

Appendix 1
By the Decision No. 207L of November 18, 2025
of the Board of the Central Bank of the Republic of Armenia

THE INVESTMENT POLICY STATEMENT FOR THE MANAGEMENT OF INTERNATIONAL RESERVES OF THE REPUBLIC OF ARMENIA

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Introduction

1. This document defines the investment policy for the management of the international reserves of the Republic of Armenia (hereinafter referred to as International Reserves) and the guidelines governing their management. The purpose of this document is to establish:
 - 1) the accumulation objectives of International Reserves, the primary management criteria, and the principles of strategic asset allocation (Chapters 1, 4, and 5);
 - 2) the governance and decision-making levels within reserve management function, as well as the framework for the allocation of rights and responsibilities among them (Chapters 2 and 3);
 - 3) the investment horizon, the level of risk tolerance, and the risk management principles (Chapters 4, 5, and 6);
 - 4) the reporting and accountability principles (Chapter 7).

CHAPTER 1

SCOPE AND ACCUMULATION OBJECTIVES OF THE INTERNATIONAL RESERVES OF THE REPUBLIC OF ARMENIA

2. The Central Bank of the Republic of Armenia (hereinafter referred to as the Central Bank) records International Reserves on its balance sheet, which may be comprised of eligible assets denominated in eligible currencies¹ and precious metals as defined by the Investment Policy Statement.
3. International Reserves are accumulated as a result of foreign currency-denominated liabilities undertaken by the Government of the Republic of Armenia (hereinafter referred to as the Government) and the Central Bank, payments received in foreign currency, foreign exchange purchase operations conducted by the Central Bank, as well as income generated from the management of International Reserves.
4. The accumulation objectives of International Reserves are to:
 - maintain reserve funds necessary to support the implementation of monetary policy and financial stability objectives;
 - ensure the availability of adequate foreign currency liquidity to mitigate the potential impact of shocks in financial markets and to maintain their normal functioning;
 - maintain sufficient funds to safeguard the smooth and timely fulfilment of current and future foreign exchange obligations undertaken by the Government and the Central Bank, while contributing to the enhancement of the investment credibility of the Republic of Armenia.

CHAPTER 2

DECISION-MAKING LEVELS IN THE MANAGEMENT OF THE INTERNATIONAL RESERVES OF THE REPUBLIC OF ARMENIA

5. In order to ensure the effective achievement of the International Reserves' accumulation objectives, investment management decisions are taken at the following three levels:
 - 1) strategic level (strategic asset allocation) — decisions regarding the long-term investment management objectives, guiding principles, risk tolerance, and strategic asset allocation of the International Reserves²;
 - 2) intermediate level (dynamic asset allocation) — proposals for changes in the optimal asset allocation are discussed based on expectations derived from the analysis of financial, macroeconomic, and other relevant information, as well as the appropriateness of implementing medium-term tactical deviations within portfolio investments;

¹ The term “currency” shall be deemed to include the Special Drawing Rights (SDR), which constitute the accounting unit of the International Monetary Fund.

² Strategic asset allocation refers to the determination of the long-term strategic allocation of assets within the established constraints derived from the International Reserves accumulation objectives.

- 3) tactical level (tactical asset allocation) — decisions regarding the tactical management of International Reserves, which, in response to the prevailing market conditions, allow for changes in the strategic asset allocation by means of taking active positions within the approved management limits.

CHAPTER 3

GOVERNANCE FRAMEWORK FOR THE MANAGEMENT OF THE INTERNATIONAL RESERVES OF THE REPUBLIC OF ARMENIA

6. The governance framework of the management of International Reserves is a three-tier decision-making system based on the principles of clear allocation of authority, functional oversight, and accountability.

