CENTRAL BANK
OF THE REPUBLIC OF ARMENIA

Annual report

2012





In December 2012 the one millionth copy of silver investment coin Noah's Ark issued by the Central Bank was sold[1]

[1] *See details in the Central Bank website www.cba.am in the section Investment Coins of the Republic of Armenia.*

CENTRAL BANK
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CHAIRMAN'S MESSAGE »

Dear Reader,

This is our Annual Report for 2012. It provides an inclusive account on how we maintained price and financial stability as well as summarizes the results[2] of other important tasks set before the Central Bank during that past year.

The year was successful in terms of both price stability and financial sustainability.

One of the most important achievements of the 2012 was that we maintained macroeconomic stability which created a favorable environment for economic growth in the upcoming years. We had 3.2 percent inflation in the reporting year: the Central Bank was able to stabilize inflation around the target through policy coordination and anchoring peoples' inflation expectations.

Stabilizing macroeconomic environment contributed to a healthier financial system. Though small, but dynamic, Armenia's financial system has already proved its ability to withstand shocks. The year 2012 was prominent in that the real and financial sectors integrated at high speed. At the end of the year, the amount of assets of the financial sector totaled 68 percent and the amount of loans, 41 percent of GDP, each having posted a 9 percentage point increase in relation to 2011.

In the reporting year the International Monetary Fund and the World Bank carried out the Financial Sector Assessment Program in Armenia. The program mission summed up Armenia's financial system stability and issued valuable recommendations a considerable part of which had been implemented. General evaluation is that the banking system of Armenia is resilient enough to withstand possible shocks and the Central Bank has an effective supervision system as well as a viable crises management mechanism in place.

Overall, financial performance of participants of the financial sector of Armenia for 2012 was reassuring.



Arthur Javadyan
Chairman

» [2] *See details on price and financial stability in papers Inflation Report, Financial Stability Report and Armenia's Financial System: Development, Regulation and Supervision.*

CENTRAL BANK
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yerevan 2012

In 2012 Yerevan was proclaimed the 12th World Book Capital by UNESCO. On this occasion, the Central Bank has issued a silver collector coin dedicated to the 500th anniversary of Armenian book printing[3]

[3] *See more information on collector coins in the Central Bank website www.cba.am in the section Armenian Collector Coins.*

GOVERNANCE AND ACCOUNTABILITY »

Mission and Objectives of the Central Bank

According to the Republic of Armenia Law on the Central Bank, the primary goal of the Central Bank is price stability in Armenia. To achieve this goal, the Central Bank has a function of taking measures to attain price stability while developing, approving and implementing monetary policy programs.

Mission of the Central Bank includes:

a) Be an internationally recognized institution that is independent, dynamic, prestigious, transparent, knowledge-based and onlooker of development trends in global financial system;
b) Maintain institutional ability to fast respond to the change in economic environment and effectively influence the economic processes;
c) Support on an ongoing basis the sustainable development of macroeconomic environment while being an important partner to the Government of Armenia in facing economic challenges.

Objectives of the Central Bank include:

a) ensuring a stable and normal-functioning financial system, including creating conditions necessary for a stable, liquid, solvent and normal-functioning banking sector in Armenia;
b) creating and developing an efficient payment and settlement system;
c) issuing currency of the Republic of Armenia, and organizing and regulating money cycle;
d) organizing and regulating combat against legalization of criminal proceeds and terrorism funding;
e) creating conditions for protection of investors in securities and for building a framework for fair pricing of securities in the market, and for regulated activities of a sound, open, reliable and efficient securities market, and providing for requisite conditions for growth; and

f) ensuring essential conditions for protection of rights and lawful interests of consumers of financial services

To achieve its objectives, the Central Bank:

a) takes up function to manage interest rates in dram markets and handle dram liquidity;
b) acts as a lender of last resort;
c) provides banking services to the Government and acts as financial agent and consultant to the Government;
d) licenses banks, payment and settlement organizations and other financial system participants, and regulates and oversees their activities for a unified supervision;
e) manages international reserves of the Republic of Armenia;
f) collects, compiles and publishes monetary and financial system statistics;
g) collects, surveys and analyzes information regarding legalization of criminal proceeds and terrorism financing; exchanges information and delivers that to local authorities and international organizations and, where provided for by international treaties of the Republic of Armenia, to competent authorities of other countries;
h) regulates and administers work aimed to boost market conduct and financial literacy of households.

