

BSCEE Review 2024



Albania



Croatia



Latvia



Romania



Armenia



Czech
Republic



Lithuania



Serbia



Austria



Estonia



North
Macedonia



Slovakia



Belarus



Georgia



Moldova



Slovenia



Bosnia and
Herzegovina



Hungary



Montenegro



Türkiye



Bulgaria



Kazakhstan



Poland



Ukraine

Introduction

We are pleased to present you with the next edition of the BSCEE Group's annual report for the year 2024. The Group of Banking Supervisors from Central and Eastern Europe (hereinafter: 'the BSCEE Group') was established in 1991. The Agreement of the BSCEE Group was signed during the Stockholm International Conference of Banking Supervisors (ICBS) in 1996. The BSCEE Group operates according to its Agreement and the Operational bylaws that determine its organizational structure and the rules governing its operations. At the time of publishing of the report, the BSCEE Group comprised twenty five Member Institutions from the following twenty four member countries: the Republic of Albania, the Republic of Armenia, the Republic of Austria, the Republic of Belarus, Bosnia and Herzegovina (the Federation of Bosnia and Herzegovina, Republika Srpska), the Republic of Bulgaria, the Republic of Croatia, the Czech Republic, the Republic of Estonia, Georgia, Hungary, the Republic of Kazakhstan (the Astana International Financial Centre), the Republic of Latvia, the Republic of Lithuania, the Republic of Moldova, Montenegro, the Republic of North Macedonia, the Republic of Poland, Romania, the Republic of Serbia, the Slovak Republic, the Republic of Slovenia, Türkiye and Ukraine.

The Chairmanship of the BSCEE Group rotates on an annual basis. In 2024 Mr. Csaba Kandrács, Deputy Governor of the Magyar Nemzeti Bank (the Central Bank of Hungary) responsible for financial institutions supervision and consumer protection chaired the Group. The Secretariat of the Group was located in Poland, with the Polish Financial Supervision Authority (UKNF). The 2024 BSCEE Members' Conference was held in Budapest, Hungary.

This Annual Report* intends to provide in-depth information reflecting the mission of the BSCEE Group in a detailed and accurate manner regarding the banking sectors of the Member Institutions. We hope that you will find this publication informative and useful. We are certain that this will help you become acquainted with the supervisory and regulatory activities of the Group's members in the Central and Eastern European region.

BSCEE Secretariat

* the information contained in the Report was provided solely by the Member Institutions of the BSCEE Group and is presented in that form therein.

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Macroeconomic environment in the country

The Albanian economy continues to demonstrate resilience and solid performance. Economic growth remains robust, supported by a strong labour market, moderating inflation and improved financial indicators. Unemployment is low, wages are rising, and inflation has declined to 2.2% in 2024. Public and external debt continue to follow a downward trajectory, while the financial sector remains stable, with banks well capitalized, liquid and profitable, and with NPL at low levels.

Reflecting this macroeconomic stability, Albania credit rating has been upgraded to a Ba3 by Moody's and BB by S&P, both with a stable outlook. Nevertheless persistent geopolitical tensions and mounting risks to global trade present external challenges. On the other hand, Albania's path towards EU accession and the implementation of the EU's New Growth Plan for the Western Balkans offer significant opportunities for structural reforms and long term development.

Real GDP grew by 4% driven by strong tourism, robust consumption and resilient investments. This performance was underpinned by robust private sector balance sheets, positive sentiment, favourable financing conditions and continued inflows of FDI's. However, net exports contributed negatively to growth, as strong domestic demand led to a rise in imports, while merchandise exports declined amid weak external demand, lower global and prices, and Lek appreciation.

The labour market continued to strengthen in 2024. Labour force participation and employment rates rose, while the unemployment rate declined to 8.8% by the end-year. Labour shortages in several sectors contributed to robust wage growth, with private sector wages increasing 8.6% over the year.

Inflation declined steadily, falling to 2.2% in 2024, from 4.8% in 2023 and 6.7% in 2022. This disinflationary trend was driven by lower commodity prices, an appreciating domestic currency and a pro-active monetary policy. Notably, the sharp decline in imported inflation has played a key role. On the other hand, domestic inflationary pressures have moderated more gradually influenced by strong demand and a tight labour market. As a result, core inflation has fallen gradually, stabilizing a range of 2.1-2.3% since mid-2024.

In response to the sharp disinflation during the first half of the year, the Bank of Albania adopted a more accommodative stance in 2024 to anchor inflation expectations. The policy rate was reduced from 3.25% to 2.75% easing overall monetary conditions. Reflecting this shift, financial conditions have improved supported by lower interest rate, contained risk premia, and a slower pace of exchange rate appreciation.

These favourable financing conditions, combined with strong credit demand, robust bank balance sheets, and a positive lending environment, contributed to a notable expansion in private sector credit. In 2024, credit to the private grew by 14.4%, financing both household consumption and business investments. Importantly, this credit growth was achieved while maintaining a balanced currency composition and preserving high portfolio quality.

The financial sector remains sound, with profitable, well-capitalized and liquid banks, and systemic risks are effectively contained. In line with its risk-based macroprudential approach, the Bank of Albania raised the countercyclical capital buffer to 0.5% in 2024, to further banking sector resilience.

Albania has built up considerable buffers against adverse external shocks. These buffers include substantial foreign exchange reserves, declining external and public debt dynamics, and a sound financial sector. The medium-term outlook remains favourable, supported by our commitment to continued responsible macroeconomic policies and structural reform agenda.

Developments in the banking sector (including assets total / GDP)

As at the end of 2024, the structure of the banking and financial system in Albania consisted of 11 banks, 37 non-bank financial institutions (NBFIs), 642 foreign exchange bureaus, 16 Savings and Loan Associations (SLAs) and 1 Union of SLAs.

During 2024, banking system assets grew by around ALL 127.84 billion or 6.51%, compared to the ALL 87.91 billion or 4.69% growth a year earlier. The loan portfolio grew by ALL 94.68 billion, or 12.8% during this year.

The banking system's share in the economy, measured by the ratio of total assets to the Gross Domestic Product (GDP), continues to remain at high levels, though this indicator decreased by 1.56 percentage points in 2024, standing at 90.44%. The loan to GDP ratio reached the level of 36.07%, with an increase of by 1.42 percentage points, due to the higher growth the loan portfolio compared to the GDP growth.

The most important indicator of supervision, the capital adequacy ratio (CAR), at the end of 2024, stood at 19.8%. This ratio dropped by 0.11 percentage point, compared with the same period in the previous year.

In the same vein, as at end of 2024, the non-performing loans ratio (NPLR) dropped by 0.57 percentage points, in annual terms, to 4.17%. At the end of 2024, the non-performing loans reached at ALL 34.7 billion, down by ALL 0.24 billion or 0.67% compared to a year earlier. Meanwhile, the loan portfolio grew by ALL 94.6 billion, or around 12.8% during this year.

Profitability indicators - Return on Average Assets (RoAA) and Return on Average Equity (RoAE) respectively - displayed an upward trend compared to 2023. At the end of 2024, RoAA stood at 1.86% and RoAE at 18.2%, compared to 1.7% and 17.3%, respectively, at the end of 2023.

The following are banking system highlights for 2024

1. The non-performing loans ratio (NPLR) dropped by 0.57 percentage points in annual terms, to 4.17 % at the end of 2024.
2. Net outstanding non-performing loans to total credit portfolio stood at 1.04%, down by 0.39 percentage points compared to December 2023;
3. Provisioning of NPLs was 76.09%, from 70.56% a year earlier;
4. Liquidity indicators continuously appear significantly above the regulatory requirement laid down in the Bank of Albania's regulatory acts. In December 2024, the ratio of liquid assets to short-term liabilities in the banking system was 41.76%¹, down by 1.7 percentage points compared with the same period in the previous year;
5. liquidity coverage ratio stood at 273% form the regulatory limit of 100%;
6. as of December 2024, the total value of deposits in the system amounted to ALL 1.683 billion, recording 4.87% annual growth from the previous year. The share of the domestic currency in total deposits edged up to 47.6%, from 46.6% in December 2023;
7. As at the end of 2024, the Capital Adequacy Ratio - the main supervision indicator – was reported at 19.8%. This ratio decreased by 0.11 percentage point, compared with the same period in the previous year.
8. Financial result in 2024 was positive, amounting to around ALL 37.4 billion< or ALL 5.5 billion (17.1%) higher than in 2023.

¹ The minimum required level for this indicator, according to the regulatory requirements, is 20%.

The legal and institutional framework for banking supervision in the country (new developments, legal competence of the Banking Supervisory Authority)

Throughout 2024, the Bank of Albania has continued the drafting of new by-laws and the revision of the regulatory framework in force, through the approximation with the EU directives, or in compliance with the legal requirements, with a view to accomplish a more effective supervision on banks and other financial entities being licensed and supervised by the Bank of Albania.

In 2024, several by-laws were drafted and revised to regulate the activity and supervision of payment service providers. Work was also carried out on drafting the regulatory framework for operational risk management for banks, payment institutions, and electronic money institutions, as well as on revising the requirements for operational risk management for non-bank financial institutions and savings and loan associations. This process was accompanied by a review of the respective reporting systems.

As part of Albania's application for membership in the Single Euro Payments Area (SEPA) and the preparation of all accompanying documentation, the Supervision Department provided a significant contribution to the preparation of the application package.

To address issues identified in the domestic financial market, efforts were made over 2024 to review and improve the existing regulatory framework for consumer protection and to increase transparency, particularly in response to market concerns regarding consumer credit contracts, with the aim of enhancing consumer protection.

In 2024, work continued on drafting the new Law "On Banks in the Republic of Albania," with the participation of experts from various departments of the Bank of Albania. The new law aims to approximate the requirements laid down in Directive 2013/36/EU and its recently revised provisions.

Throughout the drafting of new by-laws and the amendments to the existing regulatory framework, banks and other entities licensed and supervised by the Bank of Albania have contributed with their comments and suggestions.

Developments in the legal and regulatory framework over 2024 are presented in a more detailed manner below:

Completing the framework of sub-legal acts governing the activities and supervision of payment service providers

Approval of the guideline "On the Reporting of Major Incidents" (approved by Decision No 10, dated 7.2.2024 of the Supervisory Council of the Bank of Albania)

The guideline sets out the criteria, thresholds, and methodology to be used by payment service providers for classifying operational or security incidents as major incidents. The guideline also includes the relevant reporting templates and the procedures that payment service providers must follow to notify the Bank of Albania in the event of a major operational or security incident. The guideline defines the types of reports that payment service providers are required to submit to the Bank of Albania when an operational or security incident is classified as a major incident.

Approval of amendments to the regulation “On the comparability of fees related to payment accounts and on the service of transferring payment accounts” (approved by Decision No. 29, dated 8.5.2024 of the Supervisory Council of the Bank of Albania)

The amendments include several provisions to complement Law No. 100/2023 “On the Payment Account with Basic Services”, aiming to ensure that the requirements of this regulation are applied equally to both standard payment accounts and payment accounts with basic services, as a specific type of payment account. These amendments relate to the requirements for fee comparability, fee transparency, and account switching, as well as the inclusion of a methodology for calculating the reasonable fee that banks may apply for the services offered under this type of account.

Approval of the regulation “On information accompanying transfers of funds” (approved by Decision No. 43, dated 7.8.2024 of the Supervisory Council of the Bank of Albania)

This Regulation lays down rules on the information on payers and payees accompanying transfers of funds, in euro, in the context of the Single Euro Payments Area (SEPA), for the purposes of preventing, detecting and investigating money laundering and terrorist financing, where at least one of the payment service providers involved in the transfer executed in a payment scheme administered by the European Payment Council is established and licensed in Albania. In addition, this Regulation lays down rules on internal policies, procedures, and controls to ensure implementation of restrictive measures, as well as requirements related to the obligation to retain and protect data.

I. In the framework of drafting and revising the regulatory framework on operational risk management:

In the framework of drafting and revising the regulatory framework on operational risk management: “Approval of the regulation “On operational risk management by banks, payment institutions, and electronic money institutions” (approved by Decision No. 51, dated 6.11.2024 of the Supervisory Council of the Bank of Albania).

The Regulation lays down the minimum requirements and rules for the management of operational risk in banking and/or financial activities by banks, payment institutions, and electronic money institutions. This regulation was drafted based on the revised standards of the Basel Committee concerning operational risk management.

Approval of amendments to the Regulation “On operational risk management by non-bank financial institutions, savings and loan associations, and their unions”²” (approved by Decision No 52, dated 6.11.2024 of the Supervisory Council of the Bank of Albania)

These amendments aim to align the regulation’s requirements specifically on the financial activity of non-bank financial institutions and savings and loan associations, also taking into account the revised Basel Committee standards. The amendments to the Regulation mainly provide for a revision of the requirements concerning the effective governance and control of operational risk for these entities, by adapting the responsibilities of the governing bodies to better reflect the needs and characteristics of their activities. They also include a comprehensive revision of the annexes to the regulation related to the reporting templates for early warning indicators, changes to the reporting frequency, a review of the key methods and techniques that entities may use for operational risk management, and a revision of the types of operational risk events—providing an expanded list of examples related to this type of risk.

² The title of the Regulation has changed pursuant to the Decision No 52, dated 6 November 2024.

This Regulation, through a specific provision, stipulates the right to the Bank of Albania—based on its supervisory assessment and taking into account the volume, complexity of activities, and exposure to operational risk—to require to certain non-bank financial institutions or savings and loan associations (SLAs) to become subject to and report in accordance with the requirements laid down in the Regulation “On operational risk management by banks, payment institutions, and electronic money institutions”.

Approval of amendments to the Regulation “On reporting to the Bank of Albania according the Unified Reporting System” (approved by Decision No. 53, dated 6.11.2024 of the Supervisory Council of the Bank of Albania)

The amendments consist in revising the reporting forms for operational risk purposes by aligning them with the new or revised requirements for supervised entities by introducing new forms with a quarterly reporting frequency for the “Early Warning Indicators” and the “Register of Operational Risk Events.” Additionally, the existing reporting forms for key operational risk indicators and for gross losses by business line and event type have been repealed. The amendments to the Regulation also include the introduction of a new reporting form with a quarterly reporting frequency, aimed at collecting updated information by the Bank of Albania on the structure of shareholders/partners of the reporting entities (banks, non-bank financial institutions, payment institutions, and electronic money institutions) and their beneficial owners, aimed at ensuring the continuous and periodic provision of data for this purpose.

II. In the framework of improving and strengthening the licensing and supervisory requirements and addressing risk management in non-bank financial institutions.

Approval of amendments to the Regulation “On granting the license and the activity of non-bank financial institutions”³ (approved by Decision No. 33, dated 5.6.2024 of the Supervisory Council of the Bank of Albania)

The amendments to the Regulation “On licensing and activity of non-bank financial institutions”, aim to further complement the regulatory framework on non-bank financial institutions, mainly in regards to the license revocation, as well as the processes that accompany the liquidation of their credit portfolios.

Approval of amendments to the Regulation “On licensing, exercise of activity, revocation of the licence and liquidation of credit portfolio created from the financial activity of non-bank financial institutions (approved by Decision No. 42, dated 7.8.2024 of the Supervisory Council of the Bank of Albania)

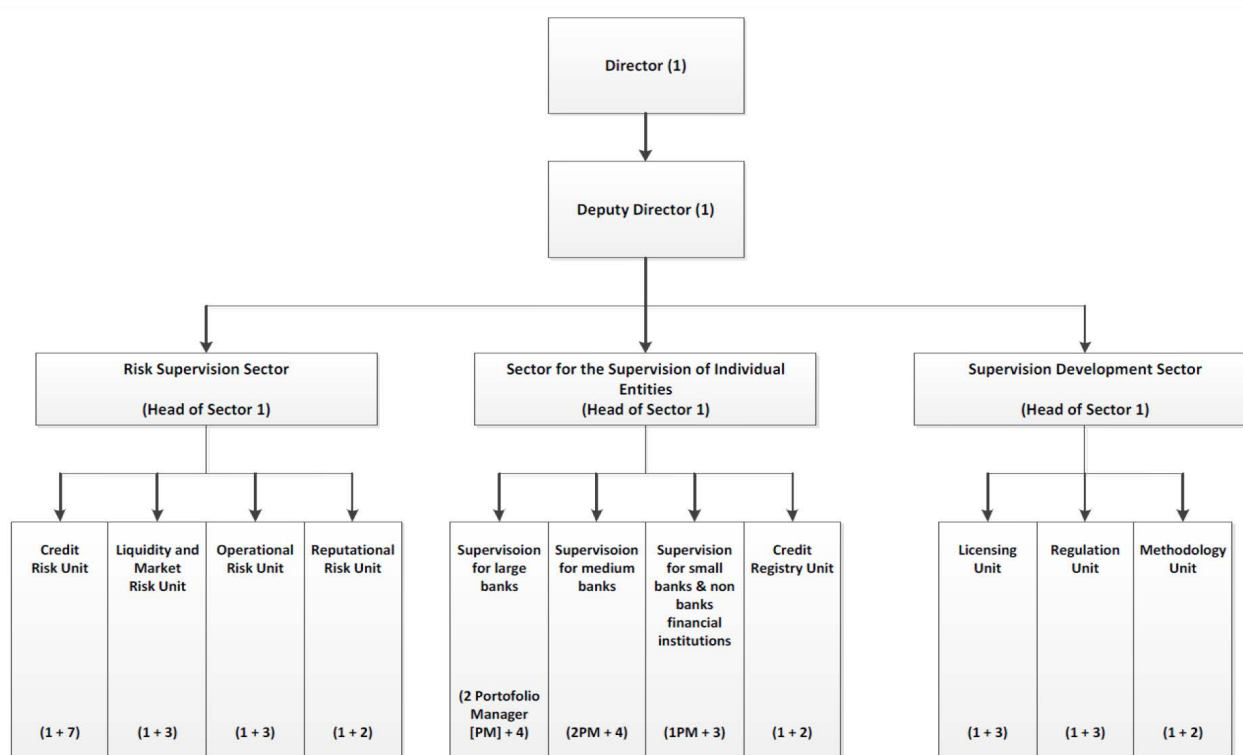
These amendments stipulates the change in the legal form of non-bank financial institutions, from limited liability companies to joint-stock companies, both for entities to be licensed after the entry into force of these changes and for entities currently operating in the market, aimed at ensuring a more effective governance and improving the performance and risk management framework of these entities. The amendments also include several additional and enhanced regulatory requirements related to capital increases and changes in the capital structure of non-bank financial institutions, as well as the documentation required for the approval of the chairman of the management/supervisory board, the administrator, and the chairman of the audit committee of these entities.

Approval of amendments to the Regulation “On risk management in the activity of non-bank financial institutions”, (approved by Decision No. 47, dated 2.10.2024 of the Supervisory Council of the Bank of Albania)

³ The approved amendments include also the title of this regulation to the Regulation “On licensing, exercise of activity, revocation of the licence and liquidation of credit portfolio created from the financial activity of non-bank financial institutions”.

The amendments aim to prevent imprudent lending practices, aimed at avoiding the creation of unnecessary financial difficulties and over-indebtedness situations for consumers. The additional requirements in the Regulation set the obligation on licensed non-bank financial institutions engaged in lending activities and on microfinance institutions to conduct an assessment of the consumer’s repayment ability both at the time of granting a loan and throughout its duration. This assessment must be based on sufficient, accurate, and up-to-date data and information, which must be reasonably verified by the institution. The amendments to the Regulation present general principles for the process of conducting a financial analysis of the consumer borrower, placing particular emphasis on the assessment of income sustainability and the consumer’s repayment capacity. Also, the amendments laid down the requirement for non-bank financial institutions that purchase non-performing loans to ensure that, in the process of classifying the portfolio of these loans, the repayment of installments on purchased loans should not be carried out through another loan.

Organizational chart of the Banking Supervisory Authority



Main strategic objectives of the Banking Supervisory Authority in 2024

2025 will be loaded with core supervisory reviews and bring about crucial methodological changes as described in the objectives below:

- Drafting the new law on banks based on the standards of EU directives III, IV and V;
- Finalizing the draft of SREP methodology with the assistance of World Bank with the purpose of developing a new rating system for banking risks;
- Finalizing the draft of credit risk administration regulation as well as the model of borrowers PD with the purpose of setting supervisory benchmarks;

- Starting the stage of first IFRS reporting running in parallel with the current reporting system as a transition period toward full IFRS implementation;
- Concluding the equivalence process run by European Banking Authority which aims to assess the level of compliance of the Albanian regulatory framework with the EU standards;
- Assessing the level of banking preparedness to meet the supervisory requirements for including climate risks in their risk assessment processes.

The key activities of the Banking Supervisory Authority in 2024

Structural developments

The banking system closed the year 2024 consolidated across 11 banks. The activity of the banking sector was stable throughout 2024, reflected in high levels of capitalization and liquidity, as well as improved asset quality. The capital adequacy ratio was 19.82% in December 2024, down by 0.11 percentage points compared to the previous year. Meanwhile, this indicator fluctuated between 19.24% and 20.23% over the course of 2024. The non-performing loans ratio reached 4.17% at the end of 2024, improving by 0.57 p.p. The 0.67% drop in the volume of non-performing loans coupled with the 12.8% growth in the loan portfolio provided a positive impact on this ratio. Liquidity level remains high as the liquidity coverage ratio and the net stable funding ratio were reported at 273.4% and 182%, respectively, against their regulatory minimums of 100%.

The financial result of the system amounted to ALL 37.4 billion, up by around ALL 5.5 billion compared with the previous year. Profitability ratios, ROA and ROE, also improved, standing at 1.86% and 18.21%, respectively.

Consumer protection

The revision of the regulatory framework aimed at protecting individual borrowers against the risk of loan repayment default, was one of the highlights in terms of supervisory developments over the past year. Through these amendments, specific criteria were set forth regarding the financial analysis of individual borrowers by non-bank financial institutions. These criteria aim at carrying out this analysis to focus not only on the repayment capacity of financial liabilities but also on the borrower's ability to sustainably meet other necessary expenses without significantly affecting their broader financial situation.

As part of these requirements, a debt service ratio cap was set to prevent situations of over-indebtedness and irresponsible lending to consumers. Additionally, certain limits were imposed on loan agreements, excluding individuals with specific characteristics related to age, listing in registries held by institutions for individuals prohibited from entering into credit agreements, or those with limited or no legal capacity to act when such restrictions impede loan repayment. The regulatory amendments also address the timeframes during which loan agreements may be concluded, as well as the number of consumer loans that an individual may obtain.

Credit risk management

As part of the initiated process to revise financial reporting in line with International Accounting Standards, regulatory provisions requiring amendments to meet the new requirements have also been identified. The Regulation on credit risk management is the main regulation subject to the amendments taking place. For this purpose, a working group was established to enable a comprehensive review of the existing regulatory framework and its alignment with the standards that will be applied in the future. As part of the same project, work is ongoing on the development of a model for calculating the probability of default of borrowing entities. This model will support the establishment of prudential supervisory filters for the classification and provisioning of loans, in accordance with international accounting standards and the requirements of European institutions.

Review the Operational Risk Management Framework

The regulatory framework on the operational risk management was reviewed aimed at improving and clarifying supervisory expectations on institutions which are subject to this regulation; updating to market standards and best practices; as well as strengthening off-site supervision. Accordingly, the new regulation "On the Management of Operational Risk by banks, payment institutions, and electronic money institutions" was drafted and approved. This regulation is based on the revised standards of the Basel Committee regarding operational risk management. The scope of this regulation includes banks, payment institutions, electronic money institutions, as well as other entities being granted a license by the Bank of Albania, according to supervisory discretion. In parallel with the drafting of the above-sated new regulation, several amendments took place to the existing regulation on operational risk management for non-bank financial institutions and savings and loan associations. These amendments aim to better align regulatory requirements with the financial activities of the regulated entities, while taking into account the revised standards of the Basel Committee.

The above mentioned amendments to the regulation are also accompanied by new reporting requirements, which include early warning indicators and the registry of operational risk events. As a result, amendments to the Regulation "On the reports at the Bank of Albania accordingly to the Unified Reporting System" were also approved.

Green finance

In the framework of green finance and the strategy developed for its integration into the supervisory processes, in 2024, the guideline on supervisory expectations for the inclusion of climate-related risks in the internal bank processes was drafted and published for the first time. This guideline sets out general criteria related to the establishment of banks' internal processes for risk management, the development of necessary capacities concerning climate issues, and the preparation of dedicated products addressing these phenomena. The guideline is presented in the form of recommendations and serves as a preliminary step in preparing banking institutions for forthcoming regulatory amendments. As a follow-up of the implementation of this guideline, banks are expected to carry out a self-assessment of their compliance with the supervisory expectations. The Supervision Department will evaluate this reporting over the course of 2025.

Questionnaire tables for the 2024 BSCEE Review

Number of financial institutions (at year-end)

Type of financial institution	2022	2023	2024
Commercial banks	11	11	11
Branches of foreign credit institutions	0	0	0
Cooperative banks	n/a	n/a	n/a
Banking sector, total:	11	11	11

Total assets of banking sector (at year-end)

Type of financial institution	2022	2023	2024
Commercial banks	16,434.4*	18,918.7*	21,310.1*
Branches of foreign credit institutions	n/a	n/a	n/a
Cooperative banks	n/a	n/a	n/a
Banking sector, total:	16,434.4*	18,918.7*	21,310.1*
y/y change (in %)	11.89%	15.12%	12.64%

*The values are in million Euro

Ownership structure of banks on the basis of assets total

Item	2022	2023	2024
Public sector ownership	0	0	0
Domestic ownership total	32.22%	33.38%	37.14%
Foreign ownership	67.78%	66.62%	62.86%
Banking sector, total:	100.0	100.0	100.0

Concentration of asset by the type of financial institutions, 2024

Type of financial institution	The first three largest (%)	The first five largest (%)	HHI
Commercial banks	55.9	74.32	0.14
Branches of foreign credit institutions	n/a	n/a	n/a
Cooperative banks	n/a	n/a	n/a
Banking sector, total:	100.0	100.0	100.0

Return on Equity (ROE) by type of financial institutions

Type of financial institution	2022	2023	2024
Commercial banks	12.3%	16.96%	18.2%
Cooperative banks	n/a	n/a	n/a
Banking sector, total:	12.3%	16.96%	18.2%

Distribution of market shares in balance sheet total (%)

Type of financial institution	2022	2023	2024
Commercial banks	100	100	100
Branches of foreign credit institutions	n/a	n/a	n/a
Cooperative banks	n/a	n/a	n/a
Banking sector, total:	100.0	100.0	100.0

**The structure of assets and liabilities of the banking sector (%)
(at year-end)**

	2022	2023	2024
Receivables			
Financial sector	13.67	26.0	21.6
Nonfinancial sector	36.18	37.6	39.9
Government sector	48.66	34.7	36.9
Other assets	1.49	2.7	2.7
Liabilities			
Financial sector	3.23	5.1	5.9
Nonfinancial sector	78.66	81.7	80.5
Government sector	4.08	0.4	0.6
Other liabilities	2.76	1.2	1.1
Capital	11.24	11.6	11.9

Capital adequacy ratio of banks

Type of financial institution	2022	2023	2024
Commercial banks	18.13%	19.42%	19.52%
Cooperative banks	n/a	n/a	n/a
Banking sector, total:	18.13%	19.42%	19.52%

**Asset portfolio quality of the banking sector
(share of impaired receivables / share of non-performing loans)**

Asset classification	2022	2023	2024
Non-financial sector, including	5.0	4.7	4.17
- households	3.79	3.36	2.86
- corporate	5.97	5.7	5.14

**The structure of deposits and loans of the banking sector in 2024 (%)
(at year-end)**

	Deposits	Loans
Non-financial sector, including:		
Households	78.38	37.46
Corporate	17.91	60.27
Government sector	3.71	2.28
Financial sector (excluding banks)	n/a	n/a
Total	100.0	100.0

P&L account of the banking sector (at year-end)

P&L account	2022	2023	2024
Interest income	589.49	813.09	965.37
Interest expenses	76.82	164.40	220.43
Net interest income	512.67	648.69	744.93
Net fee and commission income	101.91	121.42	135.51
Other (not specified above) operating income (net)	104.62	25.01	53.86
Gross income	508.05	747.33	879.12
Administration costs	296.33	393.99	442.58
Depreciation	n/a	n/a	n/a
Provisions	35.81	47.80	55.19
Impairment on financial assets not measured at fair value through profit and loss / Provisions on financial assets (loans, ...)	n/a	n/a	n/a
Profit (loss) before tax	220.18	358.30	444.38
Net profit (loss)	189.77	307.06	380.68

Total own funds in 2024 (in EUR)

Type of financial institution	Total own funds	Core Tier 1	Tier 1	Tier 2	Tier 3
Commercial banks	2,110.85	1,936.24	1,936.24	174.61	n/a
Cooperative banks	n/a	n/a	n/a	n/a	n/a
Banking sector, total:	2,110.85	1,936.24	1,936.24	174.61	n/a

Macroeconomic environment in the country

Following exceptionally strong growth in 2022 and 2023, Armenia's economy moderated in 2024 but remained on solid footing, expanding by approximately 5.9%. This robust performance was primarily supported by dynamic activity in the services sector, construction, and trade.

On the demand side, a shift in growth composition became evident. External demand began to normalize—reflected in a slowdown in tourist arrivals and remittance inflows—while domestic demand showed increasing momentum. Labor market indicators echoed these trends. Wage growth and unemployment rates gradually moved toward levels more aligned with underlying productivity dynamics and the Central Bank's inflation objectives. Nominal wage declined to around 5–6% year-on-year by the end of 2024, while unemployment picked up slightly to 14%.

Inflation remained below the Central Bank of Armenia's target throughout 2024, largely due to subdued external price pressures, particularly lower prices for global commodities and imported manufactured goods—as well as moderating demand. In response, the Central Bank continued its gradual policy easing cycle, cutting the policy rate by a cumulative 2.25 percentage points over the year.

By year-end, inflation began to pick up, registering at around 1.5% in December—still below the target. Meanwhile, a key measure of underlying inflation—non-tradable, sticky prices—stabilized in the 2–3% range, signaling anchored inflation expectations and a steady normalization of demand conditions.

Developments in the banking sector (including assets total / GDP)

In 2024, the financial system expanded at its normal pace, adequately meeting the financial service demands of the population and business entities. The financial system had grown at a steady pace, contributing to the improvement of public welfare and creating favorable conditions for further positive macro-financial developments.

As of the end of the year, the financial system's assets-to-GDP and loans-to-GDP ratios were 131.8% and 63.1%, respectively, marking increases of 16.0 and 9.1 percentage points over the year. Commercial banks continue to dominate the financial system, holding 82.7% of total assets. Pension funds rank second in terms of asset size, and in 2024 they also recorded high growth indicators.

In 2024, loans provided by commercial banks to the real sector grew by approximately 25.5%. This substantial growth in the loan portfolio led to a 9.0 percentage point increase in the loans-to-GDP ratio, reaching around 59.6% by the end of the year. The growth of commercial bank deposits in 2024 was driven solely by high growth in deposits from residents. Under these circumstances, the deposit-to-GDP ratio reached 57.3% at year-end, marking an increase of about 3.7 percentage points compared to the previous year.

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

Throughout 2024, the capital adequacy of the banking system remained at a high level. On October 15, 2024, the Board of the Central Bank decided to increase the countercyclical capital buffer rate by 0.25 percentage points, setting it at 1.75% of risk-weighted assets.

By the end of the year, the banking system's capital amounted to AMD 1 trillion 701 billion, reflecting a 24.8% increase over the year.

In December 2024, the total capital adequacy ratio (CAR) stood at 20.2%, exceeding the previous year's CAR by approximately 0.3 percentage points. The actual level of capital adequacy is approximately 3.7 percentage points higher than the regulatory requirement that includes all capital buffers.

As of the end of the year, the profitability indicators of the banking system stood at 21.9% for return on equity (ROE) and 3.5% for return on assets (ROA), compared to 13.5% and 2.1%, respectively, from the previous year.

The increase in profitability 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 total assets. This, in turn, was primarily the result of a reallocation within bank portfolios toward higher-yielding assets. Evidence of this includes the significant growth in consumer lending, a slight decrease in the share of liquid assets—including government securities—on banks' balance sheets, as well as the increased use of local currency in lending (loan dramization). 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. At the same time, the average yield on loans rose by 0.4 percentage points, supported by the strong growth of consumer lending during the year, the dramization of the loan portfolio, as well as the continued relatively high interest rate environment in the capital 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.

The legal and institutional framework for banking supervision in the country (new developments, legal competence of the Banking Supervisory Authority)

To implement the tasks set forth in the Strategy, in 2024, the Central Bank of Armenia carried out work on introducing and modernizing international best practices and standards and developing regulations in line with the specifics of the latter. Emphasizing the early detection of potential financial problems of banks and the quality of measures taken by banks in these situations, the regulation on recovery plans developed by banks was revised in 2024. The introduced regulations are aimed at improving the corporate governance of commercial banks and increasing the quality of recovery programs. In particular:

- The regulation stipulates that commercial banks must have internal procedures and processes related to the development, approval, testing, review, and implementation of recovery plans. Given that recovery measures should be aimed at maintaining critical operations and core business lines, minimum standards for their disclosure have also been established.
- The amendments also clarified the current requirements for recovery plans, including clarifying that in order to draw up a recovery plan, banks must conduct reverse stress tests to describe scenarios for implementing recovery measures. Emphasizing the accessibility of financial instruments widely used in international practice for consumers, the Central Bank has initiated changes to the "Regulations for Opening and Maintaining Unallocated Metal Accounts." In particular, as a result of the changes, in addition to gold accounts, banks will be able to open and manage unallocated metal accounts in silver, platinum, and palladium, which will expand the range of alternative savings tools available to the public.

Furthermore, the Central Bank of Armenia has launched the development of a new regulatory framework for foreign exchange (FX) market transactions, aiming to shift from aggregated reporting toward a more detailed and timely data collection format. The main objective of this project is to enable the collection of granular FX

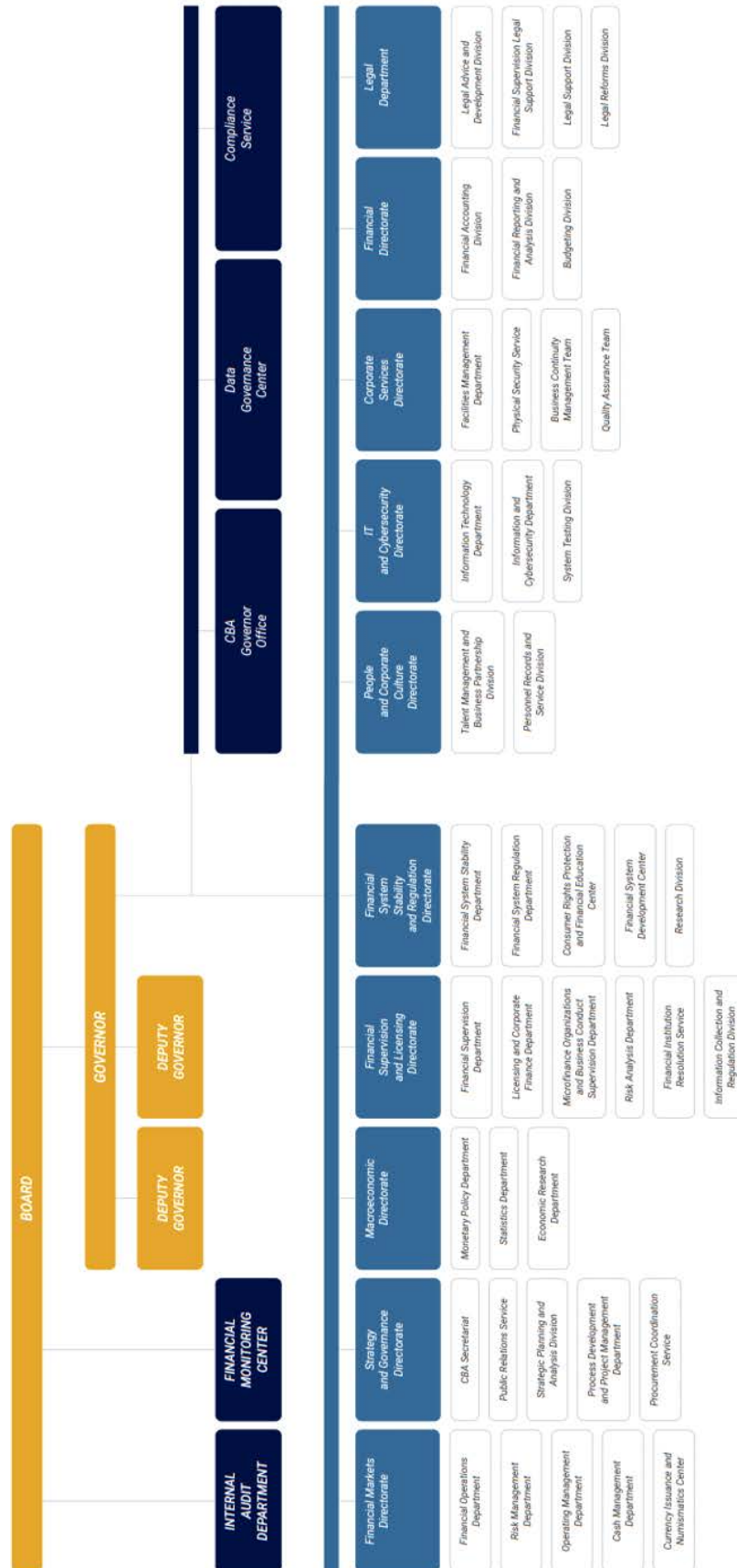
transaction data in a near real-time manner. This transition is expected to enhance the Central Bank's capacity to make well-informed decisions and to establish a robust infrastructure for high-frequency transactional data, which can be utilized by all relevant departments within the institution.

The intended outcome of the project includes the adoption of a revised regulatory legal act that will govern the procedures for collecting and exchanging FX transaction data with the Central Bank. Additionally, the development and implementation of an automated system for near real-time data collection is a core component of the initiative.

As of 2024, key project management documentation has been developed and approved, laying the foundation for acquiring an external team to design and implement the required software system.

In addition, The Central Bank of Armenia has developed and placed into circulation drafts of a "Law on Crypto assets" and a number of related laws, which provide for comprehensive regulation of the supply of crypto assets and the services provided with them. The regulation will provide an opportunity to adequately respond to the risks in the crypto asset sector, while simultaneously creating a clear legal framework for the development of innovations and technologies in the crypto asset sector. The regulatory model is based on the principle of "same activity, same risk, same regulation", according to which the implementation of activities with crypto assets, which are similar in nature to any traditional financial activity and pose similar risks, should be regulated in a similar manner. A license issued by the Central Bank of Armenia will be required to provide services with crypto assets. Services subject to licensing include the operation of a crypto asset trading platform, custody and transfer of crypto assets, offering tokens linked to the asset, buying and selling (exchange) of crypto assets on one's own account, as well as certain other brokerage services for clients with crypto assets.

Organizational chart of the Banking Supervisory Authority



Main strategic objectives of the Banking Supervisory Authority in 2024

In 2024 CBA activities were aimed at maintaining and safeguarding the stability of the financial system and ensuring the efficient management of major risks in financial system. Main objectives of CBA in 2024 focused on the following:

- Final implementation of principles of risk-based supervision model to ensure early identification of vulnerabilities and that the principles of risk-based supervision are consistently applied across all stages of the supervisory process, from a financial institution's entry into the market to its eventual exit.
- Development and implementation of supervisory review process to ensure that financial institutions maintain adequate capital, liquidity, strong business models, effective corporate governance, and robust internal control systems aligned with the risks they take.
- Improvement of transparency of the CBA's supervisory activities and overall of the financial system.
- Strengthening operational resilience and cybersecurity in financial system

The key activities of the Banking Supervisory Authority in 2024

The methodology for supervisory review process was developed for banks with the technical assistance of the World Bank and in 2024, pilot assessments of banks were performed.

In order to increase the efficiency of cybersecurity risk management in the financial system, thematic studies on IT and IS security in financial institutions, particularly banks and payment and settlement organizations, and assessment of existing risks continued in 2024. As a result of the assessment, targeted proposals for improving IT and IS risk management systems have been formed, as part of which appropriate communications with banks and payment and settlement organizations are planned.

Annual assessments and targeted thematic studies were conducted on money laundering, terrorism financing and the financing of the proliferation of weapons of mass destruction (hereinafter referred to as ML/ TF/ FPWMD) during 2024. Identified deficiencies and outlined key directions for strengthening and improving ML/TF/FPWMD risk management systems were communicated to financial institutions through established procedures.

In order to enhance the transparency of the Central Bank's supervisory activities and improve the overall transparency of the financial system, changes in the Central Bank's approach to publishing sanctions imposed on financial institutions were approved and made public. As a result, more accessible and user-friendly information regarding the imposed sanctions will be published.

International activities of the Banking Supervisory Authority

In order to fully implement the supervisory objectives set before the Central Bank and to adequately respond to newly emerging risks, efforts and activities aimed at developing and deepening supervisory capacities and the capabilities of the financial system continued during 2024.

In view of the need to deepen the capacities of central banks and financial institutions in the field of ML/TF and the compliance of penalties, during 2024, the Central Bank conducted sectoral trainings for representatives of financial institutions, including with the involvement of international experts.

Jointly organized by the Central Bank of Armenia and the International Monetary Fund, an international seminar on “Corporate Governance and Board Effectiveness” was organized by representatives of member states of the Caucasus, Central Asia, and Mongolia Regional Technical Assistance Center (CCAMTAC).

Cooperation with other supervisory bodies in the country

The Central Bank is the sole supervisory body of the financial system of Armenia.

Questionnaire tables for the 2024 BSCEE Review

Number of financial institutions (at year-end)

Type of financial institution	2022	2023	2024
Commercial banks	18	18	18
Branches of foreign credit institutions			
Cooperative banks			
Banking sector, total:	18	18	18

Total assets of banking sector (at year-end)

Type of financial institution	2022	2023	2024
Commercial banks	19,970,835	20,491,876	26,662,349
Branches of foreign credit institutions			
Cooperative banks			
Banking sector, total:	19,970,835	20,491,876	26,662,349
y/y change (in %)	52.94%	2.61%	30.11%

Ownership structure of banks on the basis of assets total

Item	2022	2023	2024
Public sector ownership	7.69	7.67	6.54
Domestic ownership total	26.01	34.23	45.17
Foreign ownership	66.30	58.10	48.29
Banking sector, total:	100.0	100.0	100.0

Concentration of asset by the type of financial institutions, 2024

Type of financial institution	The first three largest (%)	The first five largest (%)	HHI
Commercial banks	44.9	59.6	0.1
Branches of foreign credit institutions			
Cooperative banks			
Banking sector, total:	44.9	59.6	0.1

Return on Equity (ROE)* by type of financial institutions

Type of financial institution	2022	2023	2024
Commercial banks	21.91%	13.16%	21.93%
Cooperative banks			
Banking sector, total:	21.91%	13.16%	21.93%

* - ROE is calculated using net income after taxes

Distribution of market shares in balance sheet total (%)

Type of financial institution	2022	2023	2024
Commercial banks	100.0	100.0	100.0
Branches of foreign credit institutions			
Cooperative banks			
Banking sector, total:	100.0	100.0	100.0

**The structure of assets and liabilities of the banking sector (%)
(at year-end)**

	2022	2023	2024
Receivables			
Financial sector	30.76	26.02	23.46
Nonfinancial sector	49.18	53.59	57.08
Government sector	15.36	15.50	14.86
Other assets	4.57	4.49	3.86
Liabilities			
Financial sector	13.91	13.90	14.88
Nonfinancial sector	40.02	43.15	41.58
Government sector	0.17	0.10	0.08
Other liabilities	31.71	28.49	28.50
Capital	14.17	14.32	14.90

Capital adequacy ratio of banks

Type of financial institution	2022	2023	2024
Commercial banks	20.28%	19.94%	20.15%
Cooperative banks			
Banking sector, total:	20.28%	19.94%	20.15%

**Asset portfolio quality of the banking sector
(share of impaired receivables / share of non-performing loans)**

Asset classification	2022	2023	2024
Non-financial sector, including	4.45%	1.36%	1.32%
- households	3.89%	1.33%	1.11%
- corporate	3.96%	1.61%	1.53%

The structure of deposits and loans of the banking sector in 2024 (%)
(at year-end)

	Deposits	Loans
Non-financial sector, including:	91.3	94.3
Households	58.3	50.3
Corporate	33.0	44.0
Government sector	1.0	0.1
Financial sector (excluding banks)	7.7	5.6
Total	100.0	100.0

P&L account of the banking sector
(at year-end)

P&L account	2022	2023	2024
Interest income	1,349,655	1,557,998	2,045,589
Interest expenses	740,162	743,070	911,139
Net interest income	609,493	814,928	1,134,450
Net fee and commission income	250,593.53	229,487.29	276,691
Other (not specified above) operating income (net)	569,849	58,973	257,282
Gross income	2,485,986.66	3,285,911.29	4,190,604
Administration costs	307,069.42	349,516.34	462,897
Depreciation	63,668.27	65,606.36	75,734
Provisions			
Impairment on financial assets not measured at fair value through profit and loss / Provisions on financial assets (loans, ...)	335,234.02	175,810.72	126,463
Profit (loss) before tax	723,963.62	512,456	1,003,328
Net profit (loss)	562,383.55	394,535	812,683

Total own funds in 2024 (in EUR)

Type of financial institution	Total own funds	Core Tier 1	Tier 1	Tier 2	Tier 3
Commercial banks	4,145,306	3,712,719	3,757,221	388,085	
Cooperative banks					
Banking sector, total:	4,145,306	3,712,719	3,757,221	388,085	

Macroeconomic environment in the country

In its June 2025 forecast, the Austrian central bank (OeNB) expects only a very moderate recovery in 2025, following the longest period of weakness since 1945. For 2025, the OeNB expects a mild recovery (+0.2%) after two consecutive years of economic contraction. While industrial production was surprisingly strong around the turn of the year, this stands in contrast to the announced introduction of US tariffs on goods from European and many other countries. The net impact of these two opposing effects remains highly uncertain. For 2026 and 2027, however, the OeNB has factored in more persistent negative effects from ongoing tariff uncertainty and the introduction of higher tariffs as well as some negative income and growth effects from budget consolidation. The weak recovery is mainly due to Austria's weak price competitiveness in both the industrial and service sectors following the surge in inflation and ensuing wage increases above the euro area average after 2022.

HICP inflation will rise slightly in 2025 despite falling energy prices. The subdued GDP outlook is accompanied by a slow decline in inflation. In 2025, HICP inflation is expected to increase by 0.1 percentage points compared to 2024, reaching 3.0%, despite a sharp drop in energy prices after the announcement of comprehensive tariffs in early April. The primary drivers of the increase are also linked to energy prices: Price-dampening fiscal measures ended in December 2024, and energy prices in Austria remain sticky – especially for households. This means that the decline in prices will be passed on to consumers with a delay and that the full effect will not be felt until 2026. In addition, even though wage growth is declining in 2025, services inflation is moderating slowly. Overall HICP inflation is expected to remain well above the euro area average in at 3.0%.

Developments in the banking sector (including assets total / GDP)

The Austrian banking sector continued its growth in 2024. Consolidated total assets climbed to EUR 1,265 billion. This corresponded to a share of 261% of the Austrian GDP. Weak macroeconomic conditions in Austria, however, have weighed on corporate loan demand, as firms scale back investment in fixed assets, which means that they require less financing for inventories and working capital. While the sector's nonperforming loan (NPL) ratio remains low by historical averages, it rose faster than in many other EU countries. The deteriorating macroeconomic backdrop is beginning to erode banks' overall asset quality. Risks have continued to materialize, especially in the commercial real estate sector. The NPL ratio for these loans rose significantly in 2024, prompting the introduction of a sectoral systemic risk buffer, effective July 2025. The additional capital requirements aim to bolster the banking system's resilience to mounting risks in this segment. In contrast, the economic downturn has had only limited impact on the labor market and thus household solvency. Lower financing costs and rising real incomes have improved loan affordability, helping to drive a nascent rebound in demand for residential real estate loans in 2024 – a trend continued into the first half of 2025.

Overall, Austria's banking sector remains well-positioned to navigate a period of elevated uncertainty. A modest domestic recovery and downside risks from geopolitical and trade tensions make for a particularly challenging environment for the banking sector. The substantial capital buildup since the global financial crisis – reflected in a Common Equity Tier 1 (CET1) ratio of 17.5% – combined with a suite of micro- and macroprudential reforms, has, however, fortified the system's shock-absorbing capacity. Posting EUR 11.5 billion in profits, the sector achieved its second-strongest annual result on record in 2024 and maintained capital levels near historic highs. Operating profits remained broadly stable year on year, buoyed by strong net interest income, particularly from corporate lending and central bank deposits. However, overall profitability declined due to negative deconsolidation effects, increased provisioning and significantly lower earnings from at-equity investments.

Austrian banks' operations in Central, Eastern, and Southeastern Europe (CESEE) continued to play a pivotal role in group profitability. Austrian lenders have focused their activities on core markets and EU member states including Czechia, Slovakia, Romania, Croatia and Hungary. Thanks to favourable conditions, CESEE subsidiaries reported historically low NPL ratios – falling below domestic levels for the first time. By contrast, cross-border exposures to CESEE as well as to Germany's real estate and construction sectors saw a marked deterioration in credit quality.

The legal and institutional framework for banking supervision in the country (new developments, legal competence of the Banking Supervisory Authority)

The FMA is Austria's independent, autonomous and integrated supervisory and resolution authority. As an integrated authority the overall perspective of the Austrian financial market enables the FMA to conduct consistent and efficient supervision. The FMA is part of the European System of Financial Supervisors (ESFS) and actively contributes with expertise and practical experience. With competence, control and consistency, the FMA pursues the aims of contributing towards the stability of Austria as a financial market and reinforcing confidence in the ability of the Austrian financial market to function, while acting in a preventive manner with respect to compliance with supervisory standards, and also protecting investors, creditors and consumers alike.

With the Single Supervisory Mechanism (SSM) in place, banks in the participating Member States are supervised by means of a decentralized system involving close cooperation between the ECB and the National Supervisory Authorities (NCAs). The FMA is the NCA in Austria. The SSM was launched on 4 November 2014 and as of 31.12.2024 six Austrian banking groups were classified as „significant institutions“ (SIs), with a seventh institution having met significance criteria at year-end 2023, with ECB assuming direct supervision with effect from 01.01.2025.

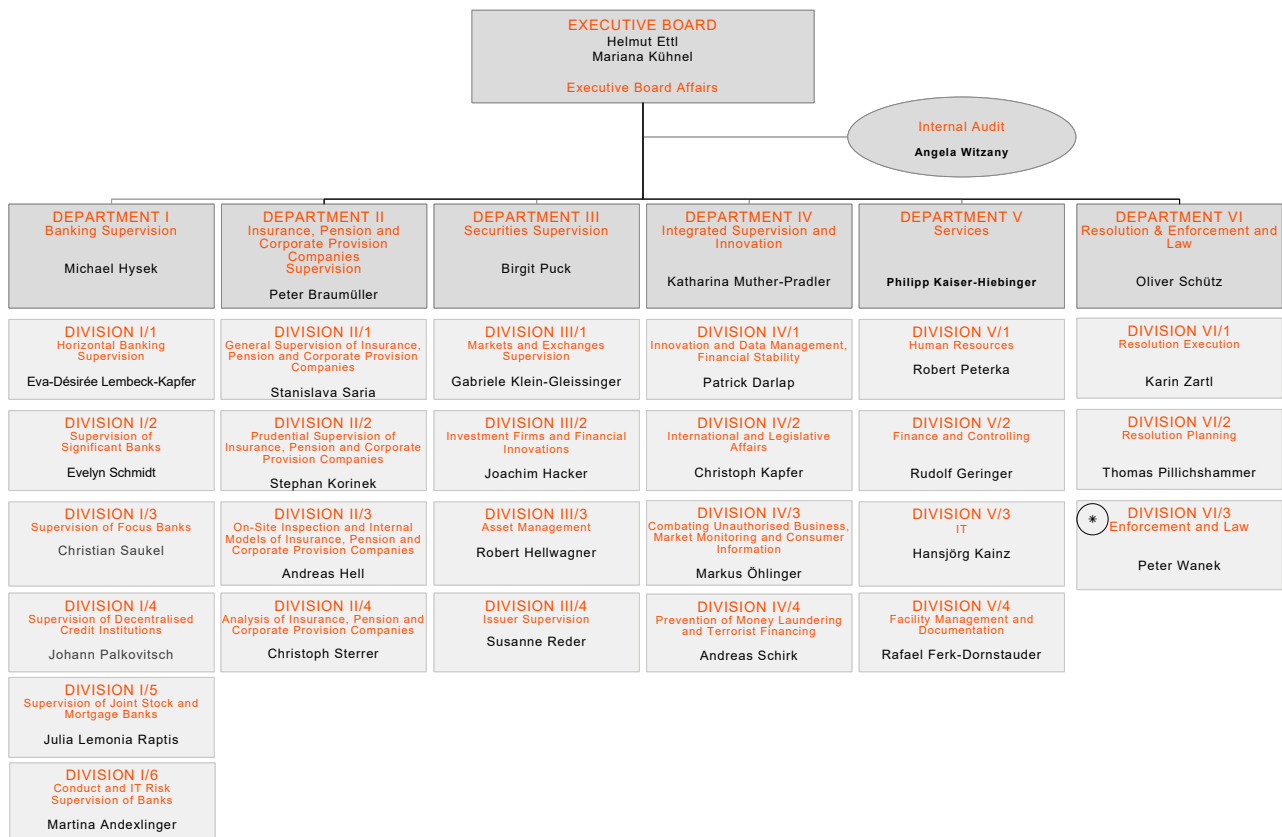
<https://www.bankingsupervision.europa.eu/press/other-publications/publications/significance-assessment/pdf/ssm.sar2024.en.pdf>

Joint Supervisory Teams (JSTs) are set up for the SIs, with FMA and Oesterreichische Nationalbank (OeNB) employees also included among its members. All other Austrian banks are only supervised indirectly by the ECB. Classed as less significant institutions (LSIs), they are directly supervised by the FMA and the OeNB.

