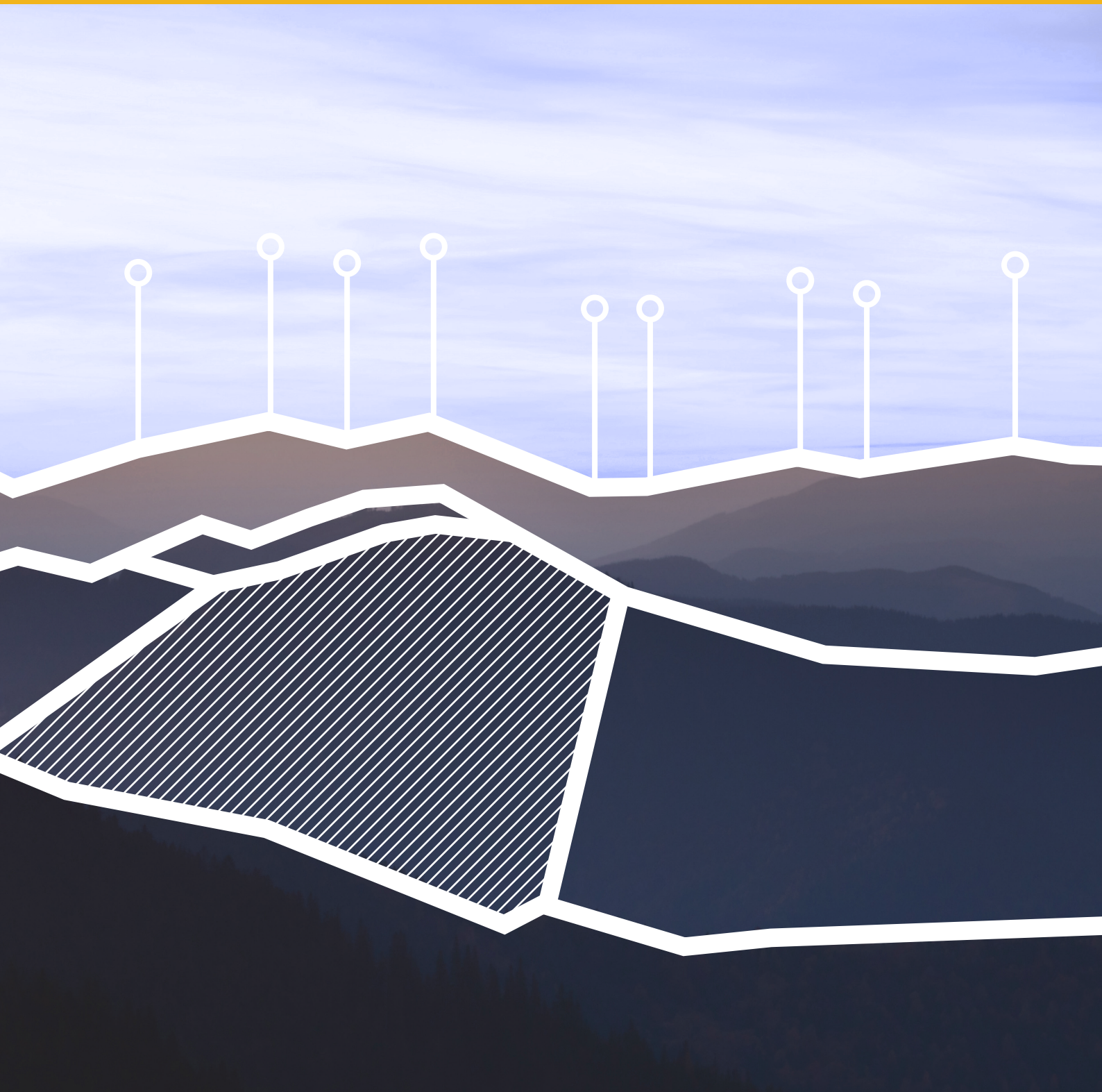




Central Bank
of the Republic
of Armenia

2022 Annual Report





2022 Annual Report

According to the law on the Central Bank of Armenia, the Annual Report refers to the provisions of governance of the Central Bank of Armenia. The Report includes the summary data on the Central Bank's annual activities and main functions described in the Strategy of the Central Bank and financial reports that have passed international audit. However, to get a complete picture of the Central Bank's activities, one should also consider looking at the Central Bank's Inflation and Financial Stability reports and strategies which, accordingly, are steered to the implementation of the two main objectives of the Central Bank. They contain in-depth professional analysis and estimations of the economic growth and financial market developments in both Armenia and the world. The Annual Report provides links to those reports, where relevant.



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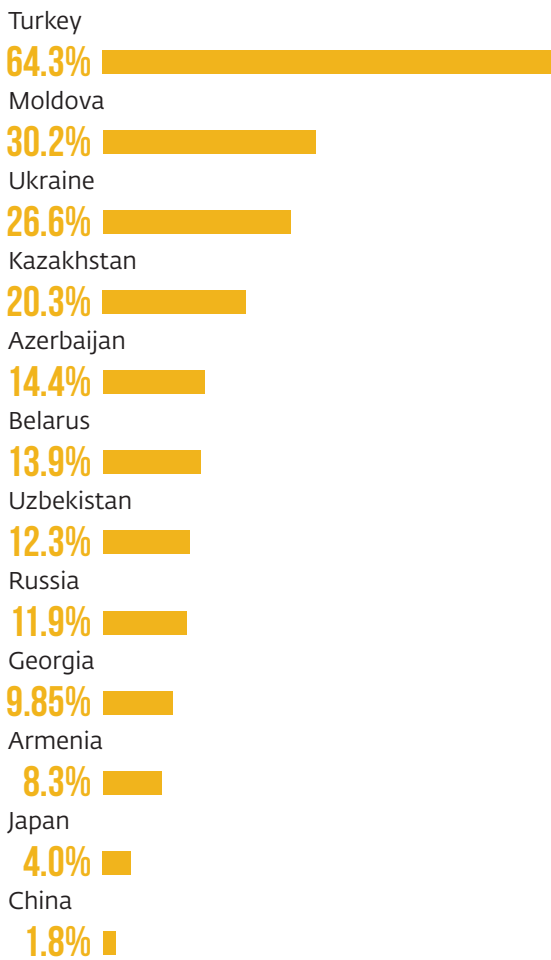
Monetary Policy

12-Month Inflation Rate
8.3%

Refinancing Rate
10.75%

Move from
FPAS MARK I
to
FPAS MARK II

12-Month Inflation Rate in Selected Countries, December 2022



Circulation

Value of Banknotes in Circulation
803,093,791.63 ₺

+0.1%
compared to 2021

Financial Stability

Financial System Assets/GDP
116%

Banking System's total adequacy Ratio
20%

Banking System's Total liquidity ratio
280%

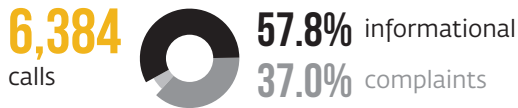
Countercyclical Capital Buffer
1.5%

Loan-to-Value (LTV) Ratio
90% DRAM | **70% FOREIGN CURRENCY**

- The financial system has ensured an uninterrupted course of financial mediation.
- Banking system key financial stability indicators improved; stress tests show high ability of system to withstand shocks.

Public Relations

Number of Inquiries Received During the Year



Reserves

international reserves

\$4,112 MILLION

+0.21%

Decisions

71 regulatory decisions

166 individual decisions

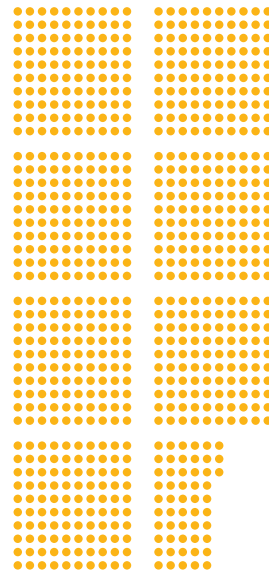
12 local decisions

659 Governor's decisions

Personnel

Average Number of Employees During the Year

753 EMPLOYEES



Students From Foreign Universities Who Completed Internships at the Dilijan TRC

10



Visitor Center

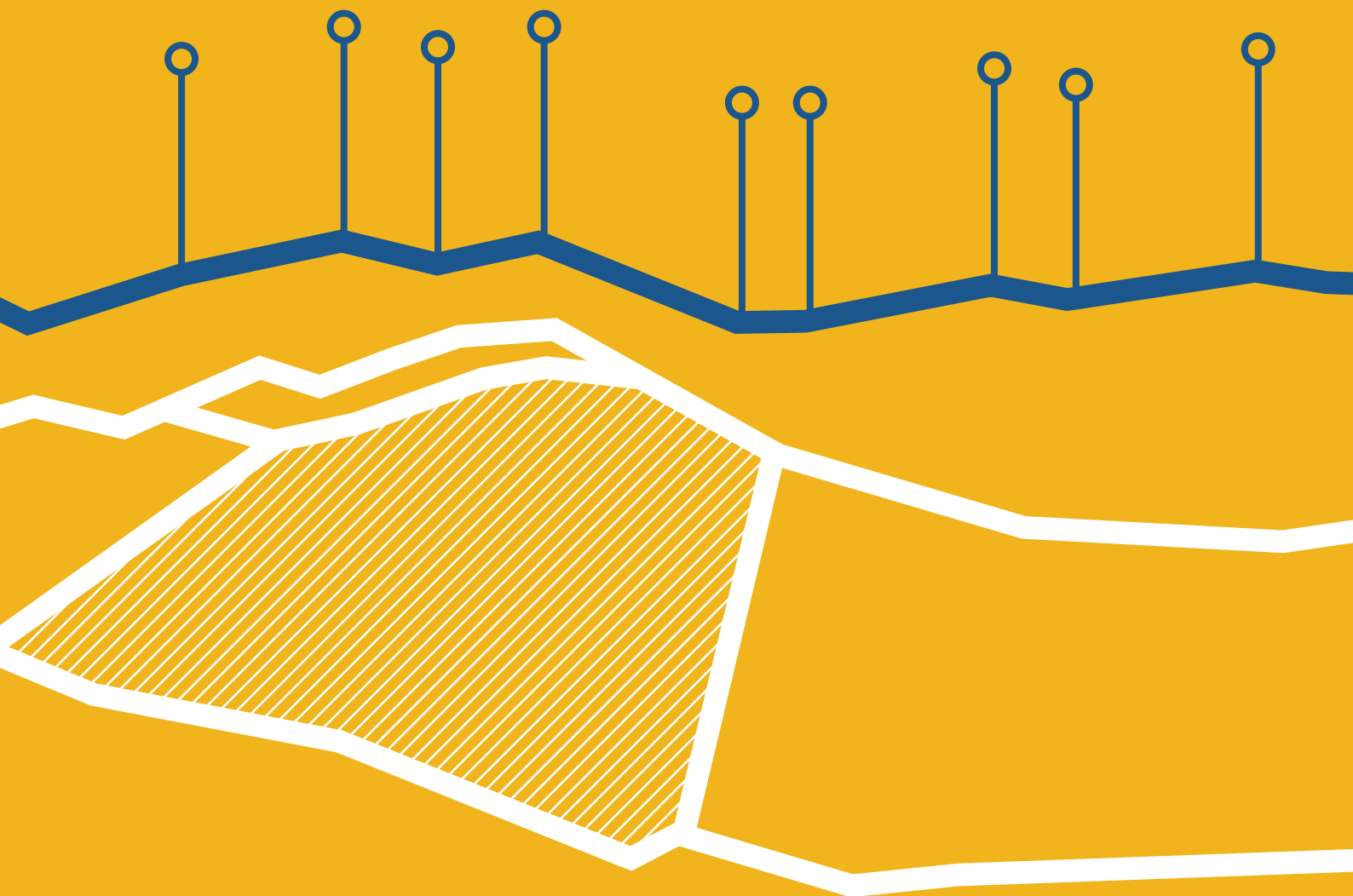
Number of Visitors

12,281

+0.21%

- **The Young Professionals** program was launched in 2022.
- **The Mentor-Mentee** program was instituted.

GOVERNOR'S FOREWORD



Dear reader,



MARTIN GALSTYAN
Governor of the Central Bank of Armenia


We are pleased to share our Annual Report which highlights the challenges, approaches to overcoming them, and the achievements we had in 2022.

The year 2022 was stormy and full of challenges, ones for the regional economy, affecting Armenia's economy. Nevertheless, the results achieved show that the year was very positive for the development of our economy.

Inflation in global commodity markets and sharp increases in inflation in developed countries created new inflationary shocks at the beginning of 2022. However, the Central Bank managed to maintain inflationary developments within a controllable range, ensuring price stability in the country. In 2022, the Central Bank also initiated a review of the monetary policy decision-making system, adopting a risk management approach. We are proud to be the first central bank to implement this approach on an institutional basis. This makes it possible to more effectively ensure price stability, as well as to significantly improve our communications with the public.

There were other challenges related to financial stability in 2022. From early in the year, the sharp increase in foreign capital inflows and the multifold increases in demand from non-residents for financial services placed the financial system in a difficult dilemma of having to meet growing demand while complying with international standards. The Central Bank's cautious policy made it possible to manage the risks of the financial system without shocks and even to establish added safety buffers to overcome possible future shocks.

Considering importance of giving new impetus to the Armenian capital market, we partnered with the Warsaw Stock Exchange, which eventually acquired a controlling stake in the Armenia Securities Exchange. We expect that the entry of the Warsaw Stock Exchange into the local capital market will form a new culture, create new opportunities, and stimulate the development of the Armenian capital market and its infrastructure. We believe this is a very important step in the development of the Armenian capital market.



We have expended great efforts during the year to increase the convenience of cashless payments. As a result of adopting the Law on Cashless Transactions and our hard work of expanding the infrastructure for cashless payments, we have ensured the availability of convenient cashless payments for our citizens in all consumer infrastructures. Fast, secure, and convenient cashless payments is an important public good for our society, and we will be consistent in ensuring this process in the best possible way.

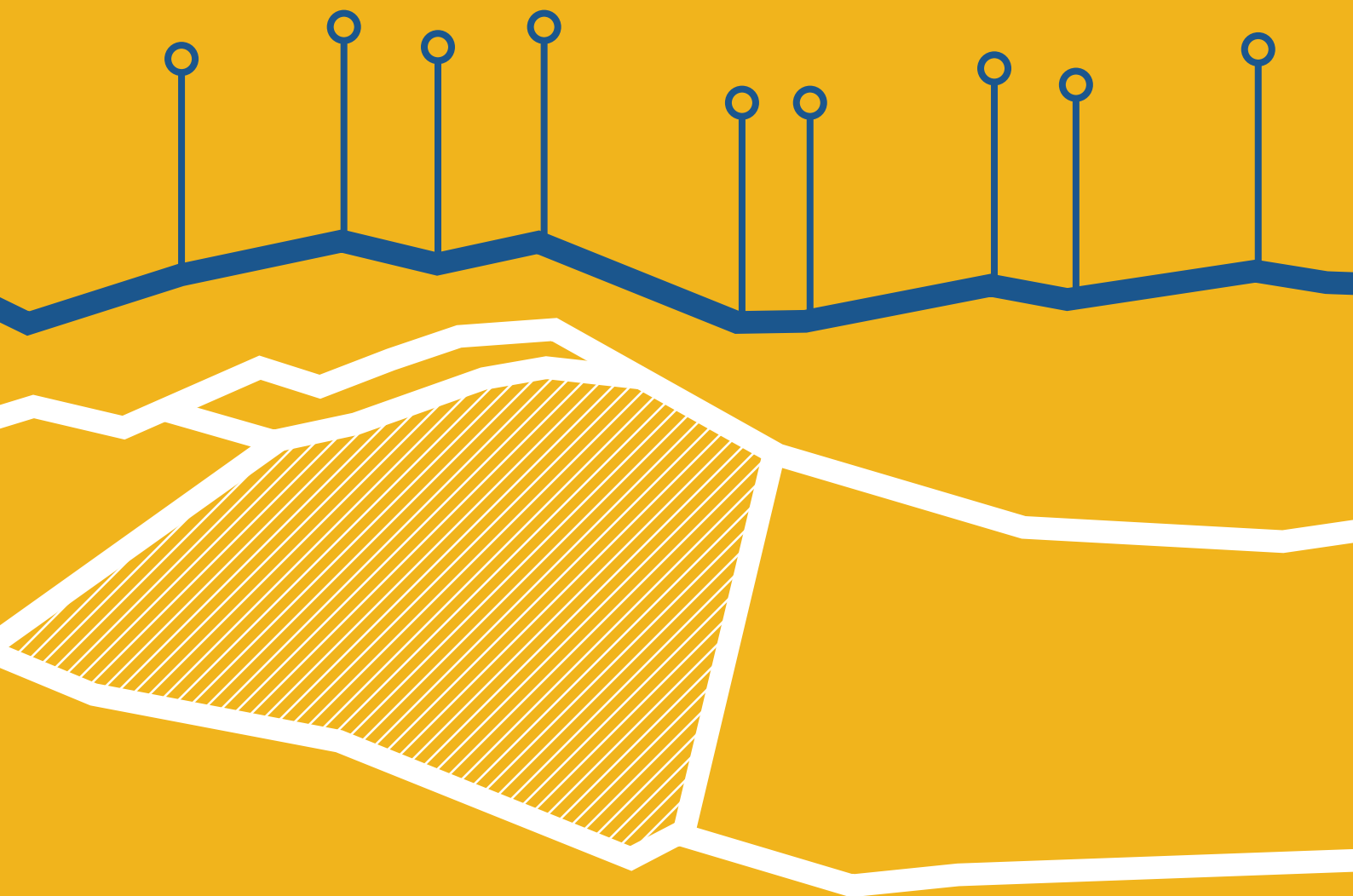
In the area of corporate social responsibility, we continued our initiatives in Dilijan, and Armenia now heads the Fab Academy regional training center. The center will provide an opportunity to apply digital fabrication tools in all fields of knowledge through the Fab Academy. We believe in the creation of this safe space for

people of all ages and backgrounds to gather, learn, share knowledge, and create, which will assist in solving local problems and transforming the Dilijan community.

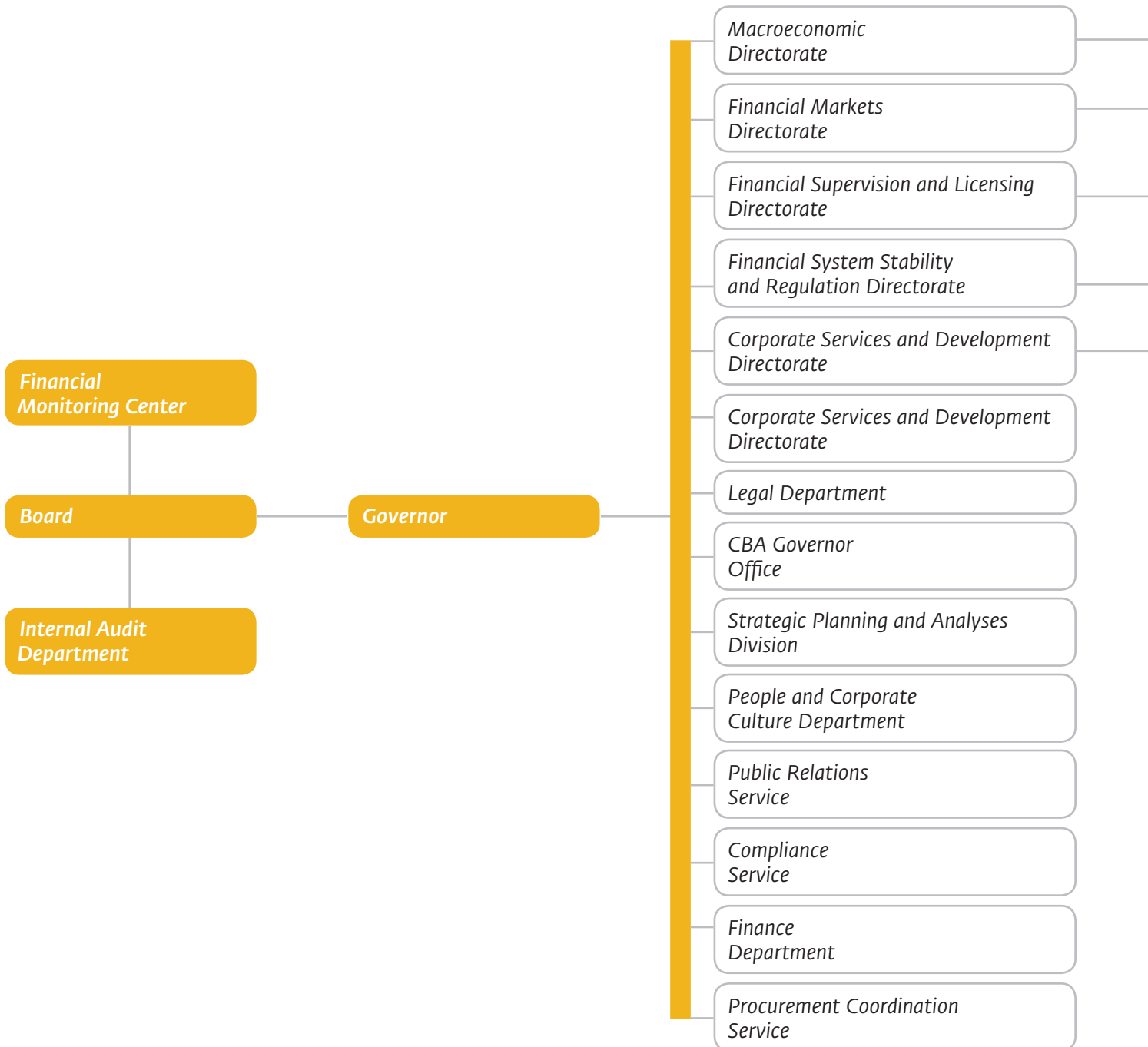
We owe our successes and achievements to our employees who have worked hard to realize our vision. In 2022, The Young Professionals program was launched to replenish our human capital and provide students with the opportunity to work at the Central Bank. The program has resulted in the recruitment of a large number of young people who will be able to develop and apply their views, knowledge, and skills in their daily work to their own advantage and for the benefit of the Republic of Armenia.

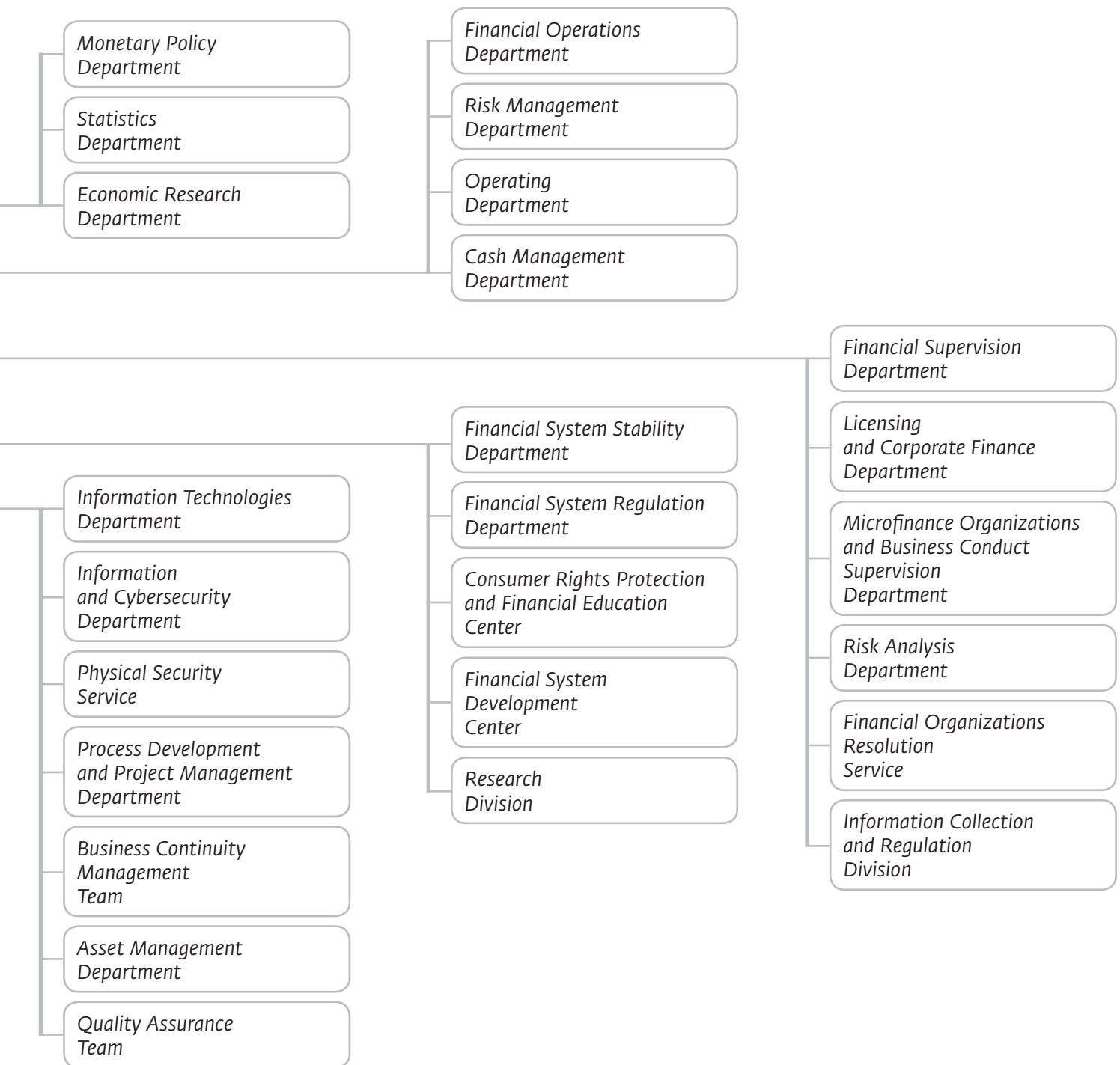
Thank you,

**CENTRAL BANK
OF THE REPUBLIC
OF ARMENIA**



STRUCTURE OF THE CENTRAL BANK OF ARMENIA





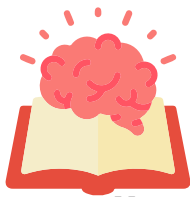
ABOUT US

We are the Central Bank of the Republic of Armenia, responsible for ensuring price and financial stability. We set standards to regulate and supervise the financial system, and protect consumers. We are also responsible for Armenia's payment system and the issuance of national currency. Our goal is to improve national welfare by fulfilling these primary tasks.

We realize that we must fulfill our mission in a rapidly changing world filled with challenges and uncertainties. Ensuring national welfare is at the core of our daily activities. We earn the trust of the public and our partners through the consistent implementation of our planned actions and the communication of our activities through decisions, research, reports, and press conferences.

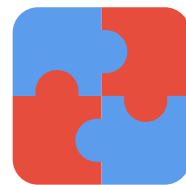
We strive to lead on the basis of research excellence and innovative solutions.

Our values play a strong role in our interactions, and only these values make it possible to realize our vision and mission.



Excellence

We strive for excellence through cutting-edge research, analysis, innovations, and cooperation in all areas of our mandate. We provide endless opportunities for open minded, initiative-seeking, proactive, and close-knit people.



Integrity

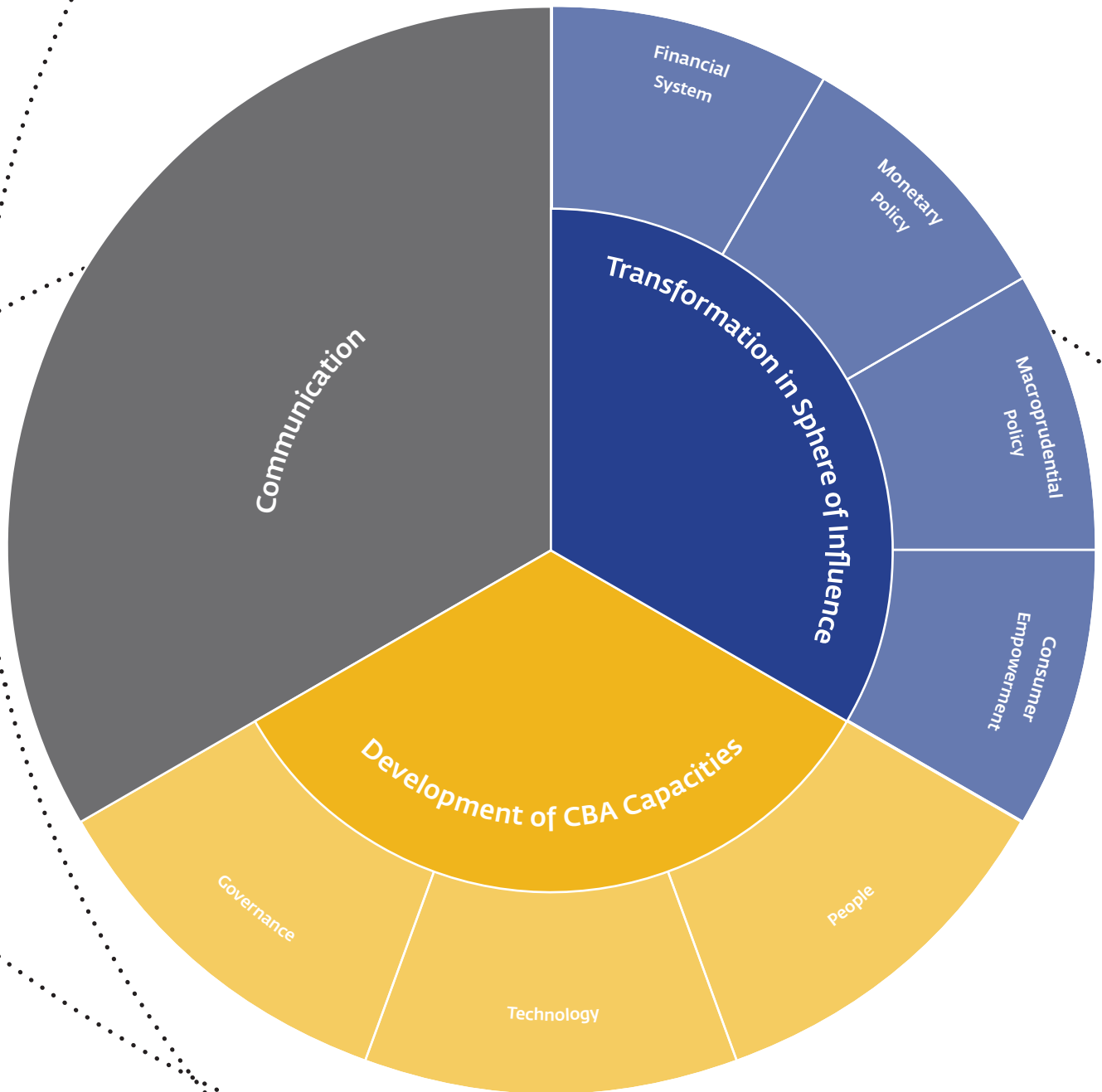
We present our goals and actions through integrity, in an open and transparent way. We communicate our ideas without stereotypes and are accountable for it.



Respect

Respect is shown through the acceptance and appreciation of diversity of people and ideas.

STRATEGIC PRIORITIES



THE BOARD OF THE CENTRAL BANK OF ARMENIA

The Law “On the Central Bank of RA” stipulates that the Board is the highest governing body of the Central Bank. It consists of the Governor of the Central Bank, two Deputy Governors, and five Board Members.

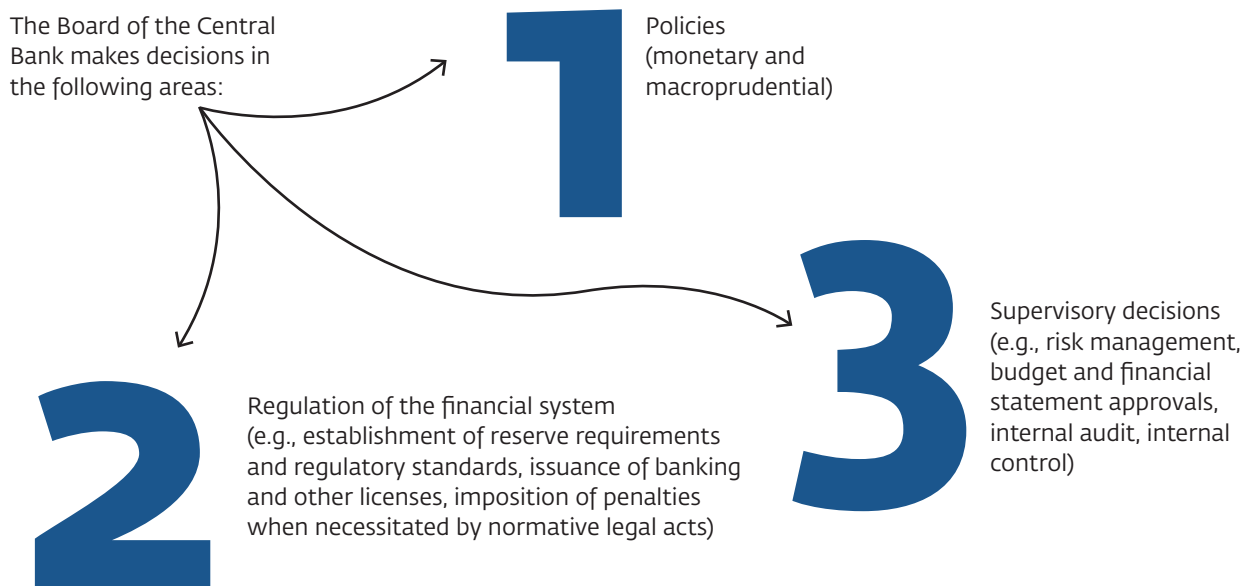
The Governor of the Central Bank coordinates and ensures the daily work of the Central Bank, and coordinates the activities of the Board and Board members and is considered as the highest official of the Central Bank. The Governor and the two Deputy Governors perform executive functions and coordinate the daily work of the Bank. The Board members, including the Governor and Deputy Governors, are elected by the National Assembly of Republic of Armenia for a six-year term. The composition of the Board changes on a rotation principles. By the time, the mandate of a Board member expires a new Board member is elected by and this. This, in turn, ensures the independence of the Central Bank.

By legally stipulated criteria, members of the Board of the Central Bank must have

knowledge in banking, auditing, IT, financial reporting, and other fields, and at least the half of members of the Board must have professional experience in macroeconomics.

The Board discusses various scenarios based on developments of external and internal environments, selects the more probable ones, and cultivates developments based on knowledge and facts, as well as data and information management. Approaches/ interpretations generated from those scenarios are converted into digital/analytical data and become the basis for decision-making.

The Board members represent the Bank’s interests and position in ministerial committees created and operated by the government, as well as in other interdepartmental commissions. They serve as the primary communication link with regard to the Central Bank’s strategy, Board decisions, policy, and maintain active involvement in partnerships with state bodies, international financial institutions, and other regional entities.



BOARD OF THE CENTRAL BANK OF ARMENIA



Martin Galstyan

Governor of the Central Bank of Armenia



Hasmik Ghahramanyan

Board Member



Hovhannes Khachatryan

Deputy Governor



Davit Nahapetyan

Board Member



Armen Nurbekyan

Deputy Governor



Narek Ghazaryan

Board Member



Levon Sahakyan

Board Member



Artak Manukyan

Board Member

INTERNAL AUDIT

Internal Audit provides independent, objective assurance and advice, helping the Bank achieve its objectives by consistently evaluating and improving the effectiveness of internal control, risk management, and corporate governance processes.

The Internal Audit function of the Central Bank is accountable to the Board.

In order to systematically monitor its corporate management, risk management, and internal control processes, the Bank has an Audit Committee consisting of three independent (non-executive) members of the Board, which acts as an additional counterweight to the Bank's executive management.

In accordance with the standards of the Institute of Internal Auditors, the Internal Audit Department of the Central Bank undergoes an independent External Quality Assessment every five years.

The Bank's Internal Audit Department underwent an independent External Quality Assessment in 2022. The assessment was carried out by De Nederlandsche Bank (the central bank of the Netherlands), and the Central Bank's Internal Audit Department was awarded the highest grade, "Generally Conforms with the International Professional Practice Framework (IPPF) and the Code of Ethics of the Institute of Internal Auditors (IIA)."

The Central Bank's Internal Audit team members are also actively involved in external quality assessments of the internal audit functions of other central banks; in particular, during this reporting year, the Chief Auditor of



Certificate of Conformance

Central Bank of Armenia

Herewith, the External Quality Assessment team of De Nederlandsche Bank declares that the Internal Audit Department of the Central Bank of Armenia Generally Conforms with the International Professional Practice Framework (IPPF) and the Code of Ethics of the Institute of Internal Auditors (IIA).

Yerevan, 14 October 2022

EQA Team

Ing. Robert E. Cornelisse RE CISA EMIA Drs. Eric L. Verhaar RE RO CIA CISA CISM



the Central Bank participated in the external quality assessment of the internal audit of the National Bank of Tajikistan.

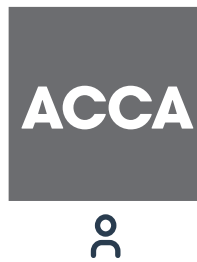
In order to create value in terms of the Bank's governance, make the Bank's risk management function more effective, and continuously improve processes, the Internal Audit Department of the Central Bank, together with the Bank's management team, annually assesses the inherent risks in the Bank's processes, according to strategic, reputational, financial, process complexity, information technology use, and human resource dependency risks. An annual audit program is developed based on this annual risk assessment.