The Board of the Central Bank

7. The Board of the Central Bank is the highest decision-making body for the management of International Reserves, which bears the primary responsibility for and adopts long-term strategic decisions related to the management of International Reserves.
8. The Board of the Central Bank approves the Investment Policy Statement for the management of International Reserves.
9. The Board of the Central Bank, must at least annually, consider the need to review or restate the Investment Policy Statement. Any changes to the Investment Policy Statement should be justified by changes in economic, financial, strategic, asset management conditions, or by changes in risk tolerance level, and should be aimed at developing an investment policy aligned with best international standards, as well as ensuring ongoing compliance with the objectives of the accumulation of International Reserves.
10. The Board of the Central Bank establishes:
 - 1) the risk tolerance level for the management of International Reserves;
 - 2) the tranching (portfolio structuring) and strategic asset allocation principles for International Reserves;
 - 3) the investment horizon for the management of International Reserve portfolios;
 - 4) the portfolio management type (internal or external management)³, portfolio benchmarks, and management style (active or passive),
 - 5) currencies, countries, and instruments eligible for investments for the management of International Reserves,
 - 6) the management parameters for International Reserves, including value limits, currency composition, risk characteristics, and portfolio rebalancing rules;

³ Internal management of International Reserves is performed by the Central Bank. External management is defined as the management of International Reserves by an external financial institution appointed by the Board of the Central Bank.

- 7) the minimum requirements applicable to issuers, custodians, external asset managers, and other counterparties within the framework of the management of International Reserves;
 - 8) the principles for risk monitoring related to International Reserves;
 - 9) the general principles and framework for accountability and information disclosure on International Reserves;
 - 10) the principles governing the execution of non-investment operations aimed to meet the foreign currency obligations undertaken by the Government and the Central Bank.
11. The Board of the Central Bank shall review, at least annually, the principles for assessing the adequacy of the International Reserves and the level of sufficient liquidity, and shall determine the corresponding levels.
 12. The Central Bank provides information to the Government on the management of International Reserves in accordance with Article 52 of the Law of the Republic of Armenia “On the Central Bank of the Republic of Armenia.”

Investment Committee of the Central Bank

13. The Investment Committee of the Central Bank constitutes the intermediate level of decision-making in the management of International Reserves. It is composed of Central Bank staff involved in the International Reserves management function, and the composition of the Investment Committee is approved by the Governor of the Central Bank.
14. The Investment Committee bears the responsibility for implementation and oversight of the management of International Reserves within the framework established by the Board of the Central Bank and, within the scope of its authority:
 - 1) determines the list of eligible counterparties for the management of International Reserves;
 - 2) performs organizational functions related to the selection of external asset managers, custodians, and other counterparties;
 - 3) regularly reviews developments and trends in markets of investment interest for the management of International Reserves, discusses the tactics of the management of International Reserves, discusses the analysis of management results and performance, assessments of risk profile and deviations from established limits, as well as the need to introduce changes in the stated strategic and dynamic asset allocations or to amend requirements and/or limits approved by the Board of the Central Bank;
 - 4) proposals concerning amendments to the Investment Policy Statement, investment management parameters, and risk characteristics of the International Reserves, as well as other matters and initiatives related to the management of the International Reserves, must be submitted to the Board of the Central Bank following professional discussion within the Investment Committee and must be accompanied by meeting minutes reflecting the written views of each Committee member.
15. The Investment Committee reports to the Board of the Central Bank on the results of its activities, while the accountability provisions are determined by the Board of the Central Bank.

Operational Management Level.

16. The operational management level constitutes the lowest layer of decision-making in the management of International Reserves.
17. Operational functions related to the management of International Reserves are carried out on behalf of the Central Bank by the relevant departments or by external counterparties, including custodians and external asset managers. The functions of the operational management level are approved by the Governor of the Central Bank.
18. Units at the operational management level involved in the management of International Reserves continuously support the proper execution of reserve management functions and may submit initiatives and proposals.
19. The operational management level reports to the Investment Committee on the results of its activities related to the management of International Reserves.

CHAPTER 4

RETURN AND RISK CHARACTERISTICS FOR THE MANAGEMENT OF THE INTERNATIONAL RESERVES OF THE REPUBLIC OF ARMENIA

Primary criteria for the management of International Reserves

20. The primary allocation criteria derived from the objectives of International Reserves are the safety and liquidity of reserve assets. Management is conducted in a manner to ensure that:
 - 1) the objectives of International Reserves accumulation are fulfilled without impediment and at minimum cost;
 - 2) the risk profile of International Reserves investments is maintained within the risk tolerance limits established by the Investment Policy Statement;
 - 3) subject to the above constraints, the expected return from the management of International Reserves is maximized over the investment horizon.

