

Approved by
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REGULATION ON IMPLEMENTATION OF SECURITIES OPERATIONS

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Related documents	Civil Code of the Republic of Armenia RA Law "On Securities Market" Regulation "On Management of Assets and Liabilities" Regulation "On Activities of Committees"

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CHAPTER 1. OBJECTIVE

1. The objective of this document is to define the process of making operations with securities in the Bank, the duties of subdivisions involved in these operations, as well as the procedure for establishing, utilizing of potential loss reserve for investments in investment securities and the classification of securities.

CHAPTER 2. DEFINITIONS AND ABBREVIATIONS

2. The definitions and abbreviations used in this process shall bear the following meaning:

- 1) Bank - "ID Bank" CJSC;
- 2) Customer - a resident or non-resident physical and legal entity, who has applied to the bank as an investor to use the bank's investment services and, based on the investment services contract signed with him/her, the Bank makes operations in the securities market;
- 3) Securities – those defined in accordance with the meaning applied in the Law of the Republic of Armenia "On the Securities Market";
- 4) Investment services – within the meaning of this Regulation, investment services are the acceptance and communication of orders/assignments from customers for making transactions with securities, on his/her account and on his/her behalf, as well as on behalf of himself or the customer and and on the customer's account,
- 5) Investment Services Agreement - a document signed between the Bank and the investor to regulate legal relations between the parties with respect to transactions with securities of the given person, payment for services, provision of reports etc.;
- 6) Customer's liquidity - cash and/or securities owned by a customer and transferred under the disposal and/or management of the Bank, based on the contract signed between the customer and the bank, including profit generated from their management;
- 7) Application - an order to purchase or sell securities;
- 8) Instruction - a document provided by the Investor to the Bank and serving as a basis for the Bank to conclude a transaction with the investor's securities and/or cash;
- 9) Order - an entirety of information found in the Instruction, covering the price, size and schedule-related terms and conditions necessary for concluding a securities transaction on the basis of an Instruction;
- 10) To execute the entire order - the order specified in the Instruction issued by the Investor to the bank, which is subject to execution solely on condition of purchase or sale of securities specified in the order;
- 11) To make a partial order - the order specified in the Instruction issued by the Investor to the Bank, which can be made partially, with the condition that the balance is included in the Instructions queue;
- 12) Queue - a sequence of Instructions issued to the Bank by all investors, but not yet executed by the Bnk;

- 13) Immediately make or withdraw the order – the order specified in the Instruction issued by the Investor to the Bank, which is subject to immediate execution, at the price and in full quantity specified in the order, otherwise the order should not be included in the instructions queue;
- 14) Keep in the queue before execution - the order specified in the Instruction issued by the Investor to the Bank, by which the order can remain in the queue before the purchase or sale of the full number of securities specified in the Instruction;
- 15) Market order - an order specified in the Instruction issued by the Investor to the Bank, which is subject to execution with the proviso of immediately purchasing or selling securities with the current price existing in the market at that moment;
- 16) Limited purchase/sale order – an order specified in the Instruction issued by the Investor to the Bank, which is subject to execution on condition of buying/selling securities at a price not higher (in the case of sale – not lower) than that specified in the Instruction;
- 17) Stop order to buy/sell - an order to buy/sell securities indicated in the Instruction issued by the Investor to the Bank, which is subject to execution once the transactions with the given securities are registered at a higher (in the case of sale - lower) price above the specified stop price at the exchange or OTC market;
- 18) Depo account - a special account designed for record-keeping of securities;
- 19) Electronic means of communication - "CBA Net", "SWIFT" systems, etc.;
- 20) Electronic message - "CBA Net", "SWIFT" systems, etc.;
- 21) Stop limit order to buy/sell – an order indicated in the Instruction issued by the Investor to the Bank, which represents a combination of an Limit order to buy/sell at one price and a stop order to buy/sell at another price;
- 22) Stock transaction - a transaction concluded at stock exchange according to the procedure stipulated by the rules of stock exchange;
- 23) Offmarket transaction - a transaction made outside the stock exchange;
- 24) Securities financed transaction – a transaction of borrowing or lending securities, repo or reverse repo operation or purchase operation with the right of resale, or sale operation with the right of repurchase;
- 25) Transaction order - document, compiled by the responsible subdivision, certifying the conclusion of the transaction and submitted to the Treasury operational services division;
- 26) IAL Committee - Investment (asset and liabilities management) Committee;
- 27) Parties related to the Bank – the management of the Bank, the parties with significant participation in the Bank's capital, the parties related to and/or cooperating with the latter and the parties affiliated with the Bank;
- 28) Unit in charge of carrying out investment operations – Securities operations unit of Treasury;
- 29) Concerned party – the head of the unit responsible for providing investment services in the Bank, employees operating on behalf of the person providing investment services, employees providing investment services as part or on behalf of the investment service provider;
- 30) Officer in charge of the overall process as prescribed by this process – Treasurer of the Treasury;
- 31) Customer bank account servicing – employee of the customer service department;

- 32) Making transactions with Depo accounts - corresponding employee of the Treasury operations service unit, who, on the basis of the transaction order, carries out accounting and final settlement of transactions executed on behalf of the Bank or upon the customer's Instruction;
- 33) Approval of depo accounts transaction – head of Treasury operations service unit;
- 34) Treasury operations service unit - a structural unit which, on the basis of the transaction order, carries out the accounting and final settlement of transactions made on behalf of the Bank or by the instructions of investors;
- 35) Designated officer – an employee of the Bank's Securities Operations Unit, who possesses respective qualification and knowledge and is authorized to carry out broker activities.

CHAPTER 3. DESCRIPTION

3. The Regulation on implementation of securities operations in the Bank is regulated by the Civil Code of the Republic of Armenia, RA Laws "On Banks and Banking" and "On Securities Market", the Procedure "Classification of Financial Assets and Formation of Possible Loss Reserve for the Banks and Credit Organizations Operating within the Territory of the Republic of Armenia" approved by the RA Central Bank and the Ministry of Finance and Economy, Regulation 4 "On Minimum Requirements for Implementation of Internal Control of Banks" and Regulation 8/03 "On Information Publication by Banks, Credit Organizations, Insurance Companies, Insurance Brokers, Investment Companies, Central Depository and Payment and Settlement Organizations Implementing Money Remittances" of the RA Central Bank.

4. The operations with the RA government (treasury) bonds in the Bank are implemented in compliance with the procedures "On Underwriting of the Short-Term, Mid-Term and Long-Term Government (Treasury) Coupon Bonds of the Republic of Armenia, Organization of the Repurchase Auction and the Repurchase and Servicing of Repayment", "On Custody Activity of the Government Bonds of the Republic of Armenia", "On Implementation of Activities, Related to the Pledge of Government Bonds of the Republic of Armenia", "On the Coding of Account Numbers, Applied in the System of Accounting and Settlements of Government Bonds", "On Circulation of Government Bonds of the Republic of Armenia in the Secondary Market", "On Minimum Requisites of the Documents, Used in the Operations with Government Bonds" approved by the RA Central Bank.

5. The schedule and templates of reports on investments services to be submitted by the Bank to the Central Bank, the requirements for persons providing investment services, as well as the process of informing the Central Bank about the provision of investment services shall be regulated by the Regulation 4/03 "On Reports Submitted to the Central Bank by Investment Service Providers, the Procedure, Form and Terms of Submission Thereof", Regulation 4/07 "On Requirements to Investment Service Providers' Activities" and Regulation 4/01 "On Registration and Licensing of Investment Companies; Registration of Branches and Representative offices of Investment Companies and Foreign Investment Companies; Procedure for Obtaining Preliminary Consent for Qualifying Holding in Statutory Capital of Investment Companies; Presentment of Business Plan by Investment Companies; and Notice of Provision of Investment Services by Banks and Credit Organizations" approved by the RA Central Bank.

6. During the provision of investment services, the protection of customers' securities and cash funds, the process of custody, possession and use of customers' cash funds and securities shall be

regulated by the Regulation 4/12 "On Rules of Protection of Liquidity of Customers of Persons Providing Investment Services" approved by the Central Bank.

