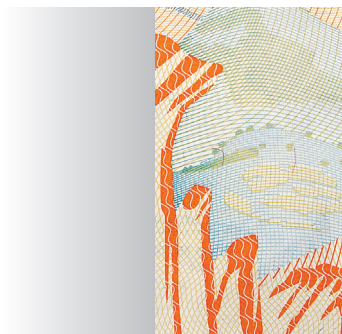




MAINTAINING FINANCIAL STABILITY



Financial system stability, regulation and supervision



In 2015 Armenia's financial sector followed a conventional credit and investment policy path in view of growing uncertainties on the geopolitical and economic landscape.

The banking system remains the largest pillar of the financial sector; it accounts for 89.2% of assets of overall financial sector³ (see Figure 3).

Credit policy of the Armenian banking system was conventional in 2015 in view of more uncertainties stemming from geopolitical issues. In 2015 the banking system posted 1.4% growth of total assets and 9.6% growth of total capital. Liabilities of the banking system remained almost the same. As a result, with the nominal GDP having grown faster in relation to the main prudential indicators of the banking system, the financial intermediation subsided to some extent⁴. Compared to the previous year, the bank assets-to-GDP ratio dropped by 6.0 pp to 68.5% and the bank loans-to-GDP ratio reduced by 5.5 pp to 39.8% (see Figure 4). On the premise of a new minimum total capital requirement, banks have added a total of AMD 74 billion to their equity and will continue to do so in the next year, too.

In 2015 the Bank carried on organizing financial crisis management simulation exercises. The purpose of these exercises was to help participants - management staff of the Armenian Ministry of Finance and the Deposit Guaranty Fund - become prepared for emergency decision-making and taking on timely measures. In pursuit of increasing the effectiveness in risk management at banks, further work was done to implement Basle 3, and the introduction of Liquidity Coverage Ratio (LCR) and Net Stable Financing Ratio (NSFR), which are new Basle approaches to liquidity risk management, was part of

³ See the "Financial Stability Report" of the Central Bank.

⁴ The decrease in financial intermediation indicators is due in part to changed methodology in calculating the nominal gross domestic product components.

Figure 3

Assets of the financial sector by financial institution

Maintaining Financial Stability

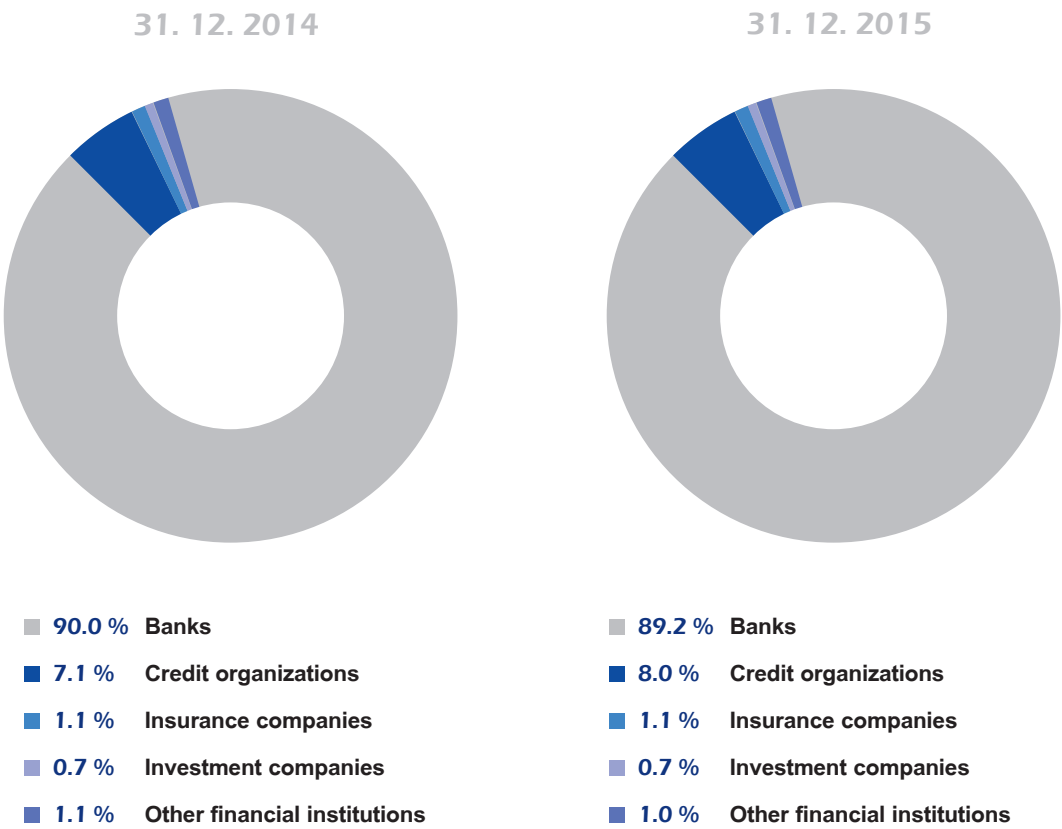
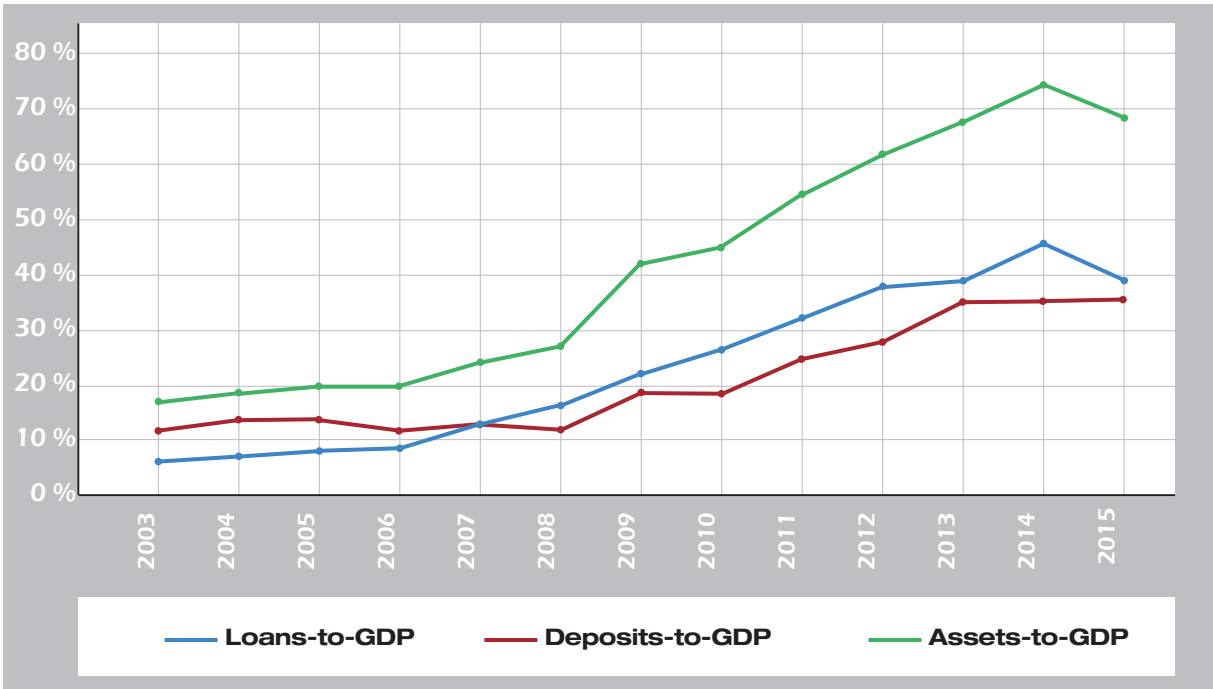