Taking into account the annual assessment and the challenges of this transformative period, in 2022, the Internal Audit team examined activity areas such as information and cyber security, organizational culture, internal governance, organization of procure-

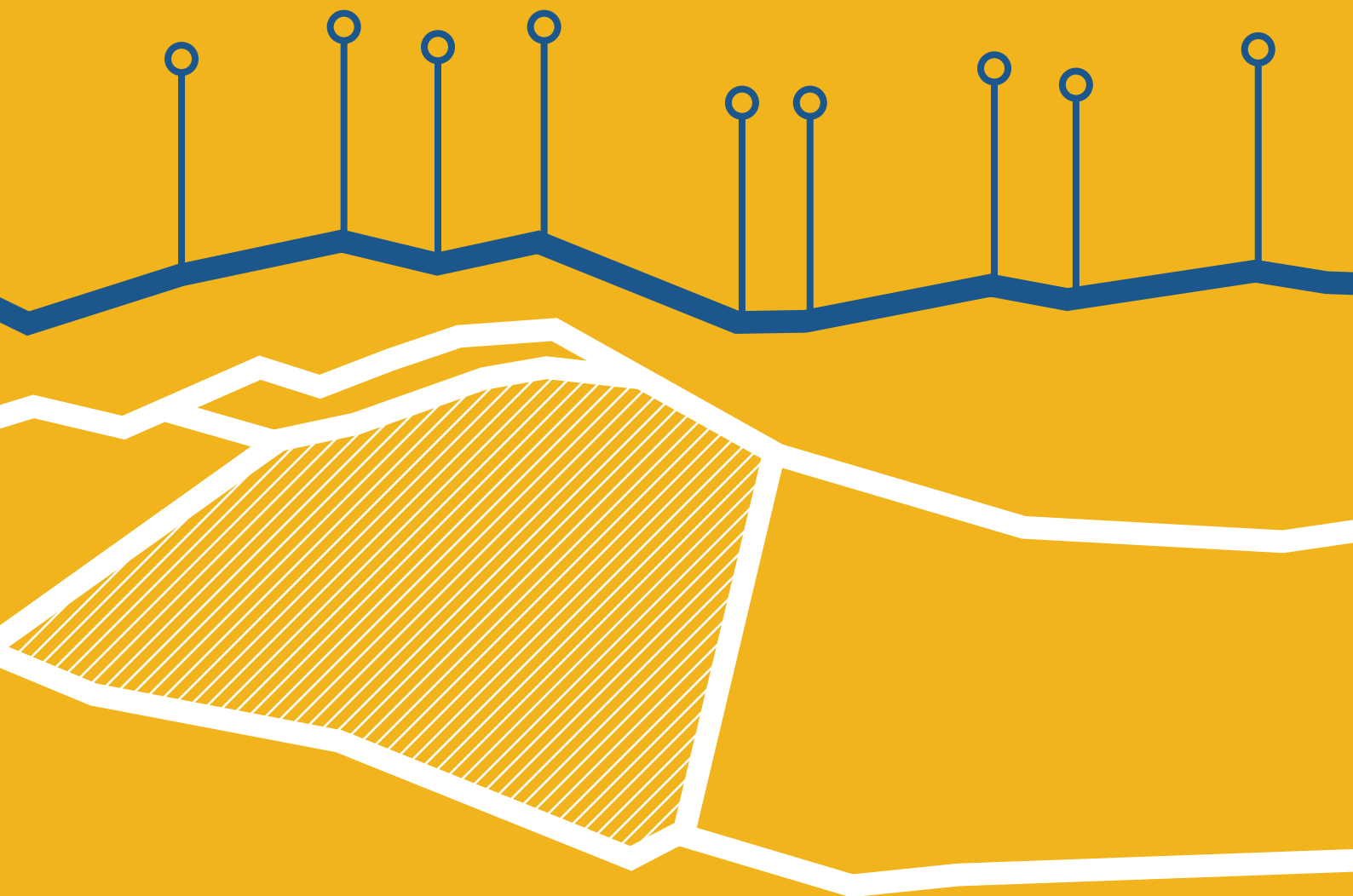
ment (purchases made in 2021 were examined), legal services, and others. In the context of the implementation of strategic goals, the Internal Audit team also focused on the Central Bank's project management process by monitoring projects throughout the year. Reforms were enacted in the above-mentioned processes of the Bank, in accordance with recommendations made by the Internal Audit team within the framework of the implemented engagements.

In the coming year, monitoring activities will also include an examination of procurement coordination and the budgeting process, which, we believe, are fundamental to achieving the Bank's strategic goals, as well as safeguarding its normal daily activities.

The auditors involved in the IA team have received various international qualifications in order to carry out their mission in accordance with international standards.



IMPLEMENTATION OF MANDATE



ENSURING PRICE STABILITY

MONETARY POLICY⁰¹

A medium-term goal inflation rate, or an inflation target, is defined for the purpose of ensuring price stability, which is one of the Central Bank's primary tasks. The Bank's policy directed at achieving this inflation target is an important precondition to maximizing the anchoring of society's inflationary expectations, ensuring macroeconomic stability, and, thereby, improving national welfare. In the Republic of Armenia, the inflation target is fixed in the laws of the Republic of Armenia on the state budget and in the programs for medium-term state expenditures of the RA Government, the monetary policy of the Central Bank, and sustainable development.

IMPLEMENTATION AND CHALLENGES OF PRICE STABILITY

The monetary policy implemented by the Central Bank of Armenia in 2022 was aimed at maintaining a target 12-month inflation level of 4% over a three-year horizon. Macroeconomic and, especially, inflationary developments in Armenia were greatly affected during the past year by the Russia-Ukraine conflict that has escalated since late-February 2022, the various sanctions imposed on the Russian economy, and the resulting large uncertainties. These effects were expressed in the short-term by the inflationary effects transferred from the international commodity markets to the RA economy, and, beginning from the second quarter of 2022, through the

acceleration of growth rates of economic activity, which was accompanied by high growth in external demand, especially in the service sector. The latter was mainly determined by the large-scale inflow of international visitors and tourists to Armenia, as well as remittances, which contributed to a significant expansion of the inflationary environment and an increase in inflationary expectations.

Given the above-mentioned developments, the Central Bank of Armenia raised the policy interest rate by a total of 3.0 percentage points in 2022. Moreover, monetary conditions were tightened in March 2022 with a relatively large step—by 1.25 percentage points—in response to the high inflationary situation estimated for the medium term due to geopolitical developments.

Although the 12-month inflation in 2022 had increased significantly since March 2022, reaching 10.3% at the end of the second quarter, as a result of the implemented monetary policy, it gradually decreased and reached 8.3% at the end of the year. The 12-month core inflation followed a similar pattern during the year, ending the year at 9.5%.

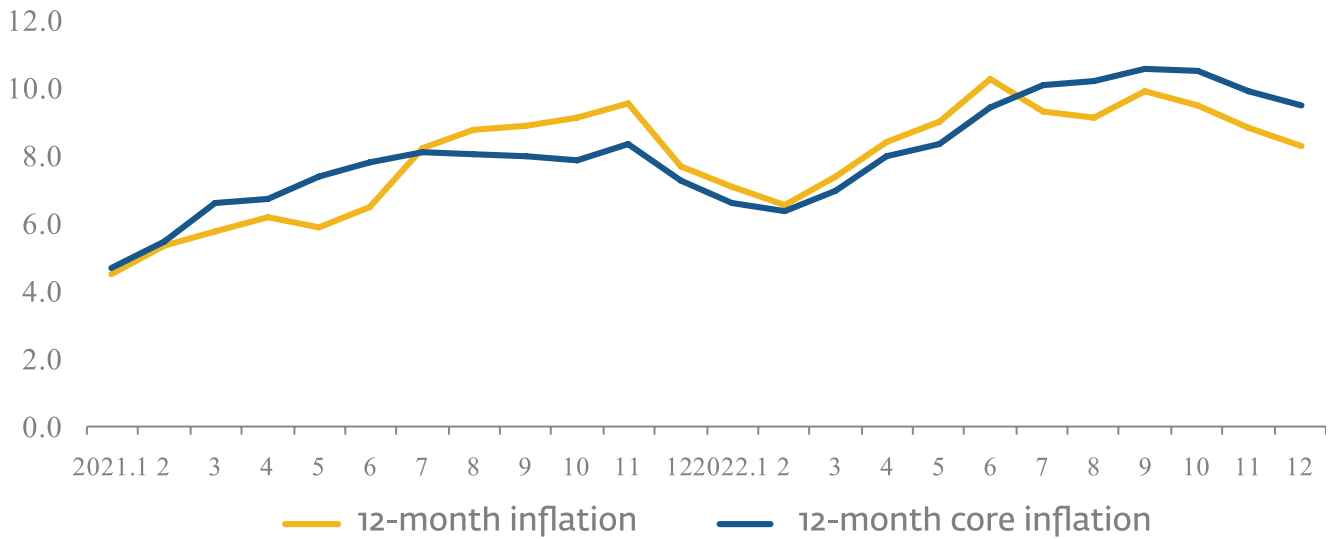
IMPLEMENTATION OF MONETARY POLICY

The Central Bank of Armenia implements monetary policy with an inflation targeting strategy. In that regard, along with a final target, an intermediate target is also defined (the projected path of bringing inflation closer to the target), as well as an operational target, namely the short-term market interest rate. The target level of the latter is the policy (refinancing) rate set by the Central Bank, which is also a benchmark for Central Bank operations in the financial market. The main monetary policy instrument is the seven-day repo agreement, by which the Central Bank

⁰¹ Information on macroeconomic developments and the course of monetary policy implementation is presented in detail in the [Inflation Reports](#) published every quarter.

Figure 1

IN 2022, BOTH GENERAL AND CORE 12-MONTH INFLATION SHOWED AN UPWARD TREND; THEY DECREASED SOMEWHAT ONLY AT THE END OF THE YEAR AS A RESULT OF THE IMPLEMENTED MONETARY POLICY.



regulates the level of short-term liquidity in the financial system.

As a result of the escalation of the Russia-Ukraine conflict, the volatility of the RA financial market increased at the end of the first quarter of 2022. The second quarter of the year saw a continuous appreciation of the dram in the RA currency market, in which case the Central Bank situationally intervened to contribute to the normal functioning of the financial market.

**POLICY INTEREST RATE
DECISION-MAKING PROCESS**

The process of monetary policy development, decision-making, and communications in the Central Bank of Armenia is organized through the Bank’s Forecasting and Policy Analysis System (FPAS). The Board of the Central Bank decides on the refinancing rate eight times a year, in accordance with a predefined and published schedule. Four of the decisions are followed by the formulation and approval of the monetary policy program for the given quarter, while the other four monitor the monetary policy implementation process in between quarters.

In 2022, within the framework of the Central Bank’s key strategic milestones, work began on **key transformations** of the

monetary policy development process and the Forecasting and Policy Analysis System (FPAS). In the context of these changes, during the 2022 decision-making process, scenarios containing the most risks for monetary policy were considered along with the main scenario, helping improve the effectiveness of monetary policy decisions in conditions of significant uncertainty.

**EXTERNAL COMMUNICATION OF
MONETARY POLICY**

Under the inflation targeting strategy, the Central Bank’s communication with the public is very important. As part of ensuring communication of monetary policy, the Central Bank publishes operational information on the determination of the policy interest rate, including a press release (on the day of the decision), minutes of refinancing rate with more detailed information (within 10 working days after the decision is made), and quarterly inflation report (within 10 working days after the decision is made). The first part of the inflation report includes the monetary policy program developed in the given quarter, and the second part reports on the implementation of the monetary policy program aimed at achieving the inflation target in the previous reporting period.



The conditions of great uncertainty created as a result of the geopolitical developments of 2022, especially the escalation of the Russia-Ukraine conflict, have made the active, targeted, and perceptible communication of monetary policy decisions extremely important. The most relevant such communications were a multi-factor analysis of the high-inflation environment formed during the year and the sharp devaluation of the national currency, as well as a presentation to the general public explaining the logic of the Central Bank's policies aimed at mitigating the negative effects of these developments. The latter is important from the point of view of the effectiveness of the inflation expectation regulation process and ensuring the inflation target. In that context, the Central Bank has actively spoken on these topics through the main communication tools for monetary policy choices and decisions made, including press conferences on the implementation of monetary policy, as well as through various analyses, publications, and discussions and meetings with professionals from other fields.

With regard to the existing macroeconomic situation and the monetary policy implemented in accordance with it, as well as the above issues, the Central Bank continued to communicate signals through regular meetings with students and professors of various universities, bank analysts, and market participants, as well as through communications with employees of other departments of the Central Bank.

IMPROVEMENT AND REFINEMENT OF MONETARY POLICY DEVELOPMENT PROCESS

In 2022, within the framework of the Central Bank's key strategic priorities, the Bank began work aimed at transforming the strategy and system of monetary policy; the main goals were clarified and defined. Within that framework:

- An external independent expert group assessed the current monetary policy strategy, the Forecasting and Policy Analysis System, and the effectiveness of its individual elements. The current monetary policy system was found to generally comply with best international standards.

In the framework of enacting the results and recommendations of the external independent evaluation, as well as ensuring the strategic priorities of the Central Bank, the concept of **transformation of the monetary policy system** was formed and approved, with an emphasis on transitioning to a monetary decision-making approach under the idea of risk management. In this sense, the Central Bank of Armenia will be the **first in the world** to systematically include and apply the risk management approach in the monetary policy development and decision-making process.

- Giving importance to the risk management approach, preliminary work was carried out on the gradual implementation of individual elements of this approach. In particular, during the process of developing monetary policy under the conditions of great uncertainty formed during 2022, alongside the main scenario, the issues of construction and communication of two risk scenarios were discussed and considered.
- Research was carried out in the direction of evaluation of the transmission mechanism of monetary policy to financial markets. In parallel, as part of the work on improving the transfer mechanism, a program of measures for the development of the money, currency, government debt, and derivatives markets was developed and implemented.

IN FOCUS

The year 2022 was marked by the beginning of radical changes and systemic transformations of the monetary policy development process of the Central Bank of Armenia.

To achieve the goal of price stability, the Central Bank of Armenia has, since 2006, adopted an inflation targeting strategy, for the effective implementation of which the so-called first-generation Forecasting and Policy Analysis System (FPAS Mark I) was developed and implemented. Thanks to this system, the efficiency of the processes has significantly increased, the accountability and transparency indicators of the Central Bank's monetary policy have improved. As a result, despite many financial and economic shocks and challenges, the Central Bank, supported

by the comprehensive analytical and sound research work carried out by the monetary team, has ensured the realization of the goal of price stability over the past 15-20 years. It is noteworthy that, in 2022, a comprehensive assessment of the monetary policy system of the Central Bank of Armenia by an external independent expert group also found that the system meets best international standards.

The events and shocks taking place throughout the world in recent years, as well as the new challenges that have arisen, have made the decision-making systems more vulnerable. In the current situation, the Central Bank of Armenia, with the unanimous approval of the Board of the Central Bank, within the framework of strategic priorities and in cooperation with international partners, initiated the development and implementation of the second-generation Forecasting and Policy Analysis System (FPAS Mark II). This system, in addition to increasing the efficiency of processes and decision-making, is primarily aimed at ensuring the neutralization of unwanted monetary risks in the future under conditions of great uncertainty. Moreover, while in the case of FPAS Mark I, the Central Bank acted mostly in the role of a user, applying the already existing best practices of the central banks of a number of developed countries, in this case, the Central Bank is among the pioneers, trying to direct its own resources to development of the latest approaches to monetary policy and the formation of best practices.

Although FPAS Mark II is still in the active design and gradual implementation phase, a number of key differences and advantages compared to the previous system have already been clearly identified. In particular,

the new system has important features both in terms of analytical work, decision-making, organization of communication processes, and human resources management. The main features include:

- Transition from a baseline scenario to a risk management approach for decision-making and communications;
- Development of monetary communication based on an emphasis on uncertainties;
- Systematic consideration and discussion of possible risks arising from the nonlinear connections of the economy;
- Emphasizing the role of the Central Bank's policy credibility in the decision-making process;
- Transition from a strictly hierarchical form of human resources management to a flat structure;
- Giving importance to approaching human capital development and establishment with an emphasis on international cooperation.

It should be noted that, in 2022, at the annual meeting of the International Monetary Fund, the Governor of the Central Bank of Armenia delivered a speech titled "Governor Talk – Armenia: Risk Management Approach to Price Stability: The Role of Policy Credibility,"⁰² in which he presented in detail the key approaches of the new monetary policy system of the Central Bank of Armenia. The features and approaches of the new monetary policy system are also presented in detail in a working paper titled "FPAS Mark II: Avoiding Dark Corners and Eliminating the Folly in Baselines and Local Approximations"⁰³ by Central Bank Governor Martin Galstyan and co-authors.

02 [Risk Management Approach to Price Stability: The Role of Policy Credibility | IMF Governor Talk](#)

03 [FPAS Mark II: Avoiding Dark Corners and Eliminating the Folly in Baselines and Local Approximations](#)

ENSURING FINANCIAL STABILITY

Financial stability is the ability of the financial system—financial institutions, markets, and market infrastructure—to withstand potential shocks and imbalances, thereby reducing the likelihood of disruptions to financial intermediation functions.

At the same time, the instability of an individual financial institution or infrastructure may not be considered a financial stability issue and is not necessarily important in the context of financial stability policy.

To ensure financial stability, the Central Bank implements a macroprudential policy. To timely identify and address the accumulation of systemic risks, the Central Bank monitors various early warning indicators showing the accumulation (or materialization) of risks and with the consolidation of these indicators builds indexes; it also applies various risk assessment models and macro stress tests.

The Central Bank's 2022 work agenda of ensuring financial stability was formed in accordance with strategic priorities and current developments. During the year, the financial system continued to ensure the uninterrupted provision of financial services. However, new challenges have emerged, and uncertainties have still remained at a high level. All this requires, on the one hand, a continuous review of the directions and assessment methods of financial stability risks and, on the other hand, an implementation of a more dynamic and forward-looking macroprudential policy. Emphasizing the countercyclical and forward-looking principle of macroprudential policy implementation, the Central Bank made a decision to increase the countercyclical capital buffer for the first time. Under current conditions of high adequacy and profitability, capital accumulation costs are minimal, thus increasing in the countercyclical

capital buffer will expand the system's ability to absorb future risks while ensuring the normal course of lending to the economy.

Accumulating countercyclical capital buffers early in the credit cycle makes macroprudential policy more effective and forward-looking. Today, national regulators of a number of countries (Sweden, UK, Netherlands, and others) have made changes in their approaches to countercyclical capital buffer accumulation policies. In contrast to the traditional ideology of Basel 3, the new approach emphasizes the importance of forming capital buffers even in a "normal" risk environment, when there are no obvious signals of risk accumulation in the credit market. As a result, it allows to absorb losses and ensure uninterrupted credit supply in the economy when unexpected shocks hit.

The Central Bank consistently works to improve the assessment of risks affecting financial stability by studying and adopting new approaches. In the context of improving the effectiveness of a macroprudential policy, the Central Bank is currently working on the Growth-at-Risk methodology, which attempts to link the decisions taken within its framework with the welfare of society and to make macroprudential policy more understandable for the general public.

The application of the method will make the uncertainties of macroprudential policy decisions as measurable and manageable as possible. In particular, point or average-based estimates of policy impact are replaced by full distribution estimates, which allows more optimal application of policy instruments by combining both the short-term costs and long-term benefits of applying macroprudential policy instruments.

As in previous years, the Central Bank has continued to focus on the real estate and mortgage markets. During the year, the macroprudential instrument of the Loan-to-Value ratio has been implemented. The Central Bank has communicated the risks present in



the market in financial stability periodicals,⁰¹ while also providing quantitative estimates on the possible overvaluation of real estate market.

The Central Bank reports on financial stability developments and the implementation of macroprudential policy in the [annual financial stability report](#) and quarterly decisions on the countercyclical capital buffer.

SUSTAINABLE FINANCE

The Central Bank has committed to introduce the principles of sustainable financing into the financial system of the Republic of Armenia.

Sustainable finance implies the implementation of environmental, social, and governance standards (ESG standards) in organizations. The ESG criteria are a set of company performance indicators that socially conscious investors use to evaluate their potential investments and which companies use to identify and manage their non-financial risks.

The Central Bank of Armenia is a member of two established international platforms, the Network for Greening the Financial System (NGFS) and the Sustainable Banking and Finance Network (SBFN). The Central Bank of Armenia is involved in different working groups of both platforms.

In 2022, the Central Bank of Armenia carried out analytical works related to the regulation and supervision of climate risks in the financial sector. In 2022, the Central Bank has also sent a request to the 17⁰² commercial banks operating in Armenia regarding the inclusion of climate risks in the risk management process. The survey has been conducted with the assistance of the World Bank experts. The Central Bank of Armenia in collaboration with German Sparkassenstiftung for International Cooperation (DSIK) has also developed climate risk assessment tools for the financial sector, namely Risk Radar.

The primary step taken by the Central Bank of Armenia on the path to sustainable finance is the development of the roadmap,

which started in 2022. Upcoming actions under the roadmap include developing a green taxonomy, conducting research in the field of sustainable finance, developing guidelines for financial institutions on ESG risk management, and raising awareness of and building capacity for green finance tools.

REGULATION OF THE FINANCIAL SYSTEM

In the context of ensuring the stability and development of the financial system, in 2022, the Central Bank implemented and updated international best practices and standards and developed regulations in relation to the latter's specificities.

As such, in order to align the foreign exchange risk management approaches by banks with the changes made within the framework of international regulations, the Central Bank has revised the procedure for calculating the normative value of foreign currency management. Among other changes, the rules for the inclusion of derivatives in the calculation of the prudential ratio have been revised, which will boost derivatives transactions in the Republic of Armenia.

The Central Bank has revised the prudential requirement for banks' capital adequacy, as well as the composition and structure of capital. The change will take effect on June 1, 2023. The methodology for calculating banks' capital adequacy prudential requirement has been adapted to the changes made in international standards, and, in certain cases, the special regulations have been preserved due to the peculiarities of the banking system of the Republic of Armenia.

In order to identify the beneficial owners of financial institutions, it is stipulated that the financial institutions must perform due diligence and identify its beneficial owners, while the beneficial owners must provide reliable information to the financial institutions. Complete, reliable information about the real beneficiaries of the financial institution will ensure the transparency of the financial in-

01 [2021 Financial Stability Report](#).

02 17 commercial banks were operating in the Republic of Armenia at the time of the survey. There are now 18 banks.

stitution's activities and make it possible to analyze in detail the structure of the financial institution.

In order to ensure a higher degree of independence of financial institutions, as defined by auditing organizations, amendments have been made to the relevant normative legal act establishing requirements making it possible to prevent an institution from consistently undergoing financial audits by a single auditing company. Also, the qualification requirements of the auditor in charge and the audit team have been tightened up to ensure a better-quality audit. As a result, a more impartial and high-quality audit is expected, contributing to increasing consumer and investor confidence in financial institutions.

During 2022, the accounting policy of insurance companies was brought into line with the new standards. It should be emphasized that the change was also due to the requirement of the legislation of the Republic of Armenia, as, according to the RA Law on Accounting, legal acts regulating accounting in the Republic of Armenia must comply with International Financial Reporting Standards. From January 1, 2023, the International Financial Reporting Standards (IFRS) for insurance companies, IFRS 4 and IAS 39, must be replaced by new IFRS 17 and IFRS 9, respectively.

Insurance tariff substantiation principles have been established, along with minimum requirements to be taken into account when calculating tariffs. These are aimed at allowing insurance companies to more accurately assess their own risks, and, as a result, for consumers to have fairer pricing.

The year 2022 was a transition period for the liberalization of CMTPL insurance tariffs, during which each insurance company established market pricing structures for insurance premiums based on individual risks in order to step towards the final phase of the system with fully liberalized tariffs beginning in 2023. Liberalized auto insurance tariffs imply the use of a personalized approach to calculating insurance premiums, as a result of which the fairest possible price is formed for owners of motor vehicles. Liberalization of prices ensures fairer competitive conditions, forces companies to improve the quality of services, and gives policyholders the opportunity to choose the best price-quality combination. Insurance companies have provided

public awareness of their methodologies for calculating insurance premiums by organizing discussion with various members of the public, including consumer and driver rights organizations and media representatives.

LICENSING AND SUPERVISION OF FINANCIAL SYSTEM

The purpose of the Central Bank of Armenia's supervision is to ensure that significant risks in the financial system, organizations, and infrastructures are properly managed, that the consequences of any issues or crises are minimized, and that processes are organized without shocks, as smoothly as possible.

To achieve this goal, the Central Bank carries out forward-looking and proactive risk-based supervision, one of the most important components of which is the improvement of the quality of internal control system of financial institutions.

Global developments, diverse challenges, significant growth in the volume of the financial system, as well as new developments and risks arising in financial markets require significant changes in supervisory approaches and capabilities. In this regard, in recent years, the process of licensing and supervision of financial institutions by the Central Bank has been constantly undergoing transformation, stemming from the goals and objectives established by the Central Bank's strategy. Transformation is a long-term and ongoing process that involves the parallel and consistent formation of relevant capacities in the Central Bank and financial institutions, ensuring a new quality of communication between them, the application of new supervisory approaches in terms of consumer protection and improving the culture of communication with them. In accordance with these goals and changes, a number of supervision-related projects were consistently continued or initiated in 2022 and were mainly aimed at the development and operational implementation of risk-based supervision tools. In particular,

- A supervision risk tolerance document was developed; it reflects the main approaches and supervision priorities. It will be communicated to financial institutions through a supervisory strategy in 2023, in an effort to make supervisory approaches clearer and more transparent.
- A new risk assessment system is being implemented, at the time being, only for banks. This system will allow for a more accurate assessment of banks and their ability to form capital and internal control approaches commensurate with the risk profiles, and better implementation of appropriate supervisory measures in this regard.
- In accordance with the Central Bank of Armenia's 2021 strategy, one of the main characteristics of the transformation of the financial system is the introduction of a technologically advanced supervisory system (SupTech), which will significantly improve the effectiveness and addressability of the use of supervision resources, respond to risks at their earlier stages, implement preventive risk management models, and significantly reduce reporting costs for financial institutions. In the second half of 2022, a digitization project of supervisory processes was launched. To this end, the Central Bank started a cooperation with experts from the World Bank who are providing technical assistance in order to assess the current state of this project and develop a roadmap. The development and approval of the roadmap are planned to be completed in 2023, according to the results of which following actions and expected deadlines will be clarified.
- A Financial Institutions Resolution Service has been established, the primary function of which is gradual and orderly market exit of distressed financial institutions from the financial market. In this regard, again with the support of the World Bank, work has been done to develop internal capacities, and draft legislative amendments have been developed.
- The Central Bank of Armenia has also adopted new approaches to transfer the qualification process of managers of financial institutions to the institutions themselves, with the aim of providing institutions with greater independence in

the formation of internal qualification systems and processes specific to the nature of their activities and governance structure. This also implies the parallel development of internal capacities in financial institutions and the Central Bank, in the direction of improving the management systems of financial institutions and revising supervisory approaches, respectively, which is planned to be implemented during 2023.

2022 was difficult in terms of geopolitics and the resulting challenges facing the financial system. In this regard, the ongoing supervisory actions have been extensive and intensive. The targeted analyses that started last year and the implementation of intense control in crisis situations were continued. In particular, taking into account the significant increase in transactions performed by non-resident clients in banks, in 2022, inspections and thematic reviews were carried out in banks and other financial institutions in order to assess the compliance of business relationships with customers and for the purpose of assessing control environment of AML/TF risks as well as risks arising from cross-border transactions that may facilitate sanctions evasion, as a result of which corresponding supervisory measures were implemented. As a result, AML/TF and compliance risks were significantly mitigated, and the quality of their control system was improved.

With the aim of improving the quality of corporate governance in the RA financial system, and particularly emphasizing the role, importance, and responsibility of the Board in the process of forming the corporate governance system and corporate culture, a regional corporate governance course was organized for the Bank's Board members. International and Central Bank experts participating in the training presented the best international principles and practice of corporate governance.

In 2022, a micro-prudential supervisory stress test (MSST) was conducted jointly with some banks to assess the impact of possible micro-financial developments on the solvency of individual banks. The stress-testing methodology has been revised based on the MSST results, as well as on opinions and comments received from the banks.

Attaching importance to the pricing of foreign currency and securities (including de-

rivative financial instruments) in the financial market on the basis of competitive and economic fundamentals, certain objective steps were taken to develop supervisory capabilities. In particular, during 2022, international practice was explored and compared with the system currently operating in Armenia, and, as a result, existing problems were identified and further supervisory actions were outlined. It is expected that as a result of the successful implementation of this project, the tools for combating insider trading and market abuse in the financial market will be significantly improved.

During 2022, supervisory resources have also been directed at preventing or stopping unacceptable behavior by financial institutions that affects a wide range of consumers.

In order to ensure free and fair competition in the financial system, measures have been taken to both identify and eliminate competitive offenses and to prevent anti-competitive behaviors. Thus, demonstrations of anti-competitive behavior were identified in the foreign exchange market and disciplinary measures were imposed.

With the aim of transitioning to individual risk-based insurance pricing models in the motor vehicle liability insurance field in 2023, a study was conducted on the competitive state of the product market for the provi-

sion of compulsory liability insurance services arising from the use of land motor vehicles in order to prevent possible anti-competitive agreements and possible abuses of a dominant position.

The Central Bank has consistently monitored the prices of widely consumed financial services, taken necessary measures to identify or prevent possible abuses in relation to unfair competition, dominant position, or anti-competitive agreements. In particular,

- A comprehensive monitoring and analysis of prices for services provided by the banks of the Republic of Armenia was carried out as a result of the received notifications;
- Monitoring of commission fees for cash foreign currency deposits and cashless foreign currency withdrawals was carried out, as a result of which the Central Bank refrained from market regulation measures due to the continuously decreasing trend of commission fees in the market.

Guidelines have been developed and published for potential participants entering the financial market, making the legal requirements more accessible.

During 2022, the Central Bank licensed one bank, three investment companies, one investment fund manager, 14 exchange offices, and registered 13 investment funds.

PAYMENT AND SETTLEMENT SYSTEM

One of the goals of the Central Bank's activities is the creation and development of an effective payment and settlement system. The payment and settlement system serves RA citizens and business entities with regard to payments, money transfers, government payments, and a number of other transactions. As such, the Central Bank gives great importance to the compliance of this system with international standards.

In the context of the adoption of the Law on Cashless Transactions, in 2022, the Central Bank has emphasized increasing the convenience level of cashless payments for both citizens and businesses accepting cashless payments, ensuring the expansion of the cashless payment infrastructure. In particular, significant progress has been made in terms of increasing the number of

physical POS terminals at sale and service points.

The increase in the number of POS terminals indicates an increase in the level of willingness of business entities to accept non-cash payments.

In 2022, the Central Bank initiated changes in the procedure for issuing, servicing and distributing payment cards in the Republic of Armenia, as well as with regard to payment card operations. The changes were made in order to create prerequisites for the reduction of commission fees between participants in payment cards transactions.

Thus, clearing and settlement of transactions made on the territory of the Republic of Armenia with cards issued by the banks of the Republic of Armenia will be carried out by an organization authorized to carry out such processes. The regulation also applies to transactions involving the use of digital payment technologies such as Apple Pay or Google Pay.

As a result, clearing and settlement processes are now more affordable for financial institutions accepting payments. The new regulation will make the acceptance of non-cash payments more accessible and, in the

Figure 2
NUMBER OF PHYSICAL POS TERMINALS

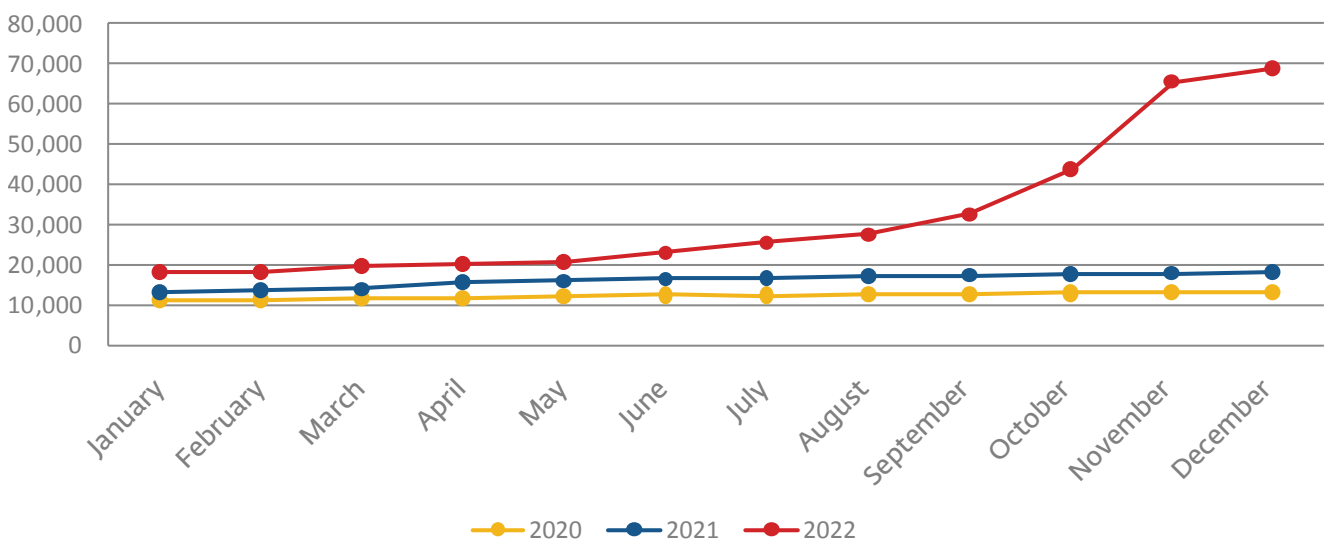
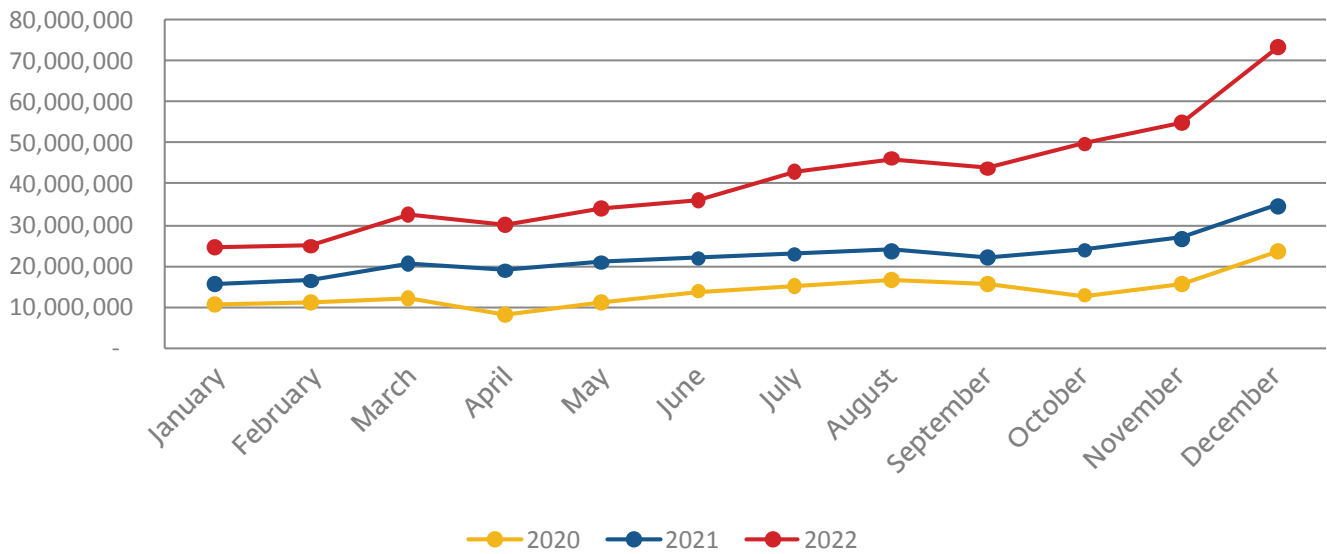


Figure 3

VOLUME OF POS TERMINAL PAYMENTS IN RA WITH CARDS ISSUED BY RA BANKS (IN THOUSANDS OF AMD)



medium term, may reduce commission fees related to non-cash payments for business entities.

The volume and number of payments made with cards issued by RA banks at POS terminals in the Republic of Armenia also increased significantly in 2022.

As of December 28, 2022, the total number of cash register-POS and POS terminals provided by RA banks is 62,845, of which 49,050 are activated on cash registers.