7. The Bank's investment policy, targeted (benchmark) structure, yield and maturity of investment portfolio (separate groups of investment instruments), principles of investment diversification, investment limitations (according to borrowers or financial instrument ratings), the process of managing risks arising from ensuring consistency of the Bank's liabilities structure and nature with the Bank's investment activities, and those arising from existing inconsistencies; principles and frequency of assessing the creditworthiness of the issuers and borrowers of purchased securities, the responsibilities of officers in charge, maximum risk per issuer, the prioritization during securities investment diversification; as well as the scope of persons entitled to conclude investment transaction(s) on behalf of the Bank and the permissible maximum transaction(s) thresholds shall be defined by the Regulations "On the Management of Assets and Liabilities", "On Business Lending", internal legal acts regulating risk management process, the procedure "On Business Lending" and this Regulation, approved by the Bank Management Board.

8. Decisions on the amount of securities to be purchased at the expense of the Bank shall be made by the Committee of Investment (Assets and Liabilities) [I(AL)] on monthly basis and when necessary. The composition, responsibilities, frequency of meetings of and the procedure of decision-making by the I(AL) Committee shall be defined according to the Regulation "On Committee's Activities" approved by the Bank's Council.

9. The procedures for customer data identification by the Bank shall be defined by the Bank's AML/CFT Policy approved by the Bank's Council.

10. The Securities Transaction Unit shall, on daily basis, report on the volume of the securities to be purchased and repaid, to the Investment Business Director and Treasurer.

11. The process of opening bank accounts shall be regulated by the procedure "On Opening, Servicing and Closing Bank Accounts of Individuals" and the procedure "On Opening and Servicing of Bank Accounts of Corporate Customers", approved by the Bank's Management.

12. In order to ensure the implementation of securities transactions of the Bank's customers, the Bank and customer conclude an investment (brokerage) service contract, which sets out the terms and conditions for providing investment services to customers by the Bank.

13. To ensure current activity of the Bank, the Bank's Investment Business Director, as the main dealer, within the scope of his/her competencies and in line with the requirements stipulated by paragraphs 7 and 8 of this Regulation, shall determine the conditions (price, volume, quantity, interest rate, execution, repayment and other terms and/or conditions) for securities' purchase, sale or exchange or concluding repo transactions, at the Bank's expense, defined by the RA Law "On Security Market".

14. The unit in charge of investment services submits information bulletins to the Bank's Management for approval, which specify the following information about investment services:

- 1) the name, type of investment service, as well as the tariffs for the implementation of securities operations and provision of investment services;
- 2) the sizes of commissions, expenditures and other fees to use the services provided, other possible additional charges. If it is not possible to inform about the exact amount to be charged, then the calculation of the amount payable against services. If any part of the gross amount specified in this subparagraph is paid in foreign currency or presented in foreign currency, then

- the foreign currency, exchange rate and related expenses should be indicated. The information about charged commissions is also presented to the customer in a separate line,
- 3) about the terms, methods and schedule of making payments by the customer, as well as the process and timing of schedule of communication with customers (in case of receiving orders and special instructions from the consumer);
 - 4) about the terms of the contracts (what investment services contracts can be concluded and with what maturity date) and about refunds to customers in case of termination of the concluded contracts;
 - 5) types of securities in which the customer's liquidities can be invested, as well as general information about these securities and related risks;
 - 6) about the process of accepting and executing customers' orders (Appendix 2) to make transactions, as well as about the places where transactions are made, policy on prevention of conflicts of interest, list of documents required to use the services provided;
 - 7) a note about who carries the risk of using the service. Moreover, the note shall be made in a visible form (for example, in the case of providing securities transaction services on behalf and on the account of the customer, the following can be indicated: "Important note: in the case of execution of transactions in accordance with the conditions specified in the order, the risk associated with investment in securities shall be borne by the customer. The bank does not compensate for the customer's losses if they were not caused by the Banks unscrupulous behavior.")

CHAPTER 4. THE PROCESS OF SECURITIES PURCHASE BY THE BANK AND EXCHANGE OF INFORMATION

15. The Bank carries out securities operations in primary and secondary markets, and transactions can be concluded both in exchange and OTC markets.

16. The procedure of the Bank's participation in the process of placement in the securities primary market through agents:

- 1) The Bank presents the Securities purchase application (Appendix 1):
- 2) Before submitting the order for purchase/sale of securities to the Bank (Appendix 2) the Bank's customers must conclude a brokerage service contract with the Bank (Appendix 3).
- 3) After signing the contract, for the purpose of record-keeping of securities purchased for the Bank customers in the primary and secondary markets, a Custody Contract is signed with the customer in accordance with the Regulation "On Implementation of Custody of Securities" approved by the Bank's Council, after which a depo account is opened in the Bank assigning a registration code to the customer.
- 4) To participate in the auction, the Head of Securities Transaction Unit, in agreement with the Investment Business Director/treasurer of the Bank, prepares the applications before the auction launch, and the head of the unit in charge makes a checkmark.
- 5) The application is signed by the Chairman of the Bank Management, Investment Business Director or the Treasurer of the Bank, in accordance with the limits of executable transactions granted by the I(AL) Committee.

- 6) After the application has been signed, relevant employee of the Securities Transaction Unit delivers the application to the primary securities placement agent before the specified date or directly participates in the auction.
- 7) In the case of a positive response, the employee of the Securities Transaction Unit submits the application filed by the Bank to the Treasury Operations Service Unit.
- 8) The corresponding employee of the Treasury Operations Service Unit, based on the received message and the application filed by the Bank, performs the accounting formalities of securities purchased by the Bank or the Bank customers.
- 9) In case of satisfaction of the orders submitted by the Bank customers, the relevant employee of the Securities Transaction Unit prepares the depo account statements of the customers, which are then signed and sealed by the employee of the Securities Operations Unit of the Bank and provided to the customers.

17. The Bank can also execute securities operations on the respective platform for government bonds and foreign currency offered by the "Armenian Securities Exchange" OJSC. The process of operations in the above mentioned platform is implemented in compliance with the requirements of the "Rules on Trading", "Rules on Securities Listing and Admission to Trading", "Rules on Government Bonds Trading" approved by the observer board decision of the "Armenian Securities Exchange OJSC" and registered in the RA Central Bank.

CHAPTER 5. TRANSACTIONS IN THE SECONDARY MARKET

18. The Bank performs transactions in the secondary market on its behalf and on its account, as well as on its behalf and on the account of the Bank's customers.

19. Transactions on behalf and on the account of the Bank are made by the Securities Transaction Unit, the Head/Treasurer of which agrees the conditions of transaction in advance with the respective competent officer (Chairman of Management Board /Investment Business Director) through an electronic approval.

20. The relevant employee of the Securities Transaction Unit confirms the purchase and sale of securities by phone or electronically.

21. After confirming the transaction, a contract for securities purchase and sale is signed (Annex 4) by a person with the relevant competency (Chairman of Management Board /Investment Business Director). The contract, signed and sealed by both parties, is provided to the Treasury Operations Service unit for accounting formalities. The Treasury Operations Service unit is obliged to make appropriate accounting formalities on the same day of the transaction.

22. Bank's transactions on the investors' account in the secondary market is executed in accordance with the investment service provision contract signed with the investor.

CHAPTER 6. THE PROCESS OF OPENING AND RUNNING DEPO ACCOUNT

23. For each customer, according to the Securities Custody contract signed between the Bank and the customer, the Customer Service Unit of the Bank opens a depo account.

24. The process of managing and servicing depo accounts is regulated by the Regulation on “Implementing Securities Custody Activity” approved by the Bank’s Council.

25. Each customer should have accounts in the Bank, which will be used for repayment of bonds, discount payment, purchase and sale of securities, pledge, etc.

CHAPTER 7. BROKER SERVICES PROVIDED TO CUSTOMERS BY THE BANK

26. In the context of investment activity, the Bank provides the following investment services to the Bank customers:

- 1) acceptance and communication of instructions from customers on securities transactions;
- 2) making securities transactions on behalf of the Bank or the customer and on the customer's account;
- 3) making securities transactions on its account and on its behalf;
- 4) guaranteed or non-guaranteed placement of securities.

CHAPTER 8. RECEIVING INTERESTS ON SECURITIES AND INVESTORS' REWARDS

27. Interest payments received by the Bank on securities, are credited into correspondent accounts of the Bank and the Bank receives relevant statements on increased correspondent account, after which the Treasury Operations Service unit makes relevant accounting formalities, in accordance with the requirements of the Bank’s internal acts.

