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LAW

OF THE REPUBLIC OF ARMENIA (Law edited by HO-316-N of 4 May 2018)

ON SECURED MORTGAGE BONDS (title edited by HO-316-N of 4 May 2018)

CHAPTER 1

GENERAL PROVISIONS

Article 1. Subject matter of the Law

1. This Law shall regulate the relations pertaining to the issuance of secured mortgage bonds by banks and credit organisations, the turnover, repayment thereof, as well as those pertaining to the control over the activities of the issuer, monitoring over the cover assets pool, appointment and activities of a mortgage manager, as well as other relations pertaining to secured mortgage bonds.

Article 2. Legal regulation of relations pertaining to secured mortgage bonds

1. The relations pertaining to the activities of issuance of secured mortgage bonds shall be regulated by this Law, other regulatory legal acts adopted on the basis thereof, laws of the Republic of Armenia "On banks and banking", "On credit organisations", "On securities market", "On bankruptcy of banks, credit organisations, investment companies, investment fund managers and insurance companies", other laws and regulatory legal acts.

2. Provisions of the Law of the Republic of Armenia "On asset securitisation and asset-backed securities" shall not apply to relations of issuance of secured mortgage bonds.

Article 3. Main concepts used in the Law

1. The main concepts used in this Law shall be as follows:

(1) **asset** - funds and/or rights to claim thereon, and/or other financial assets among the assets defined by the Law of the Republic of Armenia "On accounting", which provide or may provide certain cash inflows;

(2) **nominal value of the assets** - the balance of principal amount of a loan - for mortgage loans; the balance of nominal value of a bond - for bonds; the balance of deposit within the limits recorded in the cover assets register - for deposits;

(3) **secured mortgage bond or mortgage bond** - a publicly offered bond issued by a bank or credit organisation, which is secured by pledge of mortgage loans, as well as other financial assets;

(4) **cover assets for secured mortgage bonds or cover assets** - assets that are recorded in the cover assets register and serve as a cover asset for liabilities arising from mortgage bonds;

(5) **person exercising control over cover assets** - a person who performs special functions specified in this Law aimed at protecting interests of investors (owners) in mortgage bonds;

(6) **cover assets register** - a system provided for by Article 15 of this Law for recording, by the issuer, of cover assets;

(7) **primary pledge** - right to pledge, which provides a priority right to receive grant from the collateral over other pledge rights to the same collateral;

(8) **net present value** - the amount of all monetary flows discounted as of the reporting date using prevailing market interest rates;

(9) **issuer** - a bank or credit organisation which carries out, as prescribed by this Law, issuance of mortgage bonds;

(10) **"mortgage loan"**, in accordance with Article 6 of this Law:

a. mortgage-backed loan, as well as

b. home mortgage credit prescribed by the Law of the Republic of Armenia "On home mortgage credit";

(11) **replacing assets** - monetary funds, bonds issued by the Republic of Armenia and/or guaranteed jointly and severally, as well as other assets prescribed by regulatory legal acts of the Central Bank of the Republic of Armenia (hereinafter referred to as "the Central Bank");

(12) **additional assets** - mortgage loans and replacing assets included in the pool for the purpose of meeting the requirements of equivalence of cover assets, as well as ratio of loan amount and market price of the collateral;

(13) **mortgage manager** - a person who shall carry out the management of the cover assets when the issuer is declared insolvent and/or when bankruptcy proceedings have been initiated or in other cases as prescribed by this Law;

(14) **cover assets pool** - a set of cover assets aimed at ensuring the discharge of liabilities assumed by mortgage bonds;

(15) **programme for secured mortgage bonds offer** - programme of offer prescribed by point 1 of part 1 of Article 3 of the Law of the Republic of Armenia "On securities market", based whereon, it is envisaged to carry out continuous issuance of the same class of mortgage bonds over a certain period of time;

(16) **secured refinancing loan** - a loan whereby the issuer of mortgage bonds has refinanced the mortgage loan provided by another bank or credit organisation to other persons, and which has been included in the cover assets pool of the issuer;

(17) **participant organisation** - a bank or credit organisation, the mortgage loans thereof provided to other persons have been refinanced by the issuer of mortgage bond for the purpose of including in the cover assets pool;

(18) **centralised issuer** - the issuer, who has received authorisation from the Central Bank to include the secured refinancing loan provided to participant organisations in the cover assets pool;

(19) **derivative financial instrument** - derivative financial instruments provided for by point 3 of part 1 of Article 3 of the Law of the Republic of Armenia "On securities market".

Article 4. The usage of the phrases "secured mortgage bond" and "mortgage bond"

1. Bonds may be called "secured mortgage bond" or "mortgage bond", where they have been issued as prescribed by this Law.

CHAPTER 2

REQUIREMENTS FOR ACTIVITIES OF ISSUING MORTGAGE BONDS

Article 5. Cover assets of mortgage bonds

1. Mortgage bonds must be secured by mortgage loans, and in case of centralised issuance, by pledge of mortgage loans and/or secured refinancing loans, except for the case specified in part 2 of this Article.

2. In case of write-off or early repayment of mortgage loans and/or secured refinancing loans before the full discharge of liabilities of mortgage bonds, the issuer shall have the right to replace them with replacing assets, provided that, the replacing assets will not exceed 10 percent of the nominal value of all mortgage loans and secured refinancing loans, except for the case mentioned in part 3 of this Article.