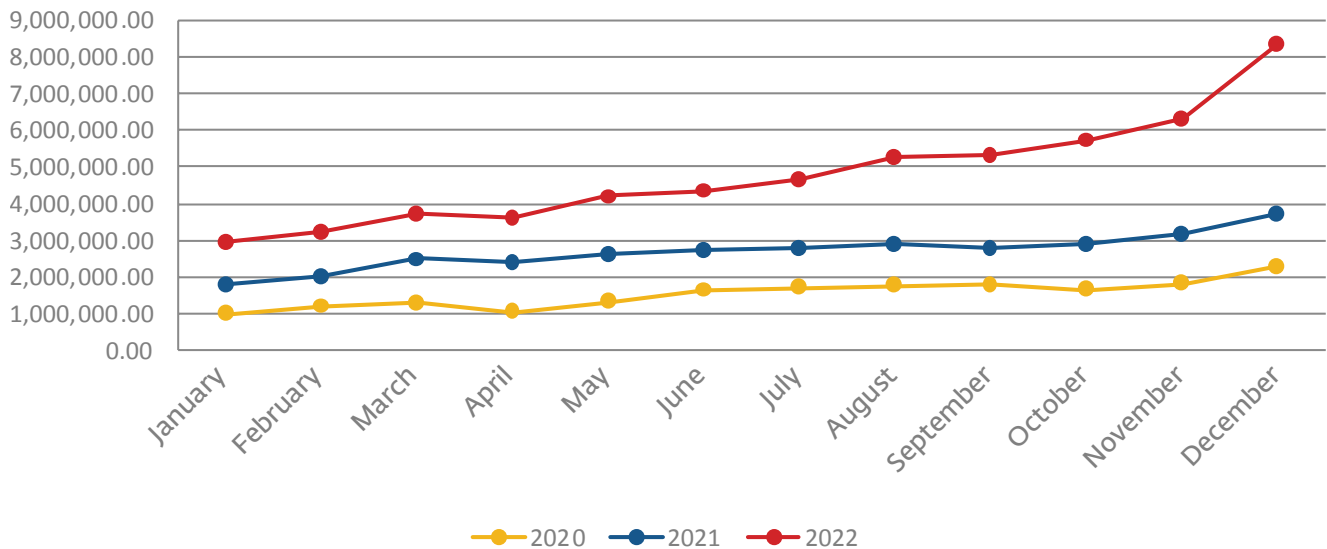
Below are the applications registered as of December 28, 2022.


Activation Status of POS Terminals

Activation Status of POS Terminals	Quantity
Registered in SmartVista System	31,777
<i>Including</i>	
Activated by the Bank	26,117
Subject to Activation by the Bank	5,660

Figure 4

NUMBER OF POS TERMINAL PAYMENTS IN RA WITH CARDS ISSUED BY RA BANKS





The Central Bank follows all international developments and takes appropriate steps to create a payment and settlement system that will provide flexible, convenient, and secure services to the public and financial system participants in line with international standards. In this context, the Central Bank plans to:

- Regulate the implementation of QR code payments at sale and service points operating in the territory of the Republic of Armenia, establishing common rules for market participants with regard to such payments. The purpose of this regulation is to ensure the interoperability of payment systems of financial institutions that provide services using QR codes, which will allow payments to be made at any point of sale or service using a QR code acceptable to everyone, regardless of the financial institution serving the given service point.
- Revise information and cyber security regulation for financial system participants, taking into account the new methods and practices of international expertise in information technology security. International experience indicates that the definition of new information security requirements for all market participants will make it possible to avoid the potential loss of customers' personal data or funds.

- Revise the regulation of the operation of self-service automatic machines used by financial institutions for carrying out financial operations, based on modern developments and the need for adequate regulation of new types of multi-functional devices. The changes will clarify principles with regard to ensuring the technical adequacy, security, and accessibility needed to perform financial functions, which will serve as guidelines for the financial institution installing the device. The purpose of the regulation is to promote the entry of equipment with new technological solutions into the Armenian payment and settlement market, while at the same time ensuring convenience and security for business entities.

In the coming years, the Central Bank will make efforts to create conditions conducive to the provision of more flexible services by payment and settlement organizations and to ensure the ability to meet consumers' growing needs.

In this context, the Central Bank plans to review and clarify the status of electronic money accounts, which will increase the level of trust levels, activate competition, and create a new environment for the development of the sector. As a result, electronic money issuing organizations can occupy their unique place in the financial intermediation market, provide more convenient services, and expand the fields of usage of electronic money.

Central Bank Digital Currency

The expediency of issuing Central Bank Digital Currency is being studied by nearly all of the central banks of the world. Despite the availability of various technical solutions, few countries express willingness to issue retail CBDC in the near future due to financial stability concerns and uncertainty around the technology. The Central Bank of Armenia is not an exception. Within the research on the expediency of issuing retail CBDC in Armenia, current market situation and financial infrastructure were studied.

Additionally, the viewpoints of private sector stakeholders regarding the future of financial infrastructure and the existing development bottlenecks were gathered and analyzed. As a result, given the current level of financial market development, limited use cases for CBDC issuance in Armenia were identified so far. However, the underlying technology can prove to be useful for a variety of financial market enhancements.

SECURITIES MARKET

One of the strategic priorities of the Central Bank is promoting the development of the securities market and providing the necessary preconditions for the creation of new investment opportunities through this market.

In terms of developing the capital market, one of the significant steps taken in 2022 was the acquisition of a controlling stake in the shares of the Armenia Securities Exchange by the Warsaw Stock Exchange (WSE). The entry of WSE into the local capital market can give a new impetus to the development of the Armenian capital market and its infrastructure, including the development of the trading system, the expansion of the stock exchange and Central Depository services, and the introduction of the latest technological solutions.

In 2022, the Central Bank approved the legal framework regulating crowdfunding services, which will enable entrepreneurs, especially start-ups and SME companies, to attract up to 2.5 billion AMD in annual financing from investors through the sale of securities in a simplified manner, without extensive transparency requirements. This will moreover create new investment opportunities (online, 24/7, fast, small investments, etc.) for investors.

Work being done within the framework of the Capital Market Development Program approved by the RA Government continued in 2022. In particular, work was carried out in the areas of assessment of compliance of the regulation field with international principles, development of the money market, implementation of the automatic system of registration of securities secured by mortgage loans, improvement of the trading system, and others. The implementation of the Capital Market Development Program will make it possible to promote the implementation of new issues by local com-

panies, as well as the formation of new instruments of the capital market, which will ensure the investment of savings in the real sector of the economy and enable the public to participate in the investment programs implemented in the country and receive income from them.

The Central Bank, together with market participants, continued to focus on the formation of deep and liquid money, foreign exchange, and derivatives markets. In 2022, the Armenia Securities Exchange launched a new foreign currency trading platform, and legal grounds were created to expand the list of foreign currency market participants. A one-day repo transactions platform was also implemented, the successful launch of which will allow for the formation of a benchmark one-day money market rate. This is important for the quotation of other financial instruments, including derivative financial instruments used for hedging the risks of individuals and business entities. Through the efforts of the Central Bank, the legal opinion of the International Capital Market Association (ICMA) was published in 2022 with regard to the applicability of the Global Master Repurchase Agreement (GMRA), a standard repo agreement widely spread in the international market. The legal opinion provides that foreign partners can conclude repo transactions with local partners on the basis of a GMRA contract without legal obstacles, which may be of key importance in terms of attracting additional liquidity to the local market.

The Central Bank has taken steps to promote the use of derivative financial instruments by the real sector to hedge currency risks. In particular, as a result of discussions with the financial sector, the Central Bank made certain reforms in the regulation field to facilitate the process of offering derivatives. In this way, the regulatory requirements of commercial banks for the management of currency risks, which could be considered an obstacle to the development of the derivatives market, have been eased.

CONSUMER PROTECTIONS IN THE FINANCIAL SYSTEM AND FINANCIAL EDUCATION

The goal of consumer protections and financial education is to generate—through the enactment of the appropriate policies and rules and the creation of the appropriate environment—empowered consumers who can meaningfully improve their lives through the effective use of the tools offered by the financial system.

The Central Bank believes that it is only through the empowerment of consumers that individuals can contribute to their personal welfare and we as a society can have a stable and sustainable financial system and economy. We believe a consumer is empowered if able to:

- make decisions based on reliable information when using financial services;
- receive basic education to manage personal finances;
- quickly and efficiently protect their rights and interests;
- have access to financial services appropriate to their needs;
- be heard and influence the improvement of the range and quality of services provided by financial service providers;
- safely use innovative financial services without worrying about the security of personal assets and data; and
- have a transparent and fair choice of services and financial service providers that meet their needs.

INTRODUCTION OF “INSTITUTION” OF SELF-REGULATION

The Central Bank, attaching importance to the development of the institution of protection through self-regulation, for the first time initiated and created an appropriate environment for associations of financial institutions to themselves develop and apply

rules of business conduct. As such, banks and credit unions have developed and approved rules for communicating with customers during the debt collection process. As a result, communication with consumers will be more transparent, complete, and civil.

DEVELOPMENT OF NEW SETTINGS

The Central Bank has developed rules for proper communication with consumers regarding credit history and credit score assessment.

As a result, before a contract is signed, the consumer's consent to make inquiries from a credit bureau will also include information about the purpose of the inquiries, their timing, and their impact on the consumer's credit score. Moreover, the term of the consumer's consent cannot be longer than the term of the contract to be executed. Each time a credit inquiry is made about a consumer, the financial institution will notify the consumer electronically, free of charge, if the inquiry will affect the consumer's credit score.

Lending organizations will also disclose detailed information about the credit scores they use.

New requirements have also been set for financial service providers in the following areas:

- institutions will publish complete information in the event of liquidation, self-liquidation or reorganization;
- institutions will promptly inform consumers in the event any fake pages are detected in the financial service providers' name;
- financial service providers' social media pages must be properly verified (in the event of verified badge availability);
- if services are provided through websites other than official websites, information must be published that will enable consumers to clearly understand who the service provider is.

The above-listed regulations will enter into force in the second half of 2023 and will



contribute to increasing consumers' awareness and ability to make informed decisions.

FINANCIAL EDUCATION

The implementation of the financial education program is coordinated by the steering committee. The committee is an inter-agency body, which is guided and coordinated by the Central Bank in partnership with the RA Ministry of Education, Science, Culture and Sports. Commission members work together to ensure the effective development and implementation of a financial education program in Armenia.

Various financial education programs have been implemented in an effort to increase societal financial literacy. In 2022, the primary emphasis has been on building the foundation for long-term development in schools and setting up distance learning platforms and tools for the public. The development of methodical skills for teachers teaching financial education in school was emphasized by training the teachers in coaching skills. During the 2022/2023 academic year, the Central Bank, together with the

International Coaching Federation, is testing the use of coaching methods and tools in the Artashes Shahinyan Special Physic-Mathematical School in Yerevan. At the same time, work was carried out on the development of an appropriate methodological manual for teachers. If the experiment is successful, it can be extended to a wider range of teachers whose methodological skills will be enriched.

- In 2021-2022, a large-scale quantitative and qualitative survey assessing financial abilities was conducted in 100 public schools, the results of which will be published in 2023.

WORK WITH INTERNATIONAL ORGANIZATIONS

The Central Bank has continued its membership and effective collaborations with the Alliance for Financial Inclusion (AFI), the Organisation for Economic Co-operation and Development (OECD), and the Eurasian Economic Union. The jointly developed and published documents and guidelines also present the policy and measures of the Central Bank aimed at protecting consumer rights.

CURRENCY ISSUANCE AND CIRCULATION

In regulating the issuance and circulation of national currency, the Central Bank aims to ensure that the economy's demand for cash is met in terms of the necessary volume, structure, quality, and timing of cash. Cash circulation is organized and regulated in accordance with the principles of reliability, convenience, efficiency and continuity.

In this regard, efforts were made in 2022 to reissue circulating banknotes and coins based on demand. To bolster the fight against fraud, additional security features were added to the reverse side of the 1,000-dram banknotes issued in 2022, making them more durable.

The Central Bank provided cash services to customers in the regions through the cash desk of the head office in Yerevan,

as well as the regional cash centers (RCCs) of Dilijan and Sisian.

In 2022, the mass of cash in circulation increased by 7.5%, and the volume of cash circulation of the Central Bank increased by 16.2% compared to the previous year. During 2022, the total cash circulation of the Central Bank was 4,159.8 billion drams, of which 3,705.9 billion drams were in Yerevan, while 453.9 billion drams were in the RCCs. Although the turnover volumes of RCCs are quite small compared to the turnover volumes of the Yerevan cash registers, the former regardless ensure the operability and continuity of the cash register service in the marzes. 10.9% of the Central Bank's cash turnover was processed through the RCCs. As in previous years, primarily cash withdrawal operations were carried out through the RCCs; cash withdrawals made up 68.4% of the turnover of the RCCs.

There were no changes in the type structure of cash outside the Central Bank. The demand for 20,000-dram banknotes

Mass of Cash
in Circulation

+7.5%

Volume of Cash
in Circulation

+16.2%

Total Cash Circulation

4,159.8 BILLION AMD

Yerevan

3,705.9 BILLION AMD

RCCs

453.9 BILLION AMD



Withdrawals

68.4%

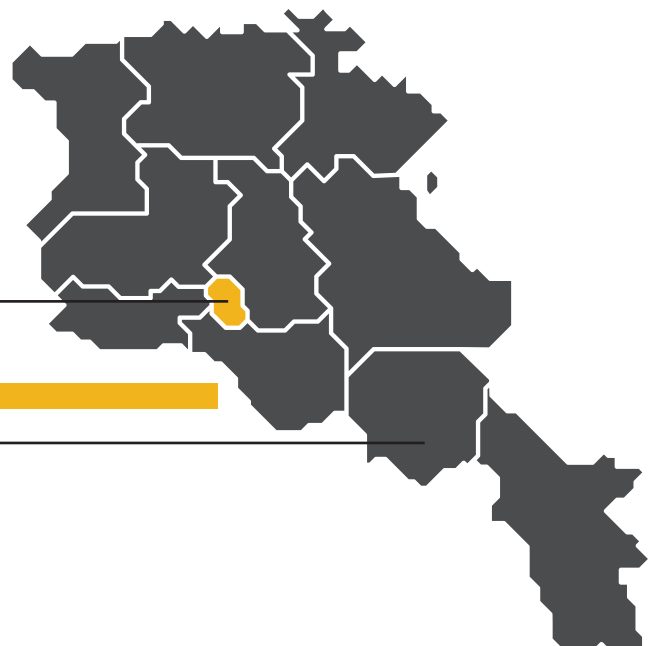
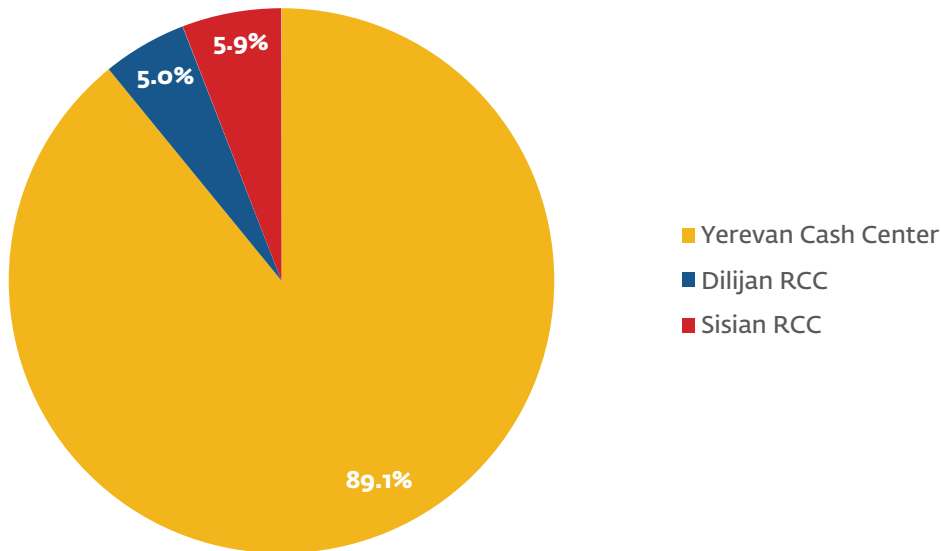


Figure 5
CENTRAL BANK'S CASH FLOW IN 2022

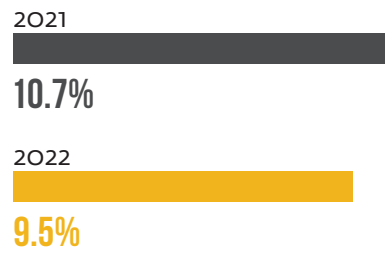


remains high, and their circulation volume has increased by 11.1% since the beginning of the year. Compared to the beginning of the year, the demand for 1,000- and 5,000-dram banknotes has increased by 7.9% and 6.9%, respectively. Compared to the beginning of the year, the demand for 2,000- and 10,000-dram banknotes has decreased by 11.0% and 30.1%, respectively.

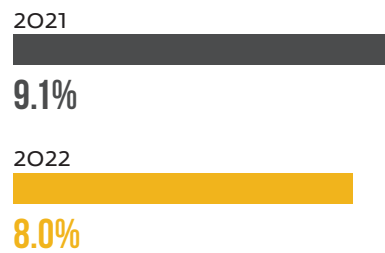
During 2022, the mass of coins in circulation increased by 2,615.1 billion drams. The mass of coins is dominated by the 500-dram coin, demand for which increased by 11.3% compared to the beginning of the year and which comprises 51.3% of the total amount of coins. Compared to the beginning of the year, demand for the 200-dram coin increased by 13.7%, and its share in the total amount of coins was 20.7%.

In 2022, the Central Bank's cash desk in Yerevan was equipped with the fastest, most modern systems for counting, sorting, packaging, and automatically destroying old banknotes. These systems enable the Cen-

Ratio of Cash Outside the Central Bank to GDP



Ratio of Cash in Circulation to GDP

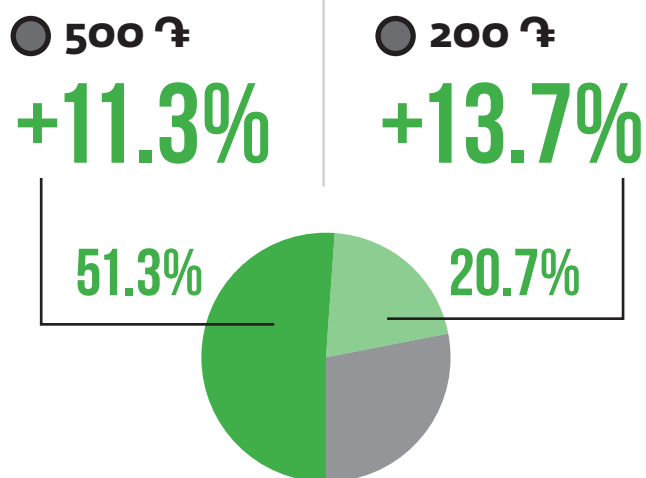


In 2022, the weight of cash in GDP decreased due to faster growth of GDP compared to growth of cash.



Mass of Coins in Circulation

2,615.1 BILLION AMD

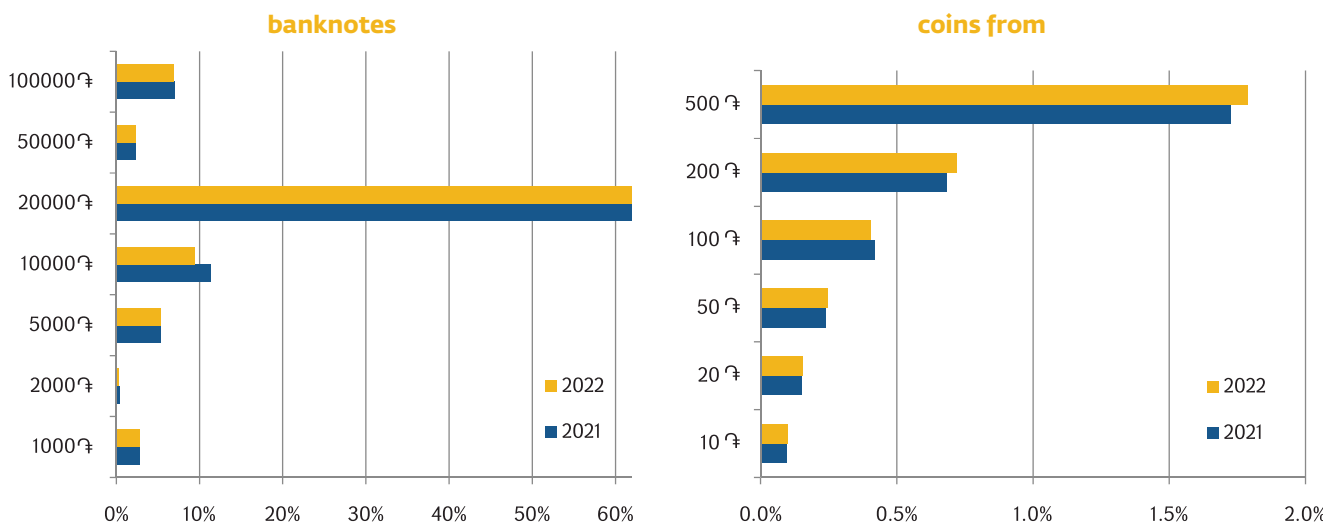


tral Bank to count, check, and sort banknotes received from commercial banks through automated mechanisms (without human intervention), to package banknotes suitable for circulation for further use, and to destroy banknotes unsuitable for circulation (obsolete) in a short period of time as a result, ensuring an efficient and uninterrupted cash service for the Central Bank's customers.

The systems being used also play an important role in the fight against counter-

Figure 6

TYPE STRUCTURE OF BANKNOTES AND COINS FROM 2021 THROUGH THE END OF 2022 (IN MONETARY TERMS)



30th Anniversary of the Formation of the Armenian Army (1992–2022)



Gold and silver collector coins dedicated to the 30th anniversary of the formation of the Armenian Army were issued as part of the “Armenian Statehood” thematic series.

125th Anniversary of the Birth of Yeghishe Charents



100th Anniversary of the Birth of Ohan Dourian



Collector coins dedicated to the 125th anniversary of the birth of Yeghishe Charents and the 100th anniversary of the birth of Ohan Dourian were issued as part of the “Celebrities” thematic series.

feiting, as they immediately detect counterfeit banknotes during the multi-functional verification of the authenticity and solvency of banknotes received from commercial banks.

In order to ensure uninterrupted cash circulation in the country, as well as the circulation of proper-quality banknotes, the Board of the Central Bank established new requirements for the technical equipment of cash centers of commercial banks by way of its Decision No. 147-N of September 6, 2022.

The Central Bank fully met the economy’s demand for cash during the year in the required volumes, nominal values, quality, and time. This was ensured through the servicing of applications submitted by commercial banks to receive cash from the Central Bank, which was carried out without disruptions and within the time limits set by the current regulations.

INVESTMENT AND COLLECTOR COINS

In 2022, the issuance and sale of the “Noah’s Ark” silver and gold investment coins continued in the European and American investment markets. The number of silver investment coins sold in 2022 exceeded last year’s numbers by 48%, and gold investment coins by 15%. The steady growth rate of sales over the years indicates continuing interest in “Noah’s Ark” investment coins, which, in turn, contributes to the recognition and dissemination of Armenia’s values in the world.

In issuing collector coins in 2022, the Central Bank remained faithful to its mission of illustrating and publicizing events of national importance and issued six types of collector coins.

In keeping with the tradition of entering RA banknotes and coins in international numismatic competitions, the Central Bank presented the collector coins issued in 2021 at the 16th international “Coin Constellation – 2022” competition held in the Russian Federation, in which more than two dozen organizations from 17 countries participated. The Central Bank’s silver collector coin dedicated to the 100th anniversary of Arno Babajanyan’s birth won awards in three categories – “Coin of the Year,” “Best Artistic Solution,” and “People’s Choice Award.”

In 2022, the Central Bank continued to add to its museum collection of banknotes

Davit Bek



On the occasion of the 300th anniversary of the liberation of Syunik, a collector coin dedicated to the leader of the Armenian national liberation struggle of the 18th century, Davit Bek, was issued, adding to the “Armenian Commanders” series of collector coins and symbolizing patriotism and the unification of the Armenian people.

and securities that circulated in the territory of historical Armenia. These acquisitions not only serve as rich research material for specialists, but also provide a learning opportunity for the general public.

For the purpose of familiarizing younger people with Armenian numismatic traditions and stimulating interest in numismatics and collecting, in 2022, the Central Bank organized an educational presentation and collector coin sketching competition at the National University of Architecture and Construction of Armenia and also presented the best of its museum collection at an international exhibition dedicated to the 100th anniversary of the establishment of the “Philanum” (Union of Philatelists and Numismatists) organization.

Oganesson (Og)



In 2022, the Central Bank embarked on issuing a series of collector coins dedicated to the contributions of Armenian scientists to international science. The inaugural issue of the series is the “Oganesson (Og)” collector coin dedicated to the 118th element of Mendeleev’s periodic table.



MANAGING FOREIGN EXCHANGE RESERVES

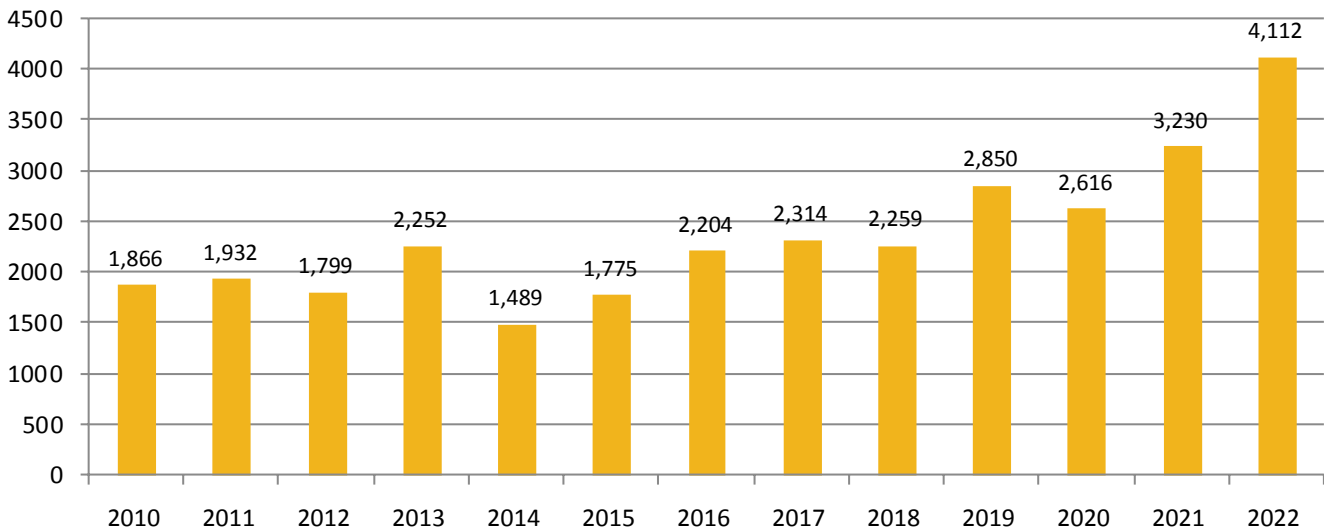


According to 2022 results, Armenia's foreign exchange reserves increased by about 882 million USD, reaching approximately 4,112 million USD at the end of the year (see Figure 7).

In 2022, RA foreign exchange reserve levels continued to meet the primary require-

ments of foreign currency reserves, in particular, in terms of the ability to mitigate possible external shocks. Thus, RA foreign exchange reserves provided coverage for about five months of imports, and about nine years of current liabilities.

Figure 7
RA FOREIGN EXCHANGE RESERVE LEVELS



STATISTICS

According to the RA Law on Official Statistics, the Central Bank of Armenia is a producer of official statistics and, in accordance with the provisions of the RA Law on the Central Bank of the Republic of Armenia, collects, compiles and disseminates monetary, financial sector and external accounts statistics used by the Central Bank of Armenia in designing monetary policy, maintaining financial stability, financial supervision, developing payment and settlement system, and performing other functions. These statistics are also used by government agencies, financial market participants, international financial and economic organizations, the media, and the public for conducting economic analyses, making investment decisions, and developing economic policies.

In 2022, the Central Bank of Armenia ensured dissemination of timely and reliable data⁰¹ and also worked on expanding the data sources, universal automation of processing and compilation of statistics, expanding the scope of and accessibility to statistical data, improving the quality of statistical data, and improving the methodology of collected statistics and aligning it with international standards.


As a result of the close cooperation of the Central Bank and the Statistical Committee of the Republic of Armenia (Armstat) preliminary versions of the financial account and financial balance sheets of the System of

National Accounts were compiled for the first time in Armenia and published on the Armstat's website⁰² in May 2022. For this purpose, the Central Bank of Armenia compiled and provided to Armstat data on the financial assets and liabilities of financial corporations of the Republic of Armenia, as well as the financial flows and positions of external accounts of the Republic of Armenia. The financial account provides comprehensive information on economic and financial developments both for the economy as a whole and for the economy's institutional sectors (households, non-financial corporations, financial corporations and government). It provides an overall picture of financial flows among resident institutional sectors, as well as financial flows between these sectors and the rest of the world, by financial instrument.

The year 2022 presented significant challenges for external sector statistics. The External sector statistics division undertook a revision of the balance of payments of the Republic of Armenia to enhance the completeness of its external sector statistics. The revision involved incorporating additional calculations into the balance of payments. Furthermore, large flow of visitors to Armenia starting from March made it necessary to reassess and analyze some external sector indicators, with specific focus on tourism spending. To achieve this, a comprehensive approach was adopted by using various data sources to derive the most precise estimates for both the number of visitors and their spending. In this context, the Central Bank continued its work with the national payment system operator with regard to the analysis of information regarding card transactions. Consequently, supplementary calculations were undertaken to review "Tourism" account of the balance of payments of RA. At the same time, the Central Bank's Statistics

01 The Central Bank of Armenia publishes statistical data in the "Statistics" section of the Central Bank's website: cba.am

02 Details are available on the Armstat's website: armstat.am



Department actively participated in organizing the “National-Level International Visitor Survey” initiated by the RA Tourism Committee to be carried out throughout 2023, providing methodological support throughout the process of designing and preparing the survey.

In order to ensure the completeness of foreign trade statistics, in 2022, as in 2017-2019, in collaboration with state agencies, an assessment was made of the volume of cars exported to the Eurasian Economic Union (EAEU) by individuals in 2021-2022. It is important to highlight that the aforementioned category of exports was not registered in the customs statistics due to the specific customs regulations followed by member states of the EAEU.

At the end of 2022, a large-scale household survey was initiated by the External Sector Statistics division with the objective of increasing the accuracy level of remittance estimation. The survey findings will enable us to reevaluate the ratios used in compiling remittances statistics in the balance of payments, thereby enhancing the credibility and accuracy of the data. Furthermore, it is worth mentioning that in 2022, the Statistics Department of the Central Bank actively participated in an international working group established by the World Bank, aimed at improvement of the remittances-related statistics and shaping the final report.

In 2022 there was a notable implementation of data export and visualization

facilitated by financial institutions using comprehensive data acquisition software system called BusinessObjects (BO). This development allowed for more efficient data management and presentation. By leveraging comprehensive databases obtained from financial institutions, it enable the Central Bank to establish user-friendly environment for all data users, internal and external. This, in turn, reduces the reporting burden of financial institutions by minimizing the quantity of reports they are required to submit. As part of the improvement of data management processes, a new data flow architecture was developed and corresponding adjustments were implemented to the internal reporting systems throughout the year.

In a partnership between the American University of Armenia (AUA) and the Statistics Department of CBA, during 2022, the AUA Manoogian College of Business and Economics piloted the quarterly Business Confidence and Consumer Confidence indexes for the Republic of Armenia. In accordance with the methodology, the above-mentioned indexes will be periodically published by the AUA beginning in 2023.

Employees of the Statistics Department of the Central Bank participated in preparations for upcoming 2024 Agricultural Census (AC) of RA; professional assistance was provided in the design of questionnaires and solving other methodological issues.

ORGANIZATION AND REGULATION OF THE FIGHT AGAINST MONEY LAUNDERING AND TERRORISM FINANCING

The Financial Monitoring Center (FMC) within the structure of the Central Bank of Armenia is the unit responsible for combating money laundering and terrorism financing (ML/TF). The main function of the FMC is to collect, analyze and exchange information for the purpose of combating ML/TF. The FMC performs this function as an intermediary between reporting entities and law enforcement authorities.

In this context, the FMC carries out strategic analyses pertaining to AML/CFT, including thematic (sectoral) analyses, operational analyses in line with the national risks of combating ML/TF, and preventive measures related to potential suspicious activities. These measures include notifying law enforcement authorities of reasonable suspicions of ML/TF, working to expand domestic and international cooperation in this area, and training employees of state bodies and reporting entities.

STRATEGIC ANALYSES

Within the framework of strategic analyses, the study of operations with the accounts of non-resident clients of banks was continued in order to establish specific characteristics of the transactions of individual clients and the circumstances potentially creating significant risks of ML.

In order to identify ML/TF risks related to the use of cash, a study of ML/TF preventive measures implemented by reporting entities in case of cash transactions was conducted.

At the same time, analysis of the status of the internal monitoring bodies of reporting entities was carried out in order to

assess their operational independence as stipulated by the respective provisions of the AML/CFT Law.

The results of analyses with relevant conclusions were provided to the reporting entities, which in turn presented plans of measures/actions aimed at remedying the identified deficiencies.

OPERATIONAL ANALYSES

In 2022, the number of suspicious transaction or business relationship reports (STRs) provided by non-financial institutions in compliance with the requirements of AML/CFT legislation increased. The mentioned was indicative of better engagement of reporting entities other than financial institutions in the AML/CFT system. Among the frequently encountered schemes, the following can be distinguished:

- Transit flows of funds through the RA banking system;
- ML schemes with allocation of funds generated through various fraud schemes;
- Schemes of laundering proceeds of drug trafficking;
- Schemes with features of financial pyramids;
- Financial transactions potentially aimed at facilitating illegal entrepreneurship, tax evasion, concealment of the real volume of economic activity;
- Financial transactions with the participation of Politically Exposed Persons (PEPs);
- Instances of possible money laundering through the use of various models of mass marketing fraud;
- Instances of conducting transactions or establishing business relationship through the use of fake or forged documents;
- Other circumstances corresponding to the schemes described in the typologies published by the Central Bank of Armenia and international organizations.



The STRs received from the reporting entities mainly were related to various fraud schemes and the transit flows of funds through the RA banking system.

PREVENTIVE MEASURES

In 2022, instructions continued to be issued to reporting entities. These instructions mainly referred to:

- Taking preventive measures against fraudulent schemes and persons possibly involved in them;
- Conducting enhanced due diligence of certain types of transactions, as well as of transactions and business relationships with higher-risk clients;
- Taking measures to prevent the outflow of funds due to possible ML risks in individual transactions;
- Clarifying implementation of various requirements under the AML/CFT legislation by the reporting entities.

The tendency of increased numbers in instances where banks reject transactions or terminate business relationships with higher-risk customers was maintained in 2022.

Preventive measures were taken during the reporting period to effectively address the potential risks to the TF by, inter alia, implementing the restrictions imposed by international organizations, including through posting the updates of the lists published by the UNSC and the FATF on the FMC website.

The reporting entities were also informed of the restrictions imposed by individual organizations and countries, in order to take steps aimed at avoiding possible financial sanctions related to them.

COOPERATION FRAMEWORK

In 2022, the modernized version of the “Unified Information Domain” system - the “Financial Intelligence Data Exchange Platform,” - was introduced to ensure the exchange of information in a secure environment between the agencies involved in the fight against ML/TF and the FMC.

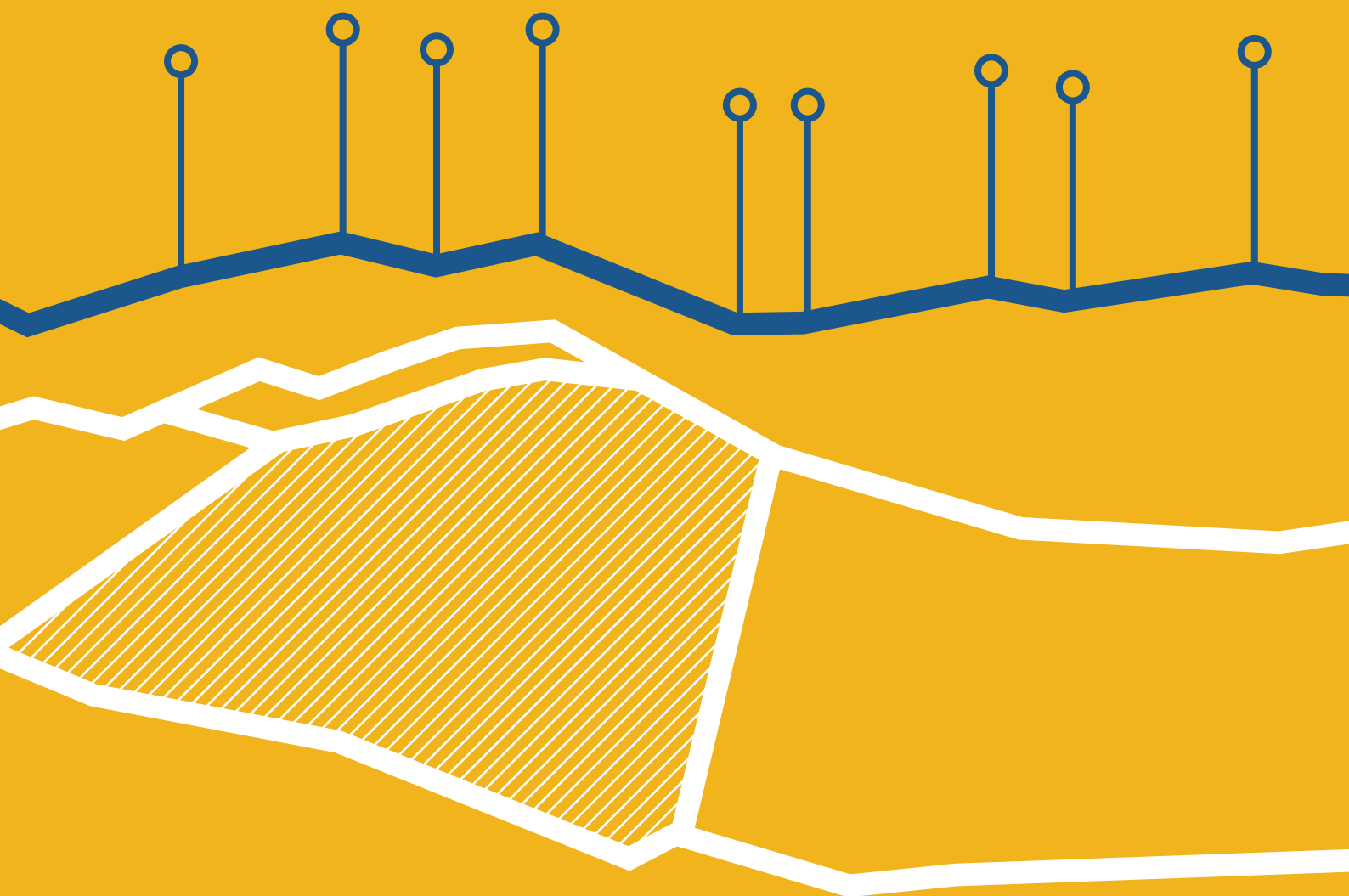
The Central Bank of Armenia continued cooperating with international organizations. FMC representatives enrolled in various projects implemented by the Egmont Group, of which Egmont Group’s “Support and Compliance Review” program is especially important.