Figure 4

Banking system's financial intermediation



the work. To this effect, starting from August 2015, banks file monthly reports to the Bank. This allows the Bank to assess whether implementing one normative requirement or another is appropriate as well as to identify problems inherent in the domestic banking system and offer solution thereto.

Measures taken in 2015 to protect depositor interests and enhance consumer confidence in the banking system included increasing the deposit guarantee limits from AMD 4 million to AMD 10 million for local currency deposits of individuals and from AMD 2 million to AMD 5 million for foreign currency deposits of individuals.

As Armenia's pension system was advancing during 2015, compulsory pension fund managers invested in equity securities, government and non-government bonds, making net assets of the pension funds more diversified. In 2015 the number of pension fund participants grew by 30 thousand and totaled 140 thousand at the end of the year.

In 2015 activities carried on for introducing the Armenian Single Window for Automotive, a multi-lingual web platform with public and private accessibility, which offers a single electronic environment where both the system users and insurance companies will be able to conclude motor third party liability insurance contracts and manage an entire insurance accident assessment and indemnification process. The ASWA is being implemented in collaboration with the Bureau Veritas.

In 2015 the Bank continued supervision through off-site and on-site inspection over the activities of financial institutions with the aim to maintain financial system stability, evaluate financial market participants' exposure to risks, make sure the legal and normative framework complies with international standards and an effective framework to combat money laundering and terrorism financing is in place as well as interests of consumers in the financial market are duly protected.

The main task of off-site supervision is to monitor day-to-day activities and performance of financial institutions on the basis of reports, information, claims and other deliverables from them, make analysis of their financial condition, figure out unacceptable risks, check compliance of their activity with the legal framework and quickly react, if necessary.

On-site inspections are provided for both comprehensive (all-purpose) and target examinations. In 2015 the supervisory arm of the Bank further spent efforts to identify and evaluate the financial institutions' exposure to risks, business conduct, accuracy of reportable information, and so on. During 2015 the Bank completed 129 on-site inspections, of which:

- 3 all-purpose inspections and 13 targeted inspections at banks
- 4 all-purpose inspections and 2 targeted inspections at credit organizations



- 3 all-purpose inspections at insurance companies
- 3 all-purpose inspections at investment companies
- 101 inspections at other financial system participants (exchange offices, pawnshops, payment and settlement organizations and etc.).

Infringements revealed through supervision were remedied and measures were taken to prevent the ones in the future.

Payment and settlement system



In 2015 the Bank continued work toward improving the regulatory framework for Armenia's payment and settlement system and expanding the value of non-cash payments.

Electronic payment system

In the period under review, the value of average daily money transfers executed through the Electronic Payment System of the Bank grew by 44% to AMD 63.0 billion and the number by 4% to 14 thousand transactions, in relation to the respective indicators reported for the same reference period last year. The grown value of average daily money transfers owed mostly to an increased number of operations executed with the Bank in the first half of the year. As a result, the average value per electronic transfer amounted to nearly AMD 4.4 million, representing about a 39% increase.

Securities accounting systems

In 2014 the Government Securities Accounting and Settlement System (GSASS) was used to carry out primary placement of securities with a total value of around AMD 145 billion, which is almost double the relevant figure reported in the previous year.

In the period under review, a total of 32374 over-the-counter transactions on the secondary market (purchase and sale, pledging, removal of pledge, repurchase agreements, reverse repurchase agreements) executed through the GSASS amounted to AMD 6305 billion and a total of 10551 transactions for stock exchange depositing were carried out through the GSASS with the total value amounting to AMD 709 billion.

International money transfer systems

As of the end of 2015, two domestic entities had permission to create and operate a payment and settlement system in the Republic of Armenia. Furthermore, foreign payment systems remain important players in the field of international money remittances. As of the end of 2015, local banks and payment and settlement organizations had joined a total of 12 foreign money transfer systems.