Please see the FMA's 2024 annual report

<https://www.fma.gv.at/en/publications/fma-annual-report/>

Organizational chart of the Banking Supervisory Authority



* Corporate Compliance Officer reports directly to the Executive Board

22.10.2025

The FMA is divided into six departments:

1. Banking Supervision
2. Insurance, Pension and Corporate Provision Companies Supervision
3. Securities Supervision
4. Integrated Supervision and Innovation
5. Services
6. Banking Resolution and Enforcement and Law

The staff division "Internal Audit" reports directly to the Executive Board.

In 2024, an internal reorganisation was announced as a conclusion of the FMA's transformation project "Fit 4 Future". Under the reorganisation, Banking Supervision gained a new division, "Conduct and IT Risk Supervision of Banks" with a realignment of competences of other divisions in Banking Supervision, effective from 01.01.2025.

Main strategic objectives of the Banking Supervisory Authority in 2024

Please see the “**Facts and Figures, Trends and Strategies**” publication
<https://www.fma.gv.at/en/publications/facts-and-figures-trends-and-strategies/>

The FMA is committed to the principle of transparency, engaging in open dialogue with the market and the supervised companies. It shares the main findings of its annual analysis, provides information on the main risks it has identified on the financial markets for the coming years, and gives updates on its medium-term supervisory strategy based on this analysis. Every year the FMA also publishes in detail its priorities for supervision and inspections in the coming year. These are explained in its “**Facts and Figures, Trends and Strategies**” publication and on the FMA website.

In 2023 the FMA derived and determined the following supervisory and inspection priorities for 2024 from its risk analysis 2024–2028 and the adapted medium-term supervisory strategy based on it:

- **RESILIENCE AND STABILITY:** To strengthen the resilience of supervised financial service providers and preserve the stability of the Austrian financial market as a whole.
- **DIGITAL TRANSFORMATION:** To exploit the opportunities of digitalisation while also consistently addressing the associated risks.
- **NEW BUSINESS MODELS:** To provide regulatory and supervisory support for innovative business models as early as possible in order to promote the innovative strength of the Austrian financial market, to ensure fair competitive conditions and to guarantee appropriate consumer protection.
- **COLLECTIVE CONSUMER PROTECTION:** To further develop consumer protection in a rapidly changing environment focusing on digital transformation, changing consumer behaviour, demographic development and the interest rate turnaround.
- **SUSTAINABILITY:** To provide regulatory and supervisory support and assistance to the financial market and all its participants during the transition to a sustainable economic model.
- **A CLEAN FINANCIAL CENTRE:** To secure the clean character and reputation of the Austrian financial centre at all levels.

In setting these supervisory and inspection priorities for 2024, the FMA has addressed current developments and trends that harbour particular risk potential for supervised companies or markets while also presenting opportunities and potential. Proactive communication has made the supervised entities aware of risk areas in their business area and also gave them the opportunity to prepare specifically for the risk-oriented supervisory priorities in 2024. This created transparency around supervisory activities and heightened risk awareness.

The key activities of the Banking Supervisory Authority in 2024

Please see

- <https://www.fma.gv.at/en/publications/fma-annual-report/>
- <https://www.fma.gv.at/en/publications/facts-and-figures-trends-and-strategies/>
- and answers to question 5 (in this questionnaire)

International activities of the Banking Supervisory Authority

The Austrian FMA is part of the European cooperation within the European System of Financial Supervision (ESFS) and contributes actively to the activities of the European Supervisory Authorities (EBA, ESMA, EIOPA) as well as the ESRB. Furthermore, the FMA is National Competent Authority within the Single Supervisory Mechanism (SSM) and National Resolution Authority within the Single Resolution Mechanism (SRM). On an international level, the FMA is an active member of the IAIS, IOPS and IOSCO and attends the Integrated Financial Supervisors Conference (IFSC) on a regular basis as well as meetings of the Basel Consultative Group (BCG), a subgroup of the BCBS. In addition to active cooperation with international organisations, the fostering of bilateral relations with other supervisory authorities is of particular importance. Bilateral cooperation is facilitated by memoranda of understanding on cooperation and exchange of information, which the FMA has already signed with supervisory authorities from 45 jurisdictions. Furthermore, the FMA has signed multilateral memoranda of understanding under ESMA, IOSCO, IAIS and the ECB.

Cooperation with other supervisory bodies in the country

In handling official activities related to supervision, the FMA must, as far as possible, draw on analyses and inspection results as well as the results of the expert opinions prepared by the Oesterreichische Nationalbank (OeNB) during model approval procedures, in addition to using information from third parties or from the respective bank. The collaborative setup calls for intensive, timely coordination between the two institutions. This reconciliation process is supported by a database, the joint information system. Various reporting data, relevant information available from the FMA's supervisory activities as well as data and results of OeNB analyses are filed in this database. This close cooperation continues within the framework of the SSM and the SRM. In line with the macro-prudential measures set out in the CRD IV the Financial Market Stability Board (Finanzmarktstabilitätsgremium) was established. Its main tasks are to promote financial market stability, reduce the systemic threat and lower the systemic and procyclical risks. It consists of representatives of the Federal Ministry of Finance, the FMA, the OeNB as well as the Fiscal Council. In accordance with the European Systemic Risk Board (ESRB) warnings and recommendations, the Financial Market Stability Board is mandated to act on a possible threatening of the Austrian financial stability amongst others with warnings and recommendations.

Other relevant information and developments in 2024

Please see <https://www.fma.gv.at/en/publications/fma-annual-report/>

- pages 14 and 15: "2024 at a glance"; with "The FMA in 2024"
- Please see as well answer to question 5 "Main strategic objectives of the Banking Supervisory Authority in 2024".

Questionnaire tables for the 2024 BSCEE Review

Number of financial institutions (at year-end)

Type of financial institution	2022	2023	2024
Commercial banks	149	149	148
Branches of foreign credit institutions	20	18	17
Cooperative banks	324	305	293
Banking sector, total:	493	472	458

Source: OeNB, unconsolidated data

Total assets of banking sector (at year-end)

Type of financial institution	2022	2023	2024
Commercial banks	605.0	602.7	620.2
Branches of foreign credit institutions	13.0	15.0	14.4
Cooperative banks	396.4	393.3	400.3
Banking sector, total:	1,014.4	1,011.0	1,034.9
y/y change (in %)	-1.0%	-0.4%	+2.5%

Source: OeNB, unconsolidated data in EUR bn

Ownership structure of banks on the basis of assets total

Item	2022	2023	2024
Public sector ownership	6.0	5.7	4.7
Domestic ownership total	86.8	86.1	86.1
Foreign ownership	13.2	13.9	13.9
Banking sector, total:	100.0	100.0	100.0

Source: OeNB, unconsolidated data.

Concentration of asset by the type of financial institutions, 2024

Type of financial institution	The first three largest (%)	The first five largest (%)	HHI
Commercial banks	41%	53%	744
Branches of foreign credit institutions	51%	68%	1,193
Cooperative banks	41%	49%	698
Banking sector, total:	27%	37%	372

Source: OeNB, unconsolidated data.

Return on Equity (ROE) by type of financial institutions

Type of financial institution	2022	2023	2024
Commercial banks	6.9	15.0	13.6
Cooperative banks	1.1	13.4	8.5
Banking sector, total:	6.5	14.8	12.1

Source: OeNB, unconsolidated data

Distribution of market shares in balance sheet total (%)

Type of financial institution	2022	2023	2024
Commercial banks	59.6	59.6	59.9
Branches of foreign credit institutions	1.3	1.5	1.4
Cooperative banks	39.1	38.9	38.7
Banking sector, total:	100.0	100.0	100.0

Source: OeNB, unconsolidated data.

The structure of assets and liabilities of the banking sector (%) (at year-end)

	2022	2023	2024
Receivables	n.a.*	n.a.*	n.a.*
Financial sector	n.a.*	n.a.*	n.a.*
Nonfinancial sector	n.a.*	n.a.*	n.a.*
Government sector	n.a.*	n.a.*	n.a.*
Other assets	n.a.*	n.a.*	n.a.*
Liabilities	n.a.*	n.a.*	n.a.*
Financial sector	n.a.*	n.a.*	n.a.*
Nonfinancial sector	n.a.*	n.a.*	n.a.*
Government sector	n.a.*	n.a.*	n.a.*
Other liabilities	n.a.*	n.a.*	n.a.*
Capital	n.a.*	n.a.*	n.a.*

* a breakdown of the whole balance sheet into these categories is not possible because this structure is only given for loans and deposits.

Capital adequacy ratio of banks

Type of financial institution	2022	2023	2024
Commercial banks	19.4	20.5	20.6
Cooperative banks	19.0	19.6	20.9
Banking sector, total:	19.2	20.1	20.8

Source: OeNB, consolidated data.

Asset portfolio quality of the banking sector (share of impaired receivables / share of non-performing loans)

Asset classification	2022	2023	2024
Non-financial sector, including			
- households	2.1	2.3	2.3
- corporate	2.7	3.8	4.9

Source: OeNB, consolidated data.

The structure of deposits and loans of the banking sector in 2024 (%)
(at year-end)

	Deposits	Loans
Non-financial sector, including:		
Households	68.3	42.2
Corporate	20.2	47.3
Government sector	6.3	6.5
Financial sector (excluding banks)	5.2	3.9
Total	100.0	100.0

Source: OeNB, unconsolidated data; only domestic

P&L account of the banking sector
(at year-end)

P&L account	2022	2023	2024
Interest income	19.0	53.4	57.0
Interest expenses	8.3	37.3	41.5
Net interest income	10.6	16.1	15.5
Net fee and commission income	4.9	5.0	5.3
Other (not specified above) operating income (net)	8.2	5.2	7.1
Gross income	23.7	26.5	27.9
Administration costs	10.5	12.0	12.2
Depreciation	1.2	-0.3	1.8
Provisions	3.6	2.4	2.2
Impairment on financial assets not measured at fair value through profit and loss / Provisions on financial assets (loans, ...)	n.a.	n.a.	n.a.
Profit (loss) before tax	6.4	12.6	12.2
Net profit (loss)	5.1	11.0	10.7

Source: OeNB, unconsolidated data in EUR bn.

Total own funds in 2024 (in EUR)

Type of financial institution	Total own funds	Core Tier 1	Tier 1	Tier 2	Tier 3
Commercial banks	63.6	52.3	56.4	7.2	n.a.
Cooperative banks	53.0	45.9	47.9	5.1	n.a.
Banking sector, total:	116.6	98.3	104.3	12.3	n.a.

Source: OeNB, consolidated data in EUR bn.

Macroeconomic environment in the country

According to information from the Agency for Statistics of B&H¹, the nominal gross domestic product (GDP) for B&H for 2024 had a nominal value of BAM 53.5 billion. The nominal increase of GDP in relation with 2023 was 7.2% while real increase was 3.0%. Among the activities, the significant nominal increase of the gross value added was recorded in: Administrative and support service activities 13.4% and Arts, entertainment and recreation 12.2%. GDP per capita amounted BAM 15,688 or EUR 8,021 or USD 8,679². Average trend of the production price index in B&H in 2024 went up by a total of 25.1%³ compared to the base average. The average annual inflation in B&H in 2024 vs. 2023 stood at 1.7%⁴.

The banking system in B&H is liquid, well capitalised and profitable. The balance sheet total of the B&H banking sector grew continuously during of 2024, reaching a value of BAM 42.9 billion at the end of 2024. This represents an increase of 9.9% compared to the same period of the previous year. In 2024, there was an increase in assets, cash, loans, deposits and capital - all compared to the same period of the previous year. The share of non-performing loans (as a key indicator of loan quality) in total loans has decreased. Total loans in 2024 amounted to BAM 25.8 billion and this total loan growth of the B&H banking system of 9.6% vs. the year before was mostly affected by the increase of loans approved to the households' segment and private companies. Total deposits of the B&H banking system in 2024 amounted to BAM 34.5 billion, whereas the biggest contribution to the total deposit increase of 8.9% vs. the previous year came from retail deposits. The B&H banking system, whose operations fall under competency of the two-state entity level banking agencies, posted a net profit of BAM 840.0 million. In late 2024, return on average assets (ROAA) was 2.2% and return on average equity (ROAE) 16.0%⁵.

Developments in the banking sector (including the assets total / GDP)

As of 31.12.2024, there were 13 commercial banks operating in the FB&H with 505 organizational parts and a total of 6,719 employees. Compared to the end of the previous year, there was an increase in net assets, cash, loan portfolio, investments in securities, deposits and total capital. The share of non-performing loans in total loans, as a key indicator of asset quality, recorded a decrease compared to the end of the previous year, with an increase in the rate of coverage of non-performing loans by value adjustments to cover for expected credit losses. As of 31.12.2024, banks in the FB&H have generated positive financial result. The FB&H banking sector is stable, adequately capitalised, liquid and profitable.

Total net assets of the FB&H banking sector amounted to BAM 32.1 billion, up by BAM 3.1 billion or 10.8% vs. YE2023. The share of total assets of the FB&H banking sector vs. the GDP in FB&H⁶ was 92.9%.

Total capital as of 31.12.2024 amounted BAM 4.1 billion (shareholder capital amounting to BAM 1.6 billion), thus going up by 15.2% vs. 2023. Regulatory capital was BAM 3.7 billion and increased by BAM 528 million, or 16.8% compared to the end of 2023. The capital adequacy ratio of the FB&H banking sector as of 31.12.2024 was 19.3% and is at the same level as at YE 2023, i.e. it was by 7.3 percentage points above the legal minimum

¹ B&H Agency for Statistics, Press release regarding Gross domestic product of B&H 2024, Production approach, First results, July 2025

² B&H Agency for Statistics, Press release regarding Gross domestic product of B&H 2024, Production approach, First results, July 2025

³ B&H Agency for Statistics, Industrial Production Price Index in B&H in 2024, Thematic bulletin No. 12

⁴ B&H Agency for Statistics, Consumer Price Index in B&H in 2024, Thematic bulletin No. 09

⁵ Central Bank of B&H, statistical web portal, Financial soundness indicators of the banking sector and Basic information on the banking sector

⁶ FB&H Statistics Bureau, Press release regarding the annual gross domestic product for the Federation of B&H, 2024 - income approach - first results, July 2025

of 12%. At the FB&H banking sector level, other capital rates (common equity Tier 1 rate and common equity rate, i.e. CET1 and T1) also exceeded the prescribed minimum. The financial leverage rate (the ratio of common equity and total bank exposure) at the FB&H banking sector level as of 31.12.2024 was 10.4%, which is higher by 0.5 percentage points compared to the end of 2023 (prescribed minimum being 6%).

Loans, holding a share of 59.6% in total assets, posted a rise against the end of 2023 of BAM 1.6 billion or 9.3%, thus arriving to the figure of BAM 19.1 billion as of 31.12.2024. Corporate loans went up by 795.1 million or 9.1%, reaching BAM 9.6 billion of 31.12.2024 and holding 50% share in total loans. Over the same period, household loans achieved an increase by BAM 829.4 million or 9.5%, thus holding a share in total loans of 50%. Their amount as of 31.12.2024 was BAM 9.5 billion. NPLs amounted BAM 563.9 million, thus constituting 3.0% of the total loan portfolio, down by 0.9 percentage points vs. YE2023. The share of corporate NPLs in total corporate loans was 2.6%, while the share of household NPLs in total household loans was 3.3%.

Cash funds amounted to BAM 9.5 billion and represented 29.5% of total assets, up by BAM 865.2 million or 10.1% vs. YE2023.

The FB&H banking sector's deposits reached a value of BAM 26.1 billion, thus going up by BAM 2.2 billion or 9.2% and represented 81.4% of total liabilities. Savings deposits, as the most significant and the biggest segment of the deposit and financial potential of banks, increased by BAM 1.1 billion or 10.1% to BAM 12.3 billion.

As of 31.12.2024 (based on final unaudited reporting data), the FB&H banking sector posted a positive financial result - profit of BAM 592.8 million, which is higher by BAM 76.3 million or 14.8% than in 2023.

The legal and institutional framework for banking supervision in the country (new developments, legal competence of the Banking Supervisory Authority)

A) Prudent Regulatory Framework issued by the FBA (changes in 2024):

In the process of the FBA regulatory activities related to preparation of regulations, the following decisions were adopted in 2024:

- **FBA Decisions and Instructions related to the operations and supervision of the banks, micro credit organisation and leasing companies:**
 - Decision on the Amendments to the Decision on Requirements for Consolidated Banking Group,⁷
 - Decision on the Amendments to the Decision on the Supervisory Review and Evaluation Process of a Bank,⁸
 - Decision on the Amendments to the Decision on Temporary Measures to Mitigate the Risk of an Interest Rate Increase,⁹
 - Decision on the Amendments to the Decision on Temporary Measures to Limit Bank Exposure,¹⁰
 - Correction of the Decision on Calculation of Bank Capital,¹¹
 - Decision on the Reports to be Delivered by a Bank to the Banking Agency of the Federation of Bosnia and Herzegovina Under the Common Reporting Framework (COREP),¹²

⁷ „Official Gazette of the Federation of B&H”, number 55/24

⁸ „Official Gazette of the Federation of B&H”, number 101/24

⁹ „Official Gazette of the Federation of B&H”, number 41/24 and 89/24

¹⁰ „Official Gazette of the Federation of B&H”, number 55/24 and 96/24

¹¹ „Official Gazette of the Federation of B&H”, number 13/24

¹² „Official Gazette of the Federation of B&H”, number 41/24

- Decision on Money Laundering and Terrorist Activity Financing,¹³
 - Decision on Special Measures Implemented by the Bank in Response to the Extraordinary Circumstances Caused by the October 2024 Flood,¹⁴
 - Decision on the Reports to be Provided by Banks to the Banking Agency of the Federation of Bosnia and Herzegovina for Supervisory and Statistical Purposes,¹⁵
 - Decision on the Requirements for and Restrictions on Transactions with Persons in a Special Relationship with the Bank and Obligation to Report to the Banking Agency of the Federation of Bosnia and Herzegovina,¹⁶
 - Decision on the Method of Identifying a Systemically Important Bank and Determining the Capital Buffer for a Systemically Important Bank,¹⁷
 - Decision on Special Measures to be Implemented by the Leasing Companies and Microcredit Organizations in Response to the Extraordinary Circumstances Caused by the October 2024 Flood,¹⁸
 - Guidelines on the Amendments to the Guidelines on the Reporting to the Banking Agency of the Federation of Bosnia and Herzegovina on the Application of ICAAP and ILAAP in a Bank,
 - Instruction on the Amendments to the Instruction on Completing Bank Reports on Information System Management,
 - Instruction on Completing Bank Reports for Supervisory and Statistical Purposes,
 - Instruction for Notification of the Offering of a Sustainable Package of Services for Financial Inclusion, Green Products and Products Aimed at Socially Responsible Financing,
 - Instruction on the Application of the Standardised and Simplified Standardised Approaches to the Measurement of Interest Rate Risk in the Banking Book,
 - Instruction on Prudent Valuation of Software Assets for Own Funds Calculation Purposes,
 - Instruction for Completing Bank Reports on Own Funds, Credit, Operational, and Market Risks, and Leverage Ratio,
 - Instruction for Completing Bank Reports on Interest Rate Risk in the Banking Book,
 - Instruction for Completing Bank Reports on the Realization Effects of Special Measures Implemented by the Bank in Response to the Extraordinary Circumstances Caused by the October 2024 Flood,
 - Guidelines for the Analysis and Assessment of the Risk of Money Laundering and Terrorist Financing,
 - Guidelines for the Identification of the Beneficial Owner,
- **FBA Decision and Instructions related to bank resolution:**
 - Guidelines for Restructuring Planning – Expectations from Banks,¹⁹
 - Operational Guidelines for Developing a Manual for the Implementation of Internal Restructuring Instruments,²⁰
 - Instruction on the Method of Preparing Reports Submitted by Banks for the Purpose of Developing and Updating the Bank Restructuring Plan.

¹³ „Official Gazette of the Federation of B&H”, number 79/24

¹⁴ „Official Gazette of the Federation of B&H”, number 79/24

¹⁵ „Official Gazette of the Federation of B&H”, number 89/24

¹⁶ „Official Gazette of the Federation of B&H”, number 89/24

¹⁷ „Official Gazette of the Federation of B&H”, number 96/24

¹⁸ „Official Gazette of the Federation of B&H”, number 79/24

¹⁹ „Official Gazette of the Federation of B&H”, number 49/24

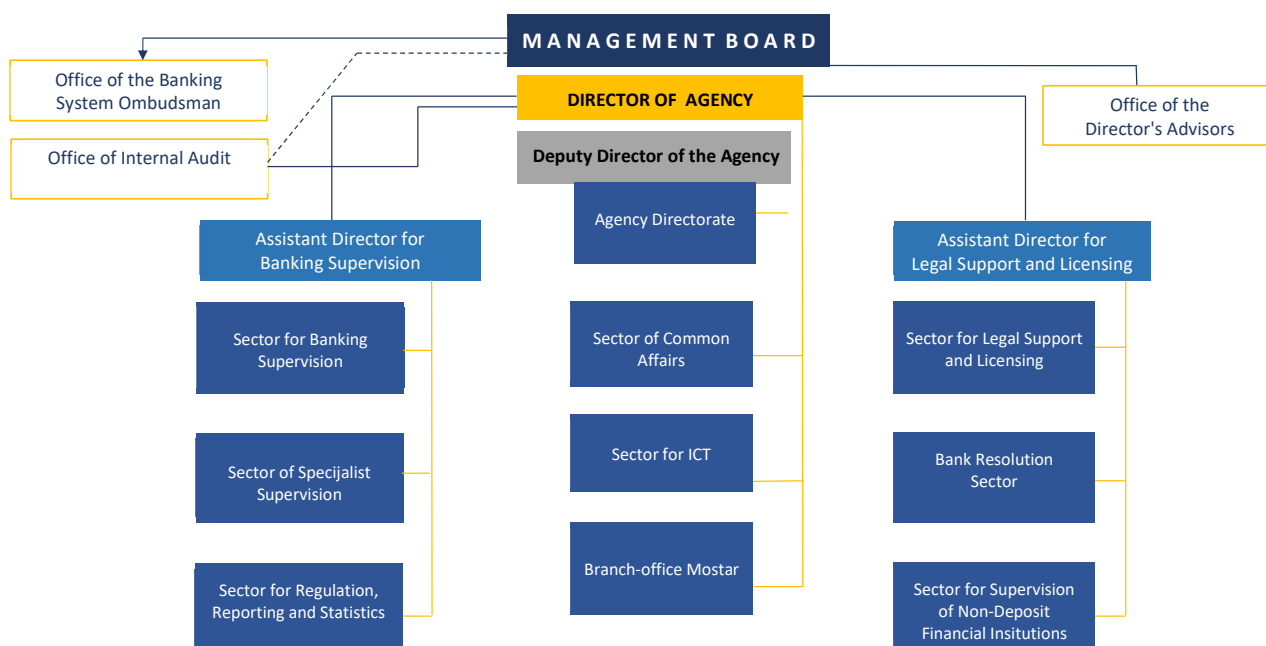
²⁰ „Official Gazette of the Federation of B&H”, number 49/24

B) Legal competences of the FBA:

Pursuant to the Law on the Banking Agency of the Federation of B&H, the competences of the FBA are the following:

- identifying and performing activities and measures to maintain and strengthen the banking system stability,
- establishing, enforcing and supervising prudential rules regulating the operations of the banking system entities (banks, banking groups, development banks, microcredit organisations, leasing companies, factoring companies, exchange offices and other financial organisations which operates under FBA supervision according to the law),
- issuing and revoking licenses and other relevant acts to the banking system entities when authorized to do so by special regulations,
- supervising operations of the banking system entities when authorized to do so by special regulations,
- supervising operations of the development bank, ordering supervision measures and other competences under regulation governing operations of the development bank and this Law,
- ordering supervision measures and other competences when authorized to do so by special regulations,
- adopting acts regulating operations of the FBA,
- adopting acts regulating operations of the banking system entities,
- adopting acts, supervising and undertaking the necessary measures related to anti-money laundering and terrorist financing that apply to the banking system entities in cooperation with the competent authorities and institutions in the field of anti-money laundering and terrorist financing under regulations governing anti-money laundering and terrorist financing,
- adopting acts and performing activities to protect the rights and interests of users of financial services in the banking system, performing supervision of implementation of regulations from this field and undertaking other activities and relevant measures within the scope of its authorities,
- adopting and updating the resolution plan, establishing eligibility for initiation of bank resolution proceedings, conducting resolution proceedings, deciding on tools and measures to undertake in resolution and performing other activities relating to resolution under the law regulating banks.

Organizational chart of the Banking Supervisory Authority



Main strategic objectives of the Banking Supervisory Authority in 2024

In accordance with the FBA Strategy, continuous alignment with the EU regulatory framework and international principles in all areas of supervision and restructuring of the banking system represents a strategic commitment of the FBA.

The majority of regulatory and supervisory activities in 2024 were directed toward maintaining an appropriate level of equivalence with the EU regulatory framework, to the extent permitted by legal provisions, in order to achieve goals related to financial stability and the management of systemic risks in B&H, and in line with the Strategic Priorities for Maintaining Equivalence of Banking Regulation with the EU Regulatory Framework for the period 2022–2026.

Activities were focused on:

- Revising the regulatory framework in capital and capital requirements;
- Adopting regulation regarding the determination of systemically important banks in the Federation of B&H, including the procedure and methodology for identifying such banks, as well as the capital buffer for systemically important banks;
- Aligning with the revised Core Principles for Effective Banking Supervision and standards set by the Basel Committee on Banking Supervision related to transactions with related parties and connected persons;
- Amending the regulatory framework related to interest rate risk management in the banking book;
- Revising regulation in SREP (Supervisory Review and Evaluation Process) and liquidity risk management;
- Continuing activities on developing a regulatory framework for macroprudential measures and instruments that FBA will have at its disposal to provide timely responses to economic disruptions and potential increases in systemic risks;
- Prescribing the way banks publicly disclose information about the offer of sustainable service packages for financial inclusion, green products, and products aimed at socially responsible financing;
- Conducting a materiality assessment of risks related to climate change and environmental risks, etc.

The key activities of the Banking Supervisory Authority in 2024

The main strategic objectives of the FBA were focused on preserving and strengthening the stability of the banking sector, protecting depositors, and promoting sound, lawful, and high-quality banking practices. During the reporting period, supervisory activities were particularly focused on:

- Conducting the Supervisory Review and Evaluation Process (SREP) for banks in accordance with the defined schedule and adopted methodology, along with continuous monitoring of SREP indicators;
- Monitoring the risk profile and capital position of all banks, including compliance with capital requirements arising from SREP assessments and regulatory capital buffer requirements;
- Performing supervisory assessments of ICAAP and ILAAP frameworks, as well as recovery plans;
- Conducting targeted supervisory reviews of material risk areas, especially for systemically important banks, including the sustainability of funding sources and protection of financial service users and guarantors;
- Continuous monitoring of all banks, with particular focus on systemically important institutions;
- Supporting the implementation of environmental risk management standards in banks;
- Following up on the implementation of NPE strategies and annual operational plans for banks with NPL ratios above 5%;
- Monitoring interest rate trends and their impact on the banking sector and monitoring the implementing measures to mitigate effects, including the application of temporary supervisory measures;
- Preparation for conducting solvency and supervisory climate risk testing in line with the Strategic Priorities for 2023 - 2025;
- Strengthening cooperation with relevant EU and third-country supervisory authorities for banking groups operating in FB&H, and maintaining information exchange international financial institutions;
- Continuing activities to align the regulatory framework with CRR II and CRD V requirements.

International activities of the Banking Supervisory Authority

FBA has continued its efforts to strengthen cooperation with international financial institutions, regional and other organisations, as well as with bank regulatory authorities in Bosnia and Herzegovina, the region, and beyond. These activities are carried out within the framework of existing and newly established agreements on cooperation and information exchange.

FBA participates in ECB-led supervisory colleges for banking groups such as Addiko, Raiffeisen Group, and NLB Group, where it regularly presents key SREP findings for banks operating in FB&H and exchanges information relevant to the consolidated supervision of banking groups. Participation also includes thematic colleges focused on recovery plans (Addiko and Raiffeisen) and internal models at the consolidated level (Raiffeisen). Through quarterly exchanges and joint risk assessments within these colleges, the FBA contributes to more effective crisis management and timely supervisory decision-making. In November 2024, a bilateral meeting was held with representatives of supervisory authorities from banking groups with subsidiaries in FB&H (Croatia National Bank - Unicredit Bank d.d. and Intesa Sanpaolo Bank d.d.), during which supervisory information was exchanged as needed. Starting in 2025, the FBA also participated in the SREP colleges for the Unicredit Bank (UCB) and Intesa Sanpaolo (ISP) groups, further aligning its supervisory practices with European standards.

FBA remained actively engaged in dialogue with international financial institutions - such as the IMF, World Bank, and credit rating agencies - by providing insights and analytical overviews of trends in the FB&H banking sector, contributing to discussions on supervisory strengthening. In parallel, the FBA maintained

regular knowledge-sharing and thematic exchanges with foreign regulators, particularly through ongoing cooperation with members of the BSCEE Group on current supervisory developments.

Cooperation with other supervisory bodies in the country

In order to ensure effective coordination, cooperation, and joint action with the Banking Agency of Republic of Srpska, the FBA continued the exchange of information and presentation of key SREP findings and assessments for banking groups with subsidiaries operating in both entities.

In the area of regulatory development and further alignment with the EU regulatory and supervisory framework, the entity banking agencies continued to work jointly and in a coordinated manner, including the establishment of joint working groups and the drafting of new regulations. Cooperation also continued to the alignment of internal supervisory procedures, including updates to the SREP methodology and procedures for both off-site and on-site supervision.

Cooperation with the Central Bank of B&H also continued, particularly in conducting top-down stress testing (led by the Central Bank of B&H) and supervisory stress testing (conducted by the FBA), as well as in the exchange of financial stability indicators and the provision of quarterly data for the calculation of the reference rate of banks' average weighted cost of funding.

Regular cooperation and information exchange with the Banking Agency of Republica Srpska and the Deposit Insurance Agency of B&H were also continued. The FBA also maintained strong cooperation with the Federal Ministry of Finance, the Securities Commission of FB&H, and other relevant institutions in B&H.

Other relevant information and developments in 2024

With the aim of strengthening the FBA capacity for effective banking supervision and implementing the new regulatory framework for banks, the FBA continued its participation in the technical assistance project provided by the World Bank – FinSAC. The objective of this engagement is to further develop the regulatory framework and supervisory approach. As part of the technical assistance provided by the World Bank's FinSAC in 2024, activities were carried out in the following areas: development of the regulatory framework for interest rate risk in the banking book (IRRBB), training of supervisors on ESG risks and IRRBB, updates to the SREP methodology in the areas of ESG and Pillar 2 Guidance (P2G), further alignment of the regulatory framework with the CRR II / CRD IV provisions, and measures related to bank restructuring. Continued cooperation is planned for the following year as well.

In 2024, FBA continued implementing the project "Strengthening the Western Balkans' capacity for integration into the European System of Central Banks- Phase II." The project is financed with the funds provided by the European Commission. From B&H, the Central Bank of B&H and the two entity-level banking agencies are included in the project. FBA participates in training events, high-level workshops, and bilateral measures. In 2024, the FBA representatives took part in the following training events and a high-level policy workshop regarding bank resolution, financial consumer protection, financial inclusion and financial education, EU integration and legal aspects, payment systems – policy and oversight issues, etc. Within the Project, two bilateral measures were agreed in 2024:

- Macroprudential framework - involving the two entity banking agencies and the National Bank of Romania. Preparatory activities are completed, and implementation is expected in 2025;
- Interest rate risk in the banking book - involving the two entity banking agencies and the Croatian National Bank. Preparatory activities are completed, and implementation is expected in 2025.

Questionnaire tables for the 2024 BSCEE Review

Number of financial institutions (at year-end)

Type of financial institution	2022	2023	2024
Commercial banks	13	13	13
Branches of foreign credit institutions	-	-	-
Cooperative banks	-	-	-
Banking sector, total:	13	13	13

Total assets of banking sector (in 000 BAM) (at year-end)

Type of financial institution	2022	2023	2024
Commercial banks	27.199.283	28.948.004	32.063.233
Branches of foreign credit institutions	-	-	-
Cooperative banks	-	-	-
Banking sector, total:	27.199.283	28.948.004	32.063.233
y/y change (in %)	2022/2021 Index 105 (+5%)	2023/2022 Index 106 (+6%)	2024/2023 Index 111 (+11%)

Ownership structure of banks based on assets total

Item	2022	2023	2024
Public sector ownership	3.9	3.8	4.0
Domestic ownership total	13.3	13.1	12.9
Foreign ownership	82.8	83.1	83.1
Banking sector, total:	100.0	100.0	100.0

Concentration of asset by the type of financial institutions, 2024

Type of financial institution	The first three largest (%)	The first five largest (%)	HHI
Commercial banks	53.3	69.9	1.332
Branches of foreign credit institutions	-	-	-
Cooperative banks	-	-	-
Banking sector, total:			

Return on Equity (ROE) by type of financial institutions

Type of financial institution	2022	2023	2024
Commercial banks	12.0	14.9	15.2
Cooperative banks	-	-	-
Banking sector, total:	12.0	14.9	15.2

Distribution of market shares in balance sheet total (%)

Type of financial institution	2022	2023	2024
Commercial banks	100.0	100.0	100.0
Branches of foreign credit institutions	-	-	-
Cooperative banks	-	-	-
Banking sector, total:	100.0	100.0	100.0

The structure of assets and liabilities of the banking sector (%) (at year-end)

	2022	2023	2024
Receivables	n/a	n/a	n/a
Financial sector	n/a	n/a	n/a
Nonfinancial sector	n/a	n/a	n/a
Government sector	n/a	n/a	n/a
Other assets	n/a	n/a	n/a
Liability	n/a	n/a	n/a
Financial sector	n/a	n/a	n/a
Nonfinancial sector	n/a	n/a	n/a
Government sector	n/a	n/a	n/a
Other liabilities	n/a	n/a	n/a
Capital	n/a	n/a	n/a

Capital adequacy ratio of banks

Type of financial institution	2022	2023	2024
Commercial banks	19.4	19.3	19.3
Cooperative banks	-	-	-
Banking sector, total:	19.4	19.3	19.3

Asset portfolio quality of the banking sector (share of impaired receivables / share of non-performing loans)

Asset classification	2022	2023	2024
Non-financial sector, including	5.1	4.0	3.1
- households	4.6	3.8	3.3
- corporate	5.6	4.3	2.8

**The structure of deposits and loans of the banking sector in 2024 (%)
(at year-end)**

	Deposits	Loans
Non-financial sector, including:	84.7	96.8
Households	50.4	51.0
Corporate	34.3	45,8
Government sector	12.5	2.2
Financial sector (excluding banks)	2.8	1.0
Total	100.0	100.0

**P&L account of the banking sector
(at year-end) (in 000 BAM)**

P&L account	2022	2023	2024
Interest income	686.546	910.751	1.035.730
Interest expenses	90.315	88.267	141.908
Net interest income	596.231	822.484	893.822
Net fee and commission income	383.314	386.706	442.143
Other (not specified above) operating income (net)	46.026	38.629	32.654
Gross income	1.080.521	1.298.169	1.432.693
Administration costs	254.275	292.894	321.178
Depreciation	66.808	67.430	73.506
Provisions	25.828	13.808	16.057
Impairment on financial assets not measured at fair value through profit and loss / Provisions on financial assets (loans, ...)	42.004	53.607	48.715
Profit (loss) before tax	395.807	556.798	649.141
Net profit (loss)	361.380	516.541	592.819

Total own funds in 2024 (in 000 EUR)

Type of financial institution	Total own funds	Core Tier 1	Tier 1	Tier 2	Tier 3
Commercial banks	1.881.544,4	1.779.247,7	1.779.247,7	102.296,7	-
Cooperative banks	-	-	-	-	-
Banking sector, total:	1.881.544,4	1.779.247,7	1.779.247,7	102.296,7	-



Macroeconomic environment in the country

The banking sector of the Republika Srpska in 2024 was characterized by macroeconomic conditions in the sense of moderate economic growth as one of the main macroeconomic variables, along with weakened inflation and continued geopolitical uncertainty.

Republika Srpska recorded an increase in economic activity in all four quarters of 2024. Real growth of the Gross Domestic Product (GDP) was achieved in the first, second, third, and fourth quarter of 2024 compared to the corresponding periods in 2023. The GDP of Republika Srpska in 2024 amounted to EUR 8.7 billion and was nominally higher by 6.4% compared to 2023, while real growth amounted to 2.9%.

The overall Consumer Price Index in Republika Srpska in December 2024, compared to December 2023, was on average higher by 1.9%. The average net salary paid in December 2024 amounted to EUR 735 and was nominally higher by 10.3%, and in real terms by 8.2%, compared to the same month of the previous year. The average gross salary paid in December 2024 amounted to EUR 1,126.

Developments in the banking sector (including assets total / GDP)

The banking sector of the Republika Srpska maintained a satisfactory level of liquidity during 2024, as reflected in a high Liquidity Coverage Ratio (LCR) and a Net Stable Funding Ratio (NSFR), both of which remained above the legally prescribed minimums. Total assets in relation to GDP amounted to 74.5% in 2024.

The total balance sheet value of the banking sector in 2024 increased by 8% compared to 2023, primarily due to the growth in gross loans, along with a high quality of assets, which is mainly reflected in the continued low share of non-performing loans in total gross loans. Total deposits, as the dominant item on the liabilities side, also recorded an 8% increase compared to 2023.

The banking sector of the Republika Srpska recorded a significant increase in net profit due to the growth in net interest income. The sector's profitability in 2024 increased by 30.6% compared to the previous year. The ROA and ROE indicators remained above the levels achieved in the previous year.

The legal and institutional framework for banking supervision in the country (new developments, legal competence of the Banking Supervisory Authority)

The Banking Agency of Republika Srpska (hereinafter: BARS) has a mandate to regulate and supervise banks, microcredit organizations, leasing companies and saving-credit organizations. Namely, the BARS competencies are as follows:

- identification and implementation of activities and measures to safeguard and strengthen the banking system stability, in accordance with the law,
- adoption of regulations governing the operations of banks, microcredit organizations, saving-credit organizations, leasing providers and other financial organizations of the banking system,
- issuance and revocation of bank licenses and other corresponding by-laws in accordance with its competencies, indirect and direct supervision of bank operations, imposing and ordering measures of supervision and other competencies in accordance with the law governing banks,



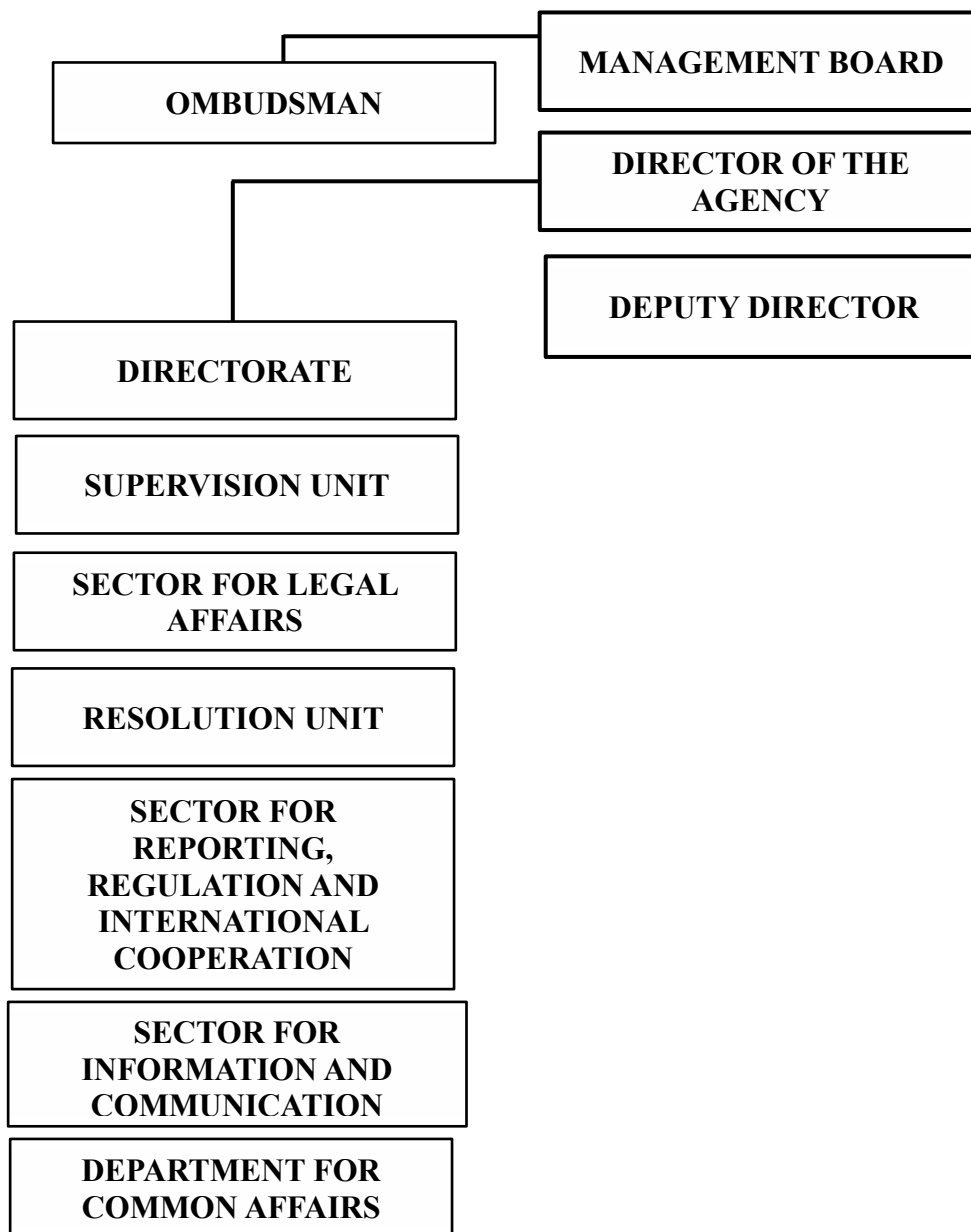
- issuance and revocation of microcredit organization licenses and other corresponding by-laws in accordance with its competencies, indirect and direct supervision of microcredit organization operations, imposing and ordering measures of supervision and other competencies in accordance with the law governing microcredit organizations,
- issuance and revocation of saving-credit organization licenses and other corresponding by-laws in accordance with its competencies, indirect and direct supervision of saving-credit organization operations, imposing and ordering measures of supervision and other competencies in accordance with the law governing saving-credit organizations,
- issuance and revocation of leasing provider licenses and other corresponding by-laws in accordance with its competencies, indirect and direct supervision of leasing provider operations, imposing and ordering measures of supervision and other competencies in accordance with the law governing leasing providers,
- issuance and revocation of licenses for other financial organizations of the banking system and other corresponding by-laws when it is authorized for the above mentioned by this law or separate laws, indirect and direct supervision of operations of other financial organizations of the banking system, imposing and ordering measures of supervision and other competencies in accordance with this law and separate laws,
- adoption of corresponding legislation, supervision and undertaking of necessary measures regarding the anti-money laundering and financing of terrorist activities related to banks, microcredit organizations, saving-credit organizations, leasing providers and other financial organizations of the banking system, in cooperation with competent authorities and institutions in the area of anti-money laundering and financing of terrorist activities, and in accordance with regulations governing the anti-money laundering and financing of terrorist activities,
- supervision and undertaking of necessary measures in accordance with regulations governing the introduction and implementation of specific interim measures to efficiently enforce international restrictive measures,
- adoption of by-laws and performing tasks from the area of protection of rights and interests of financial service beneficiaries in the banking system, supervision of implementation of regulations from this area and undertaking of other activities and appropriate measures within its competencies,
- determining the fulfilment of requirements for initiation of bank resolution procedure, conducting the resolution procedure, deciding on instruments and measures to be undertaken in resolution procedure and performing other tasks related to resolution, in accordance with the law governing banks,
- issuance and revocation of consents and approvals for establishing representative offices, supervision of representative office operations,
- imposing and ordering measures of supervision and other competencies in accordance with the law governing banks,
- imposition of fines and issuance of misdemeanour warrant and
- other competencies in accordance with this law and other laws.

In accordance with the Law on Electronic Money of the Republika Srpska, adopted in December 2023, the BARS adopted in 2024 a set of by-laws regulating the operations and enabling the licensing of electronic money issuing institutions.

An electronic money issuer, in accordance with the conditions prescribed by the Law on Electronic Money, may be an electronic money institution, a bank, or a microcredit organization. The BARS oversees the implementation of the Law on Electronic Money and maintains a register of entities authorized to issue electronic money.



Organizational chart of the Banking Supervisory Authority





Main strategic objectives of the Banking Supervisory Authority in 2024

In 2024 the BARS activities were aimed at maintaining the stability and improvement of the quality and legality of the banking system operations in the Republika Srpska, based on continuous supervision of banking system institutions.

Main objectives of the BARS in 2024 were:

- preserving liquidity and further promoting and ensuring financial stability,
- maintaining effective supervision over the banking system,
- supporting digitalization of finance with new bylaws,
- implementation and further development of a regulatory framework that is aligned with EU directives and Basel standards,
- active role in supervision and protection of financial services consumers' rights,
- further cooperation between competent banking supervision authorities, and domestic and international institutions.

The key activities of the Banking Supervisory Authority in 2024

The competences of the BARS are prescribed by the Law on the Banking Agency of the Republika Srpska, and the main goal of the BARS is to preserve and strengthen the stability of the banking system and to improve its safe, quality and legal operations.

The regular supervision activities that the BARS carried out in the reporting period refer to activities related to the implementation of the SREP assessment for banks, activities related to the assessment of the established ICAAP and ILAAP in banks in accordance with the plan for 2024, and continuous monitoring of the execution of previously ordered measure, review and evaluation of recovery plans for all banks, review and control of regulatory reports, preparation of quarterly analyses for all banks according to the SREP methodology, and implementation of on-site

supervision in banks. Also, operations of preventing money laundering and financing of terrorist activities, payment transactions and consumer protection were monitored in all financial institutions that are under the supervision of the Agency.

In the direct supervision of banks carried out in 2024, the supervision of the testing of the recovery plan of the information system, the execution of previously ordered measures, and other activities were focused on the management of security and outsourcing of the information system. In 2024, special emphasis in the conducted on-site bank supervisions was placed on credit risk management, liquidity risk management, the management system and risk management system, the bank's capital, as well as the implementation of imposed measures.

On the regulatory side the BARS continued to harmonize its regulatory framework with EU regulations and Basel standards in line with its adopted Strategy of priority activities for maintaining equivalence of banking regulations with EU regulations for the period 2022-2026. The most significant new decisions adopted in 2024 are: the Decision on the Capital Conservation Buffer for Systemically Important Banks, the Decision on the Methodology for Determining Systemically Important Banks and the Capital Conservation Buffer for Systemically Important Banks, the Decision on Anti-Money Laundering and Combating the Financing of Terrorism Risk Management, and others.



In the segment of bank resolution in the course of 2024, the most significant activities were aimed at the implementation of indirect control in all banks, with a subject of determination of the amount of acceptable liabilities of banks, and the calculation of minimum requirements for capital and acceptable liabilities of banks (MREL requirements).

The activities of the Agency's implemented project "Financial Literacy in Banking" have continued, aiming to improve the financial literacy of citizens and legal entities regarding the use of banking services.

International activities of the Banking Supervisory Authority

During 2024, the BARS continued its activities aimed at strengthening and enhancing cooperation with international financial institutions, regional and other organizations, primarily with the World Bank, the European Banking Authority, the Deutsche Bundesbank, the Central Bank of Hungary, the Banking Supervision Central and Eastern Europe Group (BSCEE), as well as bilateral cooperation with regulators from other countries.

Development activities were carried out through training programs and courses offered by international organizations (Joint Vienna Institute – JVI, Deutsche Bundesbank, EBA, CEF, ESE, IFC, etc.) with the aim of building and strengthening the necessary capacities.

Apart from attending the meetings, the BARS responded, on a regular basis, to the inquiries, requests for data collection and questionnaires of international institutions and organizations. As a member of working groups, BARS also participated in activities related to the integration of Bosnia and Herzegovina into the EU, specifically in aligning with the EU regulatory framework.

In 2023 the BARS continued to be part of the European Commission project Strengthening the capacities of the central banks and banking agencies of the Western Balkans with the aim of integration into the European system of central banks, which aims to strengthen monetary and financial stability in the Western Balkans region and improve the alignment of national regulatory frameworks with European and international standards.

Cooperation with the World Bank was renewed and continued through the implementation of technical assistance for 2024 by the consultants of the Vienna Financial Sector Advisory Centre (FinSAC) Technical Assistance Mission in many different areas.

During 2024, activities began on providing technical assistance to the BARS by the International Finance Corporation (IFC) in the field of digital payments.

Cooperation with other supervisory bodies in the country

The BARS continued to cooperate with other supervisory authorities in the country, primarily with the Ministry of Finance of Republika Srpska as well as the Banking Agency of the Federation of Bosnia and Herzegovina through regular contacts and exchange of relevant information, participation of representatives of the BARS at the supervisory colleges, etc.

In 2024 the BARS continued to actively cooperate with the Insurance Agency of Republika Srpska and Securities Commission of Republika Srpska in accordance with the Law on Committee for Coordination of RS Financial Sector Supervision, as one of the Committee members.

Cooperation in 2024 was also continued with the Central Bank of Bosnia and Herzegovina and the Deposit Insurance Agency of the Bosnia and Herzegovina through regular contacts and exchange of relevant



information, as well as through membership and participation in different bodies and commissions, in line with the applicable legal framework.

Other relevant information and developments in 2024

For further information on the BARS supervisory activities and regulations, please visit the BARS website at www.abrs.ba

Questionnaire tables for the 2024 BSCEE Review

Number of financial institutions (at year-end)

Type of financial institution	2022	2023	2024
Commercial banks	8	8	8
Branches of foreign credit institutions	-	-	-
Cooperative banks	-	-	-
Banking sector, total:	8	8	8

Total assets of banking sector (at year-end)

Type of financial institution	2022	2023	2024
Commercial banks	5,148,725	5,302,173	5,729,301
Branches of foreign credit institutions	-	-	-
Cooperative banks	-	-	-
Banking sector, total:	5,148,725	5,302,173	5,729,301
y/y change (in %)	2022/2021 Index 102(+2%)	2023/2022 Index 103(+3%)	2024/20223 Index 108(+8%)

Ownership structure of banks on the basis of assets total

Item	2022	2023	2024
Public sector ownership	0	0	0
Domestic ownership total	50.0	52.0	50.7
Foreign ownership	50.0	48.0	49.3
Banking sector, total:	100.0	100.0	100.0

Concentration of asset by the type of financial institutions, 2024

Type of financial institution	The first three largest (%)	The first five largest (%)	HHI
Commercial banks	62.5	84.1	1.740
Branches of foreign credit institutions	-	-	-
Cooperative banks	-	-	-
Banking sector, total:	62.5	84.1	1.740

Return on Equity (ROE) by type of financial institutions

Type of financial institution	2022	2023	2024
Commercial banks	11.9	14.9	17.7
Cooperative banks	-	-	-
Banking sector, total:	11.9	14.9	17.7

Distribution of market shares in balance sheet total (%)

Type of financial institution	2022	2023	2024
Commercial banks	100.0	100.0	100.0
Branches of foreign credit institutions	-	-	-
Cooperative banks	-	-	-
Banking sector, total:	100.0	100.0	100.0

The structure of assets and liabilities of the banking sector (%) (at year-end)

	2022	2023	2024
Receivables	n/a*	n/a*	n/a*
Financial sector	n/a*	n/a*	n/a*
Nonfinancial sector	n/a*	n/a*	n/a*
Government sector	n/a*	n/a*	n/a*
Other assets	n/a*	n/a*	n/a*
Liabilities	n/a*	n/a*	n/a*
Financial sector	n/a*	n/a*	n/a*
Nonfinancial sector	n/a*	n/a*	n/a*
Government sector	n/a*	n/a*	n/a*
Other liabilities	n/a*	n/a*	n/a*
Capital	n/a*	n/a*	n/a*

Capital adequacy ratio of banks

Type of financial institution	2022	2023	2024
Commercial banks	20.2	21.0	21.1
Cooperative banks	-	-	-
Banking sector, total:	20.2	21.0	21.1

Asset portfolio quality of the banking sector (share of impaired receivables / share of non-performing loans)

Asset classification	2022	2023	2024
Non-financial sector, including	3.7	3.6	3.7
- households	3.4	3.4	3.0
- corporate	4.0	3.9	4.5

The structure of deposits and loans of the banking sector in 2024 (%) (at year-end)

	Deposits	Loans
Non-financial sector, including:	88.3	90.6
Households	62.3	49.3
Corporate	26.0	41.3
Government sector	8.2	8.3
Financial sector (excluding banks)	3.5	1.1
Total	100.0	100.0



**P&L account of the banking sector
(at year-end)**

P&L account	2022	2023	2024
Interest income	168,499	209,338	239,314
Interest expenses	25,734	29,030	40,164
Net interest income	142,765	180,308	199,150
Net fee and commission income	-	-	-
Other (not specified above) operating income (net)	-	-	-
Gross income	255,048	303,404	340,350
Administration costs	127,538	143,213	152,393
Depreciation	-	-	-
Provisions	-	-	-
Impairment on financial assets not measured at fair value through profit and loss / Provisions on financial assets (loans, ...)	22,916	24,083	19,288
Profit (loss) before tax	78,177	106,877	137,910
Net profit (loss)	71,220	96,773	126,371

Total own funds in 2024 (in 000 EUR)

Type of financial institution	Total own funds	Core Tier 1	Tier 1	Tier 2	Tier 3
Commercial banks	708,187	665,810	668,874	39,313	-
Cooperative banks	-	-	-	-	-
Banking sector, total:	708,187	665,810	668,874	39,313	-

Macroeconomic environment in the country

In 2024, Bulgaria's real GDP growth accelerated to 2.8%, the main drivers being domestic demand and inventories, while net exports had a negative contribution. Private consumption grew by 4.2% in real terms, underpinned by real wage growth, increased employment and improved consumer sentiment. Government consumption increased by 4.6% in real terms, mainly due to wage growth in the public sector and healthcare spending. The external environment has had a limiting impact on real GDP growth during the year – there was a decline in exports (by 0.8%) amid subdued economic activity in some of Bulgaria's main trading partners while the imports of goods and services grew in 2024 by 1.3%.