3. The issuer may raise the ratio prescribed by part 2 of this Article in cases and to the extent prescribed by regulatory legal acts of the Central Bank.

Article 6. Mortgage loans

1. The mortgage loans may be cover assets only in case they meet the following requirements:

(1) the real estate that is the subject of mortgage is located in the territory of the Republic of Armenia or the subject of mortgage is a right to development of land parcel in the territory of the Republic of Armenia;

(2) the mortgage is primary pledge;

(3) the amount of the mortgage loan included in the cover assets pool at the moment of including therein shall not exceed 70 per cent of the market value — estimated before being included in the pool — of the pledged real estate that is a cover asset for that loan. Where the amount of the mortgage loan registered in the secured bonds pool later exceeds 85 percent of the market price of the collateral (real estate) that is a cover asset, the issuer shall be obliged to provide additional assets in the amount exceeding 85 percent of the value, which will serve as additional pledge, or in case relevant grounds are available — to reduce the amount of the mortgage loan included in the cover assets pool up to 85 percent. In case of providing additional assets, the cash monetary flows shall not be accrued in accounts of persons acquiring bonds, except for the case of insolvency of the issuer. For the purpose of applying this Point, the estimated market value of real estate must be determined by an appraiser who meets the requirements of Article 7 of this Law or on the basis of the indices mentioned in part 4 of the same Article, moreover, the appraisal report cannot have an expiry term exceeding one year in case of real estate used for entrepreneurial purposes, and an expiry term exceeding three years in case of another real estate;

(4) the mortgage loan contract provides for an opportunity of early repayment of the mortgage loan received in accordance with the provisions of the Law of the Republic of Armenia "On home mortgage crediting".

2. Appraisal and re-appraisal of the real estate that is a subject of mortgage, mentioned in part 1 of this Article, shall be carried out in accordance with Article 7 of this Law.

3. The maximum amounts of specific weights of types of mortgage loans in the cover assets pool shall be established by regulatory legal acts of the Central Bank.

4. In case of a centralised issuer, secured refinancing loans can be cover assets only when the mortgage loan refinanced with secured refinancing loans meet the requirements mentioned in this Article.

5. The issuer shall be obliged to replace the mortgage loans and secured refinancing loans not meeting the requirements prescribed by this Article with mortgage loans, secured refinancing loans or replacing assets meeting the requirements of this Article and to inform the controller thereon. Replacement of the assets mentioned in this point must be carried out within 30 days, starting from the day when the issuer became aware or must have become aware that the assets to be replaced do not meet the requirements prescribed by this Article.

Article 7. Appraisal and re-appraisal of real estate

1. Appraisal of the real estate that is a subject of mortgage mentioned in part 1 of Article 6 of this Law shall be carried out as prescribed by the Law of the Republic of Armenia "On real estate appraisal activities", by an appraiser having the right to carry out appraisal activities of the real estate in accordance with the legislation of the Republic of Armenia, carrying out activity in the given sector for at least two years and not being involved in the process of providing a mortgage loan, as well as insured against his or her liability risk at least in the amount of five thousand-fold of the minimum salary.

2. In case the appraisal of real estate is possible to be carried out by more than one method of estimating, the lowest of the values obtained by application of different methods must be taken as a basis.

3. Based on the necessity for protecting the interests of investors in mortgage bonds, the Central Bank shall, by a regulatory legal act, establish additional requirements for the estimated value of real estate that is the subject of mortgage, which is allowed to be included in the cover assets pool.

4. The re-appraisal of real estate that is a cover asset for a mortgage loan included in the cover assets pool must be carried out at least every three years, and in case the real estate is used for entrepreneurial purposes — once every year. Regardless of the terms specified in this Part, re-appraisal of the real estate included in the cover assets pool, which is the subject of a mortgage loan, shall be carried out where a significant drop in prices has occurred in the real estate market,

or such a drop is expected to occur. Price drop shall be considered to be significant, where the value of the real estate has decreased by more than 10 percent from the last estimated market value of that real estate. Re-appraisal of the real estate must be carried out either by the appraiser meeting the requirements mentioned in part 1 of this Article or on the basis of price index of real estate constructed by the methodology established by regulatory legal acts of the Central Bank.

5. The controller of cover assets pool shall be obliged to carry out periodic observations of prices of the real estate as prescribed by the regulatory legal acts of the Central Bank, and where significant drop of prices has occurred in the real estate market, to require that the issuer shall carry out re-appraisal of the real estate that is a cover asset of mortgage loan included in the cover assets pool.

Article 8. Equivalence of the cover assets

1. The amount of overdue liabilities of mortgage bonds must be secured by equivalent cover assets as of the moment established by regulatory legal acts of the Central Bank; moreover

(1) the total of the nominal values of the cover assets shall be equal to at least the total of the nominal values of the mortgage bonds;

(2) amounts receivable for the cover assets must be equal to at least the amounts payable for the mortgage bonds;

(3) the net present value of the cover assets shall exceed the amount of the net present value of all the mortgage bond liabilities by at least 1 per cent.

2. The Central Bank shall, in its regulatory legal acts, determine the procedure and methods for calculation of the net present value of the cover assets, derivative instruments and of the net present value of the liabilities.