Governance of the Central Bank

The Republic of Armenia Law on the Central Bank provides that the Board of the Central Bank is supreme management body of the Central Bank.

The Board consists of Chairman, Deputy Chairman of the Central Bank, and five Members. Chairman and Deputy Chairman are included in the Board *ex officio*.

Chairman of the Central Bank is the highest rank official of the Central Bank. Chairman of the Central Bank is appointed by the Armenian National Assembly upon recommendation of President of the Republic of Armenia, for a 6-year term. Chairman is responsible for fulfillment of the Central Bank objectives. Chairman coordinates and organizes the work and ensures the soundness of activities of the Central Bank; represents the Central Bank in the Republic of Armenia, other states and international organizations; exercises authority not reserved to the competence of the Board. Where Chairman is absent or otherwise unable to act, such powers are to be vested with Deputy Chairman of the Central Bank, and where Deputy Chairman is absent or otherwise unable to act, such powers are to be vested with the eldest Board Member of the Central Bank. Deputy Chairman of the Central Bank is appointed by President of the Republic of Armenia, for a 6-year term. Chairman and Deputy Chairman as well as Board members cannot serve as a member of managing body of any party, be involved in activities other than scientific research, pedagogical and creative activities.

Board Members of the Central Bank are appointed by President of the Republic of Armenia for a 5-year term. Board Members cannot hold any other position in the Central Bank.





Board of the Central Bank

Regular meetings of the Board are held every two weeks, on Tuesday, pursuant to the schedule set by the Board at the opening meeting of the year. Extra meeting of the Board can be held at the request of Chairman, Deputy Chairman or at least three Board Members of the Central Bank.

The Board approves Charter of the Central Bank, Monetary Policy Program of the Republic of Armenia, caps and interest rates on outright operations, loans provided and deposits attracted by the Central Bank, terms and procedure for reserve requirement with the Central Bank; enacts normative regulations of the Central Bank; issues, revokes or annuls banking licenses and other activity licenses; determines the procedure of licensing to banks and other entities; approves prudential standards for banking and calculation thereof; and exercises other authorities under law.

In 2012 the Board met 50 times and adopted 378 resolutions, of which 92 were normative resolutions. The resolutions covered such aspects of the Central Bank activity as approval of regulations supplements thereto (73 resolutions), putting collector coins and notes into circulation (10 resolutions), establishing normative acts for operations of the Central Depositary, insurance companies, credit organizations, reporting issuers, Bureau of Car Insurers of Armenia; realtor activities, legal service providers; reporting forms on referrals to dealers of precious metals, precious stones, art dealers; All-Armenian Bank, bank reference rate (9 resolutions); permitting the operations of money remittance organizations and their participation in the payment and settlement system (47 resolutions), interest rates of the Central Bank operations in the financial market (14 resolutions), approval of the design of collector coins issued by the Central Bank (4 resolutions), issuing or revoking activity license to foreign exchange trades (82 resolutions), issuing activity license to broker/dealer (3 resolutions), pawnshop (47 resolutions), credit organization (3 resolutions), insurance and investment company operations (15 resolutions) and Bureau of Car Insurers of Armenia activities (6 resolutions) as well as

decisions pertaining to Financial Monitoring Center and Audit Group of the Central Bank (10 decisions), and 55 more decisions on various matters.

As a policy approver, the Board of the Central Bank has done much work in improving the legislative and regulatory framework aimed to the financial system stability and development. In particular, a handful of key reforming laws and legislative amendments proposed by the Board were endorsed by the National Assembly of the Republic of Armenia (see details in Section *Financial System Stability, Regulation and Development*).

Executive Board of the Central Bank

The Executive Board is a consultative body adjunct to Chairman of the Central Bank, and conducts its proceedings through meetings. Normally, the Executive Board meets on a biweekly basis, on Tuesday following the day on which the Board's consecutive meeting was held.