Gross capital formation decreased by 1.1% in real terms in 2024. Value added for the total economy increased by 2.5%, mainly due to the services sector, followed by industry, while there was a decrease in the agricultural sector.

The labour market remained tight in 2024, with employment increasing by 1.1% for a third consecutive year, against the backdrop of a shrinking labour force.

The average unemployment rate for 2024 was 4.2%. Nominal wage growth continued to exceed consumer inflation, driven by increased labour demand in the conditions of expanding economic activity and persistent labour shortage, additionally supported by public sector wage growth and a raise in the minimum wage in January 2024. Compensation per employee grew by 7.6% in real terms in 2024 while labour productivity for the total economy increased by 1.7%.

Annual inflation, measured by the HICP, slowed down to 2.1% as of end-2024 (5.0% in end-2023). The main contributors were the fall in energy prices, the lower import price of industrial goods, as well as the base effect resulting from the high growth in prices in 2023, mainly for food products. At the same time, in terms of the domestic macroeconomic environment, the growth in unit labour costs and the strong consumer demand continued to exert pro-inflationary pressure, with their impact being most pronounced in the services segment.

The budget deficit in 2024 was 3.0% of GDP. The gross external debt amounted to 47.3% of GDP.

Development in the banking sector (including assets total / GDP)¹

In 2024, the Bulgarian banking sector operated in the context of increased geopolitical uncertainty in the external environment and relatively favourable domestic conditions. Interest rate levels and strong private consumption supported the demand for credit, while the high liquidity and stable capital positions of banks stimulated its supply.

The banking system's total assets and loans grew at higher rates compared to 2023. Total assets increased by 11.3% (BGN 19.5 billion) to BGN 191.6 billion, and the ratio of the banking system's total assets to GDP was 94.4%² in end-2024. Loans and advances increased by 13.7% (BGN 14.1 billion), their share in the total assets amounting to 61.2%. The share of "cash, cash balances at central banks and other demand deposits" was 17.8%, while debt securities held a share of 17.3%. The loan-to-deposit ratio (LTD)³ for the banking system

¹ Based on supervisory statements on an individual basis as of end-December 2024 and end-December 2023 submitted by 19 February 2025.

² Based on NSI data on GDP for 2024 at current prices.

³ The ratio is calculated excluding central banks and credit institutions sectors.

increased to 74.3% at the end of 2024 (71.2% as of end-2023) due to the higher growth of the credit portfolio (13.5%) compared to deposits (8.9%).

In 2024, the gross amount of debt securities reached BGN 33.0 billion (BGN 25.9 billion in end-2023), owing to the increase in bonds of the general governments sector by BGN 6.7 billion (30.2%).

In order to reflect potential medium-term risks arising from credit growth in the housing loans segment, the BNB Governing Council introduced requirements with respect to lending standards on newly originated and renegotiated loans collateralised by residential real estate (RRE)⁴, effective from 1 October 2024. The requirements aim to strengthen the creditworthiness of borrowers in this segment and further enhance the resilience of the banking system, complementing the existing capital buffers set by the BNB. Given the persistently high rates of credit growth and the ongoing uncertainty in the economic environment, the countercyclical capital buffer⁵ level of 2%, applicable to credit risk exposures in Bulgaria, remained in effect throughout 2024 and has been confirmed until the end of the first quarter of 2026.

Market structure

At the end of 2024, there were 23 credit institutions in the Bulgarian banking system. There were 17 banks (of which one was a state-owned bank) and 6 foreign bank branches. As of end 2024 four banks⁶ were classified as significant institutions (SIs), subject to direct supervision by the ECB, with a 68.6% share of the total assets in the local banking system. The remaining thirteen credit institutions were classified as less significant (LSIs), under the direct supervision by the BNB, with 28.9% share in the total assets. The assets of foreign bank branches comprised 2.5% of the balance sheet of the banking system.

Loans and Deposits

In 2024 the gross loan portfolio⁷ increased by 13.5% and amounted to BGN 110.6 billion, its share in the total banking system assets reaching 56.0% as of end-2024. Gross loans to households rose by 21.5%, comprising 43.4% of the loan portfolio and contributing 64.4% to its annual growth. Gross loans to non-financial corporations increased by 9.0% and their share in the loan portfolio was 47.7%.

Gross loans and advances denominated in BGN amounted to 70.3% of the total, while claims in EUR and in other currencies comprised 26.9% and 2.7%, respectively.

The total deposits in the banking system increased by 10.6%, amounting to BGN 162.9 billion at the end of 2024. Deposits of households rose by 11.7% and held a share of 56.6% of the total. Deposits of non-financial corporations grew by 6.3%, while their share amounted to 30.2%.

Asset quality

During 2024, the reduction in the amount of non-performing loans in banks' balance sheets continued. Gross non-performing loans and advances in the banking system decreased by 1.1% (BGN 40 million) to BGN 3.8 billion. This was most pronounced in the main sectors of the loan portfolio – households and non-financial corporations, reflecting banks' write-offs and sales of non-performing loans. Total gross loans and advances in the banking system grew to BGN 120.6 billion⁸ and the non-performing share (NPL ratio) decreased to 3.2% at the end of 2024 (3.6% at end-2023).

⁴ More information on the RRE measures is available on the BNB website: [BNB Press Release 11 September 2024](#).

⁵ More information on all capital buffers and their current and historical levels is available on the BNB website: [BNB Capital Buffers](#).

⁶ As part of the close cooperation process between the BNB and the ECB pursuant to Decision (EU) 2020/1015 of the ECB of 24 June 2020 on 11 September 2020 the ECB announced the list of banks in Bulgaria which are subject to direct supervision by the ECB as from 1 October 2020. As of end-2024 these credit institutions were UniCredit Bulbank, DSK Bank, United Bulgarian Bank and Eurobank.

⁷ The scope of the loan portfolio comprises the sectors non-financial corporations, households, other financial corporations and general governments.

⁸ Calculated on the basis of the narrow scope of total loans and advances (excl. cash balances at central banks and other demand

The gross amount of all non-performing exposures⁹ decreased to BGN 3.9 billion as of end-2024 and its share was 2.1% of all exposures (2.4% in end-2023).

The impairment coverage ratio on total gross non-performing loans and advances was 49.4% as of end-2024, while the net NPL¹⁰ ratio amounted to 1.6% (1.9% in end-2023).

Profitability

The profit of the banking system at the end of 2024 amounted to BGN 3.7 billion, 8.1% (BGN 277 million) higher than the one reported at the end of 2023. Net interest income grew by 14.9% (BGN 723 million), contributing the most for the higher profitability of the banking sector in 2024. Net income from financial instruments and net fee and commission income were also higher on an annual basis, while other net income decreased. The banking sector's end-2024 return on assets (ROA) and return on equity (ROE) amounted to 1.93% and 15.99%, respectively (1.99% and 17.12%, respectively, as of 31 December 2023).

Impairment costs of financial assets not measured at fair value through profit or loss were BGN 666 million at the end of 2024, or 69.7% (BGN 273 million) more than those reported in 2023. The cost to income ratio¹¹ of the banking system improved to 38.2% (from 39.2% in 2023).

Solvency

The capital position of the banking system remained solid in 2024 and the reported capital ratios were significantly above the regulatory requirements¹². Regulatory own funds in the banking system increased by 14.7% and amounted to BGN 21.0 billion at the end of 2024, of which BGN 19.4 billion was Common Equity Tier 1 (CET1) capital. The total risk exposure amount increased by 9.8% to BGN 92.4 billion, mainly owing to the growth in the risk-weighted exposures for credit risk.

The ratios of CET1 capital, Tier 1 capital and total capital adequacy amounted to 21.03%, 21.32% and 22.70%, respectively, higher compared to end-2023 (20.15%, 22.60% and 21.73%, respectively). All credit institutions observed the minimum capital requirements and the capital buffer requirements. The amount of capital in the banking system above the Pillar 1 and Pillar 2 requirements and the combined buffer requirements¹³ was BGN 4.9 billion. This amount of excess capital continued to exceed the net amount of non-performing loans and advances¹⁴ in the banking system (BGN 1.9 billion at the end of 2024), ensuring additional coverage of the potential residual credit risk in banks' balance sheets.

The leverage ratio of the banking system¹⁵ stood at 9.96% at the end of 2024, indicating a high level of capital coverage of the banking system's total exposures and a low level of indebtedness.

deposits), applied since June 2020 under EU Regulation. Total loans and advances including cash balances at central banks and other demand deposits reached BGN 151.8 billion by end-2024, and the share of non-performing loans under this broader scope stood at 2.5% as of end-2024 (2.8% as of end-2023).

⁹ Exposures under the EBA methodology include gross loans and advances along with cash balances at central banks and other demand deposits and debt securities other than those held for trading.

¹⁰ Net NPL ratio uses net NPLs (gross NPLs minus impairments on NPLs) and net total loans and advances (gross loans and advances minus total accumulated impairments).

¹¹ The cost-to-income ratio is the sum of administrative costs, depreciation costs and (as of June 2020) resolution fund and deposit guarantee scheme costs to net operating income.

¹² More information on the effective capital buffer rates is available on the BNB website.

¹³ A 'combined buffer requirement' is a concept referred to in Article 2, paragraph 3 of the BNB Ordinance No 8 of 27 April 2021 on Banks' Capital Buffers.

¹⁴ The net value of non-performing loans and advances is calculated using the EBA methodology: their gross amount less accumulated impairment thereon. In calculating the share of net non-performing loans and advances, their net value is used along with that of total loans and advances.

¹⁵ Calculated using a fully phased in definition of Tier 1 capital. The regulatory requirement for the leverage ratio was introduced on 28 June 2021 in compliance with Regulation (EU) 2019/876 of the European Parliament and of the Council, amending Regulation (EU) No 575/2013.

Liquidity

The liquidity position of the banking system remained stable in 2024, with a liquidity coverage ratio (LCR) of 241.1% and all credit institutions exceeding the minimum regulatory requirement for a liquidity coverage of 100%. The liquidity buffer of the banking system grew by 7.3% (BGN 3.9 billion) and reached BGN 56.9 billion.

At the end of 2024, the net stable funding ratio (NSFR¹⁶) of the banking system was 165.2%, with all credit institutions observing the minimum requirement of 100%.

Product and distribution channels

At the end of 2024 there were 80 points of sale (branches, offices, representative offices and remote workstations), 79 ATMs and 2535 POS terminals per 100 000 population.

The legal and institutional framework of the operation and supervision of financial institutions, new developments. Legal competence of the Banking Supervisory Authority in Bulgaria

the BNB powers for banking supervision are regulated in the Law on the Bulgarian National Bank (LBNB), the statutory law, and the Law on Credit Institutions (LCI). The Banking Supervision Department of the BNB is, according to Art. 19, para. 1 of LBNB, one of the three basic departments of the BNB and is directly headed by a Deputy Governor designated by the National Assembly. Art. 20, para. 3 of LBNB explicitly empowers the Deputy Governor heading the Banking Supervision Department to exercise supervision over the banking system.

In general, the activity of banking supervision in Bulgaria is based on the European regulatory framework for credit institutions (CRD/CRR, BRRD, AMLD, DORA, etc.), including the EC delegated acts in relevant areas, the EBA guidelines and the ESRB recommendations.

As part of the Single Supervisory Mechanism (SSM), by establishing on 1st October close cooperation with the ECB, pursuant to Article 7 of Regulation (EU) No 1024/2013, the BNB performs its supervisory activities in relation to credit institutions in Bulgaria in full compliance with the requirements of the national, European and international legal and prudential framework. The BNB implements the relevant guidelines, instructions, analytical and methodological papers of the ECB as the national competent authority for the less significant institutions (LSIs), while in terms of supervision over significant institutions (SIs), experts from BNB take part in joint supervisory teams at the SSM level. Within its mandate, the BNB applies a continuous micro-level supervisory process to the business model and risk appetite of each credit institution, controlling for the availability of sufficient capital and reserves to face the risks arising from its activities. In accordance with its macro prudential mandate, the BNB conducts assessment of the processes and trends in the banking system, on the basis of which it develops and implements macro prudential policy and tools aimed at preventing and reducing systemic risk and avoiding the transmission and spread of adverse effects, in order for the sector to be a prerequisite and a factor for sustainable economic growth.

Over 2024, experts from BNB continued to take part in working structures within the European Banking Authority (EBA) and the European Central Bank (ECB), and have contributed to incorporation of the latest developments in the Basel standards into the EU regulatory framework. For their effective implementation

¹⁶ Introduced on 28 June 2021 pursuant to Regulation (EU) 2019/876, amending Regulation (EU) No 575/2013, the net stable funding ratio illustrates the extent to which credit institutions' liabilities and own funds items can ensure funding for their exposures over a one-year horizon.

at national level and for achieving higher congruence with the ECB policies, while steadily adhering internal approaches and activities to the best practices in the relevant area, supervisors from the BNB were pursuing regular attendance in various international seminars and other professional fora.

Furthermore, the BNB was coordinating as well the process in connection with the annual public disclosure by the supervisory authorities, provided for in Article 102 of the Law on Credit Institutions and Commission Implementing Regulation (EU) No 650/2014, allowing for comparison of the approaches adopted by the BNB and other competent authorities of the Member States.

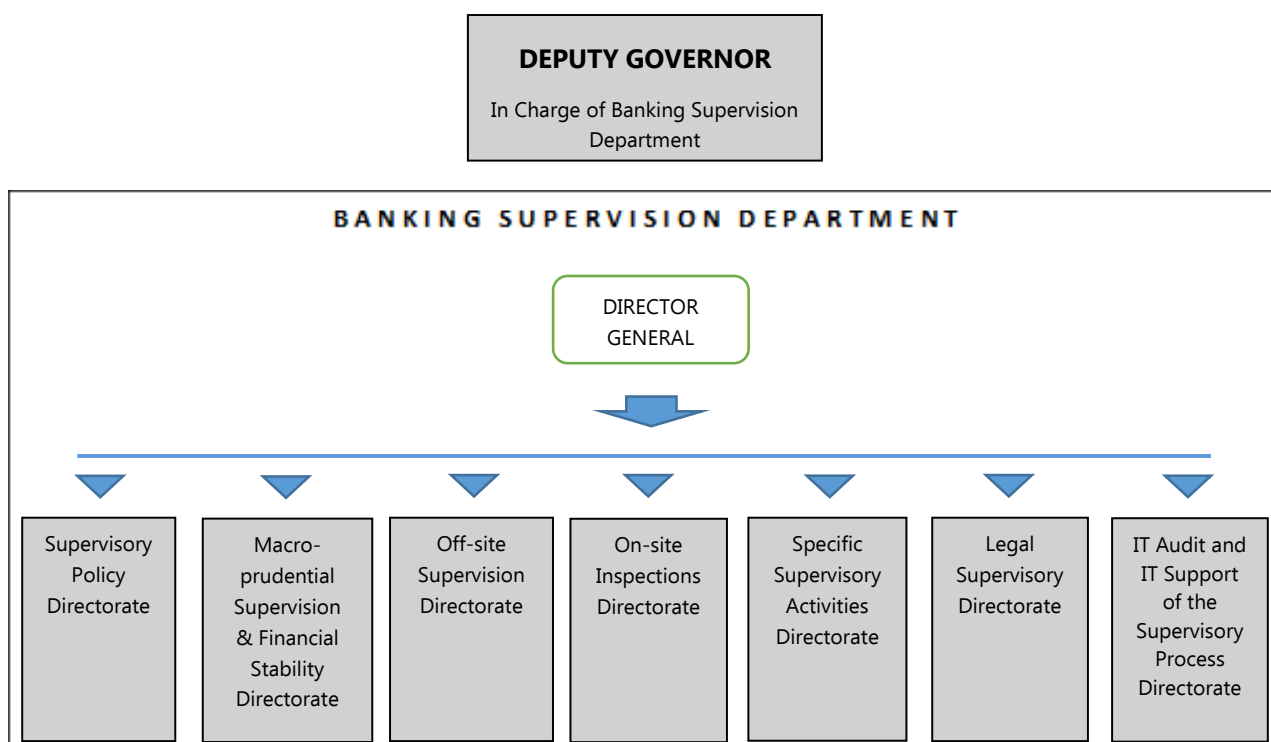
Depending on the developments in the banking sector, as well as the changes at the EU level, individual laws and regulatory rules within the national framework were amended. In this regard, experts from the BNB contributed to the preparation of amendments and additions to the primary and secondary national legislation related to Regulation (EU) 2022/2554 on digital operational resilience for the financial sector (DORA) and Directive (EU) 2022/2555 on measures for a high common level of cyber security (NIS 2 Directive).

Pursuant to the revised EBA Guidelines on the methods for calculating the contributions of credit institutions to deposit guarantee schemes under Directive 2014/49/EU (EBA/GL/2023/02), repealing and replacing the previous guidelines in this area, on 11 September 2024, the Governing Council of the BNB adopted a new Ordinance No 30 on the calculation of the amount of premium contributions payable by banks under the Bank Deposit Guarantee Act.

In connection with the implementation of banking supervision on a consolidated basis, it continued the work of aligning the reporting and risk management processes in financial holding companies representing parent undertakings in a member state, respectively EU parent undertakings of credit institutions operating in the Republic of Bulgaria.

In the second half of the year, the BNB updated the reporting requirements as of 30 September 2024, reflecting the new reporting for interest rate risk in the banking book and changes in macroprudential templates.

Organisational chart of the Banking Supervisory Authority



Main strategic objectives of the supervisory authority in 2024

- Ensuring effective supervision by monitoring and identification of risks faced by banks, and their vulnerabilities on an ongoing basis, for safe and sound institutions and a stable financial system.
- Strengthening the resilience of banks to immediate macro-financial threats and severe geopolitical shocks through timely and appropriate capital buffer policies and decisions.
- Addressing digitalisation challenges in bank operations, related risks and risk management capabilities, i.e. by appropriate and proportional implementation of the DORA requirements.
- Ensuring preventive supervision amid growing Fintech/MLTF challenges and enhancing consumer protection.

The activities of the Banking Supervisory Authority in 2024

In 2024, the main activity of the ongoing monitoring of the financial condition of credit institutions and holding companies, as usual, was aimed at assessing their risk profile, with an emphasis on providing additional information and better treatment of the reported changes in submitted supervisory data. The regular annual Supervisory Reviews and Evaluation Process (SREP), including analyses of the banks' internal capital adequacy and liquidity assessment programmes (ICAAP & ILAAP) for 2023, and of their funding plans for the period 2024 - 2026 were conducted. The SREP reports were prepared in accordance with the relevant SSM/ECB's methodology, version 2023. The updated versions of the recovery plans for less significant institutions (LSI), including the implementation of previously recommended measures by the BNB to enhance their reliability, were also assessed. Alongside this, the tracking of the set goals in the strategies and operational plans of the banks for the reduction of non-performing loans continues. Based on the supervisory assessment outcomes, the Governing Council of the BNB adopted respective decisions to determine additional capital requirements and recommendations for the capital of certain LSIs.

In the context of the established close cooperation between the Bulgarian National Bank and SSM/ECB, local supervisory experts took part in the joint supervisory teams (JST) conducting direct oversight of significant institutions (SI) in Bulgaria. As usual, they contributed to the preparation of reports from the Supervisory Review and Evaluation Process (SREP), focusing on their risk profile and financial condition. Within the supervisory colleges, relevant decisions were discussed and made regarding their capital and liquidity, alongside with the recovery plans of the respective European banking groups, part of which are the significant institutions in Bulgaria. Meetings of the respective JSTs also took place with representatives of three of them.

In this regard, it should also be noted that experts from the BNB participated in the work of the Business Model and Profitability Expert Group at the SSM, where issues related to changes in the SREP methodology, also to business model and profitability analysis, assessment of digitalisation, to the analysis of banks with weaknesses in their business models, as well as a horizontal analysis of corporate investment banking in SIs were discussed.

In 2024, on-site supervision inspections were completed at one significant bank, subject to direct supervision by the SSM/ECB, and three LSIs under the competence of the BNB. The scope and intensity of the inspection conducted by a BNB team on behalf of the ECB were agreed upon based on a request and consultations with the corresponding JST from the ECB. As regards the scope of the inspections in the three LSIs, they covered credit risk and particularly credit risk concentrations, as well as accuracy of supervisory reporting in the respective risk levels, documentation coverage in the internal management information systems, internal

policies, credit files and registers, business practices established, etc. Where necessary, recommendations were made to improve business processes, internal rules and procedures, internal control mechanisms, etc., particularly related to credit risk. In the past year, four new on-site inspections started at four other LSIs, according to the annual plan for 2024 supervisory activity, which also focus on the risk of credit exposures to non-financial institutions, and the accuracy of relevant supervisory returns.

In pursuit of its main goal to maintain the stability of the banking sector and to mitigate risks, the Bulgarian National Bank, within its macroprudential mandate, continuously monitors the behaviour of credit institutions and developments in the banking system.

In May 2024, she prepared and published a Review of the macroprudential measures introduced by the BNB in relation to the risks facing the banking system. It indicates that as a result of the supervisory policy of the BNB for the systematic creation and maintenance of buffers in the banking system, resilience in terms of liquidity, capital and credit quality has been established. At the same time, there is pronounced credit growth primarily in the segment of loans secured by mortgages on residential real estate (RRE). In this regard, in September, the Governing Council of the BNB took the decision and imposed stricter criteria and ratios for the granting new and renegotiation of forbearing loans secured by mortgages of RRE. They came into effect on 1 October 2024 and cover the 'Households' sector, where credit institutions shall comply with them on an individual and consolidated basis. The total new and renegotiated forbore amount of loans in each current quarter shall not exceed the total gross value of newly granted and renegotiated forbore loans in the previous quarter by more than 5%. For monitoring permissible deviations, it was introduced additional reporting for banks. The decision represents another stage in the process of assessing risks in mortgage lending and also includes the development of a quantitative methodology for risk assessment and risk mapping, and a mechanism for monitoring and reporting. The requirements support the maintenance of stability in the banking system by complementing the capital buffers that have been applied by the BNB so far. In nature, they are not deterring for the lending activity, rather they reflect the conservative supervisory approach of the BNB, in line with the overall practice of macroprudential measures applied in EU countries.

In the area of macroprudential policy, the BNB conducts quarterly reviews of the countercyclical capital buffer as an important tool for ensuring stability and ability of the banking system to withstand adverse implications of the economic and financial cycle. Given the continuing high rates of credit growth and uncertainty in the economic environment, the level of the 2% countercyclical buffer was confirmed for the period until the end of 2025 (with decisions by the BNB's Governing Council in March, July, and September 2024) and the first quarter of 2026 (with a decision in December 2024).

With regard to structural risks, during the annual review of the buffer for other systemically important institutions (O-SII), six banks were identified, for which the buffer levels for 2025 were set in the range of 0.5% to 1.0%.

In connection with the implementation of the Recommendation of the European Systemic Risk Board (ESRB) on the assessment of cross-border effects of and voluntary reciprocity for macroprudential policy measures (ESRB/2015/02), in May 2024, the BNB's Governing Council decided, and respectively notified the ESRB that in Bulgaria it is not necessary to introduce voluntary reciprocity regarding the macroprudential measures of Belgium, Germany, Norway, Sweden, Portugal, and Denmark. The decision is based on the review of the current data, which indicates an insignificant size of exposures according to Recommendation ESRB/2023/13, which amended Recommendation ESRB/2015/02.

Within the two-pillar system in Bulgaria in the area of measures against money laundering and terrorism financing, where the State Agency for National Security (FID-SANS), and more particularly the FIU is the leading authority monitoring all obliged entities, while the Bulgarian National Bank exercises powers in this area over all banks (both significant and less significant), as well as the financial institutions under Article 3a of

the Law on Credit Institutions (LCI). The audits carried out over the past year by the BNB aimed to establish the level of compliance with the requirements for comprehensive checks on customers associated with high-risk events, as identified in the National Risk Assessment of money laundering and terrorism financing, as well as the effectiveness of the internal organisation and controls in the area of prevention, including in connection with the obligation for whistle-blowing to the competent authorities.

In 2024, the BNB continued to carry out regular checks with entities under Art. 3a of the LCI for compliance with the BNB's Ordinance No 26 on Financial Institutions, which are required to maintain own funds in view of the significant volume of the business they exercise under the Law. For this, accuracy of reporting data and other information they provide to BNB was also taken into account in the scope of the inspections performed.

In connection with the implementation of the EBA guidelines for establishing business relationships with new customers remotely, in order to mitigate risks and promote financial inclusion (EBA/GL/2022/15 on the use of Remote Customer Onboarding Solutions under Article 13(1) of Directive (EU) 2015/849), experts from the BNB carried out methodological work for the preparation of guidance, instructions and circular letters to credit institutions and other financial intermediaries.

In line with the BNB's supervisory powers under the Act on Credits for Immovable Properties to Consumers and the implementation of the relevant EBA guidelines falling under its scope, examinations were done of banks and entities under Art. 3a of the LCI, more particularly of credit intermediaries active in mortgage lending to consumers, with special emphasize on the assessment of the creditworthiness of borrowers.

The supervisory activity regarding risks in information and communication technologies (ICT), in addition to the methodological preparation for implementing the requirements in this direction, also includes conducting checks on the application of standards, policies, and procedures for security and reliability of the used ICT technologies. During the checks carried out in less significant institutions, according to the competencies of the Bulgarian National Bank (BNB), the standards and guidelines of the European Banking Authority (EBA), the policies of the European Central Bank (ECB), and the international standards in IT audit are observed.

In 2024, on-site inspections were carried out to determine the level of IT risk in various areas. Recommendations were made to the examined institutions, which were subsequently followed up and implemented by them. IT auditors from the BNB carried out checks also at a significant credit institution, in the context of close cooperation between the BNB and the ECB, with an emphasis on cybersecurity management.

In the past year, there was registered one cyber incident, which was then followed-up, and upon the outcome of the checks performed, it was classified as an operational IT gap, and not a cyber-attack. The BNB continued to coordinate the process of reporting cyber incidents by the institutions, where after processing the reports, submit them to the Cyber Incident Team at the SSM/ECB. The BNB provided also assistance in the coordination and conduct of the pan-European Cyber Resilience Stress Test, where one significant bank in Bulgaria joined the exercise.

International activities of the authority

in the context of the established close cooperation with the ECB, persons with management functions and experts from the BNB are involved at different levels and formats in the relevant ECB governance and working structures, e.g. in the Supervisory Board, in joint supervisory teams, supervisory colleges, etc., in the discussion and decision-making process in the field of banking supervision.

In 2024, representatives of the Banking Supervision Department continued taking part in discussions at European level on the discussions on the EU package on the so-called revised Basel III standards, which was endorsed by the Council of the EU on 30th May 2024, and published in the EU Official Journal. In the area of

the implementation of the European regulatory framework, cooperation was going on under the permanent substructures (committees and working groups) of the EBA and the ECB, where BNB experts at different levels participate in the discussion and elaboration of common supervisory policies and standards, as well as in the exchange, assessment and convergence of national practices on the implementation and enforcement of the EU prudential and supervisory framework.

In May 2024, experts from the Bulgarian National Bank participated and contributed to the discussions and decisions taken during the Annual Members Conference of the Group of Banking Supervisors from Central and Eastern European Countries (BSCEE), which took place in Budapest. In course of the cooperation and exchange of experience within the group, various queries were received from other members, in response to which information on various topics in the field of banking supervision was provided. Views and positions were exchanged also within written procedures for discussions on proposals for amendments to the BSCEE Agreement. The amendments were passed within the Annual Members Conference.

Over the year, the BNB continued its participation as a partner in the three-year Programme for Additional Support for Central Banks and Supervisory Authorities in the Western Balkan countries - candidate and potential candidate countries for EU membership that started in 2022. The programme is funded by the EU and is implemented jointly with the Deutsche Bundesbank and other central banks from the ESCB.

Cooperation with other supervisory bodies in Bulgaria

Regarding the topics on AML the BNB experts participate in various national interagency working groups and maintain close cooperation with all national AML/CFT supervisory authorities in the country. With regard to the FIU (FID-SANS) as the leading AML/CFT authority a Memorandum of Understanding ensuring continuous cooperation with the BNB is in force.

The BNB and Commission for Consumer Protection (Commission) are the competent authorities under the Act on Credits for Immovable Properties to Consumers, which transposes the requirements of the Mortgage Credit Directive. Under this law, the BNB collaborates with the Commission.

Regarding the Law on Bank Deposit Guarantee, the BNB works in close cooperation with the Bulgarian Deposit Insurance Fund (BDIF). Upon requests of BDIF, the BNB conducts targeted inspections of banks for compliance with the requirements of the Law on Bank Deposit Guarantee under the Deposit Guarantee Schemes Directive.

Questionnaire tables for the 2024 BSCEE Review

Number of financial institutions (at year-end)

Type of financial institution	2022	2023	2024
Commercial banks	18	17	17
Branches of foreign credit institutions	7	6	6
Banking sector, total:	25	23	23

Total assets of banking sector (at year-end) (EUR'000)

Type of financial institution	2022	2023	2024
Commercial banks	76 740 885	85 820 292	95 467 339
Branches of foreign credit institutions	2 718 147	2 167 840	2 488 455
Banking sector, total:	79 459 032	87 988 132	97 955 793
y/y change (in %)	14.8%	10.7%	11.3%

Ownership structure of banks on the basis of assets total (%)

Item	2022	2023	2024
Public sector ownership	2.0	1.6	1.6
Domestically controlled total* ¹⁷	27.1	26.3	26.5
Foreign controlled total*	72.9	73.7	73.5
Banking sector, total:	100.0	100.0	100.0

Concentration of asset based on market share in terms of total assets, 2024

Type of financial institution	The first three largest (%)	The first five largest (%)
Banking sector, total:	56.8	76.8

Return on Equity (ROE) (%)

Type of financial institution	2022	2023	2024
Banking sector, total:	11.98	17.12	15.99

Distribution of market shares in balance sheet total (%)

Type of financial institution	2022	2023	2024
Commercial banks	96.6	97.5	97.5
Branches of foreign credit institutions	3.4	2.5	2.5
Banking sector, total:	100.0	100.0	100.0

¹⁷ Note: The data is based on the reporting methodology for the purposes of ECB Consolidated Banking Data.

The structure of assets and liabilities of the banking sector (%)
(at year-end)

Assets	2024
Cash, cash balances at central banks and other demand deposits	17.8
Financial assets held for trading	0.3
Non-trading financial assets mandatorily at fair value through profit or loss	0.2
Financial assets designated at fair value through profit or loss	0.0
Financial assets at fair value through other comprehensive income	5.6
Financial assets at amortised cost	72.9
Derivatives – Hedge accounting	0.0
Fair value changes of the hedged items in portfolio hedge of interest rate risk	0.0
Investments in subsidiaries, joint ventures and associates	0.3
Tangible assets	1.7
Intangible assets	0.3
Tax assets	0.0
Other assets	0.7
Non-current assets and disposal groups classified as held for sale	0.1
TOTAL ASSETS	100.0
Liabilities	2024
Financial liabilities held for trading	0.1
Financial liabilities designated at fair value through profit or loss	0.0
Financial liabilities measured at amortised cost	86.9
Derivatives – Hedge accounting	0.1
Fair value changes of the hedged items in portfolio hedge of interest rate risk	0.0
Provisions	0.2
Tax liabilities	0.1
Share capital repayable on demand	0.0
Other liabilities	0.5
Liabilities included in disposal groups classified as held for sale	0.0
TOTAL EQUITY	12.1
TOTAL EQUITY AND TOTAL LIABILITIES	100.0

Capital adequacy ratio of banks***

Type of financial institution	2022	2023	2024
Banking sector, total:	21.01	21.73	22.70

*** - for Basel III

**Asset portfolio quality of the banking sector
(share of non-performing loans)**

Asset classification (narrow scope) ¹⁸	2024
Gross non-performing loans and advances to total gross loans and advances (%)	3.2
Net non-performing loans and advances to total net loans and advances (%)	1.6
Asset classification (broad scope) ¹⁹	2024
Gross non-performing loans and advances to total gross loans and advances (%)	2.5
Net non-performing loans and advances to total net loans and advances (%)	1.3

**The structure of deposits and loans and advances of the banking sector (%)
(at year-end)**

	2023		2024	
	Deposits	Loans and advances	Deposits	Loans and advances
Central banks	0.0	0.0	0.0	0.0
General governments	2.6	1.0	1.9	0.7
Credit institutions	7.2	8.4	8.6	8.3
Other financial corporations	2.8	7.9	2.6	7.4
Non-financial corporations	31.4	45.6	30.2	43.8
Households	56.1	37.2	56.6	39.8
Total	100.0	100.0	100.0	100.0

¹⁸ The AQT 3.2.1.2 indicator introduced by the European Banking Authority (EBA) to measure the share of gross non-performing loans and advances is based on a narrower definition of loans and advances, according to which cash balances and other demand deposits are excluded. The narrow scope of loans and advances covers the credit portfolio and claims on credit institutions other than demand deposits.

¹⁹ The AQT 3.2 indicator used by the EBA is based on a broad definition encompassing all counterparties, including cash balances at central banks and other demand deposits.

**P&L account of the banking sector
(at year-end; in EUR'000)**

P&L account	2022	2023	2024
Interest income	1,859,664	3,003,297	3,438,446
Interest expenses	207,033	527,911	593,531
Net interest income	1,652,631	2,475,386	2,844,915
Net fee and commission income	733,514	760,817	828,457
Other (not specified above) operating income (net)	323,159	281,884	224,564
Total operating income, net	2,709,303	3,532,883	4,024,892
Administrative expenses	1,007,850	1,123,508	1,260,452
Depreciation	143,667	156,280	164,277
Provisions or (-) reversal of provisions	-5,334	8,345	-24,001
Impairment or (-) reversal of impairment on financial assets not measured at fair value through profit or loss	304,680	200,648	340,420
Profit or (-) loss before tax from continuing operations	1,156,687	1,934,152	2,178,468
Profit or (-) loss for the year	1,058,427	1,752,794	1,894,526

Total own funds in 2024 (in EUR'000)***

Type of financial institution	Total own funds	Core Tier 1	Tier 1	Tier 2	Tier 3
Banking sector, total:	10,723,459	9,934,244	10,069,057	654,402	

*** - for Basel III



Macroeconomic developments in the country

Economic developments in Croatia were in 2024 marked by continued strong economic growth amid relatively weak external demand, geopolitical tensions and a gradual easing of the ECB's monetary policy.

The Croatian economy thus continued to grow at a much faster pace than the average of the euro area countries, mainly as a result of large domestic demand, partly driven by an expansionary fiscal policy. GDP per capita (in purchasing power standards) increased to 77% of the EU average, from 76% in 2023. Inflation continued to decline due to the easing of imported inflationary pressures, following the stabilisation of global supply chains and a fall in energy prices on the global market, and the still restrictive monetary policy stance. At the same time, the increase in prices continued to be driven by domestic pressures caused by wage and employment growth resulting from labour shortages. Following the cycle of the strongest monetary policy tightening so far, which steered euro area inflation towards target levels, in the second half of 2024 the ECB started to gradually reduce key interest rates. Such developments were reflected in more favourable financing conditions for domestic sectors, especially corporates, with a relatively strong growth in corporate and household loans.

Growing global uncertainty related to geopolitical tensions, and at the local level the spillover of strong domestic demand and relatively high growth rates of economic activity into strong growth in household lending and real estate prices, were the main drivers of financial stability risks in 2024. Against the backdrop of elevated risks, the HNB's macroprudential policy insisted on maintaining previously built-up capital buffers, with continued warning of the strengthening of risks and the possibility of introducing additional measures.

Developments in the banking sector (including assets total / GDP)

In 2024, total banking system assets increased by EUR 5.6bn (7.1%) to a record total of EUR 84.2bn.

The increase in the sources of financing was due to the inflow of deposits and new debt securities issues, and the capital of credit institutions also grew. Received deposits grew in all sectors, rising by a total of EUR 4.2bn (6.4%). The bulk of the increase was accounted for by household deposits, with current account deposits growing the most. Households also made the largest contribution to the increase in deposits with agreed maturities, which can be attributed to the rise in interest rates on time deposits and the consequent greater motivation to make time deposits. New issuances of debt securities issued by credit institutions are mainly intended to meet the minimum requirement for own funds and eligible liabilities (MREL).

On the asset side, the largest increase was recorded in loans (EUR 5.7bn or 12.7%) and investments in debt securities (EUR 1.8bn or 16.4%), which resulted in a decrease in credit institutions funds. The bulk of lending activity is channelled to financial sectors and households. The growth of general-purpose cash loans to households picked up again, while the growth of housing loans slowed down. Loans to non-financial corporations also continued to grow moderately, while reduced loans to the domestic government were offset by higher investments in government bonds.

The mentioned decrease in funds was primarily due to a decrease in assets in settlement accounts with the HNB. However, given the increased investment in other highly liquid forms of assets, such as government bonds, the overall impact on liquidity indicators was almost neutral. The liquidity coverage ratio (LCR) was thus at a very high level of 230.9%, much above the prescribed minimum of 100%. Structural liquidity, measured by the net stable funding ratio (NSFR), is also at a very high level, standing at 172.2%. A slight change in the



value of this indicator suggests that the mentioned growth in deposits ensured stable sources of credit activity financing.

The quality of credit institutions' assets has continued to improve. This is shown by a decrease in loans whose credit risk has increased significantly, but which are not yet in default (stage 2), as well as by a decrease in non-performing loans (NPLs). These developments, accompanied by an increase in total loans, led to a fall in the share of stage 2 loans in total loans to 11.7% and a fall in the share of non-performing loans to 2.4% of total loans.

The values of both indicators, although reduced, are still less favourable than their averages in the EU banking system (9.2% and 1.9% respectively). The decrease in NPLs was mostly due to repayments and reclassification into performing loans, with a small contribution from the sale of claims. The continued improvement in asset quality was mostly influenced by developments in the portfolio of loans to non-financial corporations, with the share of NPLs falling to 4.5%. The share of NPLs also decreased in the portfolio of household loans, to 3.7%, but the dynamics of NPL resolution slowed down, leaving household loans as the main source of total non-performing loans in the banking system. However, NPL coverage is still on the highest level in EU/EEA area at 65.9%.

In 2024, credit institutions generated a record profit of EUR 1.5bn, which is an annual increase of 13.0%. Profitability indicators are at very high levels – the return on assets (ROA) totalled 1.9% and the return on equity (ROE) 16.4%. Net interest income made the largest individual contribution to the increase in total operating income.

Banks generated a higher amount of interest income than all sectors (18.3%), particularly on the basis of the increased volume of household loans. However, the increased level of deposit interest rates and the attraction of time deposits led to an increase in interest expenses (68.6%), so that net interest income eventually grew by 6.5%.

The 73.7% increase in dividend income stood out among items of income with non-interest characteristics. Net fee and commission income and other (net) non-interest income grew much less, by 9.0%. General operating expenses increased as well, but at a much slower rate than total operating income, consequently improving the cost efficiency of the banking system. A positive contribution to profit is still made by the mentioned improvement in asset quality, which is why revenues were generated from the reversal of impairments on credit exposures.

Banking sector capitalisation is high, although the total capital ratio edged down to 23.8%. However, this rate still exceeds the EU average (20.1%), and most credit institutions had a rate higher than 20%.

The decrease in the total capital ratio is still influenced by the increase in total risk exposure (10.0%), which is higher than the increase in own funds (9.3%). This credit activity contributed the most to the increase in total risk exposure, while the increase in own funds was equally due to the growth in retained earnings and the increased inclusion of subordinated instruments in Tier 2 capital. Despite the increase in own funds, the level of own funds available to cover unexpected losses decreased, due to increased risk exposure and the fact that some prescribed and imposed own funds requirements changed during the year. Among them, the biggest impact was made by the increase in the countercyclical capital buffer rate in the area of the Republic of Croatia.



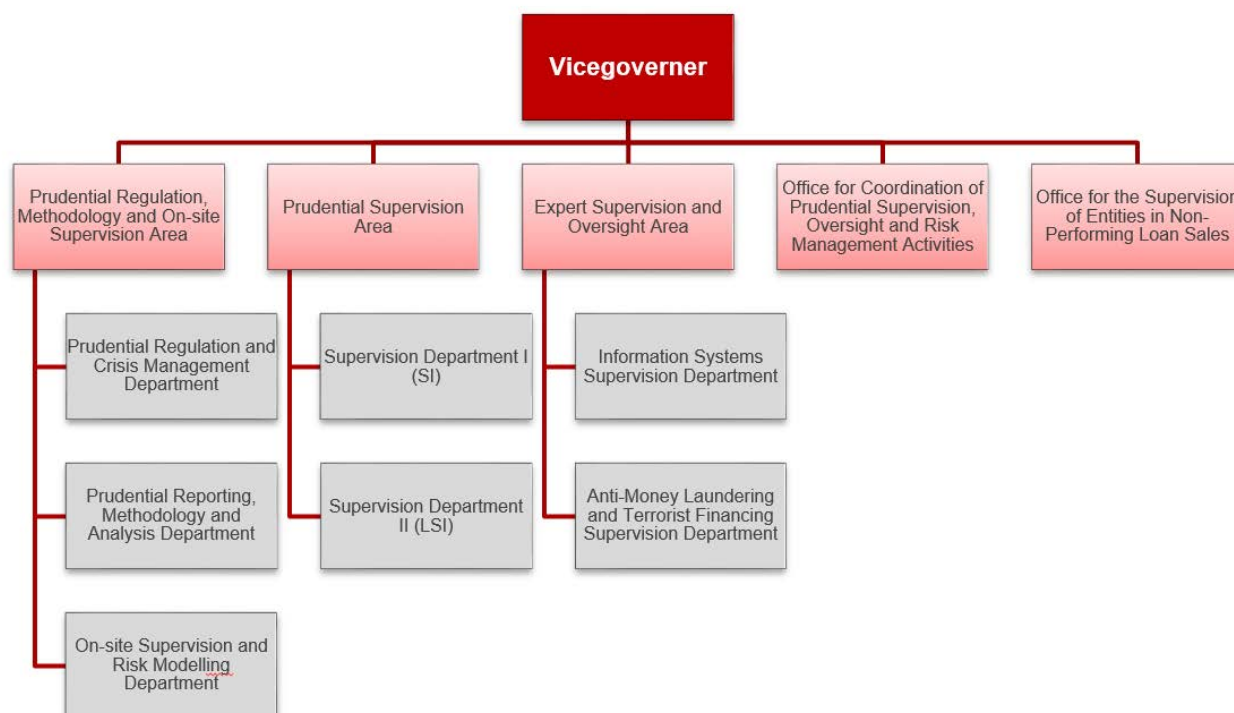
The legal and institutional framework for banking supervision in the country (new developments, legal competence of the Banking Supervisory Authority)

No changes since the last BSCEE questionnaire.

Organizational chart of the Banking Supervisory Authority

The organisational chart of the Banking Supervision function within the HNB consists of three main business areas and two offices: Prudential Regulation, Methodology and On-site Supervision Area, Prudential Supervision Area, Expert Supervision and Oversight Area and Office for Coordination of Prudential Supervision, Oversight and Risk Management Activities and the Office for the Supervision of Entities in Non-Performing Loan Sales.

Each business area also consists of a few departments, which is shown in the following organisational chart:





Main strategic objectives of the Banking Supervisory Authority in 2024

The HNB's supervisory priorities are aligned/similar to ECB's and EBA's. A quick rundown of them is as follows:

- Credit risk remains a focal point (macro trends, inflation pressure, vulnerable sectors/clients; interest rates movements, real estate market),
- Profitability developments monitoring – expected decrease of ECB rate (18% of total interest income stems from positions with central bank),
- Liquidity monitoring in light of lower ECB remuneration – currently comfortable liquidity buffers; potential change of risk appetite; search for higher yield in more risky assets,
- Interest rate risk in the banking book; LSI stress test in progress,
- Digitalization transformation/strategies – follow up performed in 2023, further monitoring part of continuous supervisory focus,
- Cybersecurity,
- Climate risk,
- AML/CFT risk management and sanction framework monitoring,
- New regulatory requirements/business areas i.e. crypto assets.

The key activities of the Banking Supervisory Authority in 2024

The ongoing monitoring of credit institutions and the regular annual risk assessment were performed for all 20 credit institutions. As before, results of the implementation of previous supervisory recommendations and the results of in-depth and thematic analyses were included. In addition to obtaining information on trends at the level of the banking system as a whole, these results were used to lay down supervisory requirements for the improvement of credit institutions where deviations were identified. Analyses did not point to significant concerns regarding the current operations of credit institutions, the level of capital requirements remained stable, and all credit institutions were capable of maintaining capital levels in excess of the requirements that have been laid down.

The HNB also participated in a joint on-site inspection of two significant credit institutions in cooperation with the ECB and carried out its own inspection of target segments of risk and governance quality for three less-significant credit institutions.

In 2024, a total of 51 requests for licensing were received, of which 84% were related to the licensing of candidates for membership of management boards and supervisory boards.

The focus of ICT supervision in 2024 was placed on the digital operational resilience of supervised institutions, and its key task was to lay the foundation for the full application of the Regulation (EU) 2022/2554 on digital operational resilience for the financial sector (Digital Operational Resilience Act, DORA) as of January 2025. The regulation lays down requirements for the management of ICT risks, reporting on ICT-related incidents, management of risks related to ICT service providers and digital operational resilience testing.

An assessment of ICT risk was performed as part of the SREP process in all 19 banks in 2024.

In order to harmonise and enforce EU regulations on crypto-assets and digital operational resilience, six laws were adopted in 2024, three of which, including the Act on Amendments to the Credit Institutions Act, affect the operation of credit institutions. A new legislative framework in the area of accounting and cybersecurity has also entered into force.



The HNB also aligns with good practices in the operation of credit institutions by following the EBA Guidelines, by implementing practices into the regulatory framework or by sending circulars to supervisors with their expectations regarding their conduct of business. The HNB, in accordance with the EBA Guidelines, expressed its supervisory expectations in the area of securitisation to credit institutions, while in accordance with the provisions of the Act implementing Regulation (EU) 2023/1114 (Markets in Crypto-Assets Regulation) by publishing links to the text of the EBA Guidelines issued under that Regulation it expressed its supervisory expectations on how to comply with those guidelines.

Four horizontal analyses were also carried out in 2024 (reviews of how credit institutions operate or how regulatory regulations are applied, important for achieving uniform treatment of supervised entities by competent authorities or analysis of the impact of the application of regulatory regulations).

The HNB also participates in the mandatory Basel III exercise, which is carried out in the framework of the EBA Working Group in cooperation with the Bank for International Settlements, to oversee the application of the Basel III framework to banks and the fulfilment of the EBA mandates defined in the CRR III.

International activities of the Banking Supervisory Authority

Alignment with the supervisory procedures of the European Central Bank for credit institutions and participation in working groups and activities of the European Commission and the EU Council continued. The representatives of the HNB at the European Banking Authority (EBA) participated in working group meetings on the preparation of reports, guidelines and draft technical standards within the EBA's purview.

The first joint visit of the Chair of the ECB Supervisory Board and the Chair of the Single Resolution Board to the Croatian National Bank took place, featuring discussions on current supervision and resolution topics, and meetings were held with representatives of the banking industry and for the first time with representatives of civil society, where broader issues of the economic and social climate in Croatia were discussed.

The 2024 SSM Integration Year programme, which marked the 10th anniversary of the Single Supervisory Mechanism in 2024, organised a programme of educational study visits for supervisors of other Member States and the ECB. The visits covered three areas: IT supervision, LSI (less significant institutions) supervision and prudential regulations, reporting and crisis management. Study visits were organised at the HNB premises and involved a total of 34 supervisors from the ECB and various NCAs.

A seminar on Dealing with Problem Banks was organised in cooperation with the Federal Reserve Bank. The seminar was attended by 33 supervisors, who exchanged useful information, knowledge and experience with American colleagues and got an insight into the approach of the Fed's crisis management.



Cooperation with other supervisory bodies in the country

As in previous years, cooperation with other supervisory authorities in the country remained active throughout 2024. In addition to the HNB, as the supervisory authority competent for the supervision of credit institutions, the Croatian Financial Services Supervisory Agency (HANFA) is the supervisory authority competent for the supervision of financial markets, financial services and legal and natural persons providing these services, as well as for the supervision of business operations of stock exchanges and regulated public markets, investment firms and securities issuers, brokers and investment advisors, insurance companies and legal persons carrying out leasing and factoring operations, unless they are provided by banks as part of their registered activities. The cooperation and interaction between the HNB and HANFA are carried out via the committee for the cooperation between the two institutions which discusses key information on supervisory and oversight activities. Additionally, a mechanism for continued exchange of information relevant for the supervision of the financial system of the Republic of Croatia as a whole performed all tasks in 2024.



Questionnaire tables for the 2024 BSCEE Review

Number of financial institutions (at year-end)

Type of financial institution	2022	2023	2024
Commercial banks	21	20	20
Branches of foreign credit institutions	1	1	1
Cooperative banks	-	-	-
Banking sector, total:	22	22	21

Total assets of banking sector (in mil. EUR) (at year-end)

Type of financial institution	2022	2023	2024
Commercial banks	75.933,9	78.558,2	84.161,2
Branches of foreign credit institutions	386,5	331,0	299,4
Cooperative banks	-	-	-
Banking sector, total:	76.320,4	78.889,2	84.460,6
y/y change (in %)	14,1	3,4	7,1

Ownership structure of banks on the basis of assets total

Item	2022	2023	2024
Public sector ownership	8,0	9,3	9,7
Domestic ownership total	11,2	12,6	13,1
Foreign ownership	88,8	87,4	87,0
Banking sector, total:	100,0	100,0	100,0

Concentration of asset by the type of financial institutions, 2024

Type of financial institution	The first three largest (%)	The first five largest (%)	HHI
Commercial banks	63,3	82,8	1.631,8
Branches of foreign credit institutions	100,0	100,0	10.000,0
Cooperative banks	-	-	-
Banking sector, total:	63,1	82,5	1.620,4

Return on Equity (ROE) by type of financial institutions

Type of financial institution	2022	2023	2024
Commercial banks	8,2	15,5	16,3
Cooperative banks	-	-	-
Banking sector, total:	8,2	15,5	16,3



Distribution of market shares in balance sheet total (%)

Type of financial institution	2022	2023	2024
Commercial banks	99,5	99,6	99,6
Branches of foreign credit institutions	0,5	0,4	0,4
Cooperative banks	-	-	-
Banking sector, total:	100.0	100.0	100.0

The structure of assets and liabilities of the banking sector (%) (at year-end)

	2022	2023	2024
Receivables			
Financial sector	35,2	32,4	31,9
Nonfinancial sector	43,2	45,3	46,7
Government sector	19,9	20,6	19,8
Other assets	1,7	1,6	1,7
Liabilities			
Financial sector	9,4	7,6	9,7
Nonfinancial sector	71,7	72,0	69,8
Government sector	6,0	6,9	7,4
Other liabilities	1,7	2,0	1,6
Capital	11,2	11,4	11,5

Capital adequacy ratio of banks

Type of financial institution	2022	2023	2024
Commercial banks	24,8	23,9	24,0
Cooperative banks	-	-	-
Banking sector, total:	24,8	23,9	24,0

Asset portfolio quality of the banking sector (share of impaired receivables / share of non-performing loans)

Asset classification	2022	2023	2024
Non-financial sector, including	5,6	4,6	4,0
- households	5,0	4,2	3,7
- corporate	6,4	5,1	4,5

The structure of deposits and loans of the banking sector in 2024 (%) (at year-end)

	Deposits	Loans
Non-financial sector, including:	85,6	84,5
Households	60,2	51,2
Corporate	25,4	33,2
Government sector	9,1	11,8
Financial sector (excluding banks)	5,3	3,7
Total	100.0	100.0



**P&L account of the banking sector (in mil. EUR)
(at year-end)**

P&L account	2022	2023	2024
Interest income	1.487,2	2.695,8	3.186,2
Interest expenses	149,8	517,7	868,7
Net interest income	1.337,4	2.178,1	2.317,5
Net fee and commission income	543,9	557,2	607,1
Other (not specified above) operating income (net)	326,3	149,4	247,7
Gross income	2.207,6	2.884,7	3.172,3
Administration costs	1.016,2	1.046,8	1.119,1
Depreciation	135,5	138,0	141,2
Provisions	203,2	129,8	128,2
Impairment on financial assets not measured at fair value through profit and loss / Provisions on financial assets (loans, ...)	-17,1	-52,4	-46,0
Profit (loss) before tax	877,5	1.620,8	1.831,8
Net profit (loss)	704,6	1.337,3	1.516,4

Total own funds in 2024 (in mil. EUR)

Type of financial institution	Total own funds	Core Tier 1	Tier 1	Tier 2	Tier 3
Commercial banks	8.867,4	8.237,0	8.317,0	550,4	-
Cooperative banks	-	-	-	-	-
Banking sector, total:	8.867,4	8.237,0	8.317,0	550,4	-

Macroeconomic environment in the country

GDP of the Czech economy grew by a total of 1.1% in 2024. Domestic consumption continued to recover and the change in inventories had a positive effect. However, year-on-year growth was hampered by investment activity and foreign demand also had a significant negative effect.

