



Central Bank
of Armenia

FINANCIAL STABILITY REPORT

2024

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Current thresholds of macroprudential instruments



The banking system is characterized by robust capitalization and high level of liquidity

20.2%

Capital adequacy

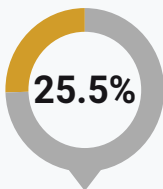
230.6%

Liquidity coverage ratio
(all currencies)

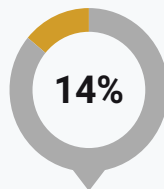
344.7%

Liquidity coverage ratio
(First group currencies)

The profitability of the banking system is high and the credit and deposit portfolios have grown



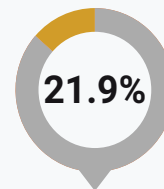
Growth of Loans



Growth of Deposits

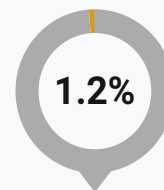
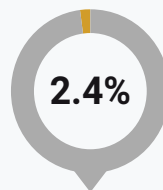


Return on Assets (RoA)



Return on Equity (RoE)

The share of non-performing loans decreased



Risks impeding the financial system



High level of geopolitical and regional uncertainties



Gradual saturation in real estate demand and the potential emergence of excess supply

The most detailed information on the macroeconomic environment of Armenia is available in the Status Report on Implementation of the Monetary Policy Program.

Previous publications of the Financial Stability Report and Status Report on Implementation of the Monetary Policy Program are available on the official website of the Central Bank of Armenia: www.cba.am.

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Financial stability is one of the primary objectives of the Central Bank of Armenia along with price stability. Financial stability is a crucial element of overall macroeconomic stability and an essential precondition for stable long-term economic growth.

Financial stability can be characterized as the concurrence of financial and macroeconomic conditions at a time when the financial system (i.e., financial institutions, markets and infrastructure) is capable of withstanding probable shocks and instability, minimizing the probability of interruption of intermediation function.

In defining financial stability, the potential risks endangering the stability of the financial system because of internal and external macroeconomic developments, as well as their possible sources are monitored and assessed. As a result of the comprehensive analysis of these risks and assessment of their potential impact on financial stability, an appropriate policy is developed and implemented.



INTRODUCTION

The Financial Stability Report of the Central Bank of the Republic of Armenia is published annually and incorporates the assessment of risks that might potentially threaten the stability of financial system as well as hamper the capacity of the financial system to withstand such risks. Through the publication of information on financial stability developments, the Central Bank aims at soliciting the attention of the stakeholders on those risks and eventualities that might jeopardize the financial stability of the Republic of Armenia, as well as present the policy to manage and reduce those risks.

Financial stability and price stability are components of overall macroeconomic stability and effectively complement each other. Financial instability can hamper the implementation of effective monetary policy and impede long-term and sustainable economic growth. Concurrently, macroeconomic stability, including price stability, helps to reduce the risks to financial stability. The financial system plays an important role in the overall economic system, and it is essential that the financial system maintains the continuity and stability of its processes, thus contributing to the normal growth of the economy.

To identify risks endangering financial stability timely, the Central Bank of the Republic of Armenia conducts continuous monitoring and analysis of the financial system and general macroeconomic developments. The report presents the risks in the macro-environment and the financial system, their impact on the development of various sectors of the economy and financial system, as well as the implemented macro prudential policy.

Economic and non-economic risks affecting the financial stability of the Republic of Armenia may arise in the domestic macro-environment, in the external economy, and in the financial system itself.

Based on the above, the potential risks threatening the financial stability of the Republic of Armenia are presented in the report in the following main directions:

- risks derived from developments in the global economy,
- risks derived from developments in the macroeconomic environment of Armenia,
- risks derived from developments in the financial market of Armenia,
- risks derived from the financial institutions of Armenia,
- risks derived from the financial infrastructure of Armenia.

The report presents accumulation of risks in these areas and their possible impact on the development of all sectors of the economy and financial system, as well as macroprudential policy of the Central Bank of Armenia, the regulation and infrastructure surveillance, aimed at addressing the above-mentioned risks. Furthermore, financial stability report mainly emphasizes the risks and development directions of the banking system, as commercial banks have a dominant position in the financial system of Armenia.

Hence, the condition of the banking system predominantly dictates the overall financial stability and sets the course for development.



FINANCIAL STABILITY REPORT **2024**

EXECUTIVE SUMMARY

01

In 2024, the financial system of the Republic of Armenia ensured the continuity of financial intermediation, guaranteeing the uninterrupted provision of financial services to households and businesses. Throughout the year, the loan and deposit portfolios of the banking system expanded. Lending to both households and businesses increased, with growth observed across nearly all major lending categories. High growth rates were recorded particularly in loans extended for consumption, mortgage lending, and the construction sector. The increase in deposits was largely driven by the growth of resident deposits.

Amid high lending activity to households, their debt burden increased; however, due to the extension of loan maturities, no significant rise was observed in the debt service burden. The robust growth in household lending was almost equally supported by increases in both consumer and mortgage loans. In recent years, the growth in household income has been accompanied by an increase in loan maturities, allowing households to maintain a relatively stable level of debt service burden.

In 2023–2024, a strong demand and growth rate were observed in consumer lending. This can be explained by rising incomes in the economy, a convergence effect following previous years of moderate or declining growth in consumer loans, and the need to purchase durable goods for newly acquired housing amid heightened real estate market activity.

In the mortgage lending segment, a significant surge in lending flows was recorded toward the end of 2024. This was the result of a behavioral shift aimed at accelerating real estate purchase decisions, driven by the gradual phase-out of the income tax refund mechanism in Yerevan.

The Central Bank has regularly communicated, through its publications and press briefings, the risks of overheating in the real estate market and the potential accumulation of associated credit risks.

There have been signs of a slowdown in the pace of real estate price increases. In light of the gradual termination of the income tax refund mechanism and the potential saturation of real estate demand, a further deceleration of market activity is considered likely.

In recent years, the rapid growth in construction permits and residential development, combined with the potential saturation and possible future decline in real estate demand, could lead to the formation of excess supply in the market. At the same time, the robust increase in lending to the construction sector may reflect a possible substitution of financing sources for construction projects and signal an accumulation of debt burden and related credit risks.

Geopolitical uncertainties and rising trade tensions have continued to pose major risks to global economic growth and financial stability.

As a result of the lagged effects of tight monetary policy conditions in previous years, global inflation has moderated reaching or approaching target levels in most of the countries.

In the current environment of heightened geopolitical uncertainty and trade tensions, risks to the global economic growth outlook are also assessed to be elevated. In particular, the risk of global economic growth falling short of expectations is considered more prominent than the risk of sustained high inflation.

The materialization of these risks may also affect Armenia's domestic macro-financial environment by increasing the likelihood of slower economic growth, a rising debt burden in the private sector, and the realization of credit losses stemming therefrom.

The banking system remains characterized by high levels of capitalization and liquidity. In the end of the year, the banking sector recorded strong profitability. This profitable performance was supported by the growth in net interest income as well as low credit losses.

The increase in net interest income was primarily driven by structural changes in banks' balance sheets, including robust growth in consumer lending, the dramization of the loan portfolio, and a gradual

increase in the share of demand deposits in the structure of resident deposits.

The maintained relatively high interest rate environment, both in external and domestic markets, also had a certain positive impact.

Amid economic growth and increased activity in the credit market, the quality of the loan portfolio has improved. Nevertheless, in the current environment of elevated uncertainty and the potential accumulation of risks in certain lending segments, credit risk remains a prevailing concern.

The results of macro stress testing indicate the RA banking system's strong capacity to absorb risks.

Under the market reference scenario, the capital adequacy of the banking system remains at a high level throughout the projected horizon. In the case of a stress scenario involving severe and highly adverse hypothetical developments, losses stemming from credit and market risks increase sharply. However, the banking system remains adequately capitalized over the entire assessment horizon. Moreover, the capital buffers of the banking system

are sufficient to ensure the uninterrupted financing of the economy. However, it should be noted that under current conditions of elevated uncertainty, significant ambiguity remains around the probability, duration, and magnitude of the stress scenario.

The Board of the Central Bank of Armenia has raised the countercyclical capital buffer (hereinafter CCyB) rate by 0.25 percentage points, bringing the effective CCyB rate to 1.75% as of May 1, 2025.

During 2024, the financial cycle index increased, while the negative credit-to-GDP gap narrowed significantly. In this context, the Central Bank's macroprudential policy decisions have been aimed at addressing potential risk developments deriving from the accelerated expansion of lending. In raising the CCyB rate, the Central Bank also considered the current level of risk accumulation on banks' balance sheets, the cost implications of additional capital formation by banks, the results of the stress tests conducted, and the potential impact of the rate increase on the continuity of credit provision to the economy.

MACROECONOMIC DEVELOPMENTS

- 2.1. External environment developments
- 2.2. Domestic developments
- 2.3. Household debt and associated risks
- 2.4. Real estate market developments and associated risks

2.1. External environment developments

In the context of rising geopolitical uncertainty and global trade tensions, the global economy has been sufficiently resilient. With the gradual easing of tight monetary conditions the “soft landing” remains as the baseline scenario. However, the current geopolitical and trade developments present risks of lower-than-expected economic growth in partner countries. These developments may, in turn, pose risks to Armenia’s domestic macro-financial environment.

Geopolitical uncertainty and escalating trade tensions remain the primary risks to global economic growth and financial stability. Risks to the global growth outlook have become more prominent than the risks of persistently high inflation.

The global economy continues to recover despite shocks, supported by the easing of monetary conditions in both developed and emerging economies as inflation approaches target levels. Market adjustment to expectations, fiscal support measures implemented during the pandemic, accumulated household savings, and the stable debt position of businesses and households have all contributed to mitigating the impact of tight monetary conditions on economic growth and enabling the possibility of a “soft landing”. Although inflation has largely declined and approached target levels, downside risks to global economic growth remain likely, largely conditioned by ongoing geopolitical tensions and strained trade relations.

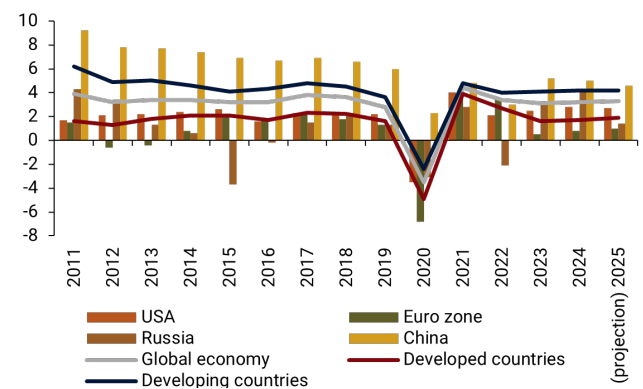
According to the assessment of the International Monetary Fund, global economic growth in 2024 exceeded the forecast made at the beginning of the year by only 0.1 percentage points, amounting to 3.2% (Chart 2.1¹).

Global economic growth was mainly driven by the increase in private consumption, the preservation of favorable conditions in the labor market, as well as

the low interest rate environment resulting from the gradually easing of monetary policy conditions. It is noteworthy that unemployment remained below the projected level, mainly due to increased employment in the services sector, which in turn contributed to an increase in incomes and in the share of service consumption in aggregate demand.

Chart 2.1.

Economic growth indicators by regions, %



Source: IMF

In the main partner countries, economic developments varied significantly, mostly due to geopolitical issues and global trade restrictions.

Despite tight monetary conditions, economic growth in Russia and the United States remained at a high level, driven by strong growth in aggregate consumption.

On the other hand, in the Eurozone, amid slowing growth in the industrial sector and goods exports, low economic growth was recorded.

In China, the pace of economic growth declined, due to weak domestic demand and existing problems in the real estate market.

As a result of these developments, as well as the policies pursued by newly elected governments in the European Union and the United States, uncertainties were also reflected in the World

¹ <https://www.imf.org/external/datamapper>

Uncertainty Index published by the IMF, which showed an upward trend starting from the last quarter of 2024 (Chart 2.2²).

Chart 2.2.

Global Uncertainty Index



Global inflation has slowed, reaching or approaching target levels in most countries. Nevertheless, risks of renewed inflationary pressures still persist.

In 2024, headline inflation declined due to falling energy prices, improvements in supply chains, as well as the lagged effects of tight monetary conditions during previous years.

By the end of 2024, inflation had reached or fallen below targets in more than 60 percent of countries, while in the remaining countries it stood slightly above target (Chart 2.3³).

In 2024, central banks continued the gradual easing of monetary policy (Chart 2.4⁴). However, uncertainties arising from geopolitical tensions and economic policies continue to create risks of new inflationary pressures.

In this context, monetary authorities have emphasized a more cautious approach to future interest rate cuts in their communications.

Chart 2.3.

Annual inflation in various countries and regions, %

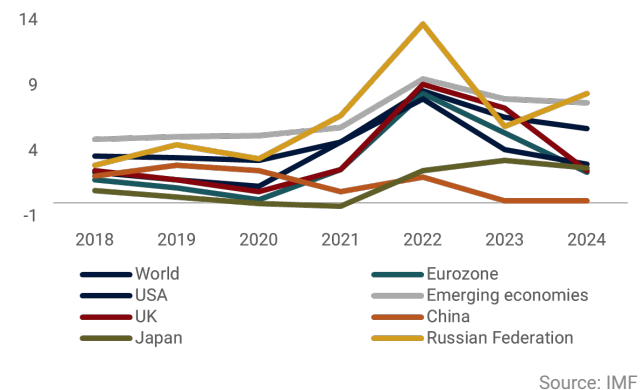
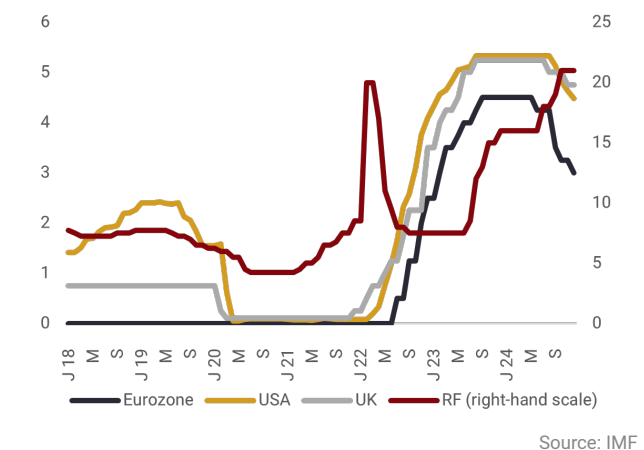


Chart 2.4.

Policy interest rates in given countries, %



Stock market volatility indices have declined, however, under conditions of elevated uncertainty, the risk of renewed volatility remains.

These trends are also reflected in the indices measuring financial market uncertainty and risk, particularly the Euro Stoxx 50 (VSTOXX) and S&P 500 (VIX) indices.

It is worth noting that market instability observed in August⁵ highlighted that it is desirable for public institutions to act more cautiously when

² <https://worlduncertaintyindex.com/>

³ <https://data.worldbank.org/>

⁴ Source: CB websites of given countries. <https://www.bis.org/cbanks.htm>

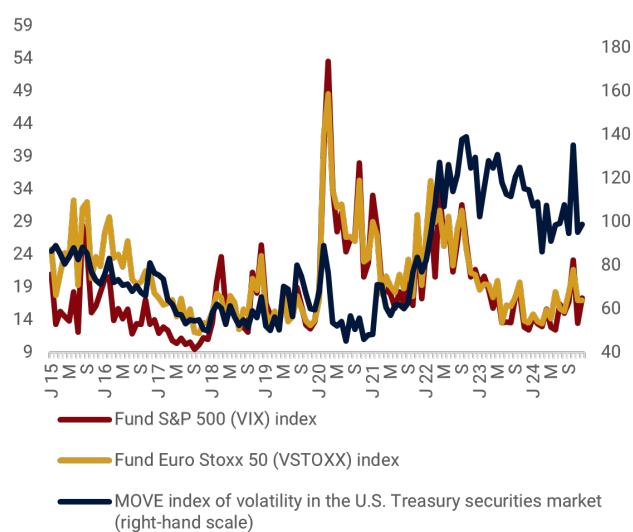
⁵ <https://www.bis.org/publ/bisbull90.htm>

implementing policy changes that could trigger sharp increases in volatility.

In the bond market as well, elevated volatility (MOVE index) and strong dependence on policy changes and prevailing uncertainty from public institutions have persisted throughout the year (Chart 2.5⁶).

Chart 2.5.

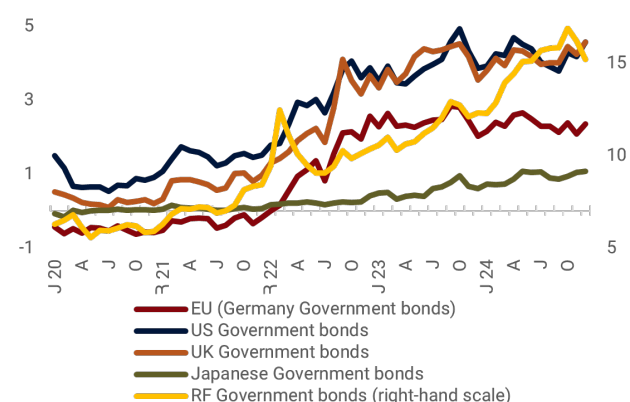
Financial market instability indexes



Source: Investing.com

Chart 2.6.

10-year Government bond yields in given countries, %



Source: Investing.com

Overall, the quality of banks' assets and their capacity to absorb losses remained at a high level, supported by strong profitability and sufficient liquidity and capital buffers. Nevertheless, risks to the global economic growth outlook and the lagged effects of high interest rates create risks of deterioration in the quality of loan portfolios.

The easing of banks' lending conditions has not been strongly pronounced, but alongside income growth, it has contributed to the accumulation of private debt and the increase in lending by non-bank financial institutions.

In a high net interest margin environment, the banking system has been able to maintain a high level of profitability.

At the same time, there are risks of a decline in the profitability of the banking system, stemming from both the pressure on net interest margins (due to floating interest rate loans) and the potential materialization of credit risks in the future.

It is noteworthy that the increase in non-performing loans has been observed only in certain loan categories, and no significant deterioration in the overall quality of financial intermediaries' assets has been recorded.

Nevertheless, the persistence of geopolitical uncertainties, risks to economic growth, and still-high interest rates may create additional risks for loan servicing in the future.

These risks may be particularly pronounced in countries characterized by weak fundamentals in the corporate sector, overvalued real estate prices, and a high debt burden in this sector⁷.

⁶ <https://www.investing.com/>

⁷ <https://www.imf.org/en/Publications/GFSR/Issues/2024/10/22/global-financial-stability-report-october-2024>

2.2. Domestic developments

In 2024, economic growth in the Republic of Armenia weakened, as anticipated, approaching the estimated level of long-term stable growth.

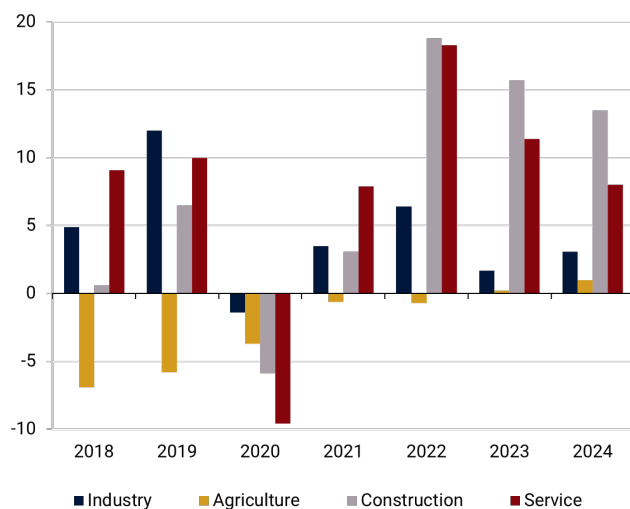
Economic growth was mostly driven by the trade, construction, and services sectors.

Inflation remained below the target level, mainly due to deflationary pressures transmitted from the external sector, as well as a certain decline in external demand for domestic services.

The Armenian economy continued to benefit from the positive impact of short-term factors, which implies that uncertainties regarding the long-term outlook for economic growth and domestic demand have remained elevated.

Chart 2.7.

Growth dynamics of economic sectors, %



Source: SC

Uncertainties regarding the formation of domestic demand have persisted. On the one hand, the growth in trade, services, and consumer lending indicates strong domestic demand. On the other hand, the concentration of economic growth in certain sectors, the decline in remittances, the weakening of labor market conditions, and the low inflationary environment may point to weak domestic demand. The high external demand observed in previous years has continued to weaken, due to the slowdown in the number of international visitors and the pace of tourism growth.

In 2024, economic growth was mostly driven by the trade, construction, and services sectors (Chart 2.7).

In the services sector (including trade), activity remained at a high level; 8%. However, the growth rate slowed compared to the previous year, due to a decline in external demand resulting from reduced tourism flows and somewhat concentrated economic growth.

The 13.5% growth in the construction sector was driven by an increase in residential construction, while growth in the industrial sector was mainly due to expansion in “traditional” branches of manufacturing, particularly in the food and tobacco industries.

Lending to the sectors that made a significant contribution to economic growth continued to increase, though the growth rates somewhat declined compared to the previous year.

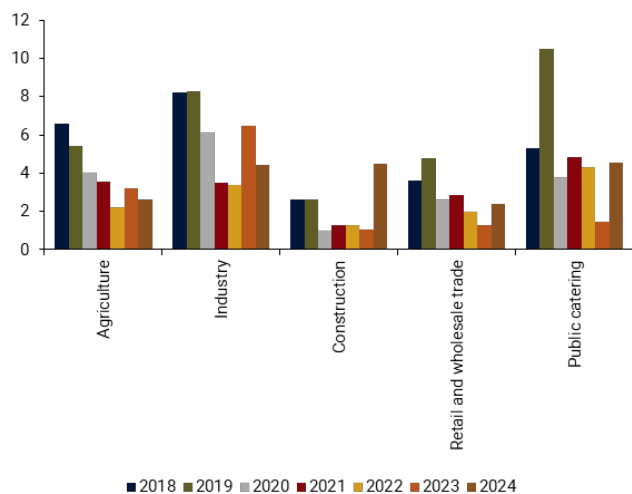
It is noteworthy that in some of these sectors, a certain increase in classified loans was observed. Nevertheless, no significant deterioration in the overall quality of loans was recorded (Chart 2.8⁸).

8 1. The ratio observed refers to the share of Watched, Substandard, and Doubtful loans in total loans provided.

2. The industry sector includes the following branches: “Mining and Quarrying,” “Manufacturing,” “Electricity, Gas, Steam and Air Conditioning Supply,” and “Water Supply, Sewerage, Waste Management and Remediation Activities.”

Chart 2.8.

Share of classified (non-performing + watched) loans in the loan portfolios of economic sectors, %



Source: CBA

According to the surveys on lending conditions⁹, the business lending standards index remained in the net easing zone due to the competition factor among banks, which was reflected in the easing of creditworthiness assessment and maturity conditions.

At the same time, although the actual demand index for lending declined somewhat compared to the previous year, it remained in the growth zone, mainly driven by high demand for loans aimed at capital investment and working capital financing.

Certain improvements were observed in government debt management: risks continued to decline, driven by the stabilization of the RA Government debt and positive changes in its structure.

Government debt increased by 7% during the year¹⁰, while the Government debt-to-GDP ratio remained at the previous year's level of 48% (Chart 2.9).

Nevertheless, the Government debt-to-GDP ratio remains high compared to other countries in the region (Chart 2.9.¹¹).

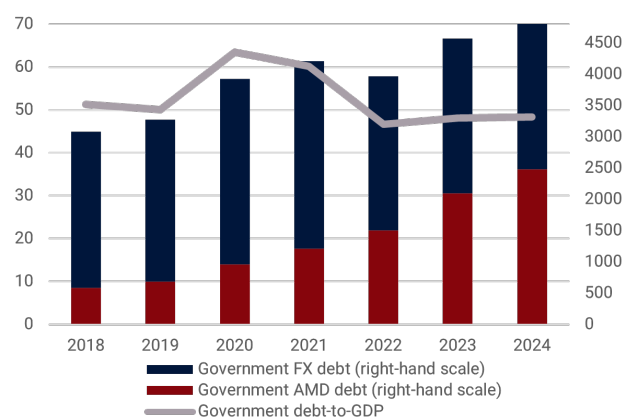
⁹ Survey on Lending Conditions, Q4 2024

¹⁰ https://minfin.am/en/page/summary_data_on_public_debt/

¹¹ The data are sourced from the IMF Data Portal (<https://www.imf.org/en/Home>), based on the latest update.