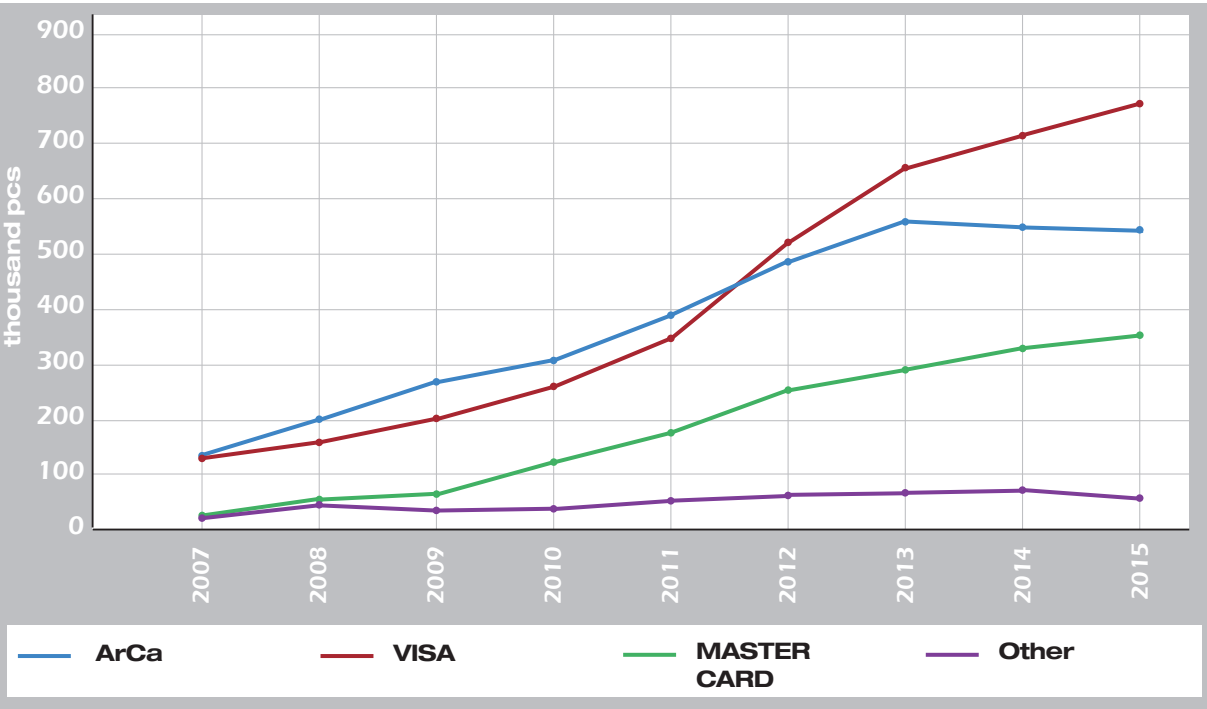
In 2015 the Bank continued working on the design of ARUS, ("Armenia Remittances Unified System"). This is aimed at maintaining improved money transfers and stronger financial stability. A feasibility study conducted by international experts in 2015 also found the implementation of ARUS expedient in the Republic of Armenia. The functioning of the system will also contribute to an improved payment risk management, a better framework for combating money laundering and terrorism financing as well as effective resolution of problems arising in connection with integration of payment systems.

Payment instruments

As of the end of 2015, a total of 19 commercial banks in Armenia had issued payment cards and offered servicing of cards to their customers. 18 of them are members to ArCa, a unified cards payment platform.

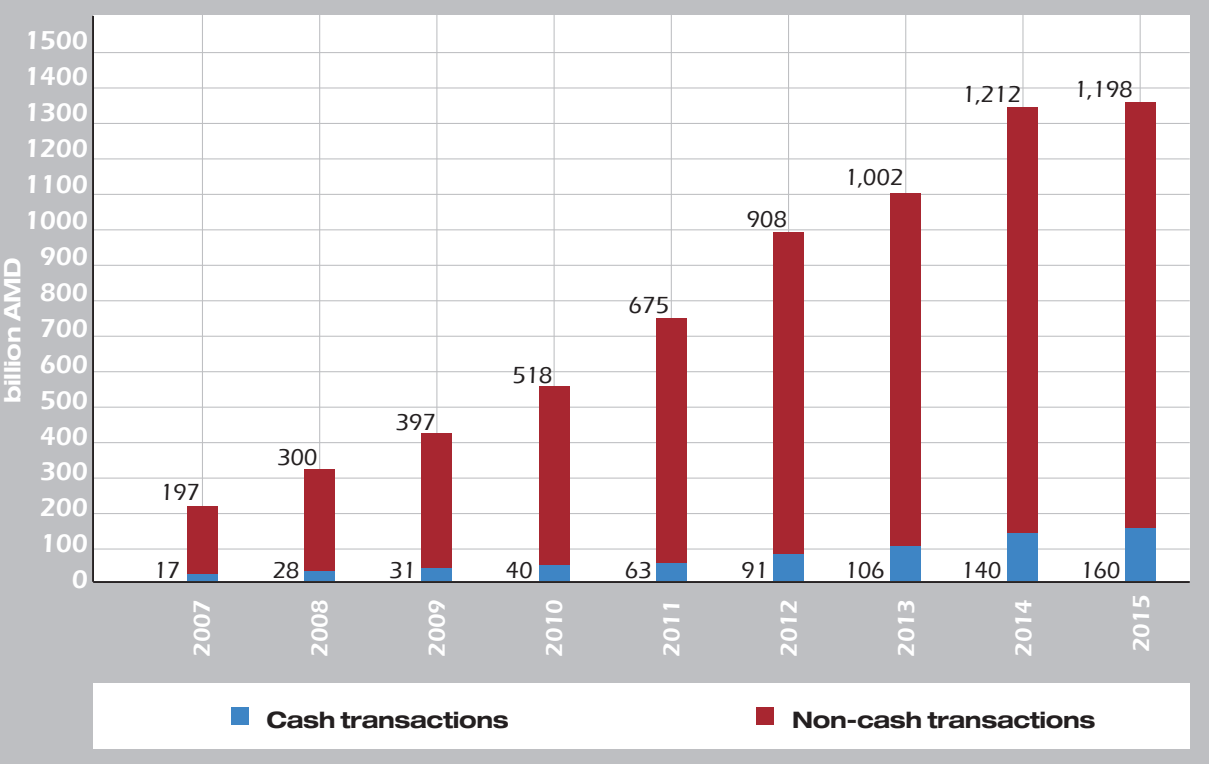
The total number of cards in circulation has grown by 5.6% against the previous year to 1.7 million (see Figure 5).

Figure 5 Payment cards issued by Armenian banks, 2007-2015 (thousand pcs)



In 2015 operations with payments cards in the Republic of Armenia totaled AMD 1 trillion 358.1 billion. The value of non-cash payments by cards has increased by 14% and amounted to AMD 160.3 billion, of which the value of internet transactions amounted to AMD 47.6 billion (including e-commerce, AMD 12.4 billion, card-to-card transfers, AMD 32.2 billion). The share of non-cash payments by cards (transactions via the Internet included) in total operations with payment cards has grown by 1.5 pp against 2014 and reached 11.8% (see Figure 6).

Figure 6 Operations with payment cards in Armenia⁵



In 2015 more efforts were aimed at improving the regulatory framework for payment instruments. Specifically, to enhance cardholders' trust in the transactions by payment cards, the Bank has developed a number of requirements aimed at preventing card fraud and set forth provisions for protecting cardholder interests in case of a reported card fraud.