Article 9. Cover assets pool and programme of issuing secured mortgage bonds

1. A separate cover assets pool must underlie each mortgage bond issuance programme. Cover assets included in that pool may be directed only to granting the claims arising from the mortgage bond issued within the scope of the mortgage bond issuance programme concerned, in proportion to the volume of those claims.

2. The issuers shall be obliged to have (create) a separate cover assets pool for assets expressed in each currency and issue only mortgage bonds expressed in the same currency based on that pool.

3. The issuer shall not be allowed to:

(1) issue mortgage bonds where they are not backed by cover assets defined by this Law;

(2) manage the cover assets included in the cover assets pool, except for the cases provided by this Law for the replacement of assets.

4. The issuer shall be obliged to maintain a schedule of both actual and expected monetary flows from the assets included in the cover assets pool, which should contain, among other data, information on early repayments and overdue payments. The issuer shall submit the schedule specified in this Point to the controller each month for the purpose of conducting analyses. The information on monetary flows mentioned in the time schedule prescribed by this point must provide an opportunity to identify the assets, including mortgage loans, replacing assets and derivative instruments, wherefrom those monetary flows have been received.

5. The time schedules of expected monetary flows for assets and liabilities must include forecasts of unexpected payments, particularly with regard to early repayments, and early discharge of liabilities under mortgage loans, derivative instruments and bonds issued.

The Central Bank shall define a procedure for implementation of the forecasts mentioned in this point by a legal regulatory act.

Article 10. Cover assets pool of a participant organisation and cover assets pool of a centralised issuer

1. The participant organisations must create a cover assets pool meeting the requirements of Articles 5-9, 13-15 of this Law. The participant organisation shall be obliged to make the documents and other information related to cover assets pool thereof available to the centralised issuer as prescribed by regulatory legal acts of the Central Bank. Involvement of an organisation as a participant in the centralised issuance shall not restrict the right of the participant organisation to issue mortgage bonds secured by another cover assets pool in accordance with the requirements of this Law.

2. The cover assets pool formed by centralised issuers shall consist of secured refinancing loans, replacing assets, as well as additional cover assets provided to the centralised issuer by participant organisations. Moreover, the ratio between the secured refinancing loans, replacing and additional assets included in the cover assets pool formed by centralised issuers and the volumes of all the assets mentioned must comply with the requirements of Articles 5 and 8 of this Law.

3. In case of bankruptcy of the participant organisation, the cover assets available in the cover assets pool formed thereby shall be included in the cover assets pool of the centralised issuer.

4. The centralised issuer shall acquire the right to claim primary granting the additional cover assets included in the cover assets pool of the participant organisation, as well as provided by the participant organisation to the centralised issuer through the procedure and conditions prescribed by the Law of the Republic of Armenia "On bankruptcy of banks, credit organisations, investment companies, investment fund managers and insurance companies".

5. The issuer shall be obliged to calculate and estimate the deviation between the overall expected maturities of assets and liabilities and report the controller thereon.

6. Discharge of liabilities assumed by secured mortgage bonds must be secured at any time by means of adequate cover assets in accordance with the requirements of this Law, and the common maturity must exceed the common maturity of the liabilities for at least three months. The methodology of determining the overall maturity of liabilities and assets mentioned in this Point shall be prescribed by a regulatory legal act of the Central Bank.

7. The report on the fulfilment of requirements mentioned in part 6 of this Article must be submitted to the controller at least once per week. The Central Bank shall prescribe by a regulatory legal act those cases, when the report mentioned in this Part must be submitted more frequently.

8. For the purpose of maintaining the level of liquidity, the amount of current cash monetary funds and the equalised values and scheduled cash monetary flows thereof must not make a negative number at least within the next 90 days.

9. The issuer shall be obliged to include the funds received from scheduled or early repayments of cover assets in the cover assets pool as replacing assets.

10. The provisions of this Article shall also apply to the centralised issuers. The centralised issuer shall have the right to extend the requirements mentioned in this Article to secured refinancing loans, as well.

Article 11. Appointment of the controller of cover assets

1. The controller of cover assets shall be an independent natural or legal person, which performs special functions aimed at protecting the interests of investors in mortgage bonds. The controller of cover assets shall be appointed by the issuer.

2. Any issuer must have a controller. The controller shall, based on a contract for provision of services concluded with the issuer, carry out the control over the cover assets register, and ensure the equivalence of the cover assets to the mortgage bond liabilities, as defined by this Law. The controller of cover assets may control one or more cover asset pools of the same issuer.

3. The controller shall be:

(1) a natural person

a. who has not been convicted of a crime committed intentionally;

b. who is not deprived, by a court, of the right to occupy positions in financial, banking, tax, customs, commercial, economic, legal fields;

c. who is not declared bankrupt and has no overdue liabilities;

d. whose qualification or professional knowledge meet the qualification and/or professional competence standards defined by the Central Bank, where to a qualification certificate has been issued by the Central Bank;

e. who does not serve a punishment related to deprivation of liberty, or he or she is not on the wanted list;

f. who is not interrelated with the issuer. The interrelation between the controller and issuer shall be determined in accordance with Article 8 of the Law of the Republic of Armenia "On banks and banking";

(2) a legal person

a. who has at least one employee meeting the standards mentioned in point 1 of part 3 of this Article;

b. who complies with the requirements mentioned in sub-points "c" and "f" of point 1 of part 3 of this Article.