Chart 2.9.

Government debt-to-GDP ratio, %

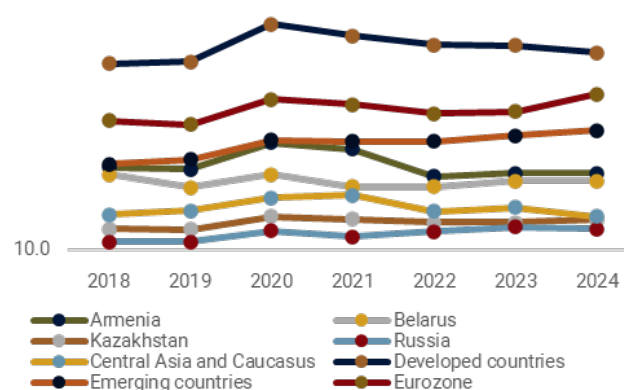


Source: Ministry of Finance

Positive changes were observed in the structure of government debt: the share of foreign currency-denominated funds declined because of the reduction in external debt. The external debt of the RA Government decreased by around 2%, while domestic debt continued to grow, surpassing external debt for the first time in history. This development is in line with the Government's debt management strategy and is considered positive from the perspective of reducing debt-related risks.

Chart 2.9.1.

Government debt-to-GDP, %



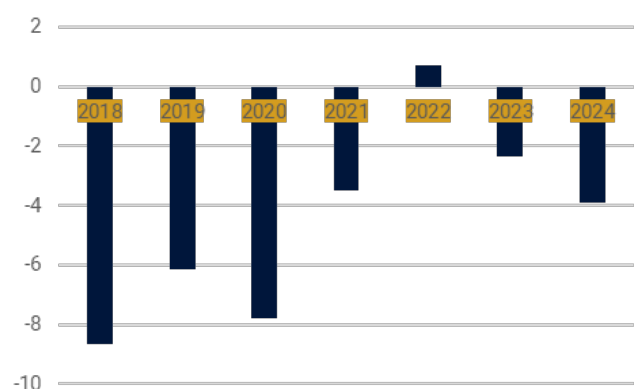
Source: IMF, Ministry of Finance

In 2024, the current account deficit widened, with the current account-to-GDP ratio reaching 3.9% (Chart 2.10). The deepening of the current account deficit was mainly driven by a decline in tourism flows, external trade flows, and non-trade transfers. It is worth noting that the improvement trends in the current account, previously supported by re-exports, weakened significantly by the end of the year. At the same time, amid ongoing geopolitical uncertainties, risks remain significant in terms of the stability of external trade flows.

In 2024, the real effective exchange rate appreciated to some extent, driven by the depreciation of partner countries' currencies against the US dollar or the improvement in Armenia's long-term export capacities¹².

Chart 2.10.

Current Account Deficit / GDP, %



Source: CBA

¹² https://www.cba.am/AM/ppperiodicals/MPR_2024Q4_Arm.pdf

2.3. Household debt and associated risks

Alongside a certain slowdown in economic activity in 2024, a weakening of labor market conditions was observed. At the same time, amid high household lending activity, the debt burden of households increased. In parallel, the continued extension of loan maturities significantly mitigated the increase in the debt service burden. Nevertheless, in an environment of persistently high uncertainty, risks may also emerge in the medium term regarding the servicing of households' loan obligations.

Income growth throughout the year had a positive impact on reducing the vulnerability of household debt burden. In 2024, the total financial assets of households also increased, mainly directed toward low-risk investments and maintaining the trend of dramization.

In the context of recorded low inflation, nominal wage growth was nearly equal to real growth. Due to the weakening of labor market conditions, the nominal wage growth rate slowed considerably compared to previous years, amounting to around 6% (Chart 2.11).

Households' total financial assets¹³ continued to grow in 2024, with the ratio of financial asset flows to GDP reaching around 5%. Deposits and pension investments constituted the dominant share of households' financial assets, growing at a faster pace than other assets. Over the past five years, deposits by individuals have exhibited a stable upward trend, growing by an average of 15% per year. In 2024, this growth slightly decelerated, amounting to around 12%. The growth in the ratio of household deposits to GDP persisted, reaching approximately 29% in 2024 (Charts 2.12, 2.13¹⁴). The trends of deposit dramization observed in previous years also continued, with the share of AMD-denominated deposits increasing by about 5 percentage points during the year, reaching 56%.

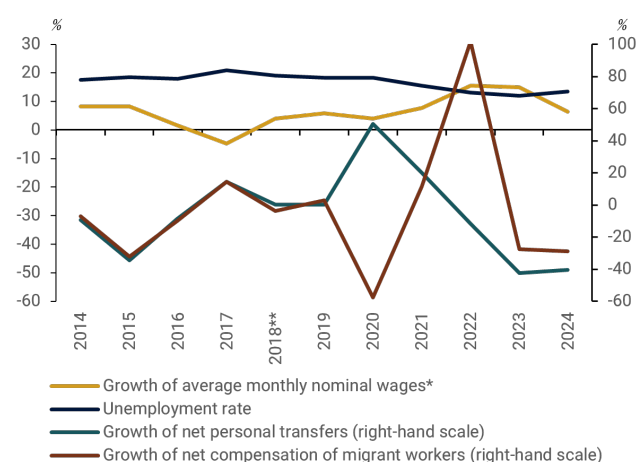
Households' income dependence on external developments continues to decline.

In recent years, net personal remittances to Armenia and net compensation of migrant workers have shown a consistent downward trend, which is considered positive in terms of reducing dependence on external developments. However, this may also lead to a relatively subdued demand environment.

Since 2022, alongside the gradual weakening of high external demand, stabilization in tourism flows and adjustments in the actual expenditures of tourists have been observed. These two factors have also contributed to reducing uncertainties related to households' income dependence on external sources.

Chart 2.11.

Changes in Personal Transfers, Compensation of Migrant Workers, Wages, and Unemployment



Source: CBA, SC

* The annual average wage indicator in Armenia is presented.

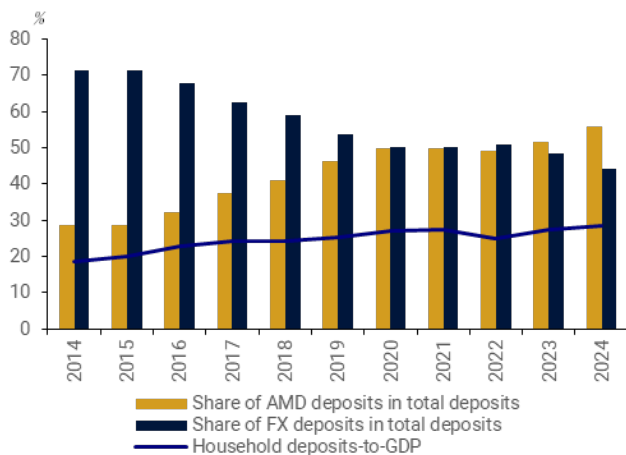
* Starting from January 2018, the Statistical Committee of the Republic of Armenia revised the methodology for labor market statistics, as a result of which the values of several indicators were adjusted. Accordingly, from now on, the average nominal wage refers to organizations with one or more employees.

13 Financial assets include households' investments made during the year in deposit instruments, pension contributions, insurance premiums/compensations, cash foreign currency holdings/savings, and investments in other financial instruments.

14 <https://data.worldbank.org/indicator/NY.GDS.TOTL.ZS?locations=AM>

Chart 2.12.

Household deposits



Source: CBA, SC

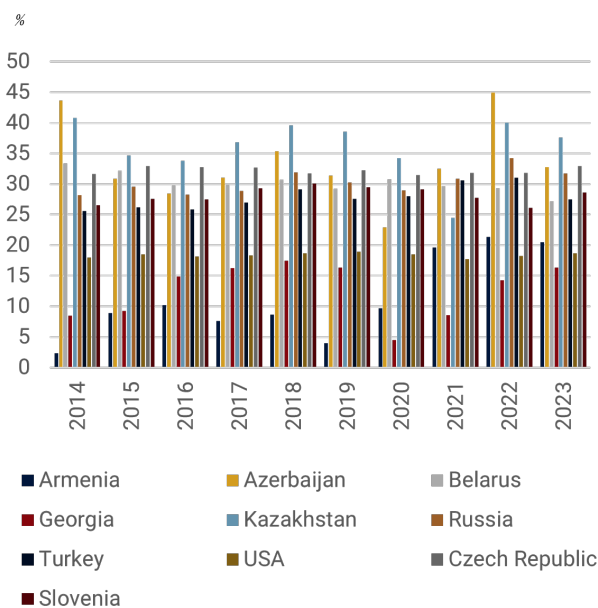
Amid high household lending activity, the debt burden of households increased.

The household loan-to-GDP¹⁵ ratio reached 33.1%, rising by about 6 percentage points (Chart 2.14), which remains under the Central Bank's ongoing monitoring in order to assess the potential need for applying relevant macroprudential tools. In 2024, this indicator increased both in Armenia and in countries of the region and the Baltics, whereas in EU countries and the United States it has shown a downward trend over the past three years (Chart 2.15; for comparability, September data are presented¹⁶).

As household financial assets¹⁷ have also grown significantly in recent years alongside the development of household indebtedness, their net financial position has remained at a stable level.

Chart 2.13.

Gross Domestic Savings / GDP



Source: World Bank

A continuous increase in the maturity of**household loans has also been observed in****recent years, which has significantly mitigated****the increase in debt service burden. On the other****hand, this trend increases uncertainty around debt sustainability in the medium term.**

The growth in disposable income in recent years has been accompanied by an extension of loan maturities, allowing households to maintain a relatively stable level of debt servicing. However, this also increases uncertainty regarding stable debt servicing and the probability of default in the medium term (Chart 2.19.1¹⁸).

Throughout the year, lending interest rates did not fully respond to the reduction in the policy rate, which is explained by both the high demand for loans and risks stemming from uncertainties in geopolitical developments.

15 Household loans include mortgage and consumer loans provided by commercial banks and credit organizations to resident households.

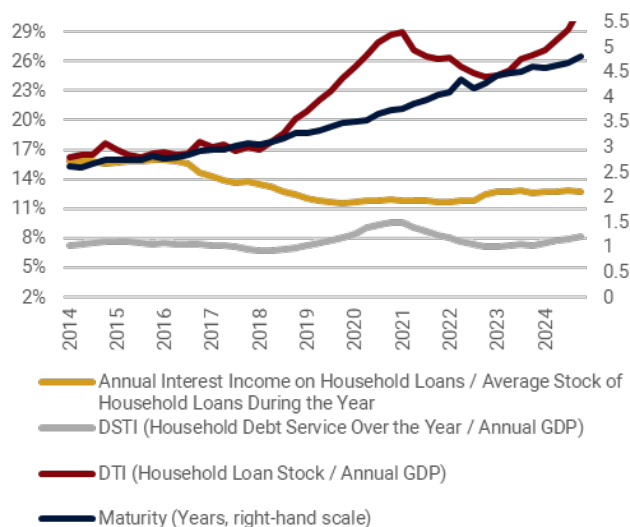
16 <https://www.ceicdata.com/en/indicator/belarus/household-debt-of-nominal-gdp>

17 Financial assets include households' investments made during the year in deposit instruments, pension contributions, insurance premiums/compensations, cash foreign currency holdings/savings, and investments in other financial instruments

18 Household debt service indicators include only mortgage and consumer loans provided by commercial banks to resident households.

Chart 2.19.1.

Household debt servicing indicators



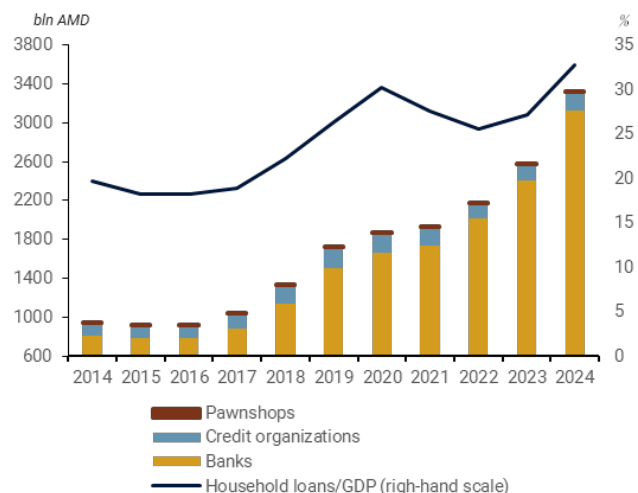
Source: CBA

The strong growth in household lending was almost equally supported by increases in both consumer and mortgage loans. Over the year, loans to individuals grew by 32.5%, with consumer and mortgage loans contributing almost equally, by 14.6 and 17.9 percentage points, respectively (Charts 2.16, 2.17).

Mortgage loans increased by 36.6%, and their share in GDP reached 14.7% (Chart 2.18). In recent years, the high growth rate of mortgage loans has been primarily driven by the government program on interest reimbursement through income tax refunds, as well as strong demand for real estate. In 2024, additional stimulus came from the phased termination of the government support mechanism in Yerevan and the increasing attractiveness of real estate as an investment asset (for details, see Section “Trends in the Real Estate Market and Related Risks,” Charts 2.23, 2.24, 2.25).

Chart 2.14.

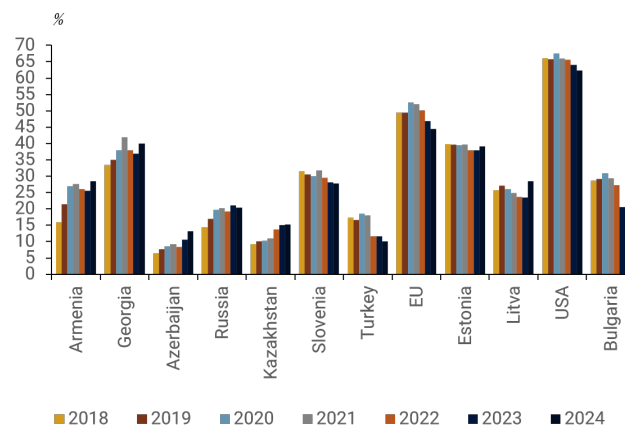
Structure of household liabilities



Source: CBA

Chart 2.15.

Household loans to GDP***

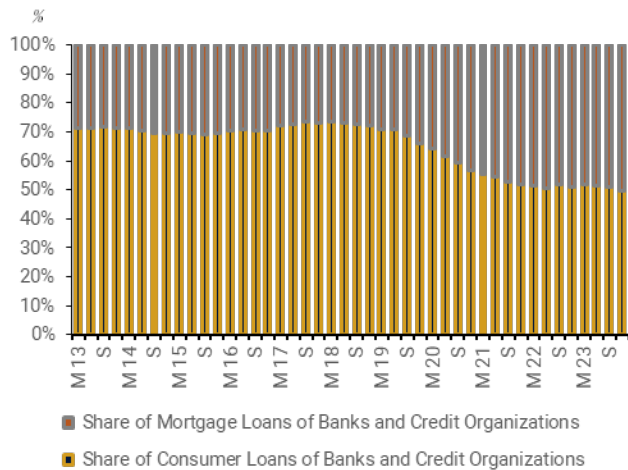


Source: CEIC Data

*** The chart indicators may differ from other similar indicators presented in the text, as the data sources and reporting periods vary (they are not as of year-end). The figures reflect the most recently available data for the given period.

Chart 2.16.

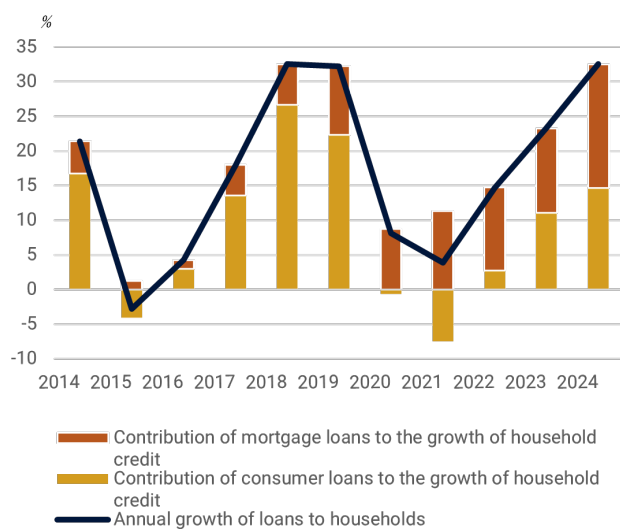
Structure of loans extended to households by commercial banks and credit organizations



Source: CBA

Chart 2.17.

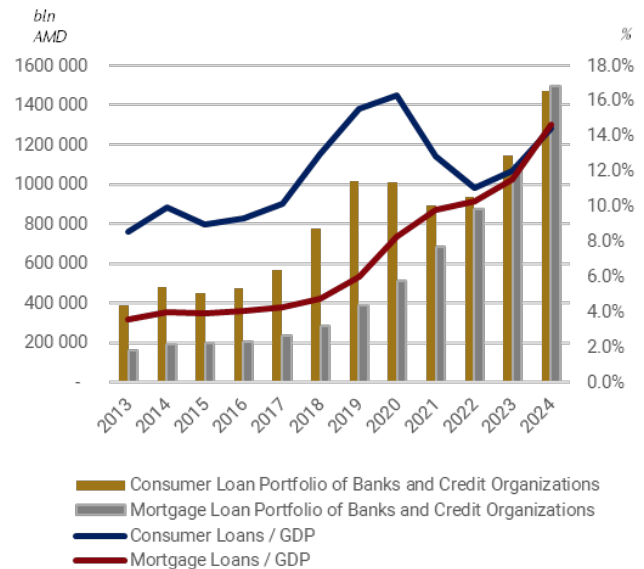
Annual Growth and Contributions of Loans Provided to Individuals by Commercial Banks and Credit Organizations



Source: CBA

Chart 2.18.

Mortgage and consumer loan portfolios of commercial banks and credit organizations



Source: CBA

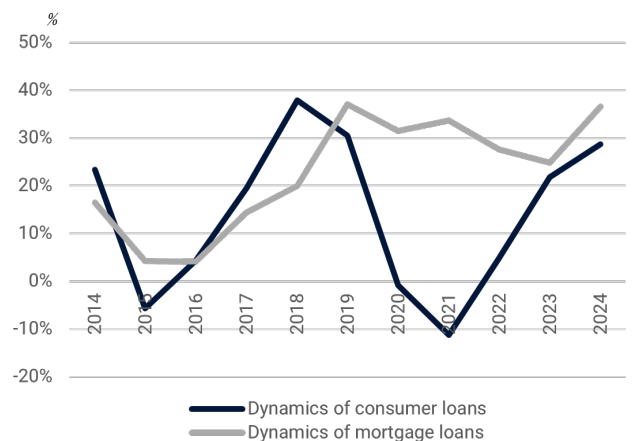
Since 2023, high demand has been observed for consumer loans, resulting in a nearly 70% increase in consumer lending over the 2022–2024 period (Chart 2.19). The share of consumer loans in GDP increased by 2.4%.

The significant increase in demand for consumer lending over the past two years has been driven by strong economic growth, additional demand arising from the growth in households' financial assets/ incomes, and a convergence effect correcting for the previously low or moderate growth in consumer loans. At the same time, this growth has been supported by the activity in the real estate market, which created the need to purchase long-term consumer goods for new apartments.

As a result of the almost equal growth of mortgage and consumer loans, their respective shares in the total loan obligations of households remained merely equal (Charts 2.16, 2.19).

Chart 2.19.

Growth dynamics of consumer and mortgage loans by Commercial banks and Credit organizations



Source: CBA

According to the results of the CBA surveys¹⁹, certain easing in lending conditions was observed, mainly in terms of loan maturity and creditworthiness assessment processes.

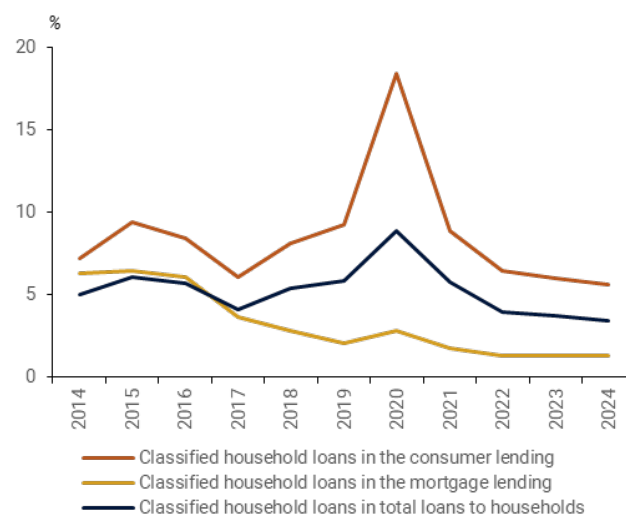
The net easing of actual supply indices was primarily driven by intensified competition in the consumer loan market and by simplification of creditworthiness assessment processes in the mortgage loan segment. Despite the nearly unchanged level of effective interest rates, the high demand for both mortgage and consumer loans persisted.

In recent years, the quality of the household loan portfolio has continued to improve, owing to sustained economic activity and household creditworthiness, as well as the prudent lending policies of financial institutions. Amid the growth of the overall household loan portfolio, the share of classified loans declined to 3.5%, which is significantly below the historical average. The share of classified consumer loans fell by about 1 percentage point to 5.6%, while the share of classified mortgage loans remained unchanged at

1.3%, a level considerably lower than that of other loan types (Chart 2.20).

Chart 2.20.

Trends in Household Classified (Non-performing + Watched) Loans



Source: CBA

The continued dramization of household debt contributed to the reduction of credit risk stemming from exchange rate fluctuations. The trend of dramization persisted in both household savings and the loans extended to households. The share of AMD-denominated mortgage and consumer loans in total household loans reached 92.6%, increasing by 3 percentage points compared to the previous year. One of the key contributing factors to dramization was also the regulatory change, specifically the repeal of the clarification that permitted the issuance of foreign currency-denominated credit card loans²⁰.

The share of AMD-denominated deposits in total deposits stood at around 56% (Charts 2.12, 2.21, 2.22).

¹⁹ Survey on Lending Conditions, Q4 2024

²⁰ https://www.cba.am/AM/News/Pages/news_24052024.aspx#sthash.LHobyr3B.gDiHmxkR.dpbs

Chart 2.21.

Currency Composition of Loans Extended to Households by Commercial Banks and Credit Organizations

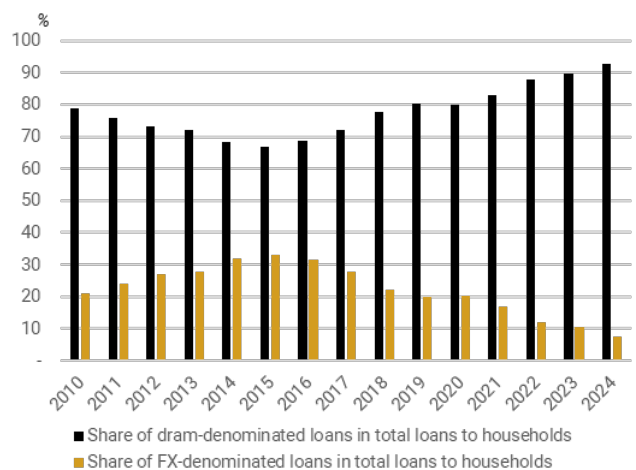
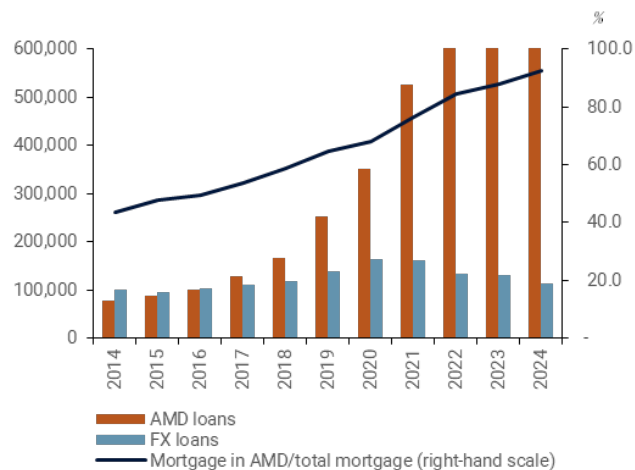


Chart 2.22.