Changes were made to the legal acts regulating the servicing of e-money thus creating more favorable conditions for e-money payments and further development of the field in the Republic of Armenia.

In pursuit of an integrated approach to making payments and transfers, the Bank has set a maximum time limit for execution of payments and transfers within the Republic of Armenia not only for banks, but payment and settlement organizations, as well.

5 The 2014 data were revised after publication of the "Annual Report of the Central Bank, 2014".

Securities market



The Bank is proactive in putting the securitization mechanism into operation and issuing asset-backed securities. It should be noted that asset-backed securities were issued in the Republic of Armenia for the first time in 2015. A portfolio of about 600 loans (including SME, agricultural and consumer loans) with a total value of AMD 1.2 billion, which were obtained from five credit organizations, served as security for the issuance of bonds in December of 2015. Overall, an initial public offering of shares was arranged by one issuer at the Armenian securities market in 2015.

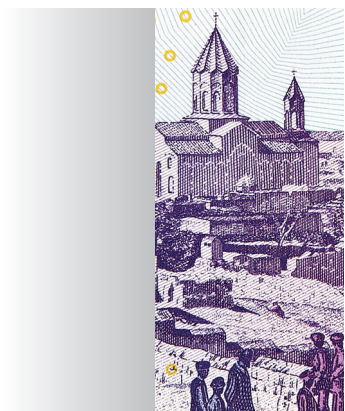
The Bank continues supporting the corporate bonds market. In 2015 international institutions and Armenia's financial institutions (banks and credit organizations) placed short and medium-term corporate bonds in the sum of USD 15 million and AMD 6 billion, respectively.

OTHER OBJECTIVES OF THE BANK





Issuing currency of the Republic of Armenia and organizing and regulating the currency circulation



To provide circulation of national currency, the Bank is mandated to organize, regulate and control the money cycle, following the principles of reliability and continuity.

The Bank provides cash servicing to its customers through Yerevan-based cash center and regional cash centers. To achieve an increased effectiveness in cash circulation during the year, the Bank decided to restructure the network of cash centers. To this effect, the Hrazdan regional cash center terminated its activities.

In 2015 the value of cash circulation of the Bank totaled AMD 1926.5 billion, growing by 8.6% against the previous year. Regional cash centers secured as much as 20.4% of total cash cycling and they mostly reported transactions for cash withdrawal, constituting 78.8% in their total turnover (see Figure 7).

As of December 31, 2015, the value of currency outside the Bank was AMD 413.6 billion, growing by 0.3% against the same reference period last year. The notes with nominal value 50000 and 100000 drams reported most decline in the circulation while coins with nominal value 100 and 200 drams enjoyed fastest growing rates.

Figure 7

Payment cards issued by Armenian banks, 2007-2015

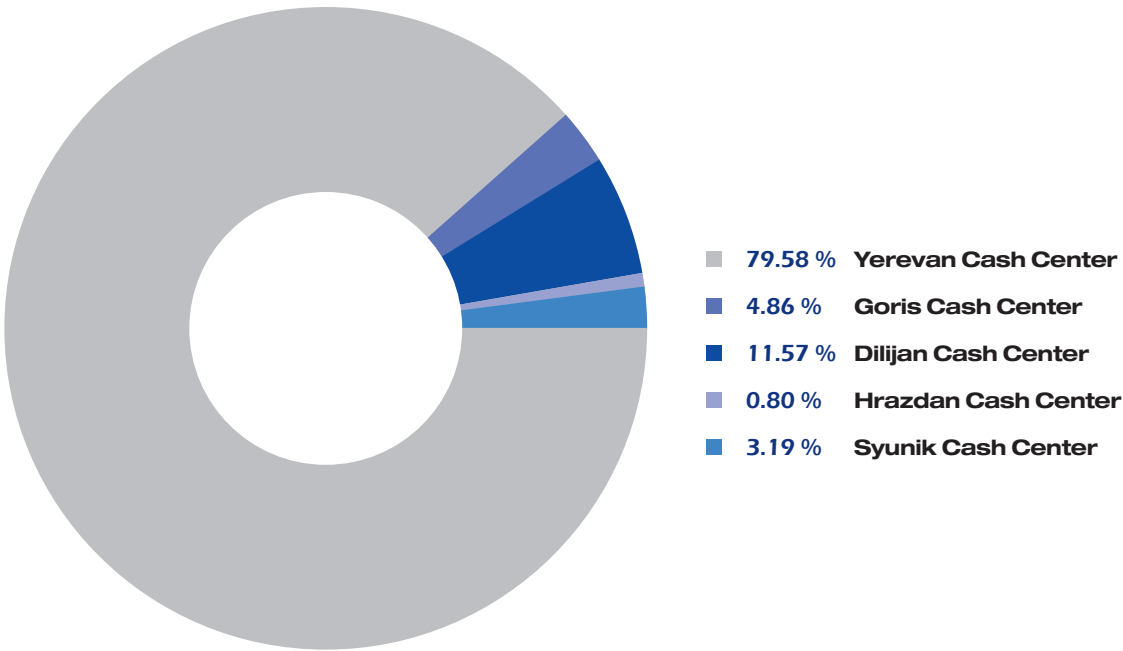
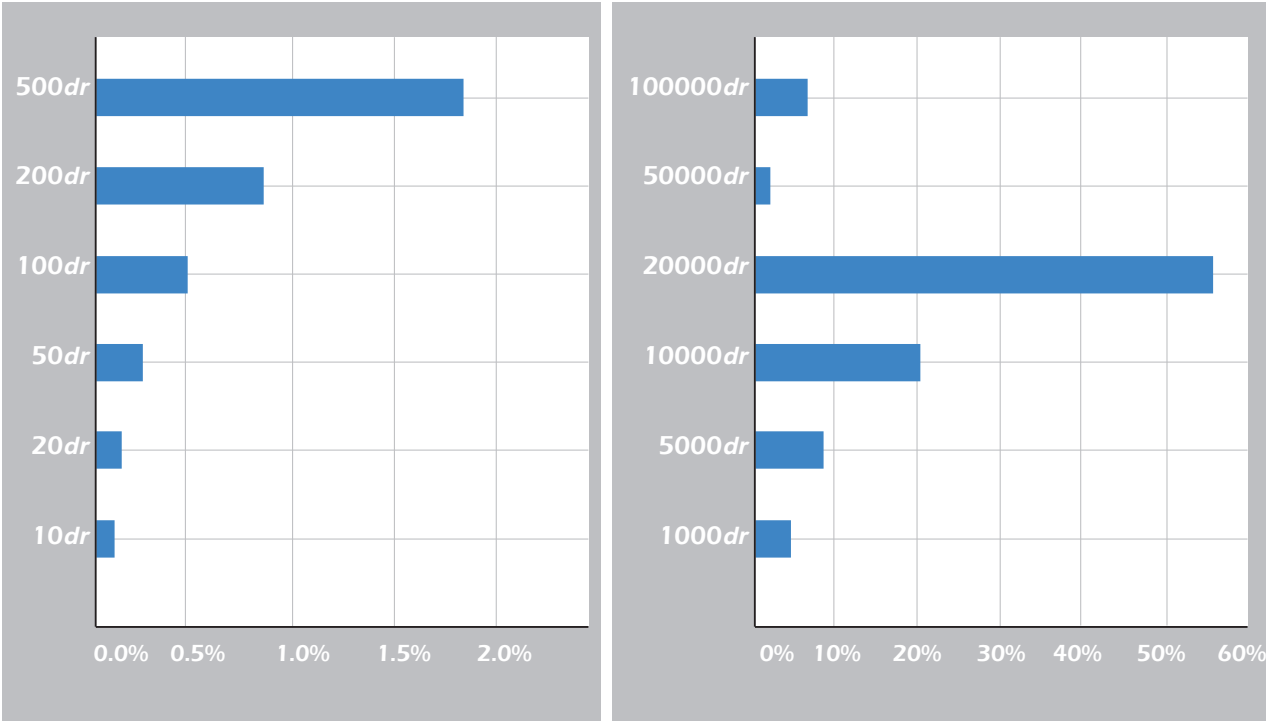