CHAPTER 9. CLASSIFICATION OF CUSTOMERS TO PROFESSIONAL AND NON-PROFESSIONAL CUSTOMERS

28. Before signing the Investment Services Agreement and providing investment services, the Securities Transaction Unit conducts a classification of customers into professional and non-professional customers, filling out the questionnaire on investment knowledge and experience (Annex 6).

29. Qualified investors who have received appropriate qualifications from the RA Central Bank, can be classified as professional customers for any or all of the services provided by the Bank.

30. Only qualified investors can be classified by the Bank as professional customers upon their consent.

31. Before classifying as professional customers, the employee of the Securities Transaction Unit informs the said customers that certain requirements set out in Regulation 4/07 “On Requirements to Investment Service Providers’ Activities” of the Central Bank will not apply to the relations between the Bank and the customers, explaining the essence of these requirements.

32. Those customers of the Bank, who have given their consent to be classified as professional for any or all investment services provided by the Bank, , provide written statement to the Bank about the following:

- 1) they agree to be qualified as a professional customer;

2) they are aware of the fact that in case of being qualified as a professional customer, certain legislative requirements for customer protection will not apply to them and therefore they lose certain level of protection.

33. Investment services of the Bank to customers classified as non-professional can be provided only after the information specified in Regulation 4/07 "On Requirements to Investment Service Providers' Activities" of the Central Bank and this Regulation are explained to the customer.

34. If the Bank is informed that a certain customer has ceased to be a qualified investor, then it shall terminate the registration of the customer as having the status of a professional customer.

35. The Securities Transaction Unit shall keep an electronic register, where the customers classified as professional and non-professional, are registered.

CHAPTER 10. INFORMATION ABOUT SECURITIES

36. Before signing an investment service contract and providing investment services, the relevant employee of the Securities Transaction Unit should provide the customer with information about the following:

- 1) means of communication with the Bank, in what languages can the customer contact the Bank and receive documents and other information;
- 2) methods of communication and information sharing with each other, as well as the procedure of receiving and communicating orders;
- 3) the grounds, by which the Bank is authorized to provide investment services, as well as the name and contact details of the authorized body that has licensed and/or registered the given entity;
- 4) information about the reports submitted to the customers, the frequency, schedule and procedure of providing those reports;
- 5) brief description of the steps defining the protection of the customer's liquidity, including the compensation, guarantee of funds of investors, or participation in other similar schemes, by the entity providing investment services;
- 6) brief description of the policy on restriction of conflict of interest (at the customer's request, full description of the conflict of interest policy defined in this Regulation);
- 7) about securities, as well as the place (means) of transaction (stock exchange, other regulated market or non-regulated market);
- 8) About related expenses and commissions.

37. If the Bank provides its customer with information about securities, which at that moment are subject to public offer, and a prospectus was published for that purpose, then the Bank is obliged to inform the customer where the prospectus is published and how it can be obtained.

38. In cases when the risks arisen from securities are guaranteed by a third party, investment services provider should present its customer information about the guarantee and the guarantor.

39. The bank should inform its customers (natural entities, including sole entrepreneurs) that investments in securities are not guaranteed by the Deposit Guarantee Fund.

40. The requirements described in this Chapter might be not applied to profession customers.

CHAPTER 11. INFORMATION ABOUT EXPENSES AND COMMISSIONS

41. The relevant employee of the Securities Transaction Unit provides customers with the following information on expenses and commission fees

- 1) Aggregate sum to be paid by the customer for the use of investment services, including all fees, expenses and other payments, as well as all tax liabilities, which are withheld by the investment services provider as a tax agent. If it is impossible to inform the precise amount chargeable, then the relevant employee of the Securities Transaction Unit explains them the principles of calculation;
- 2) If any part of the aggregate sum, mentioned in the sub-paragraph 1) of this paragraph, is paid in foreign currency or is expressed in foreign currency, then the foreign currency, its exchange rate and related expenses should be specified;
- 3) Methods of making payments.

42. Information about fees to be charged should also be presented to the customer by the relevant employee of the Securities Transaction Unit, in writing.

43. Requirements described in paragraph 41 of this Regulation may not apply to professional customers.

44. Before signing an investment services provision contract, the relevant employee of the Securities Transaction Unit gives the customer an opportunity to familiarize with this Regulation and other legal acts regulating the provision of investment services.

45. The contract for provision of investment services shall define:

- 1) the rights and obligations of parties, the procedure of calculation and payment of the remuneration for investment services;
- 2) the procedure, terms and manner of providing reports and other documents to customers;
- 3) the procedure of contacting the customer, as well as those means of communication considered by the customer as reliable means for information exchange;
- 4) the responsibilities of parties for non-compliance with the contract requirements;
- 5) the procedure for dispute settlement between the parties, term of the contract, procedure of making amendments and supplements to the contract, termination of the contract, including the right of the customer to abate the contract unilaterally on the condition of informing the Bank at least 10 days before that;
- 6) the procedure of refund of the customer's assets in the case of contract termination;
- 7) other information prescribed by the RA Legislation.

46. When making securities transactions on behalf of the Bank or the customer and on the account of the customer, the Bank takes measures to execute the customers' orders in an unbiased, immediate and precise manner. These measures should enable to execute the customer's other orders with equal conditions according to the sequence of their receipt by the Securities Transaction Unit.

47. When making securities transactions on behalf of the Bank or the customer and on the account of the customer, the Head of Securities Transaction Unit should:

- 1) make sure that the orders for making a transaction are properly registered and submitted for execution;

2) execute other orders with equal conditions according to the sequence of their receipt, except for cases when the order specifications or market situation makes it impossible, and inform the customer immediately about the significant challenges or adverse circumstances that make it impossible to accurately fulfill the customer's order.

48. Customers can make their orders in a written or non-written form.

49. Written orders are presented by the customer via electronic mail, internet, and if the customer wishes - in a paper form.

50. In the case of presenting orders in a non-written form, the respective employee of the Securities Transaction Unit entitled to accept orders, completes and signs the defined form for order presentation no later than the end of that working day based on information received in non-written form, indicating the time when information has been received (not the time s/he filled in the order) precisely in minutes and his/her name, surname. In such cases, a note should be added to the order about the submission of the order in a non-written form by the customer .

51. The customer may submit the order in a non-written form, if the respective employee of the Securities Transaction Unit using appropriate technical devices registers the fact of the customer making an order, as well as its content (namely, records the telephone conversation), including the time of making the order, entering the year, month, day, hour and minute in sequential order. Moreover, these technical means should prohibit any changes to the registered information.

52. The composition of information incorporated in the orders made by the customer, the manner and terms of presenting that information, as well as the process and timing of changing the order conditions or recalling the order, shall be determined by this Regulation and the investment services provision contract. The customer can withdraw the order or make changes to the order price, quantity or time conditions if the ordered transaction has not yet been concluded. In that case, the customer submits a new order to the respective unit (Appendix 2) along with her/her application (Appendix 8).

53. The relevant employee of the Securities Transaction Unit has the right to refuse to fulfill the customer's order, if the order is not possible to execute due to changes in the market, or if the order does not comply with the business turnover traditions and other bank rules. In case of refusal to fulfill the order, the responsible employee shall immediately inform the customer about it by sending a corresponding message or notification

54. The customer can receive a loan from the Bank to purchase securities, as well as carry out a short sale provided that she/he has an additional agreement with the Bank.

CHAPTER 12. REGISTRATION OF ORDERS AND INVESTMENT DECISIONS

55. The relevant employee of the Securities Transaction Unit makes corresponding records in the electronic register with respect to each order issued by the customer.

56. These records must be made immediately after the orders are received, but not later than the close of business day.

57. The records made in the electronic register on each order issued by the customer shall include the following information:

1) the customer's name, surname, or customer identification number;

- 2) the type of transaction specified in the order issued by the customer (purchase, sale);
- 3) the nature of the order issued by the customer, if the transaction specified in the order is not for purchase or sale (order on securities subscription, order of execution of option, etc.);
- 4) the type of order issued by the customer (market, limit, etc.);
- 5) the distinctive code of securities (if the code is missing, then name of the issuer and the type of securities, and in the case of derivative instrument, its description);
- 6) number of securities, unit price and total volume;
- 7) special instructions given by the customer (if any);
- 8) the exact time of receiving the order from the customer, subsequently indicating the year, month, day, hour and minute;
- 9) the name, surname of the concerned person registering the order, the surname.