Risk tolerance of the International Reserves

21. The approaches to the assessment and analysis of risks related to the management of International Reserves are derived from the accumulation objectives and the primary allocation criteria of International Reserves.
22. Depending on their respective objectives, the portfolios of International Reserve assets may have different risk tolerance levels, which are characterized by quantitative and qualitative indicators.

Eligible currencies

23. The management of International Reserve portfolios can be conducted in the following currencies: United States dollar, Australian dollar, Danish krone, euro, Canadian dollar, Japanese yen, British pound sterling, Norwegian krone, Swedish krona, Swiss franc, New Zealand dollar, Chinese yuan, and the Special Drawing Right (SDR) of the International Monetary Fund.

Eligible instruments

24. International Reserves may be invested in the following instruments:

1) Cash and cash equivalents:

- a. banknotes,
- b. correspondent and other accounts,

2) Money market instruments:

- a. time deposits,
- b. certificates of deposit,
- c. commercial papers issued by sovereign governments, supranational organizations, and financial institutions,
- d. repurchase and reverse repurchase agreements with financial institutions;

3) Other debt instruments:

- a. bonds issued or guaranteed by sovereign governments, bonds issued by local authorities, state agencies or agencies with significant state participation;
- b. debt instruments issued by supranational organizations,
- c. corporate bonds issued by financial institutions;
- d. covered bonds,

4) Financial derivatives:

- a. futures contracts on foreign exchange, interest rates, and government bonds;
- b. forward contracts on foreign exchange, interest rates, and government bonds;
- c. currency swaps, foreign exchange swaps, and interest rate swaps;

5) Precious metals:

- a. gold (including unallocated gold accounts).

CHAPTER 5

PORTFOLIOS OF THE INTERNATIONAL RESERVES OF THE REPUBLIC OF ARMENIA

25. International Reserves should be managed in accordance with the principle of reserve assets tranching. This principle entails the division of International Reserves into portfolios with different liquidity and risk characteristics, investment horizons, and objectives, based on the assessed need for foreign currency resources required to fulfill the accumulation objectives of International Reserves. These portfolios may, in turn, consist of sub-portfolios.

26. The International Reserves may be allocated in *operational*, *policy*, and *investment* portfolios.

1) Operational portfolio

Objective: to ensure that over a one-year horizon the foreign currency obligations undertaken by the Central Bank and the Government are met smoothly and at minimum cost.

Investment horizon: up to 1 year.

Investments: Cash, cash equivalents, and deposits, as well as highly liquid assets (investments in eligible asset classes meeting the Basel Committee's requirements for High-Quality Liquid Assets (HQLA) Level 1).

2) Policy portfolio

Objective: to support the smooth implementation of the Central Bank's objectives over the investment horizon, to neutralize the potential impact of shocks, and to ensure the availability of necessary foreign currency liquidity for the orderly functioning of financial markets.

Investment horizon: up to 3 years.

Investments: Financial instruments that best satisfy the primary criteria of safety and liquidity of the International Reserves (cash, cash equivalents, deposits, investments in eligible asset classes meeting the Basel Committee's requirements for HQLA Level 1 and Level 2A, as well as eligible financial derivatives).

3) Investment portfolio

Objective: to maximize return and accumulate wealth within the risk tolerance limits established by the Investment Policy Statement. The portfolio may be created only after the operational and policy portfolios have been fully funded.

Investment horizon: 5 years.

Investments: The assets of the portfolio may be invested in all eligible instruments.

CHAPTER 6

RISK MANAGEMENT OF THE INTERNATIONAL RESERVES OF THE REPUBLIC OF ARMENIA

27. For the purpose of effective risk management of International Reserves, the following main types of risks are analyzed and continuously monitored:

Liquidity risk

28. The liquidity of International Reserves refers to the availability of an adequate volume of highly liquid assets to ensure the full, uninterrupted, and cost-efficient fulfillment of the International Reserves accumulation objectives. Any deviation from this condition is considered a liquidity risk.
29. The Board of the Central Bank maintains a low tolerance for liquidity risk, in line with liquidity being defined as a primary criterion of the management of International Reserve.
30. Liquidity risk is managed through the tranching of International Reserves, the establishment of the eligible investment universe, as well as the application of liquidity limits to portfolios and individual instruments.