Currency Composition of Mortgage Loans Extended by Commercial Banks and Credit Organizations

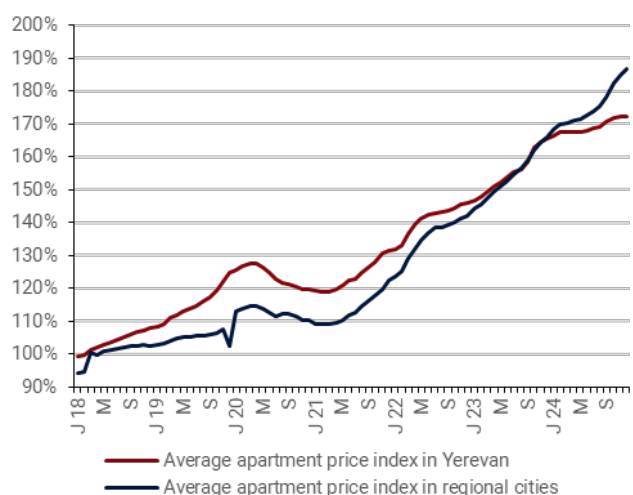


2.4. Real estate market developments and associated risks

During the year, the real estate market experienced a slowdown in growth rates, reflected in a deceleration of price increases and, in some cases, a tendency toward price declines. A comparison of indicators approximating real estate demand and supply suggests emerging risks of excess supply, which could potentially lead to further deceleration in price growth or market price adjustments.

Chart 2.23.

Change in the Average Apartment Price Index in Yerevan and Regional Cities



Source: CBA, SC

Since the beginning of 2024, the real estate market has shown signs of a slowdown in price growth, and in some cases, even price declines. The increase in prices and the number of transactions was mainly driven by expectations of the gradual phase-out of the income tax refund mechanism in Yerevan, as well as by the investment attractiveness of real estate. The deceleration in price growth in Yerevan is partly

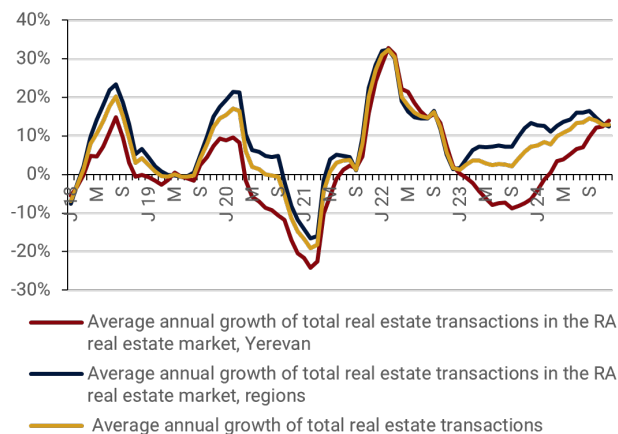
explained by the fact that most market transactions occurred in administrative districts where the income tax refund was still in effect and where prices are lower compared to central districts (see Chart 2.24). The average annual price growth for apartments in multi-apartment residential buildings in Yerevan slowed to 8.8%, whereas in the regions it accelerated slightly to 13.6%²¹. The income tax refund mechanism remains in force in the regions, which has contributed to the formation of higher-priced supply in the primary market and to the acceleration of real estate price growth.

Throughout the year, demand for the real estate remained at a high level. However, given the gradual termination of the income tax refund mechanism and a potential saturation of the mortgage market, a further slowdown in market activity is considered likely. The increase in real estate demand has been reflected in both the number of transactions and the volume of mortgage loans issued, with particularly strong growth recorded in the fourth quarter. The total number of transactions in Yerevan increased by 14.0%, while in regional urban areas the increase was 12.5% (see Chart 2.24). The volume of mortgage loans issued by banks and credit organizations for real estate purchases grew by about 39.5%, and the number of loans increased by approximately 32.6% (see Chart 2.25). In the fourth quarter, demand for real estate and mortgage loans was mainly stimulated by behavioral responses to the anticipated gradual termination of the income tax refund mechanism in Yerevan, which is not expected to last in the future (see Chart 5.2 in the “Macprudential Policy” section).

21 Analysis of real estate market https://cadastre.am/storage/files/2024_1.pdf

Chart 2.24.

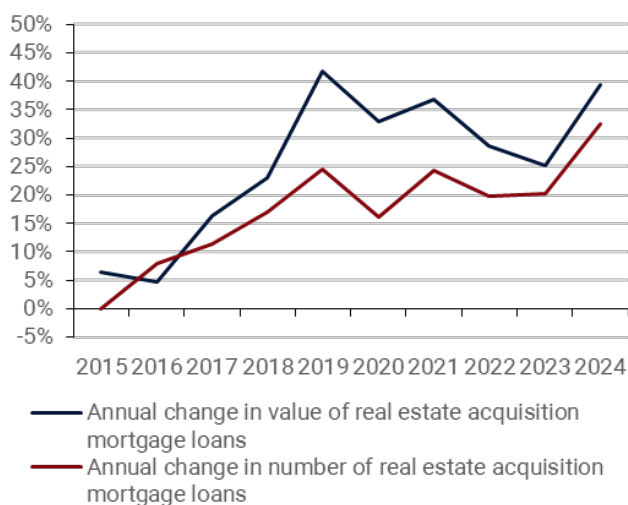
Average Annual Change in Total Real Estate Transactions in the Republic of Armenia Real Estate Market



Source: Cadastre Committee of the Republic of Armenia

Chart 2.25.

Change in mortgage loans for real estate acquisition



Source: CBA

The majority of the lending conditions survey²² respondents expect both a decline in real estate

prices and a decrease in demand for mortgage loans. According to the survey results, the gradual termination of the income tax refund, the situation in the housing market, and changes in interest rate levels in the economy have been the key factors influencing mortgage loan demand. 76% of the mortgage loans issued by banks were for the purchase or construction of apartments in the primary market, and 86% of submitted applications were approved.

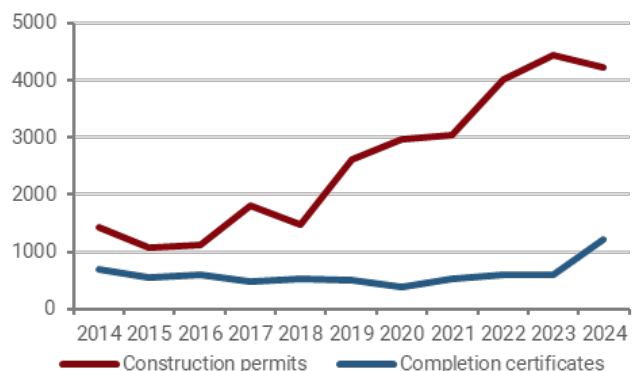
The upward trend in real estate supply continues. In the coming years, it may remain at a high level, considering the sustained increase in construction permits in previous years, the volume of commissioned residential space, and the value of loans provided to the construction sector. A 4.8% decrease in construction permits was recorded only in 2024, while the number of completion certificates doubled (see Chart 2.26), again driven by the gradual phase-out of the income tax refund mechanism in Yerevan toward the end of the year. The volume of residential units to be commissioned is expected to remain high in the coming years, considering the continuous rise in construction permits in previous years and the scheduled commissioning timelines (see Chart 2.27).

Alongside the large-scale increase in housing supply, loans issued to the construction sector have also grown at a fast pace, both in terms of value and number (see Chart 2.28). On the one hand, this could be considered logical, as more construction, means more loans. On the other hand, against a backdrop of relatively stable demand in the real estate market, it may also signal a potential substitution of financing sources within the sector, the accumulation of debt burden, and related risks.

22 Survey on Lending Conditions, Q4 2024, <https://www.cba.am/am/SitePages/statssbankslending.aspx>

Chart 2.26.

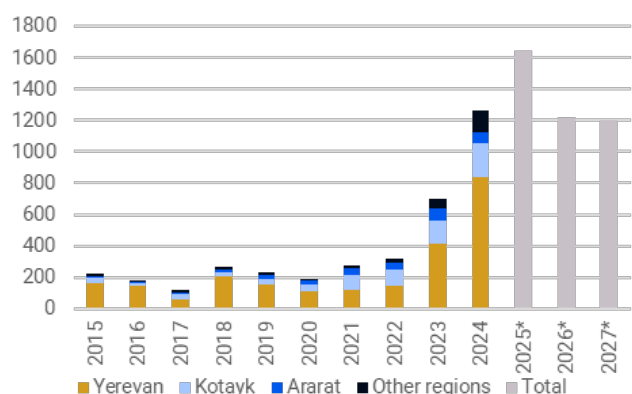
Construction permits and completion certificates in Yerevan



Source: Yerevan Municipality

Chart 2.27.

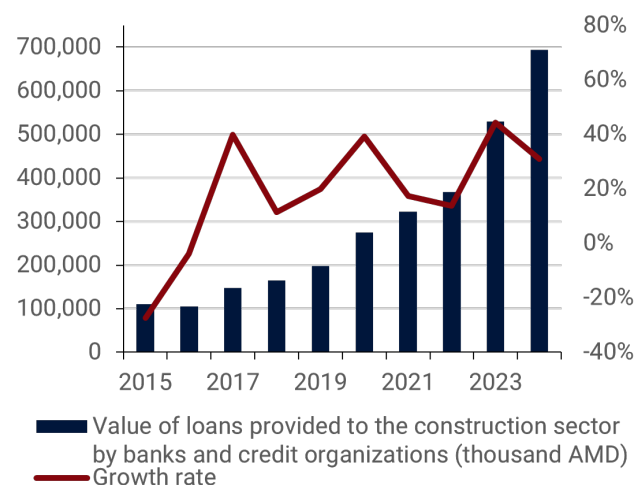
Floor area (m²) of residential units commissioned and to be commissioned in 2025–2027 in the Republic of Armenia



Source: SC, Yerevan Municipality

Chart 2.28.

Value of loans provided to the construction sector by banks and credit organizations (thousand AMD)



Source: CBA

The share of non-performing mortgage loans remains at historically low levels, primarily due to the high proportion of newly issued loans (see Chart 2.20 in the “Household debt and associated risks” section). The decline in rental transactions and rents may pose risks to the future servicing of mortgage loans issued for investment purposes (see Chart 2.29). Nevertheless, the stable growth of incomes in the economy is a more significant factor in ensuring loan repayment capacity (for more details, see the “Household debt and associated risks” section).

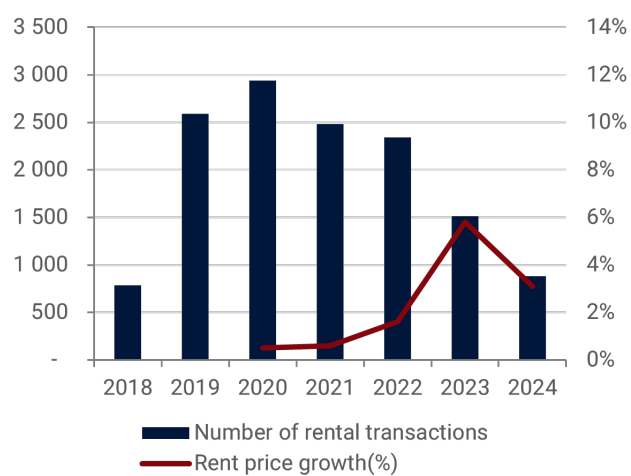
In the context of rapid growth in loans to the construction sector²³, the share of classified loans²⁴ has increased by 3.5 percentage points, reaching 4.5%. However, this does not represent a systemic risk and is not indicative of the overall quality of loans in the sector (see Chart 2.8 in the “Domestic Developments” section).

²³ Includes loans provided by commercial banks and credit organizations.

²⁴ Classified loans include non-performing and watched loans.

Chart 2.29.

Number of rental transactions and rent price growth



Source: RA SC, Cadastre Committee

RISKS IN FINANCIAL MARKET AND INSTITUTIONS OF ARMENIA

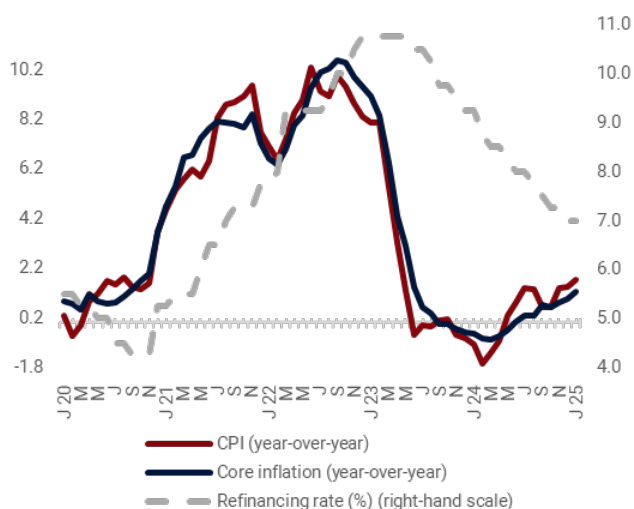
- 3.1. Risks in domestic financial market
- 3.2. Risks in financial institutions
 - 3.2.1 Commercial banks
 - 3.2.2 Non-bank financial institutions

3.1. Risks in Domestic Financial Market

Throughout the year, the Central Bank continued the gradual easing of monetary conditions, which was reflected in a decline in the government bond yield curve. In the context of monetary easing, a notable decrease in lending interest rates in the economy was not observed, which was mainly driven by the increased demand for lending.

Chart 3.1.

12-month inflation and monetary conditions



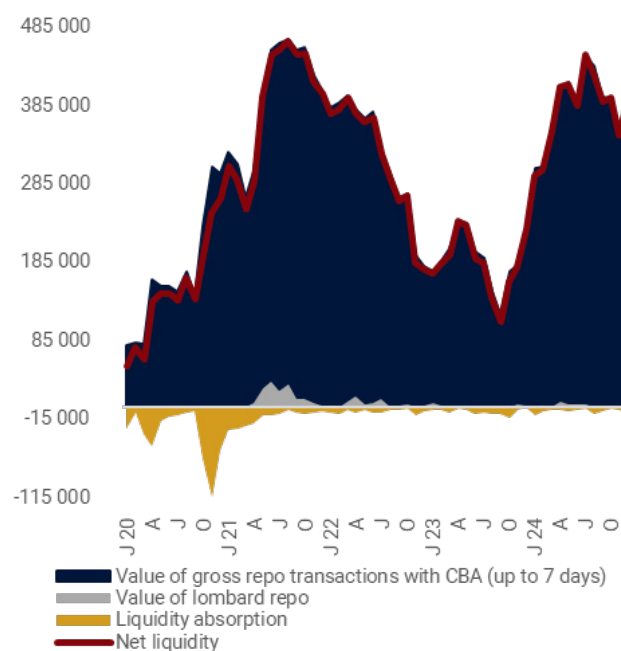
In 2024, the refinancing rate was gradually reduced by a total of 2.25 percentage points, reaching 7.0%²⁵ (see Chart 3.1). The Central Bank's decision to ease monetary conditions was driven by the prolonged persistence of a low external inflationary environment, risks of a correction in domestic demand, and a weakening in labor market conditions²⁶.

Short-term interest rates in the money market continued to form mainly around the Central Bank's refinancing rate throughout the year. The demand for

dram liquidity was met primarily through the main repo and fine-tuning repo instruments. Additionally, banks made use of the standing facility lombard repo (see Chart 3.2). During the year, there was a noticeable increase in the banking system's demand for liquidity provided through the Central Bank's main instrument, mainly due to autonomous factors and a reduction in the Central Bank's foreign exchange purchases. Amid increased government issuance of government securities, banks' demand for liquidity also rose to facilitate investments in these higher-yielding instruments. Repo rates continued to form around the refinancing rate (see Chart 3.3).

Chart 3.2.

Value of liquidity provision and absorption through MP operational instruments (average monthly stock, million AMD)

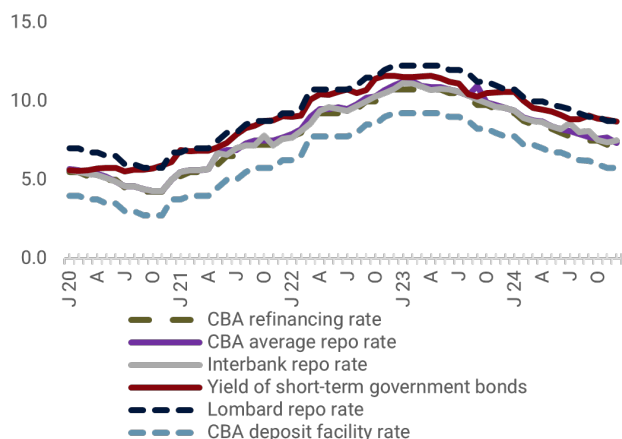


²⁵ <https://www.cba.am/hy/Publications/7679/>

²⁶ Source: Monetary Policy Implementation Report (Q1–Q4 2024)

Chart 3.3.

Short-term market interest rates



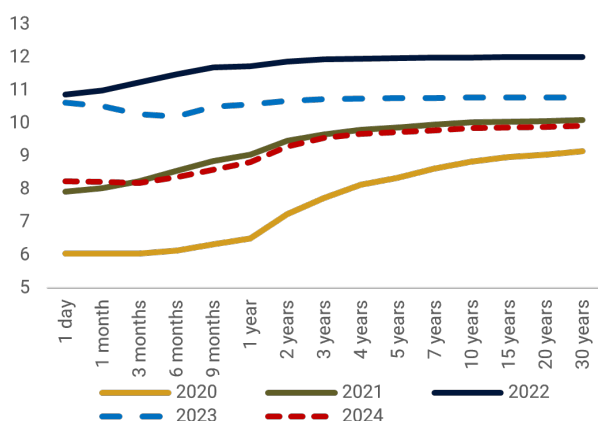
In line with the Central Bank's monetary policy actions, government bond yields have declined across the entire yield curve (see Chart 3.4).

Alongside the stabilization of inflation expectations and the continued downward trajectory of the CBA's refinancing rate in 2024, the yield curve shifted downward, which was particularly notable in the short- and medium-term segments.

Compared to December of the previous year, the yield on government bonds across all maturities decreased by an average of around 1.15 percentage points.

Chart 3.4.

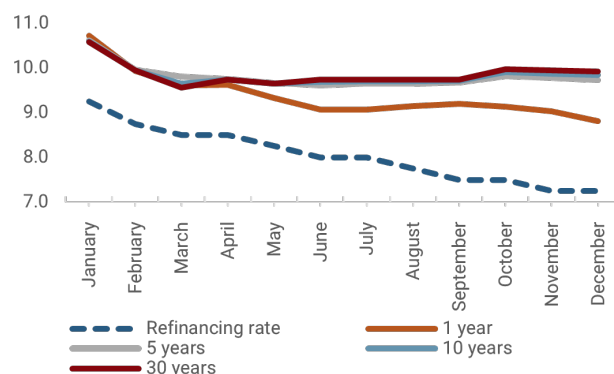
Government bonds yield curve



Despite the decline in yields across the entire curve in line with the easing of monetary conditions, a slight increase in the yield of long-term government bonds has been recorded since September, averaging 0.11 percentage points (see Chart 3.5).

Chart 3.5.

Government bond yields in 2024



During the year, an increase was observed in the yield to maturity spreads of government bonds (i.e., the difference between yields to maturity). The yield spread between 1-year and 10-year government bonds rose by approximately 1.16 percentage points since the beginning of the year (see Chart 3.6).

Chart 3.6.

Government bond yield to maturity spreads



In 2024, the faster decline in short-term government bond yields led to the restoration of a positive yield

spread. This is particularly evident in the behavior of the yield spread between 1-year and 10-year government bonds. Meanwhile, the spreads between 5- and 10-year, and 10- and 30-year maturities remained relatively unchanged, due to similar movements in long-term bond yields.

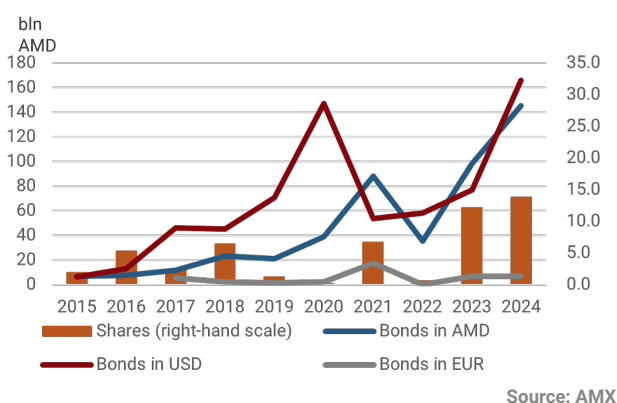
Over the past two years, the capital market has seen significant growth in the issuance of corporate bonds and shares. In 2024, the volume of outstanding corporate bonds reached around 7% of GDP.

According to data from the past ten years, the value of corporate bonds issued in AMD has increased 22-fold compared to 2015, while the value of corporate bonds issued in foreign currency has increased nearly 27-fold. The value of allocated shares has grown approximately 7-fold (see Chart 3.6.1).

By the end of 2024, the outstanding value of corporate bonds amounted to AMD 590 billion, and that of shares to around AMD 162 billion. Corporate bonds have now become a realistic alternative to traditional sources of funding. For comparison, as of end-2024, the outstanding value of corporate bonds accounted for 6% of the business loan portfolio for non-financial institutions, and 4.8% of total liabilities for financial institutions²⁷.

Chart 3.6.1.

Issuance of corporate bonds and shares



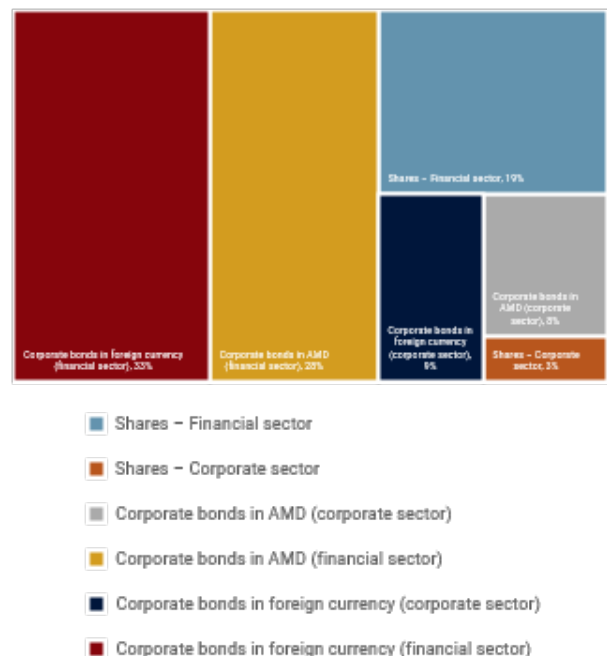
²⁷ Share of banks' and credit organizations' liabilities in total liabilities.

²⁸ Includes issued corporate shares and bonds (https://amx.am/am/market_data/corporate_bonds)

As of the end of 2024, 61.5% of outstanding corporate securities²⁸ were bonds issued by the financial sector, while 17.1% were bonds issued by non-financial institutions (see Chart 3.6.2). Foreign currency-denominated bonds dominate the total value of corporate bonds, which is particularly risky in the case of non-financial institutions that do not have foreign currency inflows in their revenue streams.

Chart 3.6.2.

Outstanding corporate securities by type and currency

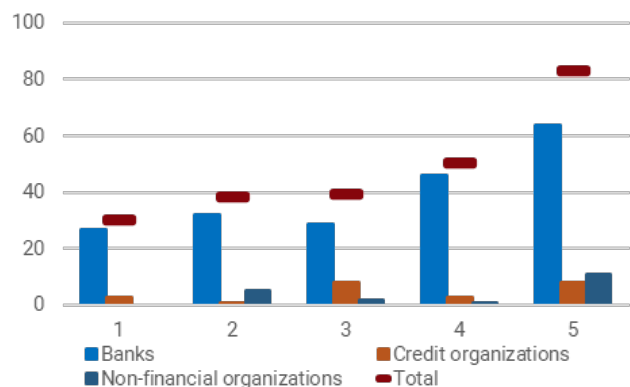


Equity issuance remains dominated by the financial sector, accounting for 88% of total share.

During the year, a total of 83 corporate securities issuances were carried out, of which 72 were by financial institutions and 11 by non-financial institutions. Compared to 2023, the total number of issuances increased by 66% (see Chart 3.6.3).

Chart 3.6.3.