The average inflation rate (CPI) for 2024 was 2.4%. Prices of goods in total rose by 0.9% and prices of services by 5.1% in 2024. Acceleration in last months of 2024 was due mainly to evolution in food and transport prices.

The average annual exchange rate of the Czech koruna depreciated against EUR (4.4%) year-on-year with more stable evolution in the second half of the year (with an average for 2024 at the level of 25,120 CZK/EUR).

The monetary policy reflected the evolution both of the economy including lowering of inflation rate and external developments in 2024. At its monetary policy meeting on 8 February 2024 the CNB Bank Board lowered the two-week repo rate to 6.25%. Subsequently, there were several cuts in the repo rate to 4% at the end of 2024.

For the year 2024, the balance of the general government sector ended up with a deficit corresponding to 2.2% of the GDP, which was a year-on-year decrease by 1.5 percentage points (pp). The general government sector debt in the end of the year 2024 reached 43.3% of the GDP while the y-o-y increase was by 1.1 pp.

The percentage of the unemployed in the labour force, that is in the total number of the employed and the unemployed (that means economically active persons), reached 2.7% in December 2024. It decreased by 0.1 pp, year-on-year. The average gross monthly nominal wage grew by 7.2% year-on-year (in real terms by 4.8%).

Developments in the banking sector (including assets total / GDP)

At the end of 2024, the Czech banking sector consisted of 21 domestic banks (including five building societies), 20 branches of foreign banks from EU/EEA countries and two branches of banks from third countries. The sector also included five credit unions. The four largest domestic banks accounted for 58.1% of the sector's total assets.

The total assets of the Czech banking sector amounted to CZK 10,628.1 billion, marking a 7.5% year-on-year increase. The growth was driven in absolute terms mainly by loans and receivables at amortised cost, which increased by CZK 482.7 billion (6.8%). There was also a significant increase in the volume of debt securities (by CZK 163 billion to CZK 1,867.1 billion) and cash (by CZK 117.1 billion to CZK 332.2 billion). The banking sector's total assets to GDP ratio was 132.7%.

The NPL ratio remained stable at 1.7%, unchanged from 2023. Loans to both households and NFCs recorded a slight absolute increase in NPLs; however, in relative terms, the NPL ratios remained broadly unchanged for both sectors (1.3% for households, 2.6% for NFCs).

Regarding liquidity, the domestic banking sector continued to benefit from a long-term surplus of client deposits over client loans, which was 157.3% (+3.6 pp year on year). The aggregated LCR ratio amounted to 216.6%, with all banks comfortably meeting the 100% regulatory limit throughout the year. The share of high-quality liquid assets in total assets increased by 1.5 pp to 43%, confirming the robust liquidity position of the sector.

In 2024, banking institutions produced a net income of CZK 121.7 billion, i.e. CZK 17.7 billion more than in the previous year. The increase in profit was driven mainly by a reversal of impairment losses (+CZK 10.8 billion)

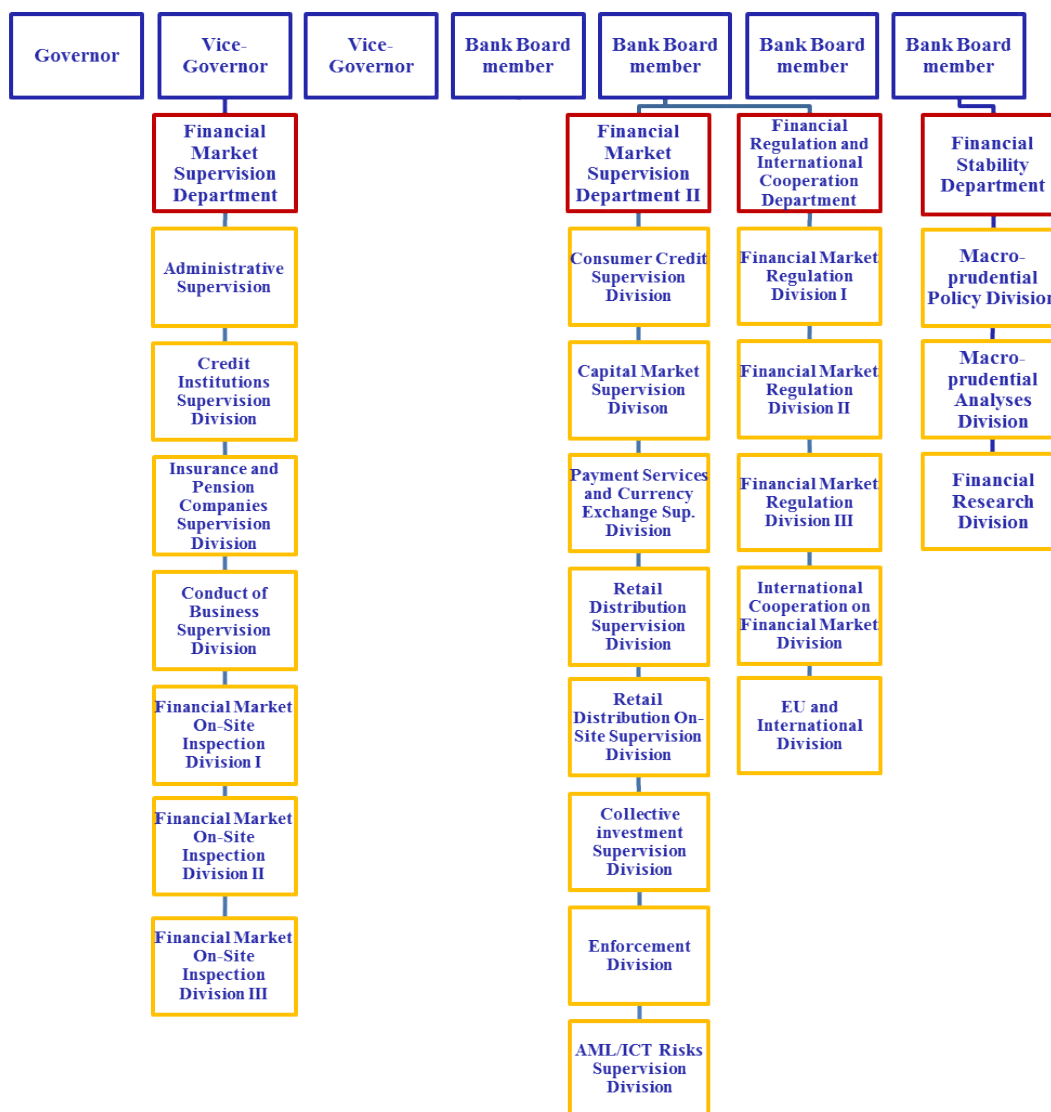
recognised during the high interest rate environment in recent years, and by higher net income from fees and commissions (+CZK 7.5 billion). The contribution of net interest income growth (+CZK 2.1 billion) was dampened by a decline in the net interest margin (by 0.1 pp), reflecting a gradual reduction in key interest rates. Administrative expenses increased by 6% to CZK 91.1 billion. Return on equity, measured as the ratio of total net profit to Tier 1 capital, amounted to 18.5%, i.e. 2.6 pp higher than in the previous year.

The total capital ratio of the domestic banking sector remained stable at 22.9% at the end of 2024. The leverage ratio stood at 6.3%, confirming the long-term strong capital position of the domestic banking sector.

The legal and institutional framework for banking supervision in the country (new developments, legal competence of the Banking Supervisory Authority)

As defined by Act No. 6/1993 Coll., on the Czech National Bank, the CNB's general objective in the area of supervision is to ensure financial stability and safe and sound operation of the financial system in the Czech Republic. This objective defines the CNB's area of competence as regards supervision of compliance with prudential rules and supervision of compliance with the rules of business conduct.

Organizational chart of the Banking Supervisory Authority



Main strategic objectives of the Banking Supervisory Authority in 2024

The CNB endeavours to supervise the banking market and its institutions in accordance with international standards. The key strategic framework for the supervisory work of the CNB is the Core Principles for Effective Banking Supervision published by the Basel Committee for Banking Supervision. The long-term strategic objectives in the area of financial (including banking) market supervision are described in the Long-term Supervisory Strategy published on the CNB website.

In 2024, the CNB focused its supervisory activities on the quality of credit institutions' loan portfolios and on maintaining adequate levels of capital and provisions to cover potential losses. Although the risks stemming from the period of high inflation and elevated interest rates did not significantly materialise in banks' portfolios, the CNB continued to monitor these areas closely. In addition, the CNB placed increased emphasis on liquidity

risk management and the stable funding of supervised institutions, requiring their risk management systems to be more forward-looking.

In the areas of consumer protection and AML/CFT, the CNB prioritised strengthening the resilience of credit institutions. It focused on enhancing institutions' ability to detect and prevent fraud in payment services, ensure transparent client communication and comply with obligations related to payment accounts and consumer credit.

The key activities of the Banking Supervisory Authority in 2024

- Monitoring the capitalisation and liquidity of the banking sector, particularly in light of a modest increase in NPLs in the consumer credit segment.
- Assessing interest rate and liquidity risk management, with attention to the adequacy of interest rate risk management in an environment of elevated interest rates and to the structural liquidity position of banks.
- Conducting a thematic review of liquidity and funding risk management practices, resulting in qualitative expectations for banks to adopt more forward-looking approaches and enhance internal tools beyond regulatory metrics.
- Conducting the annual SREP process, which incorporated findings from thematic reviews and led to the setting of institution-specific capital requirements above the regulatory minimum.
- Monitoring IS/IT and cyber resilience, including remote inspections of key banking systems and monitoring of major IT migration projects together with supporting financial institutions in preparing for DORA, including through training and guidance
- Strengthening AML/CFT supervision through the automation of risk scoring tools, thematic inspections of escrow accounts and analysis of cross-border transactions. The CNB also completed a series of inspections focused on the implementation of international sanctions, identifying areas for improvement in screening processes and internal controls.
- Enhancing consumer protection, with a focus on compliance with information duties, payment account management and product governance. The CNB conducted thematic inspections on fraud prevention, enforcement procedures, cross-border payments, complaint handling, structured deposits, instant payments and sustainability preferences in investment services. These activities led to improvements in internal processes and client communication.

International activities of the Banking Supervisory Authority

The CNB actively cooperates with foreign supervisors to ensure effective supervision within its area of competence as well as to coordinate a supervisory response to crisis situations. Where the CNB is the home supervisor, it manages the work of the college taking into account the risk profile and systemic importance of the supervised group and of the individual institutions that make up the group. Where the CNB is the host supervisor, it coordinates and plans its activities in cooperation with the home supervisor.

At international level, the CNB focuses on integration and cooperation within the European structures. In 2024, the CNB cooperated with the European Banking Authority (EBA), the European Systemic Risk Board (ESRB) and the European Central Bank (ECB).

Cooperation with other supervisory bodies in the country

The CNB as an integrated supervisory authority oversees the entities on the Czech financial market. However, the CNB works in close cooperation with the Czech Ministry of Finance, which has primary responsibility for preparing laws in the financial market area. The basis for such cooperation is laid down in the Agreement on cooperation in the preparation of draft national legislation concerning the financial market in the Czech Republic. Under the Agreement, the CNB and the Czech Ministry of Finance cooperate in the preparation of laws, statements of intent for laws and implementing legislation regarding: (i) the foreign exchange system and regulation of electronic money issuance; (ii) payments and accounting in the financial market; (iii) banking, AML, the capital market, consumer protection in the financial market, insurance and pension schemes.

Other relevant information and developments in 2024

The CNB updated its Long-term Supervisory Strategy in 2024 in response to significant legislative changes, changes in the financial market structure and the emergence of new regulated sectors such as crowdfunding, crypto-assets and NPLs. Key changes include a stronger risk-based approach, enhanced use of analytical tools (e.g. thematic reviews, stress tests, SREP processes) for identifying and assessing risks, and expanding supervisory oversight to new areas. The strategy further incorporates new EU requirements, such as ESG factors and digital operational resilience, and strengthens consumer protection.

Questionnaire tables for the 2024 BSCEE Review

Number of financial institutions (at year-end)

Type of financial institution	2022	2023	2024
Commercial banks	21	22	21
Branches of foreign credit institutions	23	24	22
Cooperative banks	6	6	5
Banking sector, total:	50	52	48

Total assets of banking sector (in billions CZK, at year-end)

Type of financial institution	2022	2023	2024
Commercial banks	8,160.7	9,187.2	9,843.4
Branches of foreign credit institutions	746.0	702.0	784.8
Cooperative banks	9.4	10.0	9.4
Banking sector, total:	8,916.1	9,899.3	10,637.5
y/y change (in %)	4.5	11.0	7.5

Ownership structure of banks on the basis of assets total (in %)

Item	2022	2023	2024
Public sector ownership	0.7	0.7	0.6
Domestic ownership total	16.3	18.2	17.3
Foreign ownership	83.0	81.1	82.1
Banking sector, total:	100.0	100.0	100.0

Note: Banking sector=commercial banks + bank foreign branches

Concentration of asset by the type of financial institutions, 2024

Type of financial institution	The first three largest (%)	The first five largest (%)	HHI
Commercial banks	52.9	70.3	1,185.0
Branches of foreign credit institutions	41.2	64.8	1,130.7
Cooperative banks	92.9	100.0	3,117.9
Banking sector, total:	49.0	65.1	975.3

Return on Equity (ROE) by type of financial institutions(in %)

Type of financial institution	2022	2023	2024
Commercial banks	16.5	16.4	18.6
Cooperative banks	4.7	4.1	5.3
Banking sector, total:	16.5	16.4	18.6

Note: RoE is calculated as a ratio of (sub)sector's net profit to annual average of (sub)sector's Tier 1 capital

Distributio of market shares in balance sheet total (%)

Type of financial institution	2022	2023	2024
Commercial banks	91.5	92.8	92.5
Branches of foreign credit institutions	8.4	7.1	7.4
Cooperative banks	0.1	0.1	0.1
Banking sector, total:	100.0	100.0	100.0

The structure of assets and liabilities of the banking sector (%) (at year-end)

	2022	2023	2024
Receivables			
Financial sector	7.0	7.0	6.9
Nonfinancial sector	41.3	39.7	39.0
Government sector	0.9	0.8	0.8
Other assets	50.8	52.5	53.3
Liabilites			
Financial sector	13.4	16.5	14.6
Nonfinancial sector	57.9	56.3	56.5
Government sector	4.6	7.5	8.4
Other liabilities	16.1	11.9	13.0
Capital	7.9	7.8	7.5

Note: Banking sector=commercial banks + bank foreign branches

Capital adequacy ratio of banks

Type of financial institution	2022	2023	2024
Commercial banks	22.3%	22.9%	22.9%
Cooperative banks	24.8%	28.4%	29.2%
Banking sector, total:	n.a	n.a	n.a

Asset portfolio quality of the banking sector (share of impaired receivables / share of non-performing loans)

Asset classification	2022	2023	2024
Non-financial sector, including	2.2%	1.9%	1.9%
- households	1.3%	1.3%	1.3%
- corporate	3.5%	2.6%	2.6%

Note: Banking sector=commercial banks + bank foreign branches

**The structure of deposits and loans of the banking sector in 2024 (%)
(at year-end)**

	Deposits	Loans
Non-financial sector, including:	80.3	87.1
Households	56.4	52.5
Corporate	23.9	34.6
Government sector	11.9	1.8
Financial sector (excluding banks)	7.8	11.1
Total	100.0	100.0

Note: Banking sector=commercial banks + bank foreign branches

P&L account of the banking sector (in millions CZK, at year-end)

P&L account	2022	2023	2024
Interest income	430,955.9	564,440.1	527,489.7
Interest expenses	259,087.9	396,543.3	357,463.2
Net interest income	171,868.0	167,896.8	170,026.5
Net fee and commission income	38,102.9	40,113.6	47,597.4
Other (not specified above) operating income (net)	4,541.2	5,081.5	6,706.7
Gross income	502,907.6	646,730.4	616,558.7
Administration costs	79,157.4	85,929.8	91,083.8
Depreciation	14,056.3	14,532.9	14,617.6
Provisions	4,233.9	4.1	-144.2
Impairment on financial assets not measured at fair value through profit and loss / Provisions on financial assets (loans, ...)	9,894.0	9,891.6	-928.1
Profit (loss) before tax	121,820.5	122,982.9	142,776.5
Net profit (loss)	102,232.5	104,044.6	121,711.7

Note: Banking sector=commercial banks + bank foreign branches

Total own funds in 2024 (in millions EUR)

Type of financial institution	Total own funds	Core Tier 1	Tier 1	Tier 2	Tier 3
Commercial banks	28,198.7	25,331.1	26,290.1	1,908.6	n.a.
Cooperative banks	68.4	67.2	67.2	1.2	n.a.
Banking sector, total:	28,267.1	25,398.3	26,357.3	1,909.7	n.a.

Note: EUR= 25.19 CZK as at 31 December 2024



Macroeconomic environment in the country

Following the period of high inflation and the GDP decline of 3,0% in 2023, Estonia's economy showed signs of improvement in 2024. While activity remained almost unchanged for a large part of 2024, positive shift appeared in the last quarter of the year. GDP increased 1,2% y/y in fourth quarter, while for the whole year of 2024, Estonian economy posted a small decline (0,3%). The weak performance of Estonian economy in real terms in 2022-2024 is explained by the rapid increase in prices, which affected all economic activities. This means that at the current prices Estonian GDP expanded in this three-year period, from 31,5 billion EUR in 2021 to 39,5 billion EUR in 2024. In 2024 manufacturing sector stabilised, having suffered more than other sectors of the economy, and growth returned in the output volumes of some branches of manufacturing. The progress of manufacturing was also seen in increased export volumes, which is usually the first sign that the economy is exiting a recession. Incomes, which are also reflected in GDP at current prices, continued to grow rapidly even as real growth in the economy remained stagnant. Corporate profits and wages paid to employees both increased. Movements in the labour market did not correspond closely with the weak real indicators for GDP, as employment hit its highest level of recent decades and unemployment remained relatively stable according to Eesti Pank. Unemployment rate reached to 7,6% in 2024 compared to 6,4% a year earlier. Inflation was notably lower in 2024 than in the previous two years, but the increase over the year of 3.5% in the cost of living was still well above the rate considered normal for Estonia of a little above 2%. Without tax rises inflation would have remained around 2% in 2024, which would have made it similar to the average in the euro area. High inflation in recent years has raised consumer prices in Estonia close to the euro area average. The purchasing power of the average wage, which is gross monthly wages adjusted for the price level, rose in 2024 and returned to where it was before the recession and before very high inflation started to eat into purchasing power from spring 2021. The cost of living as expressed through the consumer price index has risen by almost 40% in the past three years, and the average wage has risen by the same amount in the same time. The price level rising higher pushed people to make more purchases from international online stores in 2024. A consequence of this change in consumer behaviour was that the recovery in retail sales in Estonia was more subdued, and the first signs of it only appeared towards the end of 2024. Confidence suffered because of the general uncertainty and the succession of crises, and saving by households consequently increased, which was clearly visible in the increase in bank deposits. Saving was encouraged further by the rising interest rates on deposits, and there was notable growth in term deposits in particular. Eesti Pank forecasts that Estonian economy will expand 1,5% in 2025, meaning that the growth is expected to return gradually. Second half of the 2025 will be probably weaker than previously expected as the economy will start to be restrained by the deterioration in terms of trade and the increased uncertainty. Purchasing power and growth in the economy will also be probably hurt in 2025 by rises in various taxes. However, long lasted recession seems to be behind now and Estonian economic growth is expected to accelerate (Eesti Pank sees GDP growth to increase to 2,3% in 2026).

Developments in the banking sector (including assets total / GDP)

At the end of the 2024 there were 14 banks operating in Estonia, of which five were branches of foreign banks. Strong performance of Estonian banking sector continued also in 2024, meaning continued loan growth, good credit quality, high profitability, and strong capitalization. The assets of the banking sector, including foreign banks' branches, stood at 57 billion euros at the end of 2024, which is 8.2% more than a year earlier and 145% of GDP (excluding branches of foreign banks 142% of GDP). The loan stock increased by 7.9% over the year to 39 billion euros. At the end of the year, 2.2% of the loan portfolio in the Estonian banking system was overdue by at least one day and 0.5% at least 90 days, same as a year before. The share of non-performing loans (NPL)



was also rather stable, increasing only marginally from 1.1% at the end of 2023 to 1.2%. As the majority of the loans in Estonian banking sector are based on 6M Euribor, the shift in interest rate cycle pushed the net interest margin from high levels seen in 2023 towards to the longer-term average. Mainly as a result of this normalization process, the consolidated bases return on equity (ROE) decreased to 16% in 2024, compared to 20% in 2023, but staying still above 11% seen in 2022 or 9.5% seen in 2021.

Banks' liquidity position remained robust also in 2024 with LCR ratio at 185% and 28% of total assets being liquid at the end of the year (compared to 188% and 26% a year earlier). Capitalization ratios declined somewhat, mainly because of the sum of risky assets increased and dividends were paid out more than usual, but remained still strong according to the European standards. Estonian banking sector CET1 ratio was 19% and total ratio 21% at the end of 2024 (this compares to EU average CET1 of 16% and total ratio of 20%).

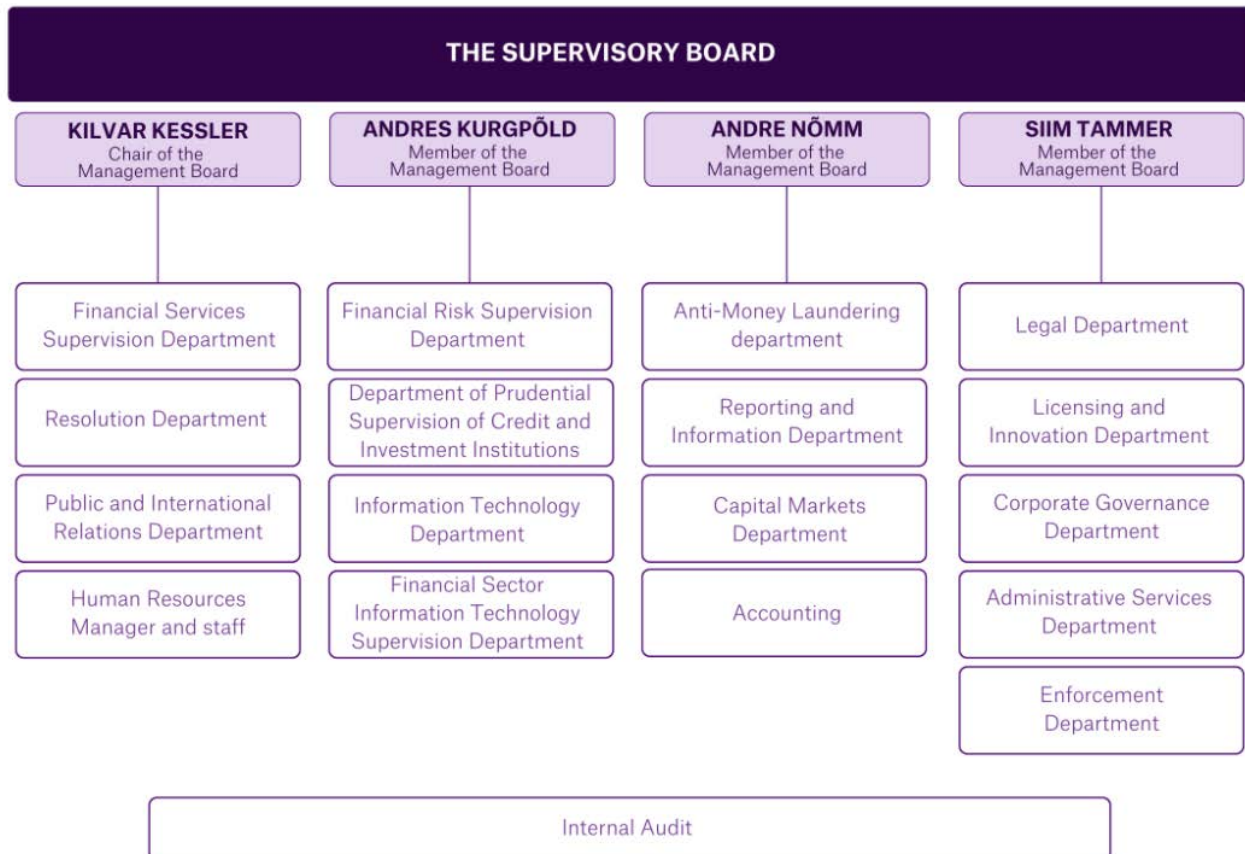
The legal and institutional framework for banking supervision in the country (new developments, legal competence of the Banking Supervisory Authority)

Finantsinspektsioon is a financial supervision and crisis resolution authority with autonomous responsibilities, independent in its decision-making and budget funded by the market participants under its remit. Financial supervision is conducted in order to enhance the stability, reliability, transparency and efficiency of the financial sector, to reduce systemic risks and to promote prevention of the abuse of the financial sector for criminal purposes, with a view to protecting the interests of clients and investors by safeguarding their financial resources, and thereby supporting the stability of the Estonian monetary system. The objective of the financial crisis resolution is to avoid adverse effects on financial stability arising from the insolvency of credit institutions, investment firms and central counterparties, to protect public funds and the assets of depositors, investors and other clients, and to ensure the continuity of the critical functions of credit institutions, investment firms and central counterparties. The legal basis for crisis management, including resolving an emergency in the financial sector, is in the process of ongoing revising. The process of transposition of CRD VI into national law and implementation of CRR III is in progress in Estonia. The work of Finantsinspektsioon is planned and monitored by the supervisory board of Finantsinspektsioon, which consists of six members and is chaired by the Minister of Finance of the Republic of Estonia. The work of Finantsinspektsioon is managed by a four-member management board, which takes decisions by majority vote.



Organizational chart of the Banking Supervisory Authority

Recent structural changes came about because of legislative developments and the need for better balance in a changing risk environment, and they were designed to make supervision more efficient without needing to expand the staff. The reorganisation of work strengthened the supervision of the securities market, increased the capacity for administering processes for entry into the regulated financial market and for supporting innovation, and brought a focus onto the exact handling of financial risks.



Main strategic objectives of the Banking Supervisory Authority in 2024

The Finantsinspektsioon strategy for 2022-2025 focuses on digital skills, environmental sustainability, maintaining financial stability, and protecting the interests of clients and investors. The Finantsinspektsioon strategy also encourages technological innovation to help the market function more efficiently. The full text of the strategy is found on the Finantsinspektsioon's website.

The key activities of the Banking Supervisory Authority in 2024

The Management Board held 57 meetings in 2024 at which 218 management decisions and 184 administrative rulings were made, of which 15 were written precepts. The board issued fines totalling 138,800 euros, issued nine operating licences and withdrew six.



The work of the Finantsinspeksioon Management Board in numbers

	2023	2024
Management Board meetings	53	57
Management Board management decisions	207	218
Management Board administrative rulings	161	184
Precepts	10	15
Crime reports	5	3
Misdemeanour proceedings ending with a fine	7	5
Issue of operating licences	4	8
Withdrawals of licences	6	6
Advisory guidelines	21	25

Finantsinspeksioon received 16 applications for a licence to operate in 2024, and some application processes that had started in 2023 continued. The most common licence applications were for credit intermediary licences and credit servicer licences for debt collectors, with four applications for each. There were two applications each for mortgage credit intermediary licences and creditor licences, and one each for licences as a credit institution, an investment firm, and a payment institution, while one Estonian creditor applied for a licence to establish a branch in Slovenia. Four of the licences issued in 2024 by Finantsinspeksioon were operating licences and five were additional licences. Two credit intermediaries and two debt collectors received operating licences, and one insurance broker was also added to the list. Two investment firms, one mortgage credit intermediary and one insurer received additional licenses, while one credit institution received the right to start issuing covered bonds. A branch of one Lithuanian investment firm entered the Estonian market, and an investment firm from Cyprus was given the right to establish a branch in the Estonian market, but it has not yet acted on that right. Finantsinspeksioon carried out 37 on-site inspections in 2024 and 139 remote inspections in order to assess whether the activities of the supervised entities complied with the law. The inspections focused on various areas, including internal control systems, governance, information technology, reporting, and service quality assessment. Thorough inspections were also made of the efficiency of the systems used by subjects of financial supervision for applying financial sanctions, and for managing the risks of money laundering and terrorist financing. Some shortcomings were identified in internal control systems and general governance, risk assessment and management, and internal procedures for service provision. Where necessary the subjects of financial supervision were reminded of their obligations and precepts were issued requiring them to remedy the shortcomings, by extending their internal procedures and processes for example. Finantsinspeksioon assesses the business model, management system and risk profile of each bank at least once a year, and also the sufficiency of their capitalisation and liquidity. This is called the Supervisory Review and Evaluation Process, or SREP. If the generally applicable capital requirement set in the banking regulation does not cover the risks of a particular bank sufficiently, Finantsinspeksioon can set an additional Pillar 2 capital requirement. 18 Finantsinspeksioon • Yearbook 2024 An additional capital requirement and an own funds guideline were set for the banks operating in Estonia in 2024 that totalled 888 million euros.

International activities of the Banking Supervisory Authority

Finantsinspeksioon contributes to designing the financial supervision policy of the European Union through authorities of the European System of Financial Supervision. These are the European Banking Authority (EBA), the European Insurance and Occupational Pensions Authority (EIOPA), the European Securities and Markets Authority (ESMA), and the European Systemic Risk Board (ESRB). As Estonia is a member of the euro area, the everyday work of Finantsinspeksioon is directly affected by the single supervisory mechanism



(SSM). This is a banking supervision system for the euro area that takes in the European Central Bank and the banking supervision authorities of the euro area countries. The European Central Bank conducts direct capital supervision through the SSM over important credit institutions in the euro area. The banks in Estonia that met the criteria for direct supervision in 2024 were AS SEB Pank, Swedbank AS consolidated as Swedbank Baltics AS, Luminor Bank AS and AS LHV Pank. Finantsinspeksioon is also involved in crisis resolution, and works in the Single Resolution Board (SRB), which is the central resolution authority in the euro area. The Single Resolution Board together with the resolution authorities of the euro area countries make up the Single Resolution Mechanism. Finantsinspeksioon participates in colleges for supervision and resolution to make supervision over cross-border financial intermediaries and over resolution of them as efficient as possible, and to make cooperation between the institutions responsible in different countries as effective as possible. Finantsinspeksioon is also a member of the International Association of Insurance Supervisors (IAIS), and the International Organization of Securities Commissions (IOSCO). It promotes cooperation between Nordic and Baltic countries in the Nordic-Baltic Macroprudential Forum (NBMF) and the Nordic- Baltic Stability Group (NBSG). It is also a member of the Group of Banking Supervisors from Central and Eastern Europe (BSCEE).

Cooperation with other supervisory bodies in the country

The Finantsinspeksioon actively cooperates with the Ministry of Finance and Eesti Pank in maintaining financial stability and supporting market development, based on the joint action agreements concluded and the established cooperation network. In case needed and justified Finantsinspeksioon exchange information with the police and the prosecutor's office. The Finantsinspeksioon and the Guarantee Fund have a cooperation agreement, which allows the Guarantee Fund to use the infrastructure and expertise of the Financial Supervision Authority to achieve these goals and increase its capacity. Finantsinspeksioon and Information System Authority are cooperating in the field of applying Digital Operational Resilience Act (DORA) in Estonia, and also create mutual awareness in the situation of cyberspace concerning cyber threats and attacks. Finantsinspeksioon cooperates with consumer Protection and Technical Regulatory Authority in the field of consumer protection. Finantsinspeksioon cooperation with the Financial Intelligence Unit includes supervision of supervised entities money laundering and terrorist financing risks. Finantsinspeksioon also cooperate with the Tallinn Stock Exchange to supervise the following good corporate governance practices.

Other relevant information and developments in 2024

Finantsinspeksioon produced a handbook on responsible lending that is an aid for the courts, market participants and consumers to help them understand better the obligations around responsible lending. 20 Finantsinspeksioon • Yearbook 2024 The handbook describes what must be done before credit is issued, such as collecting, verifying and evaluating the information needed to assess creditworthiness. It also underlines practices that are not acceptable when assessing the credit capacity of consumers. The handbook helps to avoid disputes and provide support for resolving them.

The terms of the Creditors and Credit Intermediaries Act that came into force on 14 July 2024 require creditors and credit intermediaries to have internal procedures for monitoring the performance of credit agreements and for amending them, which includes taking measures to restructure debts.

Questionnaire tables for the 2024 BSCEE Review

Number of financial institutions (at year-end)

Type of financial institution	2022	2023	2024
Commercial banks	9	9	9
Branches of foreign credit institutions	4	4	5
Cooperative banks	-	-	-
Banking sector, total:	13	13	14

Total assets of banking sector (at year-end)

Type of financial institution	2022	2023	2024
Commercial banks	47412	50989	54962
Branches of foreign credit institutions	1204	1300	1312
Cooperative banks	-	-	-
Banking sector, total:	48616	52288	56274
y/y change (in %)	2	8	8

Ownership structure of banks on the basis of assets total

Item	2022	2023	2024
Public sector ownership	-	-	-
Domestic ownership total	17.7	19.5	21.1
Foreign ownership	82.3	80.5	78.9
Banking sector, total:	100.0	100.0	100.0

Concentration of asset by the type of financial institutions, 2024

Type of financial institution	The first three largest (%)	The first five largest (%)	HHI
Commercial banks	74	93	2159
Branches of foreign credit institutions	98	100	4894
Cooperative banks	-	-	-
Banking sector, total:	72	91	2062

Return on Equity (ROE) by type of financial institutions

Type of financial institution	2022	2023	2024
Commercial banks	12.2%	20.24%	19.45%
Cooperative banks	-	-	-
Banking sector, total:	12.2%	20.24%	19.45%



Distribution of market shares in balance sheet total (%)

Type of financial institution	2022	2023	2024
Commercial banks	98	98	98
Branches of foreign credit institutions	2	2	2
Cooperative banks	-	-	-
Banking sector, total:	100.0	100.0	100.0

**The structure of assets and liabilities of the banking sector (%)
(at year-end)**

	2022	2023	2024
Receivables			
Financial sector	32.8	34.7	34.3
Nonfinancial sector	59.7	58.2	58.5
Government sector	5.8	5.7	4.9
Other assets	1.7	1.4	2.3
Liabilities			
Financial sector	18	18	20.3
Nonfinancial sector	74	73.5	71.2
Government sector	8	8	8
Other liabilities	0	0.5	0.5
Capital	10	11	10

Capital adequacy ratio of banks

Type of financial institution	2022	2023	2024
Commercial banks	21.1	22.1	21.0
Cooperative banks	-	-	-
Banking sector, total:	21.1	22.1	21.0

**Asset portfolio quality of the banking sector
(share of impaired receivables / share of non-performing loans)**

Asset classification	2022	2023	2024
Non-financial sector, including	0.8%	1.1%	1.2%
- households	0.6%	1.0%	1.0%
- corporate	1.2%	1.1%	1.2%

**The structure of deposits and loans of the banking sector in 2024 (%)
(at year-end)**

	Deposits	Loans
Non-financial sector, including:	83.2	83.8
Households	51.1	49.5
Corporate	32.0	34.3
Government sector	9.2	2.9
Financial sector (excluding banks)	7.6	13.3
Total	100.0	100.0



P&L account of the banking sector (at year-end)

P&L account	2022	2023	2024
Interest income	1100	2538	2969
Interest expenses	143	719	1167
Net interest income	967	1819	1802
Net fee and commission income	236	229	239
Other (not specified above) operating income (net)	207	221	380
Gross income	1631	3020	3622
Administration costs	610	767	860
Depreciation	43	51	56
Provisions	10	15	10
Impairment on financial assets not measured at fair value through profit and loss / Provisions on financial assets (loans, ...)	58	63	60
Profit (loss) before tax	662	1311	1346
Net profit (loss)	583	1078	1049

Total own funds in 2024 (in mln EUR)

Type of financial institution	Total own funds	Core Tier 1	Tier 1	Tier 2	Tier 3
Commercial banks	5203	4574	4705	498	-
Cooperative banks	-	-	-	-	-
Banking sector, total:	5203	4574	4705	498	-



Macroeconomic environment in the country

In 2024, Georgia's gross domestic product (GDP) expanded by 9.4% relative to the previous year. This robust economic growth was primarily driven by consumption, which accounted for 10.9 percentage points (pp) of the overall increase. Investment contributed an additional 0.5 pp, while net exports had a contractionary effect, reducing growth by 2.0 pp.

In the first half of the year, exports remained relatively subdued amid weak global demand. However, in the second half, export revenues accelerated. Georgia's strategic positioning as part of the "Middle Corridor" continued to gain prominence in recent years, facilitating increased international transport flows and further enhancing the role of the transportation sector within the economy. Notably, the elevated contribution of information and technology services along with the construction sector, which together added 2.6 pp to GDP growth, was sustained in 2024 as a share of GDP. Revenues from travel services also rose by 7.3% over the year.

Collectively, these developments supported the maintenance of a high share of services exports in GDP throughout 2024, contributing to an improvement in the current account balance compared to 2023. The current account deficit stood at 4.4% of GDP in 2024, with net foreign direct investment once again serving as a major source of financing, as in previous years.

In 2024, Georgia maintained a low-inflation environment, reflecting the effectiveness of the National Bank of Georgia's (NBG) monetary policy stance. Inflation remained firmly within the target range throughout the year, averaging 1.1%. This subdued inflationary environment was primarily attributable to the NBG's consistent and credible monetary policy, which helped anchor inflation expectations further supported by increased economic potential and subdued imported inflation.

The inflation rate of domestically produced goods and services, which tends to be relatively rigid and serves as a key indicator of long-term inflation expectations, averaged 2.1% in 2024. Additionally, an important contribution to economic stability stemmed from improvements in the economy's aggregate supply capacity (increased potential output), which mitigated inflationary pressures arising from robust aggregate demand.

Additional disinflationary effects were provided by a reduction in electricity tariffs and the maintenance of the lari's effective exchange rate at a relatively stable level during the year. Notably, the real effective exchange rate (REER) depreciated by 5.4% on average, while the nominal effective exchange rate (NEER) appreciated by 4.8%, supporting price stability. These dynamics collectively contributed to the persistence of a low-inflation environment in 2024.

Following the stabilization of inflation expectations, the NBG began the normalization of monetary policy, lowering the policy rate by 1.5 pp to 8.0% during the first half of 2024. In the second half of the year, however, in the context of evolving domestic economic conditions and elevated global risks, the NBG adopted a prudent stance and maintained the policy rate unchanged.

In 2024, unemployment decreased by 2.5 pp compared to the previous year, reaching 13.9%, while labor force participation rate increased to 54.8%. The average monthly nominal wages of hired workers in 2024 increased by 16.5% compared to the previous year.

Fiscal parameters continued to improve in 2024. The budget deficit stood at 2.3% of GDP, and the government debt-to-GDP ratio reduced to 36.1%. Georgia's fiscal rule imposes ceilings on the fiscal deficit and government debt at 3% and 60% of GDP, respectively.



Developments in the banking sector (including assets total / GDP)

Banking remains the main financial intermediary in Georgian economy. Foreign investments dominate banking sector and account more than 80% of total equity. Banking sector assets (net of provisions) grew by 19.7% YoY in 2024 (18.4% excluding exchange rate effect). Gross Credit portfolio (including interbank loans) increased by 17.1% YoY at the end of 2024 (excluding the exchange rate effect). In total, credit portfolio accounted for 68% of GDP, which is 2 percentage points higher than in 2023. As for the total assets of banking sector, they accounted for 104% of GDP that is 5 percentage points higher than in 2023.

In 2024 the highest growth rate was recorded in corporate loan portfolio (22.6% annually, excluding exchange rate effect), followed by Retail segment. Banking sector loan portfolio break-down by segments is the following: 36% accounts for retail, 35% for corporate, 16% for SME segment and 13% for the Micro.

The quality of loan portfolio improved in 2024: the share of non-performing loans to total portfolio decreased by 40 basis points to 2.8% and the share of overdue portfolio decreased by 30 basis points to 3.1%. The improvement loan portfolio quality can be attributed to both the reduction in non-performing loans and high quality new disbursements. The total portfolio loan loss provisions (LLP) slightly decreased compared to 2023 and stood within 2%.

In 2024, return on assets (ROA) and return on equity (ROE) amounted to 3.6% and 23.9% respectively, which did not change significantly compared to the previous year's figures of 3.8% and 24.6%, respectively. Compared to 2023, the cost-to-income ratio increased from 34.5% to 36.0%. The cost-to-assets ratio stood at 2.6%.

The volume of liquid assets stood at 19% of total assets and up to 31% of non-bank deposits.

By the end of 2024, the Georgian banking system continued to maintain an adequate level of capital under the Basel III capital adequacy framework. As of 31 December 2024, the Tier 1 capital ratio was 20.2% and the total regulatory capital ratio was 22.7%, which was 3.7 pp and 3.1 pp above the respective capital adequacy requirements.

Although dollarization is on a declining path, it continues to represent a significant structural challenge for the financial sector. By the end of 2024, the dollarization of loans decreased to 43.3% (3 pp decrease YoY), and the dollarization of deposits increased to 52.4% (1 pp increase YoY). In line with this objective, the NBG maintained a strong focus on de-dollarization throughout the year, advancing reforms aimed at promoting local currency use and this strategic approach will continue in the foreseeable future.

The legal and institutional framework for banking supervision in the country (new developments, legal competence of the Banking Supervisory Authority)

The NBG is the central bank of Georgia, the bank of banks, the banker and the fiscal agent of the Government of Georgia. It is a legal entity under public law and in its activity, the NBG acts independently, guided by the Constitution of Georgia, Organic Law of Georgia „on the National Bank of Georgia” (hereinafter – Organic Law), and the legislation of Georgia and relies on the procedures and customs accepted in international banking practice.

The main objective of the NBG is to ensure price stability. The NBG shall ensure stability and transparency of the financial system and facilitate sustainable economic growth in the country, if this is possible without posing a threat to attaining its main objective. The functions of the NBG are: to develop and implement a



monetary policy and exchange rate policy, according to basic directions defined by the Parliament of Georgia; to implement supervision of the financial sector; to ensure the functioning of the monetary system; to own, keep and dispose of the official international reserves; to act as a banker and a fiscal agent of the Government of Georgia; to facilitate secure, sustainable and effective functioning of the payment system; to issue currency of Georgia; to produce and disseminate the financial and external sector statistics of the country, according to the international standards and methodologies; to carry out the resolution of a commercial bank; to participate in the preparation for the crisis situations and crisis management; to perform other functions defined by this Organic Law.

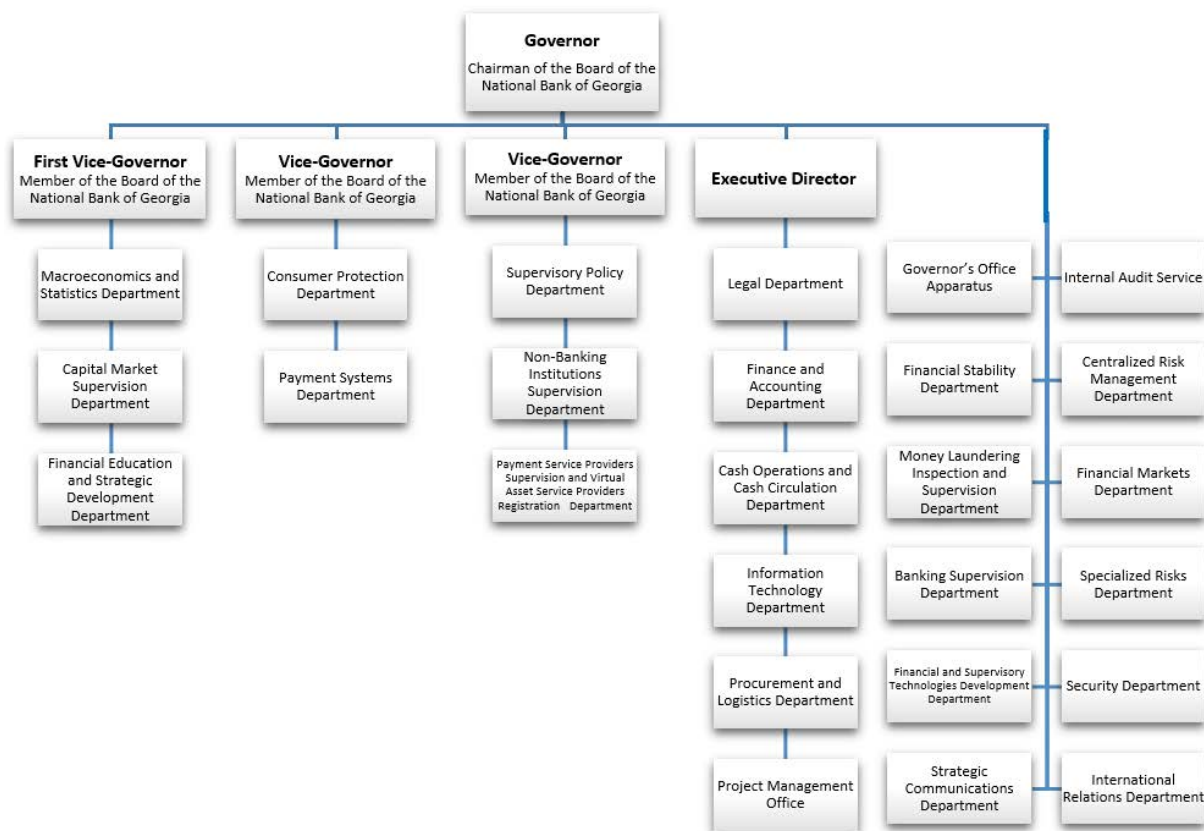
NBG is authorized to supervise and regulate the financial services sector in Georgia (except insurance, since 2013). Organic Law explicitly defines NBG's functions, tasks, responsibilities and objectives. Currently, NBG has been granted full authority to supervise the activities of commercial banks, microbanks, banking groups, non-bank depository institutions, microfinance organisations, independent securities registrars, brokerage companies (except for insurance brokerage companies), stock exchange, central depository, specialised depository, asset management companies, obliged entities, pension fund, foreign currency exchange units, investment funds, authorised securitisation special purpose entities, payment system operators, payment service providers, credit information bureau, loan issuing entity and virtual asset service provider.

NBG is the sole authority, which is responsible for the supervision of banking institutions, commercial banks (including so called digital banks which are licensed on the basis of conditional license for commercial banks) and microbanks. The major legislation that applies to commercial banking sector encompasses the Organic Law, Law of Georgia "on the Activities of Commercial Banks", in case of microbanks – Law of Georgia „On the Activities of Microbanks“ and respective by-laws.

NBG supervises and regulates banks in compliance with the principles of risk-based supervision principles. Risk-based structural arrangement of the NBG ensures optimal resource allocation considering risk-based supervision principle. Organizational structure of supervisory function takes into account number of banks in financial system and volume of their activities. Namely, in order to optimize supervisory functions, resource specialization and four eye principles are considered: Resource specialization – division into bank supervisors and risk supervisors: bank supervisors (banking supervisors) have overall picture of all risks of particular commercial bank; Risk supervisors (relevant directions of Specialized Risks and Supervisory Policy Departments) have specialized knowledge of a particular risk for each commercial bank and in overall of banking sector; Four eye principle -Each material case is analyzed by at least two representatives of mentioned two groups, which ensures that the process is maximally effective and productive.



Organizational chart of the Banking Supervisory Authority



Main strategic objectives of the Banking Supervisory Authority in 2024

Starting from 2020, NBG develops and publishes a three-year Supervisory Strategy document. The document entails the vision, values, goals, supervisory principles, strategic priorities and upcoming reforms, and offers a timeline for their implementation. The purpose of the document is to provide information to investors, international financial institutions, rating companies, the public and other stakeholders regarding the supervisory priorities, plans and upcoming arrangements of the NBG.

In 2024, NBG published 2024 edition of 2023-2025 supervisory strategy. Supervisory priorities set for 2023-2025 are following:

- Improvement of financial sector risk management framework and proactive response to outcomes
- Promotion of competition in the financial sector
- Promotion of financial innovation and development of supervisory technologies
- Approximation to international standards
- Strengthening the supervisory function of the National Bank and increasing transparency.



The key activities of the Banking Supervisory Authority in 2024

Throughout 2024, the NBG continued to work intensively to improve the supervisory framework, bringing it closer to EU and international practice and enhancing a number of supervisory areas. Some information on new developments will be provided below, but more detailed information on undertaken as well as planned activities can be found in annual report of the NBG as well as Supervisory Strategy document.

- To promote stability, the NBG implemented the Minimum Requirement for Own Funds and Eligible Liabilities (MREL) for systemically important banks starting in 2024, in accordance with the decision made by the Financial Stability Committee in May 2023. The MREL ratio for systemically important commercial banks is set as follows: From January 1, 2024: 10%; From December 31, 2025: 15%; From December 31, 2027: 20%.
- In light of legislative changes related to the Resolution Fund, the NBG developed relevant subordinate legal acts in 2024, including, the “Rule for the Establishment, Administration, and Investment of the Resolution Fund, Criteria for Imposing Ex-ante Contributions to the Resolution Fund, and the Procedure for Making Ex-ante Contributions” approved by Decree N228/04 of the Governor of the National Bank of Georgia of September 2, 2024. The total ex-ante contribution of the banking sector for 2025 was set by the Governor of the National Bank of Georgia’s order at GEL 37,798,407, which, represents one-eighth of 3% of the average volume of insured deposits for the four quarters of 2024. Commercial banks began making individual ex-ante contributions to the Resolution Fund in accordance with this rule from 2025. The ex-ante fund is administered by the NBG, which, according to the law, has the right to transfer the fund for administration to the Deposit Insurance Agency. In early 2025, an agreement was signed between the NBG and the Deposit Insurance Agency for this purpose. Based on the agreement, advance contributions accumulated in the Resolution Fund are transferred monthly to an account opened for the Deposit Insurance Agency at the National Bank, and the Deposit Insurance Agency ensures the investment of these funds in accordance with its investment policy. In addition to ex-ante contributions by commercial banks, the Resolution Fund also accumulates funds allocated within the framework of temporary state financing (in case of using temporary state financing). After the completion of the resolution regime and in case of financial support from the Ministry of Finance, state funds utilized through the Resolution Fund are reimbursed by operating commercial banks under established conditions and proportionality, which is determined by the NBG (the so-called ex-post fund).
- In 2024, the “Rule for Determining Systemically Important Commercial Banks and for Setting the Systemic Buffer Rate” was approved. The purpose of changing the existing regulation was to bring the approaches of defining systemic importance closer to EBA’s approaches and, at the same time, to better reflect the challenges existing in the Georgian banking sector. Specifically, to better reflect challenges in the updated regulation, the indicator for derivatives traded on unorganized markets was added to the complexity criterion, and the weights of the indicators were equally distributed across the criteria. Additionally, considering the high concentration in the Georgian market, to promote competition in the banking system, 2% incremental steps were added to the 40% threshold for the share of deposits, which further ensures the mitigation of market concentration. Also, a maximum systemic buffer limit of 5% was introduced. Currently, there are 3 systemically important banks in Georgia.
- Work on the “Rule on Counterparty Credit Risk” was completed in 2024 and entered into force in January 2025. This regulation is based on the counterparty risk management framework established by the “Basel Committee on Banking Supervision” and Regulation (EU) No 575/2013 of the European Parliament and of the Council of 26 June 2013 on prudential requirements for credit institutions and investment firms. The purpose of the new regulation is to more accurately reflect and appropriately manage the risks formed



by the increased volume of derivatives in the Georgian banking sector. Specifically, with the introduction of this regulation, the principle-based approach to derivative management has been replaced by a risk-based approach. Under the new regulation, banks can reduce the required capital for well-secured transactions and counterparties with high credit ratings, and vice-versa.

