secret where the bank is aware or could have been aware of this intention.

The information that becomes known to the CBA in connection with or during the supervision of banks also becomes classified as bank secrecy (in this case, the CBA is considered a bank, and the banks customers).

The general rule is that the disclosure of bank secrecy is prohibited. The violation of bank secrecy rules may lead to civil liability (compensation of damages), administrative penalties (AMD2-10 million), and criminal liability. However, there are certain cases prescribed under the law when the disclosure of bank secrecy is allowed, some of which are subject to certain conditions:

- a customer discloses information about themselves;
- a bank provides information to the CBA (or the Fund) in the course of it exercising its supervisory powers;
- a bank provides information about a certain customer upon the latter's consent.
- a bank provides information to companies providing services or carrying out certain activities for the bank if:
  (a) that information is necessary for rendering those services or performing those activities; and
  (b) the receiver guarantees the relevant protection of the bank secrecy;
- a bank needs to disclose information about a certain customer before the court with the aim of protecting its interests in the course of its dispute with that customer;
- a bank provides information to the courts, tax and customs authorities, or law enforcement authorities, on the basis of a court order;
- a bank provides data to the Financial System Mediator regarding a customer who initiated the examination of that mediator;
- a bank provides information about certain customers to the heirs of that customer should they submit the documents verifying succession;
- a bank provides information about a certain deceased customer to a public notary should the notary inquire as to the assets of the deceased person;
- a bank provides information to credit bureaus;
- a bank exchanges information with other banks (interbank information sharing);
- a bank reports suspected criminal activity to law enforcement authorities; or
- a bank provides information in response to a request from the corruption prevention committee.

8. Prudential Regime

8.1 Capital, Liquidity and Related Risk Control Requirements

Basel III Implementation

The Basel III standards on countercyclical capital buffers were implemented in the Procedure on Setting and Calculation Thresholds above the Capital Adequate Ratio of Banks, which was adopted by the CBA on 1 April 2019.

Risk Management Rules

Risk management in banks is regulated under the CBA's Regulation on Minimum Conditions of Performing Internal Control in Banks. The CBA has also given recommendations regarding management of banks' operational and liquidity risks.

The bank's risk management system must encompass the following elements:

- a risk management strategy;
- an approved risk appetite framework;
- policies for each type of risk, including acceptable risk limits and mitigation strategies;
- processes and tools for identifying, measuring, controlling, monitoring, and assigning accountability for each type of risk (at least for credit, market liquidity, operation, reputation and strategy (business model) risks);
- obligations and liabilities of bank units and employees regarding risk management; and
- a policy on internal processes for assessing the bank's capital, including procedures for information gathering, evaluation, and verification.

Banks are required to implement stress testing for the following risks:

- credit risk: quarterly;
- exchange risk: monthly;
- interest risk: quarterly;
- price risk: quarterly;
- liquidity risk: monthly; and
- pandemic risk (possible negative impact of other bank/financial institutions' financial issues on the bank): quarterly.

The CBA recommendation stipulates that the operation risk management of a bank relies on the following principles:

- A bank's board must be aware of the operational risks of the bank, and must adopt and periodically review the operational risk management plan and strategy.
- A bank's board must be assured that the internal audit fully and efficiently checks the operational risk management processes, and the internal audit must be independent and sufficiently qualified.
- An executive governance body is responsible for the implementation of the operational risk management plan adopted by the bank.
- A bank must find out and assess operational risks with respect to its main tools, operations, processes, and systems.
- A bank must implement processes for the periodic monitoring of operational risks and losses in connection therewith.
- A bank must have policies and processes on management and mitigation of essential operational risks.
- A bank must adopt a plan of action for emergency cases.
- A bank must disclose enough information to allow other market participants to assess the bank's approach to operational risk management.

The CBA's recommendations on liquidity risk management define 20 principles, including that a bank must implement a strategy for the daily management of liquidity.

Capital Requirements

The minimum statutory capital of a bank is AMD1 billion, which may only be paid in Armenian drams. The minimum total capital required for a bank is AMD30 billion. The total capital is the sum of tier 1 and tier 2 capital. Tier 1 capital consists of the sum of certain amounts (eg, statutory capital, non-distributed dividends, reserve funds).

The ratio of tier 1 core capital must be 6.2%, while the ratio of tier 1 total capital must be 8.3%. The ratio of total capital is a minimum of 11%.

Liquidity Capital

The general rate of liquidity is 15%. The currency ratio is 60%. The standard of liquidity cover is 100%. The pure financial standard is 100%. The standards may differ depending on the asset classification or currency involved in the calculation.

Additional Requirements Applicable to Systematically Important Banks

For systemically important banks, the threshold is 1.5% as of 2023.

9. Insolvency, Recovery and Resolution

9.1 Legal and Regulatory Framework

The deterioration of a bank's financial condition can result in either its insolvency or bankruptcy.

The CBA shall declare a bank insolvent if one of the following applies:

- the bank has depleted 50% or more of its total core capital;
- the bank is incapable of meeting its obligations to creditors upon legal demand;
- the summary assessment of bank performance is lower than the summary assessment of bank performance required by the CBA; or
- the bank periodically breaches prudential standards on reserves.