Figure 8

Type structure of currency outside the Bank as of 31.12.2015



To satisfy the growing demand for notes with nominal value 1000 drams, the Bank has furnished its money reserves with the 2015 series of the note and put the one into circulation on December 21, 2015.

Having cash transactions and relevant information flows automatized as well as increasing the efficacy in the fight against counterfeit money remain a key task for the Bank's strategy. In 2015 more efforts were spent to expand and improve the system that registers any incoming information on counterfeit money and to create a single database that registers and collates information on notes and coins whether or not fit for circulation.

In the framework of fight against counterfeiting, the Bank continued its cooperation with law enforcement authorities. As part of cooperation, analytical work done reflected on the methods and approaches to making and grouping of the counterfeit banknotes detected by the Bank.

The Bank has acquired latest equipment for banknote expertise, making it possible to explore the methods with which counterfeit money is created and how technical criteria for the notes and coins of the Republic of Armenia are specified. Work was done to introduce and operate a distant system for the expertise of notes and coins. The main methods of counterfeiting are broadly featured in informational materials which are distributed to the commercial banks functioning in Armenia.



Year 2015 marked the centenary of the Genocide of Armenians, and the Bank has issued one thousand copies of a 67.2 gr silver commemorative coin in a vintage design, which depicts fragments of monuments in different parts of the world in memory of the victims of the genocide.

After thematic discussions with State Commission on Coordination of Events Dedicated to the Commemoration of the 100th Anniversary of the Armenian Genocide, the Bank embarked on the issuance of two sets of commemorative medals "Martyred Armenian Intellectuals" and "Memorials of the Loss and Struggle", each consisting of 8 silver medals.



The set "Martyred Armenian Intellectuals" is dedicated to Armenian writers, teachers, journalists, doctors, members of parliament and public figures who were arrested and exiled and most of them murdered brutally by the order of Turkish authorities on April 24, 1915 and the next few days. The set includes the commemorative medals "Nazaret Taghavarian", "Ruben Sevak", "Daniel Varoujan", "Tlkatintsi", "Siamanto", "Grigor Zohrab", "Ruben Zardaryan".

The genocide inflicted tremendous damage to the Armenians' material and spiritual achievements as great many cultural monuments - monasteries, churches and schools - were robbed and hundreds of books and manuscripts destroyed. Yet, in some places the Armenian population resisted heroically the Turkish murderers. The defensive battles were exceptional examples of the struggle for national liberation and survival. The collection "Memorials of the Loss and Struggle" is dedicated to these historic events and includes the commemorative medals "Varagavank", "Narekavank", "Glakavank", "Church of Holy Apostles", "Sis Catholicosate", "Van Castle", "Glory to the Heroes".

The silver commemorative medal "Forget-Me-Not" which is the symbol of the centenary of the Genocide of Armenians comes not only as an individual issuance but is included in the abovementioned two collections.



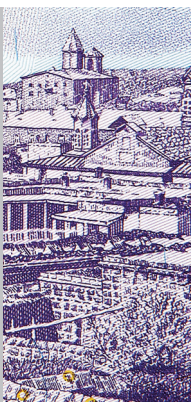
In 2015 Armenia celebrated the 150th birth anniversaries of a famous artist Panos Terlemezian and General Andranik Ozanyan, a prominent figure in the Armenian national liberation movement, the 200th anniversary of foundation of the Lazarev seminary and the 20th anniversary of the establishment of the Constitutional Court of the Republic of Armenia. The Bank has issued silver commemorative coins in celebration of these occasions. A silver commemorative coin dedicated to the creation of the Eurasian Economic Union was issued in 2015, too.

In 2015 the Bank continued the issuance of silver investment coins "Noah's Ark" in the following weights: 1/4, 1/2, 1, 5, 10 troy oz. and 1 and 5 kg. In 2015 a total of 1,293,897 pieces of investment coins were sold, which is 66.1% more than in the previous year. The sales of numismatic values through the Bank's sales salon "Numismatist" also grew significantly compared to the previous year.



In 2015 the Bank took part in the "Coin Constellation 2015", an international numismatic event. At the contest, the Bank's collection titled "The Oldest Trees of the World", which is a set of four silver coins, was given an honorary award in the nomination "Collection of the Year".

Organizing and regulating the framework to combat money laundering and terrorism financing



In 2015 the Bank's Financial Monitoring Center (FMC) continued its activities for anti-money laundering and combating financing of terrorism (hereinafter AML/CFT) in the Republic of Armenia, in pursuit of the goals set forth in the National Strategy for 2013-2015. Specifically, efforts included implementing a regulatory framework and policies in compliance with Financial Action Task Force recommendations, reviewing impulses that contain possible ML/TF suspicions, enhancing cooperation at the international and domestic level, expanding knowledge for reporting entities in the field of AML/CFT and training the FMC staff and other bodies engaged in AML/CFT.