4. The Central Bank shall define the procedure for the qualification of a controller and the professional competence standards in its regulatory legal acts.

(Article 11 edited by HO-204-N of 9 June 2022)

Article 12. Duties and rights of the controller of cover assets

1. The primary duty of the controller of cover assets shall be to ensure that:

(1) the issued mortgage bonds are constantly secured with cover assets in accordance with the requirements prescribed by this Law;

(2) it is always possible to identify the cover assets and, in the event of the issuer's bankruptcy, to separate those assets from the other assets of issuer.

2. While performing his or her duties, the controller shall be obliged to act in good faith, based on the interests of investors in mortgage bonds.

3. The controller shall be entitled, at any time, to check the documents maintained by the issuer, as well as require at any time information pertaining to mortgage bonds and cover assets.

4. The controller shall be obliged to:

(1) verify the compliance of cover assets with the requirements of this Law and equivalence with the liabilities of mortgage bonds to be assumed before including the cover assets in the cover assets pool;

(2) exercise control over the permanent availability with the issuer of cover assets compatible with the requirements of this Law and in an amount equivalent to the claims on mortgage bonds. The controller of cover assets must particularly examine the appraisal reports of the real estate included in the cover assets pool as cover asset for mortgage loan and may request that only a certain percentage of the appraised value of the real estate concerned be included in the cover assets pool;

(3) inform thereon, immediately after the registration of derivative instruments in the cover assets register, the persons having concluded transactions involving those derivative instruments with the issuer;

(4) immediately inform the Central Bank on each case of violation of laws and other legal acts by the issuer.

5. The responsibility of the controller of cover assets shall be restricted by the controller in case of failure to perform or improper performance of the functions prescribed by this Law. In particular, the controller shall not bear liability for the accuracy of appraisal of the real estate that is a cover asset of mortgage loan by the issuer.

6. The issuer shall be obliged to, upon the request of the controller, provide him or her within two banking days with information on the amounts received for the assets registered in the register, as well as on any changes related to those assets that may have significance for investors in mortgage bonds.

7. The provisions of this Article, as well as of Article 11 of this Law shall also apply to the centralised issuer. For the purpose of performing his or her functions specified in this Law, the participant organisations shall be obliged to provide the controller with all the information and documents required.

Article 13. Cover assets register

1. The registration of cover assets carried out by the Central Bank shall be considered to be a state registration and no other registration of the right to the claim for assets is required. By virtue of this Law, cover assets mentioned in the list shall be deemed as pledged with a view to securing the discharge of the liabilities assumed by mortgage bonds from the moment the Central Bank registers the list of assets. The procedure for maintaining the cover assets register, including for submitting information to be included in the register to the Central Bank and getting familiar with them shall be established by regulatory legal acts of the Central Bank.

2. The assets may be record registered by the Central Bank as cover assets only in case, when:

(1) the assets meet the requirements prescribed by Articles 5 and 6 of this Law;

(2) the right to claim against the assets is not pledged.

3. The derivative instruments may be registered by the Central Bank only in cases when those derivative instruments:

(1) will serve for reduction of risks of the issuer related to the cover assets and issued mortgage bonds;

(2) do not require, as security for the liabilities assumed by those instruments, to pledge the assets included in the cover assets pool;

(3) exclude the possibility of offsetting mutual claims with the other party of the transaction with the given or other derivative instruments in case of insolvency of the issuer; and

(4) continue to have effect in case of insolvency of the issuer.

4. The issuer may submit the assets to the Central Bank for registration only upon the consent of the controller. Without the consent of controller, registration of assets in the register shall be considered to be null and void. Where the mortgage bonds have been issued by a centralised issuer, the assets may be presented by the participant organisation, or, upon his or her consent, by the centralised issuer.

5. In case of insolvency of the participant organisation, the right — separated thereby — to preference vested in the centralised issuer to the assets included in the cover assets pool based on the Law of the Republic of Armenia "On bankruptcy of banks, credit organisations, investment companies, investment fund managers and insurance companies" shall be registered by virtue of law at the same time as the registration of the assets in the Central Bank.

6. An asset shall be removed from the cover assets register:

(1) in case of repayment of the asset, including amortisation or early repayment;

(2) in case the given asset has been classified as non-standard, doubtful or unreliable by the authorised body of the Central Bank and the Government of the Republic of Armenia, in accordance with the procedure adopted on the basis of part 5 of Article 57 of the Law of the Republic of Armenia "On banks and banking"; or

(3) in case of incompliance of the asset with the requirements prescribed by this Law.

7. The asset may be removed from the cover assets register without replacement, where:

(1) the removal of the asset does not lead to violation of the rules mentioned in part 1 of Article

8 of this Law regarding the equivalence of cover assets; and

(2) the assets remaining in the cover assets register meet the requirements prescribed by this Law.

8. Assets registered in the cover assets register shall be removed from the register only upon the written consent of the controller of cover assets and by the authorisation of the Central Bank, except for the case of repayment of assets.

9. In cases of removal of the assets upon the grounds mentioned in Part 6 of this Article the issuer shall be obliged to substitute the removed assets with other assets complying with the requirements of this Law.

10. The information available in the register of cover assets on the asset pledging shall be available to all interested persons. Other information available in the cover assets register shall be available only to the Central Bank, controller of cover assets, issuer and mortgage manager. The Central Bank may also provide some information contained in the register to other persons, if it is necessary to avoid double pledging of the assets registered in the register. The information mentioned in this Part and available in the register that constitute bank secrecy may be provided only as prescribed by law.