CHAPTER 13. SUBMISSION OF ORDER FOR PURCHASE, SALE OF SECURITIES BY THE CUSTOMER

58. Before filing an order of purchase or sale of securities, the customer shall apply to the Securities Transaction Unit to be considered as professional customer.

59. In case of investment services provision, the relevant employee of Securities Transaction Unit shall request information from the customer only regarding his/her knowledge and experience related to the provided investment service or securities, which will allow the employee to assess whether the given investment service or securities meet the customer's requirements. Where the employee, on the basis of information provided by the customer, finds that the given investment service or security does not meet the customer's requirements, she/he should inform the customer about it. By taking the actions defined by this Regulation, the employee determines whether the customer has necessary knowledge and experience in the field of investment activities to understand the risks arising from that investment service or securities. The employee can decide that professional customers possess the necessary knowledge and experience as defined in this Regulation.

60. The customer can submit:

- 1) Limit order for purchase/sale;
- 2) Market order;
- 3) Stop order of purchase/sale;
- 4) Stop limit order of purchase/sale.

61. The corresponding employee of the Securities Transaction Unit records the day, hour, minute and the terms and conditions of the purchase/sale of securities specified in the order, in the relevant electronic register.

62. Customers can also order via telephone or email observing with the requirements set out in this Regulation.

63. On the basis of the accepted order(s), the relevant employee of the Securities Transaction Unit executes the orders, observing the requirements set out in this Regulation. The execution of orders is confirmed by the responsible unit.

64. The relevant employee of the Securities Transaction Unit informs the customer on the execution or failure to execute the orders within one business day and provides a statement on accounts (Appendix 9).

65. Registration of executed orders

- 1) After the provision of the investment service referred to in subparagraph (26) of paragraph 1 of this process, the respective employee of the Securities Operations Unit transaction must make records on the transaction immediately, but not later than the close of the given business day, after receiving confirmation of the execution of received and communicated orders.
- 2) After the provision of the investment service referred to in subparagraph 2) of paragraph 26 of this process, the respective employee of the Securities Transaction Unit must immediately make records in the electronic register on the execution of the customer's order, not later than the close of the given business day.
- 3) The records made in the electronic register under sub-paragraphs 1) and 2) of paragraph 65 of this Regulation, shall include the following information:
 - a. the customer's name, surname (title), or the customer's identification number;
 - b. the date of signing the transaction, indicating the year, month and day successively;
 - c. the time of signing the transaction, indicating the hour and the minute and the type of transaction (purchase, sale);
 - d. the nature of the transaction, if the type of transaction is not purchase or sale (subscription of securities, implementation of the option, etc.);
 - e. the distinctive code of securities (if the code is missing- the name of the issuer and the securities, and in the case of derivative instrument - its description);
 - f. the number of securities, unit price, total volume and other party of the transaction;
 - g. the place where the transaction was concluded (the name of the stock exchange, the name of the other regulated market or the "unregulated market");
 - h. the name, surname of the concerned person performing the transaction (and in the case specified by sub-paragraph 1) of paragraph 26) of this Regulation - the name of the concerned person of the Securities Transaction Unit Head.

66. If the employee of the Securities Transaction Unit receives and communicates orders for securities transactions from customers, then this person should make records in the electronic register on the received and communicated order immediately, but not later than the close of the given business day. These records shall include the following information:

- 1) the customer's name, surname (title), or customer's identification number;
- 2) the name or identification number of the person to whom the order was communicated;
- 3) the terms and conditions of the communicated order according to the information contained in sub-paragraphs 2-7 of paragraph 57) of this Regulation;
- 4) the date and exact time of the communication of the order, indicating the year, month, day, hour and minute successively.

CHAPTER 14. POLICY ON CONFLICT OF INTEREST, SETTLEMENT OF CONFLICTS OF INTEREST BETWEEN THE BANK AND CUSTOMERS AND POSSIBLE INCIDENTS

67. Possible conflicts of interest arising in the framework of investment service provision are the following:

- 1) selling securities to the customer at a price higher than that of the market, from the personal portfolio of the Bank, Bank employees and/or other persons, connected or affiliated to them, without taking into account the investment goals of the customer and essential conditions indicated in the order submitted by the customer to the Bank;
- 2) Selling the customer's own securities at a price lower than that of the market, to the Bank, Bank employees and/or other persons related, affiliated to the Bank;
- 3) Investment of the customer's liquidities in the securities of the Bank, Bank employees and/or other persons related, affiliated to them;
- 4) transactions with customer's securities at prices other than those of the market, or violating the customer's investment goals, for the benefit of the Bank, Bank employees and/or other persons related, affiliated to them;
- 5) Concluding large volume transactions or those inconsistent with the interests of the customer, which pursues the objective of charging high level of commissions and other fees from the customers;
- 6) Using customer's liquidities for other purposes;
- 7) Deliberate use of the customer's liquidities in the relevant accounts of the Bank and designed for investment, for implementing Bank's asset operations;
- 8) Using official information received from the customer that is significant and has the potential to affect pricing of the securities market, for the benefit of the Bank, Bank employees and/or persons related to the Bank, as well as persons affiliated with them.

68. The process of investment services provision can be accompanied by other cases of conflicts of interest.

69. The responsibilities of employees of the unit in charge for customer protection are as follows:

- 1) When performing operations in the securities market, to act upon the principles of impartiality, accuracy and informing the customers, on mandatory basis, about all transactions made with their securities and cash funds.
- 2) When executing the customer orders, the bank shall act on the basis of the customer's interests. To protect the above-mentioned interests, the relevant employees performing securities operations, undertake the following:
 - a. never make transactions that contradict customers' interest, with the ultimate goal of increasing the amount of commissions and other fees charged by the Bank from the customer.
 - b. to prioritize customer's interests over the interests of the Bank whenever possible cases of conflict of interest arise during the conclusion of transactions as per the customer's order;
 - c. to make the transactions ordered by the customer with higher professional level and on the best possible conditions;

- d. to conclude transactions exclusively under the contract of Investment services provision signed with customers and in the manner prescribed by the rules regulating the provision of these services;
- e. to charge commissions according to the tariffs set in the Bank.

70. Brief description of the limitation of conflict of interest is set forth in this Chapter, and the head of the unit in charge shall bear responsibility for observing specified processes.

CHAPTER 15. IMPLEMENTATION OF MEASURES AIMED AT EXCLUDING CONFLICT OF INTEREST

71. During the implementation of investment activities, the following measures shall be taken to exclude possible conflicts of interest between the Bank, Bank employees and other persons related, affiliated with them, and the customers:

- 1) Transactions on the basis of orders by persons related to, affiliated with Bank employees, the Bank, as well as other person and customers, shall be concluded in the manner prescribed by the RA Legislation and internal legal acts of the bank;
- 2) The Bank has the right not to execute the customer's order (on the condition of informing the customer as soon as possible), if it goes against the requirements of the RA Legislation.
- 3) The employees of the unit in charge are not allowed to execute the Banks' own transactions, the order, with the same essential conditions, of the Bank employees, other persons related, affiliated with the Bank and with them, earlier than another customer's order, except for cases, when the execution of the given transaction is in the interests of the customer and does not hinder the fulfillment of his/her order.
- 4) The employees of the unit in charge are obliged to unconditionally follow the requirements on maintenance of official information and information exchange between the units, prescribed by the RA Legislation and internal legal acts of the Bank.
- 5) Separated admission of the orders submitted to the Bank for concluding a transaction, as well as the functions of the unit making the corresponding transaction according to the received order, shall be defined by the Treasury Charter approved by the Council and this Regulation.

72. To prevent possible conflicts of interest between the Bank and customers, the Bank shall meet the requirements set out in the RA Legislation, internal legal acts of the Central Bank and this Regulation.

- 1) The Bank is obliged to submit reports to the customers in the manner and within the time prescribed by the RA Legislation regarding the transactions carried out by securities and/or cash of the customers.
- 2) The composition of information to incorporated in the reports to the customers shall be defined by this process and by the contract of brokerage services provision.