Number of issuances



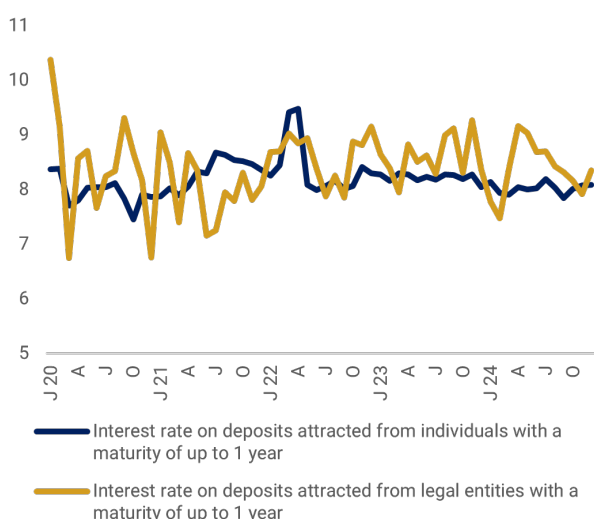
Source: AMX

Interest rates on long-term AMD deposits attracted by commercial banks have declined moderately, reflecting the changes in the refinancing rate throughout the year. However, no significant decrease in lending rates was observed, mainly due to strong demand for loans.

Alongside sustained economic activity in the real sector, the value of funds attracted and disbursed by commercial banks continued to grow.

Chart 3.7.

Interest rates on short-term deposits attracted by banks, %

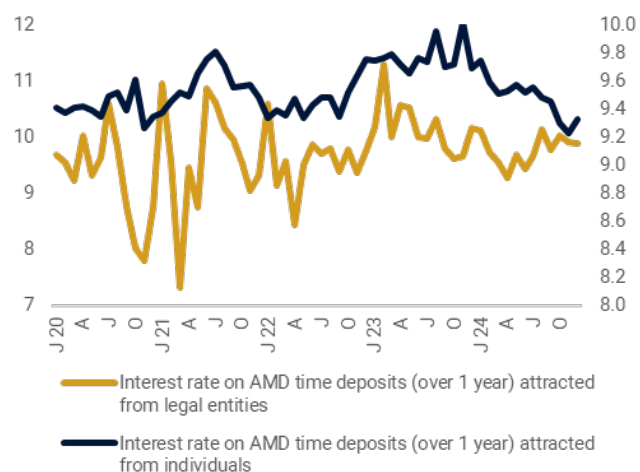


Source: CBA

Interest rates on AMD deposits with maturities over one year have declined moderately, generally reflecting the changes in the refinancing rate over the year and the sustained high level of liquidity (see Chart 3.8). Interest rates on AMD deposits with maturities of up to one year had already declined during the previous year; therefore, they did not experience significant changes in the current year (see Chart 3.7).

Chart 3.8.

Interest rates on AMD deposits with more than 1 year maturity attracted by banks, %



Source: CBA

No significant changes have been observed in lending interest rates, mainly due to high demand for loans, as well as the lag effect of the refinancing rate on long-term interest rates (Chart 3.8.1). In particular, the formation of long-term lending rates is also significantly influenced by the factor of potential risk developments stemming from uncertainties, which continues to remain at a high level.

Chart 3.8.1.

AMD lending interest rates, %

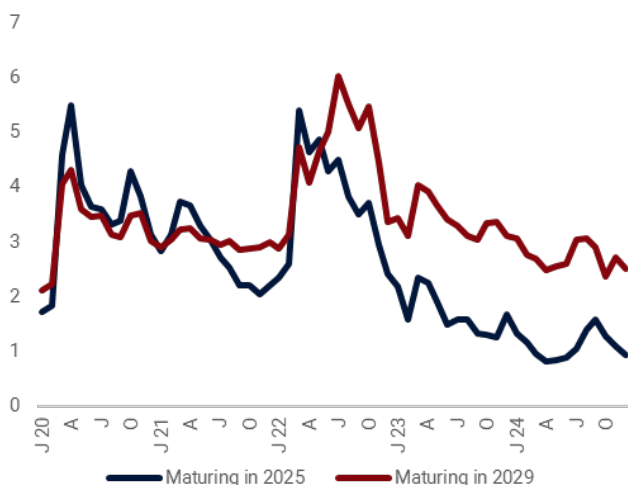


Source: CBA

Compared to the previous year, the country's risk premium continued to improve. The country risk premium is presented as the difference between the yields of the Eurobonds issued by the Republic of Armenia maturing in 2025 and 2029 and the risk-free yields of benchmark bonds (U.S. Treasury securities) with equivalent maturities. As of the end of the year, the spread for the Eurobonds maturing in 2025 decreased by around 0.8 percentage points, and by 0.6 percentage points for those maturing in 2029 (Chart 3.9).

Chart 3.9.

Country risk premium in the Republic of Armenia



Source: CBA

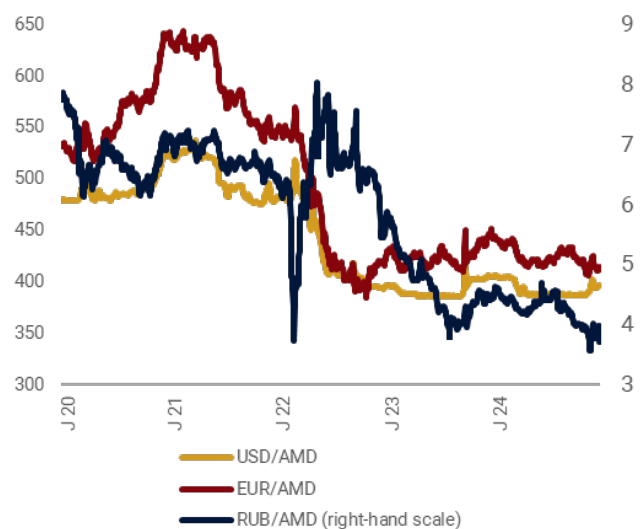
The country risk premium increased to some extent during the July–September 2024 period. This was driven by a more rapid decline in the yields of U.S. Eurobonds, to which the yields of Armenian Eurobonds responded with a certain lag.

In the foreign exchange market, the AMD demonstrated relatively stable behavior against other currencies throughout the year, appreciating somewhat against all of them.

The decline in exchange rate volatility was mainly driven by an increase in market liquidity and depth, characterized by growth in both the number and volume of transactions.

Chart 3.10.

Daily average exchange rate dynamics of foreign currencies against the Armenian dram



Source: CBA

In December 2024, compared to December of the previous year, the Armenian dram²⁹ appreciated by 2.0% against the U.S. dollar, by 7.6% against the euro, and by 17.6% against the Russian ruble (Chart 3.10).

29 Exchange rates set by the Central Bank of Armenia

3.2. Risks in financial institutions

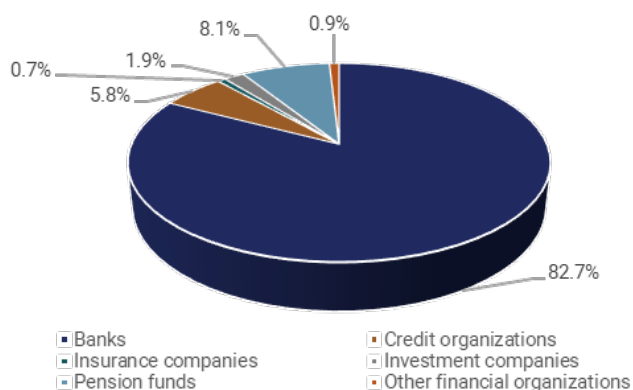
In 2024, the financial system ensured the continuity of financial intermediation, guaranteeing the uninterrupted provision of financial services to the population and economic agents. By the end of the year, the financial system had grown at a steady pace, contributing to the improvement of public welfare and creating conditions for further positive macro-financial developments.

As of year-end, the financial system's assets-to-GDP and loans-to-GDP³⁰ ratios stood at 131.8% and 63.1%, respectively, having increased by 16.0 and 9.1 percentage points during the year.

Commercial banks continued to dominate the structure of financial system assets, with a share of 82.7%. Pension funds ranked second in terms of asset size, with strong growth indicators recorded in 2024 as well (Chart 3.11).

Chart 3.11.

Financial Institutions' shares in Financial System Assets (%)



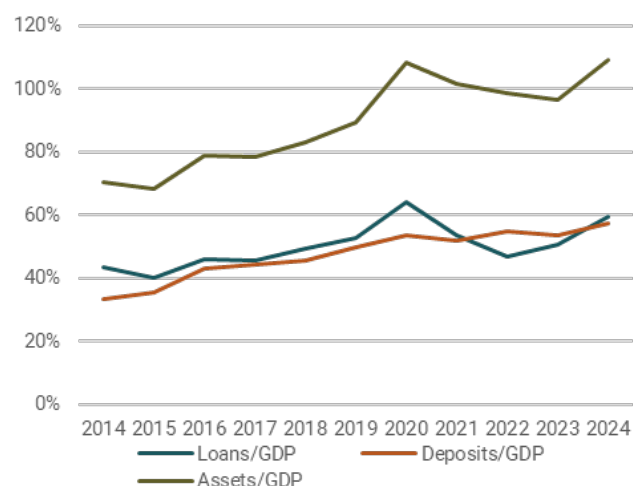
Source: CBA

In 2024, loans provided by commercial banks to the real sector grew by around 25.5%, resulting in the banking system's loans-to-GDP ratio reaching 59.6% at the end of the year, recording an increase of approximately 9.0 percentage points.

The growth of banks' deposit portfolio amounted to about 14.0% by year-end, of which 11.7 percentage points were driven by deposits attracted from residents. As a result, the deposits-to-GDP ratio stood at 57.3% at the end of the year, increasing by around 3.7 percentage points compared to the previous year (Chart 3.12).

Chart 3.12.

Banking System Intermediation Indicators



Source: CBA

3.2.1. COMMERCIAL BANKS

Against the backdrop of favorable macro-financial developments, the banking system recorded strong performance in terms of both deposit and loan portfolio growth, as well as capital and liquidity positions. In addition, under sufficient profitability conditions, new opportunities have emerged for banks to pursue development and investment projects.

The results of stress tests indicate that the banking system is capable of absorbing losses stemming from potential macroeconomic shocks, thereby ensuring the uninterrupted process of financial intermediation.

³⁰ Loans provided by commercial banks and credit organizations are included, including leasing and factoring.

Capital Adequacy and Profitability

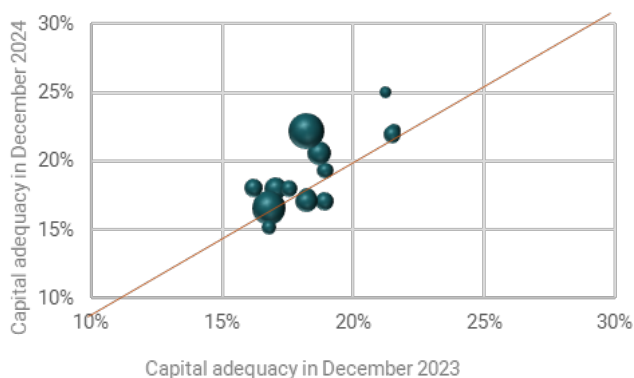
Throughout 2024, the capital adequacy of the banking system remained at a high level. By a decision of the Central Bank Board on October 15, 2024, the countercyclical capital buffer rate was raised by 0.25 percentage points, setting it at 1.75% of risk-weighted assets.

At the end of the year, the banking system's balance sheet capital amounted to AMD 1 trillion 701 billion, marking a 24.8% increase over the year. The total capital adequacy ratio of the system stood at 20.2% in December 2024, exceeding the previous year's figure by about 0.3 percentage points. The actual level of capital adequacy was about 3.7 percentage points above the regulatory requirement, including all capital buffer components.

The capital position of a significant portion of banks improved. The change in the capital adequacy ratio was positively influenced by the high growth rate of capital, which was broadly balanced by the increase in lending (Chart 3.13³¹).

Chart 3.13.

Capital Adequacy change by banks



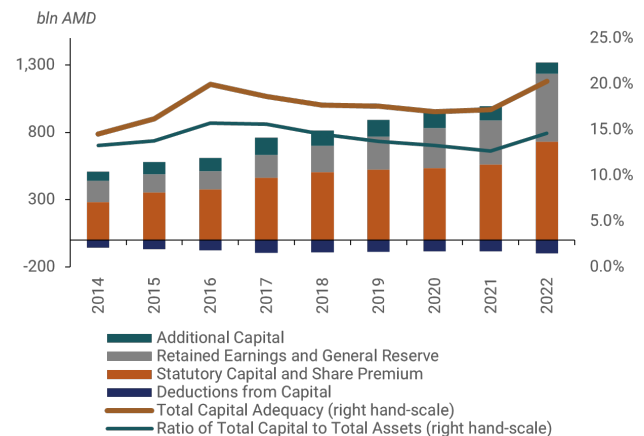
Source: CBA

During the year, the regulatory capital of the banking system grew by around 17.4% (Charts 3.14.1 and

3.14.2). Tier 1 capital accounted for approximately 90% of the total regulatory capital.

Chart 3.14.1.

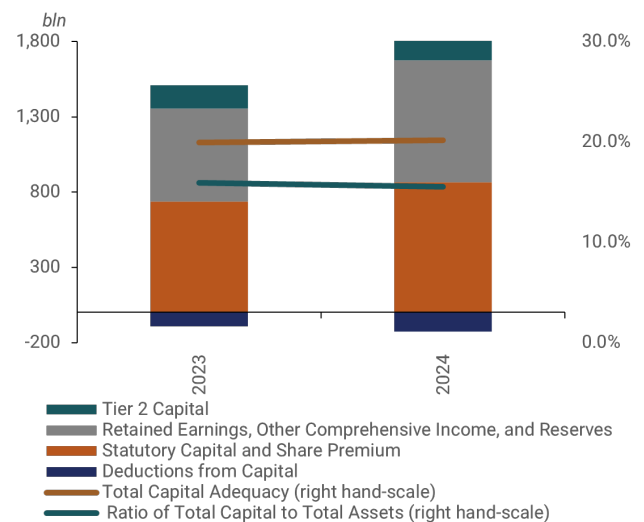
Structure of Total Regulatory Capital



Source: CBA

Chart 3.14.2.

Structure of Total Regulatory Capital



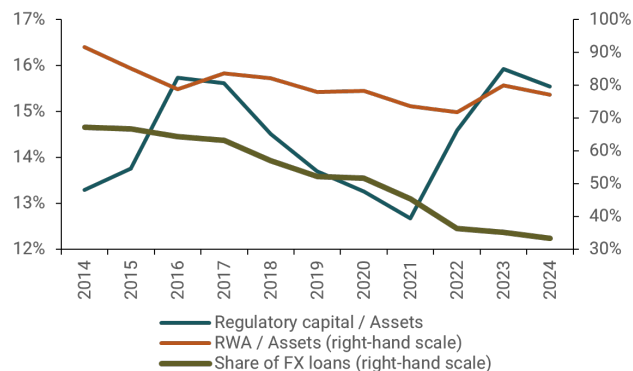
Source: CBA

In 2024, compared to the previous year, the ratio of risk-weighted assets to total assets decreased, mainly due to the AMD-denomination of loans (Chart 3.15).

31 Banks with capital adequacy (including buffers) exceeding twice the regulatory requirement are not included in the chart (3 banks, with a combined asset share of 3.8% in the banking system). The horizontal axis of the chart represents the capital adequacy ratio as of December 2023, the vertical axis shows the ratio as of December 2024, and the size of the dots reflects the banks' share in the banking system's total assets as of December 2024.

Chart 3.15.

Banks Regulatory capital/Assets, Risk-weighted assets/Assets, and the share of FX Loans in Loan portfolio

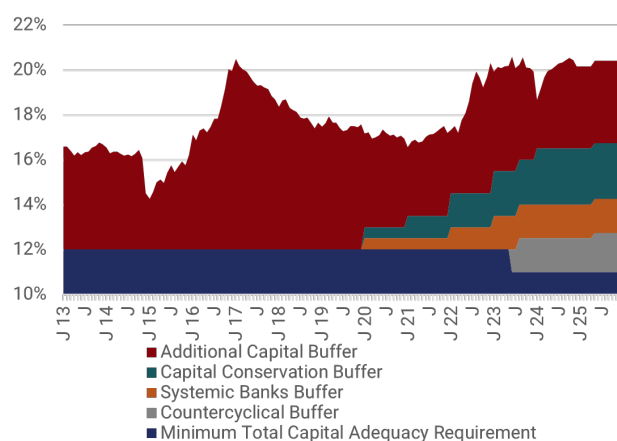


Source: CBA

By a decision adopted in the third quarter of 2024, effective from May 1, 2025, the Central Bank Board increased the countercyclical capital buffer rate, setting it at 1.75% of risk-weighted assets. This measure enhances the banking system's capacity to absorb losses during shock scenarios, thereby supporting the continuity of lending to the economy. According to the capital buffer implementation schedule, as of January 1, 2024, the capital conservation buffer was increased by 0.5 percentage points, reaching 2.5% (Chart 3.16).

Chart 3.16.

Changes in Capital Adequacy Components



Source: CBA

Throughout the year, the banking system's return on equity and return on assets³² remained at a sufficient level, standing at 21.9% and 3.5%, respectively, at year-end (Chart 3.17).

The increase in return was mainly driven by net interest income, which was reflected both in its absolute value and in the net interest margin; that is, the ratio of net interest income to assets.

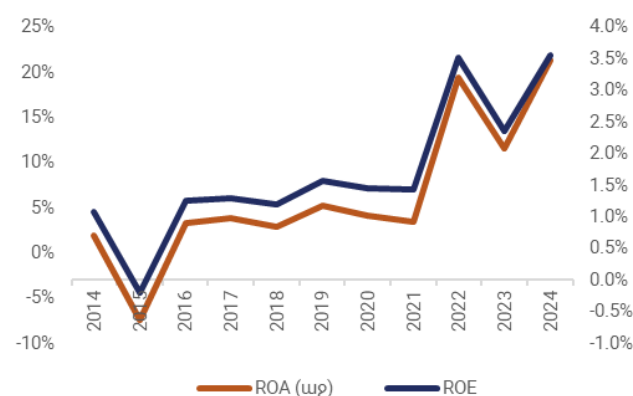
This, in turn, was largely a result of the reallocation of banks' portfolios toward relatively higher-yielding assets, evidenced by the strong growth in consumer lending, a certain decrease in the share of liquid assets (including government securities) in bank balance sheets, as well as the AMD-denomination of loans.

Contributing factors also included the relatively high interest rate environment still prevailing in both external and domestic financial markets, along with the gradual increase in the share of demand deposits in the structure of resident deposits, which represent banks' main source of funding.

It is worth noting that sufficient profitability of banks is important from the perspective of the business outlook of banking operations, as well as for advancing development and investment programs within the system.

Chart 3.17.

ROA and ROE of the Banking sector



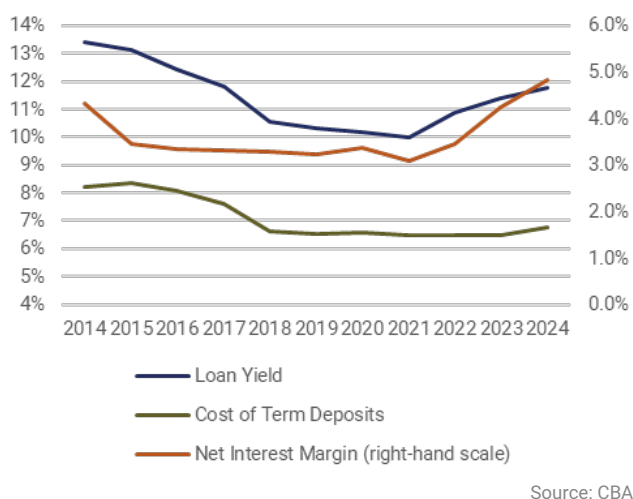
Source: CBA

32 Profit after tax was used in the calculation of the indicators.

In 2024, the net interest margin of the banking system increased by 0.6 percentage points compared to the previous year, reaching 4.8% by year-end (Chart 3.18). At the same time, the average loan yield rose by 0.4 percentage points, supported by the strong growth of consumer lending during the year, the AMD-denomination of the loan portfolio, and the relatively high interest rate environment still prevailing in financial markets. As for the cost of term deposits, it remained largely unchanged, due to the relative stability of interest rates on both AMD and USD deposits.

Chart 3.18.

Interest Margin



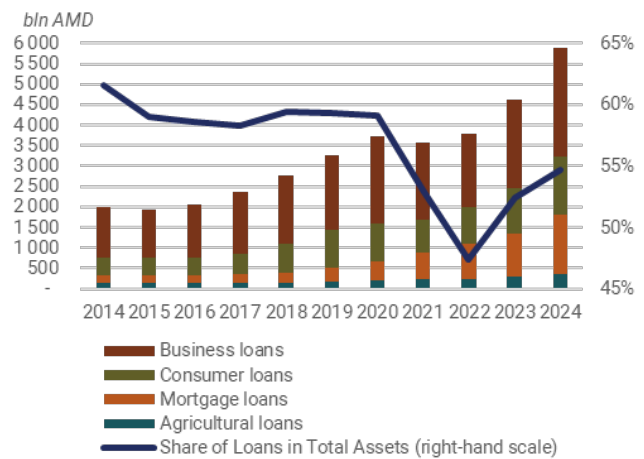
Credit Risk

In 2024, the loan portfolio of the banking system (provided to the economy) recorded significant growth of 25.5%. Notably, the contributions of household and business loans to this growth were broadly comparable.

It is worth mentioning that high growth rates were recorded across all major lending directions (Charts 3.19 and 3.20).

Chart 3.19.

Structure of Loans Provided to Residents by Major Loan Types

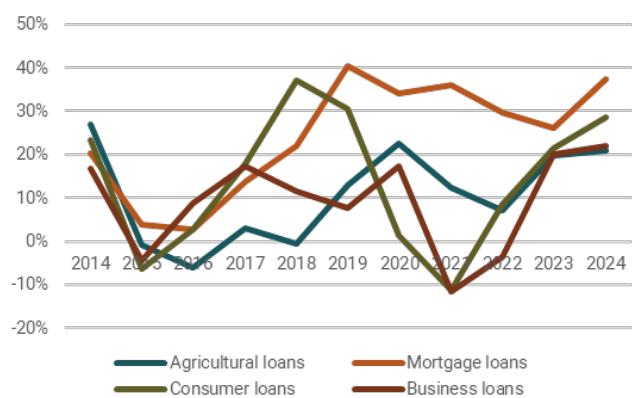


Mortgage lending maintained a high growth rate throughout the year, with a notable acceleration in the final quarter. This was driven by behavioral responses to the gradual phase-out of the income tax refund mechanism in Yerevan. This is an effect that is not expected to persist going forward. Consumer lending also registered strong growth in 2024, broadly in line with the trends observed in the previous year. The increase in demand for consumer loans was driven not only by income factors but also by the high activity observed in the real estate market in recent years, which contributed to increased demand for durable household goods.

As for business loan growth, the largest contribution came from loans provided to the manufacturing and construction sectors.

Chart 3.20.

Growth rates of Major Loan Types

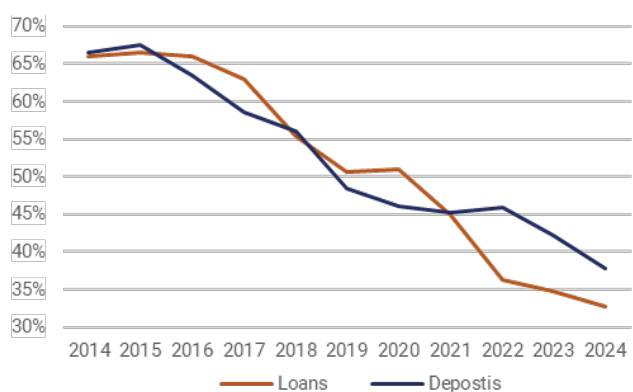


Source: CBA

Throughout the year, the dollarization of resident loans and deposits continued to decline, reaching 32.7% and 37.7%, respectively, by year-end (Chart 3.21).

Chart 3.21.

Dollarization of Resident Loans and Deposits

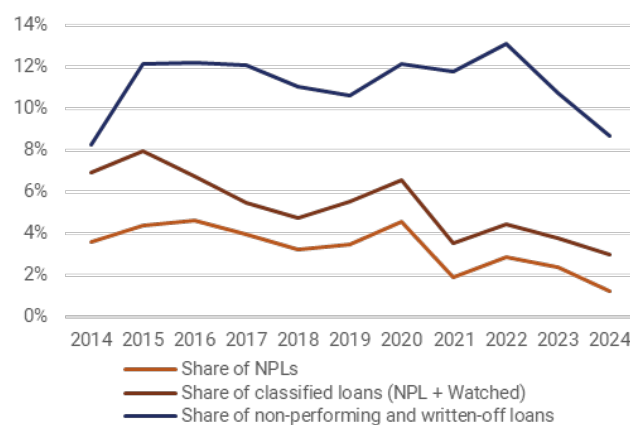


Source: CBA

Amid high economic activity, rising incomes, and the continued improvement of banks' risk management tools, the share of non-performing loans continued to decline (Chart 3.22).