In addition, a representative of the FCM was re-elected as a representative of the Egmont Group’s Europe II Regional Group for a two-year term of office.

Awareness raising and training on developments in the fight against ML/TF is one of the prerequisites for an effective system. To this end, online learning system of the FCM⁰¹ was transformed enabling users to gain knowledge in the field through the use of modern technological solutions, to check their level of awareness, including asking questions, subscribing to news, etc.

01 FCM Online Learning System

INSTITUTIONAL DEVELOPMENT OF THE CENTRAL BANK OF ARMENIA



MANAGEMENT

The effective implementation of our mission, vision and strategy is based on managing the impact of our work processes.

In our effort to become a leading central bank we revised and automated some of the existing processes in the Bank during a year. Certain structural changes were made to make the Bank a flexible structure capable of responding quickly to challenges. A project mindset is being gradually introduced in the Bank, which will in turn, lead to the implementation of a project management model. In particular, steps have been taken toward transitioning to project budgeting. We continually work toward increasing efficiency levels, revising processes, and making structural changes in our daily work.

IT AND INFOSEC MANAGEMENT

In 2022, the Central Bank successfully implemented planned information technology and cybersecurity reforms as part of its continued implementation of its strategic goals.

As part of the Central Bank's information technology and cybersecurity reforms, in 2022, the Bank's information technology (IT) and information security (InfoSec) infrastructure has been upgraded. This will further ensure the secure and uninterrupted operation of a number of important systems used both in the Central Bank and across the financial sector. In particular, the CBANet interbank system was comprehensively reviewed for safety and soundness, and new server complexes have been acquired to replace those that have been decommissioned and to ensure the continuity and security of critical Central Bank systems.

The assessment and mitigation of potential risks as a result of the modernization of the IT and InfoSec infrastructure has also contributed to the modernization of the Central Bank process continuity management system, and, in particular, the Central Bank's

process continuity policy and plan, which are implemented based on international best practices and standards. The resulting reforms not only benefit the Central Bank, but also help to ensure the continuity of financial services provided to the public in the financial system, especially, the smooth operation of the systemic and public systems of RA.

In 2022, a number of activities, tests, and exercises were carried out to ensure the continuity of key Central Bank functions in emergency situations; the financial sector also participated in these activities. In addition, employee instruction and training took place to ensure Central Bank employees' preparedness to manage emergency situations.

In 2022, the Central Bank, together with the financial system, organized the CyberGEN conference, which was attended by approximately 250 professionals from the financial sector, telecommunications operators, the public sector, and various educational institutions. Conference speakers included experts from world-renowned companies such as Mandiant/Google, Chainalysis, SimSpace, Group-IB, Kaspersky, and others. Given the importance of cybersecurity knowledge to the Central Bank, the financial sector and the country as a whole, the CyberGEN conference is expected to become an annual event. A similar conference is planned for 2023 to once again bring the world's best specialists to Armenia and give Armenian professionals an opportunity to expand their knowledge and experience in line with global developments. The knowledge gained by experts in this field during international qualification courses and other trainings has been an important impetus for the continuous development of a modern IT and InfoSec infrastructure. The Central Bank has also continued the challenging process of discovering and hiring new talent. In 2022 several young people joined our team; some are continuing their studies while gaining practical work experience. In 2022, two young Central Bank employees also had the opportunity to gain experience at SimSpace. An agreement has been reached with



SimSpace and Google/Mandiant to continue this partnership, under which the companies will host two professionals each year.

25 people from the Central Bank, the financial sector, and the public sector had the opportunity to participate in a cybersecurity training organized by Google/Mandiant. The course consists of three modules; the second and third modules are planned to be held in January-March 2023. The first part of the training has already been completed, and participants have expressed their satisfaction with the quality and depth of the materials presented.

The Central Bank has invested significant effort this reporting year in acquiring and deploying certain capabilities of the Cyberange training platform, which will enable cybersecurity professionals at the Central Bank, as well as those working in the public or private sectors, to simulate various problems and develop their knowledge and capabilities. The plan is to develop these capacities and

make them available throughout the country in coming years.

Guided by the strategic approach of providing our employees with high-quality services through access to the best technologies and solutions, in 2022, with the introduction of the COBIT standard, the Central Bank launched a modern platform for servicing applications related to corporate services, which will contribute to the continuous improvement of processes and eliminate problem recurrence.

The structural changes implemented in 2021 have already yielded positive results, contributing to an increase in the level of efficiency of process management and solving tasks to achieve strategic goals. The purpose of the "People - Process - Technologies" model in use is to ensure the principle of "the right people, with the right tools, in the right places," as evidenced by the large number of complex projects implemented in phases during the reporting period.

Personal Experience

The Central Bank greatly values the role of cybersecurity, given the challenges of the modern world. As a result, we have had the great foresight to bring the best cybersecurity ideas to our country and to hold an international conference, where we can exchange knowledge, learn a lot, and connect with experts.

The idea "worked" better than we expected. During the CyberGEN conference, we met many cybersecurity experts in various fields and, wanting to take advantage of this opportunity to learn as much as possible, started asking a lot of questions. We learned about their products and problem-solving methods. We ourselves then began to offer our own ideas to solve the problems they faced in their everyday work. The ideas they shared in their speeches were already clear to us, given that we had spoken to them about these topics in advance for hours.

On the fourth day of the conference, when we exchanged ideas with great interest and gave them great ideas, two companies proposed to us the idea of a job exchange program. The proposal involved a two-week work experience in their company for training and experience sharing, which made us and our managers really happy. It was decided to extend the two-week period to two months. In the summer, we went to Boston for training in the United States.

We were happy to intern at a company that was a small start-up two years ago and which has now turned into a fast-growing organization with prestigious clients and many large projects. Our original plan was very simple: to gain as much knowledge as possible in the two months and to propose independent solutions with the purpose of localizing them in the future. By combining work and meetings with various specialists, we also managed to get answers to the questions we were interested in by organizing online meetings with people working in the organization who know the cyber world well. We decided that we should contribute to the improvement of the company's activities and gain more knowledge by doing so. Through communication platforms, we had six different meetings with complete strangers who were unrelated to our main business and who had come to the company from other leading companies. This experience helped us not only to establish contacts with strong professionals in our field and gain invaluable knowledge, but also to envision how the same processes can be implemented in our country and what the best practices are for solving this or that problem. Our network was constantly growing; we were finding new people from different places to talk to about business, cybersecurity, and the culture for building a motivated team. We spent many hours searching for the right books in the Harvard Shop and MIT Press. We attended six different classes at Harvard and MIT and exchanged ideas with the instructors, which was an invaluable experience.

These two months certainly gave us more than we could have imagined. We received an offer to continue the internship exchange program next summer and to continue holding periodic online meetings to exchange ideas through brainstorming, which we organize every week to this day. Our way of thinking has changed; we have begun to better understand how to implement processes and work more efficiently.

Feliks Ghandilyan

Ruben Amizyan

The first phase of the Central Bank's work toward ensuring and developing cyber capabilities has been a definite success, given that the Central Bank now has modern, promising solutions as a result of the large-scale testing and study of various technological options that were conducted. These solutions will help train and educate both Central Bank and RA financial sector professionals and enable them to master the skills necessary to counter hacker attacks and related technologies.

PROJECT MANAGEMENT

The purpose of the project management function is to implement the priorities set by the strategy of the Central Bank of Armenia under a unified methodology of project management, ensuring the effectiveness of their implementation.

For this purpose, in 2022, project management training courses were organized for both new and existing employees. These activities which are intended to build project mindset will continue in 2023 as well.

A number of internal regulations related to project management have been set and approved. Those regulations relate, in particular, to project management policy, procedures, methodological guidelines and also to the project committee. We have established a group of professionals to support project implementation and management. Our main goal is to shape project management mindset building, training, support, consulting, and localization of international best practices for Central Bank employees.

Work has been done to implement an automated management system and will continue in 2023. In accordance with the digitalization agenda, in 2023, the Central Bank plans to complete 4-5 projects which will allow the automation of a number of internal processes of the Central Bank, as well as some interbank transactions.

PROCUREMENT PROCESS

The main goal of the Procurement Coordination Service is to increase the

efficiency level of the Bank's procurement processes, through a simple, transparent, competitive, and non-discriminatory approach and in line with the principle of obtaining maximum benefits from costs (Value for Money), which involves finding the best combination of cost and quality for the overall procurement process: obtaining the right quality, the right quantity, at the right time, from the right supplier, at the right price.


In accordance with the requirement set forth in the Central Bank's strategy to ensure an accountable and transparent procurement process, in 2022, we began work on implementing an electronic procurement platform and digitizing procurement processes. The implementation of this platform will ensure efficient procurement of goods, services, and work in a transparent and cost-effective manner.

2022 purchases were primarily aimed at reforming the Bank's information technology and cybersecurity infrastructures, modernization of cash management equipment, as well as implementation of capital construction. Approximately 5.150 billion AMD in purchasing activity was organized within the framework of administrative expenses and capital investments, which is 5.7 times more compared with last year.

2022 was a busy year for the Procurement Coordination Service, full of challenges and achievements. The service has embarked on reforms of procurement processes, as part of which working on continuous carried out to improvement of procurement procedures, policies, and regulations, improvement accountability, transparency, and internal control, and continuously development of staff capabilities.

FACILITIES MANAGEMENT

Construction of the 11th floor of the Central Bank's third administrative building was completed in 2022. This now provides a multifunctional space with innovative features, primarily intended for meetings, consultations, and work/team discussions and



also serving as an additional workspace. Innovative features allow the space to be modified according to the meeting type or the number of participants, so that several discussions or consultations can take place at the same time.

Following the principle of “value for money” and a policy of cost optimization and considering the importance of reducing air pollution from mobile vehicles, in 2022 the Central Bank started to renew its fleet of vehicles with electronic vehicles used for the implementation of functions of the Central Bank according to the Law on the Central Bank.

During the year under review, seven electric vehicles were purchased, contributing to a significant reduction in fuel costs, which is also important from a “Green Climate” perspective.

The process described above is expected to be continued in 2023; in particular, the Central Bank plans to replace six vehicles that have reached the end of their useful life with environmentally friendly models. In terms of future-oriented activities, the Central Bank plans to launch cost optimization, energy efficiency and energy saving projects, with the installation of solar panels on the roofs of Central Bank’s own buildings.

PEOPLE

People are the most important driving force behind the Central bank who bring the Bank's vision and strategic goals to life, implement our ambitious plans, and fulfill our mission, to contribute to the public good.

One of the most important goals of 2022 was to continue to recruit talented and knowledgeable team members, striving to provide them with a favorable working environment, and establish ourselves as one of the best workplaces with regard to employee development opportunities.

INVESTING IN THE DEVELOPMENT OF THE NEXT GENERATION

In 2022, the Young Professionals Program was launched with the goal of engaging young, broad-minded, promising young people to the Central Bank team and giving them the opportunity to work on various projects, contributing to their implementation with fresh ideas and new-generation skills.

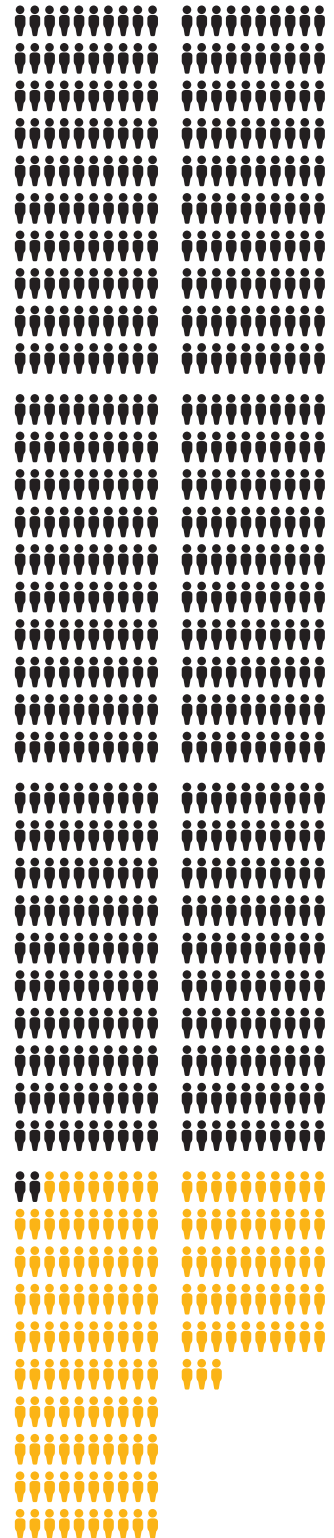
The program's structure and content were developed based on the experience of De Nederlandsche Bank adapting it to the local context. It was also important to study and understand the interests and motivation factors of the new generation in order to discover and develop their potential to the fullest. While formulating the scope of functions of the program participants, it was taken into account that the new generation is flexible and seeks interesting and challenging work, which is one of the important prerequisites for the success of the program.

The Young Professionals Program duration is for 18 months. During that time young professionals will be engaged

Employees

Average Number of Employees

753



Employees

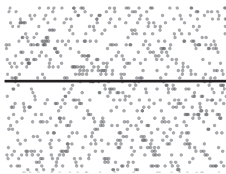
New Employees

131

Turnover

13%

Average age of Employees



40

Average age experience of employees

11 YEARS

Young Professionals Program

598 APPLICANTS

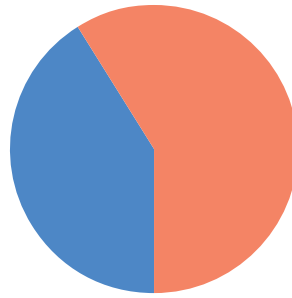
instead of the expected 200



37

young professionals joined the Central Bank team

By Gender



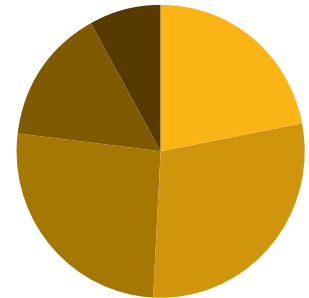
male

41%

female

59%

By Age



Younger than 30

22%

30-39

29%

40-49

26%

50-59

15%

60 and older

8%

in three different fields/projects, dedicating each project 6 months, accumulating new and diverse knowledge and skills. This structure allows them to gain a multifaceted information about the Bank functions and have a big picture, as well as to build a network of colleagues, and, at the conclusion of the program, to become a full-fledged member of any team. Senior leaders and other team members were involved in the creation and implementation of the Young Professionals Program. Central Bank team members visited various Armenian universities to engage participants to the program; student visits to the Central Bank and Dilijan Training and Research Center were also organized. The casual and informal format of the meetings and conversa-

tions was intended to raise young people's awareness about the program and interest in working at the Central Bank.

The participant selection process involved multiple steps, including logic and language tests and interviews. 37 young professionals who successfully passed the tests and interview process joined the Central Bank team as part of the program and work at the Central Bank in parallel with their university studies. The applicant selection process also resulted in the creation of a reserve database of high-potential candidates, who will be considered for vacant positions in various departments. The results of the program will become visible and tangible in 2023 through the course of our team's united and consistent work.



YOUNG PROFESSIONALS' IMPRESSIONS

Employees' knowledge, opinions, and development are valued here, which creates a favorable work environment. Everything can be summed up in one word, respect, which is very motivating, and you strive for the best results.

Edita Rustamyan

Working at the Central Bank is a great honor, a powerful source of knowledge, and a platform to become the best possible professional.

Tsovinar Gevorgyan

I have been given the opportunity to try my hand at different departments, which will help me develop in different directions as a part of the warm Central Bank family. I am preparing to participate in various programs in the future, receive qualifications, expand my knowledge, and contribute to the realization of the goal of making our Central Bank one of the best in the world.

Edita Rustamyan

Another way of collaborating with students is the organization of internship programs for the students of local and overseas universities.

The Central Bank's research internship programs for students from foreign universities rebooted in 2022; while in the previous year they had been organized remotely during the previous year. In 2022, six students from

Harvard, Warwick, St. Petersburg Polytechnic University, IE University in Barcelona, American University of Beirut, and Durham University, as well as four students from the UWC international school completed work-research internships.

Taking into account the successful experience, in collaboration with High Commissioner for Diaspora Affairs, it is already the

third year we have been involving our compatriots from the Diaspora in the work of the CBA who arrive in Armenia to work for the state system of RA in the scope of the program iGorts. Two Diaspora professionals worked at the Central Bank in 2022.

Another project presuming work with young people is the CaseKey Business Case Competition, in which the Central Bank continued its participation during 2022. The purpose of the competition is to identify young talents and develop their potential, contributing to the development of the country's economy. This is the second year that the Central Bank's corporate team has actively participated in the competition, offering interesting solutions to business problems.

CULTURE AND ENVIRONMENT

Adhering to our core values we believe that common goals can be achieved through the joint endeavors of a team who constantly improves and supports one another. We therefore encourage open communication, a culture of constant knowledge-sharing and feedback, teamwork, and collaboration.

Another initiative aimed at strengthening the culture of knowledge-sharing and team member support was implemented in 2022. This is the Mentor-Mentee program, work on which had begun in 2021. It creates an opportunity to transfer the knowledge and experience of experienced team members to

those who are constantly striving to improve and to learn about the paths taken by experts in their field and their formulas for success. The program benefits both the mentor, who develops leadership skills through interaction with the mentee, and the mentee, who gains valuable skills in an informal setting. 37 experienced Central Bank employees took the initiative to share their experience and become mentors, while the number of mentees was 55 at the end of the year.

The consistent efforts of both mentors and mentees are important for the implementation and success of the program. Along with mentee growth, mentors' ongoing development and improvement of their own skills through participation in various training programs will allow them to perform their mentor roles more effectively.

The contribution of the mentoring program and its results as another element of a collaborative, supportive, and knowledge-sharing culture will be visible and reinforced in the longer term.

In 2022, the Central Bank organized a Financial Sector Chess Championship for the first time, with the participation of RA financial sector entities and with the aim of promoting cooperation among financial sector institutions and uniting them around chess. The competition was held in individual and team formats. More than 80 employees of financial system institutions took part in the competition. Given the success of the event and its intended goals, the

Foreign Students Completing Research Internships

6 STUDENTS 



Harvard University



University of Warwick



St. Petersburg Polytechnic University



IE University



American University of Beirut



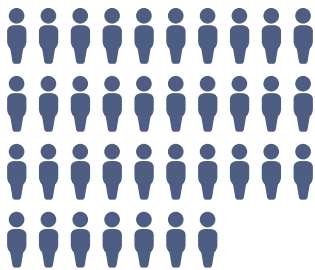
Durham University

4 STUDENTS 



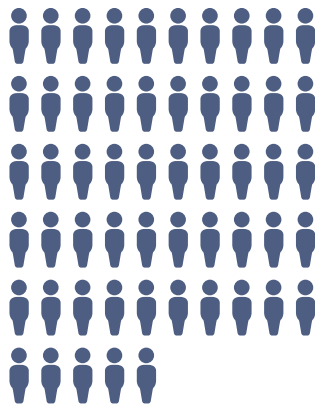
Number of Mentors

37



Number of Mentees

55



Central Bank intends to continue this event into future years.

EDUCATION AND DEVELOPMENT

Valuing the role of continuous learning and development, realizing that the improvement of knowledge and skills is the only path to success, and endorsing the pursuit of excellence as a value, the Central Bank creates all conditions for the continuous development of its team.

324 employees of the Central Bank participated in 30 courses organized by Armenian educational organizations, aimed at development of various skills (English, Russian, communication, public speaking), as well as specialized knowledge (project management, data analysis, programming, Power BI, SQL

Basic, Python, DevOps, advanced and applied Excel, financial modeling, etc.). The total duration of the courses was 242 hours. Through e-learning platforms, our employees participated in 42 courses.

EXTERNAL COURSES

The Central Bank continued its partnerships with other central banks and foreign organizations, including the International Monetary Fund, the Bank for International Settlements, the Financial Stability Institute, the Bank of Italy, De Nederlandsche Bank, the Bank of France, the Deutsche Bundesbank, the National Bank of Poland, and others. 188 courses were organized, 132 of which were remote and 54 on-site, and in which 344 employees participated.

The courses included special, tailor-made seminars designed to address issues of interest and aimed at exchange of experience that were organized in the scope of technical assistance by the Bank of Italy, the Bank of Israel, De Nederlandsche Bank, and the National Bank of Belgium.

In 2022, within the framework of professional education programs for the staff of central/national banks of the member states of the Eurasian Economic Union, the Central Bank organized trainings and exchange-of-experience programs on the following topics: "HR Policy of the Central Bank of the Republic of Armenia," "Dynamic Stochastic General Equilibrium (DSGE) Modeling," "Improving Financial Education," and "Activities of the Central Bank of the Republic of Armenia Visitor Center; the Use of Online Platforms in the Coverage of the Center's Activities." The courses were attended by representatives from the Central Bank of Russia, the National Bank of the Republic of Belarus, the National Bank of Kazakhstan, the National Bank of the Kyrgyz Republic, and the Central Bank of Uzbekistan. Online courses on "Machine Learning" and "Risk-Based Supervision" were also organized and attended by 77 representatives of central/national banks of the participating states of the Eurasian Economic Union. 12 employees of the Central Bank participated in courses organized by the central/national banks of the participating countries. Partnerships with the National Bank of Slovakia and the Bank of Korea were strengthened.

The total duration of the courses

242 HOURS

Courses through e-learning platforms

42

Internal courses

5 participants
79 EMPLOYEES

Potential Applications of Cryptocurrencies	Macprudential Policy
Payment Systems	FinTech
	Coaching



RESEARCH CAPACITIES

Continued development of research capacity for evidence-based decision-making and effective resolution of strategic issues is a key priority of the Central Bank.

In 2022, the Central Bank hosted professionals from a number of world renowned universities and research centers, including Vladimir Asriyan, Christopher Palmer, Mattias Polborn, Bruce Boghosian, Zareh Asatryan, Ruben Enikolopov, and others, who provided professional advice and/or conducted research jointly with other professionals engaged in economic research. In 2022, the Central Bank's Dilijan Training and Research Center hosted representatives of leading global organizations (Accenture, UBS, Visa) as part of a high-level international conference on "Finance and Money in the New Macroeconomic and Technological Environment." Exec-

utives from Amazon Web Services and other international companies participated remotely. The conference provided an opportunity to discuss a number of important topics, such as the return to stagflation, the framework for new technologies and monetary policy, the Central Bank's digital currency and the challenges and prospects for its adoptions in countries, and the future of finance, including challenges and opportunities. Jacob Frenkel, president of the Frenkel-Zuckerman Institute for Global Economics, and Barry Eichen-green professor at the University of California, Berkeley, delivered distance learning session. The Central Bank continues to host experts from the world's top universities and research centers, including Ian Craig, professor at University College London; Georgi Derluguian, professor at New York University Abu Dhabi; Lars Kolind, Danish businessman, and others.

The Central Bank authored a number of research papers and studies in 2022. In collaboration with Mattias Polborn, professor at Vanderbilt University; the Financial Education in Schools project investigated the effectiveness of online teacher training; publication is planned in the journal Education Economics. A number of CBA working papers were published on the new Forecasting and Policy Analysis System being used at central



Harvard University



University of Warwick



American University of Beirut



IE University

The Central Bank hosted



Vladimir Asriyan



Christopher Palmer



Mattias Polborn



Bruce Boghosian



Zareh Asatryan



Ruben Enikolopov



"Finance and Money in the New Macroeconomic and Technological Environment" Conference Participants



UBS

VISA



banks.^{01,02,03,04} This system introduces a risk management approach to the monetary policy implementation process that emphasizes uncertainty and nonlinear relationships. In addition, the monetary policy strategy of flexible inflation targeting was examined in the context of imperfect central bank ratings or credibility, and two papers were published using the example of a small open economy and the U.S. economy.^{05,06} Through a partnership with IMF colleagues, a working paper on the efficiency of central bank intervention and budgeting was completed and presented at the annual conference of the Armenian Economic Association. The Central Bank also hosted Professor Christopher Palmer of the Massachusetts Institute of Technology (MIT) and Professor Vardges Levonyan of the University of Zurich for the purpose of professional consultation and joint analysis of credit market problems RA. The collaboration resulted in the completion of research on the problems of the RA consumer credit market with the goal of identifying the key factors influencing borrower behavior and, if necessary, developing legislative changes to protect consumer rights. The Central Bank also continued its work with economist Diego Jimenez Hernandez of the Federal Reserve Bank in Chicago and Vardges Levonyan. One of these papers assesses the impact of exchange rate devaluations on household savings behavior of RA. Another concerns client referrals in the mortgage market, examines the extent to which banks can advise their customers on

the choice of currency for a mortgage loan. Analyzes have been conducted to assess the impact of the change in the total capital limit of banks on the financial system.

In an effort to build the Central Bank's educational and research capacity, an agreement was reached with the German Leibniz Center for European Economic Research, based on which two Central Bank staff members visited the center and conducted on-site research on the suboptimal allocation of resources by RA companies. This work is expected to continue in 2023.

Recognizing the importance of continuously developing the professional skills of employees at the central banks of Armenia and other countries, the Central Bank organized week-long courses on Machine Learning for both Central Bank employees and employees of the central banks of other member countries of the Eurasian Economic Union.

Some of the above-mentioned research activities are expected to be completed in 2023. In particular, articles on topics related to household savings behavior and guidance in the mortgage market and submitted for publication in well-known international journals. The Central Bank will continue its work with University of Zurich professor Vardges Levonyan and Pompeu Fabra University professors Vladimir Asriyan and Ruben Enikolopov. The Central Bank plans to host Vardges Levonyan for the purpose of conducting a course on bank competition, modeling the existing competition in the RA banking system,

01 FPAS Mark II Financial-Cycle Gaps | CBA Working Paper 2022/11

02 FPAS Mark II Monetary-Policy-Relevant Output Gaps | CBA Working Paper 2022/08

03 FPAS Mark II: Avoiding Dark Corners and Eliminating the Folly in Baselines and Local Approximations | CBA Working Paper 2022/03

04 FPAS Mark I Central Bank Transparency and Credibility Measures | CBA Working Paper 2022/05

05 Getting FIT with Imperfect Policy Credibility: DYNARE/JULIA Workshops with an Application for a Small Open Economy | CBA Working Paper 2022/07

06 Getting FIT with Imperfect Policy Credibility: DYNARE/JULIA Workshops with an Application for the US Economy | CBA Working Paper 2022/04





and providing professional advice within the framework of the work carried out to identify the connection between such competition and financial stability. Another course on applied microeconometrics is planned, to be conducted by Ruben Enikolopov. The Central Bank will moreover continue its research with Vladimir Asriyan to study the effects of the Russia-Ukraine conflict on the financial and

real sectors of Armenia. In collaboration with Professor David Murphy of Colgate University in the United States, the Central Bank plans to launch another study on financial inclusion, focusing on the teaching of mobile financial application use (mobile banking) to individuals in rural communities and the use of incentives for trainees to spread this technology through social networks.

CORPORATE SOCIAL RESPONSIBILITY

The Central Bank values partnerships with educational institutions, student education, and the work done in this regard. Central Bank employees teach at numerous Armenian universities. Within the memorandum of cooperation signed with the Ijevan branch of the Yerevan State University, the Central Bank has continued its efforts to strengthen the curriculum of the Economics Faculty and the university's scientific potential. Currently, four employees of the Central Bank's Dilijan Training and Research Center are teaching at the Ijevan branch of YSU. In 2022, the Central Bank of Armenia partnered with the American University of Armenia to fully organize the university's Master of Science in Economics program at the Dilijan Training and Research Center for the first time; the program was condensed to one year. The number of lecturers was increased compared to previous years; specialists from abroad were invited.

The Central Bank pays great attention to corporate social responsibility, emphasizing the role of education and capacity building. As a part of this commitment, it continues to support the operation of the Dilijan Central School, Fab Lab, the TUMO Center for Creative Technologies, and the kindergarten.

- The **Dilijan Central School**, managed by the Ayb Educational Foundation, has 147 students. Some of the teachers are local residents and were trained under the Ayb educational program.
- One of the cornerstones of the Central Bank's corporate social responsibility activities is the dissemination of excellence in research and innovation. **Fab Lab Armenia** is an open, inclusive community of educators, artists, engineers, scientists, programmers, students, experimenters, and people with generally flexible minds aged 7-107. With open software for modern digital fabrication technologies, Fab Lab provides vast learning opportunities.

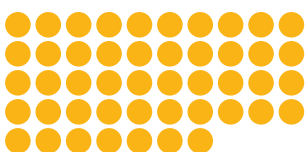
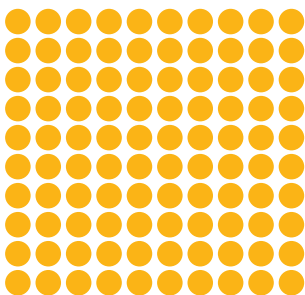
For Dilijan (and Armenia), this is an opportunity to solve problems at the local level and improve the community in terms of education, business development, and maintaining connections. Fab laboratories provide the space and tools needed to teach, learn, and master digital fabrication. In 2021, it was decided to further integrate the Dilijan Fab Lab into the life of the community. With the help of international experts, all processes and existing problems were studied for several months, and a more effective action plan was developed for Fab Lab's activities. Fab Lab was redesigned and reorganized, a team was created, and volunteers and experts were recruited. The main rubric of the activity is "Teach and Create (Invent)." In 2021-2022, Fab Lab had interns from the United States and Armenia for the first time. The official website (fablabarmenia.com) was launched and is linked on virtually all social media platforms.

An integral part of Fab Lab is the Fab Academy. Fab Academy is an educational program that teaches digital fabrication applicable to all fields of knowledge. One of



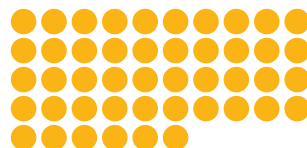
**Dilijan
Central
School (Ayb)
students**

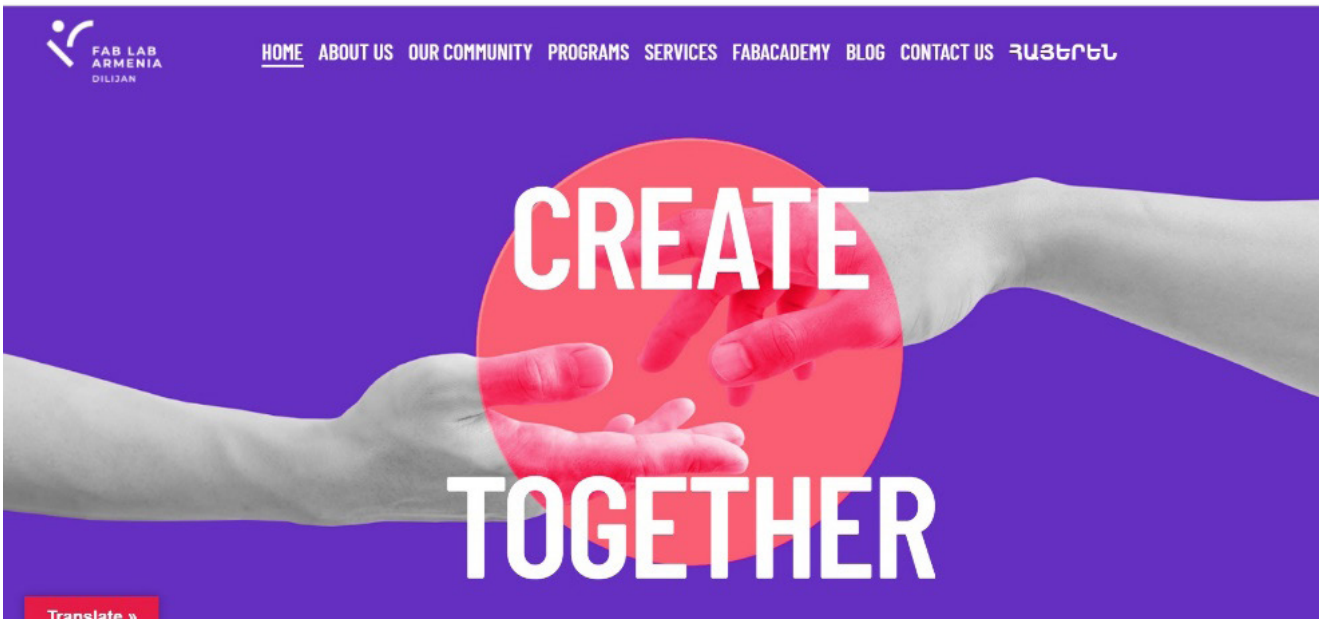
147



**Kindergarten
students**

46





Fab Lab’s most important achievements of in 2022 is taking over the management of the Fab Academy regional training center in Armenia. Babken Chugaszyan is the only instructor in the region who directly cooperates with the main Fab Lab of the Massachusetts Institute of Technology (MIT) (led by Professor Neil Gershenfeld). Armenian students actively involved in Fab Academy courses presented their final projects, and, in 2022, Armenia won the Fab Academy nomination “Best Project and Prototyping” with its “Machine building Machine” project. As a result of the collaborations, the Japanese Fab Lab built its own fabrication in accordance with the Armenian design. Later, the project was extended to other countries.⁰¹

The project of Onik Babajanyan, one of the Armenian students of the Fab Academy, titled “Mobile instrument for measuring wind speed (Anemo),” has joined the list of the best climate change control projects.

FabLab Armenia has been very active in other fields as well, organizing events titled “Entry Point in Metaverse: Merging Physical and Digital Worlds” and “From Traditional Education System to Progressive Education System,” which were attended by the world’s best experts in the field from MIT, the United

Nations Development Program, educational institutions, and other organizations.


Valuing the role of Fab Lab in the community as well, Fab Lab Armenia has continued to organize community seminars, a children’s laboratory, a family laboratory, and other events.

Fab Lab and Fab Academy guidebooks have been published.

As a result of the partnership between the Central Bank and TUMO Center for Creative Technologies, the center has expanded and become a TUMO hub. In 2022, the Dilijan center enrolled more than 1,000 new students in the TUMO educational program. Workshops have increased opportunities for students to choose the skills they want to learn. As part of the TUMO Armenia expansion project, new TUMO boxes were successfully established in Azatamut and Chambarak, making the TUMO curriculum available to more young people in small communities. In 2022, a free summer camp was organized, with Diaspora youth participating as well.

Community issues remain in the focus of attention of Central Bank employees. In adherence to the principles it has adopted, the Central Bank consistently continued its participation in social initiatives.

01 Fablab Armenia Dilijan - Fab Academy



In 2022, the Central Bank directed its efforts to addressing the safety and well-being of our compatriots and their children in the border marzes (regions), visiting more than 700 children in 10 villages of the Syunik and Vayots Dzor marzes and distributing packages prepared by Central Bank employees, along with the important message that “We are together.”

In 2022, a development center was opened in the Shirak marz, and children from nearby villages have the opportunity to attend the center’s classes, as well as to utilize educational materials, books, and developmental games donated by employees of the

Central Bank. One of the goals of the development center is also to keep young families from leaving the villages.

The concerns and educational issues faced by children in orphanages have been at the center of attention of Central Bank employees for decades. The traditional collection of money for children in orphanages continued in 2022 as well; the collected funds are sent to orphanages on a semi-annual or annual basis. The assistance and visits are planned in advance and targeted. Central Bank employees have long celebrated the successes of the orphanages and the stories of individual children.