CHAPTER 16. PREVENTION OF CONFLICT OF INTEREST AMONG THE BANK, BANK MANAGERS, RELATED PERSONS AND EMPLOYEES

73. Potential cases of conflict of interest among the Bank, Bank managers, affiliated persons and employees are the following:

- 1) purchase of securities at a price higher than that of the market, by the employee of the unit in charge, on the account and on behalf of the Bank;
- 2) sale of securities purchased on the account and on behalf of the Bank, by the employees of the unit in charge, at a price lower than that of the market;
- 3) investment of Bank assets in the securities of the persons related to the Bank or affiliated to the Bank employees;
- 4) Transactions with the Bank's securities in favor of persons related to the Bank or related to the Bank employees and other persons, at prices not corresponding to market prices;
- 5) pressure imposed by the Bank Manager on the employee resulting in the purchase (sale) of securities owned by the persons affiliated to the Bank Manager or other persons, which does not derive from the Bank's interests;
- 6) By the assignment of the manager, purchase (sell) of securities in large quantities or with high risk ;
- 7) Transactions with the customer's liquidities in favor of persons related, affiliated to the Bank Managers or Bank employees and other persons, at prices not corresponding to market prices;

CHAPTER 17. REQUIREMENTS TO THE BANK EMPLOYEES FOR EXCLUDING CONFLICT OF INTEREST

74. When providing investment services, the employees of the unit in charge are obliged to:

- 1) comply with the requirements of the RA Legislation, internal legal acts of the Bank regulating the given area;
- 2) place the interests of the Bank and Bank customers above their own and avoid from conclusion of transactions that might adversely affect the interests of the customer and/or the Bank;
- 3) ensure the protection of investors' interests (customers, partners and other market participants);
- 4) within the framework of their competences, inform direct supervisor about potential violations of the RA Legislation and internal legal acts of the Bank, as well as about those transactions whereby the Bank can be viewed as an interested/concerned person according to the RA Legislation.

75. In order to exclude potential conflict of interest among the Bank, Bank Managers, affiliated persons and employees, the following measures shall be taken:

- 1) the transactions on the basis of orders by the Bank employees, persons related to the Bank, affiliated to them, as well as other persons and customers shall be concluded in the manner prescribed by the RA Legislation and internal legal acts of the Bank;
- 2) Bank employees and managers are prohibited to conclude or instruct to conclude such transactions that go against the Bank's interests;

- 3) before concluding the transactions related to the securities operations, the relevant employee of the Securities Transaction Unit received the agreement of the relevant Manager(s) of the Bank approved electronically as per the Treasury Charter and this Regulation;

76. Maximum permissible limits of transaction(s) for the competent management body and persons with the power to conclude investment transaction on behalf of the Bank, shall be stipulated by the Regulation "On the Management of Assets and Liabilities" approved by the Bank's Council.

CHAPTER 18. REPORTS SUBMITTED TO CUSTOMERS

77. If the Bank has executed the customer's order, then immediately, but not later than the close of next business day of the transaction, the relevant employee of the Securities Transaction Unit, provides a report on the order execution through already agreed manner of information exchange (Appendix 7).

78. The report on the execution of the customer's order shall include:

- 1) Bank name;
- 2) the customer's name, surname, the name of the legal person/entity or the customer's identification number;
- 3) the date of concluding the transaction, indicating the year, month and day order
- 4) the hour the transaction was signed specifying the hour and minute successively;
- 5) the type of order issued by the customer (market, limit, etc.);
- 6) the place of the transaction (indicating the name of the stock exchange, the name of other regulated market or the "unregulated market");
- 7) distinctive code of securities, issue number (in case the number is missing - the name of the issuer and the type of securities);
- 8) the type of transaction specified in the order (purchase, sale);
- 9) number of securities (in case of volume securities - nominal value);
- 10) unit price (not filled in for volume securities);
- 11) total volume;
- 12) gross amount of charged commissions or other payments, and if requested by the non-professional customer, also the breakdown of the latter (for each payment);
- 13) terms and conditions for making payments by the customer, if the customer has not been informed about them in advance (bank account, etc.);
- 14) information about the fact that from the customer's perspective, the other party to the transaction has been the person providing investment services, any other person from the group of the latter or another customer of that investment service provider, if the transaction has not been carried out in a regulated market that makes sure that one party of the transaction is unknown to the other one.

79. If the customer's order is executed in parts, then the relevant employee of the Securities Operations Unit submits the report in the order of execution for each part.

CHAPTER 19. KEEPING OF INFORMATION

80. The Bank, its manager or employees of respective units in charge shall be obliged to reject any motion or request to provide work-related information, if it is not submitted in accordance with the provisions of the RA Law "On Securities Market." Official information shall include any information on the customer's accounts that have become known to the person providing investment services (including the Central depository) in the course of servicing the customer, information on the operations, executed upon the assignment or to the benefit of the customer, as well as commercial or work-related secret, information on the any activity plan or on the design, invention, industrial design or utility model of the customer and any information thereof, which the customer intended to keep secret, and the person providing investment services was or should have been aware of such intention.

81. Disclosure of official or work-related information shall be considered the publication of that information (or any medium thereof) in verbal or written form, through the mass media or otherwise, making such information available to a third person or spreading it, any direct or indirect provision of any opportunity to any third person to obtain such information (authorizing, not hindering or making possible the disclosure of such information by the breach of the procedure for keeping such information).

82. To ensure proper protection of the information, the Bank Managers, employees providing investment services, former executive officers and officers of the persons providing investment services, as well as the persons and organizations that are rendering or have rendered services or are performing or have performed works for the person providing investment services, shall be prohibited to disclose work related information confided to or known by them in the course of their service or work, as well as to use such information to the benefit of their or any third person's (or persons') interests or to provide a direct or indirect opportunity to the third person(s) to use such information (authorizing, not hindering or making possible the disclosure of such information by the breach of the procedure of keeping such information).

83. The Bank shall be obliged to undertake the proper keeping of official/work-related information on the customer.

84. Information on securities accounts held in the Bank can be provided only to the customer, its authorized representative and the state authorized body (within their powers under the RA Legislation), as well as to the issuer and its authorized representative and other persons specified by the RA Law "On Securities Market" to exercise the rights arising from securities owned by the customer.

85. In case of disclosure of information about customer's securities account by the Bank (except for cases prescribed by the RA Law "On Securities Market") the customer has the right to demand compensation of damage for restoration of violated rights, in the manner prescribed by the RA Legislation.

86. The following shall not be considered as disclosure of work-related information and is not prohibited by the RA Law "On Securities Market":

- 1) communication or provision of work-related information by the person providing given investment services to any persons or organizations that render legal, accounting and other advisory or representative services, or perform certain works for the Bank, if it is necessary in order to render those services or to perform the works, and if such persons or organizations have provided a written obligation to keep such information and to abstain

from its disclosure;

- 2) disclosure of information related only to the customer of the Bank, if such disclosure was made through the written permission or through a verbal permission thereof granted in the court;
- 3) provision of work-related information in accordance with the requirements prescribed by the RA Civil Procedure Code and the RA Criminal Procedure Code;
- 4) provision of information, included in the register of the nominal securities holders, to the issuer in cases prescribed by law, other legal acts or persons offering transfer of securities as prescribed by this Law;
- 5) provision of information on performed transactions in securities to the tax authorities by the Central Depository based on the court decision adopted as prescribed only by the RA Civil Procedure Code and the RA Criminal Procedure Code;
- 6) exchange of the disclosed information on the securities issued by the investment fund or its participator and the fund thereof during the management of the investment fund or the custody of the assets thereof between the given investment fund, the manager and the depository, except for the cases prescribed by the RA "On Funded Pensions";
- 7) provision of information or documents obtained during the audit by the person conducting audit, to the Central Bank in cases prescribed by law.

87. The Bank shall provide work-related information required for civil cases only based on the court decision taken as prescribed by the RA Civil Procedure Code and that shall specify the person and the information relating to him or her subject to provision.

88. Provision of work-related information on criminal cases shall be regulated by the RA Criminal Procedure Code.

89. It is prohibited to provide any work-related information, based on the decision prescribed by paragraph 87 of this process, about other persons not specified in that decision.

90. Provision of work-related information by the Bank to the heirs (legal successors) of the customer shall be performed as prescribed by the RA Civil Code.

91. Work-related information shall be kept in the Bank in electronic and paper form.

- 1) Electronic information is collected by the corresponding employee and archived on the respective computer server of the Bank semi-annually;
- 2) The information collected in paper form is transferred by the relevant employee to the Bank's Archive.