Chart 3.22.

Dynamics of Non-Performing Loans

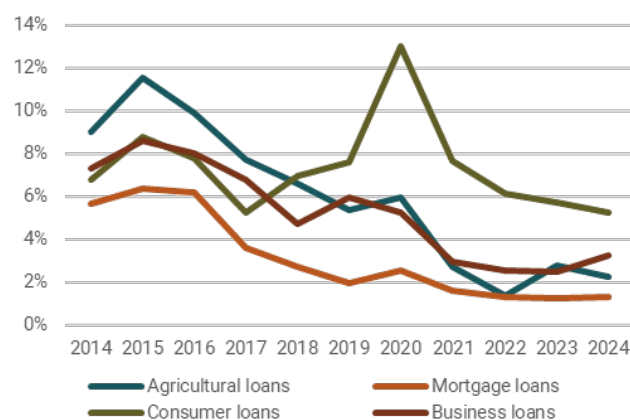


Source: CBA

The share of non-performing loans stood at 1.2% at year-end, down from 2.4% in the previous year. Notably, the share of non-performing loans decreased across individual loan types as well, with the exception of business loans (Chart 3.23).

Chart 3.23.

Classified (Non-Performing + Watch) Loans to Residents by Major Loan Types

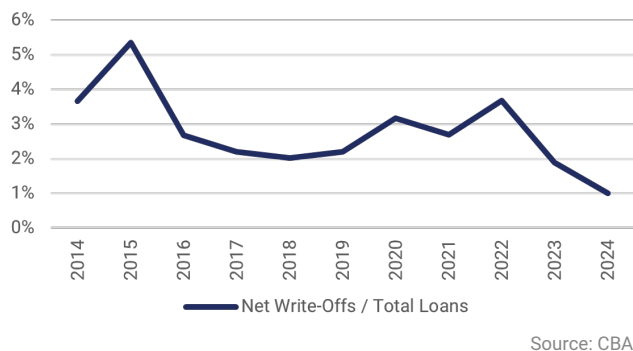


Source: CBA

The improvement in the quality of the loan portfolio was also reflected in the dynamics of credit losses. The ratio of net provisioning and write-offs to the average loan portfolio stood at 1.0% at year-end (Chart 3.24).

Chart 3.24.

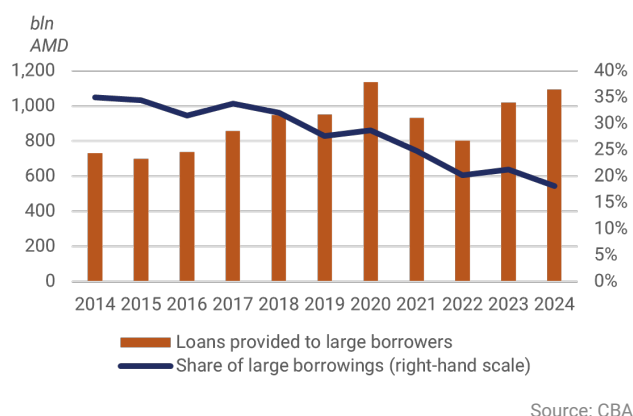
Credit Losses



The concentration of the loan portfolio has decreased, in particular, the share of loans provided to large borrowers³³ declined by 3.1 percentage points (Chart 3.25).

Chart 3.25.

Loans Provided to Large Borrowers in the Banking System



Liquidity Risk

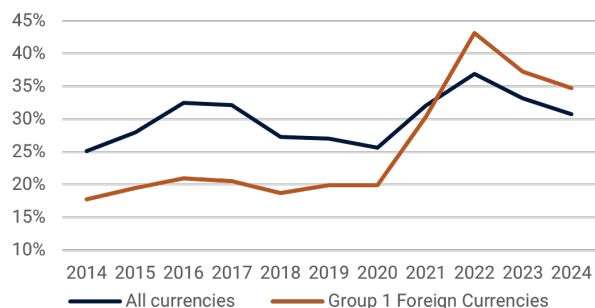
Throughout the year, the liquidity buffers of the banking system remained at a high level, though slightly below the previous year's figure by year-end. The slight decline in the liquidity position was mainly due to the faster growth of loans compared to deposits.

As of year-end, the total liquidity ratio of the banking system across all currencies stood at 30.8%, down

by approximately 2.4 percentage points compared to the previous year. On the other hand, the total liquidity ratio in Group 1 foreign currencies was 34.8%, compared to 37.3% in the previous year (Chart 3.26).

Chart 3.26.

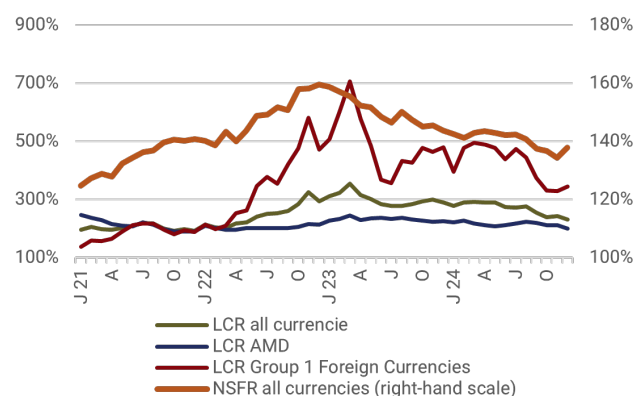
Dynamics of Total Liquidity



In December 2024, the average level of the Liquidity Coverage Ratio (LCR) across all currencies stood at 230.6%, and at 344.7% for significant Group 1 foreign currencies. Banks also met the Net Stable Funding Ratio (NSFR) requirement (Chart 3.27).

Chart 3.27.

Dynamics of the Liquidity Coverage Ratio and Net Stable Funding Ratio



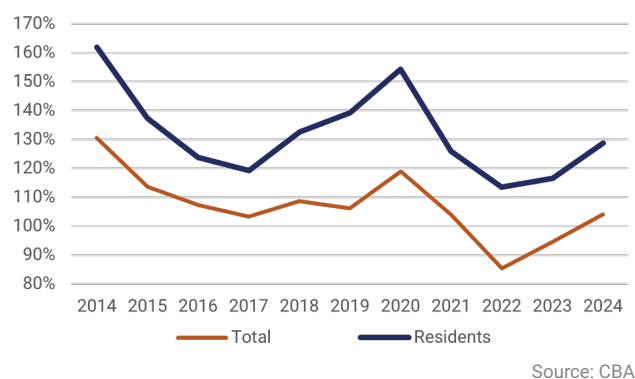
Throughout 2024, a steady increase in deposits was recorded. By year-end, deposits of individuals and legal entities had grown by 14.0%.

33 A borrower for which the bank's risk exceeds 5 percent of the total capital is considered to be a large borrower

Nevertheless, due to the faster growth of the loan portfolio, the loan-to-deposit ratio increased over the year both in terms of the total portfolio and when calculated for residents only (Chart 3.28).

Chart 3.28.

Loan-to-Deposit Ratio



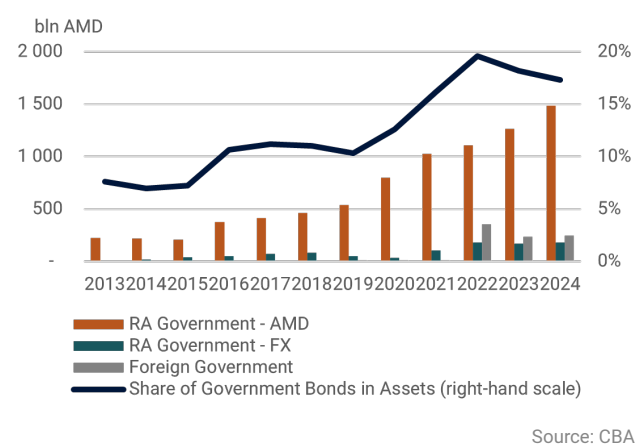
Market Risk

The potential negative impact of changes in financial asset prices on bank balance sheets remained low, according to estimates. Possible losses stemming from banks' foreign exchange positions are also assessed as insignificant.

By year-end, the share of government bonds in the banking system's assets declined somewhat, which is also linked to the rapid growth of lending (Chart 3.29).

Chart 3.29.

Investments in Government Bonds

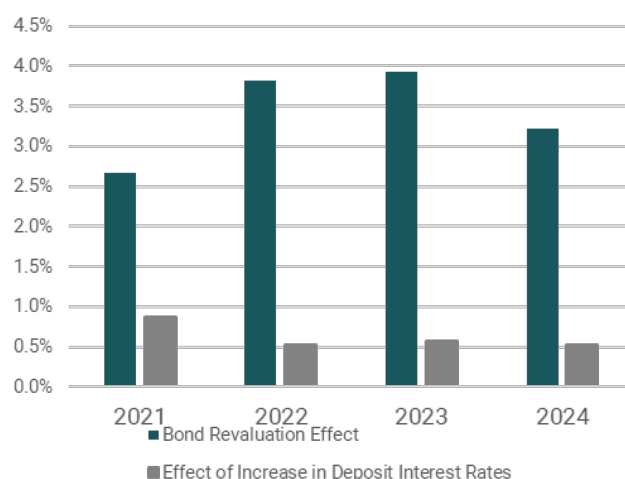


The revaluation reserve of securities accounted in capital improved by AMD 13.2 billion during the year, reaching AMD -1.6 billion at year-end, compared to AMD -14.8 billion in the previous year.

According to the stress tests assessing the banking system's sensitivity to interest rate changes, the revaluation effect of bonds on capital remained at a low level as of year-end. As for the impact of increased interest expenses, it also showed no significant change compared to the previous year (Chart 3.30).

Chart 3.30.

Impact of Interest Rate Changes on Capital



With regard to foreign exchange risk, it is worth noting that under the effective management of foreign exchange positions by banks, the impact of credit risk related to unhedged borrowers continues to be more significant among exchange rate-related risks.

3.2.2. NON-BANK FINANCIAL INSTITUTIONS

The share of non-bank financial institutions in the financial system has remained relatively low. At the same time, the share of pension funds continues to grow. Overall, the impact of non-bank financial institutions on financial stability is assessed as insignificant.

Developments in Pension Funds

In 2024, pension funds recorded a return of 10.7%, while the net asset value of the funds increased by 34.4%, driven both by ongoing contributions and strong fund performance (Chart 3.31). Since inception, cumulative returns have reached 125.7%, with an average annual return of 7.8%. The high returns of pension funds were mainly attributable to the appreciation of Armenian government bonds and the securities of foreign investment funds. These instruments played a dominant role in the investment portfolios of the funds throughout the year, accounting for 39.5% and 33.1% of the net asset value at year-end, respectively (Chart 3.33).

Chart 3.31.

Fund Yields and Growth Rate of Net Asset Value (NAV)



Source: CBA

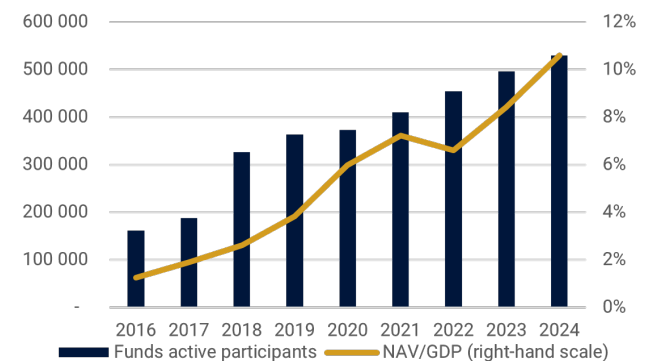
In 2024, the moderate recovery of the global economy and the easing of the inflationary environment had a positive impact on financial markets, leading to an increase in the prices of both debt and equity securities. The high return on equities was mainly associated with positive macro-financial developments recorded in certain advanced economies, while the growth in debt security prices was driven by the accommodative monetary policy pursued by central banks in several countries amid a relatively weak inflationary environment.

As a result of the significant increase in the net assets of pension funds, the Net Assets to GDP

(NAV/GDP) ratio rose by 2.2 percentage points, reaching 10.6% at the end of the year (Chart 3.32).

Chart 3.32.

Number of Funds Active Participants and dynamics of NAV/GDP ratio

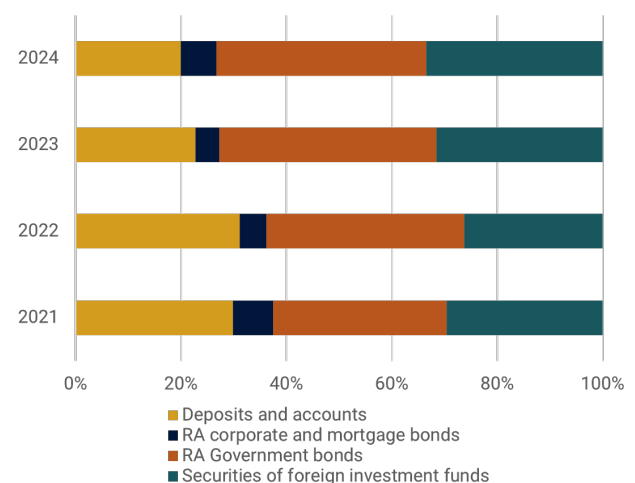


Source: CBA

In the structure of pension fund investments, the share of Armenian government bonds decreased by 0.9 percentage points, while the share of foreign investment fund securities increased by 2.4 percentage points (Chart 3.33). Regarding the currency composition, it should be noted that the share of foreign currency-denominated assets increased by 1.8 percentage points, reaching 34.5% at year-end (Chart 3.34).

Chart 3.33.

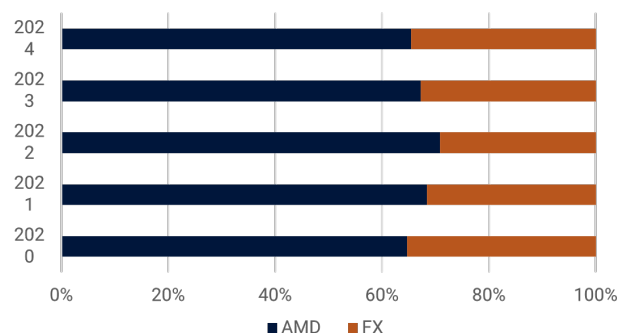
Investment Directions of the Funds



Source: CBA

Chart 3.34.

Funds Currency Structure



Source: CBA

Assessment of Sensitivity and Stress Testing of Pension Funds

The purpose of stress testing is to evaluate the impact of hypothetical shock scenarios on the net asset value of pension funds.

The total loss of the funds as a result of stress testing was calculated as the aggregate of losses estimated for separate investment directions, specifically:

- The stress loss for Armenian bonds (both government and corporate) was calculated based on bond duration, using the interest rate shock scenario applied in the macro stress testing of solvency.

- The risk associated with foreign investment fund securities was assessed using the Value at Risk (VaR) method. The stress loss was calculated as the maximum 260-day (≈ 1 calendar year) VaR corresponding to the 1% quantile, based on the portfolio composition at the end of 2024 and price changes of individual securities during the 2016–2024 period.
- In the macro stress testing model for solvency, exchange rate depreciation is considered a risk factor, which has a positive effect on the return of pension funds. The exchange rate impact factor was not considered in this stress testing to more clearly reflect the impact of the other two variables. Table 2 presents the sensitivity of pension funds to exchange rate fluctuations.
- No stress loss (market risk) was assessed for deposits (another major investment direction of the pension funds) since deposits are held to maturity.

Based on the above methodology, stress testing was carried out under an interest rate increase scenario of 2.7–9.0 percentage points. As a result, the decline in net asset value amounted to 14.0%, 14.8%, and 14.7% for conservative, balanced, and stable funds, respectively (Table 1).

Table 1.

Pension Funds Stress Tests

Type of Fund		NAV and structure of Funds			NAV changes after stress scenarios mentioned in the 1st and 2nd cases		
		Fixed Income	Conservative	Balanced	Fixed Income	Conservative	Balanced
NAV of fund (bln AMD)		8.6	1,053.3	11.9			
Structure	RA Government bonds	61.9%	54.3%	56.4%	-17.5%	-18.5%	-17.0%
	Foreign investments	26.3%	33.8%	34.6%	-12.2%	-13.9%	-14.6%
	Other assets	11.8%	11.9%	9.0%			
Total		100%	100%	100%	-14.0%	-14.8%	-14.7%

Table 2.

Pension Funds Sensitivity Tests

Scenario	Change of yield		
	Fixed Income	Conservative	Balanced
Growth of interest rates in RA by 1 pp.	-1.2%	-1.1%	-1.1%
AMD depreciation by 1%	0.3%	0.3%	0.4%
External shock (1% quantile)	-3.2%	-4.7%	-5.1%

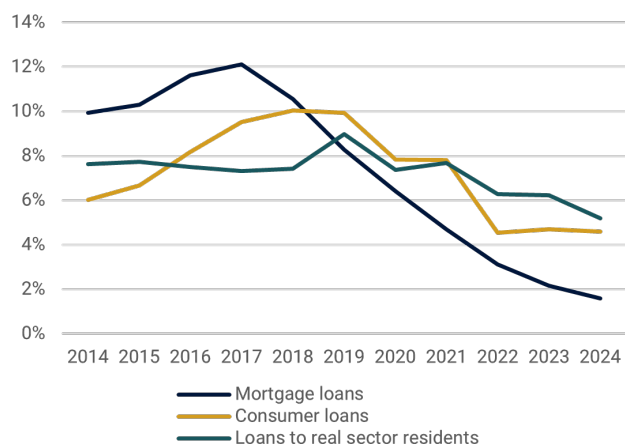
Credit Organizations

In the context of high competition in the lending market and increasing uncertainties, the application of innovative approaches based on risk management is gaining greater importance. Through these approaches, credit organizations can develop a competitive market strategy while gaining advantages over other financial institutions.

The assets of credit organizations increased by 6.8% compared to the previous year. As of the end of 2024, 42.2% of total assets were held by refinancing credit organizations, whose assets grew by 7.3% year-on-year. Under conditions of intense competition, the share of loans extended by credit organizations in total lending continues to decline (Chart 3.35).

Chart 3.35.

Share of Credit Organizations in Total Loans



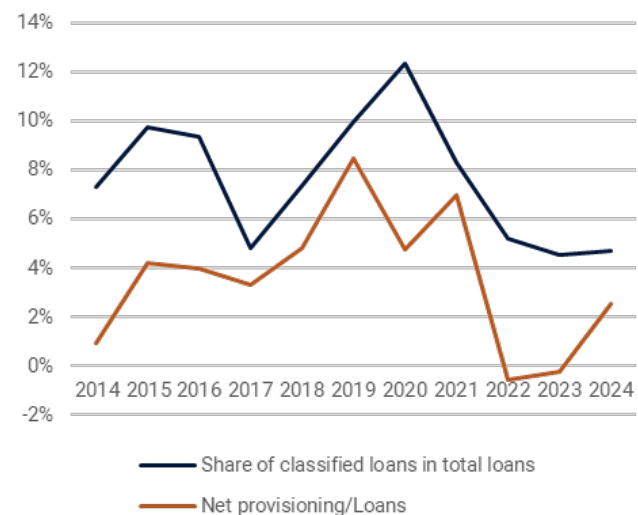
Source: CBA

In 2024, the net profit of credit organizations increased compared to the previous year, amounting

to AMD 20.0 billion. However, at the same time, the share of non-performing loans and the ratio of loan losses to total loans also increased (Chart 3.36).

Chart 3.36.

Classified loans and Losses from loans



Source: CBA

Insurance Companies

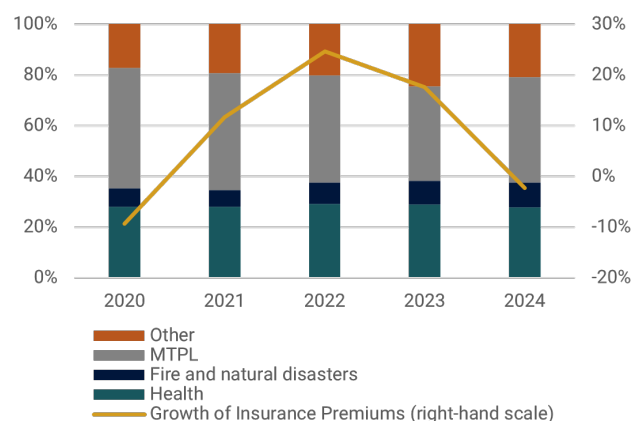
The share of insurance companies in the financial system remains low, and the system's growth trends continue to be moderate.

In 2024, the main indicators of the insurance system, that is insurance premium to GDP and insurance premiums per capita declined, amounting to 0.7% and AMD 23,572, respectively, compared to 0.8% and AMD 24,483 in the previous year. Accrued insurance premiums decreased by 2.3%. The majority of insurance premiums; 79.1% were concentrated in the three largest classes: health insurance, motor third-

party liability insurance (MTPL), and property insurance against fire risk (Chart 3.37).

Chart 3.37.

Structure and Growth Rate of Accrued Insurance Premiums

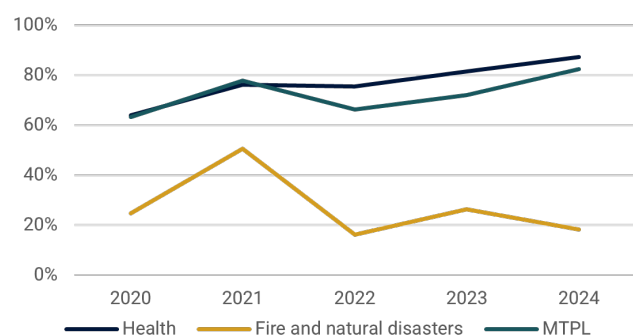


Source: CBA

Insurance claims increased by 10.3%, as a result of which the loss ratio³⁴ of the insurance sector rose by 5.8 percentage points to 71.0%, while the expense ratio³⁵ increased by 3.4 percentage points to 25.9% (Chart 3.38).

Chart 3.38.

Loss Ratio of the Insurance System by Major Classes



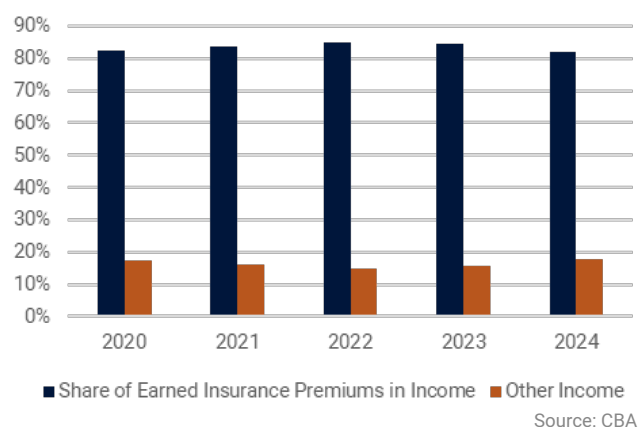
Source: CBA

34 The loss ratio was calculated using the following formula: (net accrued compensation + change in net claims reserves + settlement costs) / (net accrued insurance premiums - net amounts refunded on terminated contracts - unearned insurance premium reserve change).

35 The expense ratio was calculated using the following formula: non-interest expenses / (net accrued insurance premiums - net refunds on terminated contracts - unearned insurance premium reserve change).

Chart 3.39.

Share of Earned Insurance Premiums in Income

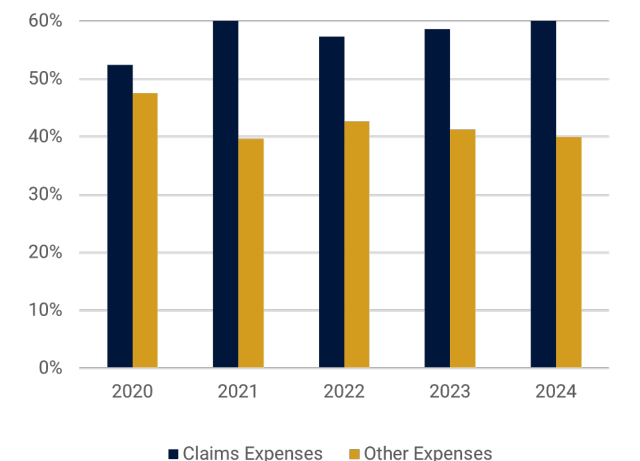


Source: CBA

In 2024, the profit of insurance companies declined compared to the previous year. According to the average indicators of recent years, 82.4% of the income received by insurance companies was derived from insurance premiums, while 59.5% of their expenses were attributed to insurance claims (Charts 3.39, 3.40).

Chart 3.40.