Article 14. Content of cover assets register

1. The following information on cover assets must be entered into the cover assets register:

(1) in case of the right to real estate or to development of land parcel — the number and date of issuance of the document issued by relevant state body that certifies the rights to real estate or right to development, in case of right to development — also the validity of that right, address of the land parcel encumbered with the right to real estate or development, in case of availability of restrictions registered against the right to real estate or the right to development — indication on those restrictions;

(2) in case of mortgage loans — contract number and date, loan registration number, loan identification number, purpose of loan, loan amount and currency, loan repayment schedule and deadline, annual interest rate, repayment period, market value of real estate that is the cover asset of loan, the data identifying the borrower;

(3) in cases of secured refinancing loans — information mentioned in point 2 of this Part, as well as in case of insolvency of the participant organisation — indication on the right — separated thereby — to preference vested in the centralised issuer to the assets included in the cover assets pool based on the Law of the Republic of Armenia “On bankruptcy of banks, credit organisations, investment companies, investment fund managers and insurance companies”;

(4) in case of derivative instruments — indication on derivative instrument, nominal value, the value inherent in each derivative instrument (that is, the value that would be obtained in case of exercising the right held by a derivative instrument at the given moment), market value (net present value), as well as data identifying the counter-agent with a derivative instrument;

(5) other information defined by regulatory legal acts of the Central Bank.

2. The Central Bank shall register the list of assets within twenty working days where the controller’s written attestation of conformity of the assets to the requirements of this Law is available.

3. In case of any changes made to the list of assets, the controller shall be obliged to inform the Central Bank within one working day. Changes made to the list of assets shall, upon availability of the controller’s written attestation of conformity of the assets to the requirements of this Law, be registered by the Central Bank within five working days.

Article 15. Preservation of documents pertaining to cover assets

1. In case the documents related to the cover assets consist of two original copies, one of those original copies shall be deposited with the issuer, and the second original copy shall be deposited with the controller of cover assets until the issuer discharges all liabilities arising from the mortgage bonds. Where the documents mentioned in this Part consist of only one original copy, that original copy shall be deposited with the issuer, provided that he or she will not amend, replace or invalidate those documents without the consent of controller. In the event of a centralised issuer, the controller of cover assets must have an opportunity to get familiar with all the original copies of documents related to cover assets of all participant organisations.

2. The controller shall give out original documents pertaining to the cover assets to other persons or allow the issuer to give them out to other persons, where:

(1) such documents, pursuant to the legislation of the Republic of Armenia, are to be provided to another person by the issuer;

(2) it is necessary for the issuer to exercise the right to claim on the assets.

3. In the cases provided for by part 2 of this Article, the controller shall, upon the written request of a person, provide the original documents pertaining to the cover assets to that person or allow the issuer to provide them within two working days.

Article 16. Public disclosure of the issuer's activities

1. The issuer shall be obliged to compile, submit to the Central Bank and publish on their Internet home page, as prescribed by this Law, monthly statements relating to the issuance of mortgage bonds, the form, the procedure and time periods of submission and disclosure whereof shall be defined by regulatory legal acts of the Central Bank. Monthly reports must include information on mortgage loans included in the pool, real estate that is the collateral of those loans, in case of centralised issuance — information on secured refinancing loans as well, loans refinanced with them, real estate that is the collateral of refinancing loans, as well as replacing assets. Moreover, report with regard to each asset must contain the following information:

(1) information on the real estate that is collateral:

- a. type of property;
- b. value of property;
- c. purpose of usage;
- d. location of property.

(2) information on assets:

- a. cover assets — according to nominal price, ratio of the loan amount and property value, repayment period, expected maturity, the period that has passed from the moment of issuance to the moment of publication of the report, the coupon, in case of loans with floating interest — according to the reference interest rate, region, purpose of the loan and the type of pledge;
- b. the quantity and volume of assets that cover assets repaid fully or partially during the reporting period;
- c. quantity and volume of the assets replaced during the reporting period;
- d. the reason of replacement of assets during the reporting period according to the quantity and volume thereof;
- e. as of the end of the reporting period, the volume of unreplaced loans, the ratio of cover asset and property value thereof shall exceed 85%;
- f. quantity and volume of the assets added to the cover assets pool during the reporting period;
- g. net present value of assets at the end of reporting period, determined in accordance with the methodology established by the regulatory legal acts of the Central Bank;
- h. alteration of the net present value of assets, compared to the period preceding the reporting period concerned;

(3) information on derivative instruments:

- a. types of derivative instruments;
- b. the amount of the contract for each type of derivative instrument as of the last day of the reporting period;
- c. the value inherent in each type of derivative instrument as of the last day of the reporting period;
- d. the change in the sum of the value inherent in the derivative instruments, determined in accordance with the methodology established by the regulatory legal acts of the Central Bank, compared to the last day of the reporting period preceding the reporting period concerned;
- e. alteration of the net present value of derivative instruments, compared to the last day of the reporting period preceding the reporting period concerned;

(4) information on liabilities:

- a. information on secured mortgage bonds, classified according to the repayment period of mortgage bonds (in case of bonds providing for the right to claim early repayment — according to the period between the day of first withdrawal and the day concerned), type of mortgage bonds (fixed or floating), payable coupon and maturity;
- b. the net present value of secured mortgage bonds determined in accordance with the methodology established by the regulatory legal acts of the Central Bank;

(5) information on management of assets and liabilities:

- a. nominal test of cover assets, yield test of cover assets, calculation of the deviation between the common expected maturities of assets and liabilities, the ratio of net present values of assets and liabilities;

(6) other information defined by regulatory legal acts of the Central Bank.