CHAPTER 20. REPO AND REVERSE REPO TRANSACTIONS BY THE BANK

92. Repo and reverse repo transactions with the Central Bank:

- 1) Repo and reverse repo transactions with the Central Bank are made in accordance with the General Agreement signed between the Bank and the Central Bank;

- 2) Repo or reverse repo transactions with the Central Bank are carried out on the terms preliminarily announced by the Central Bank;
- 3) Acting in compliance with the General Agreement/Contract signed between the Central Bank and the banks operating in the territory of the Republic of Armenia, the Bank makes transactions with the Central Bank through the applications established by the Central Bank.
- 4) The head of the unit in charge of making repo and reverse repo transactions with the Central Bank agrees the volume of the transaction in advance with the competent person of the Bank (Chairman of Management Board/Investment Business Director), and delivers the application/request electronically to the Central Bank's corresponding address on the transaction day.
- 5) The corresponding employee of the Treasury Operations Service Unit, based on the message received from the Central Bank and the application submitted by the Bank performs the corresponding accounting formalities on the same day.

93. Repo and reverse repo transactions in the interbank market:

- 1) Repo and reverse repo transactions in the interbank market are carried out in accordance with the agreement signed with banks operating in the territory of the Republic of Armenia;
- 2) The transactions on behalf of the Bank performed by the relevant employee of Securities Transaction Unit, upon prior agreements with the head of the unit/division in charge, who, in his/her turn, receives the approval of the Chairman of the Bank's Management Board, Investment Business Director or the Treasurer
- 3) The relevant division employee upon the having the terms of repo and reverse repo transactions agrees, them in the manner prescribed by subparagraph 2 of paragraph 93 of this process;
- 4) After the Chairman of the Bank's Management Board, Investment Business Director or the Treasurer ratify the terms of repo and reverse repo transactions, they are delivered to the Treasury Operations Service Unit;
- 5) The Treasury Operations Service Unit is obliged to make appropriate accounting formalities on the day of the transaction;
- 6) On the day of transaction repurchase, the parties are obliged to return securities and the amount calculated with the interest;
- 7) The Bank can also make repo and reverse repo transactions on the financial platform for Repo and reverse repo transactions offered by the Stock Exchange;
- 8) The procedure for performing operations on the mentioned platform is defined by the "Rules on Trading" proposed by the Stock Exchange and approved by the RA Central Bank.

94. Repo and reverse repo transactions with the Bank customers. In order to conclude repo and reverse repo transactions with the customer, a relevant agreement (Appendix 5), regulating the relations of the customer and the Bank - rights and obligations, as well as the responsibilities of the parties in case of failure to perform the obligations in a timely manner or incomplete manner shall be signed with them .

CHAPTER 21. PROCEDURE FOR ESTABLISHMENT, USE, CALCULATION OF A RESERVE FOR POSSIBLE INVESTMENT LOSSES FROM INVERMENT IN INVESTMENT SECURITIES AND THE PROCEDURE OF SECURITIES CLASSIFICATION

95. Within the framework of this Regulation, investment securities purchased by the Bank shall be the following stipulated by the RA Legislation:

- 1) shares;
- 2) non government bonds;
- 3) investments made in other statutory funds of other persons (hereinafter referred to as securities).

96. Based on separate characteristics, investment securities are categorized into following groups and subgroups:

- 1) By term -
 - a. term securities - securities with fixed maturity;
 - b. non-term securities - securities without fixed maturity .
- 2) By purpose -
 - a. securities purchased for resale: all term securities and non-term securities that have been purchased for the purpose of resale and can promptly become highly liquid assets;
 - b. securities available for sale – securities which the purchaser does not intend to sell in the nearest (short term) time period, but which can be sold and usually are not kept till maturity (term securities) or are kept for a period of less than a year (non-term securities);
 - c. securities kept till maturity and non-term securities - term securities that the purchaser intends to keep by the end of the payment term as well as the non-term securities that are kept long term (for the purpose of gaining additional profit, influencing those issuing securities and/or controlling them).
- 3) By method of listing (for stocks only)-
 - a. listed stocks - stocks regularly listed in stock exchanges operating on the territory of the Republic of Armenia, in other exchanges having stock exchange units as well as in foreign stock exchanges and other institutions (systems) performing exchange operations and included in the list defined by the authorized public body regulating and supervising the stock market. Listed stocks must at the same time meet the following criteria:
 - I. listed in not less than one stock exchange, in another exchange having a stockexchange unit or institution (system) performing exchange operations;
 - II. according to the data of the previous quarter, the average minimum monthly circulation of the given securities shall be not less than one million drams;
 - III. publication of stock listing
 - b. non-listed stocks - stocks which do not meet any of the criteria of sub-paragraph a) of this paragraph.
- 4) A reserve for possible losses is established for term securities and non-term securities, which meet the requirements of paragraph 95 and paragraph 96(2)(c) of this Regulation.

- 5) A reserve for possible losses shall not be established for term and non-term securities purchased for resale or available for sale as specified in paragraph 96(2).
- 6) Reserve for possible losses shall not be established also for receivables (discount, surplus, dividend) from term and non-term securities specified in paragraph 96(4). These funds accrued to the Bank's income, shall be written off in accordance with paragraph 100(3) of this Regulation.

97. Establishment of a reserve for possible loss of term securities:

- 1) Deductions from the possible loss reserves of term securities acquired by the Bank, specified in paragraph 96(b)(3) of this Regulation, shall be made within the minimum and maximum limits of the interests indicated in the table, which the Bank makes independently, based on the number of days past due after the end of their maturity period and the assessment of financial state of the issuer. The RA Central Bank, based on findings of securities re-evaluation, can obligate the Bank to make deductions to reserve to in maximum amount, as well as adjust the securities risk based on the requirements of this sub-paragraph.

Class of term securities	Classification of securities by number of days overdue after maturity date	Reserve allocation limits (%)
1. Non risk	At the moment of securities purchase	2
2. Risky	From the moment of the securities maturity to the 60th day inclusive	2-20
3. Average risk	From the 61st day following the securities maturity to the 90th day inclusive	20-70
4. High risk	From the 91st day following the securities maturity to the 180th day inclusive	70-100
5. Bad	From the 181st day following the securities maturity	100

- 2) If there is an excess balance from possible loss reserve of term securities, it should be addressed to the revenue account.
- 3) Procedure for establishing reserve for possible losses of listed stocks:
 - a. Reserve allocations of possible losses of listed securities shall be made for the complete portfolio of the issuer's securities in case their average market value decreases compared to the average book (purchase) value. The average book value of securities of the given issuer shall be determined as average weighed value of their actual purchase values. Within the meaning of this Regulation, the average market value of listed securities of the given issuer shall be defined as the average price of sale and purchase weighed for the volume of circulation of the given securities in the stock exchange during the preceding three months.
 - b. The sum of reserve allocations is determined by the following formula:

$$S(1)^1 = (BV - MV) \times Q - PR,$$

where

$S(1)^1$ is the sum of reserve allocations;

BV is the average book value of stocks;

MV is the average market value of stocks;

Q is the quantity of securities of the given issuer;

PR is the value of previous reserve established in the past for the portfolio of given securities.

c. If the listed stocks have been classified by the Bank as purchased for resale or available for sale, but have not been disposed within one year, a reserve of possible losses shall be established for them in the manner prescribed by paragraph 97(3)(b) of this Regulation. Moreover, if in that period market deductions of the given stocks have been reflected in their market value adjustment accounts, an adjustment shall be made to the size of credit balance (through correspondence with appropriate accounts of the costs or capital units), formulating that sum as an initial value of reserve established for securities.

d. If the Bank intends to sell the securities classified in paragraph 96(2)(c) of this process and accounts them in the "Securities available for sale" account, then an adjustment of the sum reserved for them in the past shall be made (proportionally reducing the costs), at the same time reflecting the same sum by the account of adjustment of the securities market value, in correspondence with appropriate account of capital division.

e. The adjustment of the reserve value for each issuer's stocks in accordance with paragraph 97(3)(b) shall be done no later than as of the last business day of the quarter.

98. Procedure for establishing non-listed shares' (investments) reserve

- 1) Reserve allocations of non-listed shares (investments) shall be done for the entire sum of each issuer's stocks and/or investment in case their current value decreases in comparison to average book (purchase) value.
- 2) The average book value of non-priced (listed) shares shall be defined as the average weighed value of their purchase value during the previous months. Current value of non-listed shares of each issuer shall be defined by the following formula:

$$CV(I) = \frac{(A - L) \times F}{AM}$$

where

$CV(I)$ - is the current value of one securities of the given issuer;

A is the total sum of the issuer's assets;

L is the issuer's liabilities;

AM is the total amount of placed shares;

F is the value specification factor that characterizes the financial stability of the issuer.