- In 2023, the Parliament of Georgia adopted the Law of Georgia “On the Activities of Microbanks” and related draft laws. The purpose of this legislative package was to create a medium-sized, stable business model and a new financial institution with a high reputation in the financial sector. This aims to promote lending to entrepreneurial and agricultural activities, foster competition, and reduce interest margins on credit products. As a result of the adoption of the mentioned legislative package, microbanks were added to the list of supervised entities of the National Bank of Georgia. In 2023, the National Bank received licensing applications from entities seeking to obtain a microbank license. In 2024, the National Bank actively reviewed and analyzed the information and documentation submitted by these applicants to assess their compliance with licensing requirements. Based on this process, in 2024, the National Bank granted the first microbank license to JSC Micro Business Capital (MBC). Prior to obtaining the microbank license, JSC Micro Business Capital operated as a microfinance organization, with its core business focused on financing small entrepreneurs. Subsequently, at the beginning of 2025, a microbank license was also granted to JSC Crystal.
- In 2023, the Ministry of Economy and Sustainable Development of Georgia, with the involvement of the National Bank, the National Agency of Public Registry, the Revenue Service, and other public and private stakeholders, developed a draft law “on Factoring”. This project aims to make an alternative and even more flexible source of financing accessible. The project is supported by the EBRD and the International Finance Corporation (IFC). The draft law regulates both factoring and reverse factoring, defines the principles for transaction registration, and establishes the operation of a factoring platform. The legislative package was initiated in the legislative body in 2024, and its adoption is expected in 2025.
- According to the Organic Law, the NBG is authorized to promote the creation of a competitive environment in the financial sector. Within this mandate, the Governor of the National Bank issued Decree N68/04 of May 28, 2021 “Rule on on Market Analysis and Submission and Review of Notifications on Concentration”. This regulation aligns with the principles set out in the Law of Georgia “on Competition” and governs the process of submitting and reviewing concentration-related notifications. Moreover, both internationally and in Georgia, it is an established regulatory practice for supervisory authorities to receive and assess notifications related to transactions involving the transfer of operational assets, as such transactions may have effects equivalent to market concentration. Accordingly, last year, amendment was made to the above-mentioned order to define additional types of transactions subject to notification requirements, as well as procedural aspects related to their assessment. Under the revised regulation, the NBG will review not only concentration cases, but also transactions through which one economic agent acquires the assets of another, if the acquiring party is a commercial bank or a microbank, and certain conditions related to the balance sheet value of the acquired assets are met. In this context, the term “assets” refers to financial assets (such as credit portfolios — excluding written-off portfolios — and other receivables with similar characteristics) that are core to the target economic agent’s ongoing business operations and revenue generation.
- Throughout 2024, the NBG continuously worked on developing its reporting framework in accordance with International Financial Reporting Standards (IFRS), the European reporting framework, and local supervisory needs. This included initiating work on transitioning to the latest FINREP financial reporting taxonomy.
- To align with best international practices and EU regulations, by Order N99/04 of April, 2024 of the Governor of the National Bank of Georgia, the “rule for Publishing Information on Certain Measures Applied by the



National Bank of Georgia on the Official Website of the National Bank of Georgia” was approved. The rule aims to promote transparency in the financial sector and prevent violations of Georgian legislation within this sector. This rule regulates the publication of information on the NBG’s official website, specifically imposed sanctions, in cases of violations of requirements defined by Georgian legislation and written instructions from the NBG. This includes requirements for publishing sanctions imposed on commercial banks and microbanks in the context of anti-money laundering, consumer rights protection, financial and supervisory technology development, and securities regulatory legislation, and in some cases, information on monetary penalties for commercial banks and microbanks. The requirements stipulated by the rule are based on relevant sectoral EU directives, including the European Parliament and Council Directive 2013/36/EU of 26 June 2013 on Access to the activity of credit institutions and the prudential supervision of credit institutions and investment firms (CRD Directive).

- In 2024, amendments were made to the Regulations on Concentration of Risk Positions and Large Exposures for Commercial Banks and Microbanks. These changes were implemented with the aim of further aligning with the principles defined by the Basel Committee on Banking Supervision and international best practices in banking sector regulation, as well as to mitigate specific risks identified in practice. As part of the recent amendments, the list of prohibited risk positions for commercial banks and microbanks has been expanded. It is now established that a commercial bank or microbank is prohibited from creating risk positions when such actions directly or indirectly aim to finance certain transactions. Specifically, this includes the acquisition of equity or debt instruments of the same commercial bank or microbank. Furthermore, it also prohibits the acquisition of equity or debt instruments of: A significant shareholder of the same commercial bank or microbank, whether as a direct shareholder, an intermediary owner, a beneficial owner, or a controlling entity; The head enterprise(s) of the same bank; A subsidiary of the same bank; A subsidiary of the head enterprise(s) of the same bank.
- In light of Georgia’s obligations under the Association Agreement between Georgia, on the one hand, and the European Union and the European Atomic Energy Community and their Member States, on the other hand, and to align with EU law, specifically Directive 2002/87/EC of the European Parliament and of the Council of 16 December 2002, the Parliament of Georgia adopted the “Law of Georgia on Supplementary Supervision of Regulated Entities within a Financial Conglomerate” in 2023. The aforementioned law stipulates that, independently of sectoral supervisory rules, additional supervision of regulated entities within a financial conglomerate in terms of capital adequacy/solvency margin may be carried out using specific methods for calculating additional capital adequacy/solvency margin requirements. NBG, in cooperation with the legal entity of public law - the Insurance State Supervision Service of Georgia, developed and approved the “Rule for Calculating Additional Capital Adequacy/Solvency Margin Requirements for Regulated Entities within a Financial Conglomerate”.

International activities of the Banking Supervisory Authority

Throughout 2024, the NBG hosted various high-level conferences and bilateral meetings with representatives of the diplomatic corps, other central banks, financial institutions, and international organizations, and signed memorandums of cooperation. On May 3-5, 2024, during the 57th Annual Meeting of the Asian Development Bank (ADB) hosted by Georgia, the National Bank of Georgia organized a panel titled “Collaborative Fintech Community: Building on the Middle Corridor Momentum”. Within the framework of the ADB Annual Meetings, Memorandums of Understanding were signed between NBG and partner institutions, such as Elevandi (GFTN), Korea Financial Telecommunications & Clearings Institute (KFTCI) and National Bank of Cambodia.



In 2024, the management of NBG held meetings with various high-ranking officials from the central banks and institutions of partner countries, including the National Bank of Slovakia, the National Bank of Kazakhstan, Astana Financial Services Authority (AFSA), National Bank of Poland, Croatian National Bank, UK's Foreign, Commonwealth & Development Office (FCDO) and the Office of Financial Sanctions Implementation (OFSI). Introductory meetings were held with the ambassadors of the United Kingdom and China. In September 2024, Memorandum of Understanding was signed between the National Banks of Georgia and Kazakhstan. The Agreement seeks to strengthen collaboration in key areas, including central banking operations, payment systems, and financial services.

In 2024, the National Bank of Georgia actively collaborated with international financial institutions and organizations. In March 2024, a mission from the International Monetary Fund (IMF) visited Georgia. The visit of the IMF mission was conducted under Article IV of the IMF's Articles of Agreement to assess the country's macroeconomic situation, as well as its fiscal and monetary policies. In Washington, within the framework of the annual meetings of the International Monetary Fund and the World Bank, NBG management held meetings with the international central securities depository Clearstream and high-ranking officials from IMF. NBG representatives also met with investors from American and global investment companies, including high-level managers from J.P. Morgan, Morgan Stanley, Vontobel, Currency Exchange Fund, Bank of America, and Janus Henderson Investors.

As EU candidate country, Georgia for the first time presented information prepared for the Economic Reform Program (ERP). Subsequently, NBG participated in the economic and financial dialogue of the European Union, which approved a joint conclusion outlining the economic development and effective monetary policies of the participating countries, including Georgia.

Throughout the year, the NBG representatives participated in various high-level international conferences and forums, e.g. Euromoney Central and Eastern Europe Annual Forum; meeting of the Central Asia Regional Economic Cooperation Program (CAREC); meeting of the Diversity Network, established within the framework of the International Organization of Securities Commissions (IOSCO); conference organized by the Bank of America; EU Economic and Financial Dialogue in Brussels; annual conference organized by the European Covered Bond Council (ECBC); the Point Zero Forum; annual international business forum Sibos, organized by SWIFT; the 9th Annual International Forum (IFCF) organized by the International Financial Cooperation Council and the Korea Financial Services Commission in Seoul, etc.

The National Bank of Georgia hosted the Fifth Sustainable Finance Forum. The event was held in cooperation with the International Finance Corporation (IFC), the State Secretariat for Economic Affairs of Switzerland (SECO), and the Sustainable Banking and Finance Network (SBFN) supported by IFC. The NBG further organized the international conference on the "Global Economic Trends: Impact on the Region" and international conference on the "Development of Monetary Policy".

Annual report of the NBG for the year 2024 provides more detailed information on international activities of the NBG.



Cooperation with other supervisory bodies in the country

- To support the stable functioning of the financial system, and within the scope of powers granted by Georgian law and while upholding the principle of independence, a new cooperation platform was established in 2020. The Inter-Agency Financial Stability Committee was created to ensure regular information exchange, develop financial crisis management mechanisms, and provide effective coordination. The committee is represented by the Minister of Finance, the Governor of the National Bank, the Head of the Deposit Insurance Agency, and the Head of the Insurance State Supervision Service. The Minister of Finance of Georgia chairs the Inter-Agency Committee, and the National Bank performs the functions of its secretariat. According to the regulations, the committee holds a meeting at least once a year or at the request of the National Bank. The committee's main task is to develop crisis management mechanisms for crisis situations and financial crises in order to promote the stable functioning of the financial system. In 2024, the annual meeting of the Inter-Agency Financial Stability Committee was held. The committee members discussed ways to develop the resolution framework and bring it closer to European practices, as well as the steps taken in this direction. The discussion also touched upon the joint inter-agency procedural issues that have been developed and are yet to be developed. In addition, the members reviewed the legislative changes related to the resolution fund that have already entered into force and the issues to be regulated by the resulting joint inter-agency legal acts, including administration issues.
- Similar to previous years, consumer rights protection remained a top priority for the National Bank of Georgia. In 2024, the second international conference on competition and consumer rights protection in Georgia was held, co-organized by the National Bank of Georgia as part of the International Consumer Rights Protection Week. To better protect consumer rights, a dispute resolution commission was established under the National Bank of Georgia in 2023. This commission provides a fast, effective, and free mechanism for consumers. In 2024, the commission reviewed nearly 90 disputes between consumers and payment service providers, including banks, with 85% of the cases resolved in favour of the consumers.
- To improve coordination and information sharing on sustainable finance issues, the NBG established the Inter-agency Coordination Council for Sustainable Finance. The council members will be representatives from the National Bank of Georgia, the Ministry of Finance, the Ministry of Economy and Sustainable Development, the Ministry of Environmental Protection and Agriculture, and the Service for Accounting, Reporting and Audit Supervision. The main objective of the council is to coordinate and share information among its members on existing and planned regulatory policies and activities in sustainable finance in Georgia. To achieve these goals, the council is authorized to create thematic working groups, which will ensure effective inter-agency coordination in analyzing sustainable finance issues and developing technical documents.
- At the initiative of the Georgian Competition and Consumer Agency, and with the involvement of sectoral regulatory bodies—including the National Bank, the Communications Commission, GNERC, the Insurance State Supervision Service, and the National Food Agency—the first national strategy document for consumer rights protection was drafted.
- Financial education and raising public awareness are also priorities for the National Bank. To this end, numerous events were organized in cooperation with both public and private entities.



Questionnaire tables for the 2024 BSCEE Review¹

Number of financial institutions (at year-end)

Type of financial institution	2022	2023	2024
Commercial banks	15	17	18
Branches of foreign credit institutions	0	0	0
Cooperative banks			
Banking sector, total:	15	17	18

Total assets of banking sector (at year-end) (in GEL)

Type of financial institution	2022	2023	2024
Commercial banks	70,351,948,552	80,032,480,156	95,829,351,205
Branches of foreign credit institutions			
Cooperative banks			
Banking sector, total:	70,351,948,552	80,032,480,156	95,829,351,205
y/y change (in %)	16.15%	Commercial banks have officially made the transition from local accounting standards to International Accounting and Financial Reporting Standards (IFRS), therefore, there are no IFRS accounts available for previous years, to calculate the y/y change (in %).	19.74%

Ownership structure of banks on the basis of assets total

Item	2022	2023	2024
Public sector ownership			
Domestic ownership total	12%	12%	11.74%
Foreign ownership	88%	88%	88.26%
Banking sector, total:	100.0	100.0	100.0

Concentration of asset by the type of financial institutions, 2024

Type of financial institution	The first three largest (%)	The first five largest (%)	HHI
Commercial banks	83.00%	90.39%	31.02%
Branches of foreign credit institutions			
Cooperative banks			
Banking sector, total:	83.00%	90.39%	31.02%

¹ The charts below provide an overview of the financial landscape in Georgia, showcasing information on both commercial banks and microbanks. As of the end of 2024, there were 17 commercial banks and 1 micro-bank licensed. A microbank is a bank whose business model is based on lending to entrepreneurs, including those earning income from agricultural activities. Specifically, at least 70% of a microbank's loan portfolio must consist of loans issued for entrepreneurial purposes and/or loans, the repayment source of which is income from entrepreneurial activities.



Return on Equity (ROE) by type of financial institutions

Type of financial institution	2022	2023	2024
Commercial banks	24.57%	24.60%	24.00%
Cooperative banks			
Banking sector, total:	24.57%	24.60%	24.00%

Distribution of market shares in balance sheet total (%)

Type of financial institution	2022	2023	2024
Commercial banks	100%	100%	100%
Branches of foreign credit institutions			
Cooperative banks			
Banking sector, total:	100.0	100.0	100.0

The structure of assets and liabilities of the banking sector (%) (at year-end)

	2022	2023	2024
Receivables	100.00%	100.00%	100.00%
Financial sector	0.77%	0.84%	0.94%
Nonfinancial sector	59.38%	63.07%	62.67%
Government sector	4.06%	3.29%	2.77%
Other assets	35.80%	32.80%	33.62%
Liabilities	86.85%	84.71%	85.18%
Financial sector	1.16%	2.21%	2.35%
Nonfinancial sector	6.27%	63.23%	51.58%
Government sector	2.53%	3.63%	3.67%
Other liabilities	76.90%	15.64%	27.59%
Capital	13.15%	15.29%	14.82%

Capital adequacy ratio of banks

Type of financial institution	2022	2023	2024
Commercial banks	20.25%	22.14%	22.72%
Cooperative banks			
Banking sector, total:	20.25%	22.14%	22.72%

Asset portfolio quality of the banking sector (share of impaired receivables / share of non-performing loans)

Asset classification	2022	2023	2024
Non-financial sector, including	1.70%	1.48%	1.45%
- households	1.36%	1.23%	1.10%
- corporate	1.94%	1.62%	1.64%



The structure of deposits and loans of the banking sector in 2024 (%)
(at year-end)

	Deposits	Loans
Non-financial sector, including:	84.76%	98.95%
Households	55.05%	26.18%
Corporate	29.71%	72.77%
Government sector	6.02%	0.07%
Financial sector (excluding banks)	9.22%	0.98%
Total	100	100

P&L account of the banking sector
(at year-end) (in GEL)

P&L account	2022	2023	2024
Interest income	5,744,739,777	7,153,883,732	8,462,883,481
Interest expenses	2,776,630,293	3,264,347,049	4,097,035,601
Net interest income	2,968,109,484	3,889,536,683	4,365,847,880
Net fee and commission income	621,725,238	672,420,350	788,735,439
Other (not specified above) operating income (net)	1,168,214,066	791,975,448	773,248,624
Gross income	7,534,679,081	5,353,932,481	5,927,831,942
Administration costs	967,194,230	1,338,724,467	1,545,890,763
Depreciation	252,641,264	372,145,751	425,532,877
Provisions	326,659,787	390,020,208	338,994,516
Impairment on financial assets not measured at fair value through profit and loss / Provisions on financial assets (loans, ...)	326,659,787	390,020,208	338,994,516
Profit (loss) before tax	2,532,700,683	3,208,879,414	3,658,981,502
Net profit (loss)	2,086,502,661	2,716,449,942	3,098,289,343

Total own funds in 2024 (in EUR)

Type of financial institution	Total own funds	Core Tier 1	Tier 1
Commercial banks	5,904,425,622	4,466,613,904	5,241,446,505
Cooperative banks			
Banking sector, total:	5,904,425,622	4,466,613,904	5,241,446,505

Macroeconomic environment in the country

In 2024, the rapid disinflation of the previous year slowed down. The annual average inflation rate was 3.7 percent. The price increase remained within the Bank's tolerance band of 2 to 4 percent for most of the year, and prior to December, it only moved outside the range in July. In September 2024, inflation temporarily fell to 3 percent, before rising to 4.6 percent in December. The year-end increase was explained by the accelerating fuel and food price increases. The combined effect of the global commodity price hikes and the movements in the HUF foreign exchange market rapidly appeared in the prices of imported products.

The generally tense geopolitical situation played a significant role in how the global inflation outlook developed in 2024. Global energy prices have been more moderate than in previous years, but geopolitical tensions have led to considerable volatility. The volatile global oil prices also had an impact on domestic fuel prices, with the related inflation fluctuating between -11.9 and +9.2 percent in 2024.

In 2024, the global growth and inflation outlook was defined by unfavourable European industrial production expectations, the ongoing Russia-Ukraine war and prolonged geopolitical conflicts. Hungary's economic performance was subdued during the year. In 2024 as a whole, domestic GDP expanded by 0.5 percent, based on raw data.

During 2024, the performance of industry and agriculture fell significantly short of that recorded in the same period of the previous year, which was only partially offset by the expansion of the added value of services. In 2024, in line with rising real wages, the growth of the economy was supported mainly by household consumption. A significant volume decrease was observed in the case of investments, which was mainly explained by the decline in state and corporate investments. According to the surveys, the developments of companies were hindered by the long shadow of inflation, the lack of demand and uncertainty. The moderate European economic performance restrained domestic exports. Domestic lending processes were also characterized by duality: the retail credit market continued to recover, while corporate credit demand was low.

The Hungarian labour market has remained stable, despite the several waves of crisis in recent years, but adjustment to the prolonged weak economic situation has already started via some labour market channels. The level of employment in the total economy did not change in 2024 and is at a high level. Employment in the private sector decreased by 0.3 percent. There were signs of adjustment to the economic slowdown, with the unemployment rate reaching 4.5 percent (up from 3.6 percent in 2022). The number of vacancies has been decreasing since mid-2022, falling by 46.4 percent in manufacturing and 33.4 percent in market services. With the decline in labour demand, the tightness of the labour market also decreased. The total number of hours worked has also fallen significantly in the recent period. Wage dynamics remained high and reached 12.0 percent in the private sector in 2024, and due to the significant decrease of inflation compared to the previous year, real wages increased by 8.0 percent.

The external balance of the Hungarian economy continued to improve in 2024. The current account balance increased to 2.2 percent of GDP, mainly driven by a rise in the goods balance, while the income deficit also narrowed. The improvement in the external trade balance was mainly due to a more favourable energy balance and the lower import requirements from decreasing investment, while a pick-up in consumption and a decline in exports were in the opposite direction. Net lending remained stable in 2024, reaching 2.6 percent and was mainly driven by a fall in the budget deficit.



Developments in the banking sector (including assets total / GDP)

The Hungarian banking system has operated smoothly and remained stable in an environment marked by numerous challenges over the past period, its shock resilience is high, and its lending capacity is adequate. The banking system maintained a high level of liquidity, liquid assets have consistently reached the regulatory minimum with a substantial surplus (LCR: 181 percent). The loan-to-deposit ratio saw a slight decline, from 74.5 percent in 2023 to 74.0 percent by the end of 2024. The annual growth rate of the household sector's loan portfolio increased to 9.7 percent by the end of the year, while the rate for the corporate sector remained almost stagnant at 1.6 percent in 2024. Banks' lending activity has been consistent with the cyclical position of the economy. Reflecting the subdued growth in corporate lending and in nominal terms still growing GDP, the ratio of banks' total assets-to-GDP declined by 2 percentage points to 87 percent in 2024.

During 2024, the credit institutions' total household loan portfolio increased significantly, by HUF 984 billion, as a result of new disbursements and repayments. The total amount of new loans provided was HUF 2 752 billion in 2024, showing an annual increase of 66 percent. This increase in lending was also due to home purchase subsidies being expanded in 2024. Within consumer loans, annual disbursements increased by 55 percent for personal loans, 97 percent for car purchase loans, and 14 percent for commercial loans compared to 2023, while home equity loan disbursements decreased by 5 percent. Subsidised loans linked to family protection and home creation programmes (HPS Plus, Rural HPS, prenatal baby support loans) accounted for 22 percent of the total volume of new disbursements. The volume of new housing loan contracts was HUF 1 350 billion in 2024, which was 128 percent higher year-on-year.

The total corporate loan portfolio grew by almost HUF 200 billion in 2024, which was lower than in previous years. This increase in nominal value was supported by the loan and guarantee programmes of public institutions. Demand in the corporate loan market declined, due to the uncertain growth outlook and the high level of liquid corporate assets. Moreover, there was a shift in the structure of demand for loans, demand for FX loans increased slightly, while demand for long-term loans, typically for investment purposes, and for Hungarian forint loans declined. The share of subsidised loans in the total new non-overdraft corporate loans was 19 percent in 2024, significantly lower than the 35 percent share in the previous year.

The quality of the loan portfolios remained sound. The non-consolidated NPL ratio of credit institutions' corporate loan portfolio remained at a historically low level of 3.7 percent in 2024. The ratio of non-performing loans in the household sector has fallen to 2.0 percent by the end of 2024. With portfolio quality backed by stable labour market and high level of corporate liquidity, this benign trend was primarily driven by active bank portfolio cleaning throughout the year. Looking forward, credit risks may increase in some segments of the loan portfolio. The phase-out of the interest rate cap on household mortgage loans may pose a risk in the future. However, its removal may cause a significant increase in risks for a small group of borrowers only (14 000 or 5 percent of debtors in the program).

In 2024, credit institution sector realised an exceptionally high profit after tax of nearly HUF 1 600 billion, based on individual, non-consolidated data, which is HUF 119 billion higher than in the previous year. This increase was supported by specific and volatile items, mainly dividend income from foreign subsidiaries and one-off accounting effects, as well as a significant increase in the fee and commission income (part of which is technical, as banks partly offset the mid-2024 increase in the transaction fees in the SME segment by increasing their banking fees) and the extra profit tax being lower than in 2023. Overall, interest income decreased compared to the previous year due to a fall in interest income from the central bank, and an increase in other (market) interest income, but it still represents a significant proportion of banks' profits. However, the increase in operating expenses and impairment charges had an adverse impact on the results. Along with a high growth in the nominal profit, the banking sector's return on equity (RoE) decreased from



24.3 percent at the end of 2023 to 22.5 percent, while the return on assets (RoA) remained at 2 percent, similar to the previous year.

The banking system's consolidated capital adequacy ratio (CAR) increased by 25 basis points in 2024 to reach 20.4 percent by the end of 2024, while the CET1 ratio increased by 69 basis points to reach 18.3 percent. Taking the interim results into account, there was an even bigger increase: with a 131-basis-point increase, the CAR rose to 22.6 percent by the end of 2024. This improvement was primarily driven by an increase in retained earnings, reflecting strong profitability. Free capital above the capital adequacy ratio of the overall sector decreased by HUF 108 billion to HUF 2 208 billion, which corresponds to 5.1 percent of the Total Risk Exposure Amount (TREA). The banking system's Leverage Ratio (LR) increased by 36 basis points to 9.2 percent in 2024. All members of the sector met the 3 percent leverage requirement.

The legal and institutional framework for banking supervision in the country (new developments, legal competence of the Banking Supervisory Authority)

The supervisory and consumer protection tasks of the Magyar Nemzeti Bank (Central Bank of Hungary, MNB) are performed according to the Act CXXXIX of 2013 on the Magyar Nemzeti Bank. The MNB issues binding MNB decrees and non-binding recommendations, documents with information purposes and CEO letters (the latter also called Executive Circulars) – in order to give information and guidance for the supervised institutions in connection with the detailed rules and supervisory interpretation of the sector-specific legislation and the expectations of MNB. Regarding the legislative developments in 2024, work on legal harmonization continued also with regard to banking regulations.

Modifications to the Banking Law

In 2024, the Act CCXXXVII of 2013 on Credit Institutions and Financial Enterprises has been amended in several places in order to align it with the DORA regulation (Digital Operational Resilience Act). In Hungary, the DORA regulation must be complied not only by credit institutions, but also by financial enterprises. In line with the application of the DORA regulation, the provisions of the law on IT security requirements, emergency and business continuity plans have been tightened. The requirements of the law on exposures to related parties have been specified. The role of the audit committee has been supplemented with tasks related to the sustainability report of the credit institution.

Changes to MNB decrees

In order to facilitate bank financing of green real estate and thereby support the improvement of the energy efficiency of domestic real estate, the MNB decided to green differentiate the debt brake requirements (Loan-to-Value and Debt-Service-to-Income ratios). Based on the amendment, from January 2025, in the case of loans that meet the green conditions, the maximum loan amount that can be taken out can reach 90 percent of the collateral, and up to 60 percent of the debtor's income can be charged, regardless of its size.

The MNB, in its role of macroprudential supervision, made a decision in 2024 that the countercyclical capital buffer rate for exposures to counterparties in Hungary will be 1% starting from July 1, 2025, instead of the previous 0,5%.



MNB recommendations

The MNB issued new and revised recommendations this year as well, the most important topics of which are the followings:

- Expectations related to the management of problematic exposures, the aim of which is to ensure that credit institutions use similar high level risk management principles,
- Management of receivables when using an external service provider,
- Formulation of the MNB's expectations regarding the Overall Recovery Capacity to be taken into account by credit institutions and investment firms when preparing their recovery plan.

Other aspects

In 2024, an important task of the MNB was to prepare for the new requirements of the CRR, which came into effect from the beginning of 2025.

Main strategic objectives of the Banking Supervisory Authority in 2024

In October 2019 the main priorities and objectives of supervision for the 2020-2025 cycle were set. In developing the new supervisory strategy (Stability and Trust 2.0), the MNB relied on the previous strategy in addition to market, social and regulatory changes, the strategic objectives set out in the MNB’s Statutes as well as the MNB’s Competitiveness Program, thus ensuring a continuous transition and the progression of supervisory objectives.

The vision, mission and the values represented and conveyed by the MNB remain unchanged, the descriptions set out in 2019 are still considered valid and are the basis for the revised overall Supervisory Strategy Framework 2022-2025 (Stability and Trust 2.1). The revised supervisory strategic framework is also aligned with the MNB’s Sustainable Balance and Catching-Up Programme announced in May 2022, and takes into account the proposals and specific tasks set out in the programme for the supervision of the financial intermediary system. In order to implement the strategy actions and KPIs have been defined, which are followed-up every six months and re-engineered every year within the horizon of the strategy.

MNB SUPERVISORY STRATEGY 2020-2025	
MISSION: To support and strengthen the stability of the financial system, with priority focus on consumer protection, digitalisation and sustainability	
VISION: A developing, competitive and healthy financial sector – a supportive, formative and efficient MNB	
KEY VALUES: Stability and trust	
Legality, integrity, consumer orientation, innovation, sustainability, consistency, fair competition	
MARKET-FOCUSED OBJECTIVES	ORGANISATIONAL-FOCUSED OBJECTIVES
<p>1. Maintenance of shock resistance</p> <ul style="list-style-type: none"> 1.1 Reliably operating market players with a healthy balance sheet structure, secure capital position and adequate loss-absorbing capacity 1.2 Protecting the financial sector, with priority focus on market abuse and market surveillance 1.3 Increasing the resilience of financial institutions in ML/TF risks 1.4 Ensuring cyber resilience 	<p>5. Strong consumer protection</p> <ul style="list-style-type: none"> 5.1 Coordinating sectoral and individual expectations of fair conduct by service providers 5.2 Strengthening product-focused consumer protection
<p>2. Healthy competition with prudent, consumer-oriented products</p> <ul style="list-style-type: none"> 2.1 Requirement of transparency, with special focus on pricing 2.2 Prudent, consumer-oriented sales of financial products 2.3 Products that reflect and satisfy customer needs 2.4 Development of saving schemes 	<p>6. Risk-based supervision</p> <ul style="list-style-type: none"> 6.1 Further development of risk-based supervision, application of supervisory tools enabling early intervention 6.2 Strengthening international cooperation, in particular home-host supervisory cooperation and cross-border activities
<p>3. Support of technological development and risk management</p> <ul style="list-style-type: none"> 3.1 Supporting technological innovation in all sectors 3.2 Ensuring the prudent introduction of new technologies 3.3 Strengthening the security awareness of digital finances 	<p>7. Targeted, timely action and intervention</p> <ul style="list-style-type: none"> 7.1 Data-driven operation 7.2 Proactive, risk-focused supervisory communication and legal enforcement, development of effective crisis management tools
<p>4. Promotion of the environmental sustainability of the financial system</p> <ul style="list-style-type: none"> 4.1 Appropriate preparation for environmental risks 4.2 Supporting institutions in green transition 4.3 Enhancing awareness of environmental sustainability 	<p>8. Continuous improvement – Supportive supervision</p> <ul style="list-style-type: none"> 8.1 Supporting and using useful innovations, identifying and preventing harmful ones 8.2 Enhancing financial awareness 8.3 Supportive, client-friendly licensing processes while maintaining the gatekeeper role
	<p>9. Active domestic and international regulatory role</p> <ul style="list-style-type: none"> 9.1 Development of legislation based on supervisory experience 9.2 Active role in European Union legislation and transposition into domestic law 9.3 Strengthening proactive cooperation with domestic and foreign partner authorities, co-supervisors, interest representation organisations

The key activities of the Banking Supervisory Authority in 2024

The MNB’s supervisory activity related to the financial market sector is based on inspections (on-site supervision) and continuous assessment of the data and information provided by the supervised institutions (off-site supervision). In course of off-site supervision, the risk assessment is mainly based on the continuous analysis of statistical data and the review of the documents provided by the various internal committees of the institutions. Communication and meetings with the management and various experts of the supervised institutions are also contributing to the final supervisory assessments.

In 2024, in the frame of off-site supervision the MNB conducted 65 prudential meetings with senior managements of the supervised institutions and participated in 35 board and other working group meetings.

Regular (quarterly) risk assessments based on qualitative and quantitative information are summarized in viability assessments during the annual supervisory cycle, which provides feedback for the senior management of supervised institutions within the framework of SREP CEO meetings (12 occasions in 2024).

In 2024 within the framework of the supervision of credit institutions, financial enterprises, payment institutions and money market intermediaries, the MNB concluded 18 targeted, thematic, follow-up and comprehensive inspections.

As a result of the completed inspections around 433,5 million HUF prudential fine was imposed on all players of financial market, emphasizing that the MNB is taking a stand firmly against infringements and the institutions that had failed to comply with the former resolutions.

In 2024 the MNB concluded 15 internal capital adequacy assessment process (ICAAP) reviews, out of which 7 reviews were simplified for those small credit institutions that pose a lower level of systemic risk. Out of the 8 complex ICAAP – internal liquidity adequacy assessment process (ILAAP) – business model analysis (BMA) reviews 4 were comprehensive and 4 were focused reviews.

In the case of 2 largest banks, a comprehensive ICAAP-ILAAP-BMA review is carried out every year, while in the case of other banks a comprehensive review takes place at least once every 3 years.

In 2024 the MNB concluded 11 ILAAPs jointly with ICAAP for larger institutions, 1 ILAAP jointly with comprehensive inspections and another 7 standalone ILAAPs for smaller institutions. During the annual planning of inspections, institutions can be classified into three risk categories based on their riskiness and impact rating, complete with an appropriate review type (simplified, focused, comprehensive). In case of one institution, the MNB imposed additional LCR requirement under pillar 2 due to underestimating the potential reputational risk. The MNB found that all the institutions have an acceptable amount of liquidity reserve. With respect to the appropriateness of impairment, the MNB has been closely monitoring the ECL provisioning levels and practices of supervised credit institutions since early 2021.

During the comprehensive inspections there were multiple findings regarding the work of the supervisory board, the internal control and in general with the average quality of the control points implemented in the different processes. Regarding the credit risk the MNB has found that in multiple cases the credit risk processes were not supported properly with efficient controls, there were problems with the evaluation of collaterals, with client and transaction rating procedures, procedures related to Central Credit Information System (KHR) and with the IFRS9 provision calculation models and methods.

The efficiency of the management of non-performing loans greatly affects the viability of the financial sector, the size of the loans that can be extended and, through it, its impact on the economy. For this reason, it is of paramount importance that supervisory authorities and financial institutions properly manage the liability of borrowers struggling with payment difficulties and the risks arising from their problem exposures. In order to facilitate this, in June 2024, the MNB published its recommendation on the management of problem exposures, which set out uniform risk management expectations and guidelines for the entire receivables management process for market participants. It is important to highlight that the expectations set out in the recommendation contain good practices, regulatory and process steps to be followed not only with regard to the portfolio that has already become non-performing, but also with regard to the management of exposures that potentially become non-performing.

The MNB have introduced NPL monitoring system based on monthly reports to observe the delinquent loans and NPL changing. We regularly analyse these data and consult with the institutions if we identify an increase in risk. The loan portfolio quality change and analysis are part of the regular quarterly risk assessment. Furthermore, during the supervisory audits, we highlight focus on the institutions' early/late collection and

workout capabilities, work-flow processes, and the adequate IT support, and we follow up the delayed delinquent and NPL exposures handling methods, practices.

The MNB carried out targeted survey about delinquent and NPL loans and, it can be confirmed that the quality of the loan portfolio is still adequate, the banks handle appropriately the delinquent loans, the NPL stock is low and not increasing, however, we still consider it necessary to closely monitor the delinquent and NPL exposures.

During the reporting period the MNB actively participated in the risk assessment of the international banking groups as home and as host authority. In course of the college activity, under the joint decision the MNB urged requirements for the institutions, active in Hungary that ensure the risk-awareness and effective functioning of these banks from a micro-prudential aspect. As result of the intensive cooperation the recovery plans have been adopted, which ensure that an institution hit by crisis to be capable of operating and restoring the course of business without any state aid.

On-site inspections were mostly conducted by remote access provided by electronic means, during supervisory activities more emphasis was given to the tools of off-site supervision, and data collection and processing via extraordinary data requests and questionnaires.

In order to disclose the expectations of the MNB regarding the prevention, detection and management of abuses and fraud activities observed through payment services, to support the application of related laws and to foster the development of standard practices in issues not regulated by the laws, the MNB published Recommendation No. 5/2023. (VI.23.), applicable from 1 January 2024 mainly. Based on supervisory experience, the MNB published an executive circular on the prevention of abuses of proxy access via electronic channels and related information requirements, in April 2024. The consumer protection provisions of the recommendation and the executive circular were examined by the MNB under an on-going supervisory activity with a risk-based approach, in 2024. The MNB has identified minor deficiencies, such as the lack of information provided on the possibility of instant transactions monitoring and the transaction limits, and the lack of information on solutions available to manage customers' assets more securely (such as the virtual payment cards). The MNB has called on the payment service providers to correct the deficiencies.

The MNB conducted supervision on credit institutions' compliance with the Recommendation on consumer protection principles of handling retail credit and leasing agreements with payment difficulties (MNB Recommendation No. 5/2022.). The supervision focused on the requirements on creditors' engagement with consumers, such as providing information to consumers in different channels, and on the appropriate timing of contacting with consumers. The supervision covered 21 credit institutions, and no risk was detected at sector-level, however, deficiencies were found, like the lack of obligatory elements of the notice (informative letter) on the payment delay and failing to meet the deadline for contacting the consumer. The MNB ordered creditors to eliminate failures within a prescribed time limit and followed-up the fulfilment of the requirements.

In 2024, the MNB took part in drafting the DORA L2 regulations, prepared for the DORA supervisory activities (for example with new methodologies, IT developments for incident reporting and RoI collection, etc.) and supported the supervised entities within their DORA preparation and implementation throughout consultations, online workshops and dedicated DORA trainings.

International activities of the Banking Supervisory Authority

ESRB

The MNB actively participates in the workstream of the ESRB both at managerial and expert levels through several working groups and expert groups. The leaders of national supervisory authorities and central banks meet four times per year in General Board (GB) sessions, while members of the Advisory Technical Committee meet with the same frequency preceding the GB meetings. In 2024 the ESRB General Board virtual meetings focused primarily on the risks and vulnerabilities in the financial system, in the EU commercial real estate and in the non-bank financial intermediation (NBFII), risks in investment funds investing in corporate debt and real estate, macroprudential considerations related to crypto assets, macroprudential tools for cyber resilience, climate risk monitoring, as well as legislative process on data sharing among EU institutions.

FSB Regional Consultative Group for Europe

The MNB and the Ministry of Finance both are members of the FSB's regional substructure. The MNB was represented at managerial level at the physical meetings of the FSB European Regional Consultative Group in April and in November 2024. Participants exchanged views on the global and regional vulnerabilities, artificial intelligence and its role in a changing financial system as well as the developments in commercial real estate. Members also discussed the challenges with implementing a framework for crypto assets, the financial stability implications from private credit, the depositor behaviour and interest rate and liquidity risks in the financial system as well as the regulatory reforms on securitisation.

EBA

The experts of MNB actively participated in the professional work of the EBA, mainly in the framework of EBA's various working groups. As in the previous years there was a constant effective communication between the MNB and the EBA in 2024, as well as the Hungarian BoS Member is a member of the EBA Management Board, and the common pool of panellists of the EBA Mediation and Breach of Union Law (BUL) Panels.

Memorandum of Understanding

On 6 March 2024, the MNB and the Financial Regulatory Commission of Mongolia (FRC) signed a Memorandum of Understanding with the aim of creating a mechanism for long-term cooperation through enhanced communication and the exchange of information and best practices.

On 25 March 2024, the MNB and the National Financial Regulatory Administration of China (NFRA) signed a Memorandum of Understanding to strengthen cooperation in financial supervision and consumer protection, including information sharing and collaboration in the fight against money laundering and terrorist financing.

On 28 August 2024, the MNB and the Central Bank of Kuwait (CBK) signed a Memorandum of Understanding to enhance bilateral relations and promote strong cooperation in the field of central banking.

On 1 November 2024, the MNB and the National Bank of Ukraine (NBU) signed two Memorandum of Understanding: the first to establish an arrangement for sharing supervisory information and enhancing cooperation in the supervision of banks, insurance companies, cross-border establishments, financial groups, and payment market participants; and the second focused on legislation on anti-money laundering and combating the financing of terrorism (AML/CFT).



On 5 November 2024, the MNB and the Albanian Financial Supervisory Authority (AFSA) signed a Memorandum of Understanding on mutual cooperation in the regulation and supervision of non-bank financial markets, with a particular focus on collective investment undertakings.

On 20 November 2024, the MNB and the Agency of the Republic of Kazakhstan for Regulation and Development of the Financial Market (ARDFM) signed a Memorandum of Understanding to establish long-term cooperation through the development of communication channels and the sharing of knowledge and best practices.

On 21 November 2024, the MNB, together with the John von Neumann University (NJE) and the Budapest Metropolitan University (METU), signed a tripartite Memorandum of Understanding with the Tsinghua University PBC School of Finance (Tsinghua PBCSF) to promote academic exchange, senior management dialogue, joint research, and cooperation in education programmes.

On 13 December 2024, the MNB and the Central Bank of Oman (CBO) signed a Memorandum of Understanding to strengthen bilateral relations and foster cooperation in central banking through information exchange and collaborative engagement.

Supervisory colleges

The supervisory colleges of financial groups operating in multiple countries are forums of supervisory cooperation. Under the framework of cooperation in supervisory colleges, regular and significant exchange of information takes place among national supervisory authorities.

Since the European Central Bank (ECB) is the consolidating (home) supervisor in case of parent institution of the financial groups in SSM-countries, colleges are organized and led by the joint supervisory team (JST) representing ECB and national supervisory authority supervising the parent institution (former home supervisor). College members (home and host supervisors) regularly exchange information on the group concerned, assess risks of the group, parent company and subsidiaries, evaluate the appropriateness of the group's and subsidiaries' recovery plans and may request each other to carry out supervisory procedures. The framework of this cooperation is stated in Written Coordination and Cooperation Arrangements (WCCA). As a result of colleges' work college members make joint decisions on capital and liquidity adequacy and group recovery plan assessments. In total, the MNB participates in 9 banking colleges as host supervisor authority.

As home supervisor, the MNB leads the banking supervisory college of OTP Group. In 2024 one personal college meeting was held in Budapest in line with the regular college schedule, namely on the Joint Risk Assessment of the OTP Group. The college collaboration resulted among others in the joint decision on the assessment of capital and liquidity adequacy. The other college meeting on the Group Recovery Plan assessment was shifted to January 2025 and was held online.

Cooperation with other supervisory bodies in the country

The MNB performs supervisory and consumer protection tasks as well. The MNB monitors and supervises the activities of financial and capital market institutions, funds, insurance companies, pension funds, intermediaries and institutions of the financial infrastructure as well, furthermore, it carries out investor protection tasks and it operates the Financial Arbitration Board¹ and the Financial Consumer Protection Centre².

¹ a professionally independent alternative forum for resolving disputes

² it supplies consumers with comprehensive and easy to understand information about the products and processes in the financial sector and handles consumer claims



The MNB and the Ministry for National Economy (Ministry) are the most important Hungarian organizations responsible for the establishment and maintenance of financial stability hence the MNB cooperates closely with the Ministry, first and foremost, in the area of legislation.

Furthermore, the MNB collaborates with the Ministry in charge of Consumer Protection Activities from 1 August 2024.

Other relevant information and developments in 2024

MBH Bank

With its decision of March 25, 2024, the MNB authorized MBH Bank Nyrt. to acquire 76.35 percent direct stake in Fundamenta-Lakáskassza Lakás-takarékpénztár Zrt. and an indirect stake of 1.39 percent through Fundamenta-Lakáskassza Pénzügyi Közvetítő Kft. The transaction was closed on March 27, 2024. Following the closing, Fundamenta became a member of the MBH group, it operates as a consolidated subsidiary of MBH Bank, but as a separate entity with its own brand name and company management. On November 11, 2024 MBH Bank announced that it signed a share purchase agreement with Generali Biztosító Zrt. in order to purchase a total of 14.88% stake of Fundamenta Lakáskassza Lakás-takarékpénztár Zrt. – The transaction is expected to close in 2025 subject to regulatory approval.

Bank currently has no majority shareholder.

OTP Bank's acquisitions

After two closed transactions (Slovenian and Uzbek) in 2023, OTP Bank's acquisition activity slowed down last year and no new transactions have been launched since then. With the NKBM acquisition in Slovenia, OTP became one of the largest players in the Slovenian market and was involved under the supervision of the ECB. The legal and operational merger of the two Slovenian subsidiary banks was completed by the end of August – beginning of September 2024. In Uzbekistan, the acquisition of Ipoteka Bank was closed in the middle of 2023, since then the integration of the bank into the OTP Group and its full transformation is in progress.

Acquisition of Magyar Cofidis Bank

In May 2024, the MNB authorized the acquisition of a 100% direct controlling stake in Magyar Cetelem Bank Zrt. by Cofidis Société Anonyme (while the Hungarian Competition Authority granted the relevant permission in August 2024). The financial closing was completed on September 30, 2024. The name of Magyar Cetelem Bank was changed to Magyar Cofidis Bank in December 2024.

Questionnaire tables for the 2024 BSCEE Review³

Number of financial institutions (at year-end)

Type of financial institution	2022	2023	2024
Commercial banks	26	25	25
Branches of foreign credit institutions	9	9	9
Cooperative banks	0	0	0
Banking sector, total:	35	34	34

Total assets of banking sector (at year-end, in HUF million)

Type of financial institution	2022	2023	2024
Commercial banks	60 899 609	61 147 807	65 150 895
Branches of foreign credit institutions	5 633 658	5 184 177	5 946 340
Cooperative banks	-	-	-
Banking sector, total:	66 533 267	66 655 984	71 097 235
y/y change (in %)	16.3%	0.2%	6.7%

Ownership structure of banks on the basis of assets total*

Item	2022	2023	2024
Public sector ownership	0.0%	0.0%	0.0%
Domestic ownership total	53.0%	53.1%	54.1%
Foreign ownership	47.0%	46.9%	45.9%
Banking sector, total:	100%	100%	100%

* Banks controlled by strategic foreign owners are considered in foreign ownership.

Concentration of asset by the type of financial institutions, 2024

Type of financial institution	The first three largest	The first five largest	HHI
Commercial banks	55.9%	71.7%	0.145
Branches of foreign credit institutions	75.6%	89.7%	0.240
Cooperative banks	-	-	-
Banking sector, total:	51.3%	65.7%	0.124

Return on Equity (ROE) by type of financial institutions

Type of financial institution	2022	2023	2024
Commercial banks	9.1%	23.9%	22.2%
Cooperative banks	-	-	-
Banking sector, total:	9.1%	23.9%	22.2%

³ Without 3 Special Financial Institutions (MFB, EXIM, KELER)
Based on individual data

Distribution of market shares in balance sheet total

Type of financial institution	2022	2023	2024
Commercial banks	91.5%	92.2%	91.6%
Branches of foreign credit institutions	8.5%	7.8%	8.4%
Cooperative banks	-	-	-
Banking sector, total:	100%	100%	100%

**The structure of assets and liabilities of the banking sector
(at year-end)**

	2022	2023	2024
Receivables			
Financial sector	42.8%	42.2%	43.1%
Nonfinancial sector	36.8%	37.4%	36.4%
Government sector	19.5%	18.5%	18.5%
Other assets	0.9%	1.9%	2.0%
Liabilities			
Financial sector	37.7%	31.9%	29.4%
Nonfinancial sector	46.4%	46.3%	47.0%
Government sector	3.7%	4.2%	2.9%
Other liabilities	4.4%	8.0%	10.1%
Capital	7.8%	9.6%	10.6%

Capital adequacy ratio of banks

Type of financial institution	2022	2023	2024
Commercial banks	20.3%	24.5%	25.0%
Cooperative banks	-	-	-
Banking sector, total:	20.3%	24.5%	25.0%

**Asset portfolio quality of the banking sector
(share of impaired receivables / share of non-performing loans)**

Asset classification	2022	2023	2024
Non-financial sector, including*	3.7%	2.7%	2.4%
- households	4.4%	2.8%	2.0%
- corporate	3.1%	2.7%	2.8%

* Domestic loans

**The structure of deposits and loans of the banking sector in 2024
(at year-end)**

	Deposits	Loans
Non-financial sector, including:	83.1%	87.3%
Households	35.2%	42.8%
Corporate	47.9%	44.5%
Government sector	6.1%	5.5%
Financial sector (excluding banks)	10.8%	7.2%
Total	100%	100%



**P&L account of the banking sector
(at year-end, in HUF million)**

P&L account	2022	2023	2024
Interest income	4 237 087	7 419 225*	5 637 637
Interest expenses	2 592 398	5 267 212*	3 564 576
Net interest income	1 644 689	2 152 013	2 073 061
Net fee and commission income	774 721	844 168	1 007 310
Other (not specified above) operating income (net)	155 117	422 772	659 465
Gross income	2 574 528	3 418 954	3 739 836
Administration costs	1 538 665	1 720 013	1 721 404
Depreciation	138 841	149 560	186 021
Provisions	-373 202	51 360	-65 549
Impairment on financial assets not measured at fair value through profit and loss / Provisions on financial assets (loans, ...)	0	0	0
Profit (loss) before tax	523 820	1 600 741	1 761 862
Net profit (loss)	467 330	1 409 425	1 558 410

* Data correction due to data modification of institutions

Total own funds in 2024 (in EUR)

Type of financial institution	Total own funds	Core Tier 1	Tier 1	Tier 2	Tier 3
Commercial banks	17 223 482 448	14 990 790 170	15 399 788 195	1 823 694 254	-
Cooperative banks	-	-	-	-	-
Banking sector, total:	17 223 482 448	14 990 790 170	15 399 788 195	1 823 694 254	-



Macroeconomic environment in the country

The Astana International Financial Centre (AIFC) was established pursuant to the Constitution of the Republic of Kazakhstan and Constitutional Statute of the Republic of Kazakhstan on AIFC dated 7 December 2015, as the territory within the city of Astana with precise borders determined by the President of the Republic of Kazakhstan where the special legal regime in the financial sphere is established with its own civil and commercial laws.

The AIFC's official launch took place in 2018, when the infrastructure of the financial centre was formed, including the creation of key bodies and organisations, as well as the necessary legal and regulatory framework for starting activities of the first registered participants in the AIFC. The AIFC provides unique legal and regulatory framework which is based on international standards and the principles, legislation and precedents of the law of England and Wales.

Since the AIFC's launch in 2018, the number of participants has steadily grown each year. By the end of 2024, nearly 3,550 companies from 85 countries were registered with the AIFC, with around 130 of them licensed by the Astana Financial Services Authority (AFSA), an independent AIFC regulator, to offer financial services, including banking, credit provision, asset management, and brokerage services.

Developments in the banking sector (including assets total / GDP)

By the end of 2024 the banking sector in the AIFC consisted of 17 banking institutions, including 3 banks (including Islamic Banks), 5 branches of banks, 4 credit providers, and 5 other banking service firms.

As of 2024, the total amount of assets amounted to USD 997 million (USD 931 million from banking firms and USD 66 million from other banking service firms). More detailed data on the banking sector is presented in the questionnaire tables below.

The legal and institutional framework for banking supervision in the country (new developments, legal competence of the Banking Supervisory Authority)

In accordance with the Constitutional Statute of the Republic of Kazakhstan on the AIFC, one of AFSA's core responsibilities is to develop and adopt AIFC Acts that regulate financial services and related activities within the AIFC. In line with this mandate, AFSA has continuously worked to develop, strengthen, and expand the regulatory framework to support a broad range of financial services, including banking, and to foster a secure, innovative and competitive market environment.

Banking supervision is governed by a robust set of AIFC Acts, including:

- **AIFC Financial Services Framework Regulations (FSFR)** – establishing the licensing, supervisory, and enforcement powers of the AFSA.
- **AIFC Banking Business Rules (BBR)** – defining prudential requirements, such as capital adequacy, liquidity, risk management, and governance.
- **AIFC Conduct of Business Rules (COB)** – ensuring fair treatment of clients, including conduct obligations for banks.



- **AIFC Recovery and Resolution Framework** – outlining requirements for contingency planning and orderly resolution of distressed financial institutions.

The legal framework is designed to be aligned with international standards, including the Basel Core Principles for Effective Banking Supervision.

While 2024 did not see material amendments to the banking supervision framework, AFSA’s work across four strategic priorities – capital markets, asset management, digital assets and fintech, operational excellence and market/ecosystem development – strengthened the overall environment for banking services and enhanced AFSA’s supervisory capacity in a rapidly evolving financial landscape.

Organizational chart of the Banking Supervisory Authority



Main strategic objectives of the Banking Supervisory Authority in 2024

The objectives of the AIFC, as established under the Constitutional Statute of the Republic of Kazakhstan on the AIFC—such as facilitating investment in Kazakhstan, creating an attractive investment environment, developing a securities market integrated with international capital markets, and expanding key sectors like insurance, banking, Islamic finance, financial technologies, digital assets, and e-commerce—along with AFSA’s regulatory objectives of ensuring the safety and soundness of the financial system, providing fair and transparent conditions for participants, fostering confidence in AIFC’s financial stability, protecting investor interests, and promoting the development of financial technologies, continued to serve as the cornerstone for AFSA’s strategic priorities for 2024.

In 2024, the AFSA focused on 4 strategic priorities:

- (1) Capital markets;
- (2) Asset management;
- (3) Digital assets and fintech;
- (4) Operational excellence and market/ecosystem development.



The key activities of the Banking Supervisory Authority in 2024

Throughout the year, AFSA maintained its commitment to a risk-based supervisory approach, aimed at identifying, assessing, and addressing prudential, financial conduct, and AML/CFT-related risks within the banking sector and beyond.

The supervisory framework included both off-site supervision, based on the analysis of regulatory returns, financial and non-financial disclosures, and risk indicators, and on-site inspections conducted on a periodic or special basis.

In 2024, AFSA's supervisory activities resulted in several targeted regulatory actions affecting banking institutions, including:

- The issuance of targeted modifications for banks and credit providers.
- The release of AFSA's Policy Statement on its approach to banks and start-up banks. This statement clarifies AFSA's approach to entities applying for authorisation to operate as a bank in the AIFC.