In 2015 the FMC had a task to coordinate the 5th round of assessment of national framework for AML/CFT, which was carried out by the Council of Europe's MONEYVAL Committee. It should be noted that Armenia as Member State of the Council of Europe was the first country whose framework to combat money laundering, terrorism financing and proliferation of weapons of mass destruction (hereinafter AML/CFT/PF) had been assessed according to FATF 40 Recommendations that were revised in 2012.

The assessment report has been approved at the 49th plenary session of MONEYVAL Committee. According to the report, Armenia's AML/CFT/PF framework has been evaluated to be 'compliant', 'largely compliant' and 'partly complaint' with regard to, respectively, 18, 17 and 5 recommendations out of FATF 40 Recommendations. The AML/CFT/PF framework efficacy has been measured to be high for preventive measures, transparency of legal persons and groupings, financial sanctions and international cooperation⁶.

FMC training and consultancy in the field of AML/CFT

For better knowledge and capacity building in the field of AML/CFT, a number of training programs were carried out and meetings organized by the FMC in 2015 for competent authorities concerned, reporting entities as well as for non-commercial undertakings.

In particular, a series of seminars/workshops were arranged by the FMC between January-May of 2015 for reporting entities in the financial and non-financial sectors and representatives from government

⁶ See details in the "Annual Report on 2015 Activities in the Field of Combating Money Laundering and Terrorism Financing in Armenia".

departments that carry out oversight of such entities. Nearly 100 employees of financial organizations, 80 from non-financial organizations and 20 from supervisory authorities attended the seminars at which the findings of the 2014 report "National Assessment of Risks to Money Laundering and Terrorism Financing in Armenia" were addressed and obligations of reporting entities under the Republic of Armenia Law on Combating Money Laundering and Terrorism Financing and other laws and regulations specified.

Legislative improvement

A three-year action plan offering solution to the problems and weaknesses and elimination of the vulnerabilities identified in the "Assessment of Risks to Money Laundering and Terrorism Financing in Armenia", a national initiative, was developed and approved in 2015 in consideration of increased effectiveness in confronting the ML/TF threats.

Other activities of the FMC in 2015 aimed at improving the mechanisms for AML/CFT and developing legislation in compliance with international criteria included adopting regulations of various legal hierarchy and publishing methodical clarifications and guidelines about how such regulation will be used.

The Bank chairman decisions No. 1/324A and 1/325A of April 22, 2015 has approved, respectively, a procedure on "Proposing Inclusion of Persons in the Lists of Terrorist Persons, as Adopted by the United Nations Security Council Resolutions or Published pursuant to These Resolutions, Inclusion of Persons in the Lists of Terrorist Persons, as Published by Competent Authority" and a guideline to "Freezing of the Property of Persons or Organizations Included in the Lists, Ensuring an Access to the Frozen Property and Relevant Action".

The recommendations proposed in the assessment report on Armenia's AML/CFT/PF framework, approved at the 49th plenary session of MONEYVAL Committee, prompted the FMC to embark on drafting in December 2015 regulations that provided for amendment and addenda to a number of regulations.

Analyses and findings

In 2015 the FMC conducted comprehensive analyses, using the signals and reports of suspicious transactions in the field of AML/CFT. Based on the results of analyses and respective ML/TF assumptions, the FMC made referrals to both domestic law enforcement authorities and foreign financial intelligence units. The schemes described in the impulses and reports were diverse and dubious. However, as in previous years, they often contained typical examples, as follows:

- various fraud schemes (false cards, attempts to legalize illicit proceeds by the use of data of stolen cards issued by foreign banks, swindles through different forms of internet marketing and computer facilities),

- financial transactions purporting tax evasion, unlawful or underground activities, concealment of the volumes of economic activity,
- other schemes described by the typologies published by the Bank.

Measures were taken by the FMC to prevent ML/TF risks, including attempts to prevent the movement of funds of unknown origin from one country to another through the use of the banking system of Armenia.

The table below provides an account of referrals of assumption of money laundering to the law enforcement authorities, information requested by the FMC from the law enforcement authorities, information requested by the law enforcement authorities from the FMC, as well as general statistics on criminal cases on money laundering:

	2011	2012	2013	2014	2015	Total
FMC referrals to law enforcement authorities	17	11	25	28	31	112
Information FMC requested from law enforcement authorities	33	11	17	17	9	87
Information law enforcement authorities requested from FMC	58	61	36	66	36	257
Criminal cases instigated	10	9	10	9	4	42
Sentences rendered	5	2	2	1	0	10

The FMC continued collaborating with foreign financial intelligence units. In 2015 the FMC received 26 requests from and made 28 requests to these financial intelligence units.

The FMC employees attended many seminars and training courses, and part "Cooperation with international organizations" of the report provides more details about this.

Protection of consumer rights and interests in the financial system

Protection of consumer rights in the financial market



The protection of consumer rights and interests in the financial market by the Bank has been achieved through fair conduct of organizations providing financial services, provision of appropriate institutional environment and financial education.

The Consumer Protection and Financial Education Center (hereinafter CPFEC), a separate structural unit at the Bank, has a function to protect consumers in the financial market.

In 2015 the CPFEC embarked on regulating the financial system's market conduct.

Transparency and information disclosure which financial institutions provide in different stages of communication with consumers is an important precondition for consumer protection and market fairness. In financial services, statements made available to the consumers are an important component for ensuring transparency throughout the effect of the contract, which is why the CPFEC took on measures in 2015 to improve such statements. To solve the problems identified, the CPFEC developed requirements to the content and format of statements to bank accounts, deposits, consumer loans, and wrote procedures on how to issue them. From now on, all the consumers who are holders of bank accounts, credit cards or have purchased consumer loans will be able to keep track of transactions through simple and integrated monthly statements, so as to identify existing problems earlier and avoid possible financial losses.

Since 2011 a dedicated educational website *Finance for All* (www.abcfinance.am)⁷ has an application called *Financial Assistant*. It allows consumers to compare the prices and terms & conditions of services and products in the domestic financial market. A new service added to the application in 2015 offers consumers who are going to take agricultural loans or make remittances to their relatives in Armenia and abroad an easy way to compare all the offers and choose the most suitable option available on the market.