COMMUNICATIONS AND ACCOUNTABILITY

One of our strategic priorities is to ensure high standing of the Central Bank by making our policies more understandable, as well as by receiving feedback from stakeholders. This message is important not only in terms of the Central Bank's ability effectively achieve its goals, but also in that it allows members of the public to be informed about the Central Bank's decisions, the logic behind such decisions, policies being pursued, and their impact on individual living standards and to make optimal decisions on this basis.

In this sense, the year 2022 was significant in that there was a change in the Central Bank's approach to communication. Perceptions changed with regard to accepted approaches to communicating with the public, with a move from the traditional approach of maintaining contact with the press and responding to inquiries to a structure in which the Central Bank generates its own content and communicates directly with the public.

In particular, the Central Bank has significantly increased its presence on social networks, where it is able to simply and accessibly communicate its policies, including with the help of various content formats such as videos and other interactive materials. As such,

- The main content of the Monetary Policy Program, the inflation report, was presented more accessibly on social networks;

- Research conducted by the Central Bank, as well as information about the Central Bank employees who authored the research, was shared in summary form;
- Issues of concern to the public (for example, the decrease in the profitability of pension funds recorded in the third quarter, the entry into force of the Law on Cashless Transactions, fraudulent activities, etc.) were clarified;
- To minimize consumers' susceptibility to fraud, warnings were provided to the public with regard to illegal financial structures, with explanations on how to identify and avoid them.

At the same time, this change in communication approach has not equated to less work being done with the press. In 2022, Central Bank representatives participated in more interviews than in previous years, while the number of responses to requests received from the press almost tripled, there also being a decrease in the average speed of such responses. Interviews were given not only to members of the local press, but also to authoritative international financial periodicals. Moreover, importantly in terms of ensuring greater visibility in the international arena, in 2022, the Central Bank Governor's press conferences were broadcast live with simultaneous foreign language translation, which is important in terms of providing operational



**Facebook
page
followers**

10,560 > 14,000

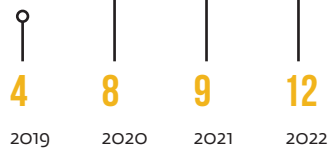
**LinkedIn
page
followers**

4,000 > 8,000

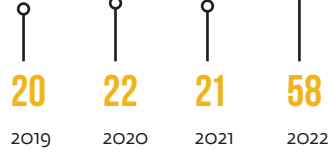


Public Relations

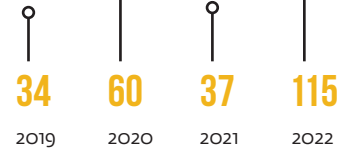
Conferences and Other Events (number)



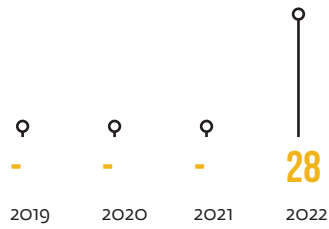
Interviews and News Coverage (number)



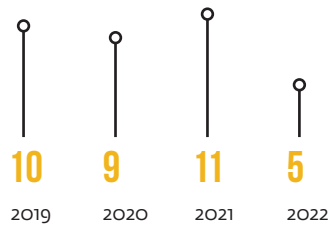
Written Media Requests (number)



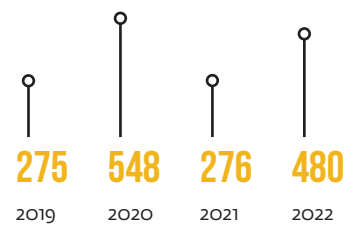
International Publications (number)



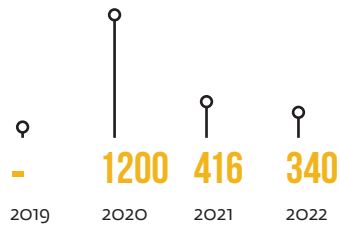
Response Rate (days per written media request)



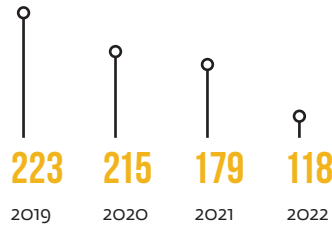
Requests Received on Website (number)



Requests Received via Social Networks (numbers)



Press Releases (number)

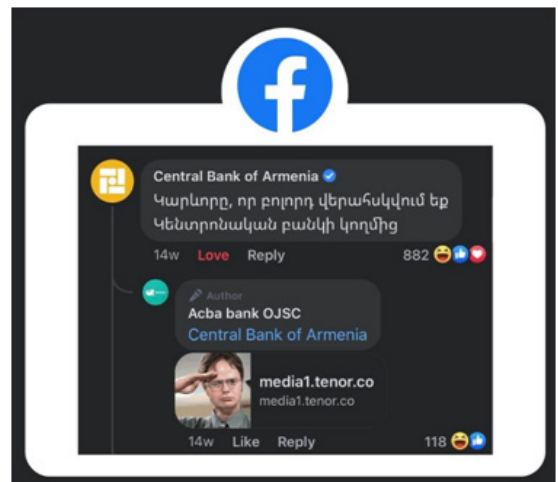


information to international partners and investors.

A meeting was organized between the Central Bank's leadership and economic journalists to present current financial and economic issues to the press and to listen to their opinions. The Governor of the Central Bank also hosted young student professionals in the journalism field.

In the context of facilitating public feedback, the unified call center was launched. It gives the public the opportunity to voice their questions and concerns more directly and allows operators to provide more prompt responses.

The year 2022 was also marked by the breaking of certain public stereotypes about the Central Bank. By joining institution of the financial system in employing small doses of humor in its communications, the Central Bank has changed the perceptions of many in its regard.

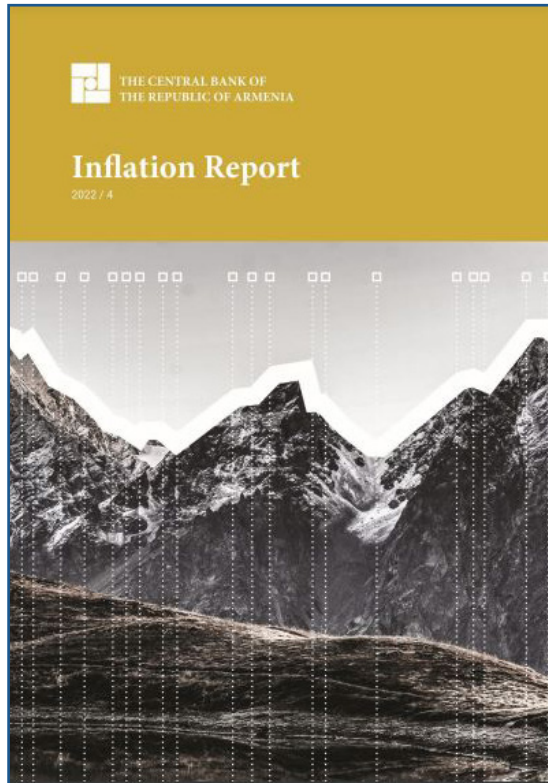


CONNECT WITH US:

(010) 592-592



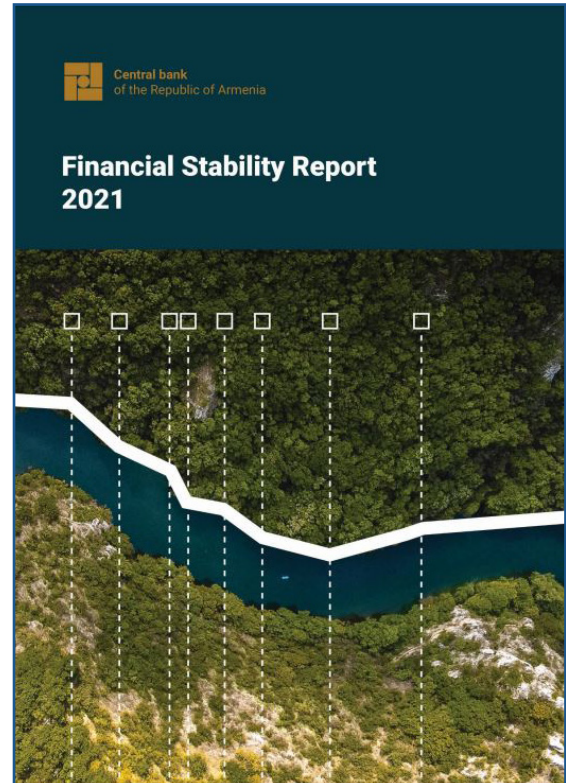
Inflation Report



Publishes quarterly on March 29, June 28, September 27, and December 27

The first section of the Inflation Report includes the Monetary Policy Program that provides main directions of the monetary policy in the medium-term horizon as well as scenario of inflation and other macroeconomic indicators. This is one of the observing scenarios and based on the Central Bank's assessment of the current situation and future assumptions by the Bank, including the impact of the Central Bank's operation. The second section of the Inflation Report includes the Status Report on implementation of the monetary policy program of the previous year, presenting the results of monetary policy implemented and covers the actual developments in the domestic economy.

Financial Stability Report



Publishes once a year on May 5

Provides a general assessment of potential risks endangering financial system stability of the Republic of Armenia, as well as the ability of the financial system to resist them.

ACCOUNTABILITY OF THE CENTRAL BANK OF THE REPUBLIC OF ARMENIA

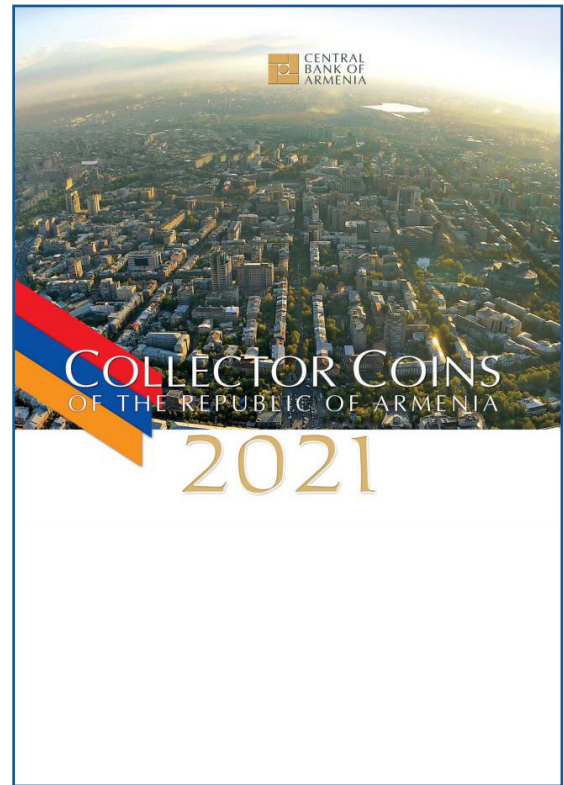
Annual Report of the Central Bank of the Republic of Armenia



Publishes once a year on the last working day of April

The Annual Report refers to the Central Bank's governance provisions. It includes summary data on the Central Bank's annual performance activities and key functions defined by its Strategy and consolidated financial statements with the conclusion from a "Big Ten" audit firm.

Collector Coins of the Republic of Armenia



Publishes once a year in June

Provides information on the issued collector coins of the Republic of Armenia, the results of the contests held with the participation of collector coins of RA issued during that year and other materials related to collector coins of RA.

ACCOUNTABILITY OF THE CENTRAL BANK OF THE REPUBLIC OF ARMENIA

CBA Bulletin



Publishes monthly every 15th day of the month following the reporting period

Provides normative and individual decisions of the Board of the Central Bank, decisions of the Governor of the Central Bank, other legal acts, as well as a statistical summary.

Annual Report on Activities of the Financial Monitoring Center



Published once a year after April 15

Provides a summary of the works performed by the FMC in the field of AML/CFT during that year.



VISITOR CENTER



The Visitor Center is an educational and cultural division of the Central Bank with the purpose of presenting the history of the national currency of the Republic of Armenia and increasing public awareness about the activities and role of the Central Bank through various educational tools, including static, thematic, and interactive exhibitions.

In 2022, in cooperation with the History Museum of Armenia SNCO, the Center organized and carried out cleaning, restoration and conservation work on a collection of 154 samples and four sheaves of various coins (135 silver 5-ruble, 10-ruble, 15-ruble, and 20-ruble denomination coins from the Russian Empire; 22 Arab (Abbasid) silver coins; 31 silver coins from the Ottoman Empire, and 74 Sasanian silver coins) displayed in the Central Bank's

Visitor Center in Dilijan. On May 18 and May 21, the Central Bank's Visitor Center hosted 1,129 visitors as part of its participation in the pan-European Museum Night and International Museum Day events.

An educational and informational course for teachers was held, within the framework of which the Visitor Center hosted 14 teachers from the Junior Achievement of Armenia NGO.

In 2022, the Central Bank Visitor Center's summary "Quiz" game was updated, with an expansion of the scope and number of questions. Beginning in 2022, the game is actively used at the end of group visits to reinforce visitors' knowledge about the Central Bank.

Significant activity has been carried out on the Visitor Center's website and Facebook page. The Visitor Center has published a number of educational and informative materials.

Due to the above mentioned interactive tools, the number of visitors to the Visitor Center's [Facebook page](#) has reached 39,138, which is 66% higher than last year's figure.

Visitor Center

"Day at the Central Bank" organized educational visits

2021



152

SERVICE MEMBERS/STUDENTS AND INSTRUCTORS


2022



311

SERVICE MEMBERS/STUDENTS AND INSTRUCTORS





In 2022, the Visitor Center focused on the replenishment of literature and the creation of a modern digital library for the professional development of Central Bank employees, allowing more effective management of the Central Bank's unique library database and making professional literature available to all Central Bank employees. In 2021, approximately 120 specialized printed books and 73 foreign periodical titles were added to the Central Bank library.


In 2023, the Center plans to receive 15,000 visitors in Yerevan and Dilijan and organize a visiting exhibition in two RA marzes (regions).

In 2023, the Central Bank Visitor Center will organize:

- The “Day at the Central Bank” program specially designed for cadets at military educational institutions, servicemembers, students, and officers of the RA Ministry of Defense;
- Museum Night and International Museum Day events;
- Educational and informational events developed for teachers and educators.

Meanwhile, the Central Bank library and Visitor Center websites will be renewed and run a development strategy, including modern electronic registration system for Dilijan Training and Research Center Visitor Center tours.

COMPLIANCE FUNCTION



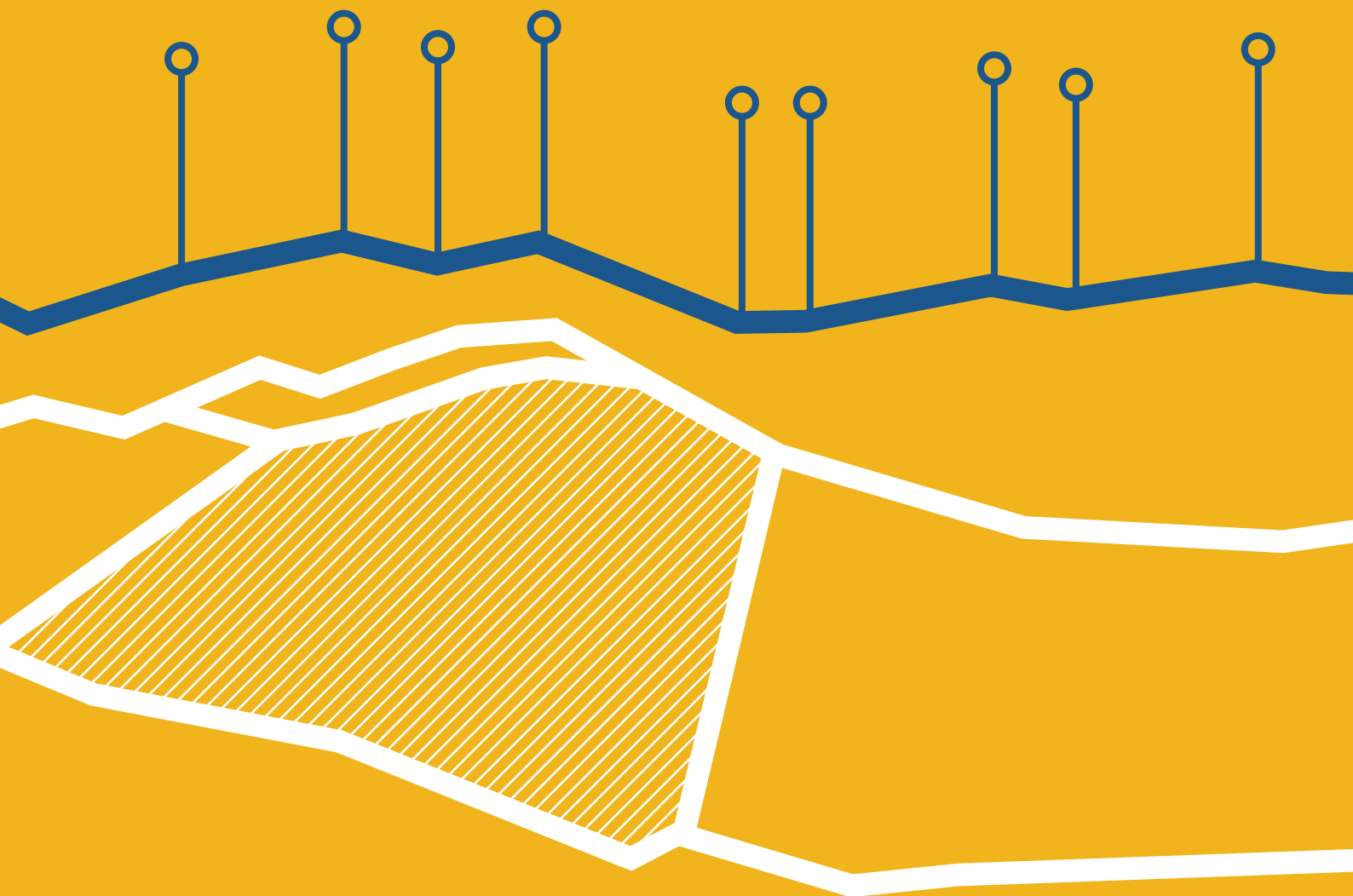
The compliance service, as an element of the Central Bank's internal control system, aims to ensure a high level of compliance of the Central Bank's operations with domestic legislation and international standards and best practices, thereby contributing to the strengthening of the Central Bank's standing.

In 2022, in order to ensure the unhindered execution of financial operations, compliance functions were carried out in the following primary areas:

- Organization and regulation of the Central Bank's anti-money laundering and terrorism financing (AML/CFT) function for financial institutions;
- Organization and regulation of compliance with international sanctions in Central Bank operations;
- Proper assessment of suppliers in procurement and other acquisition processes.

Moreover, experience exchange activities were carried out with international partners and international developments in the compliance field were studied in an effort to continuously develop the Central Bank's compliance culture.

ANNUAL CONSOLIDATED FINANCIAL STATEMENTS OF THE CENTRAL BANK OF THE REPUBLIC OF ARMENIA



Central Bank of the Republic of Armenia

International Financial Reporting Standards Consolidated financial statements

*for the year ended 31 December 2022
together with independent auditor's report*

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Internet www.kpmg.am

Independent Auditors' Report

To the Board of the Central Bank of the Republic of Armenia

Opinion

We have audited the consolidated financial statements of the Central Bank of the Republic of Armenia (the "Bank") and its subsidiary (the "Group"), which comprise the consolidated statement of financial position as at 31 December 2022, the consolidated statements of comprehensive income, changes in equity and cash flows for the year then ended, and notes, comprising significant accounting policies and other explanatory information.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at 31 December 2022, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with IFRS Standards as issued by the International Accounting Standards Board (IFRS Standards).

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditors' Responsibilities for the Audit of the Consolidated Financial Statements* section of our report. We are independent of the Group in accordance with the International Ethics Standards Board for Accountants International Code of Ethics for Professional Accountants (including International Independence Standards) (*IESBA Code*) together with the ethical requirements that are relevant to our audit of the consolidated financial statements in the Republic of Armenia, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Responsibilities of Management and Those Charged with Governance for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with IFRS Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Group's financial reporting process.

Auditors' Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

The engagement partner on the audit resulting in this independent auditors' report is:



Irina Gevorgyan
Managing Partner, Director of KPMG Armenia LLC

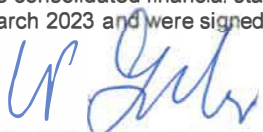
KPMG Armenia LLC
31 March 2023



Consolidated statement of comprehensive income**For the year ended 31 December 2022**

<i>In thousands of Armenian Drams</i>	Note	2022	2021
Interest income	4	71,322,598	54,730,955
Interest expense	5	(46,753,889)	(35,746,542)
Net interest income		24,568,709	18,984,413
Credit loss expense	12, 15	(637,182)	(89,343)
Net interest income after credit loss allowance		23,931,527	18,895,070
Fee and commission income		742,288	583,437
Fee and commission expense		(1,607,350)	(1,758,432)
Net foreign exchange loss	6	(88,974,762)	(57,094,752)
Net (loss)/gain on derivatives	7	(1,568,357)	512,695
Net loss on financial instruments at fair value through profit or loss	8	(3,237,206)	(552,234)
Other income	9	6,053,410	5,720,902
Loss on initial recognition of financial instruments	12	(62,733,413)	-
Cost of production of banknotes, coins and numismatics	10	(1,895,601)	(2,365,420)
Other expenses	11	(17,201,660)	(16,235,291)
Loss before tax		(146,491,124)	(52,294,025)
Income tax expense		(2,351,700)	(2,583,891)
Loss for the year		(148,842,824)	(54,877,916)
Loss is attributable to:			
Owners of the Bank		(149,219,044)	(55,013,885)
Non-controlling interest		376,220	135,969
Other comprehensive income			
<i>Items that may be reclassified subsequently to profit or loss</i>			
Net unrealised loss from changes in fair value of debt financial assets measured through other comprehensive income		(855,097)	(845,535)
Share of other comprehensive loss of associate		(369,973)	-
Changes in allowance for expected credit losses of debt financial assets at fair value through other comprehensive income	15	3,459	22,490
Net other comprehensive loss to be reclassified to profit or loss in subsequent periods		(1,221,611)	(823,045)
<i>Other comprehensive loss not to be reclassified to profit or loss in subsequent periods</i>			
Share of other comprehensive income of associate		1,047,176	-
Net loss on equity instruments at fair value through other comprehensive income		(302,844)	(43,837)
Total other comprehensive income/(loss) not to be reclassified to profit or loss in subsequent periods		744,332	(43,837)
Other comprehensive loss for the year		(477,279)	(866,882)
Total comprehensive loss for the year		(149,320,103)	(55,744,798)
Total comprehensive loss is attributable to:			
Owners of the Bank		(149,676,703)	(55,873,060)
Non-controlling interest		356,600	128,262

These consolidated financial statements were approved by the Board of the Central Bank of the Republic of Armenia on 31 March 2023 and were signed by:



Martin Galstyan
Chairman of the Central Bank
of the Republic of Armenia



Anush Grigoryan
Chief Financial Officer of the Central Bank
of the Republic of Armenia

The accompanying notes from 1 to 32 are an integral part of these consolidated financial statements.

Consolidated statement of financial position**As at 31 December 2022**

<i>In thousands of Armenian Drams</i>	<i>Note</i>	31 December 2022	31 December 2021
Assets			
Foreign currency assets			
Cash		18,056,895	44,555,290
Placements with banks and other financial institutions	12.1	932,129,803	763,636,093
Financial instruments at fair value through profit or loss	13	677,302,858	734,565,274
Derivative financial assets	14	–	445,057
Financial assets measured at fair value through other comprehensive income	15.1	2,826,144	3,359,146
Investments at amortized cost	15.4	1,432,570	–
Placements with the IMF	16	69,884,514	102,324,925
Other assets		383,977	168,808
Total foreign currency assets		1,702,016,761	1,649,054,593
Domestic currency assets			
Placements and investments with banks and other financial institutions	12.2	724,565,781	906,835,345
Financial assets measured at fair value through other comprehensive income	15.2	63,270,394	25,456,691
Equity-accounted investees	15.3	33,420,114	950,369
Property and equipment	17	61,985,522	60,039,175
Intangible assets	18	2,962,153	2,787,916
Other assets	19	9,564,911	8,801,628
Total domestic currency assets		895,768,875	1,004,871,124
Total assets		2,597,785,636	2,653,925,717
Liabilities			
Foreign currency liabilities			
Deposits and accounts of financial and other institutions	20	763,578,548	655,408,136
Due to the Government of the Republic of Armenia	23	1,600,968	1,626,616
Derivative financial liabilities	14	1,168,708	–
Due to the IMF	16	218,099,731	281,278,642
Other borrowed funds	21	189,984,444	175,399,777
Other liabilities		188,491	1,208,275
Total foreign currency liabilities		1,174,620,890	1,114,921,446
Domestic currency liabilities			
Notes and coins in circulation		803,093,792	747,165,753
Deposits and accounts of financial and other institutions	20	368,710,450	413,630,384
Due to the Government of the Republic of Armenia	23	380,288,128	401,983,788
Debt securities issued	24	15,477,213	9,650,642
Other liabilities	22	3,669,054	3,946,269
Total domestic currency liabilities		1,571,238,637	1,576,376,836
Total liabilities		2,745,859,527	2,691,298,282
Equity			
Issued capital	25	100,000	100,000
General reserve		39,988,847	39,988,847
Promissory Note issued by the Government	25	54,395,224	15,776,447
Other reserves	25	1,310,084	1,767,743
Accumulated deficit		(245,370,858)	(96,151,814)
Net assets attributable to owners of the Bank		(149,576,703)	(38,518,777)
Non-controlling interest		1,502,812	1,146,212
Total equity		(148,073,891)	(37,372,565)
Total liabilities and equity		2,597,785,636	2,653,925,717

The accompanying notes from 1 to 32 are an integral part of these consolidated financial statements.

Consolidated statement of changes in equity**For the year ended 31 December 2022**

<i>In thousands of Armenian Drams</i>	<i>Attributable to owners of the Bank</i>							<i>Non-controlling interest</i>	<i>Total equity</i>
	<i>Issued capital</i>	<i>General reserve</i>	<i>Promissory note issued by the Government</i>	<i>Other reserves</i>	<i>Accumulated deficit</i>	<i>Total</i>			
Balance at 1 January 2021	100,000	27,418,972	66,055,949	2,626,918	(28,568,054)	67,633,785	1,017,950	68,651,735	
Total comprehensive loss									
Loss for the year	-	-	-	-	(55,013,885)	(55,013,885)	135,969	(54,877,916)	
Other comprehensive loss	-	-	-	(859,175)	-	(859,175)	(7,707)	(866,882)	
Total comprehensive loss for the year	-	-	-	(859,175)	(55,013,885)	(55,873,060)	128,262	(55,744,798)	
Transactions with the Founder of the Bank									
Profit distribution (Note 25)	-	12,569,875	(50,279,502)	-	(12,569,875)	(50,279,502)	-	(50,279,502)	
Total transactions with the Founder of the Bank	-	12,569,875	(50,279,502)	-	(12,569,875)	(50,279,502)	-	(50,279,502)	
Balance at 31 December 2021	100,000	39,988,847	15,776,447	1,767,743	(96,151,814)	(38,518,777)	1,146,212	(37,372,565)	
Total comprehensive loss									
Loss for the year	-	-	-	-	(149,219,044)	(149,219,044)	376,220	(148,842,824)	
Other comprehensive loss	-	-	-	(457,659)	-	(457,659)	(19,620)	(477,279)	
Total comprehensive loss for the year	-	-	-	(457,659)	(149,219,044)	(149,676,703)	356,600	(149,320,103)	
Extension of the promissory Note by the Government of the RA (Note 25)	-	-	38,618,777	-	-	38,618,777	-	38,618,777	
Total transactions with the Founder of the Bank	-	-	38,618,777	-	-	38,618,777	-	38,618,777	
Balance at 31 December 2022	100,000	39,988,847	54,395,224	1,310,084	(245,370,858)	(149,576,703)	1,502,812	(148,073,891)	

The accompanying notes from 1 to 32 are an integral part of these consolidated financial statements.

Consolidated statement of cash flows**For the year ended 31 December 2022**

<i>In thousands of Armenian Drams</i>	<i>Note</i>	2022	2021
Cash flows from operating activities			
Loss before tax		(146,491,125)	(52,294,025)
<i>Adjustments to reconcile (loss)/profit for the year to net cash flows</i>			
Depreciation and amortisation	11, 17, 18	2,690,445	2,876,600
Loss from disposals and write-off of property and equipment		4,220	257
Change in interests receivable		(3,397,344)	1,941,325
Change in interests payable		1,550,922	296,499
Net loss from foreign exchange translation	6	98,408,713	63,979,062
Net loss from re-measurement of financial instruments at fair value		9,128,026	7,433,805
Loss on initial recognition of financial instruments		62,733,413	-
Credit loss expense	12, 15	637,182	89,343
Loss from investments in associate	15	356,692	-
Disposal of equity interest	9	(498,765)	-
Income tax paid		(2,738,331)	(2,185,066)
Cash flows from operating activities before changes in operating assets and liabilities		22,384,048	22,137,800
<i>Net (increase)/decrease in operating assets</i>			
Placements with banks and other financial institutions in foreign currency		5,540,803	(9,676,905)
Financial instruments at fair value through profit or loss and derivative financial instruments		(93,493,770)	103,024,533
Placements and investments with banks and other financial institutions in domestic currency		120,810,633	(203,471,380)
Other assets		(1,338,082)	1,137,812
<i>Net increase/(decrease) in operating liabilities</i>			
Notes and coins in circulation		55,928,038	(4,300,120)
Deposits and accounts of financial and other institutions		185,818,972	308,800,525
Due to the Government of the Republic of Armenia		(26,813,667)	134,888,953
Other liabilities		(866,623)	(1,310,429)
Net cash flows from operating activities		267,970,352	351,230,789
Cash flows from investing activities			
Purchase of property, equipment and intangible assets		(4,924,796)	(1,434,623)
Proceeds from sale of property and equipment		17,301	9,127
Acquisition of financial assets measured at amortised cost		(1,411,103)	-
Proceeds from sale and redemption of financial assets measured at fair value through other comprehensive income		-	1,080,500
Disposal of equity interest		498,765	-
Equity-accounted investees		(32,000,582)	-
Net cash flows used in investing activities		(37,820,415)	(344,996)
Cash flows from financing activities			
Loans received		85,612,170	138,678,324
Loans redeemed		(30,489,774)	(41,597,657)
Proceeds from issuance of debt securities		9,205,199	3,003,991
Repayment of debt securities issued		(3,500,000)	(3,000,000)
Lease payments		(105,804)	(96,838)
Net cash flows from financing activities		60,721,791	96,987,820
Effect of exchange rate changes on cash and cash equivalents		(155,372,253)	(73,431,353)
Net increase in cash and cash equivalents		135,499,475	374,442,260
Cash and cash equivalents at the beginning of the year	28	810,518,650	436,076,390
Cash and cash equivalents at the end of the year	28	946,018,125	810,518,650
Supplementary information			
Interest received		67,925,254	56,672,280
Interest paid		(45,202,967)	(35,450,043)

The accompanying notes from 1 to 32 are an integral part of these consolidated financial statements.

1. General information

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRS”) as at 31 December 2022 and for the year then ended for the Central Bank of the Republic of Armenia (the “Bank” or the “Central Bank”) and its subsidiaries (together referred to as the “Group”).

The Bank is a legal entity the sole founder of which is the Republic of Armenia.

The Bank operates in accordance with the Constitution of the Republic of Armenia, Law On the Central Bank of the Republic of Armenia (the “Law”) and other laws of the Republic of Armenia.

The registered address of the Bank is 6 Vazgen Sargsyan Street, Yerevan 0010, Republic of Armenia. The average number of employees of the Bank during 2022 was 753 (2021: 725).

The Bank does not aim to earn profits. The financial results of the Bank’s activities, as well as the structure of its assets, liabilities and equity are defined by the functions of the Bank.

In accordance with the Law the prime objective of the Bank is ensuring price stability and financial stability in the Republic of Armenia. In order to ensure price stability the Central Bank develops, approves and implements monetary policy programs. In addition to its prime objective, other objectives include:

- ▶ Ensure the stability, liquidity, solvency and other necessary conditions for sound operation of the financial system in the Republic of Armenia;
- ▶ Create and develop of an effective payment and settlement system;
- ▶ Issue the national currency of the Republic of Armenia and regulate its circulation;
- ▶ Organise and regulate anti-money laundering and anti-terrorism financing activities;
- ▶ Secure the conditions necessary for protecting the rights and lawful interests of consumers in the financial system;
- ▶ Ensure free and fair economic competition in the financial system and etc.

To accomplish its objectives the Central Bank:

- ▶ Acts as financial agent and advisor of the Government of the Republic of Armenia (the “Government”);
- ▶ Licenses commercial banks and, in cases envisaged by the legislation, other entities, supervises and regulates their activities;
- ▶ Uses and manages international reserves of the Republic of Armenia and etc.

The Bank’s largest subsidiaries as of 31 December 2022 are listed below:

<i>Name</i>	<i>Country of incorporation</i>	<i>Principal activity</i>	<i>Controlled, %</i>		<i>Date of establishment</i>
			<i>2022</i>	<i>2021</i>	
“Armenian Card” CJSC	Republic of Armenia	Payment and settlement services	56.25	56.25	March 2000
“Hayincassatsia” CJSC	Republic of Armenia	Transportation/delivery of cash	100.00	100.00	April 1998
“National Mortgage Company” RCO CJSC	Republic of Armenia	Mortgage refinancing	100.00	100.00	June 2009
“Home for Youth” RCO CJSC	Republic of Armenia	Mortgage refinancing	100.00	100.00	February 2010
“Small and Medium Business Credit Support” CJSC	Republic of Armenia	Lending support	100.00	100.00	December 2010
“Vehicle Single Window” CJSC	Republic of Armenia	Insurance infrastructure support	100.00	100.00	December 2013
“Stak Money Transfer” CJSC	Republic of Armenia	Payment and settlement services	100.00	100.00	December 2017

Following to the Group’s policy disclosed in Note 30, in March 2020 the Group announced its intention to dispose its investment in the subsidiary engaged in cash delivery/transportation activities through liquidation. As of 31 December 2022 the subsidiary was still under liquidation process.

1. General information (continued)

(a) Armenian economic environment

Throughout 2022 high inflationary environment persisted in the Republic of Armenia driven by the influence of the Russian-Ukrainian conflict, intensified since the end of February, and the various sanctions imposed on the Russian economy and exceptionally high uncertainties derived from them.

As a result of a huge influx of international visitors and financial assets to Armenia in the wake of the Russian-Ukrainian conflict the economic activity was significantly high in which circumstance the economic growth in Armenia totaled 12.6%. Meanwhile under conditions of high external demand and significant influx of financial transfers Armenia's currency market has experienced continuous appreciation of the domestic currency.

Based on the current situation and in view of the principle of forward-looking policy implementation, the Central Bank of Armenia continued to pursue the tightening of monetary conditions, raising the policy rate by a total of 3.0 percentage point, of which 1.25 percentage point in March 2022 alone. The 12-month inflation increased significantly since March 2022, reaching 10.3% at the end of the second quarter; it then gradually decreased, as a result of the monetary policy implementation, down to 8.3% at the end of the year. It is estimated that the inflation rate will gradually subdue and stabilize around the 4% target, starting from the second half of 2023, owing to the effect of the consistent monetary policy implementation.

The Group continues to assess the effect of changing economic conditions on its activities, financial position and financial results.

2. Summary of significant accounting policies

(a) Statement of compliance

The accompanying consolidated financial statements are prepared in accordance with IFRS Standards as issued by the International Accounting Standards Board (IFRS Standards).

(b) Basis of measurement

The consolidated financial statements have been prepared under the historical cost convention as modified by the initial recognition of financial instruments based on fair value, and by the revaluation of financial assets at fair value through other comprehensive income, and financial instruments categorised at fair value through profit or loss, including derivative financial instruments. The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the periods presented, unless otherwise stated.

(c) Form of presentation of the financial statements

In exceptional circumstances detailed disclosure of the information about the operations which occur in the respective reporting period may lead to a loss of confidence spreading through the financial system of the Republic of Armenia as a whole. Accordingly, although the financial effects of such operations will be included into the consolidated financial statements of the Group, the Group may provide only limited disclosure in respect of such types of operations.

(d) Functional and presentation currency

The national currency of the Republic of Armenia is the Armenian Dram ("AMD"), which is the functional currency of the Bank and each of the Group's consolidated entities and is the currency in which these consolidated financial statements are presented. All financial information presented in AMD has been rounded to the nearest thousand unless otherwise indicated.

(e) Use of estimates and judgments

In the process of applying the Group's accounting policies, management has used its judgments and made estimates in determining the amounts recognised in the consolidated financial statements. The most significant use of judgments and estimates are as follows:

Fair value

Where the fair values of financial assets and financial liabilities recorded in the consolidated statement of financial position cannot be derived from active markets, they are determined using a variety of valuation techniques that include the use of mathematical models. The input to these models is taken from observable markets where possible, but where this is not feasible, a degree of judgment is required in establishing fair values.