Supervision of firms, including banks, entailed the following actions:

- Development of remediation action plans and requirements based on the results of inspections conducted on banks.
- Issuance of 1 warning letter, 1 written directive, and 1 decision notice due to breaches of prudential requirements by investment firms.
- Suspension of 3 licences due to voluntary suspension requests and breaches of prudential requirements (including banking and investment firms).

International activities of the Banking Supervisory Authority

International cooperation—both bilateral and multilateral—remains central to advancing AFSA's strategic objective of cultivating a secure, transparent, and trusted financial environment within the AIFC. In an increasingly interconnected financial landscape, AFSA continues to prioritise robust cross-border supervisory collaboration and active engagement in international platforms led by global standard-setting organisations. These efforts are vital to aligning the AIFC with global best practices and ensuring the resilience of its financial ecosystem.

Multilateral engagement remains a cornerstone of AFSA's strategic direction, reflecting its dedication to supporting the development of a coherent and resilient global regulatory architecture. Through its active participation in key international standard-setting bodies—such as the International Organization of Securities Commissions (IOSCO), the International Association of Insurance Supervisors (IAIS), and the Group of Banking Supervisors from Central and Eastern Europe (BSCEE)—AFSA contributes meaningfully to shaping international regulatory discourse. Its status as a signatory to the multilateral memoranda of understanding of IOSCO and IAIS further underscores AFSA's commitment to transparency, cooperation, and the timely exchange of supervisory information across jurisdictions.



Contribution to the global standard setting activities: AFSA continued active contributions to the establishment of global regulatory standards and participated in the work of global standard-setting bodies.

- **Participation in committees and working groups.** In 2024, AFSA actively participated in over 20 committee and working group meetings (online and in-person) under the auspices of key international standard-setting bodies, including IOSCO, IAIS, BSCEE. These included participation in five IOSCO committee sessions, multiple meetings of the IAIS Implementation and Assessment Committee and Emerging Markets and Developing Economies (EMDE) Committee, and engagement with the Consultative Committee on Financial Markets of the EEC. AFSA's sustained presence in these forums reinforces its strategic role in promoting high-quality regulatory practices and advancing cross-border supervisory dialogue.

Bilateral cooperation is equally essential in supporting cross-border activities of regulated entities and enhancing the overall effectiveness of market oversight. Through direct collaboration across the regulatory lifecycle—from authorisation and licensing to supervision and enforcement—bilateral partnerships facilitate the timely exchange of information and joint responses to emerging risks. This coordinated approach strengthens regulatory alignment and contributes to safeguarding market integrity across jurisdictions.

- **Formalisation of co-operation.** In 2024, AFSA formalised four new Memorandums of Understanding (MoUs) with the regulatory authorities of Sweden, Türkiye, El Salvador, and Azerbaijan. As of 31 December 2024, the total number of supervisory agreements and memorandums concluded with peer regulators reached 57, reinforcing AFSA's commitment to structured cross-border regulatory cooperation.
- **Exchange of information.** Since 2019, AFSA has observed continued annual growth in information exchange with peer regulators on authorisation, supervision, and enforcement matters, with 35 requests processed in 2024—up from 33 in 2023. This sustained increase underscores the effectiveness of established cooperation channels and the growing trust in AFSA's role as a reliable partner in cross-border regulatory collaboration.

Cooperation with other supervisory bodies in the country

The Astana Financial Services Authority (AFSA), the regulatory body of the Astana International Financial Centre (AIFC), maintains a systematic and constructive collaboration with Kazakhstan's national regulatory authorities: the National Bank of the Republic of Kazakhstan (NBK) and the Agency for Regulation and Development of the Financial Market (ARDFM). This cooperation is aimed at ensuring the stability and transparency of the country's financial sector.

The parties cooperate across key areas such as information exchange, alignment of regulatory approaches, supervision of financial institutions, anti-money laundering and counter-terrorist financing (AML/CFT), development of fintech, and sustainable finance.

In 2024, following coordination with the aforementioned regulators, AFSA introduced amendments to the AIFC Currency Regulation Rules aimed at expanding the operational capabilities of AIFC participants and enhancing interaction with the competent authorities of the Republic of Kazakhstan. Key changes included an expansion of the scope of permitted currency operations, clarification of reporting procedures for currency transactions, and strengthening cooperation with the National Bank of Kazakhstan, among other improvements.

These changes established a balance between the attractive regulatory environment within the AIFC and the necessary level of oversight within the legal framework of Kazakhstan.



Along with this, initiatives in the area of digital assets were also implemented. AFSA, in cooperation with the NBK and ARDFM, introduced clarifying amendments to the Rules of Cooperation, expanding the list of fiat channels by including the National postal operator QazPost. This enabled its clients to access additional financial services for funding and withdrawing assets, thereby increasing the number of participants in the digital asset market.

Additionally, in 2024 the jointly developed comprehensive Rules on interaction of Digital Asset Service Providers and commercial banks of Kazakhstan entered into force, that enhance the interaction between a broader range of licensed entities within the AIFC and the commercial banks of Kazakhstan. This initiative expanded on the original Pilot Project, which was primarily focused on facilitating access for AIFC-licensed Digital Asset exchanges to Kazakhstani commercial banks.



Questionnaire tables for the 2024 BSCEE Review

Number of financial institutions (at year-end)

Type of financial institution	2022	2023	2024
Commercial banks	4	3	3
Branches of foreign credit institutions	3	4	5
Cooperative banks			
Banking sector, total:	7	7	8

Total assets of banking sector (at year-end) (in million USD)

Type of financial institution	2022	2023	2024
Commercial banks	66,7	27,1	45,3
Branches of foreign credit institutions	659,9	810,8	885,4
Cooperative banks			
Banking sector, total:	726,6	837,8	930,6
y/y change (in %)			

Ownership structure of banks on the basis of assets total

Item	2022	2023	2024
Public sector ownership			
Domestic ownership total	8%	1,4%	1,9%
Foreign ownership	92%	98,6%	98,1%
Banking sector, total:	100.0	100.0	100.0

Concentration of asset by the type of financial institutions, 2024

Type of financial institution	The first three largest (%)	The first five largest (%)	HHI
Commercial banks	4,9%	4,9%	
Branches of foreign credit institutions	95,1%	95,1%	
Cooperative banks			
Banking sector, total:	100%	100%	

Return on Equity (ROE) by type of financial institutions

Type of financial institution	2022	2023	2024
Commercial banks	-3,69%	0,06%	4%
Cooperative banks			
Banking sector, total:	-3,69%	0,06%	4%



Distribution of market shares in balance sheet total (%)

Type of financial institution	2022	2023	2024
Commercial banks	9,2%	3,2%	4,9%
Branches of foreign credit institutions	90,8%	96,8%	95,1%
Cooperative banks			
Banking sector, total:	100.0	100.0	100.0

The structure of assets and liabilities of the banking sector (%) (at year-end)

	2022	2023	2024
Receivables			
Financial sector	32%	48%	61%
Nonfinancial sector	18%	18%	5%
Government sector	50%	34%	29%
Other assets	>1%	>1%	>1%
Liabilities			
Financial sector	82%	91%	90%
Nonfinancial sector	6%	>1%	>1%
Government sector			
Other liabilities	2%	>1%	1%
Capital	10%	9%	8%

Capital adequacy ratio of banks

Type of financial institution	2022	2023	2024
Commercial banks	48%	43%	42%
Cooperative banks			
Banking sector, total:	48%	43%	42%

Asset portfolio quality of the banking sector (share of impaired receivables / share of non-performing loans)

Asset classification	2022	2023	2024
Non-financial sector, including	0/0	0/0	0/0
- households	0/0	0/0	0/0
- corporate	0/0	0/0	0/0

The structure of deposits and loans of the banking sector in 2024 (%) (at year-end)

	Deposits	Loans
Non-financial sector, including:		
Households		
Corporate	100	100
Government sector		
Financial sector (excluding banks)		
Total	100.0	100.0



**P&L account of the banking sector
(at year-end) (in thousand USD)**

P&L account	2022	2023	2024
Interest income	24 655	32 091	37 493
Interest expenses	18 097	26 879	31 616
Net interest income	6 558	5 212	5 877
Net fee and commission income	1 198	1 281	1 358
Other (not specified above) operating income (net)	-468	(60)	19
Gross income	7 288	6 433	7 254
Administration costs	5 345	5 308	6 214
Depreciation	422	421	351
Provisions	2 980	219	296
Impairment on financial assets not measured at fair value through profit and loss / Provisions on financial assets (loans, ...)	697	168	141
Profit (loss) before tax	-1 037	1 012	3 074
Net profit (loss)	-1 037	1 001	3 062

Total own funds in 2024 (in thousand EUR)

Type of financial institution	Total own funds	Core Tier 1	Tier 1	Tier 2	Tier 3
Commercial banks	17 997	17 997	17 997		
Cooperative banks					
Banking sector, total:	17 997	17 997	17 997		

Macroeconomic environment in the country

In 2024, the economic activity remained weak in Latvia, as only early signs of recovery of the foreign demand from the Scandinavian markets emerged, global geopolitical tensions remained elevated and the uncertainty was complemented by unclear further stance of the US external policies in anticipation of the results of the presidential elections. The **real GDP** contracted by 0.4% (s.a., quarterly data) despite the environment of decreasing interest rates and moderate inflation.

Consumer confidence remained subdued in the circumstances described above, thus, motivating restoration of the savings' rates rather than a strong increase in consumption. The **private consumption** resumed negligibly (+0.2%) despite improving purchasing power which was strengthened by robust income growth in the environment of successfully contained inflation.

Investment growth was held back by the low activity of the private sector, thus, the gross fixed capital formation shrank by 6.8% y-o-y. Weakness of investment manifested itself to some extent in the drop of capital goods' imports, resulting in a stronger decrease of total goods' and services' **imports** (by 2.4%) compared to the drop of **exports** (by 1.6%). In addition, the export price dynamics were somewhat more favourable than those of imports, and the abovementioned developments altogether narrowed **current account deficit** to 2.1% of GDP.

In 2024, inflation remained moderate, with the annual average **HICP inflation** declining to 1.3% compared to 9.1% in 2023. While the y-o-y changes in energy prices remained negative throughout the year, overall positive inflation rate was mainly determined by food and services' prices, reflecting a gradual return of an upward trend in global food prices as well as strong income growth. Despite sharp decline in the headline inflation, the core inflation remained above its level (i.e., 3.7%) as some of the cost factors also manifest themselves with a lag.

The **labour market** easing can be seen as temporary. Despite sluggish overall economic developments, the unemployment rate picked up relatively slightly (to 6.9% on average in 2024 compared to 6.5% in 2023), and the average wage growth attained 9.7% in the backdrop of remaining shortages of the labour supply and the increase in the minimum wage. The real wage growth stayed positive in 2024 as inflation remained at low level throughout the year.

A further reduction of the **government budget deficit** was observed in 2024. Driven by a faster increase in tax and other revenues compared to expenditures, the general government deficit declined in 2024 to 1.8% of GDP, from 2.4% of GDP a year earlier. The general government **debt-to-GDP** ratio reached 46.8%, reflecting additional borrowing to cover the cash-flow deficit and meet refinancing needs.

Developments in the banking sector (including assets total / GDP)

At the end of 2024, there were ten licensed banks, four branches of EU banks, and one financial holding company operating in Latvia. Approximately 80% of the Latvian banking share capital was owned by foreign investors, predominantly from Sweden and the United States.

The deposit base of Latvian banks has been growing steadily in recent years. Given the sluggish household deposit growth in 2023 – largely driven by postponed purchases – and low investment activity by non-financial corporations in 2024, deposit growth accelerated significantly in 2024, resulting in a strong year-on-year increase of EUR 2 billion or 9%. The share of term deposits has slightly increased further in 2024, reaching 24.7% of total deposits. However, a decline was observed in the last quarter due to decreasing interest rates.

The higher growth in deposits also contributed to an increase in total assets by EUR 2.2 billion or 7.9%, reaching a total of EUR 30.5 billion (75.8% of GDP).

Despite geopolitical uncertainty, the loan portfolio continued to grow in both the household and corporate segments. In 2024, the total non-bank customer loan portfolio rose by 4.8% or EUR 760.3 million, reaching EUR 16.7 billion. Loans to domestic households increased by 6.7%, while loans to domestic non-financial corporations grew by 5.8%. The foreign customer loan portfolio also expanded significantly (+12.9%), mainly determined by the growth of loans to Baltic customers.

Regardless of the challenging macroeconomic environment, the quality of the loan portfolio remained robust in 2024: the share of non-performing loans (NPL) was unchanged at 2.7%, the same level as in the previous year. The share of NPLs in the domestic portfolio was lower – at 1.6%. The quality of the foreign customer loan portfolio slightly improved, with the NPL ratio declining to 8.6% at the end of 2024, mainly driven by more active new lending to Baltic customers.

The banking sector overall is operating with high profitability. The rise in interest rates contributed significantly to the improvement of banking sector profitability in 2023, given that the loan portfolio consists predominantly of variable rate loans linked to the EURIBOR rate. Although net interest income continued to grow, it did not offset the strong increase in administrative expenses (+34.7%), mainly due to the mortgage borrowers' support levy introduced by the government to partly compensate households for debt servicing expenses resulting from increased interest rates. The banking sector operated with a profit of EUR 570 million, which was 8% lower compared to 2023. Consequently, profitability indicators slightly worsened: the cost-to-income ratio rose from 39.3% to 49.5%, and the return on equity declined from 20.0% to 16.7%.

Latvian banks are well capitalised. Capital ratios slightly decreased due to an increase in risk exposure, determined by the growth of the loan portfolio and changes in the structure of assets. Accordingly, the average CET1 ratio of the banking sector decreased from 20.1% to 19.6% in 2024, while the total capital ratio improved from 20.9% to 21.6%, still remaining well above regulatory requirements and fostering the sector's resilience to economic downturns.

Liquidity in banks is ample. The average LCR and NSFR ratios have been significantly above the 100% minimum requirement over the last few years, reaching 248% and 172% respectively in 2024. This indicates that liquidity risk in the Latvian banking sector remains limited and is being adequately managed.

The legal and institutional framework for banking supervision in the country (new developments, legal competence of the Banking Supervisory Authority)

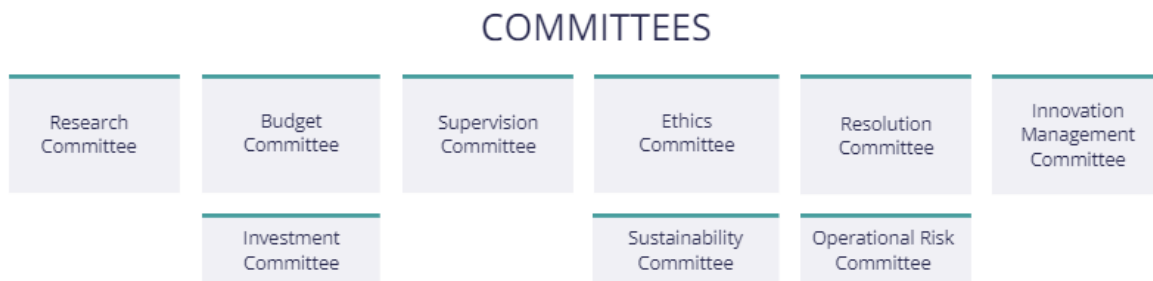
In 2024, Latvijas Banka concluded the two-year process of reaffirming the Financial and Capital Markets Commission (former financial sector supervisory and resolution authority in Latvia) regulations, while continuing to refine the legal framework governing the activities of financial market participants. This included the implementation of EU directives, the adoption of guidelines issued by EU institutions, and the enforcement of applicable EU regulations.

Organizational chart of the Banking Supervisory Authority

Latvijas Banka is governed by the Council which is elected by the Parliament for a term of five years. Each Council Member operates within their respective areas of responsibility and performs oversight of the respective departments.



The activities of Latvijas Banka are managed and overseen by the collegial authorities – committees representing various areas.



Main strategic objectives of the Banking Supervisory Authority in 2024

In line with Latvijas Banka's supervisory priorities and focus areas, in 2024, prudential supervision of credit institutions was focused on:

- good governance, including the operational efficiency of internal control and management functions, as well as the quality of risk management, including ICT risks;
- sustainability of business models in a transition economy, including sustainability risk management, digitalisation, and innovations;
- operational and financial resilience, including the impact of risks on asset quality and profitability, the quality of strategy documents, ICT security management, and operational resilience as well as outsourcing management.

When setting the supervisory priorities and focus areas as well as planning the supervisory activities, Latvijas Banka factored in the persistent uncertainty caused by the impact from the geopolitical and macroeconomic environment. Supervisors also focussed on the credit institutions' preparedness to address emerging risks in the fields of sustainability, digitalisation, artificial intelligence, and other areas.

The key activities of the Banking Supervisory Authority in 2024

21 May 2024 marked a significant event in Latvia's finance industry - a new credit licence was issued for the first time in a prolonged period, with AS INDEXO Banka the recipient. The entry of a new market player in the credit institutions sector should strengthen competition and innovations, while offering more choice to consumers in the field of financial services. Meanwhile, Signet Bank AS finalised its purchase of LPB Bank, and LPB Bank officially changed its name to AS Magnetiq Bank on 19 April 2024.

In the course of 2024, the Credit Institutions Supervision Department of Latvijas Banka conducted 15 horizontal off-site activities (inspections and surveys) and several follow-up activities. The most significant were:



A quality inspection of the credit institutions' risk reports, as the comprehensive risk reports are a significant information source for taking top quality, timely, and forward-looking management decisions at credit institutions, which, in turn, ensures good governance and supports the sound operation of credit institutions in the long-term. The inspection identified examples of good practices and aspects to be improved, as well as defining the supervisory expectations, to be published on Latvijas Banka's website¹².



An inspection on compliance with the new regulations on management of the interest rate risk in the non-trading book (IRRBB) was performed, and conducted based on the credit institutions' self-assessments.

The inspection identified gaps to be addressed by individual credit institutions.



A quality inspection of internal audit plans: this activity was a follow-up to the dialogue on the internal audit function's quality, this time focussing on internal audit plans. Latvijas Banka did not identify any overarching drawbacks; therefore, the results of the inspection were communicated to individual credit institutions.



A quarterly focus on performance results in the credit institutions segment and changes in risk scores, with a particular focus on the impact of interest rate developments as well as changes in asset quality was carried out.



Activities related to sustainability: Latvijas Banka developed a self-assessment questionnaire for credit institutions to assess their progress in integrating sustainability issues in the credit institution's operations as well as compliance with the supervisory expectations regarding sustainability. The conclusions, and some individual recommendations, were discussed with the board members of credit institutions in focussed dialogues.

The annual supervisory review and evaluation process (SREP) was successfully conducted in 2024. Within its framework, a comprehensive risk assessment was completed. Supervisors continued with improvements to the application of the proportionality approach, in order to have a stronger focus on the specific challenges and the highest risk areas of each individual credit institution.

The overall results of the risk assessment suggest that credit institutions are sound and resilient to potential shocks, as their capital and liquidity ratios have remained strong. At the same time, external factors, like geopolitical risks, macroeconomic uncertainty as well as changes in the regulatory framework continue to pose challenges for credit institutions.

The overall SREP score was assigned ranging from 1 to 4, and the following risk scores were valid for Latvia's credit institutions, including those under direct ECB SSM supervision in 2024:



International activities of the Banking Supervisory Authority

Latvijas Banka's international activities in the field of supervision focused on the cooperation and exchange of information with supervisory authorities of other (mainly EU) countries and participation in the SSM as well as cooperation with the European authorities – ECB, European Supervisory Authorities (EBA, European Securities and Markets Authority (ESMA), European Insurance and Occupational Pensions Authority (EIOPA)), European Systemic Risk Board (ESRB) and Single Resolution Board (SRB). An essential part of the banking supervision constitutes the cooperation with home supervisor authorities, also participating in the work of the supervisory and resolution colleges for cross-border banking groups. In 2024, Latvijas Banka cooperated with the central banks of Slovakia and Slovenia on the inclusion of sustainability aspects in macroprudential supervision.

Latvijas Banka continued its cooperation, exchange of information and representation of Latvia's interests in the Nordic-Baltic cooperation forums, the European Forum of Deposit Insurers, European Council's Committee of Experts on the Evaluation of Anti-Money Laundering Measures and the Financing of Terrorism (MONEYVAL), BSCEE, International Organization of Securities Commissions (IOSCO) and International Association of Insurance Supervisors (IAIS). In February 2024, Latvijas Banka became a permanent member of the IOPS.

Latvijas Banka also provided support to ministries and other state institutions, contributing to the representation of Latvia's interests and the preparation of opinions on issues relevant to the financial market in the work of the EU Council working parties, European Commission's Expert Groups and the OECD, as well as preparing information for various EU and international reports and reviews on Latvia.

Cooperation with other supervisory bodies in the country

Latvijas Banka has close cooperation with different national public authorities, government bodies, ministries and state institutions. Our main counterparts have been the Financial Intelligence Unit (FIU) of Latvia on AML/CTPF issues, Ministry of Finance with regard to EU and national financial sector legislation and collaboration in development of financial policy issues, Ministry of Foreign Affairs and Ministry of Economics on different policy issues, as well as the Consumer Rights Protection Centre on consumer protection issues.

Other relevant information and developments in 2024

More detailed information about the developments in the banking sector and banking supervision in Latvia is available on Latvijas Banka [website](#).

Questionnaire tables for the 2024 BSCEE Review

Number of financial institutions (at year-end)

Type of financial institution	2022	2023	2024
Commercial banks	10	9	10
Branches of foreign credit institutions	4	4	4
Cooperative banks	0	0	0
Banking sector, total:	14	13	14

Total assets of banking sector (at year-end)

Type of financial institution	2022	2023	2024
Commercial banks	22 759 164	23 388 862	25 509 293
Branches of foreign credit institutions	4 945 633	4 858 348	4 981 630
Cooperative banks	0	0	0
Banking sector, total:	27 704 797	28 247 210	30 490 923
y/y change (in %)	9.5	2.0	7.9

Ownership structure of banks on the basis of assets total

Item	2022	2023	2024
Public sector ownership	0	0	0
Domestic ownership total	12.4	11.2	10.6
Foreign ownership	87.6	88.8	89.4
Banking sector, total:	100.0	100.0	100.0

Concentration of asset by the type of financial institutions, 2024

Type of financial institution	The first three largest (%)	The first five largest (%)	HHI
Commercial banks	84.9	94.3	0.273
Branches of foreign credit institutions	98.0	100.0	0.633
Cooperative banks	-	-	-
Banking sector, total:	71.0	88.3	0.208

Return on Equity (ROE) by type of financial institutions

Type of financial institution	2022	2023	2024
Commercial banks	10.1	20.0	16.7
Cooperative banks	-	-	-
Banking sector, total:	10.1	20.0	16.7

Distribution of market shares in balance sheet total (%)

Type of financial institution	2022	2023	2024
Commercial banks	82.1	82.8	83.7
Branches of foreign credit institutions	17.9	17.2	16.3
Cooperative banks	-	-	-
Banking sector, total:	100.0	100.0	100.0

The structure of assets and liabilities of the banking sector (%) (at year-end)

	2022	2023	2024
Receivables			
Financial sector	34.4	37.8	38.5
Nonfinancial sector	53.3	52.6	52.2
Government sector	9.3	7.2	7.1
Other assets	3.0	2.4	2.2
Liabilities			
Financial sector	8.9	7.9	9.3
Nonfinancial sector	71.3	71.4	70.8
Government sector	3.2	2.8	3.7
Other liabilities	6.8	6.8	5.4
Capital	9.8	11.1	10.8

Capital adequacy ratio of banks

Type of financial institution	2022	2023	2024
Commercial banks	22.98	20.90	21.56
Cooperative banks	-	-	-
Banking sector, total:	22.98	20.90	21.56

Asset portfolio quality of the banking sector (share of impaired receivables / share of non-performing loans)

Asset classification	2022	2023	2024
Non-financial sector, including	2.8	2.6	2.4
- households	1.6	1.8	1.6
- corporate	3.9	3.3	3.1

The structure of deposits and loans of the banking sector in 2024 (%) (at year-end)

	Deposits	Loans
Non-financial sector, including:	89.6	95.6
Households	52.9	45.0
Corporate	36.7	50.6
Government sector	4.7	2.1
Financial sector (excluding banks)	5.7	2.3
Total	100.0	100.0

**P&L account of the banking sector
(at year-end)**

P&L account	2022	2023	2024
Interest income	616 252	1 319 708	1 549 420
Interest expenses	54 389	225 633	428 772
Net interest income	561 863	1 094 076	1 120 649
Net fee and commission income	228 999	233 062	247 677
Other (not specified above) operating income (net)	57 193	16 077	34 719
Gross income	848 056	1 343 215	1 403 045
Administration costs	426 813	486 527	654 821
Depreciation	33 097	27 715	31 404
Impairment and Provisions	60 072	51 726	10 966
Profit (loss) before tax	328 075	777 248	705 854
Net profit (loss)	321 718	618 297	569 533

Total own funds in 2024 (in EUR)

Type of financial institution	Total own funds	Core Tier 1	Tier 1	Tier 2	Tier 3
Commercial banks	2 699 903	2 448 082	2 462 291	237 612	-
Cooperative banks	-	-	-	-	-
Banking sector, total:	2 699 903	2 448 082	2 462 291	237 612	-

Macroeconomic environment in the country

In 2024, Lithuania's economy returned to growth after two years of stagnation, with GDP increasing by 2.7% compared to 2023. This recovery was mainly driven by rising household consumption, which grew by 3.7%, supported by a favourable labour market and positive consumer sentiment. While exports of services saw modest growth, exports of goods continued to decline slightly, and overall export growth was limited to 0.3%. Investment contracted by 1.1%.

Inflation remained subdued, falling to an average annual rate of 0.9% in 2024, largely due to lower energy and food prices. Energy costs dropped by nearly 10%, exerting downward pressure on inflation throughout the year, while food prices rose moderately. Despite external risks such as geopolitical tensions and slowing euro area growth, Lithuania's financial stability remained strong. Banks benefited from solid capital buffers, good loan quality and resilience as indicated by stress tests under adverse scenarios.

Developments in the banking sector (including assets total / GDP)

As of 2024, Lietuvos bankas supervised 825 financial market participants (FMPs). Information on their activities and key performance indicators is regularly reviewed and published on the official [website](#) of Lietuvos bankas, ensuring transparency and accessibility for the public and stakeholders.

In 2024, 35 new entities entered the financial sector. Lietuvos bankas issued 15 licences and authorisations to a range of institutions, including electronic money institutions (EMIs), payment institutions (PIs), financial brokerage firms, management companies, crowdfunding providers, and credit administrators. Additionally, 20 entities — such as intermediaries of EMIs, PIs, management companies, financial brokerage firms, as well as consumer credit providers and credit administrators — were added to the public registers. To streamline the process, Lietuvos bankas continues to offer a fully electronic licensing service, enabling companies to complete all required documentation and procedures online.

The banking sector in Lithuania continued its strong performance in 2024, showing high profits for the second year in a row. Total assets to GDP ratio stood at 0.95 per cent. Total bank assets grew significantly, driven largely by the rapid expansion of Revolut Holdings Europe UAB, which became the country's largest bank by assets, surpassing Swedbank. Despite changes in asset composition, the overall business models of banks remained stable. Lending to both households and businesses increased, contributing to improved loan quality, while deposits also grew, particularly in the fourth quarter. Banks maintained strong capital and liquidity positions, with all institutions exceeding regulatory thresholds.

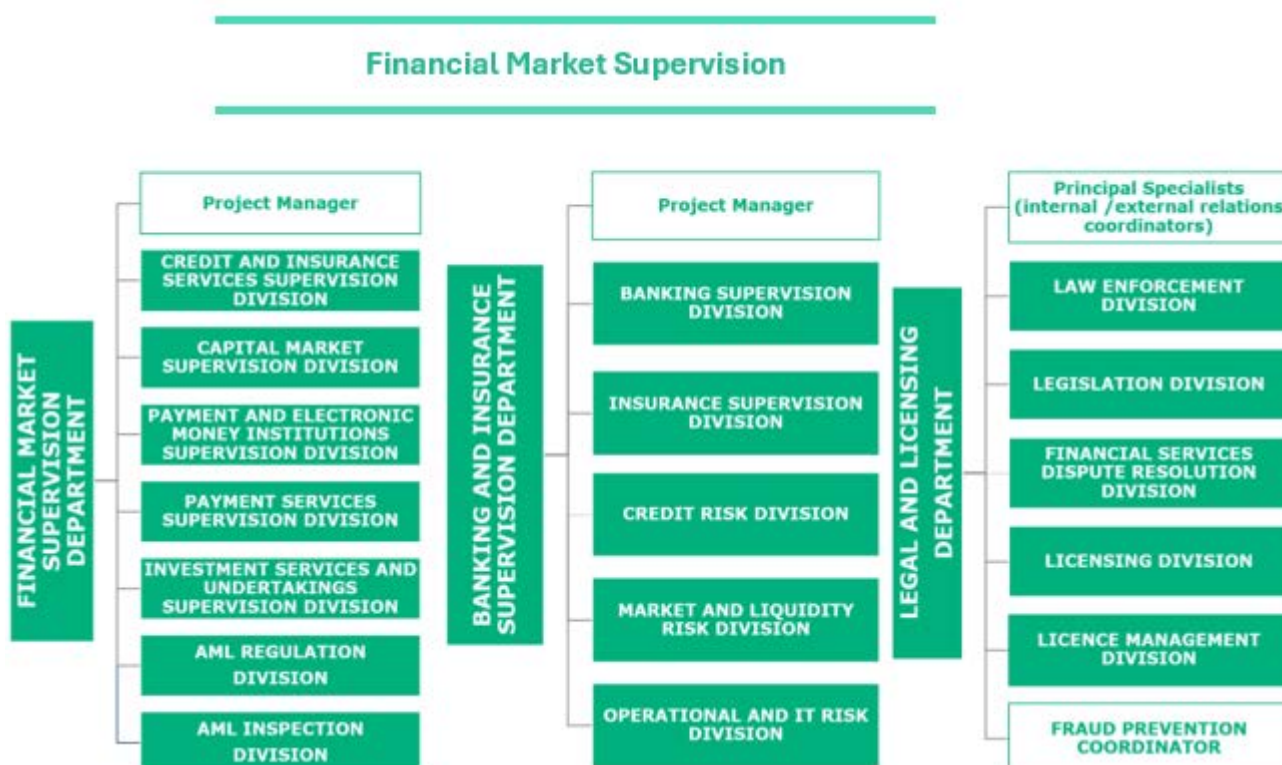
Credit unions also showed steady growth in 2024, increasing their asset base and remaining profitable. While deposits rose strongly, loan growth was more modest, and rising funding costs along with declining loan interest rates led to slightly lower profits than in the previous year. Nonetheless, the sector remained resilient, with all credit unions meeting prudential requirements and continuing to support local lending.

The legal and institutional framework for banking supervision in the country (new developments, legal competence of the Banking Supervisory Authority)

Supervision of financial institutions is a key function of Lietuvos bankas, conducted by three specialized departments within the financial market supervision. The Financial Market Supervision Committee, established by Lietuvos bankas' Board, is a collegial body responsible for handling supervisory issues delegated by the Board. The Committee includes members and alternates from each department and meets regularly—usually weekly—to decide on licensing, enforcement measures, issuing recommendations, and coordinating activities across departments.

The Board of Lietuvos bankas retains overall authority for supervision, including setting financial market supervision policy, applying enforcement actions such as imposing obligations or prohibitions, and taking decisions on the resolution or bankruptcy proceedings of supervised entities. The Board also has the power to issue, suspend, or revoke licences and authorisations for financial market participation. The Board can override Committee's decisions if necessary. Twice a year, directors of the supervision departments report to the Board on the performance of supervised institutions, supervisory activities, and the Committee's work.

Organizational chart of the Banking Supervisory Authority



Main strategic objectives of the Banking Supervisory Authority in 2024

In 2024, Lietuvos bankas fully adopted integrated strategic planning based on a mission-driven approach. Its mission is to bring benefits to society while seeking to foster a reliable financial system and ensure sustainable economic growth.

Lietuvos bankas' common purpose is to ensure financial stability and the safety of money. As a mission-driven organisation, it operates under the national law and contributes to euro area monetary policy as part of the Eurosystem. The Bank's vision is to be an innovative, proactive, and open Eurosystem central bank..

Lietuvos bankas adheres to three main values – value to society, accountability and continuous progress, and have identified five stakeholder groups and assigned them the value it creates:

The key activities of the Banking Supervisory Authority in 2024

Lietuvos bankas focuses on delivering high-quality supervision to ensure mature and reliable financial market participants (FMPs). The licensing process assesses the readiness of FMPs to provide services, especially with new regulations like MiCA and DORA expanding Lietuvos bankas' role. The authority maintains close cooperation with FMPs through consultations, risk monitoring, and legislative support, while strengthening efforts against financial fraud, AML/CTF supervision, and international sanctions enforcement. In 2024, Lietuvos bankas held 18 consultation events to FMS on various topics attracting over 4,200 participants, a 37% increase from the previous year.

Financial fraud remains a major challenge due to its growing complexity and the scale of losses. Preventing fraud is a strategic priority for Lietuvos bankas, which focuses on cooperation with other institutions and FMPs, as well as preventive measures like best practice sharing, training, and consumer education to build fraud resilience. Recognizing that individual efforts are less effective when uncoordinated, Lietuvos bankas proposed making a nationally coordinated response to financial fraud a government priority. Such a system with unified objectives and strategy is expected to deliver a more effective and balanced response to fraud threats, protecting the financial system and public confidence.

In 2024 was actively preparing for implementation of the EU Markets in Crypto-Assets Regulation, which took effect on 30 December 2024. Market participants were informed about the upcoming changes and Lietuvos bankas focused on ensuring that only mature providers with a solid understanding of associated risks enter the crypto-asset market.

In the second half of 2024, rising cyberattacks targeting banking service prompted Lietuvos bankas to enhance operational resilience through cyber resilience tests, consultations, and closer cooperation with the National Cyber Security Centre (NCSC) and European partners. While FMPs are improving compliance and resilience, they remain frequent targets of evolving distributed denial-of-service (DDoS) attacks, especially between September and December 2024. In preparation for the upcoming digital operational resilience regulation (DORA), Lietuvos bankas assessed FMPs readiness, conducted tests, and promoted information sharing with the NCSC. Discussions on expanding information-sharing services will continue in 2025.

In 2024, Lietuvos bankas continued strengthening AML/CTF supervision and monitoring the implementation of international sanctions in the financial sector. Money laundering and terrorist financing (ML/TF) risks were assessed, and appropriate mitigation measures were enforced. Lietuvos bankas conducted inspections,

held meetings with FMPs and sector associations, and provided written feedback to FMP leaders on risk management practices.

Lietuvos bankas actively contributed to the National ML/TF Risk Assessment and participated in drafting amendments to related laws. It also engaged in international sanctions coordination through various regional working groups and cooperated with authorities in Lithuania and the Baltic States.

Following a 2023 assessment of AML measures in four commercial banks—which showed improved customer experience—Lietuvos bankas held 10 targeted meetings in 2024 with FMPs. Together it was agreed on measures for 2025–2026 to further enhance customer experience with ongoing monitoring planned.

International activities of the Banking Supervisory Authority

Technical cooperation is a core focus of Lietuvos bankas. Since September 2022, it has been actively involved in an EU-funded programme with 19 ESCB national central banks and the ECB to strengthen central banks and supervisory agencies in six Western Balkan countries. The initiative aims to enhance institutional capacity by improving analytical tools and aligning national practices with European and international standards.

At the end of 2023, Lietuvos bankas also joined a new two-year EU-funded programme supporting African central banks. Working with seven ESCB national central banks and the ECB, this initiative focuses on improving governance, financial stability, resilience, and international cooperation. The programme benefits 12 African central banks across 24 countries through dialogue and knowledge sharing.

Cooperation with other supervisory bodies in the country

Lietuvos bankas serves as the sole supervisory authority for financial market participants and maintains close cooperation with various institutions across the Republic of Lithuania. To ensure a solid legal foundation for the exchange of supervisory information, Lietuvos bankas enters into formal cooperation agreements with relevant national institutions. These agreements not only facilitate the secure sharing of supervisory data but also promote the exchange of specialized expertise among professionals and create opportunities for joint training and capacity-building initiatives.

Other relevant information and developments in 2024

The Republic of Lithuania Law on Temporary Solidarity Contribution, drawn up by Lietuvos bankas in cooperation with the Ministry of Finance in 2023, was extended for one year until 31 December 2025 by a decision of the Seimas made in June 2024. Since the entry into force of the Law, the contribution by banks to the national budget has totalled around €450 million to finance Lithuania's military mobility and military infrastructure projects, and the entire amount for 2023–2025 could reach €580–590 million.

On 1 November 2024, amendments to the Republic of Lithuania Law on the Bank of Lithuania came into force, allowing for the conclusion of the procedures related to the application of enforcement measures through an administrative agreement. This new framework, initiated by Lietuvos bankas, is expected to ensure more effective compliance with legal requirements in the long term and to promote broader dialogue between FMPs and the supervisory authority, without compromising the quality of supervision and enabling more efficient use of the resources of Lietuvos bankas and FMPs. Although little time has elapsed since the entry

into force of the amendments, it is already evident that the framework has attracted a lot of attention from FMPs, which have been actively proposing administrative agreements.

Questionnaire tables for the 2024 BSCEE Review

Number of financial institutions (at year-end)

Type of financial institution	2022	2023	2024
Commercial banks	13	13	13
Branches of foreign credit institutions	6	5	6
Cooperative banks	61	61	61
Banking sector, total:	80	79	80

Total assets of banking sector (at year-end, EUR million)

Type of financial institution	2022	2023	2024
Commercial banks	45 391,9	50 716,7	61758,0
Branches of foreign credit institutions	10 218,9	10 943,2	11435,0
Cooperative banks	1 270,4	1 407,3	1 586,2
Banking sector, total:	55 612,0	63 012,6	74779,2
y/y change (in %)	26,5	10,8	18,67

Ownership structure of banks on the basis of assets total

Item	2022	2023	2024
Public sector ownership	-	-	-
Domestic ownership total	10,7	11,0	10,0
Foreign ownership	89,3	89,0	90,0
Banking sector, total:	100,0	100,0	100,0

Concentration of asset by the type of financial institutions, 2024

Type of financial institution	The first three largest (%)	The first five largest (%)	HHI
Commercial banks	89,1	97,8	2749
Branches of foreign credit institutions	90,4	99,2	5218
Cooperative banks	16,8	26,7	311,6
Banking sector, total:	59,5	85,9	2000

Return on Equity (ROE) by type of financial institutions

Type of financial institution	2022	2023	2024
Commercial banks	14,2	23,56	20,19
Cooperative banks	9,32	14,31	0,91
Banking sector, total:	-	-	-

Distribution of market shares in balance sheet total (%)

Type of financial institution	2022	2023	2024
Commercial banks	79,7	80,4	82,6
Branches of foreign credit institutions	18,0	17,4	15,3
Cooperative banks	2,3	2,2	2,1
Banking sector, total:	100.0	100.0	100.0

Capital adequacy ratio of banks

Type of financial institution	2022	2023	2024
Commercial banks	20,32***	19,9***	21,39***
Cooperative banks	18,66**	18,24**	18,03**
Banking sector, total:	19,04	19,86	21,31

(Please, mark for each item: * - for Basel I; ** - for Basel II; *** - for Basel III)

Asset portfolio quality of the banking sector
 (share of impaired receivables / share of non-performing loans)

Asset classification	2022	2023	2024
Non-financial sector, including	0,49	0,54	0,49
- households	0,82	1,19	1,09
- corporate	1,54	1,48	1,38

The structure of deposits and loans of the banking sector in 2024 (%)
 (at year-end)

	Deposits	Loans
Non-financial sector, including:	88,5	93,5
Households	65,5	53,6
Corporate	23	39,9
Government sector	8,3	4,7
Financial sector (excluding banks)	3,2	1,8
Total	100.0	100.0

**P&L account of the banking sector
(at year-end, EUR million)**

P&L account	2022	2023	2024
Interest income	865,7	2449,9	3080,8
Interest expenses	97,8	463,6	831,7
Net interest income	768,0	1986,3	2249,1
Net fee and commission income	609,0	828,9	1223,2
Other (not specified above) operating income (net)	111,3	-608,8	-1004,8
Gross income	1488,3	2206,4	2467,5
Administration costs	738,1	795,8	1030,3
Depreciation	35,5	31,7	33,8
Provisions	7,9	2,2	17,4
Impairment on financial assets not measured at fair value through profit and loss / Provisions on financial assets (loans, ...)	71,6	77,6	48,0
Profit (loss) before tax	606,2	1253,0	1266,4
Net profit (loss)	484,9	973,3	1004,7

Total own funds in 2024 (in EUR million)

Type of financial institution	Total own funds	Core Tier 1	Tier 1	Tier 2	Tier 3
Commercial banks	4640,0	4327,6	4380,7	259,3	-
Cooperative banks	150,5	150,5	124,9	25,7	-
Banking sector, total:	4790,5	4790,5	4505,6	285,0	-



Macroeconomic environment in the country

Economic activity

In 2024, the economy of the Republic of Moldova recorded modest growth, with GDP increasing by only 0.1 percent compared to 2023. In the first half of the year, the annual GDP growth rate stood at 2.0 percent in Q1 and 2.5 percent in Q2. However, in the second half, the annual growth rate turned negative, recording values of 1.9 percent in Q3 and 1.3 percent in Q4. The decline was mainly driven by the effects of drought on agriculture, which led to reduced agri-food exports and higher imports. The impact was partially offset by domestic demand, supported by rising real income and business activity. At the same time, it is worth noting some positive developments in the information and communications, financial and insurance, construction, accommodation, and food sectors.

On the expenditure side, household consumption grew by 2.4 percent, while public administration consumption fell by 3.6 percent. Gross capital formation contributed positively (3.3 percentage points), with fixed investments up by 8.0 percent. Real exports contracted by 5.0 percent (-1.8 percentage points) while imports increased by 5.2 percent, exerting a minus 3.1 percentage points on GDP.

Inflation

In 2024, the average annual CPI rate was 4.7 percent, which is 8.7 percentage points lower than in 2023. In the first part of 2024, the annual inflation rate followed a downward trajectory. Thus, it decreased from 4.6 percent in January 2024 to 3.3 percent in May 2024, below the lower limit of the ± 1.5 percentage point variation band around the 5.0 percent target set in the medium-term monetary policy strategy. The downward trajectory of the annual inflation rate in the first part of 2024 was supported by moderate domestic demand. Continued disinflationary pressures were driven by the evolution of international food prices, as well as prices for domestic agricultural and industrial production, and by the lowering of some tariffs.

Subsequently, starting in June 2024, the annual inflation rate returned to the variation band of the inflation target, recording a value of 3.8 percent, outlining an upward trend until December 2024, when it reached 7.0 percent, thus exceeding the upper limit of the variation band. The upward trajectory of the annual inflation rate in the second half of 2024 was supported by some adverse sectorial developments, including the effects of the summer 2024 drought and the adjustment of the natural gas tariff in the domestic market. According to estimates, aggregate demand continued to exert a disinflationary impact on prices during that period. The conduct of monetary policy throughout 2024 was influenced by disinflationary risks and particularly pronounced uncertainties related to events associated with the military conflict in Ukraine, fluctuations in energy and other commodity prices, tariff adjustments, refugee inflows, and weather conditions. The monetary policy measures were appropriate from multiple perspectives. They were formulated in the context of weak aggregate demand, a negative fiscal impulse, and subdued external demand.

The monetary policy pursued by the National Bank of Moldova (NBM) created monetary conditions aimed at further stimulating lending and supporting domestic aggregate demand by encouraging consumption and investment, rebalancing the national economy, and anchoring inflation expectations, with the medium-term objective of maintaining inflation within the variation band around the 5.0 percent target.

In 2024, the national currency depreciated in nominal terms by 6.2% against the US dollar and appreciated by 0.2% against the euro. On average, the Moldovan leu appreciated by 2.0% against both the US dollar and the euro. The deterioration in foreign exchange market conditions was driven by a widening trade deficit, as imports rose while exports declined. This led to higher demand for foreign currency from businesses, along with an increased level of dollarization of personal savings.



FX demand exceeded supply, particularly in the second half of the year. The increased demand came mainly from importers of energy resources and other industrial and consumer goods. Meanwhile, the supply of foreign currency from certain agricultural exporters declined. Under these circumstances, the NBM intervened in the domestic market, mainly in the fourth quarter of the year, with net FX sales totaling USD 216.3 million.

At the end of the year, official reserve assets amounted to USD 5.48 billion, increasing by 0.6% and continuing to be at robust levels according to commonly known reserve adequacy metrics.

External sector

According to the preliminary data, in 2024, the **current account** balance (CAB) of the Republic of Moldova recorded a deficit of USD 2,917.0 million, increasing by 54.1% compared to 2023. The CAB to GDP ratio was -16.0% (-11.3% in 2023). This dynamic was driven by the increase in foreign trade in goods deficit, the decrease in the primary and secondary income balances, while the surplus of the balance of services registered a slight increase.

The *trade deficit in goods and services* amounted to USD 4,701.1 million and increased by 18.3% as compared to 2023. The exports of goods and services amounted to USD 5,717.3 million, decreasing by 2.5%. The imports of goods and services amounted to USD 10,418.4 million, increasing by 5.9%.

The *primary income* surplus decreased by 40.8% in 2024, as against 2023 and amounted to USD 157.9 million. This dynamic was driven by the increase in outflows (+18.1% up to USD 977.0 million), while the primary income inflows grew, but not substantial (+3.7% up to USD 1,135.0 million). The growth in outflows was determined by a 23.4% increase (up to USD 707.9 million) in direct investment income, and by a 12.3% increase (up to USD 153.0 million) in interest on other investment payable to non-residents. Inflows were driven by a 18.8% increase in income from reserve assets management (up to USD 213.1 million) and by 2.1 times growth in interest receivable on other investment (up to USD 21.1 million), while the compensation of resident employees for work performed abroad in favour of non-residents decreased by 0.2% (to USD 887.9 million).

The *secondary income* surplus amounted to USD 1,626.2 million and decreased by 10.4% compared to 2023. Personal transfers from abroad received by Moldovan residents reduced by 8.3% and totalled USD 1,029.8 million. The total amount of technical assistance, humanitarian aid and grants received by all sectors within international cooperation decreased by 25.1% in 2024 and amounted to USD 428.5 million.

Personal remittances (the sum of net compensation of employees, of personal transfers and of capital transfers between households) received by Moldovan residents in 2024 decreased by 4.5% compared to 2023 and totalled USD 1,858.2 million, or 10.2% as a ratio to GDP.

The **capital account** recorded a positive balance amounting to USD 81.8 million, being almost at the same level as in 2023. Inflows recorded by the private sector totalled USD 69.5 million, while external assistance received by the general government for the financing of investment projects totalled USD 41.0 million.

The **financial account of the balance of payments** recorded net capital inflows of USD 2,824.0 million, resulting from the net incurrence of residents' liabilities to non-residents, in the amount of USD 831.3 million, along with the net disposal of residents' foreign financial assets - in the amount of USD 1,992.8 million.

The *net incurrence of liabilities* was mainly due to the net borrowing on external loans in the amount of USD 676.0 million. In 2024, the general government made new loan drawings amounting to USD 1,005.2 million from the following creditors: International Monetary Fund – USD 321.5 million, European Bank for Reconstruction and Development – USD 296.9 million, European Commission – USD 101.9 million, European Investment Bank – USD 59.3 million, the Government of Canada – USD 56.4 million, International Development Association – USD 54.5 million, International Bank for Reconstruction and Development – USD 53.7 million, French Development Agency – USD 48.6 million, and other creditors – USD 12.4 million. The repayments made



by the general government amounted to USD 337.8 million. Commercial banks made net repayments on external loans amounting to USD 10.5 million, and other sectors – net drawings of USD 29.3 million. The NBM repaid USD 10.3 million on previously contracted loans.

Transactions with liabilities in the form of direct investment recorded a net capital inflow of USD 333.3 million in 2024. This dynamic was driven by the reinvestment of earnings which amounted to USD 392.8 million, and by the net repayments of USD 50.4 million on loans from direct investors.

The *net disposal of external financial assets* was driven by the transactions in currency and deposits – USD 2,523.2 million, of which other sectors registered new outflows in the amount of USD 2,617.4 million, while commercial banks recorded USD 94.2 million net inflows.

The NBM's official reserve assets position increased by USD 30.4 million, as a result of the net transactions with reserve assets in the amount of USD 155.6 million, and other differences coming from price and exchange rate fluctuations.

The transactions with residents' foreign assets in trade credit and advances recorded net inflows of USD 159.8 million, in direct investment – USD 89.6 million, and those in loans – USD 57.7 million.

The gross external debt of the Republic of Moldova grew by 0.9% compared to 31.12.2023 and amounted to USD 10,213.3 million as of 31.12.2024, accounting for 56.1% as a ratio to GDP.

Development in the banking sector (including assets total / GDP)

The share of banking sector assets in GDP increased during 2024 by 1.9 p.p., reaching the level of 52.6 % as of December 2024. The assets of systemic important (institutions) banks accounted for just over 83.2 % of total banking assets.

Total own funds amounted to MDL 22,467.3 million, increasing during 2024 by 7.5 % (MDL 1,565.6 million). The increase in own funds was mainly determined by the reflection of banks of the eligible profits after annual general meetings of the shareholders and after obtaining the NBM's permission regarding the inclusion of the profits in the own funds. Subordinated liabilities also increased by MDL 549.5 million. Simultaneously, Common Equity Tier 1 instruments of financial sector entities in which the bank does not hold a significant investment decreased by MDL 224.0 million (due to the acquisition of a bank).

The total ratio of own funds in the banking sector according to the data presented by banks was 26.3%, a decrease of 3.6 p.p. compared to the end of the previous year, as a result of the increase in the total amount of risk exposure by MDL 15,463.0 million or by 22.1 percent (due to the increase in loans).

Assets amounted to MDL 170,356.3 million, increasing compared to the end of the previous year by MDL 16,501.8 million (10.7%).

On December 31, 2024, the gross loan portfolio constituted 47.4% of total assets or MDL 80,824.6 million, up by 26.5% (MDL 16,929.1 million) compared to the end of the previous year. During 2024, the share of non-performing loans (substandard, doubtful, and compromised) (determined based on the prudential regulation) in total loans decreased by 1.4 p.p., constituting 4.1% as of December 31, 2024. At the same time, the share of non-performing loans according to IFRS (stage 3) in total loans is significantly less and amounts to 2.1%, decreasing compared to the end of the previous year with 1.0 p.p.



In the context of credit risk distribution, the largest share of the total loan portfolio was held by credits granted for the purchase/building real estate – 23.0% (MDL 18,607.0 million), followed by the share of loans granted to trading – 20.8% (MDL 16,834.3 million) and consumer loans – 18.3% (MDL 14,760.9 million).

On December 31, 2024, the net profit was MDL 3,987.9 million, decreasing by MDL 102.2 million (2.5 percent) compared to the previous year, due to a decline in interest income by MDL 2,551.4 million (22.3%). At the same time, income from exchange rate differences increased by MDL 342.1 million (18.0%) and income from fees and commissions rose by MDL 316.3 million (9.6%). Meanwhile, interest expenses decreased by MDL 1,964.3 million (43.6%), while non-interest expenses increased by MDL 460.6 million (5.6%).

Return on assets and return on capital on December 31, 2024, constituted 2.4% and 14.8%, decreasing compared to the end of the previous year by 0.4 p.p. and 1.4 p.p., respectively.

Banks maintained high liquidity ratios, respecting all prudential limits related to liquidity indicators.

Thus, the value of the long-term liquidity indicator (principle I of liquidity) was 0.76 (the admissible limit for each bank ≤ 1), registering an insignificant increase of 0.07 p.p. compared to the end of the previous year.

Principle III of liquidity, which represents the ratio between the actual adjusted liquidity and the required liquidity on each maturity band (limit ≥ 1), is also respected by all banks, varying from 1.44 per maturity band up to one month inclusive, up to 74.75 on the maturity band between one month and 3 months inclusive.

The liquidity coverage ratio (LCR) was 278.1% (limit $\geq 100\%$), decreasing compared to December 31, 2023, by 4.0 p.p. The liquidity reserve on December 31, 2024, amounted to MDL 38,509.3 million, increasing by MDL 4,362.1 million (12.8%) compared to December 31, 2023. At the same time, net liquidity outflows during the analyzed period increased by MDL 1,744.0 million (14.4%), constituting MDL 13,847.8 million.

The legal and institutional framework for banking supervision in the country (new developments, legal competence of the Banking Supervisory Authority)

The banking system in the Republic of Moldova consists of two levels: the National Bank of Moldova and 11 licensed banks. The National Bank of Moldova regulates and supervises the banks in accordance with the Law on the National Bank of Moldova and the Law on banking activity, which provide the competence, main objective, basic attributions of the National Bank, its relationship with banks and other Competent Authorities, in the process of performing the supervisory function.