While recognising a bank as insolvent, the CBA may exercise one of the following rights:

- it may appoint a head of temporary administration and mortgage manager for up to one year, with the possibility of prolonging the term for one more year; or
- it may apply to the court to declare the bank bankrupt.

The aim of appointing a head of temporary administration is to restore the financial stability of the bank, which the temporary administration performs through various tools, such as the reorganisation of the bank, selling the bank's assets, short-term collection of bank assets, and attraction of new investments. A head of temporary administration acts in the capacity of the executive director of an insolvent bank.

During administration, the participators (shareholders) of the bank cannot exercise their rights arising from such participation, for example to separate their part (deposit) of the authorised capital of the bank or to separate the shares of the participator (shareholder, unit holder) in the authorised capital of the bank.

The administration shall operate according to the financial recovery plan adopted by the CBA. The CBA may freeze the satisfaction of creditor claims (moratorium) for the entire period of activities of the administration (or, where necessary, for a shorter period). The administration has the right to unilaterally terminate agreements or apply to court to invalidate them.

The CBA must terminate the activities of the administration where:

- goals envisaged in the financial recovery plan have been achieved and the CBA decides thereon; or
- the court recognises the bankruptcy of the bank and appoints a liquidator.

The CBA may initiate bankruptcy proceedings for a bank if it determines that the bank is insolvent or if bankruptcy is deemed a more effective means of preserving the bank's assets than continuing temporary administration. Creditors of the bank may also petition the CBA to file for bankruptcy.

Before applying to the court for bankruptcy, the CBA must revoke the bank's licence. If the court declares the bank bankrupt, this legal declaration is the official start of the bankruptcy process. Following the court's decision to declare the bank bankrupt, the process of liquidation begins.

Liquidation of a Bankrupt Bank

When the bank is declared bankrupt, the liquidation administrator is appointed by the court. Once notice of the appointment of a bank's bankruptcy administrator has been made, creditors may register their claims against the bank. The sequence of satisfaction of creditor claims is as follows:

- payment of debts secured by a pledge;
- claims arising from the insurance contracts are settled from the assets equal to technical funds;
- administrative expenses;
- claims of creditors who provide loans or deposits to a bank after the appointment of the administration;
- the deposits of natural persons in amounts of AMD16 million for dram-denominated deposits and AMD7 million for foreign exchange-denominated deposits (to the depositor or the Fund should the deposit amount be compensated by it);
- the other obligations of the bank, including to repay the amount of deposits remaining after repayment of AMD16 million for Armenian dram-denominated deposits and AMD7 million for foreign exchange-denominated deposits;
- debts to the state and municipality budget;
- subordinated loans; and
- claims of the bank's shareholders.

Financial Stability Board (FSB) Key Attributes of Effective Resolution Regimes

Armenia has not explicitly implemented the FSB Key Attributes of Effective Resolution Regimes. However, aiming to systematise the measures implemented by the bank in case of deterioration of the financial position, the CBA by Decision No 148-N of 2019 amended the regulation on "Minimum conditions for the implementation of internal control of banks", requiring banks to have a recovery programme. This programme must include scenarios, impact assessments, target limits, and measures for restoring a bank's financial position. The scenarios should cover both bank-specific and system-wide impacts, considering risk structures, activities, size, and interconnections. The recovery programme also outlines actions, responsible units, communica-

tion processes, and annual testing of measures, with results submitted to the CBA by 15 October each year.

Rules applicable to deposits are outlined in **6.1 Depository Protection Regime**.

10. Horizon Scanning

10.1 Regulatory Developments

This year, the CBA has discussed the need for an effective framework for comprehensive regulation and supervision of virtual assets. To ensure effective regulation, the principle of "same activity, same risk, same regulation" will be adopted, ensuring that virtual asset service providers engaged in activities similar to traditional financial services will be subject to similar regulatory measures.

This regulatory approach aims to address current and potential risks associated with virtual assets while establishing a transparent legal framework to encourage innovation and technological advancements in the virtual asset sector. It is important to note that there are no drafts of legislative changes available at this stage.

The next big step will be the implementation of the National Sustainable Finance Roadmap of Armenia, details of which are outlined in **11.1 ESG Requirements**.

11. ESG

11.1 ESG Requirements

Currently, there are no defined ESG banking regulations established by the Republic of Armenia. Banks have the option to incorporate such requirements within their internal regulations and policies. A bank may include ESG-related clauses in a loan agreement with creditors where it is required under the contract for attracting funds for those loans, in which case environmental and governance considerations are usually addressed.

It is worth mentioning that according to the "National Sustainable Finance Roadmap of Armenia", which was adopted by the Board of the Central Bank on 5 September 2023, the CBA aims to incorporate sustainability principles, including ESG, into the financial sector. The CBA plans to integrate ESG into the supervisory framework, developing guidelines for managing climate-related risks and addressing greenwashing. Additionally, the CBA will encourage FMPs to enhance governance for climate-related risks, integrate ESG into corporate governance, and participate in sustainable finance initiatives. The CBA plans to implement these objectives starting from 2024.

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