2. The issuers shall be obliged to submit the information prescribed by part 1 of this Article, making a reference to the last pool of mortgage loans that are cover assets and the replacing assets. The Central Bank may require the issuers to differentiate between the information according to the separate sub-groups of the mortgage loans in the pool (according to the starting date of the mortgage loans, etc.).

3. The participant organisations shall also be obliged to provide the centralised issuer with information on scheduled and actual monetary flows related to each loan, as well as other information necessary for the centralised issuer to discharge his or her liabilities under this Law. The Central Bank shall establish — by a regulatory legal act — the procedure for providing the information mentioned in this Part.

4. The provisions of this Article shall also apply to the centralised issuers. The centralised issuers shall also be obliged to publish the list of participant organisations, as well as de-identified information on the volume of the cover assets pool related to separate participant organisations. The information which may identify the volume and structure of cover assets owned by separate

participant organisations may be published only upon the consent of that participant organisation.

CHAPTER 3

MORTGAGE BOND ISSUANCE, TURNOVER AND REPAYMENT

Article 17. Prospectus and issuance conditions of secured bonds

1. The issuer shall be obliged to publish a prospectus for each programme of mortgage bond issuance, which must comply with the requirements of Article 8 of the Law of the Republic of Armenia "On securities market". The prospectus of the issuance programme must contain, in particular, legal and financial information:

(1) on the issuer;

(2) in case of a centralised issuer — information on all participant organisations, as well as centralised issuer;

(3) on the controller of cover assets;

(4) on the general description of the issuance programme, specifying the volume thereof, types of assets;

(5) on crediting mechanisms within the scope of the issuance programme, as well as other significant features of the programme that may have an impact on the security of the mortgage bonds being issued.

2. For each separate issuance of mortgage bonds under the programme, the conditions of that issuance must also be published, wherein the essential features of the mortgage bonds of that issuance are described.

3. The Central Bank may define by regulatory legal acts detailed requirements for the prospectus of the issuance programme mentioned in part 1 of this Article and the conditions of issuance mentioned in part 2 of this Article, including on the information to be included therein and the procedures for publication thereof.

4. Registration of the prospectus of the issuance programme specified in Part 1 of this Article, as well as amendments and supplements thereto shall be made as prescribed by the Law of the Republic of Armenia "On securities market". Simplified procedures for registration prescribed by regulatory legal acts of the Central Bank shall apply to the conditions of issuance mentioned in part 2 of this Article.

Article 18. Discharge of mortgage bond liabilities

1. The liabilities of the issuer before the investors in mortgage bonds must be discharged regardless of the discharge of liabilities by the debtors before the issuer with regard to the cover assets.

2. Repayment of mortgage bonds, as well as early repayment thereof, where so provided for, shall be carried out as prescribed by the prospectus or conditions of issuance.

Article 19. Keeping and depositing of mortgage bonds register

1. The functions of keeping and depositing the mortgage bonds register shall be carried out by the Central Depository of the Republic of Armenia.

2. The Central Depository shall be obliged to provide, within five working days from the day of filing the claim upon the request of the Central Bank, information on nominees or owners of mortgage bonds as prescribed by the Law of the Republic of Armenia "On securities market".

CHAPTER 4

CONTROL OVER THE ISSUER

Article 20. Control over the issuer

1. The right to control over the activities of mortgage bond issuance and the issuer shall be vested on the Central Bank. The Central Bank shall exercise control over the activity of both the centralised issuer and the participant organisations.

2. The Central Bank shall carry out the control over the activities of mortgage bond issuance and the issuer in accordance with this Law and the laws of the Republic of Armenia "On the Central Bank of the Republic of Armenia", "On banks and banking", "On credit organisations", "On bankruptcy of banks, credit organisations, investment companies, investment fund managers and insurance companies", and "On securities market".

CHAPTER 5

MORTGAGE MANAGER AND MANAGEMENT OF COVER ASSETS

Article 21. Appointment and dismissal of the mortgage manager

1. The Central Bank shall, for the purpose of managing the assets registered in the cover assets register, appoint a mortgage manager (hereinafter referred to as "the manager") from the moment of declaring the activity licence of the issuer's banking or credit organisation repealed or invalid, as well as from the moment the Central Bank renders a decision on insolvency of the issuer or a court renders a decision on bankruptcy thereof (hereinafter referred to as "the case of insolvency").

Except for those cases, when the centralised issuer has been declared as insolvent or has been deprived of the right to issue mortgage bonds, the Central Bank must select the centralised issuer as manager of participant organisation declared as insolvent, where the centralised issuer has at least one employee, who complies with the requirements mentioned in parts 3 and 4 of this Article.

2. The decision of the Central Bank on appointment of the manager shall enter into force upon its adoption and is subject to publication, within two working days, in a press outlet with a circulation of at least two thousand copies and on the official Internet website of the Central Bank.