According to the Law on the National Bank of Moldova, the National Bank is exclusively responsible for the licensing, supervision and regulation of the banks and foreign banks' branches' activity. To that end, the National Bank is empowered:

- a) to issue the necessary regulations and to take the proper actions in order to perform its powers and duties under the mentioned law and Law no. 202/2017 on banking activity, by way of licensing banks and elaborating supervision standards and establishing the way of implementing the regulations and measures mentioned above;
- b) to perform, through its staff or other qualified professionals involved for this purpose, inspections over all banks, and to examine their books, documents and accounts, conditions in which the business is carried out and the compliance with the legislation;



- c) to require any employee of the bank to provide the National Bank with the information necessary for the purpose of supervision and regulation of the banks' activity;
- d) to prescribe to any bank, to its shareholders, to the members of the bank's management body, to the persons holding key positions within the bank, supervisory measures or to apply the sanctions and sanctioning measures foreseen in the Law No. 202/2017 on banking activity, if they have violated the provisions of the mentioned law, of the normative acts or other acts issued for its application;

Also, the NBM acts as a resolution authority for the banks in accordance with the Law No. 548/1995 on the National Bank of Moldova and the Law No. 232/2016 on banks recovery and resolution. In December 2024, a draft law amending the Law No. 232/2016 was adopted by Parliament and came into force on 28 February 2025. Among the main changes brought by this law are the following:

1. Some new specific competences provided to the NBM, as the resolution authority:
 - prohibiting banks from distributing their own funds, if they do not respect the combined buffer requirement, when it is considered in addition to the MREL requirement (minimum requirement for own funds and eligible liabilities) and imposing, under certain conditions,
 - suspension of payment and delivery obligations resulting from any contract to which the bank is a party, at a stage prior to the resolution actions.
2. The provisions on MREL requirement were adjusted and completed in line with the amendments made to the Bank Recovery and Resolution EU Directive. At the same time, the applicability of the MREL requirement was postponed until 2030. This measure was proposed given the limited development of the capital market in the Republic of Moldova, which does not allow at this stage banks to raise MREL eligible instruments.

The NBM continues to revise Law No. 232/2016 to align it with the EU framework and to develop the related secondary legislation.

In order to implement the provisions of the Law No. 202/2017 on banking activity, in the context of transposing the requirements of the Basel III capital agreement, the following normative acts applicable to banks were amended in 2024:

- *The Regulation on Requirements Regarding the Members of the Governing Body of the Bank, the Financial Holding Company or Mixed Holding, the Heads of a Branch of a Bank from Another State, the Persons Holding Key Positions and the Liquidator of the Bank in Liquidation Process* has been amended in order to introduce differentiated requirements on the quality of persons who are appointed as the head of the bank's executive body.
- *The Chart of Accounts of the bookkeeping within banks of the Republic of Moldova* has been amended in order to update and improve accounting within banks, including in the context of the implementation of instant payments and amendments to the normative acts.
- Amendments were made to the *Regulation on the bank's open foreign exchange position*, namely by adding new accounts to Annex No. 2 "The procedure of compiling the report "Bank's open foreign exchange position"" related to the position that includes the equivalent in MDL of the balances of current accounts in foreign currency of resident legal entities, resident individuals performing entrepreneurial or other types of activities and resident individuals.
- *The Instruction on the submission by banks of COREP reports for supervisory purposes* has been supplemented with provisions related to a new liquidity supervision tool (liquidity by maturity ladder),



which allow the NBM to monitor banks' liquidity more effectively. Based on C 66.01 Maturity ladder template banks provide information on future contractual cash flows generated by both, on-balance-sheet and off-balance-sheet items, such as the stock of unencumbered assets or other sources of funding available to the bank, contingent outflows and memorandum items allocated to maturity bands. The information provided by the bank will serve as a basis for the NBM's additional liquidity monitoring in order to ensure, if necessary, through the tools available to the supervisor, the maintenance of an adequate level of liquid assets.

- Amendments to the *Regulation on the classification of assets and conditional commitments* aim to update terminology and revise certain provisions related to the list of assets and conditional commitments covered by the Regulation. These amendments also include the reclassification of assets and conditional commitments based on newly established criteria, as well as an increase in the loan amount threshold for their classification.
- The *Regulation on Liquidity* in a new wording has been approved, with entering into force on 1 July 2025. The new regulation provides for:
 - adjusted Liquidity Coverage Requirement (LCR) requirements transposing the amendments to the Delegated Regulation (EU) No. 2015/61;
 - the regulatory framework for the net stable funding requirement (NSFR) transposing the provisions of EU Regulation No. 575/2013;
 - quarterly reporting of the NSFR indicator, in addition to the monthly reporting of the LCR indicator. Reports on a consolidated basis should be submitted annually;
 - the requirement for banks to report liquidity by maturity bands to the NBM has been introduced;
 - a deadline of 60 working days is set for the NBM to complete the procedure for deciding on applications for prior approval, derogation, approval and authorization.

Based on new amendments on liquidity, the *Regulation on Disclosure Requirements for Banks and Instruction on the submission by banks of COREP reports for supervisory purposes* has been amended. Starting from 1 July 2025, banks shall disclose in their offices, on a monthly basis, the information on the liquidity coverage ratio (LCR) and the net stable funding ratio (NSFR), as well as the components of these ratios. The COREP templates on LCR has been adjusted in line with Implementing Regulation (EU) 2021/451 and aligned with the provisions of the Liquidity Regulation. The COREP reporting has been completed with templates on NSFR.

The NBM continues to draft and revise, as appropriate, the secondary legislation in order to implement the Law No. 202/2017 on banking activity. In line with the Republic of Moldova's commitment as an EU candidate country, the NBM plans to align its prudential provisions for banks with the amendments introduced by the new CRD VI/CRR III package, equivalent to the Basel III standards, by the end of 2026.

Alignment of the Republic of Moldova's banking legislation with international standards by improving quantitative and qualitative mechanisms for managing banks will help to promote a safe and stable banking sector, to increase the transparency, confidence, attractiveness of the domestic banking sector for potential investors, depositors and customers, to develop new financial products and services.

Thus, through a number of requirements provided through the normative acts, the National Bank of Moldova maintains the mechanism of supervision and regulation of banks' activity in the Republic of Moldova, based on international accepted principles.



Anti-money laundering and counter terrorist financing (AML/CFT) supervision

During 2024, the NBM as a supervisory authority continued to strengthen its regulatory framework and implement measures to ensure an effective oversight to prevent and combat money laundering and terrorist financing (AML/CFT) both in the banking and non-banking sector.

In this respect, the NBM developed normative acts and guidelines; licensed the supervised entities and authorized its management members; performed off and on-site controls; identified and assessed the ML/FT risks in the supervised sectors and applied risk based supervision; applied fit and proper requirements for supervised entities shareholders and management members; applied sanctions to supervised entities for noncompliance with AML/CFT requirements; cooperated with other stakeholders in the supervisory process, etc.

Thus, for non-banking sector, under the NBM's supervision since 01.07.2023 – transferred from the National Commission for Financial Markets – a new normative act – *the Regulation on the requirements for the prevention and combating of money laundering and terrorism financing in the activity of non-bank financial institutions* was approved by the Decision of the NBM Executive Board No. 280 of 07.11.2024.

At the same time, due to amendments operated to the Law No. 308/2017 on the prevention and combating of money laundering and terrorism financing (by Law No. 66 of 30.03.2023, in force since 01.07.2023 and Law No. 268 of 28.11.2024, in force since 29.11.2024) *the Regulation on requirements for identification and control of the customers' identity by electronic means (E_KYC)*, was adopted by the Decision of the NBM Executive Board No. 281 of 07.11.2024. Also, the existing normative acts have been reviewed, such as: *the Regulation No. 200 of 09.08.2018 on requirements for prevention and combating money laundering and terrorist financing in the activity of banks and the Regulation No. 202 of 09.08.2018 on requirements for prevention and combating money laundering and terrorism financing in the activity of non-bank payment services provider.*

In 2024, the NBM continued sectoral assessment of the banking sector with the technical and advisory support of the International Monetary Fund (IMF). Thus, during the IMF assistance "The Strategic framework of banking supervision and methodology of assessing money laundering and terrorist financing risks" was drafted. In this respect, the NBM will use the risk-based approach for the proportional allocation of resources and supervisory actions, aimed at monitoring vulnerabilities and threats specific to the supervised sector. This will ensure monitoring and intervention tailored to the risks of money laundering and terrorist financing identified in the banking sector.

Also, in 2024 the launching of IT solution for monitoring shareholder transparency in banks and conducting remote analysis in anti-money laundering and counter-terrorism financing (SAS AML solution) took place. This solution has the role of supporting the NBM in supervising the banking sector, by monitoring the banking transactions through tools and alert indicators, that enable act promptly and use the NBM resources efficiently in assessing the compliance of supervised entities with the AML/CFT requirements.

The NBM continued to perform regular off-site analysis and on-site inspections to the supervised entities and to inform the Office for Prevention and Combat of Money Laundering (Moldovan FIU) if any suspicious of money laundering or terrorism financing are found during the inspections. Thus, during the controls, the NBM highlighted various violations related to the field of money laundering and terrorist financing and non-compliance with the requirements of the normative acts regarding money laundering and terrorist financing by the reporting entities.

Thus, the NBM carried out 14 risk based off-site and thematic controls at banks, 1 thematic on-site inspection at payment service providers and electronic money issuers and providers of postal services and 23 on-site



inspections at foreign currency exchange units in the field of preventing and combating money laundering and terrorist financing. As a result of these activities, the following sanctions were applied: 3 fines in total amount of 5 311 794 MDL and 3 prescriptions to banks, 2 fines in total amount of 100 000 MDL and 8 prescriptions to foreign exchange units.

As a result of the violations identified by the NBM during inspections, reporting entities developed and implemented action plans to address the deficiencies and breaches detected. The NBM verifies the implementation of these action plans during subsequent inspections. Therewith, the NBM continues the analysis of the reports sent by the external audit companies appointed to carry out AML/FT compliance assessments to the banks. At the same time, the NBM requires the banks to develop an adequate mitigation plan following the external audit reports and to report on the actions taken.

An important contribution of the NBM was the implementation of MONEYVAL recommendations, to improve the regulatory framework for technical compliance with international AML/CFT standards. Thus, the NBM contributed to updating and amending the national legislation by providing relevant information to the Office for Prevention and Combat of Money Laundering (Moldovan FIU) about identification and analyzing the risks of using legal entities for the purposes of ML/FT; identification and assessing the risks related to virtual assets and service providers on virtual assets and data on the performing of the necessary actions in the National Strategy for preventing and combating money laundering and terrorist financing for the years 2020-2025 and the Action Plan for its implementation.

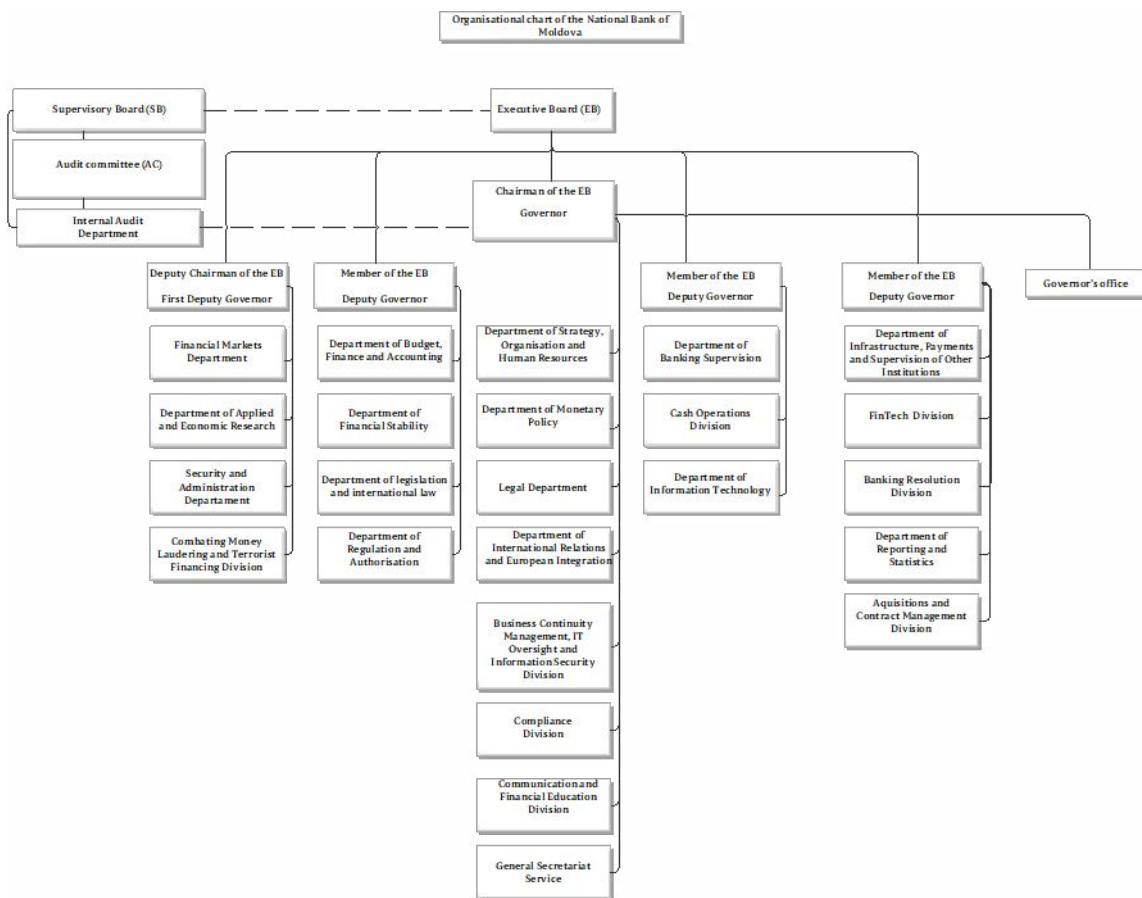
Also, during 2024, the NBM had an active role in the screening process related to the candidate country status for accession to the European Union (EU), contributing to the analysis of the compliance of the national AML/CFT regulatory framework with the EU *acquis*. Based on the results from the screening process, the NBM contributed to the elaboration of the National Program for the Accession of the Republic of Moldova to the European Union for the period 2025-2029, including a comprehensive framework guiding Moldova's path towards EU membership, focusing on reforms, economic growth, and alignment with European standards. Active participation and involvement in EU screening processes underlines the central bank's commitment to strengthening the national AML/CFT system.

Another strategic objective that was fulfilled was the enhancement of institutional capacity through continuous training of the AML/CFT specialists involved in the NBM supervisory activities and controls, as well as specialists of supervised entities. Training sessions were organized for both internal staff and for the supervised entities on the following topics: Regulation and supervision of non-financial entities and Virtual assets service providers in the context of AML/CFT; Transparency and verification of the beneficial owner to comply with the national regulatory framework requirements related to the AML/CFT; International restrictive measures (sanctions) – challenges and best practices, etc.

In conclusion, 2024 for the NBM, as supervisory authority in the field of preventing and combating money laundering and terrorist financing, was characterized by strengthening the national regulatory framework of preventing and combating money laundering and terrorist financing through effective interinstitutional cooperation, integrated supervisory activities based on various activities such as monitoring and control over the compliance of supervised entities, but also on the continuous monitoring of regional and global circumstances that have determined the evolution of risk factors of money laundering and financing of terrorism, as well as the emerging risks associated with international restrictive measures.



Organizational chart of the Banking Supervisory Authority



Main strategic objectives of the Banking Supervisory Authority in 2024

Following the approval of the strategic plan “NBM 2025” by the Executive Board in 2023, the National Bank of Moldova has articulated a comprehensive framework comprising seven strategic objectives, one of which is directly aligned with the overarching priorities of banking supervision. This objective focuses on Strengthening the supervision function at the level of banking and non-banking financial sector. Another tangential strategic objective focuses on Strengthening the financial stability function and macroprudential supervision. Together, these objectives reflect a strong institutional commitment to maintaining a resilient financial system and addressing emerging systemic risks in a proactive and coordinated manner.

The banking system of the Republic of Moldova ended 2023 with positive results. At the same time, the NBM took the necessary banking supervision measures to ensure the stability and viability of the banking system.

Despite adverse external factors, the prudential indicators of licensed banks remained within the regulated limits, reflecting the resilience of the banking sector as a result of the reforms implemented in recent years.

Throughout the year, the intensity of challenges faced by banks moderated, although they did not disappear entirely.



Given the presence of significant individual and macroeconomic risks, the NBM identified the key areas of focus for 2024 in the banking supervision process, both through off-site supervision and on-site inspections. Accordingly, in 2024, the banking supervision process focused primarily on the following areas:

- I. Corporate governance
- II. Credit risk
- III. Interest rate risk associated with non-trading book activities
- IV. Analysis, assessment and resolution of vulnerabilities related to payment and settlement systems and payment services
- V. Preventing and combating money laundering and terrorist financing
- VI. Identification and effective management of risks associated with information and communication technologies.

The key activities of the Banking Supervisory Authority in 2024

Supervisory activity of the NBM

In order to protect the interests of depositors, as well as to ensure the stability and viability of the banking system, the National Bank of Moldova conducts prudential supervision of banks in the Republic of Moldova, ensuring compliance with legal requirements to prevent and limit specific banking activity risks.

The main areas of focus for banking supervision in 2024, according to priorities, were:

- corporate governance (including the assessment of the adequacy of the internal control framework, the appropriateness of the risk control and the existence of an independent and effective decision-making process);
- credit risk (including the assessment of the existence of an adequate process for identifying, measuring, and monitoring risk as well as for recovering derecognised loans, of the granting and monitoring procedures as well as the dynamics of loans granted to natural persons in relation to the banks' risk appetite and their recovery, especially in the case of consumer loans, which are mostly granted without material guarantees);
- interest rate risk associated with activities outside the trading book (IRRBB), including the assessment of the correctness of the banks calculations of the potential change in economic value due to changes in interest rate levels, as well as the measures and instruments adopted by banks to manage this risk;
- analysis, assessment, and resolution of vulnerabilities related to payment systems and payment services; preventing and combating money laundering and terrorist financing; identification and efficient management of risks associated with information and communication technologies.

In 2024, the NBM continued to supervise banks based on the Supervisory Review and Evaluation Process (SREP). Thus, the results of the SREP for the years 2022 were approved for all 11 banks.

Additionally, the SREP process for 2023 was conducted in 2024, with the results to be approved in 2025.

The macroprudential supervision is carried out based on the Strategy on Macroprudential Policy, which comprises the national regulatory framework in the area of financial stability, including the explanation of the intervention mechanism, the recommended instruments and the role of the national authorities involved in the decision-making process. The Strategy exemplifies the recommended macroprudential instruments according to the intermediate objective pursued and the size of the risk addressed. However, decision-making is not



limited to pre-established rules but also includes a discretionary component, allowing competent authorities to ensure a proper selection and calibration of instruments.

On 02.08.2024, Law No. 174/2024 entered into force, amending Law No. 548/1995 on the National Bank of Moldova, granting the NBM an explicit macroprudential mandate. The legal provisions (Article 4, paragraph 2 of Law No. 548/1995) state that, without prejudicing its primary objective, the NBM, within the scope of its responsibilities, contributes to the stability of the financial system and supports the overall economic policy of the state. Furthermore, Law No. 548/1995 was supplemented with Article 5/2 regarding macroprudential policy instruments. According to Article 5/2, in carrying out its duties related to implementing macroprudential policy to reduce systemic risk, the NBM can apply macroprudential measures and instruments to banks and other financial institutions.

So, in addition to the minimum own fund's requirement, banks are obliged to maintain additional capital buffers. As of the end of 2024, the capital buffers were established at the following levels:

- *The capital conservation buffer* rate established at 2.5% of the total risk exposure amount;
- *The countercyclical capital buffer* rate for the Republic of Moldova was established at 0% of the total risk exposure amount;
- *The other systemically important institutions (O-SII) capital buffer rates* were established for 4 (four) largest banks (ranging from 1.0% to 1.5% of the total risk exposure amount);
- *The systemic risk buffer rate* for all the banks was set at the level of 1% of the total amount of the risk exposures located in the Republic of Moldova.

Off-site supervision

The National Bank conducts off-site supervision based on the annual prudential supervision program. For 2024, the prudential supervision program included various ongoing actions (monitoring key indicators, analyzing financial reports submitted by banks, auditing reports, and monitoring remediation plans following on-site inspections), as well as actions for drafting the SREP report (evaluating the business model, analyzing governance and internal control frameworks, assessing risks to capital and liquidity, analyzing ICAAP reports, etc.).

The National Bank will continue to contribute to the consolidation of the banking sector in the Republic of Moldova in order to increase the risk resilience of Moldovan banks.

On-site inspections

Throughout 2024, six planned and executed thematic on-site inspections were conducted at 6 licensed banks.

Furthermore, the Executive Committee of the National Bank approved resolutions related to thematic inspections at five licensed banks.

As a result, in 2024, NBM sanctioned with written warnings 2 commercial banks, 2 persons holding key positions and 3 members of the governing body.

Generally, the nature of the violations and deficiencies identified during thematic inspections relates to the risk management framework, including deficiencies in internal governance, internal control functions, credit risk management, IT risk management, non-compliance with the minimum requirements for information and communication systems (ICT), and reporting inaccuracies. Concerns were also raised about the supervision and evaluation processes, particularly the inefficiencies in the ICAAP and ILAAP processes, as well as the management of outsourced activities.



International activities of the Banking Supervisory Authority

The European integration of the Republic of Moldova is a national priority and the NBM has always made a significant contribution to the achievement of this major objective. During 2024, a series of activities were carried out aimed at deepening European integration and continuing the preparation of the Republic of Moldova for future accession to the European Union (EU).

On 30.01.2024, the NBM submitted to the European Payments Council (EPC) the application for the inclusion of the Republic of Moldova in the geographical area of the Single Euro Payments Area (SEPA). The NBM also attached to this application a comprehensive dossier with information on meeting the necessary criteria for the inclusion of Moldova in the geographical area of SEPA, including information on the alignment of relevant national legislation with the EU *acquis*. During 2024, the NBM had an ongoing dialogue with both the EPC and the European Commission on the Republic of Moldova's fulfilment of the SEPA accession criteria.

During 2024, the NBM participated in the development of the Economic Reform Programme of the Republic of Moldova for the period 2025-2029. This programme is a medium-term plan which is developed annually by each of the candidate countries for accession to the EU and which is presented to the European Commission and the European Central Bank for evaluation.

In the context of European integration, the NBM continued to strengthen cooperation relations with EU authorities, including by organizing bilateral meetings with their high-level representatives. Thus, the NBM cooperated with the European Central Bank, the European Banking Authority, the European Commission Directorate-General for Economic and Financial Affairs (DG ECFIN), the European Commission Directorate-General for Financial Stability, Financial Services and Capital Markets Union (DG FISMA), the European Commission Directorate-General for Neighbourhood and Enlargement Negotiations (DG NEAR), as well as with some EU central banks and EU financial supervisory authorities, including the central banks responsible for the supervision of EU credit institutions with subsidiaries in Moldova.

In order to strengthen the regulatory and supervisory framework of the Moldovan financial and banking system, the National Bank of Moldova also cooperates with international organizations and other development partners.

In 2024, the cooperation between the Republic of Moldova and the International Monetary Fund (IMF) has developed in the context of implementation of the programs signed with the Republic of Moldova, under the Extended Credit Facility (ECF) and Extended Fund Facility Arrangements (EFF), approved in December 2021, and under the Resilience and Sustainability Facility (RSF), approved in December 2023. It should be mentioned that the IMF officials noted that the program supported by the ECF and EFF was broadly implemented according to the agreed parameters: since October 2023, inflation has remained within the National Bank of Moldova's target corridor; the base rate was maintained at the level recorded during the reviewed time period; the authorities' commitment to maintaining current prudential requirements regarding bank shareholding was assessed as an important factor in protecting macro-financial stability. At the same time, the need to continue ensuring the governance, autonomy, transparency and strengthened accountability of the NBM was mentioned. The IMF Executive Board also noted that positive results were achieved under the program supported by the RSF, with all reform measures being successfully implemented, in accordance with the conditions established for the first program review.

During 10-12 July 2024, the NBM and the Ministry of Finance hosted, on a rotating basis, the Constituency Meeting of the IMF and the World Bank, led by Belgium and the Kingdom of the Netherlands. The event held in Chisinau became the scene of global financial dialogues, bringing together over 100 senior representatives



of ministries of finance and central banks from 16 countries members of the above-mentioned IMF and WB Constituency,

The NBM has also maintained the dialogue with the World Bank by providing all the necessary information for a fair and objective assessment of the situation of domestic financial system, in order to support decision-taking related to further financing in various priority areas for the Republic of Moldova

In 2024, the NBM cooperated with the European Bank for Reconstruction and Development (EBRD) to increase and enhance the resilience of the domestic banking sector, in the context of implementation the EBRD Moldova Country Strategy for the period 2023-2028, approved by the EBRD Board of Directors on 23.02.2023. Among the strategic priorities of this strategy is to support the development of resilient financial infrastructure, by continuing active policy dialogue with other international partners, such as IMF and EU, to strengthen the resilience of the financial sector, including by approximation of regulations to the EU standards. In 2024, the EBRD supported the NBM through a Technical Assistance project aimed at assessing the equivalence of the regulatory and supervisory framework to that of the EU, in accordance with the European Banking Authority's methodology.

The NBM continued to cooperate with the European Automated Clearing House Association (EACHA) by exchanging information and experience regarding the activity of clearing houses. Thus, during 21-22 May 2024 the NBM representatives participated in the "EACHA 11th Annual Payment Forum" organized in Sofia, Bulgaria. Participation in this event took place in the context of achieving the NBM's strategic objectives, namely, initiatives aimed at increasing cashless payments, such as the accession of the Republic of Moldova to SEPA, the interoperability of instant payments in Europe, the interlinking of instant payment systems.

During 11-13 June 2024, the NBM representatives participated in the International Operational Risk Working Group (IORWG) annual Conference, hosted by the Central Bank of Italy, in Rome. The event presented the results of the "Survey on Maturity Model, Trends and Best Practices", through which the IORWG annually assesses the maturity of operational risk management in the central banks, members of the group. In 2024 the NBM was placed in the Top 5 central banks in the Risk Culture category, according to the results of the assessment. This result underlines the progress in the maturity of the NBM's operational risk management, which increased from level 3 to 4 compared to 2023, corresponding to the "Advanced" maturity level according to the IORWG methodology.

During the period June 2023–June 2024, the NBM held the presidency of the Centre of Excellence in Finance (CEF) Governing Board. In this context, on 13.06.2024 the Annual Meeting of the CEF Governing Board was held in Chisinau and chaired by the NBM Governor.

The NBM also continued to cooperate with the members of the Group of Banking Supervisors from Central and Eastern Europe (BSCEE) through exchanges of information and experience in the field of banking supervision and regulation. As part of its international supervisory activities, the NBM actively engaged in the 36th Annual Conference of the BSCEE, held from 28 to 31 May 2024, in Budapest, Hungary. The event provided a platform for discussing key regulatory and supervisory priorities, including the use of artificial intelligence and machine learning in supervision, fraud prevention mechanisms, and regulatory tools to mitigate interest rate risks in the commercial banking sector.

In May 2024, the NBM became a member of the International Association of Insurance Supervisors (IAIS). By acceding to the IAIS, NBM has the opportunity to assert itself as a professional institution through its contribution to the development of core international standards and rules applicable to the insurance and reinsurance sector.



During 2024, the NBM has benefited from technical assistance from EU, IMF, World Bank Group, U.S. Agency for International Development (USAID), Banque de France, Central Bank of the Federal Republic of Germany, Central Bank of the Republic of Lithuania, Ministry of Finance of Netherlands, National Bank of Romania etc.

The EU, through its technical assistance programs and instruments, plays a significant role in strengthening the financial sector of the Republic of Moldova. Considering the aspirations of the Republic of Moldova to join the EU, the NBM, as a key institution, cooperates closely with European institutions in order to align with EU requirements and standards.

The High Level Advisers' Mission of the European Union to the Republic of Moldova rendered a valuable support to the NBM, which directly contributes to the adoption of European best practices. Thus, the EU High Level Advisor on Financial Services has provided advice to the NBM for aligning the national legislation with the European one in the banking and non-banking sectors, including financial supervision, financial stability, combating money laundering and terrorist financing, payment systems and financial markets.

In 2024, the NBM has successfully completed the Twinning Project "Strengthening supervision, corporate governance and risk management in the financial sector" launched on 18.10.2021 and funded by the EU. The project has achieved significant accomplishments, including the development of a new macro-prudential policy strategy, the alignment of insurance and non-bank lending regulations with EU directives, the adjustment of oversight regulations for financial market infrastructure, and the preparation of Moldova's accession dossier to SEPA.

The European Union's TAIEX assistance is another important instrument for providing technical support that the NBM benefited from. Thus, between 22-26 January 2024, a TAIEX mission of experts was organized to assess the alignment capacities to the Eurostat balance of payments vademecum.

On 17 October 2024, NBM participated in a technical mission organized by the European Central Bank (ECB), aimed at strengthening its familiarity with the Information Management System (IMAS) – a component of the Single Supervisory Mechanism (SSM). This initiative facilitates real-time exchange and monitoring of supervisory processes among commercial banks and supervisory institutions, supporting alignment with EU supervisory frameworks.

During 2024, due to the support of the international development community, the NBM strengthened its capacities in the field of preventing and combating money laundering and terrorist financing. In this context, the NBM participates as a co-beneficiary institution in the project "Improving the anti-money laundering and asset recovery regime in the Republic of Moldova" within the framework of the joint program of the European Union and the Council of Europe "Partnership for Good Governance".

The NBM is focused on promoting the environmental agenda within the financial system and achieving the objective of developing the necessary instruments for the transition to sustainable finance. In this regard, the World Bank is providing technical assistance to the NBM for the development of a sustainable financing framework for the financial sector of the Republic of Moldova. With the support of the International Finance Corporation, the NBM developed and approved the Sustainable Finance Roadmap in the Republic of Moldova by the decision No. 145 of 28.05.2024 of the NBM Executive Board. The Action Plan for 2024-2028 includes the development and approval of the Sustainable Finance Taxonomy and other actions concerning the governance and monitoring of ESG risks by financial institutions and disclosure of climate-related risks.

In addition to the support to the NBM in the context of alignment with the principles of sustainable and inclusive finance, through the technical support program financed by the "Moldova - Growth, Resilience and Opportunities for Well-being" (M-GROW) Trust Fund, the World Bank is also providing technical assistance for the development of the National Financial Inclusion Strategy.



Strengthening the institutional capacities of the NBM is a priority for the proper functioning of the central bank, and developing the skills of the institution's employees is an ongoing concern. In this context, the NBM, in collaboration with the Center of Excellence in Finance and with the support of the Ministry of Foreign Affairs of Slovenia and the Constituency Program of Ministry of Finance of the Netherlands, benefits from the project "National Bank of Moldova - Institutional Transformation into a Learning Organization (NBM LearnOrgLab)". The project's objective is to transform the NBM into a learning institution by developing internal management capacity, with an emphasis on professional development and creating a learning culture. During 2023-2024 the NBM implemented 35 learning initiatives, such as coaching sessions, different workshops, webinars, learning blogs, study visits, and so on. At the same time, within this project the NBM implemented the ToT (training of trainers) framework and created a ToT community, which now counts 42 trainers. This initiative increases NBM internal capacity for knowledge sharing, fosters the culture of collaboration, employee engagement and gives the opportunity for employees to enhance their leadership, communication and teaching skills, ensuring that critical expertise is retained within the organization.

In order to carry out the banking authorization function, the NBM collaborated with the following supervisory authorities: Central Bank of Albania, Banking Agency of the Federation of Bosnia and Herzegovina, Estonian Financial Supervision and Resolution Authority, European Central Bank, Financial Supervisory Authority of the Federal Republic of Germany, Central Bank of the Republic of Lithuania, National Bank of the Republic of North Macedonia, National Bank of Romania, National Bank of Ukraine. At the same time, for the purpose of carrying out authorization function for professional participants in the insurance market, the NBM collaborated through information exchange with the following financial supervisory authorities: Austrian Financial Market Authority, Financial Supervisory Authority of Romania and National Bank of Serbia.

Cooperation with other supervisory bodies in the country

In order to maintain the stability and integrity of the financial system, the NBM actively collaborates with the following national supervisory institutions:

- State Tax Service (STS) – NBM collaborates with the STS to develop collaborative relationships and provide necessary support to enhance efficiency in fulfilling the duties related to the responsibilities of the parties, and to streamline the supervision process of the supervised entities.
- National Commission for Financial Markets (NCFM) – Through the exercise of its mandate to supervise the banking and insurance sectors, the NBM aims to protect the interests of depositors, contractors, policyholders, re-insured parties, insurance beneficiaries, third-party victims, and other individuals whose rights may be affected, including ensuring the stability and viability of both sectors. In performing this fundamental role, the NBM collaborates with the NCFM (discussions are ongoing regarding the formal collaboration agreement) based on a clearly defined framework regulating institutional, technical, operational, and functional aspects of cooperation. This collaboration aims to facilitate the supervisory processes of market participants and avoid the duplication of reporting obligations by supervised entities.

Additionally, NBM maintains active cooperation in form of formal agreements, and exchanges of information regarding banking supervision with the Security and Intelligence Service, Public Services Agency, and Deposit Guarantee Fund in the Banking System.

In May 2024, the NBM, the Government of Moldova and the National Commission for Financial Markets signed a Memorandum of Understanding on the development of the framework on sustainable and environmentally responsible finance. Its purpose is to ensure cooperation between the parties and facilitate the integration of sustainable finance principles into the national financial system.



Other relevant information and developments in 2024

Resolution financing arrangements

In 2020, the bank resolution fund became functional. It was established to cover the needs related to the effective application of resolution tools in accordance with the provisions of the Law No. 232/2016 on Banks Recovery and Resolution.

The bank resolution fund is financed by:

- annual contributions from banks, in order to reach the target level established by the law;
- extraordinary contributions from banks, in case the annual contributions are insufficient in the opinion of the resolution authority;
- loans and other forms of support.

The resources of the bank resolution fund are managed by the Bank Deposit Guarantee Fund, which has the obligation to invest the available financial resources of the bank resolution fund in low-risk assets in a sufficiently diversified manner. The use of the resources of the bank resolution fund shall be decided by the NBM, as the resolution authority, for the purposes described in Law No. 232/2016. The calculation and payments of contributions by banks to the bank resolution fund shall be performed according to the Regulation on the calculation and payment of contributions to the bank resolution fund No. 74, approved on April 30, 2020.

According to the law, the financial resources of the bank resolution fund should reach 3% of the amount of guaranteed deposits of all licensed banks on the territory of the Republic of Moldova until the end of 2024. As of December 31, 2024, the banks have fully paid the annual contributions calculated by the NBM and the bank resolution fund reached for the first time the target level of 3% of the amount of guaranteed deposits and constituted about MDL 767.0 million.

To be noted that NBM annually reevaluates the target level in the process of calculating the ordinary contributions to the bank resolution fund, taking into account the updated amount of guaranteed deposits of the entire banking system. The current target level, considered for the calculation of contributions for 2025, is MDL 918 million and it is to be reached until the end of 2026. This new target level has changed significantly compared to the one used in the contribution calculations for 2024, taking into account the new increased coverage level¹ provided by Law No. 160/2023 on Deposit Guarantee in Banks.

Furthermore, the National Bank has notified the licensed banks regarding the amounts, tranches, set deadlines, and forms of payment of contributions to the bank resolution fund, which are to be paid by the end of 2025, the amount of annual contributions to be paid during 2025 by all banks is MDL 193.4 million.

The establishment of the resolution fund contributes to the strengthening of the banking sector and its credibility, supporting the depositors' interests.

Strengthening risk management

In 2024, the NBM achieved a series of objectives to strengthen the risk management function. These include identifying and assessing operational risks associated with the activity processes taken over from the National Financial Market Commission; strengthening the compliance function by establishing the Compliance Department; approving critical activity processes; ensuring continuous training within the risk management function, as well as within employees of the NBM subdivisions in order to strengthen the organizational culture of risk management.

¹ In 2023, it was increased from MDL 50 000 to MDL 100 000.



In 2024, the NBM made significant progress in strengthening organizational resilience and the capacity to manage operational continuity risks. Proactive measures and complex testing were carried out, aimed at ensuring the optimal functioning of the institution even in critical conditions.

Questionnaire tables for the 2024 BSCEE Review

Number of financial institutions (at year-end)

Type of financial institution	2022	2023	2024
Commercial banks	5	5	6
Branches of foreign credit institutions	6	6	5
Cooperative banks	-	-	-
Banking sector, total:	11	11	11

Total assets of banking sector (at year-end) (million MDL)

Type of financial institution	2022	2023	2024
Commercial banks	77,638.3	92,969.1	107,915.9
Branches of foreign credit institutions	53,729.9	60,885.5	62,440.5
Cooperative banks	-	-	-
Banking sector, total:	131,368.2	153,854.6	170,356.3
y/y change (in %)	10.9%	17.1%	10.7%

Ownership structure of banks on the basis of assets total

Item	2022	2023	2024
Public sector ownership	0.0	0.0	0.0
Domestic ownership total	31.6	32.5	35.3
Foreign ownership	68.4	67.5	64.7
Banking sector, total:	100.0	100.0	100.0

Concentration of asset by the type of financial institutions, 2024

Type of financial institution	The first three largest (%)	The first five largest (%)	HHI
Commercial banks	59.8	62.4	1,689.1
Branches of foreign credit institutions	31.4	36.7	400.54
Cooperative banks	-	-	-
Banking sector, total:	91.2	99.0	2,089.6

Return on Equity (ROE) by type of financial institutions

Type of financial institution	2022	2023	2024
Commercial banks	17.0	16.1	14.8
Cooperative banks	-	-	-
Banking sector, total:	17.0	16.1	14.8

Distribution of market shares in balance sheet total (%)

Type of financial institution	2022	2023	2024
Commercial banks	59.1	60.4	63.3
Branches of foreign credit institutions	40.9	39.6	36.7
Cooperative banks	-	-	-
Banking sector, total:	100.0	100.0	100.0

**The structure of assets and liabilities of the banking sector (%)
(at year-end)**

	2022	2023	2024
Receivables	5.0	4.3	4.4
Financial sector	30.3	31.1	24.7
Nonfinancial sector	44.7	40.6	47.4
Government sector	10.8	12.5	13.8
Other assets	9.2	11.4	9.7
Liabilities			
Financial sector	2.2	1.6	1.2
Nonfinancial sector	69.4	71.8	73.8
Government sector	0.8	0,7	0.8
Other liabilities	9.8	8.6	7.7
Capital	17.8	17.3	16.4

Capital adequacy ratio of banks

Type of financial institution	2022	2023	2024
Commercial banks	29.2	29.9	26.3
Cooperative banks	-	-	-
Banking sector, total:	29.2	29.9	26.3

**Asset portfolio quality of the banking sector
(share of impaired receivables / share of non-performing loans)**

Asset classification	2022	2023	2024
Non-financial sector, including	6.4	5.6	4.1
- households	4.6	3.7	2.3
- corporate	7.6	6.7	5.5



**The structure of deposits and loans of the banking sector in-2024 (%)
(at year-end)**

	Deposits	Loans
Non-financial sector, including:	97.4	94.2
Households	59.9	45.4
Corporate	37.5	48.8
Government sector	1.1	1.4
Financial sector (excluding banks)	1.5	4.4
Total	100.0	100.0

**P&L account of the banking sector
(at year-end) (million EUR)**

P&L account	2022	2023	2024
Interest income	472.7	592.2	461.5
Interest expenses	124.1	232.9	131.8
Net interest income	348.6	359.3	329.7
Net fee and commission income	72.5	74.7	82.3
Other (not specified above) operating income (net)	-21.3	25.7	28.5
Gross income	714.0	868.1	787.0
Administration costs	167.8	205.3	222.3
Depreciation	67.8	12.1	3.8
Provisions	17.4	15.0	15.8
Impairment on financial assets not measured at fair value through profit and loss / Provisions on financial assets (loans, ...)	35.4%	5.5%	1.7%
Profit (loss) before tax	205.3	241.1	235.8
Net profit (loss)	179.8	211.3	206.5

Total own funds in 2024 (in EUR)

Type of financial institution	Total own funds	Core Tier 1	Tier 1	Tier 2	Tier 3
Commercial banks	1,163.5		1,106.2	57.3	
Cooperative banks	-		-	-	
Banking sector, total:	1,163.5		1,106.2	57.3	

Macroeconomic environment in the country

During 2024, the growth of the Montenegrin economy slowed down. After a significant recovery from the crisis caused by the coronavirus pandemic—with an average growth of 8.6% in the period 2021–2023—a real GDP growth of 3.0% was recorded.

At end-December 2024, the registered unemployment rate decreased by 2.59 percentage points compared to the same month of the previous year, amounting to 11.36%. At the same time, the average survey-based unemployment rate decreased by 1.7 percentage points and stood at 11.4%.

According to MONSTAT data, the trend of wage growth continued, further supported from October 2024 by the implementation of measures from the Fiscal Strategy of Montenegro for the period 2024–2027. The average gross wage in Montenegro was €1,083, while the average wage excluding taxes and contributions was €876, representing annual increases of 9.73% and 10.61%, respectively. In December, the average net wage exceeded €1,000 for the first time (€1,012), which is a 24.32% year-on-year increase.

In 2024, there was a significant slowdown in the growth of consumer prices, which in December were at a level lower than that recorded in the EU. After the highest annual inflation rate since independence was recorded in November 2022 (17.5%), a significant deceleration in consumer price growth was observed during 2023 and 2024. The average annual inflation rate, measured by the consumer price index, decreased from 8.6% in 2023 to 3.3% in 2024.

Montenegro's economic relations with foreign countries worsened in 2024, due to an increase in the trade deficit, a reduction in the surplus in the services account, and a recorded deficit in the primary income account. As a result of these developments, the current account deficit increased by 65.27% year-on-year, reaching €1,307.81 million, or 17.53% of GDP.

On the financial account, there was an annual increase in net inflows of foreign direct investments by 13.29%, reaching €491.23 million, which amounts to 6.59% of the estimated GDP for 2024.

According to the Ministry of Finance, Montenegro's 2024 budget was characterised by growth in both revenues and expenditures, with a weaker balance compared to the previous year. Preliminary data shows a budget deficit of 3.10% of GDP. The increase in tax revenues was a result of economic activity growth, higher disposable income of citizens, and more efficient tax and excise collection, while expenditures rose due to higher allocations for pensions and social benefits. At the same time, public debt increased, primarily due to the issuance of Eurobonds.

At the end of December 2024, Montenegro's gross public debt amounted to €4.57 billion or 61.32% of estimated GDP, representing a nominal annual increase of 10.83%, due to the growth of external debt related to Eurobond issuance. Montenegro's net public debt at the end of December 2024 was €4.19 billion or 56.15% of the estimated GDP for 2024, which represents an annual decrease of 0.92 percentage points. Compared to the end of the previous year, net public debt recorded an increase of 5.39%.

DevelopmentS in the banking sector (including assets total/GDP)

At the end of 2024, 11 banks were operating in Montenegro. The overall banking sector was characterised by stability, strong capitalization, high liquidity, and profitability.

Over the one-year comparison period, all key balance sheet positions in the Montenegrin banking sector recorded growth. Total bank assets increased by 7.67%, total loans (gross loans and claims from banks and clients) by 13.30%, total bank deposits (including escrow accounts) by 6.68%, while total capital grew by 8.61%.

The quality of assets improved, with the share of non-performing loans and receivables in total loans and receivables reaching the lowest level in the past 15 years. There was also a reduction in the amount of overdue gross loans and receivables, as well as restructured loans. As of 31 December 2024, the share of non-performing loans and receivables in total loans and receivables was 3.51%, representing a year-on-year decrease of 1.51 percentage points.

Banks' lending activity increased by €355 million or 23.37%, amounting to €1,874 million. Notably, 55.63% of newly approved loans were granted to legal entities, while long-term loans were dominant in terms of maturity structure (80.10%).

Total deposits recorded annual growth, mainly due to an increase in household deposits. Total deposits (including escrow accounts) in banks increased by 6.68% year-on-year and amounted to €5,838.8 million at the end of 2024. Deposits of individuals increased by €251.1 million and amounted to €2,981 million, while deposits of legal entities increased by €114.5 million, totalling €2,857.8 million.

The financial result at the sector level also showed improvement. In 2024, banks achieved a profit totalling €157.6 million, representing a year-on-year increase of 7.97%.

Total bank capital increased by €70.6 million (8.61%) and at the end of 2024 amounted to €890.9 million. The capital adequacy ratio at the aggregate level was 19.38% (compared to 20.29% at the end of the previous year), which is well above the legally required minimum of 8%.

The total assets-to-GDP ratio at the end of 2024 was 97.2.

The legal and institutional framework for banking supervision in the country (new developments, legal competence of the Banking Supervisory Authority)

during 2024, the Central Bank significantly intensified its regulatory activities in the supervision of credit institutions, particularly those crucial for fulfilling the closing benchmarks for the provisional closure of Chapter 9 – Financial Services. In this regard, two important draft laws were prepared and submitted for further legislative procedure ahead of the planned deadlines:

1. **Draft Law on Amendments to the Law on Credit Institutions**, which fully implements the CRD5/CRR2 package; and
2. **Draft Law on Financial Conglomerates**, which is aligned with Directive 2002/87/EC on the supplementary supervision of credit institutions, insurance undertakings, and investment firms in a financial conglomerate, and Directive 2011/89/EU of the European Parliament and Council amending Directives 98/78/EC, 2002/87/EC, 2006/48/EC, and 2009/138/EC, in the part relating to supplementary supervision of financial entities within financial conglomerates.

As part of its regular regulatory activities, the Council adopted several important decisions in 2024 regarding the regulation of credit institutions, including:

- Decision amending the Decision on Minimum Standards for Investment of Credit Institutions in Immovable Property and Fixed Assets

- Decision on Raising the Countercyclical Capital Buffer Rate,
- Decision amending the Decision on Macroprudential Measures Related to Retail Loans Granted by Credit Institutions,
- Decision amending the Decision on Capital Adequacy of Credit Institutions,
- Decision amending the Decision on Minimum Standards for Risk Management in Credit Institutions.

Further enhancement of the regulatory framework and its adaptation to new market conditions remain priorities of the Central Bank to ensure the stability and resilience of the financial sector in the period ahead. In this context, at the beginning of 2025, work began on the preparation of additional amendments to the regulatory framework in line with the final CRR III/CRD VI standards. This alignment is planned to be fully implemented by the adoption of new amendments to the Law on Credit Institutions, the Decision on Capital Adequacy of Credit Institutions, and other relevant by-laws, by the end of 2025 or the beginning of 2026.

Main strategic objectives of the Banking Supervisory Authority in 2024

The Central Bank, during 2024, focused on aligning regulations with the EU acquis in the area of supervision of credit institutions and financial service providers, as well as on implementing their oversight and improving the credit registry — all of which are key elements for meeting the final benchmarks for the provisional closure of chapters in the EU accession negotiations.

The key activities of the Banking Supervisory Authority in 2024

During 2024, the Central Bank continuously conducted indirect supervision of credit institutions and carried out the planned targeted on-site examinations of credit institutions.

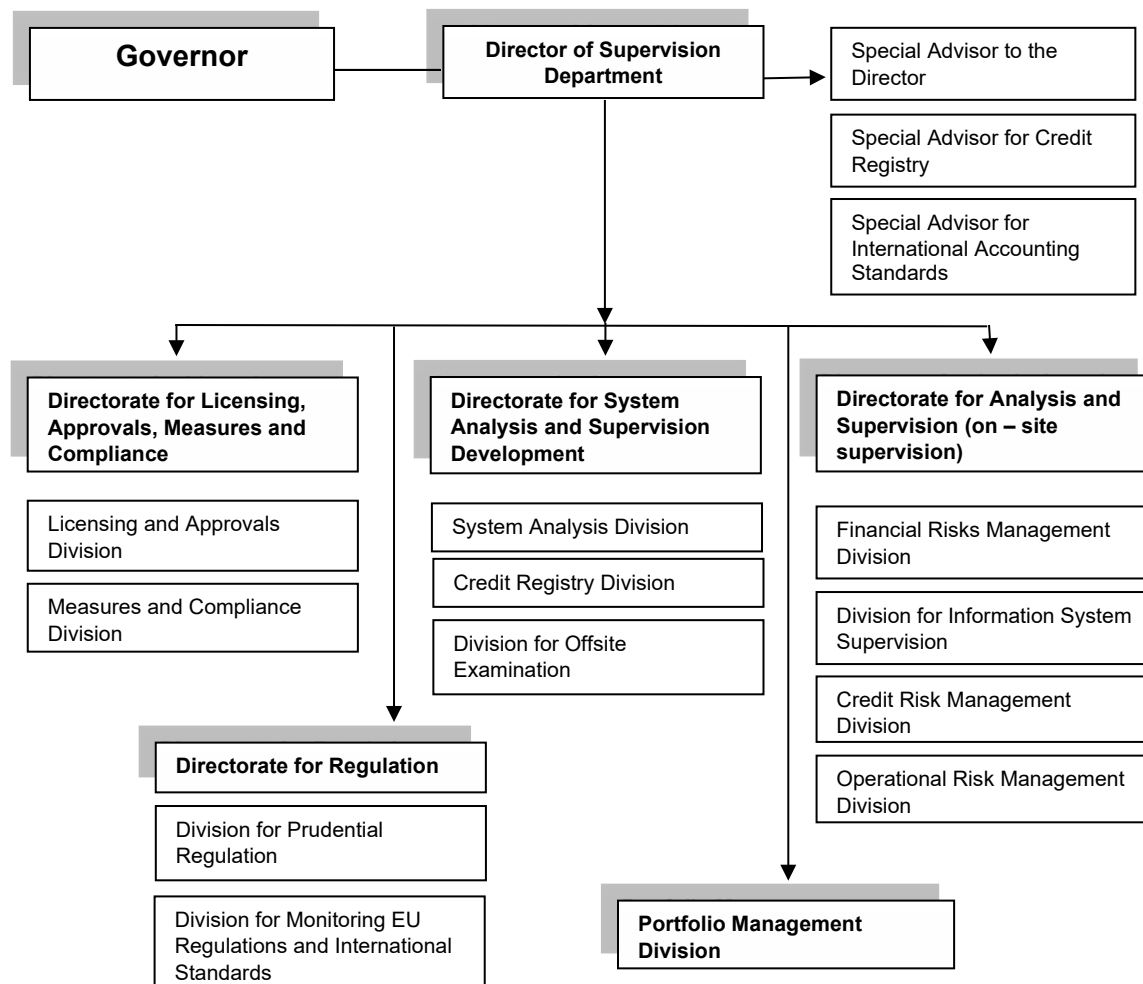
Throughout the year, a comprehensive supervisory review and evaluation process (known as SREP) was conducted for all credit institutions. The purpose of this assessment was to evaluate the sustainability of their overall operations, determine capital requirements in accordance with their business models, internal governance and controls, assess risks affecting capital, the internal capital adequacy, and the management of liquidity risk and funding sources.

The second cycle of the SREP assessment for all credit institutions was carried out based on the status as of 31 December 2023, as well as all materially significant information and events occurring before and after that date, related to the material risks to which credit institutions are exposed in their operations.

In 2024, the Central Bank planned and conducted 12 targeted on-site examinations of credit institutions, five extraordinary examinations, and one thematic examination.

During the year, irregularities were identified in the operations of three credit institutions, and all credit institutions in Montenegro were instructed to take measures regarding the adequacy of their internal capital. In addition, in accordance with the Law on Credit Institutions, the Central Bank issued 18 misdemeanour orders to six credit institutions and 18 misdemeanour orders to responsible individuals within those institutions.

Organizational chart of the Banking Supervisory Authority



International activities of the Banking Supervisory Authority

In 2024, cooperation continued with supervisory authorities of parent credit institutions, primarily focused on the exchange of information regarding the operations of supervised entities at both the individual and consolidated (group) level. Meetings were held with supervisors of the OTP Group and the NLB Group.

The **National Bank of Hungary** organised a two-day meeting in Budapest with supervisors from countries where the OTP Group operates credit institutions (subsidiaries), aimed at assessing the business risks of the OTP Group member banks, including **Crnogorska komercijalna banka AD Podgorica**, a member of the OTP Group.

On a similar note, the **European Central Bank** held a two-day meeting in Frankfurt with supervisors of the **NLB Group**, which includes **NLB Banka AD Podgorica**.

Communication with other supervisors from Central and Eastern Europe was facilitated through the **BSCEE Secretariat** (Banking Supervisors from Central and Eastern Europe), involving information exchange and responses to questionnaires from individual members, in order to understand best supervisory practices. The practice of holding annual BSCEE Secretariat meetings, which had been interrupted due to the COVID-19 pandemic, resumed with a meeting organised in Budapest.

The **Center of Excellence in Finance (CEF)** in Ljubljana organised an online meeting with banking regulators and supervisors (BRS) from Southeast European countries, aimed at knowledge sharing and capacity building. The discussion focused on key challenges in the area of **open banking** and the implementation of the **Digital Operational Resilience Act (DORA)**. A conference on the same topic was also held in Ljubljana.