Share of Claims Expenses in Total Expenses



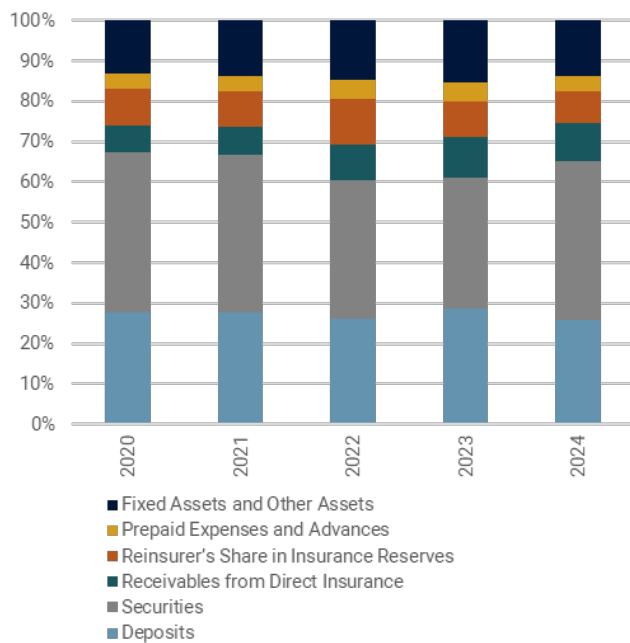
Source: CBA

The total assets of the insurance sector increased by 9.7%, reaching AMD 97.2 billion. As in the previous year, in 2024 bank deposits and securities continued to hold a significant share in the asset structure (Chart 3.41). The total capital of the sector increased by 4.4%, amounting to AMD 28.4 billion, driven by an increase in charter capital and profit.

The impact of shock scenarios on the performance of insurance companies was assessed as insignificant, and no regulatory breaches were recorded (Table 3).

Chart 3.41.

Structure of Assets



Source: CBA

Table 3.

Insurance Sector Sensitivity Tests

	Growth by 10% in the frequency			Shock growth by 25% of reported		
	31.12.2022	31.12.2023	31.12.2024	31.12.2022	31.12.2023	31.12.2024
Loss or income decrease per scenario (bln AMD)	0.8	1.0	0.9	0.9	0.9	1.0
Loss or decrease in return on capital (%)	3.5	3.3	2.9	3.6	3.1	3.4
Change in liquidity level (pp)	-	-	-	-21.2	-32.2	-22.0
Change in total capital adequacy (pp)	-4.6	-4.4	-3.8	-4.8	-4.1	-4.4

STRESS TESTING RESULTS OF BANKS

- 4.1. Solvency Stress Tests of the Banking System
- 4.2. Liquidity Stress Tests of the Banking System

4.1. Solvency Stress Tests of the Banking System

This section presents the results of the macro stress testing conducted to assess the stability of Armenia's banking system. Stress testing of the banking system is a key component of financial stability, aimed at evaluating the resilience of the banking system to various hypothetical shock scenarios. Stress testing enables a deeper understanding and analysis of potential vulnerabilities in the banking system and, if necessary, the implementation of targeted measures to mitigate them.

The results of the conducted stress test indicate that, despite the severity of the assumed shocks under the stress scenario, the banking system possesses adequate capital and liquidity buffers to withstand the projected developments. As of the end of the stress testing horizon, the capital buffers of the banking system remain sufficient to ensure normal operations.

MACRO SOLVENCY STRESS TESTS

Solvency stress tests assess the banking system's ability to absorb risks that threaten the stability of the financial system under various shock scenarios. The stress test conducted includes a comprehensive assessment of losses arising from all risk types inherent to banking activities and their impact on the solvency of the banking system. Solvency stress tests were carried out over a three-year horizon.

Baseline Scenario

The baseline scenario is a macro consistent scenario³⁶ constructed based on macroeconomic fundamentals using information obtained from

quarterly surveys of financial market participants, including commercial banks, investment fund managers, institutional investors, and others. According to this scenario, the economic growth recorded in 2024 is expected to continue during 2025–2027, fluctuating within a range of 5.0%–5.2% across the years.

Stress Scenario

The stress scenario presented below is a purely hypothetical, highly adverse case of potential developments and should in no way be considered or interpreted as a forecast by the Central Bank.

Under the stress scenario, it is assumed that several unfavorable external events occur simultaneously, whose combined effect could lead to a sharp decline in Armenia's economic growth. Specifically, the scenario assumes an escalation of tensions in neighboring regions of Armenia, resulting in increased instability, along with deteriorating geopolitical conditions in other areas of the world. In parallel, it is assumed that trade-related conflicts intensify among various partner countries, disrupting existing balances through increased tariffs, disruptions in established trade flows, and other related developments.

It is assumed that the aforementioned issues will, on one hand, impact the integrity of import trade chains and, on the other hand, affect Armenia's export volumes and overall economic activity. Under the described hypothetical developments, the Armenian financial market would experience an increase in the AMD/USD exchange rate (depreciation of the Armenian dram), which, combined with rising prices of imported goods, would create significant inflationary pressures. The deterioration of economic conditions and increased

36 https://www.cba.am/file_manager/Inflation-reports./MPR_2025Q1_Arm.pdf:

uncertainty would lead to a rise in the country's risk premium, which would be reflected in higher interest rates.

In response to inflationary pressures, the Central Bank's assumed reaction may include an increase in policy rates, potentially accompanied by an inversion of the yield curve. In addition, a sharp decline in activity in Armenia's real estate and mortgage markets is assumed, which may negatively affect, on the one hand, the banking system's revenues, and on the other hand, household consumption. The combined effect of all these factors would result in a significant reduction in Armenia's economic growth.

It is assumed that the shocks will have their primary impact in 2025–2026, after which their effects will gradually diminish, and a gradual recovery in economic activity will begin.

The events described above would lead to a contraction of economic growth to around -8% in the first year of the stress scenario horizon, which would gradually improve in the following years, reaching 8.3% by the end of the horizon. A more detailed description of the scenario is provided in Table 4.1.1.

Results of the Solvency Stress Test

Under the baseline scenario, the high level of capitalization of the banking system is maintained. According to this scenario, total losses in the banking system during the forecast horizon will exceed the actual figure of the base year but will generally remain comparable to the average losses observed in previous years. The projected increase in total losses will be primarily driven by the growth of credit losses due to rising probabilities of default. The increase in default probabilities is largely explained by a natural mean reversion process toward their long-term average levels.

A moderate increase is also expected in the profitability of the banking system. As a result of the above developments, the capital adequacy ratio of both the banking system as a whole and individual banks will remain well above the required minimum threshold throughout the forecast period.

Under the assumptions of the stress scenario, credit losses in the banking system increase significantly. Specifically, the Armenian financial system would observe a rise in credit defaults, driven by the scenario's underlying conditions, which are the decline in economic income, a relatively high inflation, and an exchange rate shock. This, in turn, would lead to an increase in credit risk components across various lending sectors, namely, higher probabilities of default (PD) and loss given default (LGD), resulting in increased credit losses and reduced profitability.

It is noteworthy that, according to the stress test results, the materialization of credit losses would continue over time, peaking in the second year of the stress horizon. Losses stemming from market risk also represent a significant share of total losses, primarily due to asset revaluation under the substantial interest rate shock scenario.

Table 4.1.1.

Values of Key Variables Under Different Scenarios

	2024	Baseline Scenario			Stress Scenario		
		2025	2026	2027	2025	2026	2027
	YoY						
GDP	5.9%	5.2%	5.0%	5.0%	-7.9%	7.1%	8.3%
Inflation*	1.45%	3.0%	3.0%	3.4%	11.0%	7.9%	4.6%
Lending growth	25.5%	15.0%	12.0%	10.0%	0.0%	5.0%	10.0%
Probability of Default (PD)							
of Consumer loans	2.3%	3.3%	3.0%	3.2%	7.9%	10.7%	5.7%
of Mortgage loans	1.1%	1.3%	1.4%	1.6%	3.3%	5.1%	3.0%
of business loans	2.4%	2.3%	2.2%	2.5%	5.6%	8.1%	3.2%
Loss Given Default (LGD)		45.0%	42.0%	40.0%	55.0%	50.0%	45.0%

* In 2025, the inflation target was revised and set at 3%.

Table 4.1.2.

Key Results of the Stress Testing **

	2024	Baseline Scenario			Stress Scenario		
		2025	2026	2027	2025	2026	2027
Write-off from loan portfolio (AMD billion)	-52.3	-95.0	-98.9	-116.3	-195.6	-258.0	-133.3
Share in assets (%)	0.53	0.96	0.91	0.98	2.04	2.64	1.26
Market risk*** (AMD billion)		4.2	-0.8	-0.1	-238.5	101.9	120.6
Total losses (AMD billion)	-52.3	-90.8	-99.7	-116.4	-434.2	-156.1	-12.7
Share in assets (%)		0.91	0.92	0.98	4.52	1.60	0.12
Net interest income (AMD billion)	469.5	514.9	550.1	574.4	300.6	277.0	279.1
Net profit (AMD billion)	336.4	339.3	360.3	366.4	-133.6	96.7	213.1
Share in assets (%)		3.42	3.32	3.08	-1.39	0.99	2.01
Capital adequacy ratio (at end of period, %)	20.43	21.55	22.71	24.03	17.34	17.80	19.09
Number of banks with a capital adequacy ratio below 11%		0	0	0	0	0	1
Required capital injection (AMD billion)		0	0	0	0	0	0.5
Share in GDP (%)		0	0	0	0	0	0.01
Number of banks not meeting the consolidated buffer requirement		0	0	0	7	6	6

** Losses are presented with a negative (-) sign.

*** Losses from market risk include those resulting from changes in interest rates and the direct impact of exchange rate fluctuations. Specifically, under the stress scenario, it is assumed that short-term interest rates will increase by approximately 9.5 percentage points, and long-term interest rates by about 2.8 percentage points, resulting in an inverted yield curve. It is also assumed that interest rates will return to nearly their initial levels by the end of the stress horizon.

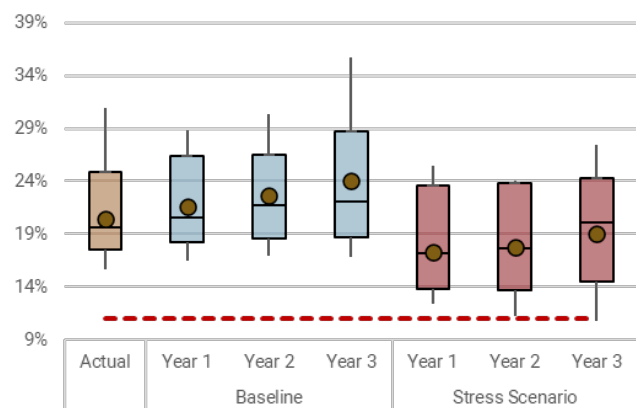
Alongside the materialization of credit losses, the banking system is expected to demonstrate relatively conservative and risk-averse behavior, resulting in no growth in the loan portfolio during the first year of the forecast horizon. Due to the realization of credit and market risk-related losses and a decline in banks' interest income, the banking system will record negative profitability in the first year of the stress testing horizon. In the second year, despite high credit losses, a modest but positive profitability will be observed. In the final year of the stress horizon, as credit losses slightly decrease and net gains from securities revaluation emerge, the

system's profitability will begin to recover, although remaining at a low pre-stress level (Table 4.1.2).

The individual effects of various factors on the capital adequacy ratio, as well as the distribution of banks' capital adequacy ratios (with interquartile ranges), are presented in the charts below (Charts 4.1 and 4.2).

Chart 4.1.

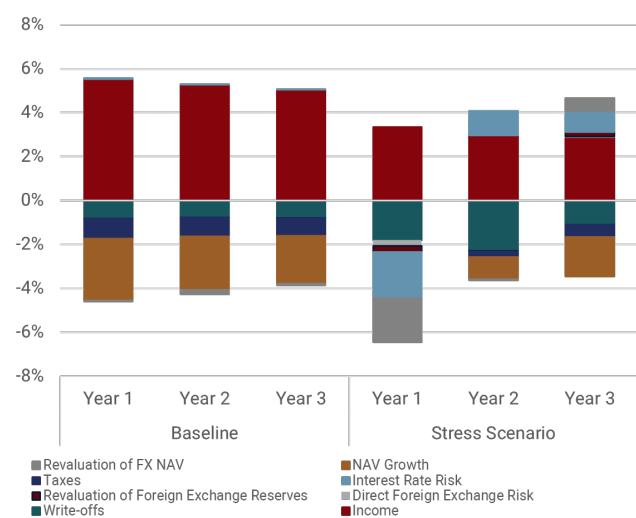
Distribution of the Capital Adequacy Ratio under Considered Scenarios



Source: CBA

Chart 4.2.

Decomposition of Changes in the Capital Adequacy Ratio under Different Scenarios



Source: CBA

Under the stress scenario, the capital adequacy ratio of the banking system declines but does not fall below the required minimum threshold of 11%.

The capital adequacy of the banking system remains at a high level, decreasing to a minimum of 17.34% during the stress period (Table 4.1.2). Throughout the stress horizon, only one bank records a capital adequacy ratio below the regulatory minimum threshold. At the same time, in some banks, the capital adequacy ratio falls below the thresholds set by the consolidated buffer requirement.

During the stress horizon, as conditions gradually improve and banking system profitability begins to recover, capital adequacy ratios increase accordingly.

Overall, the results of the conducted stress tests indicate that Armenia's banking system remains sufficiently capitalized to withstand the developments projected under the severe scenario. Moreover, by the end of the stress horizon, the capital buffers of the banking system are sufficient to ensure uninterrupted operations and continued lending to the economy.

4.2. Liquidity Stress Tests of the Banking System

Liquidity stress testing is aimed at assessing the resilience of the banking system under a hypothetical deposit outflow scenario. A historically justified stress scenario of fund outflows was considered, and the adequacy of the liquidity buffer was evaluated under the conditions of that scenario. The main assumptions and results of the stress test are described below, based on actual data as of December 31, 2024.

STRESS TEST SCENARIO AND METHODOLOGY

The stress test calculations were based on the following assumptions:

- Liquidity risk is systemic, meaning that deposit outflows occur simultaneously from all banks.
- The shock duration is 6 months, with relatively severe outflows in the first 2 months and milder outflows in the following 4 months.
- A static balance sheet assumption was applied, meaning that banks' ability to attract new funding or convert AMD to foreign currency (or vice versa) was disregarded.
- Expected inflows from loans were included at 50% (in line with the assumption used in the liquidity coverage ratio (LCR) requirement), while potential inflows from classified loans were disregarded.
- Haircuts³⁷ were applied to high-quality liquid assets.
- It was assumed that contracts with financial institutions would be renewed for both receivables and payables.

- Possible outflows of funds attracted from non-resident financial institutions and from issued bonds were also considered.
- Possible outflows related to other items (e.g., unused credit card balances) were ignored, given their insignificant amounts and the actual behavior observed during stress periods.

As for the quantitative assumptions regarding deposit outflows, they are based on actual developments observed in 2020. The selection of this period allows for the generation of a severe yet plausible scenario, enhancing the reliability of both the input and output data used in the stress testing. At the same time, differentiation of the shock across banks was ensured by considering variations in customer sensitivity as well as the impact of concentration levels.

Outflow rates were differentiated by the following deposit groups:

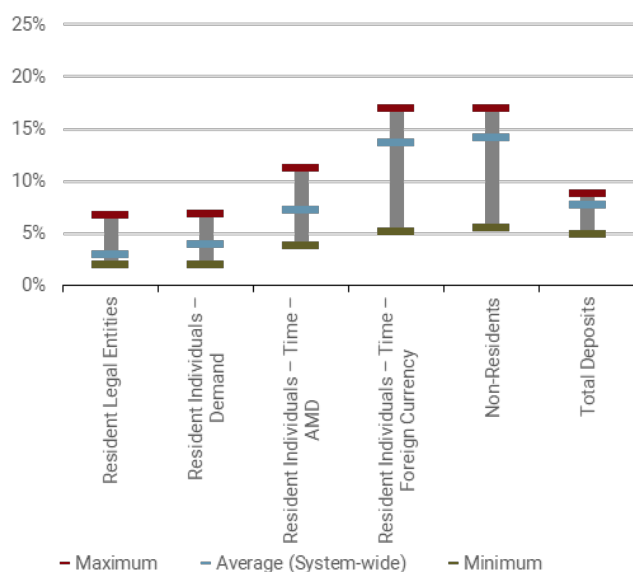
- Funds of resident legal entities,
- Demand deposits of resident individuals,
- AMD-denominated time deposits of resident individuals,
- Foreign currency-denominated time deposits of resident individuals,
- Funds of non-residents.

Chart 4.3 presents the minimum, maximum, and average (for the banking system) outflow rates applied to these deposit groups across banks during the first 2 months of the observed stress period. For the subsequent 4 months, the cumulative outflow scenario for total deposits averages 9.3%, with a maximum of 11.5% and a minimum of 7.3%.

37 A haircut of 10% was applied to AMD-denominated bonds, and 5% to foreign currency-denominated bonds.

Chart 4.3.

Cumulative Deposit Outflow in the First 2 Months



Source: CBA

STRESS TEST RESULTS

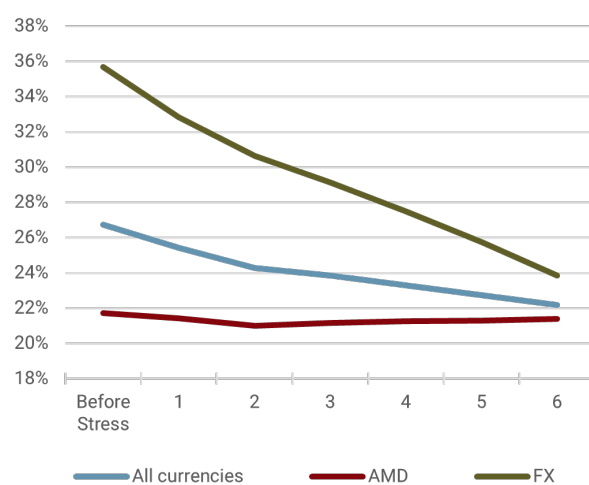
Under the assumptions described above, the change in the liquidity position was assessed over the 6-month stress period. Specifically, for each month of the stress period, the ratio of the liquidity buffer to total assets was calculated (Chart 4.4).

The conducted assessments show that, under the developments assumed in the stress scenario, the liquidity buffers of the banking system as well as individual banks are sufficient to cover the outflow of attracted funds.

Thus, the results of the stress test confirm the high resilience of banks to liquidity risk.

Chart 4.4.

Change in Liquidity Position



Source: CBA

MACROPRUDENTIAL POLICY

5.1. Macprudential Policy

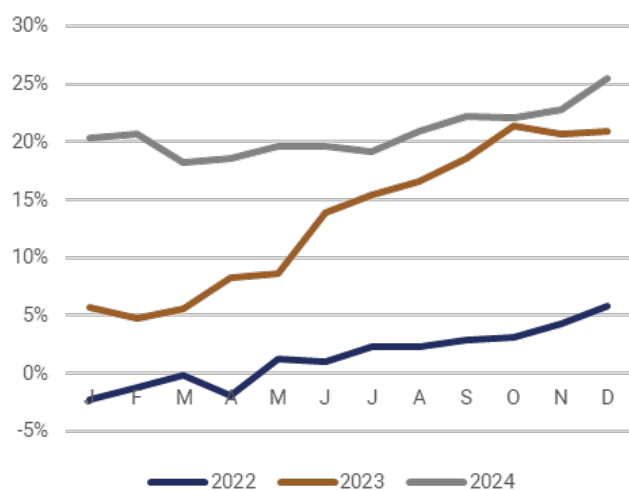
5.1. Macprudential Policy

In 2024, the macroprudential policy implemented by the Central Bank of Armenia was aimed at addressing potential risk developments stemming from credit market trends throughout the year, as well as risks accumulated in the financial system over previous years. As a result of the implemented policy, the resilience of the banking system to various economic and financial cycle scenarios has significantly increased, which is a key precondition for ensuring the continuity of servicing the economy.

The annual growth rates of total lending remained high throughout the year. In particular, the growth of the loan portfolio accelerated notably in the second half of the year. As a result, as of the end of 2024, the annual growth of the total loan portfolio amounted to around 26%, which is about 5 percentage points higher than the same indicator of the previous year (Chart 5.1). Over the course of the year, the contributions of household and business loans to the growth of the total loan portfolio were generally comparable.

Chart 5.1.

Annual Growth Rate of Total Loans

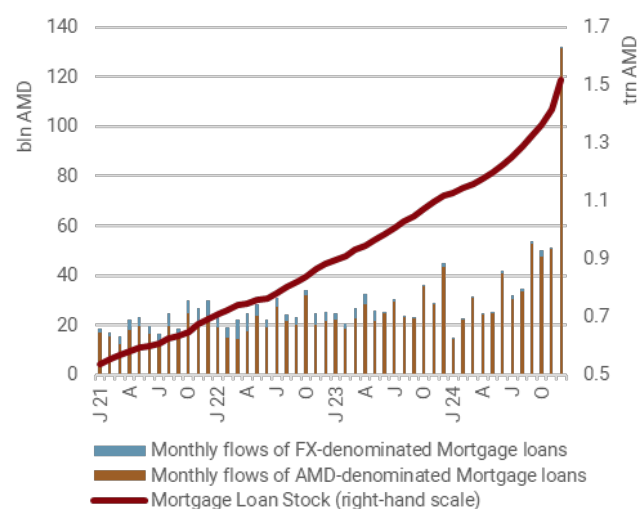


Source: CBA

The strong growth in household lending was driven by high flows in both consumer and mortgage loans. In the case of mortgage loans, significant lending flows were recorded particularly at the end of 2024. This is explained by behavioral changes among borrowers in response to the gradual phase-out of the income tax refund mechanism in Yerevan, which is not expected to have a lasting effect in the future (Chart 5.2). Nevertheless, the high annual growth rates of mortgage loans, combined with current developments in the real estate market and construction lending, may indicate that a high level of previously accumulated risks in this sector persists.

Chart 5.2.

Monthly Flows and Buffer Indicator of Mortgage Loans

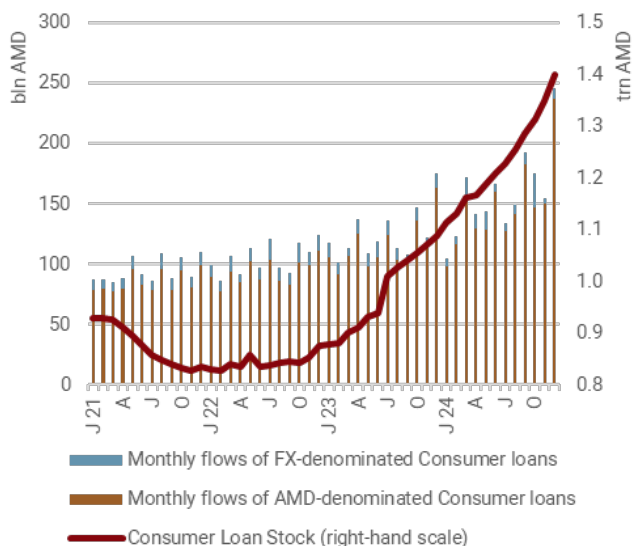


Source: CBA

Significant flows were also recorded in consumer loans, resulting in their annual growth rates remaining at a high level (Chart 5.3).

Chart 5.3.

Monthly Flows and Buffer Indicator of Consumer Loans



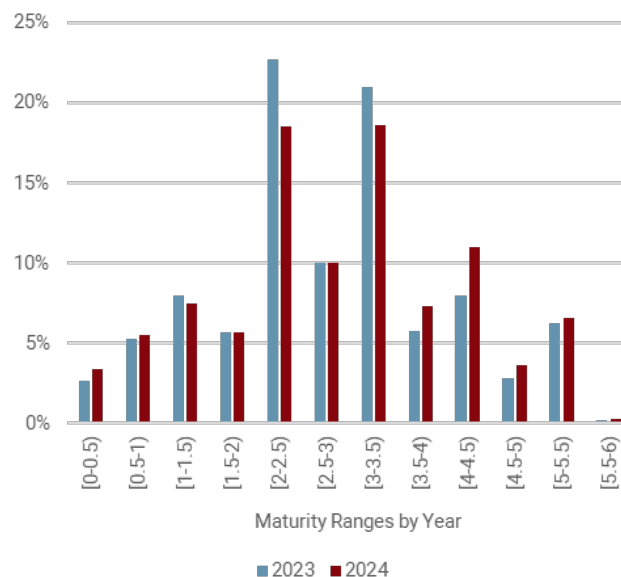
Source: CBA

Among the factors that have contributed to the strong growth of consumer loans in recent years are the increase in household incomes, convergence processes compensating for previously recorded declines or moderate growth in consumer lending, and the need to acquire durable goods driven by heightened activity in the real estate market.