3. The manager shall hold a relevant qualification certificate which is issued by the Central Bank. The Central Bank shall prescribe the procedure for qualification of the manager, the requirements presented thereto, the procedure and conditions for issuing certificates and the termination of the validity thereof.

4. The manager and the head and/or the members of the ad hoc administration and/or the liquidator and/or liquidating commission appointed in compliance with the Law of the Republic of Armenia "On bankruptcy of banks, credit organisations and investment companies, investment fund managers and insurance companies" shall be different persons.

5. The manager shall manage the cover assets based on the interests of the secured mortgage bond investors (fiduciary duty). In case the manager fails to perform his or her duties or performs them improperly, the Central Bank shall dismiss him or her from performing the duties of the manager. The decision of the Central Bank mentioned in this Part shall be published in a press outlet with a circulation of at least two thousand copies and/or on the official Internet website of the Central Bank. The manager may appeal against the decision of the Central Bank mentioned in this Part in court if it has been rendered in violation of this Law. The appeal against the decision shall never during the period of court examination of the case suspend the effect of that decision.

Article 22. Rights and duties of a manager

1. The rights and duties of the manager shall be prescribed by this Law and the Law of the Republic of Armenia "On bankruptcy of banks, credit organisations, investment companies, investment fund managers and insurance companies".

2. The manager shall have the right to terminate making payments to investors in mortgage bonds or participant organisations for a period of up to three months from the moment the activity licence of the issuer's banking or credit organisation is declared invalid or revoked. Moreover, in the case mentioned in this Part, termination of payments shall not be considered to be violation of liabilities by the issuer. Based on the necessity for protection of interests of investors in secured mortgage bonds, the Central Bank may extend the right of manager mentioned in this Part for an additional period of up to three months.

3. From the moment of declaring the activity licence of the issuer's banking or credit organisation invalid or revoked, the manager must ensure that the payments received for cover assets are separated from other assets of the issuer and record-registered in accounts maintained especially for that purpose. The manager may decide that the issuer will continue to carry out the service of mortgage loans that are cover assets in return for relevant compensation. The manager may charge fees for the services provided thereby as manager, with restrictions specified by the Central Bank.

Article 23. Insolvency of participant organisation

1. In case of insolvency of participant organisation, the assets thereof which secure the secured refinancing loans provided to that participant organisation by the centralised issuer, must be separated from other assets and liabilities of the participant organisation declared as insolvent as prescribed by the Law of the Republic of Armenia "On bankruptcy of banks, credit organisations, investment companies, investment fund managers and insurance companies".

2. In case of insolvency of the participant organisation, his or her assets, which secure the secured refinancing loans provided by a centralised issuer to that participant organisation may be registered in the name of the centralised issuer or, at the discretion of the centralised issuer, may be transferred to another issuer that is not declared as insolvent, including to the participant organisation.

Article 24. Insolvency of centralised issuer

1. In case of insolvency of the centralised issuer, secured refinancing loans, replacing assets

and other cover assets shall be separated from the other assets and liabilities of the centralised issuer as prescribed by the Law of the Republic of Armenia “On bankruptcy of banks, credit organisations, investment companies, investment fund managers and insurance companies”. The separated assets shall be managed by the manager.

2. In case of insolvency of the centralised issuer, the investors in the mortgage bonds issued thereby shall receive the right to a priority claim:

(1) to refinancing loans included in the cover assets pool and any monetary flows arising from those loans; and

(2) to the assets of participant organisations, which ensure the secured refinancing loans provided to those participant organisations by the centralised issuer that is declared as insolvent.

3. The assets included in the cover assets pool of the centralised issuer declared as insolvent and all the monetary flows received therefrom may be used only for the purpose of granting the claims of investors in mortgage bonds of the centralised issuer and other creditors of the centralised issuer may not file any claims against the mentioned assets.

Article 25. Liability

1. The liability of the participant organisations before the centralised issuer shall be restricted to the duty of providing adequate security for the secured mortgage loans provided by the centralised issuer and to properly discharge the liabilities assumed by those loans, which will enable the centralised issuer to issue mortgage bonds as prescribed by this Law. A contract concluded between a centralised issuer and a participant organisation may impose additional liabilities on the participant organisation for the purpose of creating additional guarantees of full protection of the interests of investors in the mortgage bonds of centralised issuer.

Article 26. Insufficiency

1. In case of insufficiency of cover assets for granting all the claims arising from mortgage bonds against the participant organisations and/or centralised issuer that acts as an issuer, the claims that are not granted shall be considered to be non-secured within the meaning of the Law of the Republic of Armenia “On bankruptcy of banks, credit organisations, investment companies, investment fund managers and insurance companies”.

Article 27. Discharge of mortgage bond liabilities in case of the issuer's insolvency or bankruptcy

1. In case of insolvency and/or bankruptcy of the issuer (including centralised issuer or participant organisation) the management of the cover assets and the discharge of the mortgage bond liabilities shall be carried out as prescribed by this Law and the Law of the Republic of Armenia “On bankruptcy of banks, credit organisations, investment companies, investment fund managers and insurance companies”.