Credit risk.

31. Credit risk is defined as the risk of incurring losses resulting from the failure of issuers of financial instruments included in International Reserves, custodians, or other counterparties to meet their

obligations to the Central Bank, including default, bankruptcy, rating downgrade, and/or credit quality deterioration.

32. The Board of the Central Bank maintains a low tolerance for credit risk, in line with safety being defined as a primary criterion of the management of International Reserves.
33. Credit risk is managed through the application of credit rating limits, credit quality monitoring, value and concentration limits on issuers, issues and counterparties.
34. Credit risk assessments are based on the long-term credit ratings assigned to instruments and/or issuers⁴ by the following International credit rating agencies: Moody's, Fitch, and Standard & Poor's, provided that a rating is assigned by at least two rating agencies. Exceptions apply to institutions with special status, namely the Bank for International Settlements (BIS), the International Monetary Fund (IMF), and central bank counterparties.
35. In cases where a rating is assigned by only one credit rating agency, investments are permitted exclusively in bonds issued or guaranteed by sovereign governments, issued by local authorities, or by agencies with state or significant state participation, in which case one notch lower than the assigned rating of the instrument/issuer will apply.
36. For the purposes of rating requirements, where different credit ratings are assigned by rating agencies, the second best rating shall be applied.
37. The minimum credit rating thresholds by instrument type are described in Table 1.

Table 1. Minimum Credit Rating Thresholds for Eligible Instruments

Financial instrument	Minimum credit rating threshold (Moody's/Fitch/Standard & Poor's)
Cash and cash equivalents	
Correspondent and other accounts	A3/A-/A- counterparty rating
Money market instruments	
Time deposits	A1/A+/A+ counterparty rating
Certificates of deposit	A1/A+/A+
Commercial papers issued by sovereign governments, supranational organizations, and financial institutions	
Repurchase and reverse repurchase agreements with financial institutions	A3/A-/A- counterparty rating
Other debt instruments	
Bonds issued or guaranteed by sovereign governments, issued by local authorities, or by agencies with state or significant state participation	A2/A/A
Debt instruments issued by supranational organizations	A2/A/A
Corporate bonds issued by financial institutions	A1/A+/A+
Covered bonds	A1/A+/A+ counterparty and Aaa/AAA/AAA instrument rating ⁵
Financial derivatives	
Futures contracts on foreign exchange, interest rates, and sovereign bonds	A3/A-/A- counterparty rating

⁴ Priority is given to the instrument rating; for certain eligible instruments, rating requirements are specified for both the instrument and the issuer (Table 1).

⁵ In cases where an instrument is issued in the primary market with a preliminary rating, such rating may be used as a basis for investment decision-making.

Forward contracts on foreign exchange, interest rates, and sovereign bonds	
Currency swaps, foreign exchange swaps, and interest rate swaps	

38. Securities transactions shall be executed exclusively on a delivery-versus-payment (DVP) basis, with counterparties with a credit rating of at least investment grade (Baa3/BBB-/BBB-) assigned by Moody's, Fitch, and Standard & Poor's, respectively.
39. Foreign exchange spot transactions shall be executed with counterparties with a credit rating of at least A1/A+/A+ assigned by Moody's, Fitch, and Standard & Poor's, respectively.

Market risk.

40. Market risk is defined as the probability of incurring losses in International Reserves as a result of adverse market movements, including changes in market interest rates, asset prices and foreign exchange rates.
41. The Board of the Central Bank maintains a moderate tolerance for market risk consistent with prudent undertaking of risks within the primary management criteria of International Reserves, with the objective of earning the market risk premium.
42. Market risk is managed through the establishment of key risk tolerance indicators, target portfolio duration and permissible deviations therefrom, limits on active or passive management, defined eligible investment universe, and the application of other relevant limits.
43. The key indicator of market risk tolerance for International Reserves portfolios is the Conditional Value at Risk (CVaR) metric.
44. The key market risk tolerance indicator for the Operational Portfolio is defined as a non-negative 99 percent CVaR of portfolio return over the investment horizon.
45. The key market risk tolerance indicator for the Policy Portfolio is defined as a non-negative 95 percent CVaR of portfolio return over the investment horizon.
46. The key market risk tolerance indicator for the Investment Portfolio is defined as a non-negative 90 b CVaR of portfolio return over the investment horizon.
47. In cases where the minimum risk ("risk-free") attainable return in a given currency is negative, the key market risk tolerance indicator for the respective portfolio shall be defined as a CVaR level greater than or equal to the attainable minimum risk ("risk-free") return.
48. Foreign exchange risk of International Reserves is managed in accordance with the accumulation objectives of International Reserves and is guided by their primary management criteria. In the International Reserves Management practices, foreign exchange transactions may be conducted and foreign exchange positions may be opened in all eligible currencies, within the strategic asset allocation and risk limits approved by the Board of the Central Bank.
49. The use of leverage in the management of International Reserves should be prudent and consistent with the primary allocation criteria of International Reserves.
50. International Reserves cannot be invested in financial instruments that contain a convertibility option.