In 2015 the Armenian Parliament endorsed amendment and addenda to Republic of Armenia laws on "Financial System Mediator", "Circulation of Credit Information and Activities of Credit Bureaus", "Credit Organizations" and "Banks and Banking". These supplements are meant to allow consumers to apply to the Financial System

⁷ See details in <https://www.abcfinance.am>

Mediator with their complaints filed against credit bureaus, or entitling the Bank to require banks and credit organizations have rules, policies and procedures on business conduct in place.

In 2015 the Bank continued on-site and off-site surveillance of financial organizations and, as part of off-site examinations, the CPFEC scrutinized radio advertising of financial organizations as well as the information published on the websites and the system *Financial Assistant* on a monthly basis, in addition to TV advertisements.

The CPFEC conducted a market research also through mystery shopping in order to evaluate how banks make loans and how they provide consumers with information on the loans.

In 2015 the CPFEC further responded consumer complaints received in writing and via a hotline service. During the year more than 1,000 calls were received by a hotline service. The CPFEC also received 213 written complaints, 138 of which were related to banks, 16 to credit organizations and 20 to insurance companies' activities, and other aspects.

Increasing the level of financial literacy of consumers in Armenia

Since 2007 the Bank is involved in improving the level of financial literacy of the population. In the framework of national strategy of financial education in the Republic of Armenia⁸, the Bank has developed, jointly with the Armenian Ministry of Education and Science, a matrix of minimum attributes to a financially literate person, which combines 4 elements of financial capacities and 7 main subject areas of financial education. The matrix is used to develop the financial education programs.

Assessment of financial capacity of the population of Armenia started in 2013 in collaboration with the International Alliance for Financial Inclusion. In 2014 a methodology was developed to assess financial capacity, and then a survey conducted throughout Armenia involved 1536 respondents (95% confidence level and confidence interval of 2.5%). The survey results were summed up in 2015 and communicated at the 7th meeting of the National Financial Education Strategy Development and Implementation Committee⁹. The assessment will be carried out every 5 years, which will enable to measure the effectiveness of the NSFE.

To implement the financial education component at schools, the financial competence matrix was developed in collaboration with the Ministry of Education and Science and the National Institute of Education. The subjects of school curriculum were highlighted to reflect a financial education module pursuant to the matrix.

The financial education program for rural areas was developed by the Bank in cooperation with the German Savings Banks Association. The goal is a continuous financial education program to work for all regions of Armenia and a two-day seminar on personal finance management offered for rural area population. In 2015 a total of 11 semi-

8 The national strategy of financial education in the Republic of Armenia and the NSFE Action Plan for 2014-2019 was approved by the CBA Board and the National Financial Education Strategy Development and Implementation Committee in 2012. These documents were also approved under the Government of Armenia Resolution No. 47, pursuant the minutes of the meeting on November 13, 2014.

9 The National Financial Education Strategy Development and Implementation Committee is an advisory inter-ministerial body whose members are collaborating with a view to making the development and implementation of NSFE. More than 18 organizations in public and private sectors are members to the Committee. The Bank is in charge of coordinating the activities of the NSFE.

nar instructors of 6 regions were trained and pilot courses were delivered for about 130 residents of 8 rural communities.

In 2015 the Bank organized a series of seminars as a pilot project, which were conducted by representatives of the Bank and the financial sector. The seminars covered various topics in personal finance management for different target groups. Specifically:

- 20 open seminars were arranged to which 350 participants attended.
- 6 foreign experts conducted seminars as part of FLY, a financial education program for youth and students, to which about 420 schoolchildren and students attended.

Financial education measures in 2015 included a school brain-ring in economics and finance, the World Savings Day, a festival "Voskehask".

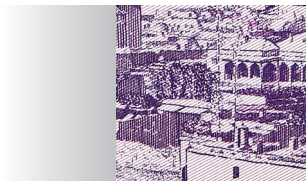
The CITIZEN, a research program for community financial issues, was carried out at 30 schools of Tavush Region of Armenia. The goal is to give students and teachers tools for identifying financial problems in their communities and offering solution and taking measures as appropriate.

In view of proper management of personal finances, an awareness campaign "Healthy Lifestyle, Healthy Finances" was organized as part of the event "Yerevan Half-Marathon".

Social media plays an important role in increasing young people's attention and interest in financial education, and the website abcfinance.am (via same-name pages of Facebook, YouTube, Twitter) was used to that effect.

In 2015 the Bank maintained further cooperation with international institutions for consumer protection and financial education, such as Organization for European Economic Cooperation and Development, International Network of Financial Education, Alliance for Financial Inclusion, and the Eurasian Economic Union.

International reserves management

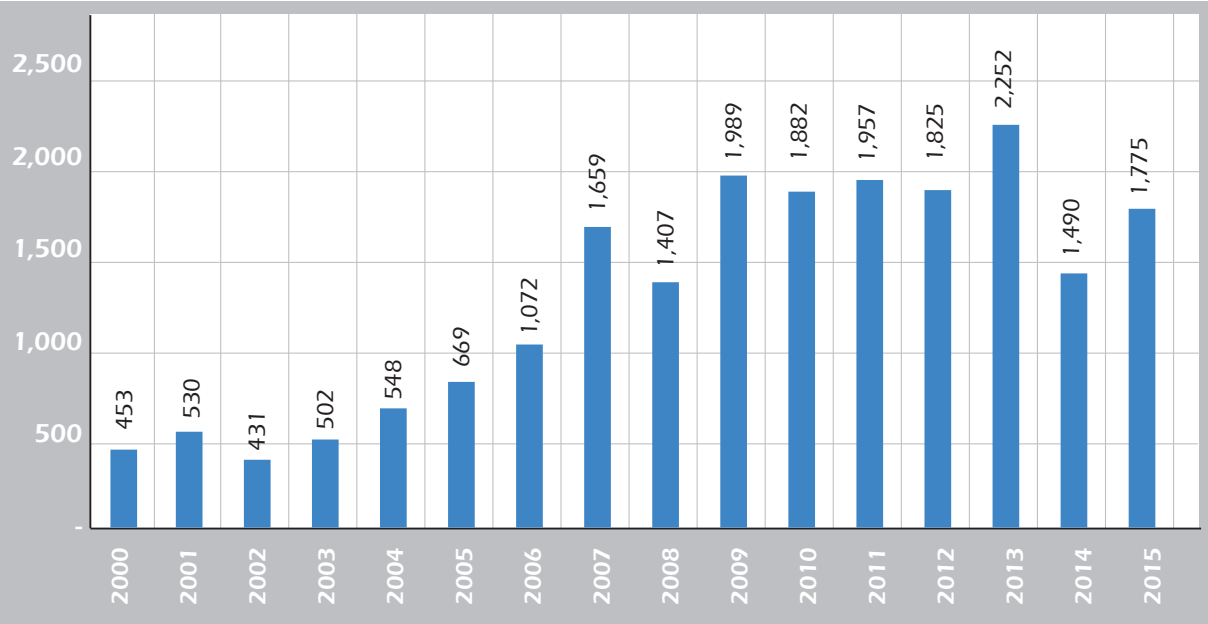


In 2015 international reserves of the Republic of Armenia grew by USD 285.8 million to nearly USD 1,775 million at the end of the year (see Figure 9).