Chairman of the Central Bank takes the chair of the Executive Board's meetings and, in his absence, Deputy Chairman does so.

Issues to be addressed by Executive Board Members in the meeting of the Board of the Central Bank are delivered to the Executive Board for consideration.

In 2012 the Executive Board met 14 times.

Committees of the Central Bank

Commissions, committees and other consultative bodies are key pillars of the Central Bank governance, and their structure and competence are defined based on the scope of issues and area of activity. The commissions and committees of the Central Bank hold meetings and draw up minutes which are approved by Chairman of the Central Bank. Where appropriate, Chairman makes a decision and issues orders based on such minutes.

As well as standing commissions and committees, ad-hoc committees can be set up at the Central Bank if certain tasks and objectives need to be fulfilled.

Monetary Policy Committee

MPC is responsible for reviewing and evaluating the previous week's monetary policy, the situation in banking sector and financial market, as well as the indicators of the Central Bank's operations and relations with State Budget.

MPC is set to review and evaluate the Central Bank Statistics Department's and the Republic of Armenia National Statistics Service's observations concerning inflation estimations of the previous 10 days. MPC's meetings are held each Friday at the Central Bank.

In 2012 MPC met 47 times.

Financial Stability Committee

FSC is a consultative body adjunct to Chairman of the Central Bank. It is set to review, evaluate and analyze stability of the financial system, prepare for relevant measures and recommend their implementation.

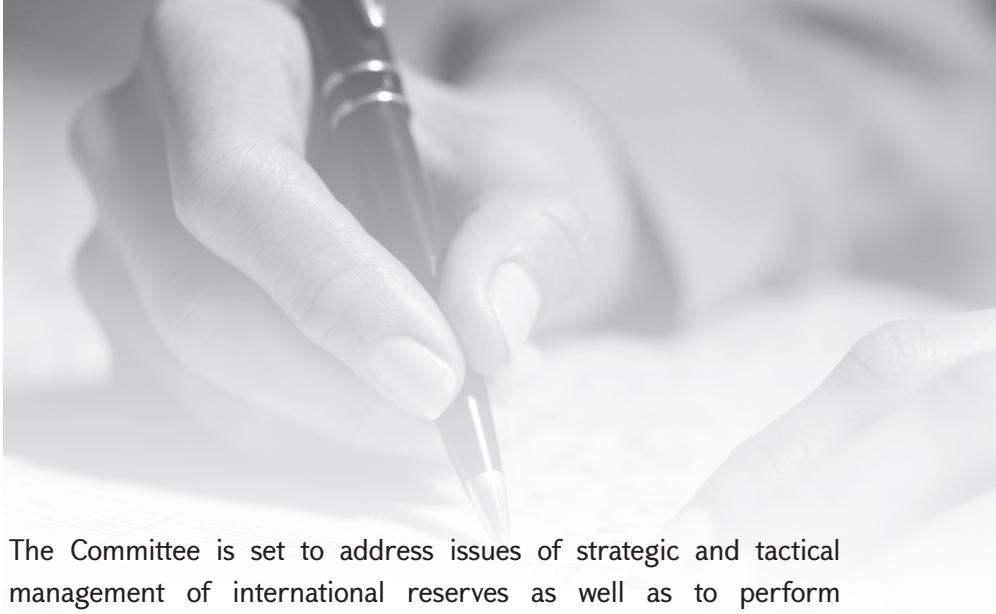
During the meetings FSC makes a review of how risks developed in global economy, macro-environment and financial markets in Armenia as well as domestic financial institutions and infrastructure in the previous quarter and their possible impact on the development of financial stability.

FSC meets once every quarter, in the second half of the month following each quarter. Extra meetings of the Committee are held as and when chairman of the committee decides so.

In 2012 FSC met 4 times.

Investment Committee

IC is an authorized decision-making body within the Central Bank structure. The Committee supervises and coordinates investment activities, evaluates the results of financial analyses in compliance with investment guidelines approved by the Board of the Central Bank.