It is also worth noting that the growth in consumer lending has been accompanied by an extension in loan maturities. Specifically, an analysis of microdata from the credit registry shows that in 2024, within the group of borrowers who received consumer loans in both 2023 and 2024, the share of individuals who took out longer-term loans increased (Chart 5.4).

Chart 5.4.

Maturity Distribution of Loans Issued to Consumer Loan Borrowers in 2023 and 2024



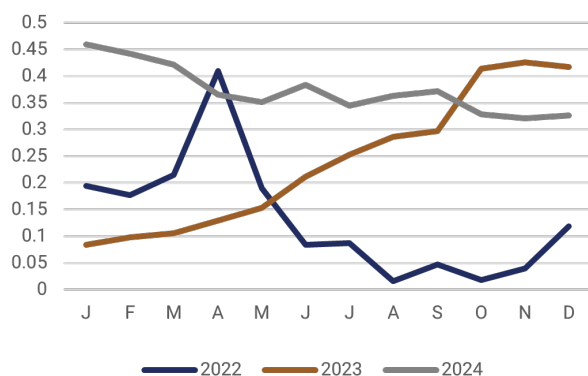
Source: CBA

The developments described above in the consumer lending sector suggest that there may be a moderate accumulation of risks in this market.

As a result of developments in recent and previous years, the demand-supply gap in the real estate market has significantly narrowed, and there are risks of a potential oversupply emerging. During the year, there were signs of slowing price growth in the real estate market, and in some cases, even price declines (for more details, see Section 2.4). On the other hand, the growth rate of loans extended to the construction sector remained high, increasing by about 33% year-on-year, or by AMD 160 billion (Chart 5.5). In recent years, the rapid growth in construction permits and residential construction, combined with possible saturation of demand in the real estate market and emerging trends of decline, may give rise to risks of oversupply. This, in turn, creates risks for the deterioration of the quality of the loan portfolio extended to the construction sector.

Chart 5.5.

Annual Growth Rate of Construction Loans



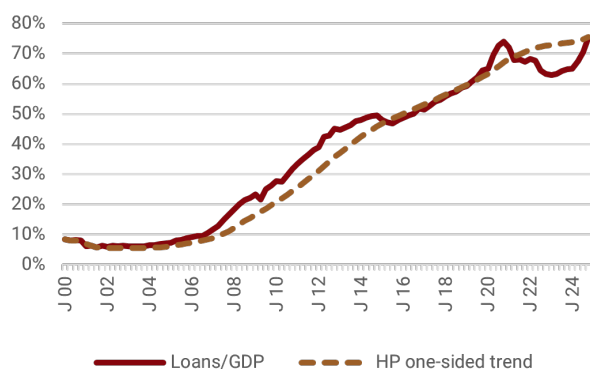
Source: CBA

Overall, considering the above-mentioned developments, as well as the gradual phase-out of the income tax refund mechanism on interest payments throughout the Republic of Armenia, it can be assumed that the real estate market is approaching the peak of its cycle, and a further moderation in overall market activity is considered likely.

In 2024, the financial cycle index increased, while the credit-to-GDP gap narrowed significantly. The high growth of the loan portfolio during the year led to an increase in the credit-to-GDP ratio³⁸, which as a result has nearly converged with its long-term trend (Chart 5.6).

Chart 5.6.

Credit-to-GDP ratio and its Longterm Trend

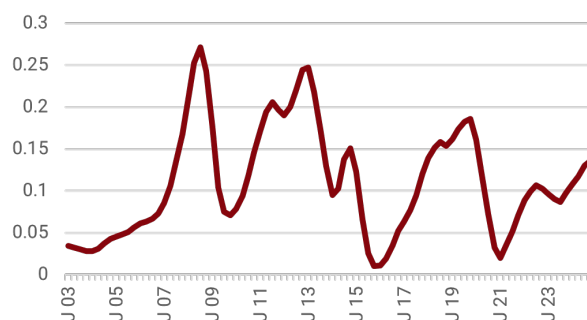


Source: CBA

The financial cycle index also increased during the year, mainly driven by the large volumes of mortgage and consumer lending. Its current level and upward trend suggest that a moderate accumulation of systemic risks is taking place within the banking system (Chart 5.7).

Chart 5.7.

Financial Cycle Index

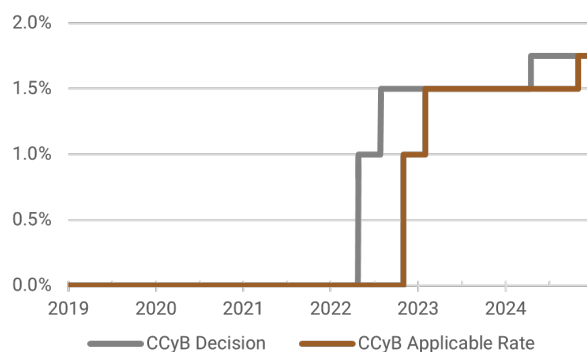


Source: CBA

The Board of the Central Bank of Armenia has increased the countercyclical capital buffer (CCyB) rate, setting it at 1.75% of risk-weighted assets. Considering developments in the total loan portfolio and in specific sectors of lending, the CBA Board raised the CCyB rate by 0.25 percentage points in October 2024. As a result, the effective CCyB rate stands at 1.75% as of May 1, 2025 (Chart 5.8).

Chart 5.8.

Countercyclical Buffer Rate



Source: CBA

³⁸ The share of the loan portfolio (including leasing and factoring) extended to the economy by banks and credit organizations in GDP is expressed as a percentage. To neutralize the potential impact of exchange rate fluctuations, the foreign currency portion of the loan portfolio is calculated using a fixed exchange rate.

In deciding to raise the buffer rate, the Central Bank considered assessments of risks already accumulated on banks' balance sheets, the cost implications of potential capital replenishments by banks, the results of stress testing, as well as the possible impact of the CCyB rate increase on the continuity of credit provision to the economy.

Future changes to the CCyB rate will depend on developments in the macrofinancial environment, the evolution of geopolitical uncertainties, and the pace of accumulation or materialization of systemic risks.

It is important to note that, because of the gradual increase of the CCyB rate during 2023, the banking system had already accumulated the capital buffer required at the neutral CCyB rate (1.5%). This forward-looking macroprudential policy enhances the resilience of the banking system, which is particularly crucial in today's environment of heightened geopolitical and economic uncertainty.

Given that, according to the predetermined schedule, the capital conservation buffer rate was increased by an additional 0.5 percentage points at the beginning of 2024, the total consolidated capital buffer requirement (including all buffers) will reach 4.25% as of May 1, 2025. For systemically important banks, this figure will reach 5.75%, factoring in the additional 1.5% capital buffer applicable to them (Chart 3.16).

Throughout the year, the rates of other macroprudential policy instruments remained unchanged. Specifically, the loan-to-value (LTV) ratio limit for AMD-denominated loans secured by real estate remained at 90%, and at 70% for foreign-currency loans to non-residents. The permitted deviation from these limits also remained unchanged: 10% and 5%, respectively. This is due to the fact that further adjustments in activity levels within the real estate and mortgage lending sectors are considered likely, and additional interventions by the Central Bank in the form of tighter regulatory tools may not be necessary.

BOX 1

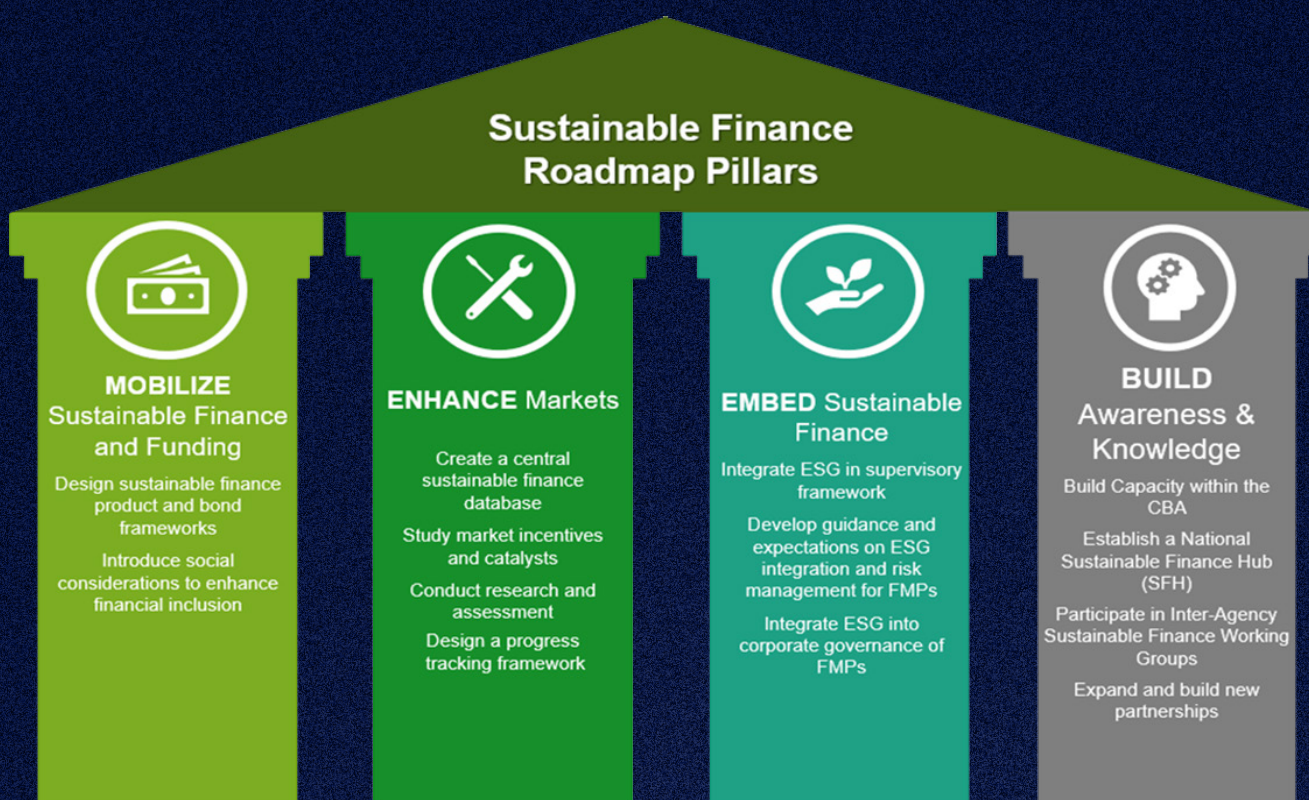
Sustainable Finance³⁹

The Central Bank of Armenia has approved the publication of the National Sustainable Finance Roadmap on September 5th, 2023⁴⁰. The roadmap emphasizes the commitment of the Central Bank on guiding the financial sector towards sustainable development. It is based upon four pillars: mobilize sustainable finance and funding, enhance markets, embed sustainable finance and build awareness and

knowledge. The CBA acts based on the initiatives listed under each pillar, planned to be undertaken by 2026. The initiatives of the roadmap according to each pillar are presented in Figure 1.

Figure 1.

Roadmap Actions by Pillar



39 More detailed information on current developments and programs related to the financial system's resilience in Armenia is available on the official website of the Central Bank of Armenia: <https://www.cba.am/en/fsregulationandsupervision>

40 According to point 18 of Protocol No. 25 of the Board meeting held on September 5, 2023.

RESEARCH AND ANALYTICAL WORK

Risk Radar and Heat Map

The Risk Radar is a tool designed to assess climate-related and other Environmental, Social, and Governance (ESG) risks affecting Armenia's economic sectors. It was developed in cooperation with the German Sparkassenstiftung for International Cooperation (DSIK) to support financial institutions in measuring, managing, and mitigating ESG risks.

The assessment identified high-risk sectors such as construction and agriculture. Physical climate risks, such as extreme weather events and chronic environmental changes, threaten asset values and business continuity. In addition, transition risks, stemming from emissions regulations, policy changes, and technological innovations, affect sectors with high carbon emissions and unsustainable practices.

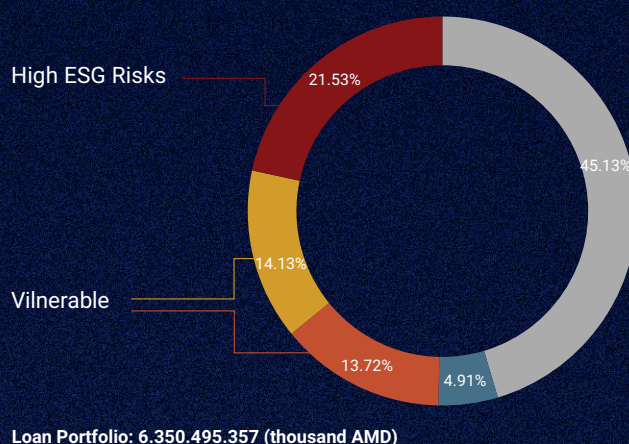
Based on the analysis, the heat map shows that as of December 2024, 21.53% of the banking sector's loans are concentrated in sectors highly exposed to climate risks, and 27.86% are in vulnerable sectors. These findings highlight the importance of integrating ESG factors into financial decision-making to ensure sustainable growth and mitigate potential financial risks.

Thus, the Risk Radar can serve as a strategic tool for financial institutions, enabling them to align their investments with sustainable development goals.

HEAT MAP

The heat map is a tool that enables the application of Risk Radar results (i.e., identified sectoral risks) to assess risks threatening the financial system, specifically, at the level of credit risk (Figure 2). The heat map was developed based on the volume of loans extended to residents in Armenia, using data as of December 2024.

Figure 2.
Heat Map



7-9	Construction	10.40%	21.53%
	Agriculture: Growing of non-perennial crops	3.69%	
	Electricity, gas, steam supply, and air conditioning	2.26%	
5-6	Financial and insurance activities	7.51%	14.13%
	Accommodation and food service activities	2.92%	
	Manufacture of Beverages	1.27%	
3-4	Wholesale and Retail Trade	9.94%	13.72%
	Real Estate Activities	1.59%	
	Information and Communication	1.07%	
1-2	Professional, Scientific, and Technical Activities	0.48%	4.91%
	Other Service Activities	4.35%	
	Education	0.08%	
	Unclassified (consumer and mortgage loans)	45.00%	45.13%

STRESS TESTING

The Central Bank of Armenia develops a climate risk resilience stress testing tool to assess the resilience of financial institutions against climate-related risks. These risks, both physical (e.g., extreme weather events) and transition-related (e.g., policy changes), can have significant impact on businesses, households, and financial markets. The tool helps institutions understand potential financial losses, identify vulnerabilities, and adjust their strategies accordingly.

The bulk of the work related to the transition risk stress testing tool, developed in cooperation with the World Bank (WB), took place in 2024. A WB expert mission visited the CBA in April of this year to present the tool and discuss preliminary results⁴¹.

The Central Bank's completed and ongoing work related to resilience is regularly updated starting from 2025 on the CBA's website, under the "Financial Stability" section, in the "Sustainable Finance" subsection.

RELATED INITIATIVES

German-Armenian Fund: In 2024 the Fund implemented two major programs in the area of "green" financing: *Renewable Energy Development – Phase VI* (KfW) and *Armenia Economic Resilience Facility* (EIB). The CO₂ emissions reduction indicator was calculated under the Renewable Energy Development loan program through the implementation of solar power plant construction and operation projects. As a result of the financed projects, CO₂ emissions were reduced by 55,635 tons annually.

National Mortgage Company (NMC): In December 2024, the NMC issued its first green bond under French law, amounting to USD 26 million. With financial support from KfW, a publicly accessible tool for assessing energy efficiency and CO₂ emissions reduction was developed. Thanks to the energy-efficient mortgage loans refinanced by NMC in 2024, CO₂ emissions were reduced by 10,496.9 tons, contributing to energy savings of 29,028,190 kWh.

41. The publication of the report on the stress testing results is planned for 2025.

FINANCIAL INFRASTRUCTURE STABILITY

- 6.1. Interbank payments via electronic payment system of the Central bank
- 6.2. Securities settlement system

Recognizing the importance and impact of financial infrastructure on the country's financial stability, the Central Bank continues to pay particular attention to the key financial infrastructures operating in Armenia.

6.1. Interbank payments via electronic payment system of the Central bank

During the reporting period, a total of AMD 29,706.5 billion⁴² worth of 8.2 million payments (payment messages) were processed through the CBA Electronic Payment System (EPS). An increase was recorded in both interbank and budget payments value compared to the same period of the previous year; by 10.7% and 5.1%, respectively. Despite this, the overall value of EPS payments saw a slight decline of 1.2% compared to 2023, primarily due to a reduction in transfers by the CBA and nonbank participants. In contrast, the total number of EPS payments rose by 17.8% year-on-year.

Risks within the system are monitored in the following areas:

CREDIT RISK

There is no credit risk for the settlement bank (the CBA) within the system, as the CBA provides intraday loans to system participants through its intraday repo instrument, which is secured by highly liquid assets. The value of the collateral is calculated based on the market value of the securities, reduced by an initial margin (haircut). At the same time, there is also no credit risk for the receiving (beneficiary) bank, as it is notified

of a payment addressed to it only after the final settlement of that payment has been completed at the CBA. As a result, the beneficiary bank cannot credit the recipient's account until the funds are actually available to it.

LIQUIDITY RISK

The average daily rate⁴³ of own liquidity indicator used for liquidity risk assessment stood at 2.3 (2.3 in 2023 and 2.5 in 2022), with a maximum of 2.5 recorded in September and a minimum of 2.1 in October. Despite a slight decline in the monthly values of this ratio compared to recent years, the average daily opening balances exceeded average daily payments by more than two times, which indicates a strong position.

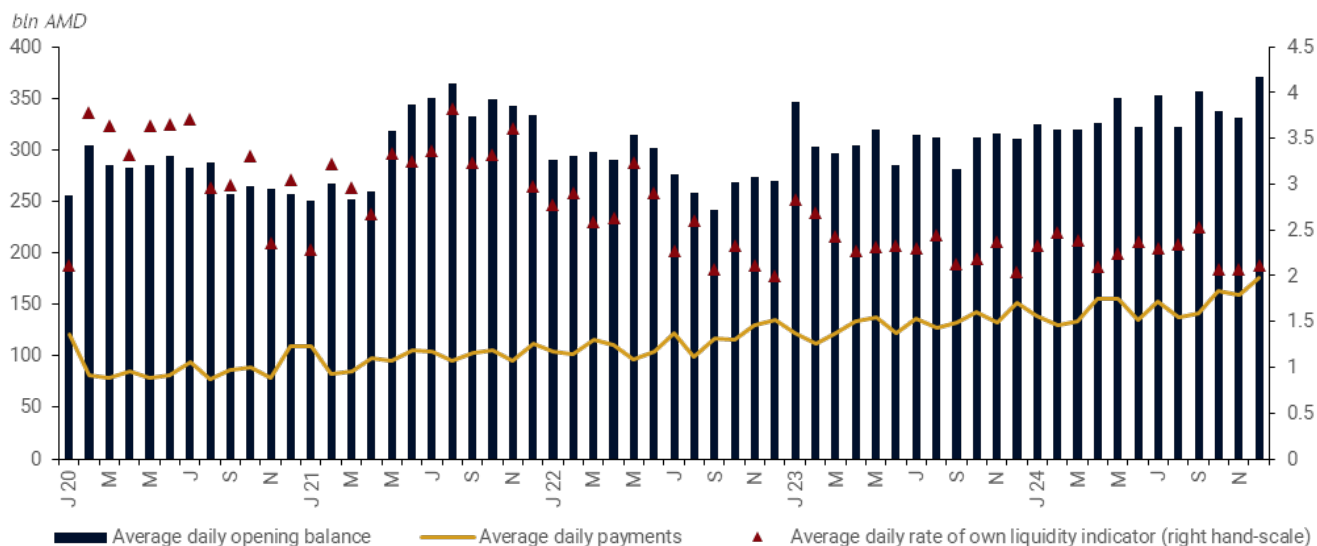
It is also important to note that the calculation of this indicator does not include banks' incoming payments (credits to their accounts) and/or other sources of liquidity replenishment, which further mitigates liquidity risk. Moreover, the share of payment rejections due to insufficient liquidity remains negligible; only 0.008% by number of transactions and 0.3% by value of total EPS payments.

42 It does not include the final settlements of ancillary systems (ARCA Card, ARCA Pay, CSD's SSS system including stock exchange transactions and other ancillary systems).

43 The daily own liquidity indicator is calculated based on the ratio of opening liquidity on AMD correspondent accounts of commercial banks to debits (payments) through the account. Incoming payments are excluded from the indicator to simulate a stress scenario, assessing the likelihood of banks meeting their payment obligations if no additional liquidity becomes available during the day. Namely, this measures the extent to which banks can execute payments using only the opening balances of their funds. The calculation does not include cash enhancements through the accounts of commercial banks. The indicator is calculated at a system-level (aggregating data from all banks).

Chart 6.1.

Comparative analysis of average daily payments, average daily liquidity opening balance and average daily rate of own liquidity indicator (system-based)



Source: CBA

Intraday distribution of payments

During the reporting period, the distribution of the number of payments throughout the day was uneven. The 10:00–13:00 time window stood out as the peak period, during which an average of 52.7% of total payment transactions were processed. Nevertheless, 87.3% of all transactions (1.5 percentage points more than in 2023) were executed by 15:00, leaving minimal number of payments for the end of the operational day.

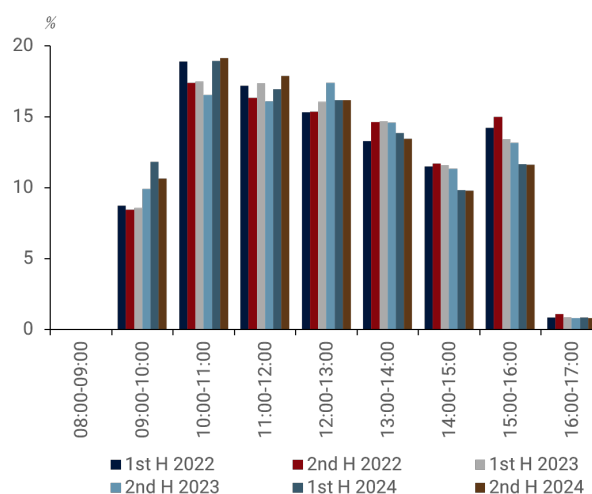
Two peaks were observed in the distribution of value of payments: 20.4% of the total value was processed between 10:00–11:00 (2.8 percentage points higher than in the same period of 2023), and 15.4% during the end-of-day window from 15:00–16:00 (a decrease of 1.9 percentage points compared to the same interval in 2023). Despite the slight decrease in the share, the concentration of the value of payments near the end of the operational day could theoretically pose certain risks. Particularly, in the event of liquidity shortages or operational issues that might hinder timely liquidity replenishment or same day payment execution.

Nonetheless, given the sufficient system capacity, positive performance in terms of liquidity and

availability indicators, and the negligible share of rejected payments in total payments, the accumulations of payments during the certain hours have not caused any problems, and the likelihood of risk materialization is generally assessed to be low.

Chart 6.2.

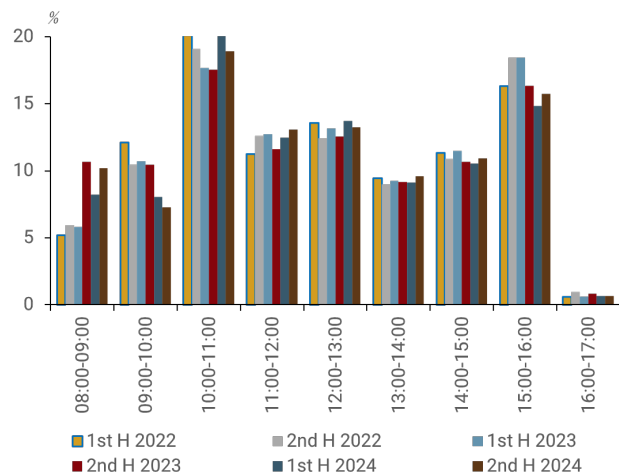
Intraday distribution of the number of payments per hour on an average semi-annual basis



Source: CBA

Chart 6.3.

Intraday distribution of the value of payments per hour on an average semi-annual basis



Source: CBA

Thanks to enhancements made to the relevant software module of the system, payments were absorbed very quickly by the system, and the operational day was closed on time without causing any issues for participants.