2. Summary of significant accounting policies (continued)

(e) Use of estimates and judgments (continued)

Assessment of impairment

The measurement of impairment losses across all categories of financial assets requires judgement, in particular, the estimation of the amount and timing of future cash flows and collateral values when determining impairment losses and the assessment of a significant increase in credit risk. These estimates are driven by a number of factors, changes in which can result in different levels of allowances. The Group's expected credit losses ("ECL") calculations are outputs of complex models with a number of underlying assumptions regarding the choice of variable inputs and their interdependencies. Elements of the ECL models that are considered accounting judgements and estimates include:

- ▶ The Group's internal credit grading model, which assigns PDs to the individual grades;
- ▶ The Group's criteria for assessing if there has been a significant increase in credit risk and so allowances for financial assets should be measured on a lifetime ECL ("LTECL") basis and the qualitative assessment;
- ▶ Development of ECL models, including the various formulae and the choice of inputs;
- ▶ Determination of associations between macroeconomic scenarios and, economic inputs, such as unemployment levels and collateral values, and the effect on probability of defaults ("PD"), exposure at defaults ("EAD") and loss given defaults (LGD);
- ▶ Selection of forward-looking macroeconomic scenarios and their probability weightings, to derive the economic inputs into the ECL models.

Transactions with related parties

In the normal course of business the Group enters into transactions with its related parties. IFRS 9 requires initial recognition of financial instruments based on their fair values. Judgement is applied in determining if transactions are priced at market or non-market interest rates, where there is no active market for such transactions. The basis for judgment is pricing for similar types of transactions with unrelated parties and effective interest rate analysis. Terms and conditions of related party balances are disclosed in Note 27.

Accounting for operations with the International Monetary Fund (the "IMF")

In accordance with the "Financial Organisation and Operations of the IMF" Pamphlet, each member of the IMF designates a fiscal agency (ministry of finance, central bank, or similar entity) to conduct financial transactions with the IMF and a depository (central bank or similar agency) to maintain the accounts of the IMF (the IMF No. 1 and No. 2 Accounts and the Securities Account).

In accordance with the *Law of the Republic of Armenia on Membership of the Republic of Armenia in the International Monetary Fund, International Bank for Reconstruction and Development, International Finance Corporation, International Development Association, European Bank for Reconstruction and Development, Multilateral Investment Guarantee Agency and International Center for Settlement of Investment Disputes*, the Bank acts as the fiscal agent of the Republic of Armenia in accordance with clause 1, article 5 of the IMF articles of agreement. The Bank also is considered to be a depository of the Republic of Armenia for operations and transactions with IMF.

In the case when central bank performs fiscal agent function, the amounts of assets and liabilities and results of transactions with the IMF are recorded in the statement of financial position and profit or loss of the central bank. When the central bank performs depository function in operations with the IMF, all transactions are made through correspondent accounts of central bank, however balances outstanding as a result of these transactions and respective profit or loss are not reflected in the central bank's statement of financial position and profit or loss (Note 16).

Leases – estimating the incremental borrowing rate

The Group cannot readily determine the interest rate implicit in the lease, therefore, it uses its incremental borrowing rate (IBR) to measure lease liabilities. The IBR is the rate of interest that the Group would have to pay to borrow over a similar term, and with a similar security, the funds necessary to obtain an asset of a similar value to the right-of-use asset in a similar economic environment. The IBR therefore reflects what the Group 'would have to pay', which requires estimation when no observable rates are available (such as for subsidiaries that do not enter into financing transactions) or when they need to be adjusted to reflect the terms and conditions of the lease (for example, when leases are not in the subsidiary's functional currency).

The Group estimates the IBR using observable inputs (such as market interest rates) when available and is required to make certain entity-specific estimates (such as the subsidiary's stand-alone credit rating).

2. Summary of significant accounting policies (continued)

(f) Adoption of new or revised standards and Interpretations

The Group has not early adopted any new standards, interpretations or amendments that have been issued but are not yet effective.

The Group applied for the first-time certain amendments to the standards, which are effective for annual periods beginning on 1 January 2022. They had no impact on the consolidated financial statements of the Group.

(g) Basis of consolidation

The consolidated financial statements comprise the financial statements of the Bank and its subsidiaries as at 31 December 2022. Subsidiaries are those investees that the Group controls. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee.

Specifically, the Group controls an investee if and only if the Group has:

- ▶ Power to direct relevant activities of the investees that significantly affect their returns;
- ▶ Exposure, or rights, to variable returns from its involvement with the investees; and
- ▶ The ability to use its power over the investees to affect the amount of investor's returns.

When the Group has less than a majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

- ▶ The contractual arrangement with the other vote holders of the investee;
- ▶ Rights arising from other contractual arrangements;
- ▶ The Group's voting rights and potential voting rights.

The Group re-assesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control. Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary.

Intercompany transactions, balances and unrealised gains on transactions between group companies are eliminated; unrealised losses are also eliminated unless the cost cannot be recovered. The Bank and all of its subsidiaries use uniform accounting policies consistent with the Group's policies.

A change in the ownership interest of a subsidiary, without a change of control, is accounted for as an equity transaction. Losses are attributed to the non-controlling interests even if that results in a deficit balance.

If the Group loses control over a subsidiary, any investment retained is recognised at fair value at the date of loss of control.

Non-controlling interest is that part of the net results and of the equity of a subsidiary attributable to interests which are not owned, directly or indirectly, by the Group. Non-controlling interest forms a separate component of the Group's equity.

The Group measures non-controlling interest that represents present ownership interest and entitles the holder to a proportionate share of net assets in the event of liquidation on a transaction by transaction basis, either at the non-controlling interest's proportionate share of net assets of the acquiree or fair value.

Associates

Associates are entities over which the Group has significant influence (directly or indirectly), but not control, generally accompanying a shareholding of between 20 and 50 percent of the voting rights. Investments in associates are accounted for using the equity method of accounting, and are initially recognised at cost. The carrying amount of associates includes goodwill identified on acquisition less accumulated impairment losses, if any. Dividends received from associates reduce the carrying value of the investment in associates. Other post-acquisition changes in Group's share of net assets of an associate are recognised as follows: (i) the Group's share of profits or losses of associates is recorded in the other income/other expense caption in the consolidated profit or loss for the year, (ii) the Group's share of other comprehensive income is recognised in other comprehensive income and presented separately, (iii) all other changes in the Group's share of the carrying value of net assets of associates are recognised in profit or loss within the other income/other expense captions.

However, when the Group's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the associate.

2. Summary of significant accounting policies (continued)

(h) Foreign currency translation and presentation of foreign currency items

Transactions in foreign currencies are initially recognised in the functional currency, converted at the exchange rate published by the Bank at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the reporting date are recalculated at the exchange rate published by the Bank at the reporting date.

Gains and losses resulting from the translation of foreign currency transactions are recognised in profit or loss as net foreign exchange gain/(loss). Translation at year-end rates does not apply to non-monetary items that are measured at historical cost.

Non-monetary items measured at fair value in a foreign currency, including equity investments, are translated using the exchange rates at the date when the fair value was determined.

Differences between the contractual exchange rate of a transaction in a foreign currency and the exchange rate published by the Bank at the date of the transaction are included in the consolidated statement of comprehensive income.

As at 31 December 2022 and 31 December 2021, the exchange rates used for translating foreign currency balances were as follows:

	31 December 2022	31 December 2021
AMD / 1 US dollar	393.57	480.14
AMD / 1 Euro	420.06	542.61
AMD / 1 GBP	474.13	646.17
AMD / 1 SDR (Special Drawing Rights)	523.78	672
AMD / 1 JPY	2.98	4.17
AMD / 1 RUB	5.59	6.42

(i) Cash and cash equivalents

For cash flows statement perspective cash and cash equivalents are items which are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value. The Group considers cash, nostro accounts with banks and SDR holdings in the IMF to be cash and cash equivalents. Funds restricted for a period of more than three months on origination are excluded from cash and cash equivalents. Cash and cash equivalents are carried at amortised cost.

(j) Financial instruments – key measurement terms

The Group measures financial instruments, such as, financial instruments at fair value through profit or loss, financial assets measured at fair value through other comprehensive income and derivatives at fair value at each reporting date. Also, fair values of financial instruments measured at amortised cost are disclosed in Note 29.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The best evidence of fair value is price in an active market. An active market is one in which transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis.

Fair value of financial instruments traded in an active market is measured as the product of the quoted price for the individual asset or liability and the quantity held by the Group. This is the case even if a market's normal daily trading volume is not sufficient to absorb the quantity held and placing orders to sell the position in a single transaction might affect the quoted price. Valuation techniques such as discounted cash flow models or models based on recent arm's length transactions or consideration of financial data of the investees are used to measure fair value of certain financial instruments for which external market pricing information is not available.

Fair value measurements are analysed by level in the fair value hierarchy as follows: (i) level one are measurements at quoted prices (unadjusted) in active markets for identical assets or liabilities, (ii) level two measurements are valuation techniques with all material inputs observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices), and (iii) level three measurements are valuations not based on solely observable market data (that is, the measurement requires significant unobservable inputs).

Transaction costs are incremental costs that are directly attributable to the acquisition, issue or disposal of a financial instrument. An incremental cost is one that would not have been incurred if the transaction had not taken place. Transaction costs include fees and commissions paid to agents (including employees acting as selling agents), advisors, brokers and dealers, levies by regulatory agencies and securities exchanges, and transfer taxes and duties. Transaction costs do not include debt premiums or discounts, financing costs or internal administrative or holding costs.

2. Summary of significant accounting policies (continued)

(j) Financial instruments – key measurement terms (continued)

Amortised cost is the amount at which the financial instrument was recognised at initial recognition less any principal repayments, plus accrued interest, and for financial assets less any write-down for expected credit losses. Accrued interest includes amortisation of transaction costs deferred at initial recognition and of any premium or discount to maturity amount using the effective interest method. Accrued interest income and accrued interest expense, including both accrued coupon and amortised discount or premium (including fees deferred at origination, if any), are not presented separately and are included in the carrying values of related items in the consolidated statement of financial position.

The effective interest method is a method of allocating interest income or interest expense over the relevant period, so as to achieve a constant periodic rate of interest (effective interest rate) on the carrying amount.

The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts (excluding future credit losses) through the expected life of the financial instrument or a shorter period, if appropriate, to the net carrying amount of the financial instrument. The effective interest rate discounts cash flows of variable interest instruments to the next interest repricing date, except for the premium or discount which reflects the credit spread over the floating rate specified in the instrument, or other variables that are not reset to market rates. Such premiums or discounts are amortised over the whole expected life of the instrument. The present value calculation includes all fees paid or received between parties to the contract that are an integral part of the effective interest rate.

Initial measurement

The classification of financial instruments at initial recognition depends on their contractual terms and the business model for managing the instruments. Financial instruments are initially measured at their fair value and, except in the case of financial assets and financial liabilities recorded at FVPL, transaction costs are added to, or subtracted from, this amount.

The Group classifies all of its financial assets based on the business model for managing the assets and the asset's contractual terms, measured at either:

- ▶ Amortised cost;
- ▶ FVOCI;
- ▶ FVPL.

The fair value of financial assets on initial recognition, if considered different from transaction price, is measured by discounting contractual cash flow through refinancing rate applicable for Republic of Armenia at the date of transaction. The difference between the fair value and nominal amount is recorded through profit or loss as loss on initial recognition of financial instruments, if the Bank is acting in its capacity of a Regulator of financial system. In cases when the Bank acts as a shareholder, the difference is recognised as additional investment in the equity of associates.

The Group classifies and measures its derivative and trading portfolio at FVPL. The Group may designate financial instruments at FVPL, if so doing eliminates or significantly reduces measurement or recognition inconsistencies.

Date of recognition

All regular way purchases and sales of financial assets are recognised on the settlement date. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the marketplace.

Financial assets at fair value through profit or loss

Financial instruments classified as held for trading are included in the category "Financial instruments at fair value through profit or loss". Financial assets are classified as held for trading if they are acquired for the purpose of selling in the near term. Derivatives are also classified as held for trading unless they are designated and effective hedging instruments. Gains or losses on financial assets held for trading, including interest income on trading debt securities are recognised in profit or loss as net gain/(loss) on financial instruments at fair value through profit and loss.

In the normal course of business, the Group enters into various derivative financial instruments including futures, forwards and swaps in the foreign exchange and capital markets. Such financial instruments are held for trading and are recorded at fair value.

The fair values are estimated based on quoted market prices or pricing models that take into account the current market and contractual prices of the underlying instruments and other factors.

Derivatives embedded in liabilities and non-financial host contracts, are treated as separate derivatives and recorded at fair value if they met the definition of a derivative (as defined above), their economic characteristics and risks are not closely related to those of the host contract, and the host contract is not itself held for trading or designated at FVPL. The embedded derivatives separated from the host are carried at fair value in the trading portfolio with changes in fair value recognised in the consolidated statement of profit or loss.

Financial assets are classified based on the business model and SPPI assessments.

2. Summary of significant accounting policies (continued)

(j) Financial instruments – key measurement terms (continued)

Placements with banks and other financial institutions, investments securities at amortised cost

The Group only measures placements with banks and other financial institutions and other financial investments at amortised cost if both of the following conditions are met:

- ▶ The financial asset is held within a business model with the objective to hold financial assets in order to collect contractual cash flows;
- ▶ The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding (SPPI).

The details of these conditions are outlined below.

Business model assessment

The Group determines its business model at the level that best reflects how it manages groups of financial assets to achieve its business objective.

The Group's business model is not assessed on an instrument-by-instrument basis, but at a higher level of aggregated portfolios and is based on observable factors such as:

- ▶ How the performance of the business model and the financial assets held within that business model are evaluated and reported to the entity's key management personnel;
- ▶ The risks that affect the performance of the business model (and the financial assets held within that business model) and, in particular, the way those risks are managed;
- ▶ The expected frequency, value and timing of sales are also important aspects of the Group's assessment.

The business model assessment is based on reasonably expected scenarios without taking 'worst case' or 'stress case' scenarios into account. If cash flows after initial recognition are realised in a way that is different from the Group's original expectations, the Group does not change the classification of the remaining financial assets held in that business model, but incorporates such information when assessing newly originated or newly purchased financial assets going forward.

The SPPI test

As a second step of its classification process the Group assesses the contractual terms of financial asset to identify whether they meet the SPPI test.

'Principal' for the purpose of this test is defined as the fair value of the financial asset at initial recognition and may change over the life of the financial asset (for example, if there are repayments of principal or amortisation of the premium/discount).

The most significant elements of interest within a lending arrangement are typically the consideration for the time value of money and credit risk. To make the SPPI assessment, the Group applies judgement and considers relevant factors such as the currency in which the financial asset is denominated, and the period for which the interest rate is set.

In contrast, contractual terms that introduce a more than de minimis exposure to risks or volatility in the contractual cash flows that are unrelated to a basic lending arrangement do not give rise to contractual cash flows that are solely payments of principal and interest on the amount outstanding. In such cases, the financial asset is required to be measured at FVPL.

Debt instruments at FVOCI

The Group measures debt instruments at FVOCI when both of the following conditions are met:

- ▶ The instrument is held within a business model, the objective of which is achieved by both collecting contractual cash flows and selling financial assets;
- ▶ The contractual terms of the financial asset meet the SPPI test.

FVOCI debt instruments are subsequently measured at fair value with gains and losses arising due to changes in fair value recognised in OCI. Interest revenue and foreign exchange gains and losses are recognised in profit or loss in the same manner as for financial assets measured at amortised cost. On derecognition, cumulative gains or losses previously recognised in OCI are reclassified from OCI to profit or loss.

The ECLs for debt instruments measured at FVOCI do not reduce the carrying amount of these financial assets in the statement of financial position, which remains at fair value. Instead, an amount equal to the allowance that would arise if the assets were measured at amortised cost is recognised in OCI as an accumulated impairment amount, with a corresponding charge to profit or loss. The accumulated loss recognised in OCI is recycled to the profit and loss upon derecognition of the asset.

2. Summary of significant accounting policies (continued)

(j) Financial instruments – key measurement terms (continued)

Equity instruments at FVOCI

Upon initial recognition, the Group occasionally elects to classify irrevocably some of its equity investments as equity instruments at FVOCI when they meet the definition of equity under IAS 32 *Financial Instruments: Presentation* and are not held for trading. Such classification is determined on an instrument-by-instrument basis.

Gains and losses on these equity instruments are never recycled to profit or loss. Dividends are recognised in profit or loss as other income when the right of the payment has been established, except when the Group benefits from such proceeds as a recovery of part of the cost of the instrument, in which case, such gains are recorded in OCI. Equity instruments at FVOCI are not subject to an impairment assessment. Upon disposal of these instruments, the accumulated revaluation reserve is transferred to retained earnings.

Reclassification of financial assets

The Group does not reclassify its financial assets subsequent to their initial recognition, apart from the exceptional circumstances in which the Group changes the business model for managing financial assets. Financial liabilities are never reclassified.

Borrowings

Issued financial instruments or their components are classified as liabilities, where the substance of the contractual arrangement results in the Group having an obligation either to deliver cash or another financial asset to the holder, or to satisfy the obligation other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of own equity instruments. Such instruments include deposits and accounts of financial and other institutions, amounts due to the Government and the IMF, other borrowed funds and debt securities issued.

After initial recognition, borrowings are subsequently measured at amortised cost using the effective interest method. Gains and losses are recognised in profit or loss when the borrowings are derecognised as well as through the amortisation process.

Derecognition of financial assets and liabilities

A financial asset (or, where applicable a part of a financial asset or part of a group of similar financial assets) is derecognised when:

- ▶ The rights to receive cash flows from the asset have expired;
- ▶ The Group has transferred its rights to receive cash flows from the asset, or retained the right to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a 'pass-through' arrangement; and
- ▶ The Group either (a) has transferred substantially all the risks and rewards of the asset, or (b) has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

Where the Group has transferred its rights to receive cash flows from an asset and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the Group's continuing involvement in the asset. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

Where continuing involvement takes the form of a written and/or purchased option (including a cash-settled option or similar provision) on the transferred asset, the extent of the Group's continuing involvement is the amount of the transferred asset that the Group may repurchase, except that in the case of a written put option (including a cash-settled option or similar provision) on an asset measured at fair value, the extent of the Group's continuing involvement is limited to the lower of the fair value of the transferred asset and the option exercise price.

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires.

Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognised in profit or loss.

2. Summary of significant accounting policies (continued)

(l) Offsetting

Financial assets and liabilities are offset and the net amount reported in the consolidated statement of financial position only when there is a legally enforceable right to offset the recognised amounts, and there is an intention to either settle on a net basis, or to realise the asset and settle the liability simultaneously. Such a right of set off (a) must not be contingent on a future event and (b) must be legally enforceable in all of the following circumstances: (i) in the normal course of business, (ii) the event of default and (iii) the event of insolvency or bankruptcy.

(m) Repurchase and reverse repurchase agreements

Sale and repurchase agreements (“repo”) are treated as secured financial transactions.

Securities sold under sale and repurchase agreements are retained in the consolidated statement of financial position and, in case the transferee has the right by contract or custom to sell or repledge them, reclassified as securities pledged under sale and repurchase agreements. The corresponding liability is presented within deposits and accounts of financial and other institutions. The difference between the sale and repurchase price is treated as interest expense and accrued over the life of the repo agreements.

Funds provided to purchase securities under agreements to resell (“reverse repo agreements”) are recorded as placements with banks and other financial institutions. The difference between the sale and repurchase price, adjusted by interest and dividend income collected by the counterparty, is treated as interest income and accrued over the life of repo agreements using the effective interest method.

(n) Notes and coins in circulation

Notes and coins in circulation issued by the Bank are presented in the consolidated statement of financial position as a liability at nominal value. Printing and production costs of notes and coins are recognised in profit or loss as incurred. Cash in vault in domestic currency is deducted from notes and coins in circulation balance.

(o) Numismatic coins

Numismatic coins are measured at the lower of cost and net realisable value. The cost of numismatic coins is based on the first-in first-out principle, and includes expenses incurred in acquiring the numismatic coins and bringing them to their existing location. Net realisable value is the estimated selling price less the estimated costs necessary to make the sale. During the sale the inflow amount is recognised as income in the consolidated statement of comprehensive income for the current year, and the amount of carrying value is recognised as expense in the consolidated statement of comprehensive income for the current year.

(p) Property and equipment

Property and equipment are carried at cost less accumulated depreciation and any accumulated impairment. Such cost includes the cost of replacing part of equipment when that cost is incurred if the recognition criteria are met. Likewise, when a major repair is performed, its cost is recognised in the carrying amount of the property and equipment as a replacement if the recognition criteria are satisfied.

Where significant parts of property and equipment are required to be replaced at intervals, the Group recognises such parts as individual assets with specific useful lives and depreciates them accordingly.

All other repair and maintenance costs are recognised in profit or loss as incurred.

An item of property and equipment and any significant part initially recognised is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in profit or loss when the asset is derecognised.

Depreciation

Depreciation of an asset begins when it is available for use. Depreciation is calculated on a straight-line basis over the following estimated useful lives:

Land and buildings:	
▶ Buildings	30-80 years
▶ Building technical systems	3-20 years
Networks, computer and other equipment	2-15 years
Vehicles	5 years

2. Summary of significant accounting policies (continued)

(p) Property and equipment (continued)

The residual value of an asset is the estimated amount that the Group would currently obtain from disposal of the asset less the estimated costs of disposal, if the asset were already of the age and in the condition expected at the end of its useful life. The assets' residual values and useful lives are reviewed and adjusted if appropriate, at the end of each reporting period.

(q) Intangible assets

Intangible assets include computer software and licenses. Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is fair value at the date of acquisition. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and any accumulated impairment losses. Intangible assets with finite lives are amortised over the useful economic lives of 1 to 10 years and assessed for impairment whenever there is an indication that the intangible asset may be impaired.

Computer software maintenance costs are recognised in profit or loss as incurred.

(r) Impairment

Impairment of financial assets

Information on impairment assessment of financial assets is presented in Note 30.

Non-financial assets

The Group assesses at each reporting date whether there is an indication that an asset may be impaired. If any indication exists, or when annual impairment testing for an asset is required, the Group estimates the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or cash-generating unit (CGU) fair value less costs to sell and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets.

When the carrying amount of an asset or CGU exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

All impairment losses are recognised in consolidated statement of comprehensive income and reversed only if there has been a change in the assumptions used to determine the asset's recoverable amount. The reversal is limited so that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised.

(s) Provisions

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events, and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate of the amount of obligation can be made.

(t) Taxation

The Bank is not subject to any taxes except for import duties. At the same time the Bank acts as a tax agent according to the procedures envisaged by the laws of the Republic of Armenia. The Group's subsidiaries are subject to income tax and other taxes on their operations in accordance with the laws of the Republic of Armenia. The applicable tax rate for subsidiaries is 18% (2021: 18%).

(u) Issued capital

Issued capital represents the authorised capital of the Bank, which is the property of and belongs to the Republic of Armenia and may not be pledged, confiscated or otherwise alienated against the obligations of the Republic of Armenia.

The non-interest bearing promissory note extended by the Government as envisaged by the article 11.4 of the Law to cover excess of the losses of the Group over its reserves is recognised as Promissory Note issued by the Government in the Equity of the Group. According to Law on Central Bank of Republic of Armenia in the event if, by the end of the financial year, the losses resulted in the Central Bank balance sheet exceed the aggregate amount of its reserves, the Government, within 30 days upon the date of the balance sheet publication, shall, as stated by law, grant noninterest bearing demand government ordinary promissory notes as a contribution to the Central Bank capital in an amount of exceeding sum.

The Group considers that the Bank does not have an enforceable right at the end of the year to claim receivables from the Government formed as a result of losses in accordance with the above Law. Such receivable is recognized at the time of the respective decision by the Government to cover the excess of losses.

2. Summary of significant accounting policies (continued)

(v) Profit allocation

The profit of the Group determined based on its consolidated financial statements shall be allocated as follows:

- a) 20% of the profit shall be addressed to replenish the general reserve until its total amounts 25% of the broad money;
- b) Appropriations shall be made to cover redemption expenses of the promissory note which have been previously issued by the Government to the Bank.

The balance of the profit of the Group remaining after hereinbefore deductions shall be paid to the state budget.

The calculation of the profit of the Group to be paid to the state budget shall not include positive difference of income and expense, generated from revaluation and acquisition of gold, SDR, foreign currency and their equivalents, adjusted to the extent of provisioning to recompense adverse results of previous year (Note 25).

(w) Contingencies

Contingent liabilities are not recognised in the consolidated statement of financial position but are disclosed unless the possibility of any outflow in settlement is remote. A contingent asset is not recognised in the consolidated statement of financial position but disclosed when an inflow of economic benefits is probable.

(x) Interest income and expense

The Group calculates interest revenue on debt financial assets measured at amortized cost or at FVOCI by applying the effective interest rate to the gross carrying amount of financial assets other than credit-impaired assets, which is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or a shorter period, where appropriate, to the net carrying amount of the financial asset or financial liability. The calculation takes into account all contractual terms of the financial instrument (for example, prepayment options) and includes any fees or incremental costs that are directly attributable to the instrument and are an integral part of the effective interest rate, but not future credit losses. The carrying amount of the financial asset or financial liability is adjusted if the Group revises its estimates of payments or receipts. The adjusted carrying amount is calculated based on the original effective interest rate and the change in carrying amount is recorded as interest income or expense.

Once the recorded value of a financial asset or a group of similar financial assets has been reduced due to an impairment loss, interest income continues to be recognised using the original effective interest rate applied to the new carrying amount.

Interest income on financial assets measured at FVTPL is considered to be incidental to the Group's trading operations and is presented together with all other changes in the fair value in the consolidated statement of comprehensive income.

(y) Fee and commission income

Fees earned for the provision of services over a period of time are accrued over that period.

3. New accounting pronouncements

A number of new standards are effective for annual periods beginning after 1 January 2022 and earlier application is permitted; however, the Group has not early adopted the new or amended standards in preparing these consolidated financial statements.

The following new and amended standards are not expected to have a significant impact on the Group's consolidated financial statements.

- ▶ Deferred Tax related to Assets and Liabilities arising from a Single Transaction (Amendments to IAS 12).
- ▶ IFRS 17 *Insurance Contracts* and amendments to IFRS 17 *Insurance Contracts*.
- ▶ Disclosure of Accounting Policies (Amendments to IAS 1 and IFRS Practice Statement 2).
- ▶ Definition of Accounting Estimates (Amendments to IAS 8).

4. Interest income

<i>In thousands of Armenian Drams</i>	2022	2021
Interest income from foreign currency assets		
Nostro accounts	8,803,333	145,858
Term deposits	529,084	261,593
Placements with the IMF	112,070	9,247
Investments at amortized cost	34,568	–
Financial assets measured at fair value through other comprehensive income	24,067	42,769
Other	27,951	538
Total interest income from foreign currency assets	9,531,073	460,005
Interest income from domestic currency assets		
Placements and investments with banks and other financial institutions	60,749,281	53,214,681
Financial assets measured at fair value through other comprehensive income	1,042,244	1,056,269
Total interest income from domestic currency assets	61,791,525	54,270,950
Total interest income calculated using effective interest rate	71,322,598	54,730,955

5. Interest expense

<i>In thousands of Armenian Drams</i>	2022	2021
Interest expense on foreign currency liabilities		
Other borrowed funds	3,211,764	3,260,519
Due to the IMF	2,658,422	1,057,696
Total interest expense on foreign currency liabilities	5,870,186	4,318,215
Interest expense on domestic currency liabilities		
Due to the Government (Note 27)	39,198,869	30,153,372
Debt securities issued	1,111,089	741,615
Deposits and accounts of financial and other institutions	546,417	485,217
Other	27,328	48,123
Total interest expense on domestic currency liabilities	40,883,703	31,428,327
Total interest expense	46,753,889	35,746,542

6. Net foreign exchange loss

<i>In thousands of Armenian Drams</i>	2022	2021
Net loss from foreign exchange translation	(98,408,713)	(63,979,062)
Net gain on spot transactions	9,433,951	6,884,310
Total net foreign exchange loss	(88,974,762)	(57,094,752)

Included in the Net loss from foreign exchange translation is a foreign exchange translation loss of AMD 144,770,310 thousand on financial instruments at fair value through profit or loss (2021: loss in the amount of AMD 84,059,388 thousand).

7. Net (loss)/gain on derivatives

<i>In thousands of Armenian Drams</i>	2022	2021
Net (loss)/gain on swaps	(1,556,546)	542,380
Net loss on futures	(11,811)	(29,685)
Total net (loss)/gain on derivatives	(1,568,357)	512,695

8. Net loss on financial instruments at fair value through profit or loss

<i>In thousands of Armenian Drams</i>	2022	2021
Net loss on foreign securities under own management	(3,328,711)	(562,931)
Net gain on money market instruments under own management	91,505	10,697
Total net loss on financial instruments at fair value through profit or loss	(3,237,206)	(552,234)

9. Other income

<i>In thousands of Armenian Drams</i>	2022	2021
Numismatic coins	1,080,320	1,524,482
Disposal of equity interest	498,765	-
Financial agency fee	136,396	390,193
Other	4,337,929	3,806,227
Total other income	6,053,410	5,720,902

Financial agency fee represents fee which is obtained by the Bank as an agent of the Government in accordance with the agency agreements. Based on the conditions of the agency agreements the Bank provides loans to commercial banks and other financial institutions.

During the year ended 31 December 2022, the amount of AMD 3,828,581 thousand included in "Other" line represents the revenue of one subsidiary of the Bank which renders plastic cards processing services (2021: AMD 2,990,601 thousand).

During the year ended 31 December 2022 the Bank received AMD 498,765 thousand income from the sale of equity shares in Armenia Securities Exchange (AMX). The consideration was received fully in cash. As a result the Bank retains significant influence over AMX.

10. Cost of production of banknotes, coins and numismatics

<i>In thousands of Armenian Drams</i>	2022	2021
Production of banknotes and coins	1,160,410	1,305,050
Production of numismatic coins sold during the year	735,191	1,060,370
Total cost of production of banknotes, coins and numismatics	1,895,601	2,365,420

11. Other expenses

<i>In thousands of Armenian Drams</i>	2022	2021
Employee compensation, staff training and related payments	8,666,688	7,778,744
Depreciation and amortization	2,690,445	2,876,600
Repairs and maintenance	1,483,805	1,390,373
Expenses on development and maintenance of payment system	485,720	440,101
Security, transportation and insurance expenses	388,870	379,822
Professional services	264,377	135,461
Other	3,221,755	3,234,190
Total other expenses	17,201,660	16,235,291

During the year ended 31 December 2022 and 31 December 2021, the main line items of expenses included into "Other" line represent subscription fees, communication expenses, utilities, rent expenses and stationery of the Bank and its subsidiaries

Amounts of employee compensation, staff training and related payments, depreciation and amortisation and repairs and maintenance expenses for the year ended 31 December 2022 and 31 December 2021 also include respective amounts of expenses of the Group's subsidiaries.

12. Placements and investments with banks and other financial institutions

12.1 Placements and investments with banks and other financial institutions in foreign currency

<i>In thousands of Armenian Drams</i>	31 December 2022	31 December 2021
Placements with banks and other financial institutions in foreign currency		
Nostro accounts	892,116,679	750,194,375
Term deposits	38,189,366	12,875,235
Margin requirements of derivatives	1,902,355	675,167
Allowance for ECL	(78,597)	(108,684)
Total placements with banks and other financial institutions in foreign currency	932,129,803	763,636,093

Concentration of placements with banks and other financial institutions in foreign currency

As at 31 December 2022 the Group had placements in three banks with individual balance exceeding 10% of total placements. The gross value of these placements as of 31 December 2022 amounted to AMD 729,956,221 thousand (31 December 2021: placements with two banks amounting to AMD 604,132,858 thousand).

Allowance for impairment of placements with banks and other financial institutions in foreign currency at amortised cost

An analysis of changes in the gross carrying value and corresponding ECL in relation to Placements with banks and other financial institutions in foreign currency during the year ended 31 December 2022 and 31 December 2021 is as follows:

<i>In thousands of Armenian Drams</i>	2022		2021	
	Stage 1	Total	Stage 1	Total
Placements with banks and other financial institutions in foreign currency				
Gross carrying value as at 1 January	763,744,777	763,744,777	385,088,673	385,088,673
New assets originated or purchased	927,565,715	927,565,715	761,094,488	761,094,488
Assets repaid	(759,102,092)	(759,102,092)	(382,438,384)	(382,438,384)
At 31 December	932,208,400	932,208,400	763,744,777	763,744,777

<i>In thousands of Armenian Drams</i>	2022		2021	
	Stage 1	Total	Stage 1	Total
Placements with banks and other financial institutions in foreign currency				
ECL as at 1 January	108,684	108,684	69,667	69,667
New assets originated or purchased	28,279	28,279	89,648	89,648
Assets repaid	(16,332)	(16,332)	(38,316)	(38,316)
Changes to models and inputs used for ECL calculations	(42,034)	(42,034)	(12,315)	(12,315)
At 31 December	78,597	78,597	108,684	108,684

12.2 Placements and investments with banks and other financial institutions in domestic currency

<i>In thousands of Armenian Drams</i>	31 December 2022	31 December 2021
Placements and investments with banks and other financial institutions in domestic currency		
Repurchase agreements and other overnight facilities	234,708,585	485,415,041
Loans to resident financial institutions under arrangement with the KfW, the World Bank, Asian Development Bank and European Investment Bank	211,980,557	185,767,880
Mortgage refinancing	166,945,181	134,676,322
Loans to resident financial institutions financed by own funds	53,506,411	-
Deposits placed in commercial banks	34,504,138	77,167,979
Investments measured at amortised cost (corporate bonds)	24,378,947	24,306,950
Other loans	2,707,641	3,012,901
Allowance for ECL	(4,165,679)	(3,511,728)
Total placements and investments with banks and other financial institutions in domestic currency	724,565,781	906,835,345

12. Placements and investments with banks and other financial institutions (continued)

12.2 Placements and investments with banks and other financial institutions in domestic currency (continued)

Concentration of placements and investments with banks and other financial institutions in domestic currency

As at 31 December 2022 placements with two banks had balances individually exceeding 10% of total placements with banks and other financial institutions denominated in domestic currency (31 December 2021: two banks). The total balance of the concentration amounts to AMD 354,964 thousand (31 December 2021: AMD 384,773 thousand).

Collateral received under reverse repurchase agreements

The Group accepted securities on reverse repurchase agreements as collateral, which the Group is permitted to sell or repledge. As at 31 December 2022 amounts receivable under reverse repurchase agreements are with 4 resident bank (31 December 2021: 13 resident banks) and are collateralised by the following securities:

<i>In thousands of Armenian Drams</i>	Fair value as at 31 December 2022	Fair value as at 31 December 2021
Treasury bonds of the Government	221,850,168	447,781,610
Eurobonds issued by the Government	18,627,282	4,187,656
Corporate bonds	1,992,702	58,141,427
Total	242,470,152	510,110,693

Loans to resident banks and financial institutions

Loans to resident banks and financial institutions under the agreements with the KfW, Asian Development Bank (ADB), European Investment Bank (EIB) and the World Bank are provided by the Group to commercial banks and other financial institutions under the following programs which are financed by KfW Banking Group, EIB, ADB and International Bank for Reconstruction and Development (member of the World Bank):

- ▶ **SME Support.** The objective of the SME support Programs of KfW and the World Bank is to develop SMEs in Armenia, in particular by providing the necessary funding to the commercial banks and credit organisations in order to make lending to micro, small and medium size private enterprises efficient and profitable. Loans received from KfW during 2021 were to stimulate SME lending and to help to cope with the adverse economic effects of the COVID-19 pandemic. These Programs are implemented through introducing new loan tools (technologies) in partner banks and credit organisations and conducting trainings and development of qualified loan officers.

“Agricultural Sector Support” loan program financed by KfW started in 2012 which has the objective to provide long-term funding and technical assistance to SMEs engaged in agriculture and private farmers.

During 2014 a new loan was received from ADB within the framework of “Women Entrepreneurship Support Sector Development” Program. The main objective of the program is to stimulate entrepreneurship development among women by increasing the availability of domestic currency funds for women-owned SMEs through the financial system of the Republic of Armenia.

During 2015 a new loan was received from EIB. The loan was fully used to cover the demand for lending to SMEs and middle capitalization enterprises in agriculture and tourism sectors through commercial banks and credit organisations. The next phase (in 2017) also included export support and climate change management component and required some actions from the side of sub-borrowers to mitigate the impact on the environment. The third phase of the program (during 2020 and 2021) in addition to previous two phases included lending to production sector.

During 2016 a new loan was received under “Support for the financing of the Energy Efficiency in MSME sector” Program from KfW. The objective of the Program is to introduce and expand the offer of energy efficiency loans in Armenian financial institutions and to cover at the same time the demand for energy efficiency loans from micro, small and medium sized enterprises (MSME). The Program aims at contributing to reduce the energy demand of Armenian MSME and the volume of CO₂-emissions as well as to enhance the competitiveness of the enterprises.

- ▶ **Development of the Renewable Energies.** The overall objective of the Program financed by KfW is to contribute to the utilization of renewable energy by making loans available for private entities and enterprises. The resources of first two phases were allocated to financing of Small Hydro Power Plants (“SHPP”) construction and capacity increase, whereas the last three phases were aimed at financing of physical and legal entities constructing for own consumption small (up to 500 kw), as well as large-scale (up to 5MW) (licensed) solar photovoltaic stations and other types (biomass, wind) of renewable energy sources.
- ▶ **Development of sustainable housing market.** Starting from 2006 the purpose of the Program financed by KfW has been the expansion of sustainable lending to private households by commercial banks and credit organisations to either purchase or modernize housing as well as to promote rural and energy efficient housing loans. Within this program the Bank granted loans to its subsidiary which are eliminated as intragroup transaction.