Country risk.

- 51. Country risk is defined as the aggregate of political and economic risks associated with investments in financial instruments issued by issuers from specific countries or regions.
- 52. The Board of the Central Bank maintains a low risk tolerance for country risk, given the primary allocation criteria of International Reserves.
- 53. Country risk is managed by defining criteria for eligible country/region selection and establishing maximum exposure limits for individual countries/regions.
- 54. International Reserve assets can be invested in instruments issued by entities domiciled in countries currencies of which are included in the SDR basket, in countries classified by the International Monetary Fund as advanced economies, in instruments issued by institutions with special status - namely the Bank for International Settlements (BIS) and the International Monetary Fund (IMF) - as well as in instruments issued by supranational organizations core capital of which is predominantly held by the countries eligible under this paragraph.

Operational risk.

- 55. Operational risk is defined as the risk of financial and non-financial losses, reputational damage, or failure to achieve the accumulation objectives of International Reserves, which may arise from inadequate or failed internal processes, human factors, systems, or external events.
- 56. The Board of the Central Bank maintains low risk tolerance for operational risk, given the primary allocation criteria of International Reserves⁶.

Legal risk.

- 57. Legal risk is defined as the probability of incurring losses as a result of amendments to applicable legislation, divergent interpretations of applicable law, the inability to enforce contractual provisions, or unilateral amendments by counterparties, leading to the non-performance or improper performance of contractual obligations toward the Central Bank, as well as the imposition of penalties, fines, or additional costs on the Central Bank.
- 58. The Board of the Central Bank maintains low risk tolerance for legal risk.
- 59. Legal risk is managed through the use of legal agreements that comply with international standards (e.g. ISDA, GMRA, etc.), as well as through the review of published legal opinions relating thereto.

Compliance risk.

- 60. Compliance risk is defined as the probability of circumvention and/or application of international sanctions.
- 61. The Board of the Central Bank maintains low risk tolerance for compliance risk.
- 62. Compliance risk is managed by ensuring compliance with applicable international regulatory and supervisory standards.

⁶ Operational, legal, and compliance risks related to International Reserves are managed in accordance with the Central Bank's overall operational risk management framework.

Other risks.

63. In addition to the risk types specified above, other risks that may have a material impact are monitored as necessary. Furthermore, various risk scenarios are developed and analyzed, including historical, macroeconomic, geopolitical, climate, and other relevant scenarios.

CHAPTER 7

ACCOUNTABILITY AND REPORTING FOR THE INTERNATIONAL RESERVES OF THE REPUBLIC OF ARMENIA

64. For the purpose of ensuring continuous monitoring and oversight of functions across the different governance levels, as well as horizontally within the same level, the Central Bank maintains an information exchange and reporting system related to the management of International Reserves.

65. The minimum reporting requirements regarding the management of International Reserves are established by the Law of the Republic of Armenia “On the Central Bank of the Republic of Armenia” and by obligations undertaken under international agreements governing the provision of information.

66. The Central Bank publicly discloses the Investment Policy Statement for management of International Reserves and, at least annually, provides information on the volume, structure, and management results of the International Reserves.

67. International Reserves are recorded and reflected in the Central Bank’s financial statements in accordance with the International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB).

68. The United States dollar serves as the unit of account (numeraire) for the International Reserves, and all the relevant data are produced and reported in United States dollars.