The value of the F factor characterizing the financial stability of the issuer shall be defined depending on the ratio of the issuer's current assets (A_c) and general assets (A_g) in the following intervals:

a/ $F = 1$, if $Ac/Ag > 0.5$ / $q=1$,

b/ $F = 0.7$, if $0.5 > Ac/Ag > 0.3$

c/ $F = 0.5$, if $Ac/Ag < 0.3$.

If $CV^{(1)}$ is negative, the formerly established reserve is reduced by that amount.

3) The current value of investments shall be defined by the following formula:

$$CV^{(2)} = (A - L) \times I (\%) \times F$$

where

$I (\%)$ is the investment (shares) in the statutory capital denominated in percentage;

A, L, F are the elements specified in paragraph 98(2).

4) The sum of reserve allocations shall be defined by the following formula:

a. for non-listed shares

$$AI^{(2)} = (BV - CV^{(1)}) \times Am - PR,$$

where

$AI^{(2)}$ is the sum of reserve allocations;

BV is the average book value of the shares;

CV is the current value of one share of the given issuer;

Am is the amount of shares of the given issuer;

PR is the value of the previous reserve established formerly for the given shares.

If $AI^{(2)}$ is negative, the formerly established reserve is reduced by that amount.

b. for investments

$$AI^{(3)} = BV - CV - PR,$$

where

BV is the book value of investments;

CV is the current value of investments;

PR is the value of the previous reserve formed in the past for the given investment.

If $AI^{(3)}$ is negative, the formerly established reserve is reduced by that amount.

5) In cases of reclassification of non-listed shares by the Bank (from paragraphs 96(2)(a,b or c) and vice-versa) adjustment of reserve value shall be made in the manner prescribed by paragraph 97(3)(c) of this process.

6) The assessment and adjustment of reserve value of non-listed shares and/or investments shall be done by the Bank, on annual basis (based on results of issuer's financial reports).

1) **Recognizing the status of investment securities bad/ distressed** Term securities shall be recognized as bad/ distressed on the 181st day of becoming overdue, as well as in case the issuer has been recognized bankrupt in the manner stipulated by legislation, has been liquidated without legal successors or the impossibility of paying the debt by the latter has been confirmed despite the maturity date of securities and their purpose.

2) Non-term securities shall be recognized as bad/distressed when the issuer has been recognized bankrupt in the manner stipulated by legislation or has been liquidated without legal successors.

99. Procedure on using the reserve of possible losses of investments in investment securities

1) The reserve funds shall be used exclusively for writing off securities recognized as bad/distressed in accordance with this Regulation. If the funds of the reserve established for the given securities are not sufficient for writing off their value, then additional allocation shall be made to the reserve equal to that difference and afterwards the value of the securities recognized as bad/distressed is written off on the account of reserve funds.

2) Securities recognized as noncollectable/distressed shall be written off from the accounts "Impairment allowance for investments held to maturity" and "Impairment allowance for investments in other persons' chartered capital" and "Reserve of potential loss of investment securities" from the day they're deemed as noncollectable/distressed to the last business day of the given month.

3) The sums mentioned in paragraph 96(6) of this Regulation that have been accrued to the Bank revenue in the manner prescribed by the Regulation, but have not been repaid within stipulated terms, shall be written off:

a. on the 90th day from the expiry date;

b. on the day of writing off the securities recognized as noncollectable/distressed in accordance with this Regulation.

4) Write-off of noncollectable/distressed securities from the Bank's balance due to insolvency of the issuer, is not deemed to be recognized invalid liability.

100. The securities and interests (or a part thereof) booked in the Bank's off-balance are written off from the off-balance sheets in case the statute of limitation for the right of claim provided for by the RA Legislation, has been expired. If the statute of limitation for the right of claim defined by the RA legal acts comes after the date of recognizing the debtor bankrupt in accordance with the RA legal acts, the securities and interest (or part of them) shall be written off from the moment the debtor is recognized bankrupt in the manner prescribed by the RA legal acts.

1) The gross income shall not be increased for the sum of securities and interest (or some part of them), which statute of limitation for the right of claim has expired and the sum for each debtor does not exceed 1 million AMD, reduced from the gross income of previous periods under review, and for the sums which statute of limitation for the right to claim has expired and the sum for each debtor exceeds 1 million AMD, the gross income shall not be increased only in case the Bank, at the moment or before the expiry of the statute of limitation for the right to claim the above-mentioned funds, has filed a claim with the court on refund of debt.

2) In the case of full or partial repayment of securities liabilities or their disposal, total value of the reserve shall be adjusted accordingly by directing the sums of allocations to the Bank's income for the given reporting period.

3) In case the liabilities with respect to securities recognized noncollectable/distressed and written off from the balance to the reserve account in accordance with this Regulation, as well as the liabilities with respect to funds (accumulated income) written off in accordance with

paragraph 96(6) of this Regulation, have been fully or partially repaid, these funds will be fully accrued to the Bank's revenues of the given reporting period.

- 4) In case of forgiving (assigning gratis) the securities, interest and/or discount rate (or some part of them) accounted in off-balance sheet accounts of the Bank and already written off, those funds shall be considered paid off or forgiven (or transferred gratis or assigned gratis) and the gross income of the Bank's reporting year is increased in the amount of those funds.
- 5) Securities issued by legal entities are subject to evaluation once a year, before July 1 of the current year, if changes have been made in the financial statements submitted by the organization, which may have a negative impact on the issuer's creditworthiness. Evaluation of the issuer's financial situation is carried out by relevant internal legal acts regulating the risk management process approved by the competent management bodies of the Bank, the procedure "On Business Lending", charters regulating the activities of these units and this document. The process of assessing the issuer's creditworthiness defined by this paragraph is conducted by the responsible entity, Risk Management Directorate and the Corporate Sales Coordination Division.
- 6) The scope of responsibilities of the units responsible for periodic monitoring of investments in the Bank shall be defined by the relevant internal legal acts regulating the internal audit and internal control process approved by the Bank's Council.
- 7) The process of calculating possible losses of investments in investment securities and classification of securities shall be carried out in the manner specified by this chapter - by the decision of the A(L) Committee on the basis of the conclusion presented by responsible and/or relevant units.
- 8) The process of establishment, record-keeping and accounting formalities for a reserve of possible losses of investments in investment securities shall be implemented by the Accounting and Reporting Division in accordance with paragraph 101(7) of this process.
- 9) The responsible staff and the timing of reporting to the Bank's Management Board and Bank's Council on investment activity, as well as the measures for the repossession of Bank's overdue assets shall be defined by the charters of the Bank's Management Board and Bank Council approved by the Bank's Council.

CHAPTER 22. PRINCIPLES OF PROTECTION OF CUSTOMERS' SECURITIES AND CASH

101. In terms of protection of customers' interests in relation to their securities and cash, the Bank is obliged to:

- 1) maintain information, carry out record keeping and accounting in such a manner as to be able at any time and without delay to separate each customer's liquidity from that of other customers, as well as from its own funds;
- 2) maintain information, run record keeping and accounting in such a manner as to secure their accuracy and compatibility with cash and securities of other customers transferred under its management;
- 3) conduct regular comparisons and adjustments between its own and other persons' customers financial accounts, information and records;

- 4) ensure the possibility to separate each customer's securities kept at a third party from securities owned by Bank, as well as from securities of third person by using different names of securities accounts or other instruments for ensuring the adequate level of protection. The requirement set forth in this paragraph does not apply to the case when the Bank transfers government securities of its customer to a person who acts as a sub-custodian of government bonds, if it is impossible to open separate (differently named) accounts with the sub-custodian of government bonds for the securities of the Bank and its customers.
- 5) provide all necessary arrangements with the view to managing the risk of the loss of customers' liquidity or the title thereto, resulting from improper or unauthorized use of customers' liquidity, fraud, incomplete record keeping or negligence.

102. The Bank has the right to keep customers' securities in the account (accounts) opened on behalf of the customer with a third party. In selection and appointment of third persons, the Bank should take into account the experience and reputation of a third person, as well as legal requirements relating to custody of customers' securities and applicable business customs to avoid any negative impacts on customer rights.