12. Placements and investments with banks and other financial institutions (continued)

12.2 Placements and investments with banks and other financial institutions in domestic currency (continued)

Within the framework of the programs the Group selects eligible partner financial institutions (PFIs) using technical and financial criteria, and allocates funds to PFIs according to contracts signed with these counterparties. The PFIs define final beneficiaries and bear the risks for the disbursed loans.

The table below shows gross carrying values of the loans as at 31 December 2022 and 31 December 2021 for each program.

<i>In thousands of Armenian Drams</i>	31 December 2022	31 December 2021
KFW arrangements		
Support to Small and Medium Enterprises (MSME)	62,958,374	40,098,097
Promotion of Renewable Energies (RE)	42,435,908	27,521,744
Agricultural Sector Support (AF)	12,511,392	13,022,490
Support for the Financing of the Energy Efficiency in MSME sector (EE)	15,471,923	9,105,141
WB arrangements		
Access to Finance for Small and Medium Enterprises (AFSME)	7,221,781	14,094,803
ADB arrangements		
Women's Entrepreneurship Support Sector Development	5,435,329	6,529,100
EIB arrangements		
Private Sector Facility	65,945,850	75,396,505
Total loans to resident financial institutions under arrangement with the KfW, the World Bank, Asian Development Bank and European Investment Bank	211,980,557	185,767,880

As at 31 December 2022 loans to resident banks under the agreements with the KfW, the World Bank, ADB and EIB are provided to 15 domestic banks (31 December 2021: 14 domestic banks) and 10 financial institutions (31 December 2021: 9 financial institutions). As described in note 16, these loans represent a separate market segment and accordingly, at the initial recognition the Group does not discount them.

Mortgage refinancing has been provided to financial institutions with remaining maturity period up to 10 years (2021: 10 years). As at 31 December 2022 mortgage refinancing loans were collateralised with claims under loan agreements with the banks' and other financial institutions' customers in the amount of AMD 167,548,595 thousand (31 December 2021: AMD 134,934,241 thousand).

Deposits placed in commercial banks represent on-demand and short-term placements made by the Group's subsidiaries in commercial banks.

Other loans in the amount of AMD 2,162,793 thousand (31 December 2021: AMD 2,481,653 thousand) are secured by real estate, in the amount of AMD 82,339 thousand (31 December 2021: AMD 98,477 thousand) are secured by movable property and other assets.

Loans to resident financial institutions financed by own funds with the initial maturity of up to 10 years represent loans to associates net of loss on initial recognition that are collateralised by assets of the associates.

Allowance for impairment of placements and investments with banks and other financial institutions in domestic currency at amortised cost

An analysis of changes in the gross carrying value and corresponding ECL in relation to Placements and investments with banks and other financial institutions in domestic currency during the year ended 31 December 2022 and 31 December 2021 is as follows:

<i>In thousands of Armenian Drams</i>	2022		2021	
	Stage 1	Total	Stage 1	Total
Placements and investments with banks and other financial institutions in domestic currency				
Gross carrying value as at 1 January	910,347,073	910,347,073	707,973,675	707,973,675
New assets originated or purchased	447,086,512	447,086,512	669,230,992	669,230,992
Assets repaid	(628,702,125)	(628,702,125)	(466,857,594)	(466,857,594)
At 31 December	728,731,460	728,731,460	910,347,073	910,347,073

12. Placements and investments with banks and other financial institutions (continued)**12.2 Placements and investments with banks and other financial institutions in domestic currency (continued)**

<i>In thousands of Armenian Drams</i>	2022		2021	
	Stage 1	Total	Stage 1	Total
Placements and investments with banks and other financial institutions in domestic currency				
ECL as at 1 January	3,511,728	3,511,728	3,438,912	3,438,912
New assets originated or purchased	2,341,292	2,341,292	1,585,790	1,585,790
Assets repaid	(734,286)	(734,286)	(608,137)	(608,137)
Changes to models and inputs used for ECL calculations	(953,055)	(953,055)	(904,837)	(904,837)
At 31 December	4,165,679	4,165,679	3,511,728	3,511,728

13. Financial instruments at fair value through profit or loss

<i>In thousands of Armenian Drams</i>	31 December 2022	31 December 2021
Assets		
Debt and other fixed-income instruments in foreign currency		
Foreign bonds	673,333,487	720,994,527
Foreign money market instruments	3,969,371	13,570,747
Total financial instruments at fair value through profit or loss in foreign currency	677,302,858	734,565,274

As at 31 December 2022 and 31 December 2021 foreign securities at fair value include:

<i>In thousands of Armenian Drams</i>	31 December 2022	31 December 2021
Government bonds	545,500,450	607,008,850
Other securities	127,833,037	113,985,677
Total	673,333,487	720,994,527

Debt securities at fair value through profit or loss are quoted US treasury bills and securities issued by governments of European countries, foreign banks and other financial institutions.

14. Derivative financial instruments

<i>In thousands of Armenian Drams</i>	31 December 2022	31 December 2021
Derivative financial assets		
Foreign currency swap contracts in foreign market	-	445,057
Total derivative financial assets	-	445,057
Derivative financial liabilities		
Foreign currency swap contracts in foreign market	1,168,708	-
Total derivative financial liabilities	1,168,708	-

15. Investments

15.1 Financial assets measured at fair value through other comprehensive income in foreign currency

<i>In thousands of Armenian Drams</i>	31 December 2022	31 December 2021
Equity investments		
Foreign securities	2,254,480	2,567,512
SWIFT	3,736	3,736
Total equity investments	2,258,216	2,571,248
Debt instruments		
Corporate bonds in foreign currency	–	787,898
EU bonds of the Government of the Republic of Armenia	567,928	–
Total debt investments	567,928	787,898
Total financial assets measured at fair value through other comprehensive income in foreign currency	2,826,144	3,359,146

As at 31 December 2022 and 31 December 2021 within foreign securities there are equity securities classified as financial assets measured at fair value through other comprehensive income in foreign currency, which represent investment of one of the Group's subsidiaries into the development fund initiated and led by the KfW. The development fund was established with the aim to foster economic development and prosperity in the Southeast Europe region including the Republic of Armenia through the sustainable provision of additional development finance.

As at 31 December 2021 debt securities denominated in foreign currency and classified as financial assets measured at fair value through other comprehensive income in foreign currency represent coupon securities issued by one of Armenian banks.

An analysis of changes in the gross carrying values and associated ECLs in relation to debt securities at FVOCI in foreign currency during the year ended 31 December 2022 and 31 December 2021 is as follows:

<i>In thousands of Armenian Drams</i>	2022		2021	
	Stage 1	Total	Stage 1	Total
Debt securities at FVOCI in foreign currency- EU bonds of the Government of the Republic of Armenia				
Gross carrying value as at 1 January	–	–	–	–
New assets originated or purchased	567,928	567,928	–	–
At 31 December	567,928	567,928	–	–

<i>In thousands of Armenian Drams</i>	2022		2021	
	Stage 1	Total	Stage 1	Total
Debt securities at FVOCI in foreign currency- EU bonds of the Government of the Republic of Armenia				
ECL as at 1 January	–	–	–	–
New assets originated or purchased	6,613	6,613	–	–
At 31 December	6,613	6,613	–	–

<i>In thousands of Armenian Drams</i>	2022		2021	
	Stage 1	Total	Stage 1	Total
Debt securities at FVOCI in foreign currency- Corporate bonds in foreign currency				
Gross carrying value as at 1 January	787,898	787,898	840,759	840,759
Assets repaid	(787,898)	(787,898)	(52,861)	(52,861)
At 31 December	–	–	787,898	787,898

15. Investments (continued)

15.1 Financial assets measured at fair value through other comprehensive income in foreign currency (continued)

<i>In thousands of Armenian Drams</i>	2022		2021	
	Stage 1	Total	Stage 1	Total
Debt securities at FVOCI in foreign currency-				
Corporate bonds in foreign currency				
ECL as at 1 January	3,709	3,709	14,386	14,386
Assets repaid	(3,709)	(3,709)	(1,169)	(1,169)
Changes to models and inputs used for ECL calculations	–	–	(9,508)	(9,508)
At 31 December	–	–	3,709	3,709

15.2 Financial assets measured at fair value through other comprehensive income in domestic currency

<i>In thousands of Armenian Drams</i>	31 December 2022	31 December 2021
Debt instruments		
Securities of the Government of the Republic of Armenia	8,875,170	9,680,244
Promissory note of the Government (Note 25)	54,395,224	15,776,447
Total debt instruments	63,270,394	25,456,691

As at 31 December 2022 carrying value of a non-interest bearing on-demand promissory note issued by the Government amounts to AMD 54,395,224 thousand (2021: AMD 15,776,447 thousand). The management believes that the carrying amount of the promissory note approximates its fair value (Note 25).

An analysis of changes in the gross carrying values and associated ECLs in relation to debt securities at FVOCI in domestic currency during the year ended 31 December 2022 is as follows:

<i>In thousands of Armenian Drams</i>	2022		2021	
	Stage 1	Total	Stage 1	Total
Debt securities at FVOCI in domestic currency – securities of the Government of the Republic of Armenia				
Gross carrying value as at 1 January	9,680,244	9,680,244	11,578,230	11,578,230
Assets repaid	(805,074)	(805,074)	(1,897,986)	(1,897,986)
At 31 December	8,875,170	8,875,170	9,680,244	9,680,244

<i>In thousands of Armenian Drams</i>	2022		2021	
	Stage 1	Total	Stage 1	Total
Debt securities at FVOCI in domestic currency – securities of the Government of the Republic of Armenia				
ECL as at 1 January	46,776	46,776	58,589	58,589
Assets repaid	(1,394)	(1,394)	(833)	(833)
Changes to models and inputs used for ECL calculations	(4,969)	(4,969)	(10,980)	(10,980)
At 31 December	40,413	40,413	46,776	46,776

15.3 Equity-accounted investees

<i>In thousands of Armenian Drams</i>	31 December 2022	31 December 2021
Interest in associates	33,420,114	950,369
Total investments in associates	33,420,114	950,369

In January 2022 one of the Group's subsidiaries invested AMD 32,000,582 thousand in 25% of the equity of one of the commercial banks of Armenia. As a result Group obtained significant influence over the investee.

15. Investments (continued)

15.3 Equity (continued)

The table below analyses in aggregate, the carrying amount and share of profit and OCI of these associates.

<i>In thousands of Armenian Drams</i>	2022	2021
Carrying amount as at 1 January	950,369	909,514
Investment in associate	32,000,582	-
Share of:		
- Profit	(356,694)	40,855
- OCI	825,857	-
Carrying amount as at 31 December	33,420,114	950,369

15.4 Investments at amortized cost in foreign currency

<i>In thousands of Armenian Drams</i>	31 December 2022	31 December 2021
EU bonds of the Government of the Republic of Armenia	1,053,407	-
Corporate bonds in foreign currency	395,939	-
Allowance for ECL	(16,776)	-
Total investments at amortized cost	1,432,570	-

As at 31 December 2022 debt securities denominated in foreign currency and classified as investments at amortized cost in foreign currency represent EU bonds issued by the Government of the Republic of Armenia.

As at 31 December 2022 corporate bonds denominated in foreign currency and classified as investments at amortized cost in foreign currency represent coupon securities issued by one of Armenian banks.

An analysis of changes in the gross carrying values and associated ECLs in relation to investments at amortized cost in foreign currency during the year ended 31 December 2022 and 31 December 2021 is as follows:

<i>In thousands of Armenian Drams</i>	2022		2021	
	Stage 1	Total	Stage 1	Total
Debt securities at amortized cost in foreign currency - EU bonds of the Government of the Republic of Armenia				
Gross carrying value as at 1 January	-	-	-	-
New assets originated or purchased	1,053,407	1,053,407	-	-
At 31 December	1,053,407	1,053,407	-	-

<i>In thousands of Armenian Drams</i>	2022		2021	
	Stage 1	Total	Stage 1	Total
Debt securities at amortized cost in foreign currency - EU bonds of the Government of the Republic of Armenia				
ECL as at 1 January	-	-	-	-
New assets originated or purchased	12,545	12,545	-	-
At 31 December	12,545	12,545	-	-

<i>In thousands of Armenian Drams</i>	2022		2021	
	Stage 1	Total	Stage 1	Total
Debt securities at amortized cost in foreign currency - Corporate bonds in foreign currency				
Gross carrying value as at 1 January	-	-	-	-
New assets originated or purchased	395,939	395,939	-	-
At 31 December	395,939	395,939	-	-

15. Investments (continued)**15.4 Investments at amortized cost in foreign currency (continued)**

<i>In thousands of Armenian Drams</i>	2022		2021	
	Stage 1	Total	Stage 1	Total
Debt securities at amortized cost in foreign currency- Corporate bonds in foreign currency				
ECL as at 1 January	-	-	-	-
New assets originated or purchased	4,231	4,231	-	-
At 31 December	4,231	4,231	-	-

16. Operations with the International Monetary Fund**Placements with the IMF**

<i>In thousands of Armenian Drams</i>	31 December 2022	31 December 2021
Placements with the IMF		
Membership quota in the IMF (subscription)	67,462,864	86,553,600
SDR holdings in the IMF	2,391,159	15,768,985
Accrued interest	30,491	2,340
Total placements with the IMF	69,884,514	102,324,925

The Republic of Armenia is a member of the International Monetary Fund. The Bank holds the quota for the Republic of Armenia membership in the IMF.

The quota balance is a special type asset. Quotas vary based on the economic size of each country and are determined by the Board of Governors of the IMF. The quota determines a member's voting power in the IMF, the limits of access to the financial resources of the IMF and a participant's share in the allocation of SDRs, the IMF's unit of account. As at 31 December 2022 the quota of the Republic of Armenia in the IMF amounted to SDR 128,800 thousand, or AMD 67,462,864 thousand at the year-end official exchange rate of Armenian Dram to SDR (2021: SDR 128,800 thousand or AMD 86,553,600 thousand at the year-end official exchange rate of Armenian Dram to SDR). The quota does not earn interest and is a non-current asset. The quota of the Republic of Armenia was paid in the form of non-interest-bearing promissory note issued to the IMF by the Government of RA.

The Bank maintains an SDR-denominated current account with the IMF used for processing and settlement of transactions with the IMF. This current account earns interest based on the SDR Interest Rate which is published by the IMF on a weekly basis.

Movements in SDR holdings account during the years ended 31 December 2022 and 31 December 2021 were as follows:

<i>In thousands of Armenian Drams</i>	2022	2021
Balance of SDR holdings as at 1 January	15,768,985	4,690,218
Addition of SDRs	4,143,760	18,734,000
Receipt of funds from the IMF under SDR allocation	-	85,764,963
Receipt of funds from the IMF under Extended Fund Facility/SBA programme: <i>In favour of the CBA</i>	10,797,920	-
Repayment of loans to the IMF: <i>On behalf of the Bank:</i>		
PRGT	(3,387,621)	(4,367,883)
EFF	(12,626,766)	(19,397,999)
<i>On behalf of the Government:</i>		
PRGT	(2,081,331)	(11,690,295)
Other income	75,391	247,999
Other fees	(296,462)	(87,917)
Conversion of SDRs into other foreign currencies:	-	(56,001,520)
Payment of interest for use of the IMF resources: <i>On behalf of the Bank</i>	(1,040,341)	(1,037,794)
<i>On behalf of the Government</i>	(3,509,528)	-
Payment of interest for use of funds received under SDR allocation	(852,719)	(47,785)
Income on SDR holdings	80,820	9,486
Translation differences	(4,680,949)	(1,046,488)
Balance of SDR holdings as at 31 December	2,391,159	15,768,985

The amounts of transactions in the table above are represented in AMD equivalent at SDR/AMD exchange rates at the dates when each of transactions took place.

16. Operations with the International Monetary Fund

Due to the IMF

<i>In thousands of Armenian Drams</i>	31 December 2022	31 December 2021
Securities account	95,000,000	95,000,000
Adjustment account for AMD liabilities to the IMF	(18,201,547)	(15,824,803)
Account 1	28,346,094	53,835,743
Account 2	2,370	2,908
SDR allocation	110,746,821	142,086,112
ECF:	1,393,255	6,034,560
<i>Carrying value</i>	<i>1,378,051</i>	<i>5,973,437</i>
<i>Deferred income</i>	<i>15,204</i>	<i>61,123</i>
Interest accrued	812,738	144,122
Total liabilities due to the IMF	<u>218,099,731</u>	<u>281,278,642</u>

The Securities account, Adjustment account and Account 1 represent the amounts of the liability of the Bank as per EFF and the membership quota. Currently all major settlements with the IMF are made through Account 1. Account 2 is used by the IMF for administrative purposes.

As at 31 December 2022 part of the Bank's liabilities to the IMF and the membership quota are covered by the promissory note in the amount of AMD 95,000,000 thousand (31 December 2021: AMD 95,000,000 thousand).

Except for membership quota and liability in respect of SDR allocation, the Bank's liability to the IMF as at 31 December 2022 represents liabilities as per Extended Credit Facility and Extended Fund Facility. Funds received under Extended Fund Facility are recorded on Account 1.

The Extended Credit Facility provides financial assistance to the countries with protracted balance of payments problems. The ECF was created under the newly established Poverty Reduction and Growth Trust (the "PRGT") as part of a broader reform to make the IMF's financial support more flexible and better tailored to the diverse needs of Low Income countries, including in times of crisis. As at 31 December 2022 the ECF bears no interest (2021: 0%). There is no actual market for this type of financing, provided by local and international non-government organisations to support small and medium-size businesses in specific sectors of economy and develop the mortgage market. These loans represent a separate market segment and accordingly, at the initial recognition the Group does not discount them. The loans outstanding as at 31 December 2022 mature in June 2023 (31 December 2021: June 2022– June 2023).

The Extended Fund Facility (the "EFF") is provided to the countries to overcome medium-term payment problems. The EFF interest rate is floating and published by the IMF on a weekly basis as Adjusted Rate of Charge. The loans outstanding as at 31 December 2022 mature in March 2023 – June 2027 (31 December 2021: March 2022 – June 2027).

The IMF for the purpose of increasing the international reserves of the member countries makes SDR allocations to the member countries. The SDR allocation interest rate is floating and published by the IMF on a weekly basis as SDR interest rate. The SDR allocation has no maturity date but can be cancelled by the IMF.

17. Property and equipment

<i>In thousands of Armenian Drams</i>	<i>Land and buildings</i>	<i>Networks, computer and other equipment</i>	<i>Vehicles</i>	<i>Construction in progress</i>	<i>Right of use assets</i>	<i>Total</i>
Cost						
Balance as at 1 January 2021	72,445,730	22,859,004	617,249	412,110	533,971	96,868,064
Additions	3,531	1,182,799	–	189,293	29,241	1,404,864
Disposals	(62,462)	(53,508)	(22,898)	–	(11,791)	(150,659)
Balance as at 31 December 2021	72,386,799	23,988,295	594,351	601,403	551,421	98,122,269
Additions	1,832	3,978,721	106,190	290,865	76,228	4,453,836
Disposals	(29,267)	(266,473)	(85,524)	(8,335)	(116,175)	(505,774)
Transfer	–	127,625	–	(127,625)	–	–
Balance as at 31 December 2022	72,359,364	27,828,168	615,017	756,308	511,474	102,070,331
Depreciation						
Balance as at 1 January 2021	20,157,089	14,756,817	502,129	–	199,054	35,615,089
Charge for the period	1,440,280	974,281	28,309	–	101,170	2,544,040
Disposals	(9,169)	(38,524)	(21,752)	–	(6,590)	(76,035)
Balance as at 31 December 2021	21,588,200	15,692,574	508,686	–	293,634	38,083,094
Charge for the period	1,389,538	886,732	27,614	–	98,979	2,402,863
Disposals	(4,902)	(252,551)	(78,940)	–	(64,755)	(401,148)
Balance as at 31 December 2022	22,972,836	16,326,755	457,360	–	327,858	40,084,809
Carrying amount						
At 31 December 2022	49,386,528	11,501,413	157,657	756,308	183,616	61,985,522
At 31 December 2021	50,798,599	8,295,721	85,665	601,403	257,787	60,039,175

18. Intangible assets

<i>In thousands of Armenian Drams</i>	<i>Computer software</i>	<i>Contracts in progress</i>	<i>Total</i>
Cost			
Balance as at 1 January 2021	5,216,353	1,108,675	6,325,028
Additions	211,620	11,937	223,557
Disposals	(203)	–	(203)
Balance as at 31 December 2021	5,427,770	1,120,612	6,548,382
Additions	458,192	7,958	466,150
Disposals	(203,766)	–	(203,766)
Balance as at 31 December 2022	5,682,196	1,128,570	6,810,766
Amortisation			
Balance as at 1 January 2021	3,427,969	–	3,427,969
Charge for the period	332,560	–	332,560
Disposals	(63)	–	(63)
Balance as at 31 December 2021	3,760,466	–	3,760,466
Charge for the period	287,560	–	287,560
Disposals	(199,413)	–	(199,413)
Balance as at 31 December 2022	3,848,613	–	3,848,613
Carrying amount			
At 31 December 2022	1,833,583	1,128,570	2,962,153
At 31 December 2021	1,667,304	1,120,612	2,787,916

19. Other assets in domestic currency

<i>In thousands of Armenian Drams</i>	31 December 2022	31 December 2021
Numismatic coins	5,147,763	5,705,061
Prepayments and receivables	3,299,316	1,991,843
Other	1,117,832	1,104,724
Total other assets	9,564,911	8,801,628

20. Deposits and accounts of financial and other institutions

<i>In thousands of Armenian Drams</i>	31 December 2022	31 December 2021
Foreign currency liabilities		
Vostro accounts and deposits of domestic banks	713,912,010	641,916,757
Vostro accounts of associates	45,523,105	–
Current accounts of other related parties (Note 27)	1,024,461	1,395,425
Current accounts of other legal entities	3,118,972	12,095,954
Total foreign currency liabilities	763,578,548	655,408,136
Domestic currency liabilities		
Vostro accounts and deposits of domestic banks	330,118,940	409,551,545
Vostro accounts of associates	33,803,252	–
Current accounts and term deposit of other related parties	2,367,996	2,374,703
Current accounts of other legal entities	2,420,262	1,704,136
Total domestic currency liabilities	368,710,450	413,630,384
Total deposits and accounts of financial and other institutions	1,132,288,998	1,069,038,520

Concentration of deposits and accounts of financial and other institutions

As at 31 December 2022 two counterparty banks had balances, individually exceeding 10% of the total amount of deposits and accounts of financial and other institutions, amounting to AMD 386,592,780 thousand (31 December 2021: two banks with total balance of AMD 463,986,308 thousand).

21. Other borrowed funds

<i>In thousands of Armenian Drams</i>	31 December 2022	31 December 2021
Due to the KfW	108,666,721	74,159,671
Due to the EIB	50,939,170	68,981,755
Due to the World Bank	14,527,765	18,362,703
Due to the ADB	4,542,593	6,167,498
Other	11,308,195	7,728,150
Total other borrowed funds	189,984,444	175,399,777

The table below shows carrying values of loans due to the KfW by programs as at 31 December 2022 and 31 December 2021.

<i>In thousands of Armenian Drams</i>	31 December 2022	31 December 2021
Support to Small and Medium Enterprises (MSME)	41,266,257	11,100,129
Promotion of Renewable Energies (RE)	27,720,818	19,283,649
Agricultural Sector Support (AF)	11,824,130	10,845,917
Support for the Financing of the Energy Efficiency in MSME Sector (EE)	10,525,221	14,985,713
Development of Sustainable Housing Market (HF)	17,330,295	17,944,263
Total due to the KfW	108,666,721	74,159,671

21. Other borrowed funds (continued)

The loans due to the KfW are provided under an intergovernmental agreement on financial cooperation between the Government and the Federal Republic of Germany to finance special loan programs placed through domestic commercial banks (Note 12). The loans mature from 2023 to 2048 (31 December 2021: from 2022 to 2048).

The loan due to the World Bank is provided by the World Bank for financing small and medium enterprises through domestic commercial banks and financial institutions (Note 12). The loan matures during the period from 2023 to 2035 (31 December 2021: from 2022 to 2035).

The loan due to ADB is provided by the Asian Development Bank for financing women-owned small and medium enterprises (Note 12) through commercial banks and financial institutions and matures during the period from 2023 to 2044 (31 December 2021: from 2022 to 2044).

The loan due to the EIB is provided by the European Investment Bank for financing agriculture, tourism and production sectors through domestic commercial banks and financial institutions (Note 12). The loans mature during the period from 2023 to 2031 (31 December 2021: from 2022 to 2031).

The loan obtained by one of the Group's subsidiaries from French Agency for Development included into category "Other" matures during the period from 2023 till 2034 (31 December 2021: from 2022 to 2034). As at 31 December 2022 the balance outstanding under this loan facility is AMD 11,308,195 thousand (31 December 2021: AMD 7,728,150 thousand).

22. Other liabilities in domestic currency

<i>In thousands of Armenian Drams</i>	31 December 2022	31 December 2021
Other liabilities in domestic currency		
Payables	2,454,183	2,810,006
Other liabilities	1,214,871	1,136,263
Total other liabilities in domestic currency	3,669,054	3,946,269

23. Due to the Government of the Republic of Armenia

<i>In thousands of Armenian Drams</i>	31 December 2022	31 December 2021
Foreign currency liabilities		
Current accounts of the Government	1,600,968	1,626,616
Total foreign currency liabilities	1,600,968	1,626,616
Domestic currency liabilities		
Term deposits	359,295,031	380,967,925
Current accounts of the Government	20,993,097	21,015,863
Total domestic currency liabilities	380,288,128	401,983,788
Total due to the Government of the Republic of Armenia	381,889,096	403,610,404

Term deposits of the Government have maturity of less than 4 months and interest rate is ranging from 9.87% to 11.09% (31 December 2021: from 7.34% to 7.87%).

24. Debt securities issued

As at 31 December 2022 the subsidiary company of the Group had in issue coupon bonds with AMD 15,388,510 thousand par value and 3 years maturity (31 December 2021: coupon bonds with AMD 9,500,000 thousand par value and 3 years maturity).

As at 31 December 2022 the average annual yield on these bonds is from 7.25% to 12% (31 December 2021: from 7.25% to 8.50%). The carrying value of the issued bonds as at 31 December 2022 is AMD 15,477,213 thousand (31 December 2021: AMD 9,650,642 thousand) (Note 32).

25. Management of capital

Capital of the Group comprises the residual value of the Group's assets after deduction of its liabilities.

The size of the capital is established by the Law.

In accordance with this Law the amount of issued capital of the Bank is AMD 100,000 thousand. The authorised capital of the Bank is the property of and belongs to the Republic of Armenia and may not be pledged, confiscated or otherwise alienated against the obligations of the Republic of Armenia.

The Bank's objectives when managing capital are to maintain an appropriate level of capital to ensure economic independence of the Bank and ability to perform its functions. The Bank's management considers total capital under management to be equity as shown in the consolidated statement of financial position.

Objectives and policies of managing components of the Bank's capital are defined by the respective internal regulations approved by the decisions of the Board of the Central Bank of the Republic of Armenia (the "Board"). Formation of funds and reserves of the Bank for covering financial risks associated with performance of its functions is carried out in accordance with the regulations approved by the Board and the Law.

The general reserve is formed according to the Law and cannot be distributed. General reserve is formed to cover general risks (potential losses) arising as a result of banking operations. Promissory Note issued by the Government represents a contribution made by the Government by the way of issuing a non-interest bearing on demand promissory note in the case when the losses in the result of the financial year in the consolidated financial statements of the Group exceed the aggregate amount of its reserves.

According to the Clause 11 of the Law on Central Bank of Republic of Armenia, during 2022 the Government covered AMD 38,618,777 thousand excess of losses over the Group's reserves as at 31 December 2021: As a result the Government has issued new non-interest bearing promissory Note at the amount of AMD 54,395,224 thousand (2021: AMD 15,776,447 thousand). The issue of the new promissory note was non-cash transaction.

Other Reserves represents revaluation reserve for financial assets measured at fair value through other comprehensive income in the amount of AMD 632,881 thousand (positive effect) as at 31 December 2022 (31 December 2021: AMD 1,767,743 thousand (positive effect)) and net AMD 677,202 thousand (positive effect) share of other comprehensive income of associate as at 31 December 2022 (31 December 2021: AMD 0).

26. Commitments

Capital commitments

The capital commitments outstanding at 31 December 2022 related to the Group's non-current assets amount to AMD 454,838 thousand (31 December 2021: AMD 655,561 thousand).

Litigation

The Group management is unaware of any actual, pending or threatened significant claims against the Group.

27. Related party transactions

Transactions with members of the key management

Amount of the key management remuneration included into "Employee compensation, staff training and related payments" line (refer to Note 11):

<i>In thousands of Armenian Drams</i>	2022	2021
Key management including the Board members	<u>351,877</u>	<u>355,836</u>
Total	<u>351,877</u>	<u>355,836</u>

Total amount of loans issued to the members of the key management outstanding as at 31 December 2022 is AMD 234,738 thousand (31 December 2021: AMD 185,344 thousand). During the year ended 31 December 2022 the Group recognized interest income in amount of AMD 6,041 thousand from the transactions with the key management (31 December 2021: AMD 7,649 thousand). During the year ended 31 December 2021 the Group recognized interest expense 3,530 AMD: Since 1 April 2021 Bank has ceased the attraction of deposits from employees.

27. Related party transactions (continued)**Transactions with the Government of the Republic of Armenia**

The outstanding balances and average contractual interest rates with the Government are as follows:

	31 December 2022		31 December 2021	
	Balance outstanding	Average contractual interest rate	Balance outstanding	Average contractual interest rate
<i>In thousands of Armenian Drams</i>				
Consolidated statement of financial position				
Assets				
Securities of the Republic of Armenia classified as financial assets measured at fair value through other comprehensive income (Note 15.2)	8,875,170	11.46%	9,680,244	11.46%
EU bonds of the Government of the Republic of Armenia (Note 15)	1,621,335	7.15%	-	-
	10,496,505		9,680,244	
Promissory note issued by the Government (Note 15.2)				
Balance at 1 January	15,776,447		66,055,949	
Profit distribution	-		(50,279,502)	
Promissory Note issued by Government (Note 15.2, 25)	38,618,777		-	
Balance at 31 December	54,395,224		15,776,447	
Assets at 31 December	64,891,729		25,456,691	
Liabilities				
Due to the Government of the Republic of Armenia (domestic currency, Note 23)	380,288,128	8.80%	401,983,788	6.18%
Due to the Government of the Republic of Armenia (foreign currency, Note 23)	1,600,968		1,626,616	
Liabilities at 31 December	381,889,096		403,610,404	

The movement of deposits included in liabilities due to the Government in domestic currency was as follows:

	2022	2021
<i>In thousands of Armenian Drams</i>		
Balance at 1 January	380,967,925	202,637,377
Additions	1,697,000,000	1,859,000,000
Interest charge	38,683,945	29,876,634
Redemption (including interest payment)	(1,757,356,839)	(1,710,546,086)
Balance at 31 December	359,295,031	380,967,925

Amounts included in the consolidated statement of comprehensive income in relation to transactions with the Government are as follows:

	2022	2021
<i>In thousands of Armenian Drams</i>		
Consolidated statement of comprehensive income		
Interest income from Government securities (Note 4)	1,074,538	1,056,269
Interest expense (Note 5)	(39,198,869)	(30,153,372)

27. Related party transactions (continued)

Transactions with other related parties

The information in the tables below relates to the balances and results of transactions with the entities, in the governing body of which the Bank has its representatives.

<i>In thousands of Armenian Drams</i>	31 December 2022		31 December 2021	
	Balance outstanding	Average contractual interest rate	Balance outstanding	Average contractual interest rate
Consolidated statement of financial position				
Liabilities				
Current accounts and term deposits (domestic currency) (Note 20)	2,367,996	9.25%	2,374,703	7.75%
Current accounts (foreign currency) (Note 20)	1,024,461	0.0%	1,395,425	0.0%
Total	3,392,457		3,770,128	

Transactions with associates are disclosed under respective notes in these consolidated financial statements.

28. Cash and cash equivalents

Cash and cash equivalents at the end of the financial year as shown in the consolidated statement of cash flows are composed of the following items:

<i>In thousands of Armenian Drams</i>	31 December 2022	31 December 2021
Cash	18,056,895	44,555,290
Nostro accounts (Note 12)	892,116,679	750,194,375
Term deposits with less than 3 months maturity (Note 12)	33,453,392	-
SDR holdings in the IMF (Note 16)	2,391,159	15,768,985
Total cash and cash equivalents	946,018,125	810,518,650

29. Fair value of financial instruments

Fair value measurements are analysed by level in the fair value hierarchy as follows: (i) level one are measurements at quoted prices (unadjusted) in active markets for identical assets or liabilities, (ii) level two measurements are valuation techniques with all material inputs observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices), and (iii) level three measurements are valuations not based on observable market data (that is, unobservable inputs). Management applies judgement in categorising financial instruments using the fair value hierarchy. If a fair value measurement uses observable inputs that require significant adjustment, that measurement is a Level 3 measurement. The significance of a valuation input is assessed against the fair value measurement in its entirety.

29. Fair value of financial instruments (continued)

(a) Recurring fair value measurements

Recurring fair value measurements are those that the accounting standards require or permit in the consolidated statement of financial position at the end of each reporting period. The levels in the fair value hierarchy into which the recurring fair value measurements are categorised as follows:

<i>In thousands of Armenian Drams</i>	31 December 2022				31 December 2021			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
Assets carried at fair value								
Financial assets								
Financial instruments at fair value through profit or loss								
Government bonds (Note 13)	545,500,450	-	-	545,500,450	607,008,850	-	-	607,008,850
Other securities (Note13)	127,833,037	-	-	127,833,037	113,985,677	-	-	113,985,677
Money market instruments (Note13)	-	3,969,371	-	3,969,371	-	13,570,747	-	13,570,747
Derivative financial assets								
Foreign currency swap contracts in foreign market (Note 14)	-	-	-	-	-	445,057	-	445,057
Investment securities measured at fair value through other comprehensive income								
Foreign securities (Note15.1)	209,800	2,044,680	-	2,254,480	264,479	2,303,033	-	2,567,512
Securities of the Government of the Republic of Armenia (Note15.2)	-	8,875,170	-	8,875,170	-	9,680,244	-	9,680,244
Promissory note issued by the Government of the Republic of Armenia (Note15)	-	54,395,224	-	54,395,224	-	15,776,447	-	15,776,447
Corporate bonds in foreign currency (Note15.2)	-	-	-	-	-	787,898	-	787,898
EU bonds of the Government of the Republic of Armenia (Note 15.1)	-	567,928	-	567,928	-	-	-	-
Total assets with recurring fair value measurements	673,543,287	69,852,373	-	743,395,660	721,259,006	42,563,426	-	763,822,432

<i>In thousands of Armenian Drams</i>	31 December 2022				31 December 2021			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
Liabilities carried at fair value								
Derivative financial liabilities								
Foreign currency swap contracts in foreign market (Note14)	-	1,168,708	-	1,168,708	-	-	-	-
Total liabilities with recurring fair value measurements	-	1,168,708	-	1,168,708	-	-	-	-

29. Fair value of financial instruments (continued)

(a) Recurring fair value measurements (continued)

The description of valuation technique and description of inputs used in the fair value measurement for level 2 measurements at 31 December 2022:

<i>In thousands of Armenian Drams</i>	<i>Fair value</i>	<i>Valuation technique</i>	<i>Inputs used</i>
Assets carried at fair value			
Financial assets			
Financial instruments at fair value through profit or loss			
Money market instruments (Note 13)	3,969,371	DCF	BIS interest rate
Derivative financial liabilities			
Foreign currency swap contracts in foreign market (Note 14)	(1,168,708)	DCF	USD OIS curve, FX spot rates, FX forward points
Investment securities measured at fair value through other comprehensive income			
Foreign securities (Note 15.1)	2,044,680	DCF	EUR risk-free rate
Corporate bonds in foreign currency (Note 15.1)	-	DCF	Quoted prices
EU bonds of the Government of the Republic of Armenia (Note 15.1)	567,928		Quoted prices
Securities of the Government of the Republic of Armenia (Note 15.2)	8,875,170	DCF	Government bonds yield curve
Promissory note issued by the Government (Note 15.2)	54,395,224	DCF	On demand
Total recurring fair value measurements at Level 2	70,116,235		

The description of valuation technique and description of inputs used in the fair value measurement for level 2 measurements at 31 December 2021:

<i>In thousands of Armenian Drams</i>	<i>Fair value</i>	<i>Valuation technique</i>	<i>Inputs used</i>
Assets carried at fair value			
Financial assets			
Financial instruments at fair value through profit or loss			
Money market instruments (Note 13)	13,570,747	DCF	BIS interest rate
Derivative financial assets			
Foreign currency swap contracts in foreign market (Note 14)	445,057	DCF	USD OIS curve, FX spot rates, FX forward points
Investment securities measured at fair value through other comprehensive income			
Foreign securities (Note 15.1)	2,303,033	DCF	EUR risk-free rate
Corporate bonds in foreign currency (Note 15.1)	787,898	DCF	Quoted prices
Securities of the Government of the Republic of Armenia (Note 15.2)	9,680,244	DCF	Government bonds yield curve
Promissory note issued by the Government of the Republic of Armenia (Note 15.2)	15,776,447	DCF	On demand
Total recurring fair value measurements at Level 2	42,563,426		

29. Fair value of financial instruments (continued)

(b) Assets and liabilities not measured at fair value but for which fair value is disclosed

The management believes that the carrying amount of financial assets and financial liabilities approximate their fair value, mainly due to their maturities and nature of instruments. The fair value hierarchy for assets and liabilities not measured at fair value is Level 2.