Due to these software enhancements and the overall increase in the number of payments, there was a significant rise in the share of the indicator of payments exceeding 4,300 per hour, which reached 36.6% in 2024 (compared to 26.1% in 2023). Among these, the share of payments exceeding 5,400 per hour rose to 19.4% (from 11.9% in 2023), during total operational hours. The share of payments exceeding 7,500 per hour also noticeably increased to 6.3% (up from 2.2% in 2023).

The maximum daily indicator (the number of payments per day) increased by 34.0% over the past two years.

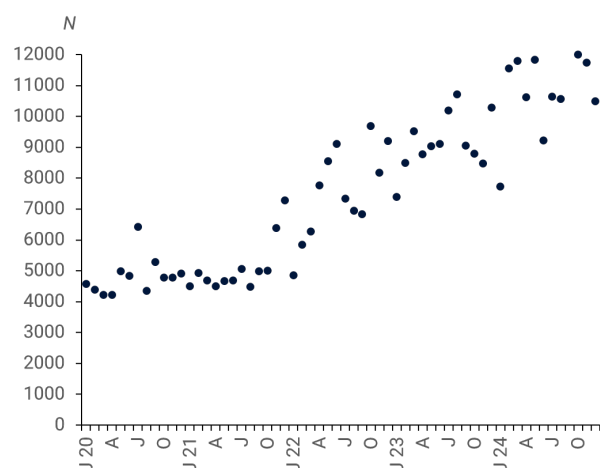
SYSTEM CAPACITY

The maximum hourly number of payments processed in the system (per hour for each month) increased compared to 2023. In 2024, the maximum hourly indicator rose by approximately 13% relative to 2023, accounting for 29.4% of daily number of payments.

Thus, the number of overloaded hours and days, as well as the share of marginal indicators, remain relatively low. Given the substantial increase in overall system capacity resulting from the recent upgrades and the outcomes of the 2024 system capacity assessment, no increase in capacity-related risk is anticipated.

Chart 6.4.

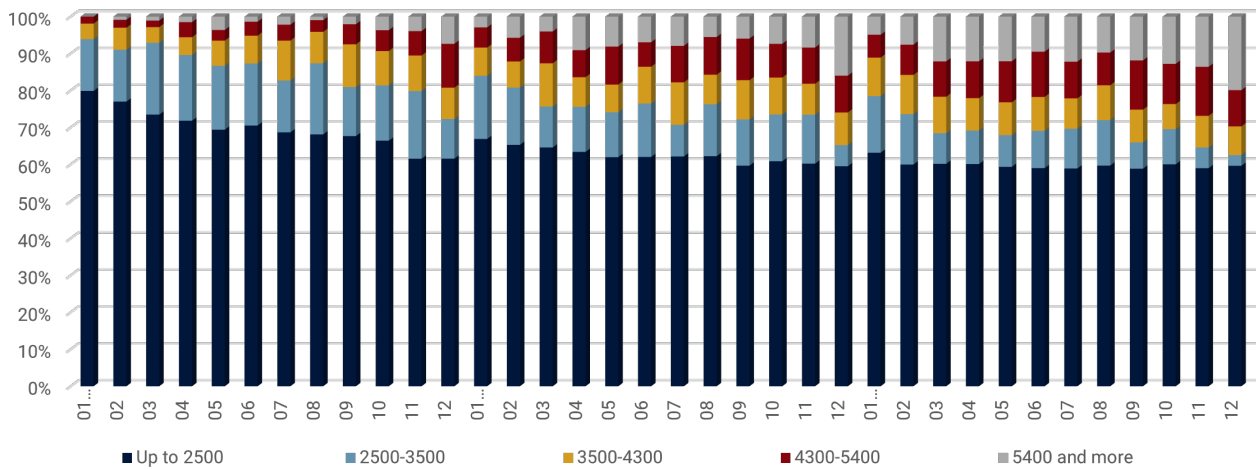
Maximum number of payments per hour by months



Source: CBA

Chart 6.4.1.

Share of marginal indicators in total operating hours



Source: CBA

OPERATIONAL AVAILABILITY OF THE SYSTEM

During the reporting period, only one significant incident (lasting one hour or more) was recorded that affected the availability of the Electronic Payment System. The incident was caused by an exceptional event

in the CBANet network, which led to the temporary unavailability of both the network and the system. No other instances of unavailability were registered.

As a result, the operational availability of the EPS throughout the year stood at 99.69%.⁴⁴

⁴⁴ According to the EPS participation agreement, operational availability of the system should be at least 98.0% yearly

6.2. Securities settlement system

In Armenia, the settlement of securities is carried out through two systems: the Unified System of Securities Accounting and Settlement of the Central Depository of Armenia (hereinafter, CDA SSS) and the Government Securities Accounting and Settlement System of the Central Bank of Armenia (hereinafter, GSASS).

In 2024, secondary market transactions totaling AMD 17,275.9 billion were carried out through GSASS (AMD 21,851.8 billion in 2023). The transactions declined by 21% compared to the previous year. This decline was mainly driven by a 19% drop in over-the-counter DVP transactions and a 47% decrease in Free Delivery transactions.

Secondary market operations totaling AMD 7,096.5 billion were carried out through CDA SSS in 2024

(AMD 8,129.4 billion in 2023), declining by 13% over the previous year.

The mentioned decrease was primarily due to a 42% decline in over-the-counter transfers of foreign bonds. In contrast, over-the-counter transfers of government bonds via the Central Depository of Armenia quadrupled, while stock exchange transactions increased by 18%, driven by a 24% rise in corporate bond transactions.

In 2024, the share of operations executed through the GSASS in the secondary market transactions was 70.88% (72.88% in the previous year). In terms of financial stability, both settlement systems are key and are considered to be systemically important.

Table 6.2.1

Transfer of Securities through the Government Securities Accounting and Settlement System of the Central Bank of Armenia pertaining to transactions with securities in the secondary market⁴⁵

Transfers	2022	2023	2024
Value of OTC transactions (trades, repo, reverse repo) (by Nominal Value, AMD billion)	20,074.1	21,757.4	17,119.9
Number of OTC transactions (trades, repo, reverse repo)	28,745	25,382	13,803
Value of stock exchange transactions (trades) (by Nominal Value, AMD billion)	92.6	94.4 ⁴⁶	156.1 ⁴⁷
Number of stock exchange transactions (trades)	589	554	738
Total value of transfers of securities (by Nominal Value, AMD billion)	20,166.7	21,851.8	17,275.9
Total number of transfers of securities	29,334	25,936	14,541

In both the GSASS and the CDA SSS, the OTC transactions could be settled on DVP principle (Delivery versus Payment). Stock exchange

transactions are executed through a procedure of pre-depositing of securities and cash, thereby excluding counterparty risk. No credit risk may

45 The statistical information provided includes the settlements executed by GSASS and excludes transfers via CDA nominee account and internal transfers made by subcustodians for their clients.

46 The data on the nominal value and number of stock exchange transactions for 2023 have been revised by the Armenia Stock Exchange.

47 Since 2024, the final settlement of stock exchange transactions involving government bonds in the secondary market has been carried out by the Central Depository of Armenia. However, due to the lack of disaggregated data, these transactions have been fully reflected in the GSASS system data. This has had no significant impact on the calculation of market shares between the two systems operating in Armenia.

emerge for the OTC transactions due to the usage of gross settlement and irrevocability principles in the systems.

In 2024, no significant incidents (lasting one hour or more) were recorded in either the GSASS and the CDA SSS.

Table 6.2.2.

Transfer of Securities through the Unified System of Securities Accounting and Settlement of the Central Depository of Armenia pertaining to operations with securities in the secondary market⁴⁸

Transfers	2022	2023	2024
Value of OTC transactions (trades and repo) (by Nominal Value, AMD billion)	6,461.0	8,050.1	7,002.2
Number of OTC transactions (trades and repo)	9,341	18,676	12,980
Value of stock exchange transactions (trades and repo) (by Nominal Value, AMD billion)	215.1	79.3	94.3
Number of stock exchange transactions (trades and repo)	6,547	5,779	7,673
Total transfers of securities (by Nominal Value, AMD billion)	6,676.2	8,129.4	7,096.5
Total number of transfers of securities	15,888	24,455	20,653

48 The statistical information provided includes the settlements executed by CDA SSS, both with corporate securities (including foreign securitized) and Eurobonds issues by the RA and government bonds held as sub-custodian.

BOX 2

CHARACTERISTICS OF PAYMENT CARD TRANSACTIONS

In the Republic of Armenia, payment cards are the most widely used payment instrument in the retail sector. Therefore, the indicators related to card-based transactions provide a clear reflection of changes in the value and number of non-cash transactions. Since 2020, the number of contactless payment cards in Armenia has grown rapidly. As of the end of 2024, their number reached approximately 3.4 million, accounting for 79.1% of all payment cards issued by Armenian banks. Overall, the total number of payment cards issued by Armenian banks increased by 16.2%, exceeding 4.3 million.

As a result of the increasing demand for non-cash transactions, the number of physical POS terminals

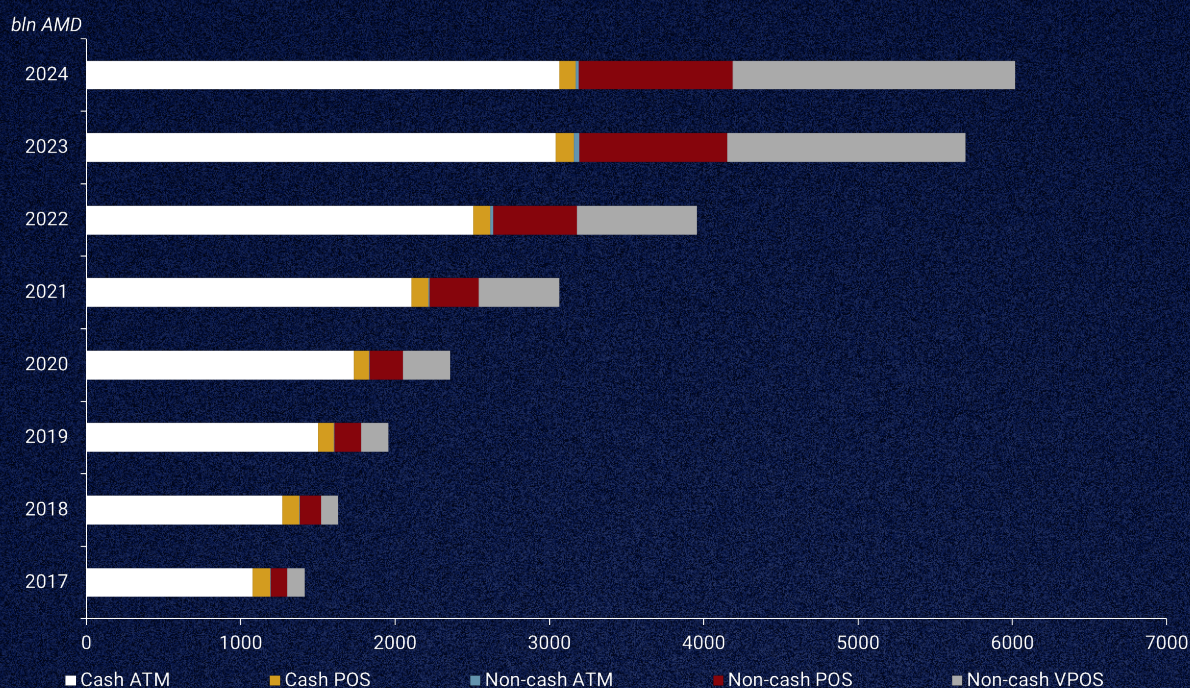
(main infrastructure supporting these payments) grew by 5.1%.

TRANSACTIONS IN ARMENIA WITH DOMESTIC CARDS

The value of transactions conducted in Armenia using locally issued cards grew by 43.9% in 2024 compared to the previous year, reaching AMD 6,019.5 billion. The growth in the value of cashless payments (12.2% year-on-year) significantly outpaced the growth in cash transactions (0.4% year-on-year), resulting in a 2.8 percentage point increase in the share of the value of cashless transactions, reaching 47.3% in 2024 (Figure 6.5).

Chart 6.5.

Value of transactions with domestic cards issued in Armenia



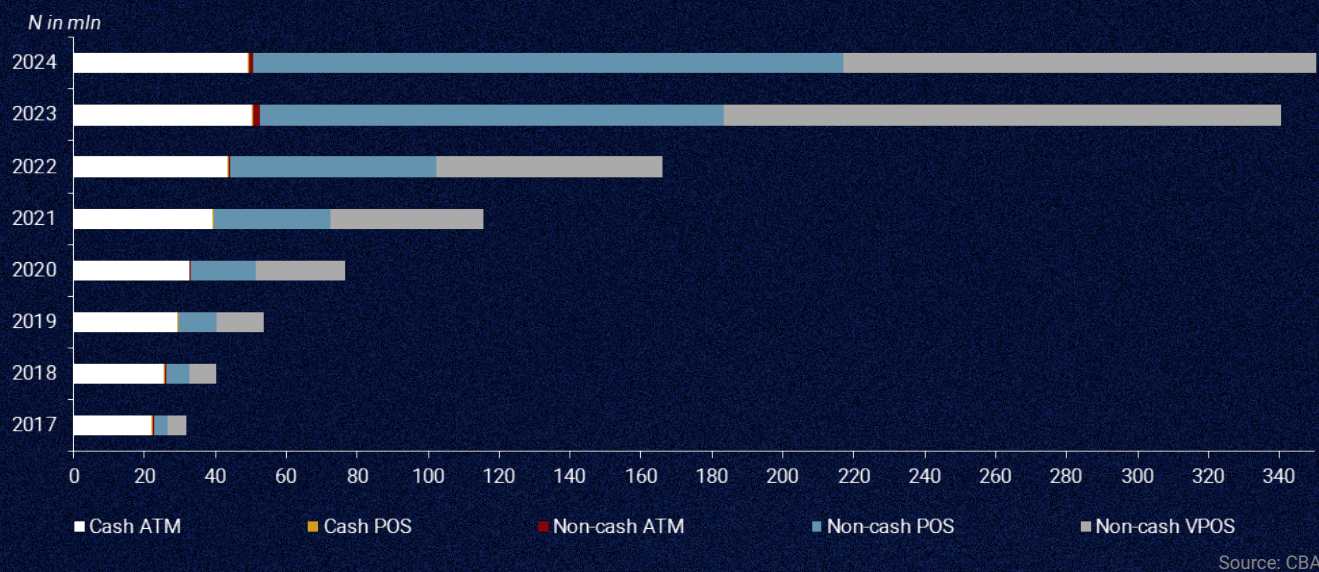
Source: CBA

The number of transactions conducted in Armenia using locally issued cards totaled 418.5 million in 2024, reflecting a 22.9% increase compared to the previous year. This was driven by a 27.3% rise in the number of non-cash transactions. Since

2020, the number of non-cash transactions has exceeded that of cash transactions. In 2024, non-cash transactions accounted for 88.2% of total card payments, amounting to 369.2 million transactions (Figure 6.6).

Chart 6.6.

Number of transactions with domestic cards issued in Armenia

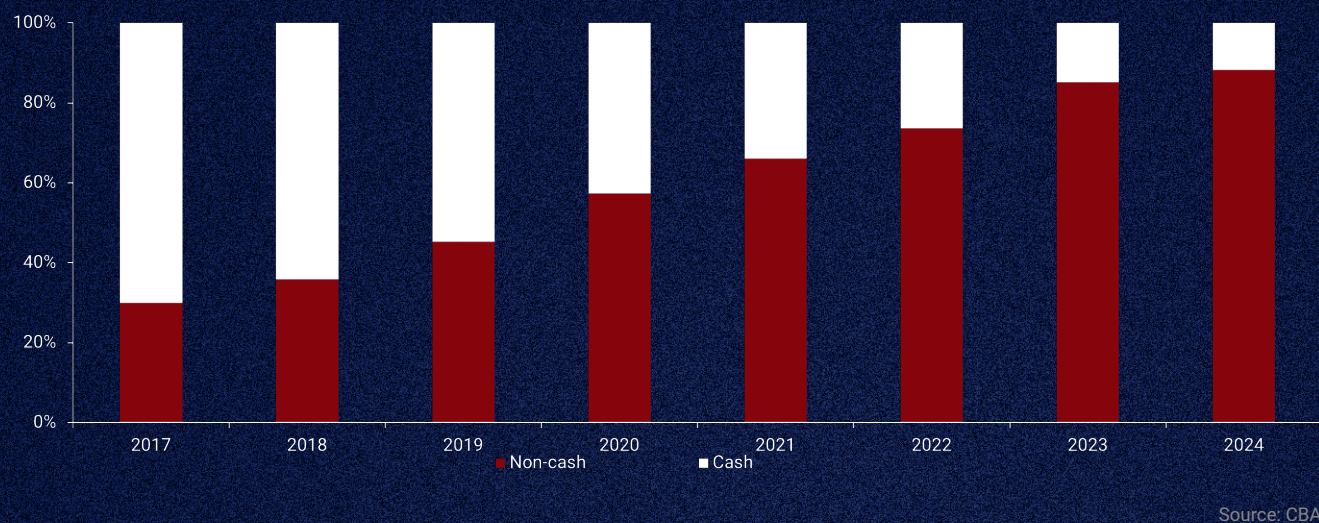


When combined with the growth rate of the value of non-cash payments, the above developments

indicate a strengthening culture of conducting non-cash transactions (Figure 6.7).

Chart 6.7.

The share of cash and non-cash transactions with domestic cards in Armenia, by number



There has also been a year-on-year increase in both the value and number of transactions carried out in the online environment.

INTERNATIONAL TRANSACTIONS

Compared to the previous year, there was growth in both the value (by 14.0%) and the number (by 31.2%) of transactions conducted abroad (including those made online) with Armenian cards amounting to AMD 801.2 billion across 31.8 million transactions. Meanwhile, a decline was recorded in transactions conducted in Armenia with foreign-issued cards: the value decreased by 15.7% and the number of transactions by 26.0%, totaling AMD 316.0 billion across 22.2 million transactions.

"ARCA" CARD SYSTEM

The ArCa card system is the core infrastructure serving the card payment sector in Armenia. Most of card transactions in the country are processed through this system.

ArCa is classified as a retail payment system of prominent importance. Its operational reliability and security are continuously monitored by the Central Bank of Armenia. Significant incidents in the system (lasting one hour or more), their causes, and the measures taken to address them are closely scrutinized by the Central Bank.

Given the importance of the uninterrupted operation of the ArCa card system, the CBA pays special attention to any significant incidents, evaluates the adequacy of the operator "Armenian Card" CJSC's actions to identify root causes and prevent recurrence, and intervenes when necessary.

The processing company "Armenian Card" has also developed the local instant transfer system *ArCaPay*, which enables domestic person-to-person (P2P) transfers between individual customers via their bank accounts, with potential for future service expansion. The company received its license to operate the system in June 2023. After completing testing, real-time transactions between individuals began in November 2024. As of March 1, 2025, four commercial banks in Armenia had joined the system, with others currently in the testing phase.

GLOSSARY OF TERMS

ABBREVIATIONS

Glossary of Terms

Balance of payments	A system of recording of all economic transactions of residents and nonresidents over a reporting period (a quarter, a year).
Credit risk	Credit risk refers to the risk that the bank's borrower will violate the terms of the contract signed with the bank, which will negatively affect the bank's profit and (or) capital.
Consumer Price Index (CPI)	The Consumer Price Index is a measure of the change over time in the prices of a market basket of consumer goods and services.
Doubtful asset	Doubtful assets have all the characteristics of "substandard" assets, but are more problematic, making their collection extremely difficult or impossible at the given time. In the case of doubtful assets, the possibility of significant losses is high, but the extent of losses is not clear, which is mainly due to a number of key and specific factors that can improve the condition of this asset. Therefore, the classification of this asset as "bad" is deferred until the circumstances surrounding it are clarified.
Debt service to income (DSTI)	The amount of debt service payments relative to total disposable income of the borrower.
Economic growth	The growth of the volume of goods and services produced in the economy during a certain period.
Economic cost of capital	The difference between the present value of total assets and the present value of total liabilities.
Foreign exchange risk	Foreign exchange risk is the risk that a change in the exchange rate in the market will adversely affect profits and/or capital of the financial institution.
Foreign trade	Export: Export of goods from the economic territory of Armenia to other countries for free circulation; Import: import of goods from other countries into the economic territory of Armenia for free circulation.
Gross foreign currency position	This position measures the sum of absolute values of positions of various currencies.
Gross external debt	Obligations of residents to non-resident creditors.
Herfindahl-Hirschman index	This index characterizes the level of concentration and varies between 0 and 1. Values near to 0 denote lower concentration.
Inflation	A general rate of increase of prices of goods and services.
Interest rate risk	Interest rate risk is the risk that interest rate volatilities in the market will adversely affect profits and/or capital of the financial institution.
Large borrower	A borrower for which the bank's risk exceeds 5 percent of the total capital.
Liquidity coverage ratio (LCR)	The ratio of a bank's high quality liquid assets to total net liquidity outflows over the next 30-day stress period.
Liquidity risk	Liquidity risk is the risk that the bank will not have sufficient liquid assets to fulfill its obligations within the period specified by the contract.
Loan to Value (LTV)	A ratio of a loan to the value of an asset purchased.
Loss asset	An asset non-collectible and fully impaired uncollectible, so that its recording on the balance sheet is no longer reasonable.
Loss given default (LGD)	Loss given default is the estimated amount of money a bank or other financial institution loses when a borrower defaults on a loan.
Major borrower	An entity on which the risk exceeds 5% of the total capital of the bank.
Net foreign currency position	The difference between assets and liabilities in FX assets and local currency assets containing FX risk.
Net provision	The difference between provisions to loss reserve fund and recoveries from assets.

Net stable financial ratio (NSFR)	The marginal ratio of the bank's available stable funding to its required stable funding within 1 year.
Non-performing asset	An asset which has been classified by the bank as "substandard" or "doubtful" or "bad".
Off-balance sheet contingent liabilities	Off-balance sheet contingent liabilities include outstanding credit lines, credit cards, and overdrafts, as well as letters of credit, guarantees, and warranties provided.
Price risk	Price risk is the risk that a change in the price of securities in the market or price of similar financial instruments on balance sheets will adversely affect profits and/or capital of the financial institution.
Probability of default (PD)	Probability of loans to be classified as 'substandard' during the year.
Regulatory total capital	The total capital of a bank is the sum of the items specified in Regulation 2 after making appropriate deductions.
Return on assets (RoA)	A ratio of net annual profit to average annual total assets.
Return on equity (RoE)	A ratio of net annual profit to average annual total capital.
Spread	The difference between loan and deposit interest rates.
Standard asset	1) The borrower's financial condition is stable, and 2) The borrower has sufficient capacity to repay (service) the debt, 3) the asset is sufficiently secured (with collateral, guarantee, financial flows, etc.) to settle the principal amount and interest debt specified in the contract.
Substandard asset	1) Settlement of the asset within the period specified by the contract is not possible due to the deteriorated financial condition of the borrower or his inability to repay the debt, 2) the primary sources of the asset settlement are insufficient, and the bank needs to apply to secondary repayment sources, such as sale of collateral or other 3) there are such risks that reduce the probability of complete settlement of the asset, 4) there is a greater than usual risk in terms of assets due to the lack of information on the borrower's current financial condition or the lack of relevant collateral documents, the presence of inadequate collateral, or the non-target use of the asset (or part of it).
Total capital adequacy	A ratio of total regulatory capital to risk weighted assets.
Watched asset	An asset that is serviced under an original contract, yet certain circumstances have emerged that may jeopardize the borrower's ability to serve that asset.
Total liquidity	A ratio of high-quality liquid assets to total assets.

Abbreviations

AMD	Armenian Dram
CBA	Central Bank of the Republic of Armenia
CDA SSS	Securities Accounting and Settlement System of the Central Depository of Armenia
CCoB	Capital Conservation Buffer
CCyB	Countercyclical Capital Buffer
CJSC	Closed Joint Stock Company
DVP	Delivery versus Payment
ESG	Environmental, Social and Governance
EPS	Electronic Payments System
EU	European Union
GDP	Gross Domestic Product
GSASS	Government Securities Accounting and Settlement System
IMF	International Monetary Fund
LCR	Liquidity Coverage Ratio
LGD	Loss Given Default
MTPL	Mandatory Third Party Liability Insurance
NAV	Net Asset Value
NMC	National Mortgage Company
NPL	Non-performing Loans
NSFR	Net Stable Funding Ratio
OTC	Over the counter
PD	Probability of Default
RA	Republic of Armenia
RF	Russian Federation
ROA	Return on assets
ROE	Return on equity
SC	Statistical Committee
UK	United Kingdom
UN	United Nations
USA	United States of America
USD	United States Dollar
WB	World Bank