The Committee is set to address issues of strategic and tactical management of international reserves as well as to perform monitoring of ongoing investment activities.

Normally, the Committee's meetings are held once a month.

In 2012 IC met 10 times and adopted 8 decisions.

Licensing and Supervision Committee

LSC is set to address aspects such as granting preliminary consent to creation of banks and branch offices of foreign banks; registration and/or licensing of banks and branch offices of foreign banks; registration of branch offices, representations of banks, representations of foreign banks; registration of operational rules of regulated market operator and Central Depositary; licensing of other participants.

LSC has its proceedings through meetings which are convened as and when appropriate but not less than once a week.

In 2002 the LSC met 63 times.

Young Specialist Evaluation Committee

This committee is created to evaluate professional knowledge of young specialists in the Central Bank and it holds meetings to test and assess professional knowledge and talent of persons who work in the Central Bank as young specialists.

YSEC decisions are consultative only and can be used by heads of structural units for judgment and recommendation to chairman of the Central Bank for consideration.

In 2012 YSEC met 9 times and evaluated a total of 34 young specialists.

Job Evaluation Committee

The task of JEC is to evaluate and categorize new jobs or changed job positions at the Central Bank. The Committee is set to discuss issues on evaluation and categorization of jobs for new or changed positions and make recommendations to chairman of the Central Bank for consideration.

The Committee addresses the issues that are disputable with regard to performance of individual work programs of employees of the Central Bank.

JEC meetings are held as and when needed, before October 15 of the year. In 2012 the Committee met 5 times.

Staff Assessment Committee

SAC is designed to assess professional capacities of the staff of the Central Bank and applicants through both interview and tests in writing. Chairman of the Central Bank heads the committee and has a decision-making power based on the conclusion issued by the committee, regarding:

- professional capacities and integrity of the employee for the job position he/she takes;
- signing an employment contract with the applicant;
- promoting a job position.

IN 2012 SAC met 34 times.

Audit Committee

AC of the Central Bank is one of key components of the Bank's governance. Responsibilities of the Committee include issues and tasks pertinent to financial accounts of the Bank, internal control, external and internal audit. AC consists of three members, including chairman of the Committee. Members of the Committee are board members of the Central Bank. During the year AC met 6 times and discussed and adopted decisions in respect of 25 issues. The discussion of issues covered examinations of Audit Group, external audit, internal control and risk management system as well as day-to-day activities, methodology and area-specific issues of Audit Group.

In addition to these committees an important role in corporate governance of the Central Bank is attributed to the Bank's Budget Committee, Information Security Committee, Information Technologies Development Committee, Tender Committee, Editorial Board, which is responsible for the Internet homepage, development of information policy of the Central Bank, and Research and Analysis Team.

The Central Bank Accountability

In fulfilling its objectives, the Central Bank is independent from state authorities of the Republic of Armenia. The Central Bank maintains its accountability pursuant to the terms and procedure determined by the Republic of Armenia Law, the Central Bank strategy and internal rules and policies.

The Central Bank presents the *Monetary Policy Program* and *Status Report on Implementation of Monetary Policy (Inflation Report)* as well as *Expenditures Estimate and Capital Investment Program*, with performance papers, to the National Assembly of the Republic of Armenia.

In addition to the aforementioned papers, the Central Bank makes the following papers publicly available, such as: *Financial System of the Republic of Armenia: Development, Regulation and Supervision*, *Annual Report of the Central Bank*, *Financial Stability Report*, *Central Bank Bulletin*, *Central Bank Review*, *Central Bank Statistical Bulletin*, *Commemorative Coins of the Republic of Armenia*.

The Central Bank also ensures accountability through its official website (www.cba.am) which contains the Central Bank Development Vision, regular issues of periodical, the Board minutes and press releases on the refinancing rate, and other information relevant to the Central Bank operations and activity and the financial system as a whole.

Annual financial accounts of the Central Bank are another important component of accountability. Compliance of these accounts with International Financial Reporting Standards is verified each year by international recognized auditor.

THE CENTRAL BANK ORGANIZATIONAL STRUCTURE