103. If the Bank plans to keep its customer's securities with a third person located in a country with specific requirements and control over the custody of securities owned by other persons, the Bank shall be disallowed to keep its customer's securities with a person operating in that country, which is not subject to such requirements and control.

104. The Bank has no right to keep its customer's securities with a person operating in a foreign country where custody of securities owned by other persons is not legally regulated, except when at least one of the following conditions exists:

- 1) nature of securities or the related investment services require that these securities are kept with a person operating in the same country;
- 2) securities belong to a customer, which is classified as a professional in accordance with Regulation 4/07 "Requirements on Performance of Persons Providing Investment Services" approved by the Central Bank, whereby such customer has given written instruction or consent for custody of its securities with a person operating in the same country.

CHAPTER 23. CUSTODY AND USE OF CUSTOMER'S SECURITIES

105. The Bank shall be disallowed to carry out transactions financed by its customer's securities or otherwise dispose such securities to its or other customers' benefit, except for cases stipulated in paragraphs 107 and 108 hereof.

106. The Bank can use the securities owned by its customer only if the following conditions exist at the same time:

- 1) the customer has given prior written consent for the use of securities pointing out the terms of use. Such consent can be contained in the contract on provision of investment services signed with the customer;

- 2) disposal of customer's securities shall be limited only to the conditions specified by that customer.

107. The Bank may carry out securities financed operation with the securities owned by its customer deposited in the consolidated account or any other account opened with a third person, or otherwise dispose or manage to its or its other customers' benefit the securities owned by its customer deposited in the consolidated account or any other account opened with a third person, provided that conditions stipulated by paragraph 107 of this Regulation are met.

108. The responsible unit carries out respective accounting and record keeping in the e-register on the customers whose securities has been disposed based on their consent and on conditions specified by them, as well as on the number of disposed securities per customer.

CHAPTER 24. DESCRIPTION OF RISKS ASSOCIATED WITH OPERATIONS IN THE SECURITIES MARKET

109. The employee of the unit in charge informs the customers that investments in securities bear risks, explaining what risks the investor will be dealing with in making transactions at securities market.

- 1) The risk of changes in the prices of financial instruments. The market prices of securities and their variations are out of the Bank's control, due to which the customer can lose in the value of the portfolio or even the whole portfolio (in the case of margin transactions, possible loss can exceed the amount of money initially invested by the customer).
- 2) Liquidity risk. This risk is associated with a decrease in interest from other participants in the market for the instrument. Liquidity of the financial instrument depends on corporate actions of issuers, their financial activities, general market conditions, internal rules of stock exchanges and trading platforms, which can negatively affect on the financial instrument value, and correspondingly, on the the value of customer's portfolio.
- 3) Risks arising from external environment, as well as from changes in the legislative regulation, which are related to the actions of state bodies regulating markets, resulting in losses incurred by the customer.
- 4) Infrastructure risk This risk is associated with workflow interruptions of depositories, stock exchanges, clearing organizations, resulting in loss of assets incurred by the customer (both funds as well as securities).
- 5) Operational risks associated with the use of e-commerce systems These risks are associated with disruptions in software, hardware, software malfunction, power supply, Internet-related problems, interruption of connectivity, etc., which can cause loss of customer's assets.
- 6) Risks associated with electronic exchange of information The customer is informed that investment activity bears risks associated with electronic nature of the services provided, such as lack of reliable connectivity, potential electricity outage, disruption of software operations etc.

- 7) Other risks. The list of above-mentioned risks is not exhaustive. Investment activities can also be accompanied by other risks.
- 8) The Bank does not bear any responsibility for disruptions of e-commerce systems caused by the actions of third parties. The Bank also does not bear any responsibility if the actions of third parties lead to the information exchanged between the Bank and the customer becomes accessible to third parties.

CHAPTER 25. THE PROCESS OF ORDER PLACEMENT

110. The order placed by the customer shall serve as a basis for signing transactions with the customer's securities and/or cash funds.

111. The template of the order is presented in Appendix 2; the contract may, at the same time, provide for other information determined upon mutual agreement of the Bank and the customer. The customer can choose to place the order in one of the following ways - hard copy (including transfer of documents by mail), facsimile, e-mail, telephone.

- 1) Hard copy of the order shall be submitted in two copies; one copy is kept by the Bank, the other one is returned to the customer with "Order accepted" note and signed by the responsible staff. When placing the order in hard copy, the employee shall verify the authorization of the person placing the order.
- 2) Electronic order should be delivered only by the email address provided by the Bank. The order delivered via another email shall be considered failed order. After the employee of responsible unit receives the electronic order, s/he must verify:
 - a. that the filled requisites are complete;
 - b. the availability of additional details in the order provided for in the brokerage service contract;
 - c. the powers/authorizations of the signatories;
 - d. whether the signature and, where available the stamp, match the signature and stamp presented at opening of bank account, the electronic scanned version of which has been sent to the employee of responsible unit by the Customer Service unit.
- 3) After checking the order, the employee of the responsible unit signs the order and captures the time of receipt sending the customer a corresponding message about the acceptance or rejection of the order. The message is delivered via the email address provided by the customer.
- 4) To place the order, the customer must preliminarily inform the employee of responsible unit by phone about the fact of sending the order. The order should be delivered only via the special phone number provided by the Bank. Orders delivered via another phone number shall be considered as failed. The process of checking the order shall be implemented in the manner prescribed by paragraphs 112(2)(a-d) hereof.
- 5) Customer's order via phone can be accepted provided it is carried out with prior consent of the customer and in compliance with the requirements of paragraph 51 hereof by the Bank. The requirements for ensuring technical and information security of the order made by phone,

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as well as the implementation process shall be defined by the order of the Chairman of the Bank's Management.

- 6) The employee of the responsible unit has the right to decline the acceptance of the customer's order in the following cases:
- a. in case of inconsistency found in the identification document of the customer (his/her authorized representative);
 - b. in case the order is filed with deletions or deviations from the template presented in appendix 2;
 - c. if the customer's cash funds or securities, for which the order has been placed, are overloaded with other person's rights or are under lien;
 - d. if the customer's bank account or depo account lack relevant funds or securities;
 - e. if the execution of the transaction ordered by the customer contradicts the customer's investment objectives or does not meet the requirements of the RA Legislation or this Regulation.
- 7) In the system "Operational day", the employee of the responsible unit shall compare information related to the bank accounts opened for the customers in the manner defined by this Regulation, namely scanned electronic versions of the application-contract to open a bank account, passports of natural entity customers, passports of the persons authorized for the legal entity customers, and in the case of legal entity/private entrepreneur – state registration certificate with its respective inserts and sample signature cards of the legal entity.

CHAPTER 26. OTHER PROVISIONS

112. The process of posting information about the conditions of investment services on the Bank website (homepage) of the Bank shall be implemented according to the procedure "On Publication of and Changes to Information on the Website" approved by the Management Board of the Bank.

113. The process of accepting, discussing, respective decision making and responding to complaint/claims of ownership by natural entities, micro entrepreneurs with respect to investment services in the Bank, shall be regulated in line with the Procedure "On Examination of Complaint/Claims Filed by the Customers", approved by the Bank's Council, and for entities acting as micro entrepreneurship subjects of legal entities, the process of complaints/claims shall be settled through negotiations, in the manner prescribed by the RA Legislation.

114. The Bank is obliged to maintain the contract for at least 5 years and all documents on securities transactions made on the basis of the contract, and upon customer's demand to provide their copies ratified with the Bank stamp and with and marked "certified true copy". The cost of copying the mentioned documents shall be borne by the customer.

115. According to the RA Legislation, the customers who are resident legal entities, shall perform the accounting and payment of tax liabilities resulting from transactions with securities on their own. The Bank provides sufficient information about securities transactions to the customers to enable them to independently perform the calculation and payment of their tax obligations.

116. In the cases specified by the RA Legislation, the Bank performs the accounting and payment of tax liabilities of resident and non-resident individuals and non-resident legal entities.

117. Reference contracts for provision of investment services and purchase and sale of securities and repo/reverse repo contracts prescribed by this Regulation, as well as the templates of paper or electronic instructions/assignments serving as a ground to execute operations prescribed by this Regulation, shall be approved by the order of the Chairman of the Bank's Management Board.