CHAPTER 6

VIOLATIONS OF LEGISLATION AND SANCTIONS IMPOSED THEREFOR

Article 28. Violations of legislation

1. The Central Bank may impose measures of liability against the issuer and/or his or her head(s) and/or manager, where:

(1) the information entered into the register are incomplete or unreliable;

(2) the requirements pertaining to the equivalence, as well as to the composition of the cover assets provided for by this Law have been violated;

(3) the procedure, time periods and conditions of submission and publication of reports prescribed by this Law have been violated, and/or false or unreliable data have been submitted in such documents;

(4) the issuer has not disclosed the information subject to disclosure under this Law;

(5) the issuer has not fulfilled an assignment given by the Central Bank as prescribed by this Law;

(6) the requirements of this Law, other regulatory legal acts adopted based thereon, as well as the internal legal acts of the issuer have been violated.

Article 29. Sanctions imposed for violations of legislation

1. In cases provided for by Article 28 of this Law the Central Bank shall impose the following sanctions on the issuer and its supervisor:

(1) warning and assignment to eliminate the violation;

(2) fine;

(3) revocation of the supervisor's qualification certificate.

2. Sanctions shall be imposed as prescribed by the Law of the Republic of Armenia "On the Central Bank of the Republic of Armenia".

3. Imposition of sanctions provided for by this Article shall not exempt the issuer and its supervisors from the liability provided for by other laws, other legal acts and contracts.

4. For each case of violation of laws or other legal acts the Central Bank may concurrently impose a warning upon the issuer and/or its supervisor with an assignment to eliminate the violations and/or to take measures aimed at further prevention of such violation, and/or a fine upon the issuer or its supervisor, and/or a revocation of the supervisor's qualification certificate.

5. The Central Bank shall be obliged to publish the decision, prescribed by this Article, on imposition of a sanction (sanctions) on the issuer, the supervisor or the responsible person thereof on its Internet home page as prescribed by Law.

Article 30. Warning and assignment to eliminate the violations

1. The violation committed shall be recorded in the warning and the issuer having committed the violation shall be notified about the impermissibility of the violation.

2. The warning shall also provide for an assignment to eliminate the violation within a time period set by the Central Bank and/or to take measures aimed at further prevention of such violation and/or terminate certain transactions and/or operations concluded by the issuer, and/or make an amendment to the conditions thereof. The fulfilment of the assignment shall be mandatory for the issuer having received the warning.

3. The warning may be imposed as a sanction in case of presence of any of the grounds provided for by Article 28 of this Law.

Article 31. Fine

1. A fine may be imposed as a sanction in case of presence of any of the grounds provided for by Article 28 of this Law, if those violations and/or the causes thereof have not been eliminated or cannot be eliminated by taking control measures (such as meetings with the issuer, correspondence, explanatory works) aimed at remedying the issuer's state of affairs and/or by imposing sanctions prescribed by Article 29 of this Law. In that case, the decision on imposition of a fine shall:

(1) substantiate that following, for the given violation(s), the implementation of control measures aimed at remedying the issuer's state of affairs and/or the imposition of sanctions prescribed by Article 29 of this Law, the issuer has not undertaken the necessary and effective actions for elimination of the violations;

(2) ensure that the imposition of the fine is appropriate for the nature of the violation(s) and is not based on discriminatory judgements.

2. The amount of the fine imposed on the issuer may not exceed, for each violation, 1 per cent of its authorised capital.

3. The amount of the fine shall not result in a difficult financial situation for the issuer.

4. The amount of the fine for each violation imposed on the issuer's supervisor may not be in excess of the thousand fold of the prescribed minimum salary. The fine imposed on the issuer's supervisor shall be levied from his or her personal means.

5. The fine shall be levied upon a court decision pursuant to a claim of the Central Bank if the issuer or the supervisor or the responsible person thereof does not agree with the imposition of the fine or with the amount of the fine. In case of imposition of a fine on the issuer the fine shall be levied from its correspondent account. The amount shall be allotted to the state budget.

Article 32. Revocation of the qualification certificate of the issuer's supervisors

1. Qualification certificate of the issuer's supervisors shall be revoked pursuant to the decision of the Central Bank in case they:

(1) have carried out such actions arising from personal interest that contravene the interests of investors of mortgage bonds;

(2) have manifested dishonest and unconscientious attitude towards their duties, including those assumed towards the investors of mortgage bonds;

(3) have failed to fulfil an assignment of the Central Bank or ignored a warning of the Central Bank.

2. Upon entry into force of the decision of the Central Bank on revocation of the qualification certificate of the issuer's supervisor, the powers — conferred to the issuer's supervisor pursuant to the legislation of the Republic of Armenia, the charter of the issuer and other internal documents — shall terminate.

3. The revocation of the qualification certificate of the issuer's supervisor shall be substantiated, comply with the nature of the violation and shall not be based on discriminatory judgements.

Article 33. Liability of the controller of cover assets pool and the mortgage manager

1. In case the controller of cover assets pool and the mortgage manager fail to fulfil their duties prescribed by this Law or fulfil them improperly, the sanctions prescribed by this Law for the issuer's supervisors may be imposed thereon by the Central Bank.

CHAPTER 7

TRANSITIONAL PROVISIONS

Article 34. Entry into force of this Law

Point 4 of part 1 of Article 6 and sub-point "b" of point 10 of part 1 of Article 3 of this Law shall enter into force from the day of entry into force of the Law of the Republic of Armenia "On home mortgage crediting".

**President
of the Republic of Armenia**

S. Sargsyan

21 June 2008
Yerevan
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Համապատասխան ինկորպորացիան

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