The fair values in level 2 of fair value hierarchy were estimated using the discounted cash flows valuation technique. The fair value of floating rate instruments that are not quoted in an active market was estimated to be equal to their carrying amount. The fair value of unquoted fixed interest rate instruments was estimated based on future cash flows expected to be received discounted at current interest rates for new instruments with similar credit risk and remaining maturity.

30. Risk management

Introduction

Risk is inherent in the Group's activities but it is managed through a process of ongoing identification, assessment, treatment, monitoring and reporting, subject to risk limits and other controls. This process of risk management is critical to the Group to be able to perform its main functions and each individual within the Group is responsible for the risk exposures relating to his or her duties. The Group is exposed to credit risk, liquidity risk and market risk, the latter being subdivided into trading and non-trading risks. It is also subject to operating risks.

The risk management process does not include business risks such as changes in the environment, technology and industry. They are monitored through the Group's strategic planning process.

The Board is ultimately accountable for risk management; however, there are separate independent bodies responsible for managing and monitoring risks.

The Board

The Board is accountable for the overall risk management approach and for approving the strategies and principles.

Institutional framework

International reserves of the Republic of Armenia are the Bank's claims on non-residents in freely convertible foreign currencies. The reserves are reflected in the consolidated statement of financial position of the Group. The Bank manages the reserves in accordance with the principles envisaged by the article 52 of the Law, by investing the reserves within the Investment framework set by the Board.

The reserves can be used to finance external payments/trade imbalances, and to ensure the international obligations of Armenia are duly performed. The Bank uses reserves to provide foreign exchange services to the Government and state agencies of Armenia, e.g. foreign currency conversions or external debt servicing.

The Bank has a three level decision-making system, whereby the Board sets the Strategic Asset Allocation framework for the reserves management for a long-term time horizon (three years), whereas the Investment Committee of the Bank was given executive power on short-term tactical benchmarks. Portfolio managers, in turn, make decisions on portfolio management within the framework of tactical benchmarks and active risk tolerance.

Administration and control

According to the Bank's structure, the Financial Markets Directorate is responsible for Armenia's international reserves management. The Financial Operations Department is in charge of operations related to day-to-day management of reserves. The Risk Management Department is responsible for risk assessment, providing support for development of strategic asset allocation and benchmarking, compliance monitoring, performance evaluation and reporting.

Issues related to reserves management are discussed on a quarterly basis by the Investment Committee of the Bank, which includes the heads of all structural units involved in the entire process of reserves management, as well as the Bank's Chairman and the Deputy Chairman. The Risk Management Department reports on the performance of reserves management to the Investment Committee on a quarterly basis and to the Board on a semi-annual basis. Each quarter the Bank presents information on condition and composition of international reserves to the Government and makes that information publicly available.

30. Risk management (continued)

Asset allocation and risk management

According to the principles set forth in article 52 of the Law, Armenia's international reserves are managed based on the principle of adequate liquidity and security of reserves while ensuring of profit maximisation. For this purpose, the Risk Management Department develops drafts of strategic asset allocation and tactical benchmarks subject to approval by the Board and the Investment Committee, respectively. The investment benchmarks include all limits and rules governing the investment process as well as the structure of assets consistent with the reserves management principles set by the Board.

Credit risk

Credit risk is the risk that the Group will incur a loss because its customers, clients or counterparties failed to discharge their contractual obligations or because of credit quality deterioration. The Group manages and controls credit risk by setting limits on counterparty eligibility and on the amount of risk it is willing to accept for individual counterparties and for geographical and industry concentrations, and by monitoring exposures in relation to such limits.

The Group has established a credit quality review process to provide early identification of possible changes in the creditworthiness of counterparties. For the purpose of assessment of credit quality of international reserves the Group evaluates the counterparty creditworthiness based on the credit ratings assigned by leading internationally recognised credit rating agencies.

The Group sets minimum rating requirement for securities issued by governments, government agencies, other government authorities, financial institutions and supranational organisations. These ratings cannot be lower than certain prescribed minimum level which is regularly reviewed.

Derivative financial instruments

Credit risk arising from derivative financial instruments is, at any time, managed by setting limits on counterparties credibility.

Maximum credit risk without collateral or other credit enhancement

The maximum exposure to credit risk for the components of the consolidated statement of financial position, including derivatives, before the effect of mitigation through the use of master netting and collateral agreements, is best represented by their carrying amounts.

Where financial instruments are recorded at fair value, the carrying value represents the current credit risk exposure but not the maximum risk exposure that could arise in the future as a result of changes in values.

For more detail on the maximum exposure to credit risk for each class of financial instrument, references shall be made to the specific notes.

30. Risk management (continued)

Credit quality per class of financial assets

Financial assets of the Group, except equity investments are classified by the lowest out of the ratings assigned to the Group's counterparties by the international rating agencies Fitch IBCA, Moody's and Standard & Poor's. The ratings are listed below as per the coding of the rating agency Moody's using the rating correspondence table of Bloomberg information system. Rating AAA is the rating used for identification of highly reliable international financial institutions.

<i>In thousands of Armenian Drams</i>	Credit rating	31 December 2022		31 December 2021	
		Amount	% in financial assets	Amount	% in financial assets
Financial assets – neither past due nor impaired					
Placements with banks and other financial institutions in foreign currency					
Nostro accounts	P-1	851,969,740	91.4	748,913,779	98.1
	P-2	28,772,214	3.1	328,979	0.0
	P-3	4,279,005	0.5	650,510	0.1
	NP	5,796,057	0.6	169,020	0.0
	Unrated	1,299,662	0.1	132,087	0.0
Term deposits	P-1	33,534,079	3.6	4,801,854	0.6
	Unrated	2,686,379	0.3	960,656	0.1
	NP	1,968,909	0.2	7,112,725	0.9
Margin requirement of derivatives	P-1	1,902,355	0.2	675,167	0.1
Allowance for ECL		(78,597)	–	(108,684)	
Total placements with banks and other financial institutions in foreign currency		932,129,803	100.0	763,636,093	100.0
Financial instruments at fair value through profit and loss					
Government bonds	Aaa	458,901,433	67.8	524,663,535	71.4
	Aa1-Aa3	86,599,017	12.8	82,345,315	11.2
Other securities	Aaa	127,833,037	18.9	111,528,216	15.2
	Aa1-Aa3	–	–	2,457,461	0.4
Money market instruments	Unrated*	3,969,371	0.6	13,570,747	1.8
Total financial instruments at fair value through profit and loss		677,302,858	100.0	734,565,274	100.0
Financial assets measured at fair value through other comprehensive income, excluding equity investments					
Securities of the Government of the Republic of Armenia	B1	8,875,170	13.9	9,680,244	36.9
Promissory note issued by the Government	B1	54,395,224	85.2	15,776,447	60.1
Corporate bonds in foreign currency	Unrated	–	0.0	787,898	3.0
EU bonds of the Government of the Republic of Armenia	B1	567,928	0.9	–	–
Total financial assets measured at fair value through other comprehensive income, excluding equity investments		63,838,322	100.0	26,244,589	100.0

* As at 31 December 2022 and 31 December 2021 money market instruments included in the unrated credit category represent securities issued by the Bank for International Settlements.

30. Risk management (continued)

Credit quality per class of financial assets (continued)

As at 31 December 2022 current accounts and term deposits included in the unrated credit rating category amounting to AMD 290,365 thousand and AMD 2,686,379 thousand respectively (31 December 2021: AMD 123,131 thousand and AMD 960,656 thousand) represent current accounts and placement of the Group's subsidiaries with local commercial banks.

<i>In thousands of Armenian Drams</i>	Credit rating	31 December 2022		31 December 2021	
		Amount	% in financial assets	Amount	% in financial assets
Placements and investments with banks and other financial institutions in domestic currency					
Loans to resident financial institutions under arrangement with the KfW, the World Bank, Asian Development Bank and European Investment Bank*	Settled after the end of the reporting period Not due at the date of authorisation of the consolidated financial statements for issue.	15,136,522	7.1	14,064,179	7.6
Total		196,844,035	92.9	171,703,701	92.4
		211,980,557	100.0	185,767,880	100.0
Mortgage refinancing*	Settled after the end of the reporting period Not due at the date of authorisation of the consolidated financial statements for issue	3,986,851	2.4	2,780,012	2.1
Total		162,958,330	97.6	131,896,310	97.9
		166,945,181	100.0	134,676,322	100.0
Loans to resident financial institutions financed by own funds*	Settled after the end of the reporting period Not due at the date of authorization of the consolidated financial statements for issue	53,506,411	100.0	–	–
Total		53,506,411	100.0	–	–
Deposits and current accounts in commercial banks*	Settled after the end of the reporting period Not due at the date of authorisation of the consolidated financial statements for issue	5,841,361	16.9	39,834,458	51.6
Total		28,662,777	83.1	37,333,521	48.4
		34,504,138	100.0	77,167,979	100.0
Repurchase agreements and other overnight facilities*	Settled after the end of the reporting period	234,708,585	100.0	485,415,041	100.0
Total		234,708,585	100.0	485,415,041	100.0
Investments measured at amortised cost*	Settled after the end of the reporting period Not due at the date of authorisation of the consolidated financial statements for issue	1,951,962	8.0	2,951,878	12.1
Total		22,426,985	92.0	21,355,072	87.9
		24,378,947	100.0	24,306,950	100.0
Other loans		2,707,641	100.0	3,012,901	100.0
Total		2,707,641	100.0	3,012,901	100.0
Allowance for ECL		(4,165,679)		(3,511,728)	
Total placements and investments with banks and other financial institutions in domestic currency		724,565,781	–	906,835,345	–

* Management estimates that these instruments approximate B+ to B- rating under Standard & Poor's rating system.

The Bank makes decisions regarding its placements with local banks and financial institutions taking into account its role of the banking regulator and the lender of last resort and therefore does not allocate ratings to local banks and financial institutions. Thus, the analysis of credit quality of these assets is limited to the stage of respective transaction.

30. Risk management (continued)

Impairment assessment

The Group calculates ECL based on several probability-weighted scenarios to measure the expected cash shortfalls, discounted at an approximation to the EIR. A cash shortfall is the difference between the cash flows that are due to an entity in accordance with the contract and the cash flows that the entity expects to receive. The mechanics of the ECL calculations are outlined below and the key elements are as follows:

PD	The <i>Probability of Default</i> is an estimate of the likelihood of default over a given time horizon. A default may only happen at a certain time over the assessed period, if the facility has not been previously derecognised and is still in the portfolio.
EAD	The <i>Exposure at Default</i> is an estimate of the exposure at a future default date, taking into account expected changes in the exposure after the reporting date, including repayments of principal and interest, whether scheduled by contract or otherwise, expected drawdowns on committed facilities, and accrued interest from missed payments.
LGD	The <i>Loss Given Default</i> is an estimate of the loss arising in the case where a default occurs at a given time. It is based on the difference between the contractual cash flows due and those that the lender would expect to receive, including from the realisation of any collateral. It is usually expressed as a percentage of the EAD.

The ECL allowance is based on the credit losses expected to arise over the life of the asset (the lifetime expected credit loss or LTECL), unless there has been no significant increase in credit risk since origination, in which case, the allowance is based on the 12 months' expected credit loss (12mECL). The 12mECL is the portion of LTECL that represent the ECLs that result from default events on a financial instrument that are possible within the 12 months after the reporting date. Both LTECL and 12mECL are calculated on either an individual basis or a collective basis, depending on the nature of the underlying portfolio of financial instruments.

The Group has established a policy to perform an assessment, at the end of each reporting period, of whether a financial instrument's credit risk has increased significantly since initial recognition, by considering the change in the risk of default occurring over the remaining life of the financial instrument. Based on the above process, the Group groups its assets into Stage 1, Stage 2, Stage 3 and POCI, as described below:

Stage 1:	When assets are first recognized, the Group recognizes an allowance based on 12mECL. Stage 1 assets also include facilities where the credit risk has improved and the asset has been reclassified from Stage 2.
Stage 2:	When an asset has shown a significant increase in credit risk since origination, the Group records an allowance for the LTECL. Stage 2 assets also include facilities, where the credit risk has improved and the asset has been reclassified from Stage 3.
Stage 3:	Assets considered credit-impaired. The Group records an allowance for the LTECL.
POCI:	Purchased or originated credit impaired (POCI) assets are financial assets that are credit impaired on initial recognition. POCI assets are recorded at fair value at original recognition and interest revenue is subsequently recognized based on a credit-adjusted EIR. ECL are only recognized or released to the extent that there is a subsequent change in the lifetime expected credit losses.

Definition of default and cure

The Group considers a financial instrument defaulted and therefore Stage 3 (credit-impaired) for ECL calculations when the counterparty's rating downgrades lower than the rating predefined by the Group. Regardless of the change in credit grades in all cases when the borrower becomes 90 days past due on its contractual payments, financial instrument is considered as defaulted.

As a part of a qualitative assessment of whether a customer is in default, the Group also considers a variety of instances that may indicate unlikelihood to pay. When such events occur, the Group carefully considers whether the event should result in treating the customer as defaulted and therefore assessed as Stage 3 for ECL calculations or whether Stage 2 is appropriate. Such events include:

- ▶ Internal rating of the borrower indicating default or near-default;
- ▶ The borrower requesting emergency funding from the Group;
- ▶ A material decrease in the underlying collateral value where the recovery of the loan is expected from the sale of the collateral;
- ▶ A covenant breach not waived by the Group;
- ▶ The debtor (or any legal entity within the debtor's group) filing for bankruptcy;
- ▶ Debtor's listed debt or equity suspended at the primary exchange because of rumors or facts about financial difficulties.

30. Risk management (continued)

Impairment assessment (continued)

It is the Group's policy to consider a financial instrument as 'cured' and therefore re-classified out of Stage 3 when none of the default criteria have been present for at least six consecutive months. The decision whether to classify an asset as Stage 2 or Stage 1 once cured depends on the updated credit grade, at the time of the cure, and whether this indicates there has been a significant increase in credit risk compared to initial recognition.

PD estimation process

For the counterparties that have ratings assigned by the international rating agencies Annual Transition Matrix of Moody's rating company is used.

For the counterparties that do not have ratings assigned by the international rating agencies the probability of default is assessed based on internal Financial Stability Index using extrapolation of rated counterparties' probability of default.

Exposure at default

The exposure at default (EAD) represents the gross carrying amount of the financial instruments subject to the impairment calculation.

Loss given default

For each group of financial assets the recovery rates corresponding to the debt seniority status of respective financial instruments (Moody's) or recovery rates of the country of domicile (IMF) are used to calculate the LGD rate.

Significant increase in credit risk

The Group continuously monitors all assets subject to ECLs. In order to determine whether an instrument or a portfolio of instruments is subject to 12mECL or LTECL, the Group assesses whether there has been a significant increase in credit risk since initial recognition. The Group considers an exposure to have significantly increased in credit risk when the counterparty's credit rating has changed by one notch since initial recognition pursuant to the internal principles of risk management.

The assessment of significant increase in credit risk for exposures of local commercial banks and financial institutions, with no international credit ratings, is based on performance of individual exposure and overall financial stability index of commercial banks and financial institutions. Macro prudential analysis on systemic risk dimensions represent another tool to consider the feasibility to reclassify certain asset from Stage 1 to Stage 2.

Regardless of the change in credit grades the credit risk is deemed to have increased significantly since initial recognition if contractual payments are more than 30 days past due.

Forward-looking information and multiple economic scenarios

In its ECL models, the Group relies on a broad range of forward looking information as economic inputs, such as:

- ▶ GDP growth;
- ▶ Unemployment rates;
- ▶ CPI;
- ▶ International reserves;
- ▶ Monetary policy rate;
- ▶ Equity Index Price;
- ▶ Foreign exchange rates;
- ▶ Credit/GDP ratio;
- ▶ Other macroeconomic factors depending on the specificities of each country.

The inputs and models used for calculating ECLs may not always capture all characteristics of the market at the date of the financial statements. To reflect this, qualitative adjustments or overlays are occasionally made as temporary adjustments when such differences are significantly material.

30. Risk management (continued)

Offsetting financial assets and financial liabilities

As at 31 December 2022 the Group had reverse repurchase contracts with commercial banks which fall under master netting arrangements, which are enforceable in case of default. The Group also made margin deposits as collateral for its outstanding derivative positions.

The table below shows financial assets and financial liabilities subject to offsetting, enforceable master netting arrangements and similar arrangements as at 31 December 2022:

In thousands of Armenian Drams

Types of financial assets	Gross amounts of recognised financial asset/liability	Gross amount of recognised financial liability/asset offset in the consolidated statement of financial position	Net amount of financial assets/liabilities presented in the consolidated statement of financial position	Related amounts not offset in the consolidated statement of financial position		Net amount
				Financial instruments (non-cash collateral)	Cash collateral received	
Amounts receivable under reverse repurchase agreements (Note 12)	234,708,585	-	234,708,585	234,708,585	-	-
Total financial assets	234,708,585	-	234,708,585	234,708,585	-	-

The table below shows financial assets and financial liabilities subject to offsetting, enforceable master netting arrangements and similar arrangements as at 31 December 2021:

In thousands of Armenian Drams

Types of financial assets	Gross amounts of recognised financial asset/liability	Gross amount of recognised financial liability/asset offset in the consolidated statement of financial position	Net amount of financial assets/liabilities presented in the consolidated statement of financial position	Related amounts not offset in the consolidated statement of financial position		Net amount
				Financial instruments (non-cash collateral)	Cash collateral received	
Amounts receivable under reverse repurchase agreements (Note 12)	485,415,041	-	485,415,041	485,415,041	-	-
Total	485,415,041	-	485,415,041	485,415,041	-	-

The geographical concentration of the Group's assets and liabilities is set out below:

<i>In thousands of Armenian Drams</i>	31 December 2022				31 December 2021			
	Armenia	OECD	CIS and other countries	Total	Armenia	OECD	CIS and other countries	Total
Assets								
Cash	18,056,895	-	-	18,056,895	44,555,290	-	-	44,555,290
Placements with banks and other financial institutions in foreign currency	10,684,868	912,223,370	9,221,565	932,129,803	8,137,991	749,837,479	5,660,623	763,636,093
Placements and investments with banks and other financial institutions in domestic currency	724,565,781	-	-	724,565,781	906,835,345	-	-	906,835,345
Financial instruments at fair value through profit or loss	-	677,302,858	-	677,302,858	-	734,565,274	-	734,565,274
Derivative financial assets	-	-	-	-	-	445,057	-	445,057
Financial assets measured at fair value through other comprehensive income	63,838,322	2,258,216	-	66,096,538	27,194,958	2,571,248	-	29,766,206
Investments at amortized cost	1,432,570	-	-	1,432,570	-	-	-	-
Investments in associate	33,420,114	-	-	33,420,114	-	-	-	-
Placements with the IMF	-	69,884,514	-	69,884,514	-	102,324,925	-	102,324,925
Property and equipment and intangible assets	64,947,675	-	-	64,947,675	62,827,091	-	-	62,827,091
Other assets	9,564,911	272,132	111,845	9,948,888	8,801,628	56,963	111,845	8,970,436
Total assets	926,511,136	1,661,941,090	9,333,410	2,597,785,636	1,058,352,303	1,589,800,946	5,772,468	2,653,925,717
Liabilities								
Notes and coins in circulation	803,093,792	-	-	803,093,792	747,165,753	-	-	747,165,753
Deposits and accounts of financial and other institutions	1,131,001,147	20,769	1,267,082	1,132,288,998	1,068,258,568	18,692	761,260	1,069,038,520
Derivative financial liabilities	-	1,168,708	-	1,168,708	-	-	-	-
Due to the Government	381,889,096	-	-	381,889,096	403,610,404	-	-	403,610,404
Due to the IMF	-	218,099,731	-	218,099,731	-	281,278,642	-	281,278,642
Other borrowed funds	-	185,441,851	4,542,593	189,984,444	-	169,232,279	6,167,498	175,399,777
Debt securities issued	15,477,213	-	-	15,477,213	9,650,642	-	-	9,650,642
Other liabilities	3,787,123	64,912	5,510	3,857,545	4,090,311	1,001,731	62,502	5,154,544
Total liabilities	2,335,248,371	404,795,971	5,815,185	2,745,859,527	2,232,775,678	451,531,344	6,991,260	2,691,298,282
Net assets	(1,408,737,235)	1,257,145,119	3,518,225	(148,073,891)	(1,174,423,375)	1,138,269,602	(1,218,792)	(37,372,565)

30. Risk management (continued)

Liquidity risk and funding management

Liquidity risk is the risk that the Group will be unable to meet its payment obligations when they fall due under normal and stress circumstances. As a fiscal agent of the Government and the monetary authority of the Republic of Armenia, the Bank is responsible for public debt service, the Government's foreign payments. From this perspective proper cash and liquidity management is crucial.

Based on the international reserve management objectives Armenia's international reserves have been divided into three tranches – working capital, liquidity and investment tranches. While the first two are designed to meet short-term/instant and mid-term liquidity requirements, the purpose of the investment tranche is accumulation of wealth.

Depending on the designation of portfolio/tranche the policy varies in terms of benchmarks and the choice between active or passive management.

Analysis of financial liabilities by remaining contractual maturities

The tables below show liabilities at 31 December 2022 and 31 December 2021 by their remaining contractual maturity. The amounts of liabilities disclosed in the maturity table are the contractual undiscounted cash flows. Such undiscounted cash flows differ from the amount included in the consolidated statement of financial position because the amount in the consolidated statement of financial position is based on discounted cash flows. Financial derivatives are included at the contractual amounts to be paid or received, unless the Group expects to close the derivative position before its maturity date in which case the derivatives are included based on the expected cash flows. Included in Due to the IMF with undefined maturity are payables with no due date but payable upon membership termination or liquidation of the IMF's SDR Department. Similarly, membership quota in the IMF does not have defined maturity and is considered a non-current asset (see Note 31).

31 December 2022							
<i>In thousands of Armenian Drams</i>	<i>Demand and less than 1 month</i>	<i>From 1 to 3 months</i>	<i>From 3 months to 1 year</i>	<i>From 1 to 5 years</i>	<i>More than 5 years</i>	<i>Undefined maturity</i>	<i>Total</i>
Financial liabilities							
Notes and coins in circulation	803,093,792	-	-	-	-	-	803,093,792
Deposits and accounts of financial and other institutions	1,132,291,210	-	-	-	-	-	1,132,291,210
Derivatives	1,168,708	-	-	-	-	-	1,168,708
Due to the Government	75,220,601	212,718,139	100,290,016	-	-	-	388,228,756
Due to the IMF	-	1,477,894	10,686,303	32,553,584	-	178,112,958	222,830,739
Other borrowed funds	813,786	485,212	19,438,713	92,324,144	107,141,764	-	220,203,619
Debt securities issued	-	127,500	4,275,101	14,374,287	-	-	18,776,888
Total non-discounted financial liabilities	2,012,588,097	214,808,745	134,690,133	139,252,015	107,141,764	178,112,958	2,786,593,712
31 December 2021							
<i>In thousands of Armenian Drams</i>	<i>Demand and less than 1 month</i>	<i>From 1 to 3 months</i>	<i>From 3 months to 1 year</i>	<i>From 1 to 5 years</i>	<i>More than 5 years</i>	<i>Undefined maturity</i>	<i>Total</i>
Financial liabilities							
Notes and coins in circulation	747,165,753	-	-	-	-	-	747,165,753
Deposits and accounts of financial and other institutions	1,069,039,528	-	-	-	-	-	1,069,039,528
Due to the Government	90,925,269	204,539,724	113,015,840	-	-	-	408,480,833
Due to the IMF	-	860,209	19,366,437	33,005,057	916,679	228,580,750	282,729,132
Other borrowed funds	652,008	58,168	19,240,039	83,624,141	84,696,873	-	188,271,229
Debt securities issued	-	127,500	4,107,500	6,491,250	-	-	10,726,250
Total non-discounted financial liabilities	1,907,782,558	205,585,601	155,729,816	123,120,448	85,613,552	228,580,750	2,706,412,725

Market risk

Market risk is the risk that the fair value or future cash flows of financial instruments will fluctuate due to changes in market variables such as interest rates, foreign exchange rates, and equity prices. The Group classifies exposures to market risk into either trading or non-trading portfolios.

30. Risk management (continued)

Interest rate risk

Interest rate risk arises from the possibility that changes in interest rates will affect future cash flows or the fair values of financial instruments.

Within the three-level management structure the Board defines the overall risk tolerance, which is the acceptable level of interest rate risk in the long run. It also outlines portfolio optimisation principles. The risk tolerance is defined as a minimum acceptable return over a certain period of time (now three years) with a 95 percent confidence level. The authority to set tactical benchmarks is delegated to the Investment Committee.

The purpose of tactical benchmarks is to maximize return in a shorter period (one year). In contrast to strategic decisions, benchmarks take into account current market trends and forecasts. Optimal portfolios are constructed based on scenario analysis using VAR-MGARCH model simulated yield curves as well as internal and market consensus expectations on interest rates and credit spreads. For optimal portfolio selection Black-Litterman and Markowitz models with certain constraints are used.

For monitoring and managing risk, the Risk Management Department within the Financial Markets Directorate uses a number of widely used risk measures like Value at Risk, Key Rate Duration, Information Ratio, Spread Duration, PCA Duration, and Tracking Error.

The following table demonstrates the sensitivity of the Group's equity, which is calculated by revaluing fixed rate financial assets measured at fair value through other comprehensive income at 31 December 2022 for the effects of the assumed changes in interest rates. The sensitivity of equity is analysed by maturity of the asset. The sensitivity of equity is based on the assumption that there are parallel shifts in the yield curve.

<i>In thousands of Armenian Drams</i>	2022		2021	
	<i>Change in yield curve, b.p.</i>	<i>Effect on equity</i>	<i>Change in yield curve, b.p.</i>	<i>Effect on equity</i>
Currency				
AMD	+150	(510,633)	+150	(648,874)
AMD	-150	564,303	-150	725,697
USD	+125	(2,633)	+125	(8,987)
USD	-25	(19,789)	-25	(12,347)

The following table demonstrates the sensitivity of profit of the Group, which is calculated by revaluing financial instruments at fair value through profit and loss as of 31 December 2022 and 31 December 2021, based on the assumption of changing interest rates. Amounts included in the table below are disclosed in the presentation currency.

	2022		2021	
	<i>Change in basis points</i>	<i>Increase/(decrease) of net result on financial instruments at FVTPL and equity</i>	<i>Change in basis points</i>	<i>Increase/(decrease) of net result on financial instruments at FVTPL and equity</i>
Currency				
USD	+125/-50	(5,937,506)/2,375,002	+125/-50	(5,741,909)/2,296,763
EUR	+50/-50	(396,651)/396,651	+50/-50	(442,904)/442,904
GBP	+125/-125	(47,512)/47,512	+125/-125	(121,132)/121,132

The Group, also, has liabilities with floating interest rates outstanding as at 31 December 2022 and 31 December 2021.

The following table demonstrates the sensitivity of the Group's profit or loss and equity as at 31 December 2022 and 31 December 2021 based on the assumption of changing interest rates on borrowings obtained by the Group:

<i>In thousands of Armenian Drams</i>	2022		2021	
	<i>Change in basis points</i>	<i>Increase/(decrease) of net interest expense and decrease/(increase) of equity</i>	<i>Change in basis points</i>	<i>Increase/(decrease) of net interest expense and decrease/(increase) of equity</i>
Currency				
USD	+/-402	578,400/(578,400)	+/-202	393,156/(393,156)
SDR	+/-287	1,178,835/(1,178,835)	+/-6	38,803/(38,803)
EUR	+/-20	109,101/(109,101)	+/-20	20,030/(20,030)

The sensitivity of the valuation technique inputs used in the fair value measurement for level 3 measurements is disclosed in Note 29.

30. Risk management (continued)

Interest rate risk (continued)

Following the decision by global regulators to phase out IBORs and replace them with alternative reference rates, the Group has established a project to manage the transition for any of its contracts that could be affected. The Bank successfully completed the transition of all of its IBOR exposure to RFRs in 2021 and 2022.

Currency risk

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. The Board sets the clear principles of currency allocation, whereas the Investment Committee determines and revises the actual weights of respective currencies.

The following tables present sensitivities of profit or loss and equity to reasonably possible changes in exchange rates applied at the end of the reporting period relative to the Armenian Dram with all other variables held constant:

<i>In thousands of Armenian Drams</i>	2022		2021	
	<i>Increase in currency rate in %</i>	<i>Increase/ (decrease) of profit and equity</i>	<i>Increase in currency rate in %</i>	<i>Increase/ (decrease) of profit and equity</i>
Currency				
USD	10.00%	53,354,320	5.00%	26,849,747
EUR	13.50%	13,133,279	8.50%	9,699,867
GBP	16.00%	2,871,218	11.00%	2,742,257
JPY	13.50%	3,576,100	8.50%	3,262,333
RUB	20.00%	976,176	15.00%	18,856
SDR	12.00%	(18,330,937)	7.00%	(12,958,510)

<i>In thousands of Armenian Drams</i>	2022		2021	
	<i>Decrease in currency rate in %</i>	<i>Increase/ (decrease) of profit and equity</i>	<i>Decrease in currency rate in %</i>	<i>Increase/ (decrease) of profit and equity</i>
Currency				
USD	-10.00%	(53,354,320)	-5.00%	(26,849,747)
EUR	-13.50%	(13,133,279)	-8.50%	(9,699,867)
GBP	-16.00%	(2,871,218)	-11.00%	(2,742,257)
JPY	-13.50%	(3,576,100)	-8.50%	(3,262,333)
RUB	-20.00%	(976,176)	-15.00%	(18,856)
SDR	-12.00%	18,330,937	-7.00%	12,958,510

The expected change in the exchange rates was determined by the Group by analysing annual standard deviations based on the historical market data of respective exchange rates.

The currency composition of reserves is defined for each liquidity tranche, aiming to hedge the factors underlying the creation of each tranche. Currently Armenia's foreign public debt is the main foreign currency demand driving factor. As a result, the currency composition of the reserves mainly mirrors the currency composition of debt. Currency composition for short term liquidity tranche is affected by the composition of the flows generated from foreign trade as well as possible intervention needs and current payments. The currency composition is subject of revision at least semi-annually.

Operating risk – control over subsidiaries

As disclosed in Note 2, the Bank has equity investments in a number of subsidiaries that are engaged in financial sector development and infrastructure activities. The purpose of such investments was to support development of the Armenian financial sector to ensure stability and normal activity of the financial system of the Republic of Armenia which is one of the objectives of the Bank as prescribed by the Law.

The control over subsidiaries' activities is exercised by the Bank through the following:

- ▶ Participation in the shareholders' meetings;
- ▶ Appointment of subsidiaries' management (Boards of Directors of each of subsidiaries are appointed by the shareholders and Boards of Directors appoint Executive Directors in the each of subsidiaries);
- ▶ Regular analysis of performance of subsidiaries through review of their financial information at least on an annual basis including review of results of external audit of the financial statements of subsidiaries;
- ▶ Performing analysis of subsidiaries' further development strategy including development of the divestment strategy, where appropriate;
- ▶ Review of subsidiaries' activities within the scope of the Bank's Internal Audit work which is determined based on risk assessment results.

In 2015 the Bank has adopted a policy of activation of discussions with possible potential institutional investors regarding the disposal of its investments in the subsidiaries of the Bank.

31. Maturity analysis

The following tables provide information on amounts expected to be recovered or settled before and after twelve months after the reporting period.

<i>In thousands of Armenian Drams</i>	31 December 2022		
	Current	Non-current	Total
Assets			
Cash	18,056,895	–	18,056,895
Placements with banks and other financial institutions in foreign currency	928,491,704	3,638,099	932,129,803
Financial instruments at fair value through profit or loss	677,302,858	–	677,302,858
Placements and investments with banks and other financial institutions in domestic currency	330,206,580	394,359,201	724,565,781
Financial assets measured at fair value through other comprehensive income	54,707,599	11,388,939	66,096,538
Investments at amortized cost	20,954	1,411,616	1,432,570
Equity-accounted investees	–	33,420,114	33,420,114
Placements with the IMF	2,421,650	67,462,864	69,884,514
Property and equipment	–	61,985,522	61,985,522
Intangible assets	–	2,962,153	2,962,153
Other assets	9,127,817	821,071	9,948,888
Total assets	2,020,336,057	577,449,579	2,597,785,636
Liabilities			
Notes and coins in circulation	803,093,792	–	803,093,792
Deposits and accounts of other financial institutions	1,132,288,998	–	1,132,288,998
Derivative financial liabilities	1,168,708	–	1,168,708
Due to the Government	381,889,096	–	381,889,096
Due to the IMF	10,622,260	207,477,471	218,099,731
Other borrowed funds	16,604,580	173,379,864	189,984,444
Debt securities issued	3,088,703	12,388,510	15,477,213
Other liabilities	3,205,167	652,378	3,857,545
Total liabilities	2,351,961,304	393,898,223	2,745,859,527
Net position as at 31 December 2022	(331,625,247)	183,551,356	(148,073,891)

31. Maturity analysis (continued)

<i>In thousands of Armenian Drams</i>	31 December 2021		
	Current	Non-current	Total
Assets			
Cash	44,555,290	–	44,555,290
Placements with banks and other financial institutions in foreign currency	758,050,697	5,585,396	763,636,093
Financial instruments at fair value through profit or loss	734,565,274	–	734,565,274
Placements and investments with banks and other financial institutions in domestic currency	609,185,688	297,649,657	906,835,345
Derivative financial assets	445,057	–	445,057
Financial assets measured at fair value through other comprehensive income	16,835,743	11,980,094	28,815,837
Investments in associates	–	950,369	950,369
Placements with the IMF	15,771,325	86,553,600	102,324,925
Property and equipment	–	60,039,175	60,039,175
Intangible assets	–	2,787,916	2,787,916
Other assets	7,974,277	996,159	8,970,436
Total assets	2,187,383,351	466,542,366	2,653,925,717
Liabilities			
Notes and coins in circulation	747,165,753	–	747,165,753
Deposits and accounts of other financial institutions	1,069,038,520	–	1,069,038,520
Due to the Government	403,610,404	–	403,610,404
Due to the IMF	19,719,485	261,559,157	281,278,642
Other borrowed funds	17,711,618	157,688,159	175,399,777
Debt securities issued	3,650,642	6,000,000	9,650,642
Other liabilities	4,448,518	706,026	5,154,544
Total liabilities	2,265,344,940	425,953,342	2,691,298,282
Net position as at 31 December 2021	(77,961,589)	40,589,024	(37,372,565)

According to the Law on Central Bank of Republic of Armenia in the event if, by the end of the financial year, the losses resulted in the Central Bank balance sheet exceed the aggregate amount of its reserves, the Government, within 30 days upon the date of the balance sheet publication, shall, as stated by law, grant noninterest bearing demand government ordinary promissory notes as a contribution to the Central Bank capital in an amount of exceeding sum.

32. Changes in liabilities arising from financing activities

<i>In thousands of Armenian Drams</i>	<i>Due to IMF</i>	<i>Other borrowed funds</i>	<i>Debt securities issued</i>	<i>Lease liabilities</i>	<i>Total liabilities from financing activities</i>
Carrying amount at 1 January 2021	247,496,568	160,585,640	9,655,324	366,772	418,104,304
Loans received	85,764,963	52,913,361	-	-	138,678,324
Loans redeemed	(23,765,882)	(17,831,775)	-	-	(41,597,657)
Proceeds from issuance of debt securities	-	-	3,003,991	-	3,003,991
Repayment of debt securities issued	-	-	(3,000,000)	-	(3,000,000)
Lease payments	-	-	-	(96,838)	(96,838)
Foreign currency translation	(28,139,320)	(20,320,603)	-	-	(48,459,923)
Other	(77,687)	53,154	(8,673)	22,638	(10,568)
Carrying amount at 31 December 2021	281,278,642	175,399,777	9,650,642	292,572	466,621,633
Carrying amount at 1 January 2022	281,278,642	175,399,777	9,650,642	292,572	466,621,633
Loans received	15,553,808	70,058,362	-	-	85,612,170
Loans redeemed	(16,014,386)	(14,475,388)	-	-	(30,489,774)
Proceeds from issuance of debt securities	-	-	9,205,199	-	9,205,199
Repayment of debt securities issued	-	-	(3,500,000)	-	(3,500,000)
Lease payments	-	-	-	(105,804)	(105,804)
Foreign currency translation	(63,386,948)	(41,409,506)	-	-	(104,796,454)
Other	668,615	411,199	121,372	24,808	1,225,994
Carrying amount at 31 December 2022	218,099,731	189,984,444	15,477,213	211,576	423,772,964

The "Other" line includes the effect of accrued but not yet paid interest. The Group classifies interest paid as cash flows from operating activities.

Yerevan 2023