In the period under review, major factors affecting the volume of Armenia's international reserves included loans and grants received from international institutions, inflows resulting from additional place-

Figure 9

International reserves of the Republic of Armenia
(million US dollar)



ment of Eurobonds by the Armenian Government (in the amount equivalent to USD 350 million and USD 288 million, respectively) and about USD 106 million-worth of growth of balance on foreign currency correspondent accounts of commercial banks with the Bank. The servicing of public debt of the Republic of Armenia (nearly USD 172 million) and net sale of foreign currency in the domestic interbank market (equivalent to roughly USD 247 million) were significant developments during the year.

In the period under review, net foreign assets amounted to roughly USD 1,175 million.

In 2015 Armenia's international reserves were further in line with all requirements to international reserves applied in world practice. This is true especially in terms of the Armenian economy's ability to absorb possible external shocks. In 2015 international reserves of the Republic of Armenia provided for more than 4 months' import coverage and more than 8 years' coverage of servicing short-term (up to a year) liabilities.

International reserves of the Republic of Armenia were managed amid a variety of financial, economic and political developments in the world. In doing so, the Bank paid a special attention to the splitting of lead countries into the ones with high and low economic activity. The USA and the United Kingdom were the countries which posted relatively high economic growth.

In the context of relatively rapid growth rate of GDP and house prices, significant decline in the rate of unemployment and moderate inflation, the US Federal Reserve System has tightened the monetary policy by raising the short-term rate by 25 basis points. However, the US Central Bank' behavior is cautious and further moderate increase in short-term interest rates is expected.

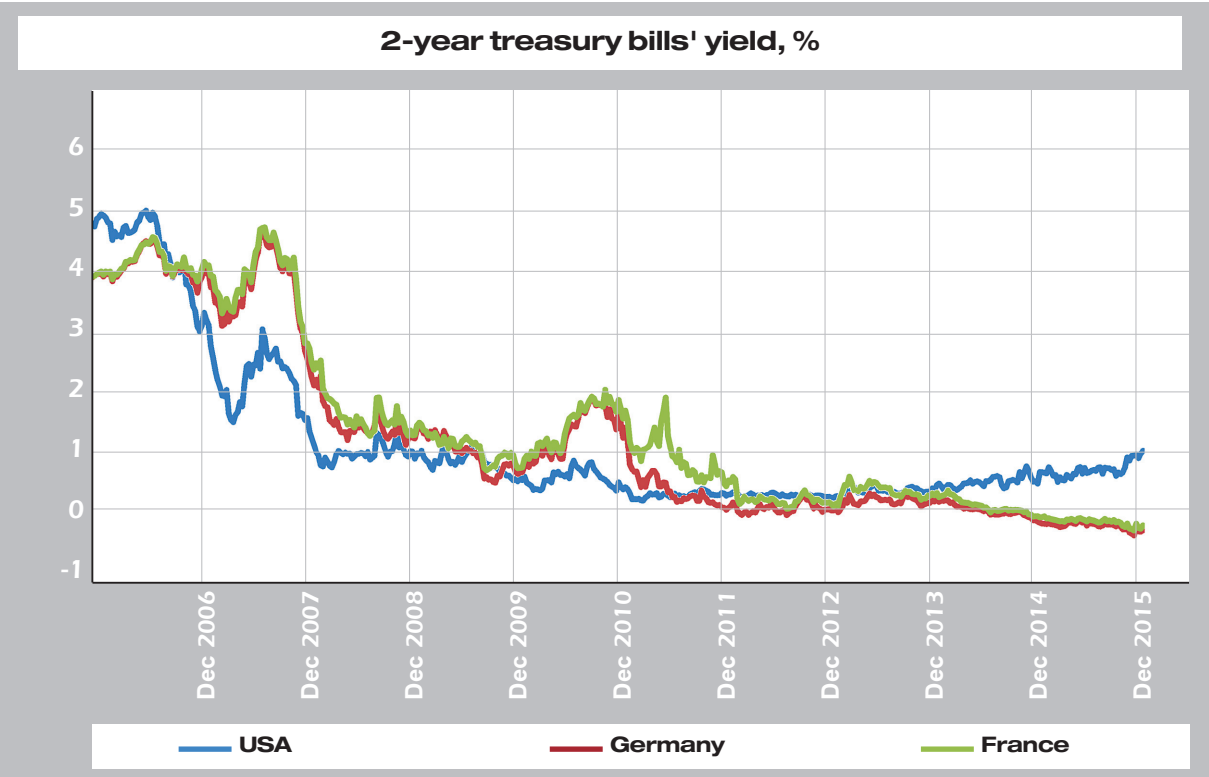
The contractionary monetary policy conducted in the USA has pushed up short-term interest rates significantly. Specifically, in December 2015 the 3-month Libor hit the 0.6% level whereas in January it was in the region of 0.25%. At the same time, the 2-year US treasury bills yield has approached the 1% level.

As for the United Kingdom, the Bank of England is preparing for an interest rate rise, which probably will occur in the first half of 2017.

In the Eurozone and Japan with their sluggish economic activity, the central banks kept on implementing expansionary monetary policy in order to attain the inflation target.

In 2015 the European Central Bank again slashed the Standing Deposit Facility Rate. With this rate unprecedentedly low, the ECB purchases government securities, agency securities, securities issued by local governments and asset-backed securities in the amount of EUR 60 billion on a monthly basis in order to attain the inflation target and shore up the economy.

Figure 10 **USA, French and German treasury bills' yields**



Interest rates on German and French treasury bills with up to 5-year maturities have settled on negative levels (see Figure 10).

As for the monetary policy carried out by the Central Bank of Japan, it certainly remains aggressively stimulating.