Cooperation with other supervisory authorities in the country

in 2024, the Central Bank continued successful cooperation with other regulators in the country, based on the regular exchange of information in accordance with the objectives defined in the concluded bilateral agreements and Memoranda of Understanding (MoUs), primarily related to the exchange of information on the acquisition of qualified participation in financial market participants and information concerning anti-money laundering and counter-terrorist financing (AML/TF).

In addition, obligations related to the alignment of the regulatory framework with the EU acquis in the areas of capital and finance, under Negotiation Chapters 4 and 9, were successfully fulfilled. In cooperation with the **Capital Market Authority** and the **Insurance Supervision Agency**, a total of **16 laws** were prepared and submitted to the **Ministry of Finance** for further legislative procedure.

Other relevant information and developments in 2024

In 2024, under the leadership of the Central Bank and with the active and strong contribution of the Government and Parliament, Montenegro became the first country in the Western Balkans to join the Single Euro Payments Area (SEPA). By joining SEPA, Montenegro became part of the EU's financial ecosystem, representing an important step forward in modernising the national payment infrastructure and strengthening overall financial integration with EU member states.

Questionnaire tables for the 2024 BSCEE Review

Number of financial institutions (at year-end)

Type of financial institution	2022	2023	2024
Commercial banks	11	11	11
Branches of foreign credit institutions	0	0	0
Cooperative banks	0	0	0
Banking sector, total:	11	11	11

Total assets of banking sector (at year-end)

Type of financial institution	2022	2023	2024
Commercial banks	6407083	6734263	7250490
Branches of foreign credit institutions	-	-	-
Cooperative banks	-	-	-
Banking sector, total:	6407083	6734263	7250490
y/y change (in %)	20.24	5.15	7.67

Ownership structure of banks on the basis of assets total

Item	2022	2023	2024
Public sector ownership	-	-	-
Domestic ownership total	18.00	16.25	10.94
Foreign ownership	82.00	83.75	87.99
Banking sector, total:	100.0	100.0	100.0

Concentration of asset by the type of financial institutions, 2024

Type of financial institution	The first three largest (%)	The first five largest (%)	HHI
Commercial banks	55.4	75.2	1,438
Branches of foreign credit institutions	-	-	-
Cooperative banks	-	-	-
Banking sector, total:	55.4	75.2	1,438

Return on Equity (ROE) by type of financial institutions

Type of financial institution	2022	2023	2024
Commercial banks	14.04	20.10	18.45
Cooperative banks	-	-	-
Banking sector, total:	14.04	20.10	18.45

Distribution of market shares in balance sheet total (%)

Type of financial institution	2022	2023	2024
Commercial banks	100	100	100
Branches of foreign credit institutions	-	-	-
Cooperative banks	-	-	-
Banking sector, total:	100.0	100.0	100.0

Capital adequacy ratio of banks

Type of financial institution	2022	2023	2024
Commercial banks	19.32	20.29	19.38
Cooperative banks	-	-	-
Banking sector, total:	19.32	20.29	19.38

Asset portfolio quality of the banking sector (share of impaired receivables / share of non-performing loans)

Asset classification	2022	2023	2024
Non-financial sector, including	99.98	99.88	99.89
- households	32.49	28.49	29.99
- corporate	67.29	71.40	69.90

The structure of deposits and loans of the banking sector in 2024 (%) (at year-end)

	Deposits	Loans
Non-financial sector, including:	87.75	79.87
Households	50.46	43.63
Corporate	37.29	36.24
Government sector	10.03	4.63
Financial sector (excluding banks)	2.22(1.36)	15.5(0.52)
Total	100.0	100.0

**P&L account of the banking sector
(at year-end)**

P&L account	2022	2023	2024
Interest income	191512	256539	295423
Interest expenses	20885	22116	22217
Net interest income	170626	234423	276891
Net fee and commission income	52342	64832	67138
Other (not specified above) operating income (net)	16831	28141	34276
Gross income	351965	443421	500599
Administration costs	114970	132971	
Depreciation	17451	18235	21479
Provisions	30698	-267	6486
Impairment on financial assets not measured at fair value through profit and loss / Provisions on financial assets (loans, ...)			
Profit (loss) before tax	99604	172850	187228
Net profit (loss)	85705	145969	157625

Total own funds in 2024 (in EUR)

Type of financial institution	Total own funds	Core Tier 1	Tier 1	Tier 2	Tier 3
Commercial banks	702961	-	673578	29383	-
Cooperative banks	-	-	-	-	-
Banking sector, total:	702961	-	673578	29383	-



Macroeconomic environment in the country

Macedonian economy in 2024 recorded economic growth of 2.8% (2.1% in 2023), largely reflecting the positive contribution of gross investment, followed by the growth of public and private consumption. The acceleration of economic activity growth was achieved in conditions of slowing inflation, strong growth in disposable income, a cautious and gradual reduction in National bank's interest rates towards the end of the year, strong construction activity and an almost unchanged fiscal position. On the other hand, uncertainty remained, especially due to the external environment, which adversely affected domestic production and export activity.

In 2024, the process of disinflation continued, with inflation falling to 3.5%, on average, which is almost a threefold decrease compared to the previous year (9.4%). This dynamic is associated with the stabilization of food and energy prices on world markets, as well as the tightened financial conditions, in accordance with the measures taken by the National bank.

In the balance of payments, the current account recorded a deficit of 2.3% of GDP, compared to a surplus in the previous year. The shift was largely influenced by the lower surplus in secondary income, with a decline in all its subcategories, and a similar impact was also exerted by the widening of the trade deficit, which increased amid a stronger downward adjustment of the export component. These shifts were mitigated to some extent by the positive performance in the services balance. The financial account of the balance of payments recorded net inflows of 3.6% of GDP on an annual basis, mainly as a result of net inflows from foreign direct investment. Financial flows in the balance of payments enabled full financing of the current account deficit and growth of foreign exchange reserves. Exchange rate stability was successfully maintained, foreign exchange reserves increased and are at an appropriate level in line with international standards and within the safe zone.

Gross external debt relative to GDP increased moderately from 75.4% to 78.5% of GDP in conditions of increasing private debt, mostly as a result of the intercompany debt. As relatively less risky forms of debt, intercompany debt and trade credits continue to have a relatively stable share in total gross external debt (29.2% and 10.1%, respectively), thus mitigating the vulnerability from excessive external indebtedness.

The budget deficit narrowed moderately, while domestic public debt increased. In 2024, the budget deficit (4.4% of GDP) was lower compared to the previous year. The budget deficit was financed through net borrowing by the state on the domestic and foreign markets, with a significant increase in government deposits with the National Bank. Total public debt increased to 62.4% of GDP (by 4.3 percentage points) on an annual basis, with rise in both, the domestic and the external public debt (to 24.6% and 37.8% of GDP, respectively).

The risks for the Macedonian economy are largely conditioned by the developments in the Eurozone. Considering the high trade and financial openness of the Macedonian economy, the external shocks could quickly spillover into domestic economy, and indirectly in the financial sector, which is why the need for prudent domestic macroeconomic and structural policies is emphasized.

Developments in the banking sector (including assets total / GDP)

The banking sector is of a key importance for the stability of the financial sector in RNM. The share of the banking system in the financial system assets is at the level of about 80% (77.7% as of 31.12.2023¹). As of June 30, 2025, the number of banks in the Republic of North Macedonia is 13. Of these, nine banks are predominantly foreign-owned, five of which are subsidiaries of foreign banks. Banks with foreign capital

¹ Latest available data as of the date of this review.



(mainly from EU countries) prevail in almost all important positions of the balance sheets of the banking system. One bank is state owned development bank.

Banks' activities in 2024 registered a solid growth. The assets grew rapidly, at a rate of 10.5% annually (9.1% in 2023). Lending to non-financial sector accelerated, reaching annual growth of 11.2%. Credit growth steamed from both non financial sector, more pronounced from corporate sector. Deposits of non-financial entities recorded an accelerated annual growth (11.4%), mainly driven by the household deposits, with growth registered in corporate deposits, as well. Favorable developments in currency and maturity structure of deposits continued in 2024.

The solvency of the banking system improved. In 2024, the capital adequacy ratio reached the highest levels since 2006, and at the end of the year it equaled 18.9% (18.1% as of 31.12.2023). The improved indicator results from the growth in banks' own funds of 13.3% (10% in 2023), mostly due to reinvested profits from 2023 and partly from 2024. The National Bank has increased the countercyclical capital buffer rate on several occasions. Moreover, 8% of own funds remained free, over the required minimum and together with the capital buffers account for 37% of total own funds of the banking system which may be used to deal with challenges of different nature and intensity. The conducted stress testing shows that the banking system is resilient to the simulated shocks.

Most of the liquidity indicators improved in 2024. The share of the liquid in total assets reached 32.6%, and the coverage of short-term liabilities and of the household deposits with liquid assets equal 55.7% and 65.1%, respectively. The LCR also is high and increased to the level of 289.4%, which is almost three times higher than the regulatory minimum (100%), thus confirming the satisfactory volume of liquidity available to the Macedonian banking system. The liquidity-related stress test results indicate satisfactory resilience of the banking system to the assumed extreme, individual and combined liquidity outflows.

The quality of banks' loan portfolio is solid. The share of non-performing loans in total loans decreased by 0.1 percentage points in 2024 and at the end of the year reached the new historic minimum of 2.7%. By sector, the NPL ratio for corporate loans is 2.8% and for household loans 2.5%. Regulatory changes in the definition of non-performing loans² caused increase in non-performing loans in the beginning of 2024.

The exposure of the banking system to currency risk and interest rate risk in the banking book, decreased in 2024 and are below the prescribed limits.

The profitability of the banking system improved, in 2024 the profit increased by 21.6%, with the largest contribution of net interest income from almost all sectors. ROAA and ROAE equal 2.2% and 17.6%, respectively (2% and 16.1%, respectively in 2023).

² On 1.1.2024, new Decision on the methodology for credit risk management entered into force, which, that among other things, introduces different approach in determining NPLs (in particular, counting the days of delay), which in turn contributed to the growth in non-performing loans, particularly in the household portfolio. This decision enables further harmonization with the regulatory requirements effective in the European Union, which further improve the stability of the banking system. Besides the introduction of the new method of determining the non-performing credit exposures, the decision also strengthens the quality monitoring criteria of the banks' credit portfolio and improves the rules for credit exposure restructuring.



The legal and institutional framework for banking supervision in the country (new developments, legal competence of the Banking Supervisory Authority)

The National Bank of the Republic of North Macedonia is the Banking Supervisory Authority responsible for licensing and supervision of banks and savings houses in the Republic of North Macedonia. The supervisory function is performed by three departments, Off-site Supervision and Licensing Department, On-site Supervision Department and Information Systems Supervision Office. The Financial Stability and Macroprudential policy Department is responsible for analysis of the financial system and the financial stability in the country and for development of adequate macroprudential policy. The Banking Regulations and Bank Resolution Department is responsible for development of relevant banking regulation in line with international standards and best practices, as well as for performing the resolution function.

These competences of the National Bank are regulated with the Law on the National Bank of the Republic of North Macedonia, the Banking Law, the Law on Financial Stability and the Bank Resolution Law.

The following activities were undertaken in 2024 for further strengthening and improvement of the domestic regulations:

- a. The National Bank continued its preparatory activities for performing the new function as a bank resolution authority. Apart from capacity building activities, the resolution legal framework was finalized with the adoption of 12 new by-laws derived from the Bank Resolution Law:
 - Decision on drawing up a bank resolution plan and the manner of assessing bank resolvability (along with the Instructions on the manner and procedure for submitting data and information, as well as the form and content of the forms)
 - Decision on the manner of determining the minimum requirement for own funds and eligible liabilities (along with the Instructions on the manner and procedure for submitting reports, as well as the form and content of the forms)
 - Decision on conducting a sale of the business tool without public announcement
 - Decision on the procedure for issuing a license for founding and operating a bridge bank
 - Decision on determining the conditions when it is considered that the market situation is such that the sale or monetization of the assets, rights or liabilities of the bank that is being resolved or of the bridge institution in bankruptcy proceedings would adversely affect the financial market
 - Decision on the manner of applying the bail-in tool and on the manner of performing write-down and conversion of the relevant capital instruments and eligible liabilities
 - Decision on the content and the manner of assessment of the reorganization plan and on the content of the reports on its implementation
 - Decision on the types of contracts, arrangements and instruments that are subject to protection in partial transfers
 - Decision on the methodology for the manner of conducting the valuation for the purposes of bank resolution
 - Decision on contributions to the Bank Resolution Fund
 - Decision on the manner of conducting on-site supervision and imposing measures related to bank resolution actions
- b. Drafting of a new Banking Law, which will allow for further alignment with the EU Directive 2013/36/EU (CRD) and Regulation (EU) No.575/2013 (CRR), including the latest amendments to this framework. After the adoption of this new law, the secondary legislation related to the issuance of licenses and approvals,

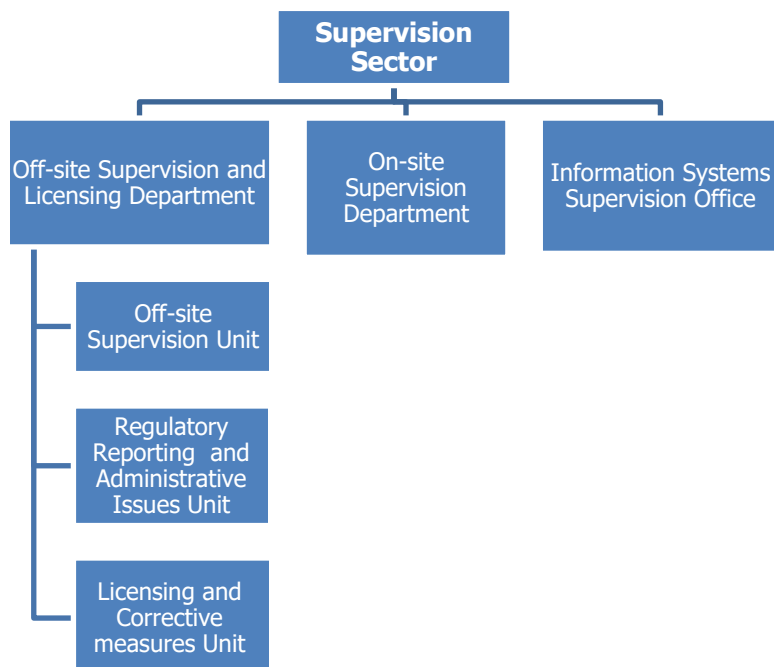


capital adequacy, exposure limits, internal governance, risk management, etc. will also be amended. This is planned as a long-term activity that should be finished in the following few years.

- c. Drafting of a new Decision on the methodology for managing interest rate risk in the banking book, which will follow the EU requirements regarding the management and measurement of interest rate risk in the banking book.
- d. The new Decision on publication of data and information by banks started to be applied from January 1, 2025. This regulation enables further harmonization with the relevant requirements of the EU Regulation 575/2013. In order to achieve greater consistency and comparability of the data and information published by the banks, in October 2024 the National Bank adopted Instructions with standardized reporting forms and data that banks should use when publishing the required data.
- e. The relevant Instructions for implementing the Decision on the contents and the manner of functioning of the Credit Registry was amended in order to require banks and savings houses to widen the data and information submitted to the Credit Registry – more detailed data on NPLs, data on LTV and DTI, data on green loans, etc.

Organizational chart of the Banking Supervisory Authority

The supervisory function is performed by a separate organizational part (Supervision Sector). In 2024, the organizational structure of this Sector has remained unchanged, consisting of three organizational units: Off-site Supervision and Licensing Department, On-site Supervision Department and Information Systems Supervision Office.



There is a close cooperation among the Supervision Sector, Financial Stability and Macroprudential Policy Department and Banking Regulation and Resolution Department. It is channeled through the Committee for supervision, financial stability, banking regulation and resolution. The Committee is a platform for exchanging relevant information and data among these organizational units and it is an integral part of the complete decision-making process within the National Bank.



Main strategic objectives of the Banking Supervisory Authority in 2024

As over the previous year, the main objectives of the supervision were to contribute to the maintenance of stable and reliable banking system as the main prerequisite for financial stability and sustainable economic growth of the country. In 2024, the supervision of banks was focused on regular assessment of the risk profile, the required level of capital of individual banks and timely taking of appropriate supervisory action. Credit risk, continues to be in the focus of supervisory activities, especially having in mind the macroeconomic developments. Also, corporate governance, liquidity risk, operational risk, and within its framework, especially the risk arising from the information system and the risk of money laundering and financing of terrorism, were primarily subject of assessment this year. During the year, horizontal thematic reviews were also conducted, focusing on a system-wide evaluation of the application of macroprudential measures for credit risk exposures to individuals, a supervisory review of the adequacy of the non-performing loans (NPL) management frameworks across the banking sector, as well as a bottom up stress testing practices and ICAAP implementation in systemically important banks. The National Bank has proactively integrated climate risks into its supervisory framework, adopting ECB-aligned Guidelines and requiring banks to conduct self-assessments, develop action plans, and engage in targeted dialogues to address gaps in climate risk management. A phased supervisory approach—self-assessment, planning, and dialogue—ensures banks systematically embed climate risks into governance and credit processes, though challenges like data scarcity and partial compliance highlight the need for continued capacity-building.

In addition, the National Bank continued to strengthen the existing supervisory capacity and continued its activities to follow and harmonize the regulatory framework with the international standards and the European legislation in the field of banking.

The key activities of the Banking Supervisory Authority in 2024

Activities of the Off-Site Supervision Department

In 2024, the Department of Off-site Supervision and Licensing was focused on its regular activities and on the activities regarding the implementation of the new regulation for licensing and supervision of payment institutions. The off-site supervision activities of the banks were directed towards the overall banks' risk profiles updates through regular assessment of: the business model, the corporate governance, the liquidity position and the risks to the bank's capital position. The Department continued to closely monitor the risks coming from the macroeconomic environment and uncertain geopolitical context. The annual SREP assessments were communicated within the supervisory dialog of the Pillar 2 capital requirements. Within its legal authorization, the off-site supervisory function of the National bank was involved in issuing licenses and approvals and undertaking corrective measures toward banks and savings houses. During 2024, the Off-site supervision and Licensing Department proposed the issuance of approvals related to the appointment of members of the Supervisory Board and Management Board of banks, the amending and/or supplementing of the Statutes of banks, the commencement of new financial activities by banks and obtaining prior consent for acquiring shares in a bank. Based on these proposals, the Governor of the National bank issued 76 approvals. In order to maintain the stability and safety of the banking institutions and banking system, the National bank undertook 15 corrective measures towards banks and saving houses based on weaknesses, irregularities, and non-compliance with the Law on banks and by-laws were identified during on-site inspections and off-site surveillance.



In addition, during this year, the Department was actively engaged in activities related to the implementation of the Law on Payment Services and Payment Systems, which resulted in the issuance of the first five licenses for payment institutions.

The Department continued with the regular assessment of the recovery plans for systemically important banks and for the first time, undertook the assessment of the recovery plans for non-systemically important banks submitted in January 2024.

Off-site Supervision unit participated in the project for capacity building regarding bottom-up stress tests and ICAAP with the technical assistance by IMF. Also, the supervisory dialog regarding the quality and feasibility of the action plans on banks for climate related risks was started and will continue in 2025 and 2026. With the assistance of EIB and FINSac in 2024 the National bank started with capacity building activities of the supervisors that continued in 2025.

Activities of the On- Site Supervision Department

In 2024, the On-site Supervision Department conducted a total of eight risk-based on-site inspections at banks, of which five were individual full-scope or targeted risk assessments, and three were horizontal thematic inspections. Additionally, 158 inspections were carried out at authorized exchange offices.

On-site inspections in banks covered major risks that the banks are exposed to including credit risk, liquidity risk, AML/CFT risk, corporate governance, interest rate risk in the banking book, operational and legal risk, related-party transactions, cost analysis as well as follow-up on previously issued supervisory measures.

Besides on-site inspections on certain part of the bank's operations, during 2024 there were also horizontal thematic inspections performed.

As part of the horizontal thematic reviews, the Department conducted a system-wide assessment of the application of macroprudential measures for credit risk exposures to individuals, a supervisory review of the adequacy of NPL management framework across the banking sector, and an inspection on bottom up stress testing practices and ICAAP implementation in systemically important banks.

All inspections were carried out in accordance with internal risk-based supervision methodology and guidelines. The focus on credit risk included evaluation of internal governance structures, credit policies and procedures, credit portfolio management, classification and provisioning, and risk mitigation strategies, including forborne and non-performing exposures. In the area of liquidity risk, supervisory teams assessed policies and procedures, internal risk indicators, liquidity stress testing, and contingency funding plans.

AML/CFT inspections focused on enterprise-wide risk assessments, implementation of enhanced due diligence for high-risk customers and products, quality of STRs, use of monitoring systems and transaction alerts, and alignment with EU sanction regimes. Particular attention was paid to politically exposed persons, correspondent banking relationships, and the governance of AML/CFT functions.

Corporate governance inspections assessed the functioning and responsibilities of the governing bodies, risk and audit committees, conflict of interest management, remuneration policies, the effectiveness of risk control and compliance functions, and the independence and adequacy of internal audit.

Interest rate risk in the banking book (IRRBB) was reviewed in selected institutions, with emphasis on measurement techniques, stress scenarios, risk appetite, assumptions used in modelling, and the integration with ICAAP and capital planning. Operational risk inspections included governance of the risk management framework, identification and assessment methodologies, loss data collection, business continuity planning, and coordination across control functions.



All supervisory activities were aligned with the annual inspection plan and contributed to the ongoing monitoring of sound risk management practices in the banking sector. Horizontal inspections provided systemic insights and strengthened the consistency of supervisory expectations across institutions

Activities of the Information Systems Supervision Office

In 2024, the Information Systems Supervision Office within the Supervision Sector of the National Bank continued to strengthen the oversight of IT risk management across the banking and financial sector, in line with the annual supervision plan and the risk-based supervisory methodology.

During the year, the Office conducted several on-site IT examinations, focusing on critical domains such as IT Governance, Information Security, ICT Operations, ICT Project and Change Management, Business Continuity, and Internal Audit. Particular attention was given to the cybersecurity posture of supervised entities, following the latest threat landscape and sector-specific risks.

In addition to the inspections, the Office performed the annual Supervisory Review and Evaluation Process (IT SREP) to assess the management of ICT risks and their impact on the overall capital adequacy of the banks, in accordance with internal methodologies and EBA guidelines. The supervisory process included the evaluation of remediation efforts and the implementation status of previous recommendations issued to institutions.

A key milestone in 2024 was the adoption of the new Decision on the Methodology for the Security of the Information System of the Bank, which aligns national supervisory expectations with the EBA Guidelines on ICT and Security Risk Management (EBA/GL/2019/04). This new regulation enhances the regulatory framework by setting clear expectations on governance, risk management, information security, and resilience in the banking sector.

The Office was also involved in advisory and preparatory activities for the implementation of the Law on Payment Services and Payment Systems, particularly in the areas of licensing of new payment institutions.

Through these activities, the Information Systems Supervision Office contributed to the reinforcement of the digital operational resilience of the financial sector, ensuring alignment with European standards and improving the sector's capacity to address ICT-related risks.

International activities of the Banking Supervisory Authority

In 2024 the Department for Off-site supervision continued the cooperation with the supervisory authorities of the international banking groups operating locally. In 2024, National bank realized several bilateral meetings with the supervisory authorities of the parent banks domiciled abroad to exchange information and views regarding the risk profiles and SREP results of the local subsidiary and the banking groups. The off-site supervision staff attended the regular annual supervisory colleges for the Slovenian subsidiary and AML/CFT college for the Greek banking group.

In 2024, employees from the On-site Supervision Department participated in several international and EU-aligned initiatives aimed at strengthening supervisory capacity and harmonizing practices.

Representatives of the On-site Supervision Department participated in an official visit to the Dutch central bank, focusing on exchange of experiences in the area of risk-based supervision and supervisory methodology.

Representatives of the On-site Supervision Department were involved in the updated National Risk Assessment for AML/CFT for the 2019-2023 period, including supervisors involved as leaders for the banking sector vulnerability.



Supervisory staff also participated in international workshops, including one organized by the Council of Europe on combating terrorism financing, and a regional training hosted by the Center of Excellence in Finance (CEF), covering emerging supervisory practices and climate-related financial risks.

The Department was actively involved in preparatory activities for the country's alignment with the Single Euro Payments Area (SEPA), including the review of national legislation and the development of supervisory procedures for payment institutions, in line with EU requirements.

Additionally, staff contributed to the risk assessment process related to virtual assets, which follows international standards and supports the ongoing national alignment with FATF and EU regulatory frameworks.

Cooperation with other supervisory bodies in the country

The National bank has continued the bilateral cooperation with other supervisory authorities in the country, mainly in the field of data and information exchange for the purposes of supervision and licensing. The cooperation is realized through signed memorandums with other supervisory authorities (Financial Intelligence Unit, Security and exchange commission, The Agency for Supervision of Fully Funded Pension Insurance, The Insurance Supervision Agency, Central Registry and State Foreign Exchange Inspectorate).

Other relevant information and developments in 2024

National Bank applied the following **macroprudential measures**:

- **Capital buffer for systemically important banks.** In 2024, 7 banks are identified as systemically important banks³ based on 2023 data. These banks should achieve and maintain a capital buffer for their systemic importance in the interval between 1.0% and 2.5% of risk weighted assets;
- **Countercyclical capital buffer** - initially applied from August 1, 2023 at the level of 0.5%, as a measure to respond to the estimated gradual accumulation of cyclical systemic risks arising from the environment, housing lending and house prices. In the following period, the capital buffer rate was increased on several occasion⁴, the latest announced is the rate of 1.75% applicable from 1.8.2025 until Q3 2026.
- **Borrower based macroprudential measures** - in force since July 1, 2023:
 - DSTI = 55% for newly approved Denar loans to individuals and 50% for newly approved loans to individuals with currency component,
 - LTV = 85%,
 - Limiting the maturity of housing loans and other mortgage loans to 30 and 20 years, respectively,
 - 10% exceptions.

³ In December 2024, the National Bank Council adopted a new Decision on the methodology for determining systemically important banks providing further harmonization with the EBA Guidelines for identifying domestic systemically important banks.

⁴ During 2024, The National Bank Council adopted five decisions about the countercyclical capital buffer rate for the banks' exposures in the Republic of North Macedonia, with capital buffer rates set at a level of 1.50% applicable from 1st of April to 30th of June 2025, 1.50% applicable from 1st of July to 31st of July 2025, 1.75% applicable from 1st of August to 30th of September, 1.75% applicable from 1st of October to 31st of December and 1.75% applicable from 1st of January to 31st of March 2026. More details are available on the following [link](#).



Questionnaire tables for the 2024 BSCEE Review

Number of financial institutions (at year-end)

Type of financial institution	2022	2023	2024
Commercial banks	13	13	13
Branches of foreign credit institutions	0	0	0
Cooperative banks	0	0	0
Banking sector, total:	13	13	13

Total assets of banking sector (at year-end) in 000 mkd

Type of financial institution	2022	2023	2024
Commercial banks	684,255	746,739	824,812
Branches of foreign credit institutions	0	0	0
Cooperative banks	0	0	0
Banking sector, total:	684,255	746,739	824,812
y/y change (in %)	7.1%	9.1%	10.4%

Ownership structure of banks on the basis of assets total

Item	2022	2023	2024
Public sector ownership	2.4%	2.5%	2.3%
Domestic ownership total	27.4%	27.2%	26.6%
Foreign ownership	72.6%	72.8%	73.4%
Banking sector, total:	100.0%	100.0%	100.0%

Concentration of asset by the type of financial institutions, 2024

Type of financial institution	The first three largest (%)	The first five largest (%)	HHI
Commercial banks	55.1%	81.9%	1,454
Branches of foreign credit institutions	/	/	/
Cooperative banks	/	/	/
Banking sector, total:	55.1%	81.9%	1,454

Return on Equity (ROE) by type of financial institutions

Type of financial institution	2022	2023	2024
Commercial banks	12.2%	16.1%	17.6%
Cooperative banks	/	/	/
Banking sector, total:	12.2%	16.1	17.6%



Distribution of market shares in balance sheet total (%)

Type of financial institution	2022	2023	2024
Commercial banks	100%	100%	100%
Branches of foreign credit institutions	/	/	/
Cooperative banks	/	/	/
Banking sector, total:	100.0%	100.0%	100.0%

**The structure of assets and liabilities of the banking sector (%)
(at year-end)**

Assets	2022	2023	2024
Cash, balances and deposits with central bank (National Bank)	16.6%	19.0%	17.6%
Placements in securities	12.5%	13.0%	14.7%
- issued by domestic government sector	10.4%	10.6%	12.0%
- issued by central bank (National Bank)	1.4%	1.3%	1.2%
- other (including non-residents)	0.7%	1.1%	1.4%
Loans, deposits and accounts with financial institutions (excluding central bank, including non-residents)	7.7%	7.3%	6.9%
Loans with non-financial sector (including non-residents)	59.1%	56.6%	57.3%
- loans with domestic government sector	0.7%	0.2%	0.1%
Other assets	4.1%	4.0%	3.6%
Total assets	100.0%	100.0%	100.0%
Liabilities	2022	2023	2024
Deposits of financial institutions (including non-residents)	6.0%	5.1%	5.0%
Deposits of non-financial sector (including non-residents)	72.2%	72.3%	72.9%
- deposits of domestic government sector	0.2%	0.2%	0.2%
Borrowings, issued securities and liabilities on the basis of subordinated and hybrid instruments (including non-residents)	6.7%	6.7%	5.8%
- domestic financial sector	2.3%	2.4%	2.2%
- domestic government sector	0.01%	0.01%	0.01%
- other	4.4%	4.2%	3.6%
Other liabilities	1.3%	1.6%	1.5%
Equity and reserves (including loss in current year)	12.3%	12.4%	12.8%
Profit after tax in current year	1.4%	1.9%	2.1%
Total liabilities	100.0%	100.0%	100.0%

Capital adequacy ratio of banks

Type of financial institution	2022	2023	2024
Commercial banks	17.7%	18.1%	18.9%
Cooperative banks	/	/	/
Banking sector, total:	17.7%	18.1%	18.9%



**Asset portfolio quality of the banking sector
(share of impaired receivables / share of non-performing loans)**

Asset classification	2022	2023	2024
Non-financial sector, including	2.9%	2.8%	2.7%
- households	1.9%	1.9%	2.5%
- corporate	3.9%	3.7%	2.8%

**The structure of deposits and loans of the banking sector in 2024 (%)
(at year-end)**

	Deposits	Loans
Non-financial sector, including:	94.3%	99.6%
Households	63.0%	50.1%
Corporate	28.5%	49.0%
Government sector	0.2%	0.2%
Financial sector (excluding banks)	5.7%	0.4%
Total	100.0	100.0

**P&L account of the banking sector
(at year-end) in 000 mkd**

P&L account	2022	2023	2024
Interest income	20,660	30,371	35,421
Interest expenses	-3,004	-5,222	-7,184
Net interest income	17,656	25,149	28,237
Net fee and commission income	6,235	6,554	7,079
Other (not specified above) operating income (net)	4,147	3,718	4,644
Gross income	28,039	35,420	39,960
Administration costs	-16,310	-13,799	-15,068
Depreciation	-1,293	-1,359	-1,441
Provisions	229	-4	64
Impairment on financial assets not measured at fair value through profit and loss / Provisions on financial assets (loans, ...)	-4,286	-4,475	-3,738
Profit (loss) before tax	10,499	15,783	19,776
Net profit (loss)	9,675	14,296	17,390

Total own funds in 2024 (in EUR)

Type of financial institution	Total own funds	Core Tier 1	Tier 1	Tier 2	Tier 3
Commercial banks	1,762,043,080	1,689,803,684	1,703,595,423	58,447,657	/
Cooperative banks	/	/	/	/	/
Banking sector, total:	1,762,043,080	1,689,803,684	1,703,595,423	58,447,657	/

Macroeconomic environment in the country

In 2024, the Polish gross domestic product (GDP) grew by 2.9% in real terms, which was 2.7 pp more than in 2023. The Polish economy continued the recovery in the first half of 2024, following the process that began in the second half of 2023. After a slight slowdown in the third quarter of 2024, growth accelerated again in the fourth quarter.

The average annual inflation rate in 2024 stood at 3.6%, compared to 11.4% in 2023. Thus, after two years of double-digit inflation, in 2024 the rate returned to moderate single-digit values. In 2024 an increase in wages in both nominal and real terms took place, in the enterprise as well as in the public sector. The registered unemployment rate in Poland as of December 2024 stood at 5.1% (no change y/y).

In 2024, the Monetary Policy Council (MPC) made no changes to interest rates, leaving them at the same levels since October 2023 – the reference rate at 5.75%. The MPC motivated its approach with the aim of bringing inflation sustainably back to the National Bank of Poland's target in the medium term.

In 2024, a strengthening of the Polish zloty (PLN) against currencies as the euro (EUR), the U.S. dollar (USD) and the Swiss franc (CHF) occurred. In 2024, the average exchange rate of the PLN against EUR was 4.31, compared to 4.54 in 2023, whereas the average exchange rate of the PLN against USD was 3.98, compared to 4.20 in 2023 and the average exchange rate of the PLN against CHF was 4.523 compared to 4.675 in 2023.

The total value of assets in the Polish financial sector as at the end of 2024 amounted to PLN 4 474.3 billion, which is a 10% increase compared to the value at the end of 2023.

Development in the banking sector (including assets total / GDP)

At the end of 2024, the KNF supervised 28 commercial banks (including 2 affiliating banks), 1 state bank, 489 cooperative banks, and 33 branches of credit institutions. Up-to-date information on the banking sector can be found on the KNF website.

The balance sheet total of the banking sector at the end of December 2024 amounted to PLN 3334 billion and was 10.7% higher than in 2023. In terms of balance sheet total, commercial banks account for 90.1% - their balance sheet total at the end of 2024 was PLN 3005.4 billion, while the balance sheet total of cooperative banks was PLN 241.1 billion. The balance sheet total of branches of foreign banks amounted to PLN 87.4 billion. The banking sector's net profit in 2024 was PLN 40.2 billion (in 2023, the banking sector's net profit amounted to PLN 27.8 billion).

At the end of 2024, the Polish banking sector's assets ratio in relation to the Polish GDP was at the level of 91.1%, whereas the ratio stood at 87.8% at the end of 2023.

The legal and institutional framework of the operation and supervision of financial institutions (new developments, legal competence of the Banking Supervisory Authority in the country)

Urząd Komisji Nadzoru Finansowego (Polish Financial Supervision Authority, hereinafter: 'the UKNF') and Komisja Nadzoru Finansowego (hereinafter: 'the KNF') operate pursuant to the Act of 21 July 2006 on financial market supervision (Journal of Laws 2025, item 640). The UKNF has the status of a state legal person, the bodies of which are the KNF and the Chair of the KNF. The Chair of the KNF manages the activities of the KNF and the UKNF and represents them externally.

The KNF, within its remit, adopts resolutions, including of final and interim administrative decisions. The KNF is the decision-making collegial body: it is composed of the Chair, three Deputy Chairs, and nine members, including six members of the KNF with a voting right and three members of the KNF acting in the capacity of advisers.

The UKNF is an administrative body, and its UKNF employees are responsible for the day-to-day operations. The UKNF's statutory task is to provide assistance to the KNF and the Chair of the KNF.

The KNF is competent for supervision of the financial market in Poland, which under the legal framework as at 31 December 2024 included:

- banking supervision;
- pension supervision;
- insurance supervision;
- capital market supervision;
- supervision of payment institutions, small payment institutions, account information service providers, payment services offices, electronic money institutions, branches of foreign electronic money institutions;
- supervision of credit rating agencies;
- supplementary supervision of credit institutions, insurance undertakings, reinsurance undertakings and investment firms included in a financial conglomerate;
- supervision of credit unions (Polish: *kasa oszczędnościowo-kredytowa*) and the National Association of Credit Unions;
- supervision of mortgage credit intermediaries and their agents;
- supervision as provided for in Regulation No 2016/1011;
- supervision as provided for in Regulation No 2017/2402;
- supervision as provided for in Regulation No 2019/2088;
- supervision as provided for in Regulation No 2020/1503 and the Act on crowdfunding;
- supervision of non-bank lending institutions;
- supervision as provided for in Regulation No 2019/1238.

The purpose of supervision of the financial market is to ensure its proper functioning, stability, security and transparency, confidence in the financial market, and to ensure that the interests of market participants are protected. That purpose is also achieved through reliable information concerning the functioning of the market, through the pursuit of objectives stated in, in particular, the Banking Law, the Act on insurance and pension supervision, the Act on supplementary supervision, the Act on capital market supervision, the Act on credit unions, and the Act on payment services.

Main strategic objectives of the banking supervisory authority in 2024

In the analysed period, activities of the KNF (and subsequently – the UKNF) focused primarily on the objectives set out by the Act on financial market supervision i.e.: ensuring the proper functioning of the financial market, its stability, security and transparency, confidence in the financial market, and ensuring that the interests of market participants are protected.

In 2024, the legal risk associated with foreign-currency housing loans (the RRE FX portfolio) has still been considered one of the main risks in the banking sector and remained the main source of burden for the sector. With the proactive role of the UKNF and the proposal for settlement agreements made by the Chair of the KNF in December 2020, for the last four years banks have been offering settlement agreements for the FX loan portfolio. Over time, as a result of changes in the sector's environment, banks have been making the terms of the proposed settlements more attractive in order to reach biggest possible group of borrowers, which means that banks incur an increasing cost of such agreements.

A regular monthly monitoring and analysis of the RRE FX portfolio was carried out, including the disputed portfolio and settlement agreements concluded, and the results of the analyses are regularly presented to the KNF and at the meetings of the Financial Stability Committee.

In 2024, 11 129 proceedings related to that type of disputes were initiated in the Mediation Centre of the Arbitration Court attached to the KNF, accounting for more than 94% of all mediation proceedings. 2024 saw the completion of 10 091 mediation proceedings regarding such loans. 7 419 proceedings were concluded with a settlement, and 2 672 proceedings were concluded without reaching a settlement. This means that more than 73% of mediation proceedings were concluded with a settlement agreement. The number of cases referred to the Arbitration Court attached to the KNF and the number of settlement agreements concluded show that this alternative dispute resolution method meets the expectations of borrowers, allowing them to avoid lengthy and costly trial.

The UKNF Strategy for 2021—2025 has been further implemented over the 2024. The UKNF Strategy has been designed as a set of objectives in three directions: more effective and more efficient use of data, information and knowledge, more proactive supervision, and better organisation management. In 2024 the implementation included e.g. more effective and more efficient use of data, information and knowledge, as well as actions promoting organisational efficiency. In connection with the evaluation concluded in 2023, internal regulations pertaining to the strategy were updated.

The key activities of the Banking Supervisory Authority in 2024

The activities in 2024 covered all the areas of supervision, i.e. the licensing, on-site, off-site supervision and the imposition of sanctions.

When it comes to licensing, it is worth mentioning that in 2024 the KNF approved an application of Industrial Bank of Korea – one of the largest Korean banks, controlled by the Republic of Korea – to establish IBK Bank Polska Spółka Akcyjna.

The prudential supervisory activities undertaken in 2024 consisted in ongoing monitoring and quarterly analysis of the economic and financial standing of banks. An area of particular supervisory attention was the maintenance and accumulation, by banks, of good quality own funds, appropriately high in relation to the risk taken. The capital surplus above the minimum supervisory requirements is a bank's safety buffer to be used in

case of adverse internal and external events which might arise, for example, in connection with a crisis in real economy or turbulence in international financial markets, also allowing for further growth.

Supervisory activities were carried in 2024 covered i.a.:

- assigning a SREP rating that takes into account, among others, data reported by banks, the quarterly quantitative assessment of risk levels as well as the results of inspections and surveys that were not part of standard reporting,
- priorities for prudential supervision of banks,
- strengthening the capital base, through the publication of an official position on the banks' dividend policy, setting additional capital requirements (add-on/P2R) and an add-on above the mandatory requirements on own funds (P2G),
- macro-prudential supervision of the financial market, including imposition of the other systemically important institution buffer (O-SII buffer),
- monitoring the capital and liquidity status of banks and the sector,
- analysis and assessment of the banks' resilience to possible negative changes in the macroeconomic environment (stress tests),
- recovery plans, including their review and acceptance, and – in the case of their implementation – the assessment of the status of their implementation or fulfilment of the requirements for completion,
- administrative proceedings, including applications to recognise capital instruments and subordinated debt or interim profits as own funds, notifications of the intention to enter into an agreement, for example, with a foreign entrepreneur who is not domiciled or established in the territory of a Member State or a contract providing for the performance of activities outside the territory of a Member State,
- implementation of recommendations issued as part of an inspection or SREP and any other recommendations following an off-site analysis,
- expressing opinion on candidates for members of management and supervisory bodies at banks,
- monitoring the provision of payment services by supervised entities (commercial banks and branches of credit institutions),
- the review of the sector for identification of large institutions as well as small and non-complex institutions,
- the protection scheme for commercial banks, including the review of its financial statements,
- mortgage banking, including compliance of the issuance of covered bonds by mortgage banks with the Act on covered bonds and mortgage banks, and monitoring the activities of trustees.

Over the year, 27 SREP (Supervisory Review and Evaluation Process, Polish: BION) final assessments were assigned to commercial banks, considering the data collected from supervised institutions in annual cycles. In 2024, 27 interim updates of SREP scores were made.

In 2024, cooperative and affiliating banks were assigned 490 final SREP scores. There were 1 964 quarterly updates of assessments of cooperative banks and 8 quarterly updates of assessments of affiliating banks.

In 2024 the bottom-up stress tests have been carried out. The macro-economic scenarios were based on the projections of the National Bank of Poland published in the Inflation Report (baseline scenario) and the Financial Stability Report (adverse scenario). Banks' forecasts for the key items of the balance sheet, profit and loss account and capital adequacy were reviewed for their reality and internal consistency. All doubts were resolved through communication with the banks and in some cases supervisory adjustments were applied.

The main purpose of the exercise was to estimate the banks' capacity to function in the case of stressed macro-economic conditions. The stress test results generally showed high resilience to shocks and in most cases confirmed that commercial banks were well capitalised. The results are used in the dividend policy to set the amount of the P2G add-on and in the ongoing prudential supervision, including SREP.

In 2024, the UKNF also conducted the sixth edition of liquidity stress tests of commercial banks. The aim of the exercise was to analyse the sensitivity of banks' short- and medium-term liquidity position, analyse their structure of financing, review the liquidity buffers held by banks, as well as estimate, for stress conditions, possible shortages of liquid assets to comply with the regulatory LCR and survival period. The results were used in the SREP to assess the liquidity adequacy of commercial banks.

Similarly to previous years, additional capital requirements (P2R) were imposed (in the form of final administrative decisions) on banks with material exposures¹ to foreign currency mortgage loans. The requirements increase the current values of minimum regulatory capital ratios. Such approach directly improves the security of the financial sector.

In 2024, the KNF announced capital requirements under Pillar II consisting in the indication of an additional level of core capital (P2G) that banks should aim to maintain in order to be prepared for potential materialisation of stress scenarios affecting the level of their own funds and their exposure to risk. The possibility of paying the dividend was made conditional on the implementation of those recommendations. Failure to comply with those recommendations may result in the KNF applying sanctions indicated in Article 138(3) of the Banking Law.

In December 2024 the KNF revised the list of O-SIIs (Other Systemically Important Institutions) and the buffer rates imposed on the identified O-SIIs. Following the review, the KNF confirmed the identification of ten credit institutions as O-SIIs. This process is carried out in accordance with the EBA/GL/2014/102 guidelines and it is based on: the size of the entities, their importance to the economy of the Republic of Poland and the European Union, the importance of cross-border activities and their interconnectedness with the financial system. The procure for identifying OSII and the calibration of the O-SII buffer rate has been updated in 2022 and is publicly available².

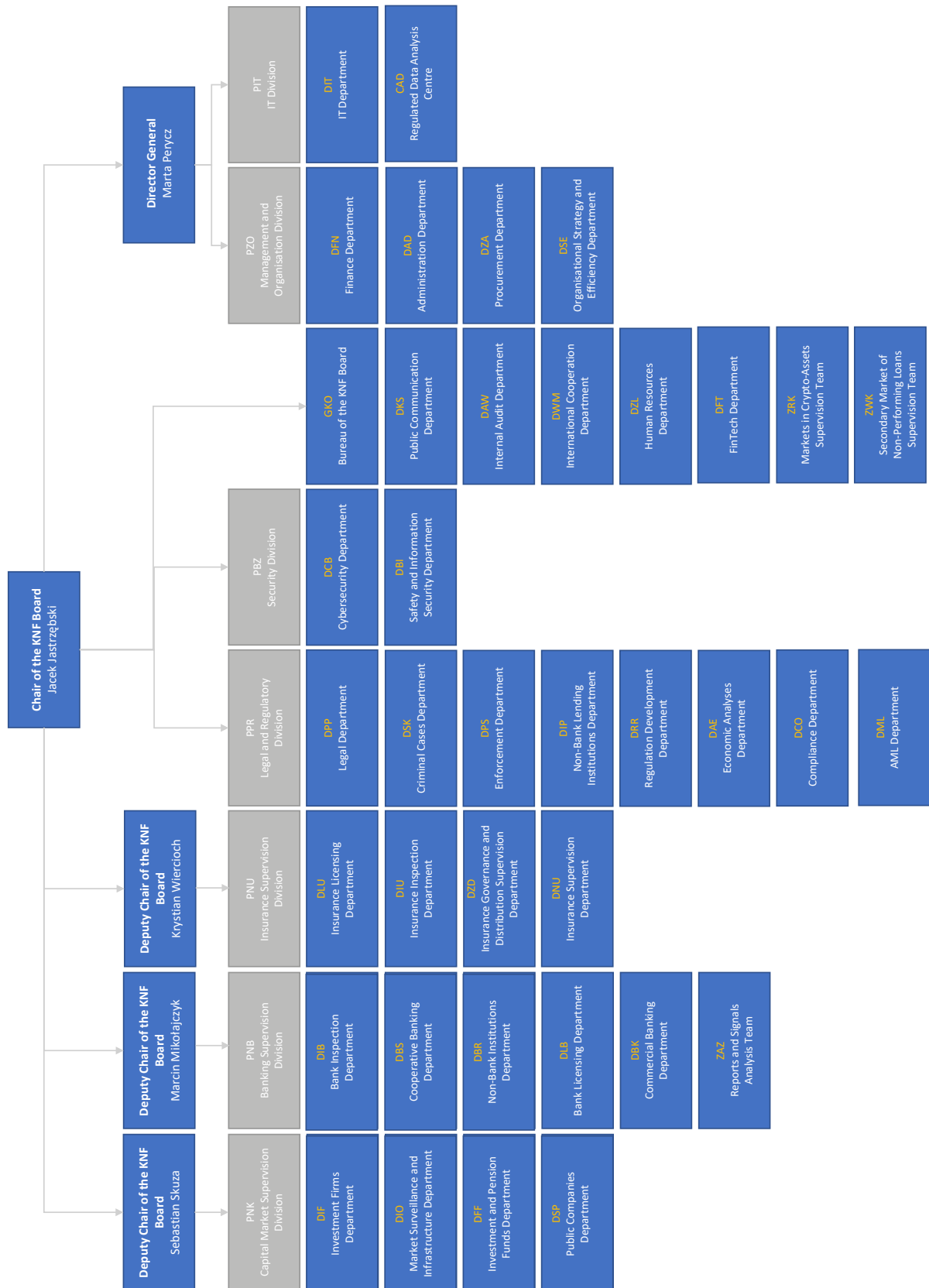
The KNF decided to set appropriate buffer rates, ranging from 0.25% to 2.0%. The list of the identified entities is subject to annual review (under the Act of 5 August 2015 on macroprudential supervision, as amended) and, if necessary, the buffer rates are adjusted accordingly.

The dividend policy adopted in 2024 was in line with the KNF's long-term approach. A dividend can only be paid by banks that had no active recovery plan and have been assigned a good SREP score, are adequately capitalised, are not materially engaged in foreign-currency mortgage loans and show high resilience to shock factors in stress tests. Among the parameters determining the amount of possible disbursement, the quality of the loan portfolio in the non-financial sector is also taken into account; according to the policy set in 2024, only banks with a low share of impaired loans can disburse up to 75% of the profit.

¹ Banks where foreign currency loans granted to unsecured borrowers (from the household category) constitute at least 10% of the entire portfolio of the bank's loans for the non-financial sector, and the portfolio of loans for the non-financial sector constitutes at least 25% of the bank's total assets.

² https://www.knf.gov.pl/knf/pl/komponenty/img/Wyci%C4%85g_z_procedury_O-SII_79015.pdf

Organizational chart of the Banking Supervisory Authority



International activities of the Banking Supervisory Authority

In 2024 involvement of the UKNF in international fora was an essential element in the process of building a stable regulatory environment for financial market participants in Poland. The international cooperation, both in the form of bilateral and multilateral cooperation, including through supervisory colleges, represents an important factor supporting the achievement of the supervisory objectives of the KNF. A particularly important area of the UKNF's international cooperation with respect to banking-related issues is the European System of Financial Supervision (ESFS). This is due to the fact that the key legal acts setting the framework for the functioning of financial institutions are adopted at the EU level. In 2024 the day-to-day involvement of the UKNF employees in the activities of the European Banking Authority (EBA) both within the decision-making structures, and at expert level, remained crucial from the banking supervision perspective.

As in previous years, in 2024 the UKNF representatives participated in meetings of supervisory colleges organised by the European Central Bank (consolidating supervisor) for international banking groups whose subsidiaries are present in the Polish market. The colleges are to coordinate supervisory activities with regard to banking groups, i.a. with respect to SREP assessment, recovery and resolution planning.

In 2024 the UKNF continued developing bilateral relations with banking supervisors, which covered the exchange of supervisory information (including f&p assessments), opinions and experiences, and occurred primarily at the working level. Bilateral cooperation were facilitated by the memoranda of cooperation and exchange of information, which the KNF is party to.

In November 2024, a tripartite memorandum of understanding on cooperation and exchange of information was signed in Seoul between South Korea's supervision authorities (Financial Services Commission and Financial Supervisory Service) and the KNF. Due to the geopolitical situation, cooperation between the KNF and the financial supervisory authorities in Ukraine is of paramount importance for the stability of the financial sector in the region. In 2024, a close cooperation was continued between the UKNF and the National Bank of Ukraine (NBU). As part of the cooperation, the Chair of the KNF Jacek Jastrzębski and the Governor of the NBU Andriy Pyshnyi met in May in Poland to discuss the key challenges faced by the financial sector in crisis conditions. The issues discussed included, among others, the building of operational resilience and the opportunities for joint actions in the area of knowledge exchange and development projects. The discussions continued in December 2024 in Kyiv, focusing on the challenges of maintaining the stability of Ukraine's financial system during the war and the necessary anti-crisis measures to support the efficiency of the financial sector.

Cooperation with other supervisory bodies in the country

In 2024 the KNF took part in the works of the Financial Stability Committee (KSF) – a body comprising four main financial safety net institutions in Poland, i.e.: (i) The KNF, (ii) the National Bank of Poland, (iii) the Ministry of Finance and (iv) the Bank Guarantee Fund. The KSF is responsible for both: (1) macroprudential supervision (operating under the chairmanship of the Governor of the NBP), and (2) crisis management in the financial system (operating under the chairmanship of the Minister of Finance).

As in the previous years, the KNF continued its permanent bilateral cooperation with:

- the National Bank of Poland (NBP) for the exchange of information necessary for the central bank and the supervisory authority to perform their statutory tasks. In 2024, the KNF submitted to the NBP data on, among others, stress tests, legal risk associated with the portfolio of foreign-currency housing loans, additional capital requirement, information from surveys on loans being granted, as well as the SREP

ratings assigned to banks. The UKNF and the NBP also cooperated for the purpose of managing the quarterly process of data quality control for data reported to the EBA.

- the Bank Guarantee Fund (BGF), including on SREP assessments and quarterly assessments of the level of risk occurring in the operations of banks as well as information on their economic and financial situation. Representatives of the UKNF participated, together with representatives of the BGF, in meetings of resolution colleges. Resolution plans for banks/groups were also analysed and reviewed for the BGF. From time to time, the KNF expressed its opinion about the minimum requirement for own funds and eligible liabilities (MREL) established by the BGF and about the BGF's proposed update of the bank resolution plan. The KNF also approved the method of calculating contributions for the deposit guarantee fund prepared by the BGF.
- the Polish Agency for Audit Oversight (PANA), including providing information, explanations and documents as necessary to perform the tasks related to market monitoring.
- the Bank Guarantee Fund (BGF) reg. information on the scores assigned to banks under the Supervisory Review and Evaluation Process and quarterly assessments of the level of risk existing in banks' operations, as well as information on the economic and financial standing of banks, including their liquidity and capital position;
- the General Inspector of Financial Information (GIFI): close cooperation is carried out under the AML Act.

The KNF cooperates closely with including with the Ministry of Finance, Ministry of Digitalisation, Office of Competition and Consumer Protection, and other Ministries and government bodies involving i.a. consultations and drafting of the legal acts related to the statutory tasks of the KNF.

Questionnaire tables for the 2024 BSCEE Review

Number of financial institutions (at year-end)

Type of financial institution	2022	2023	2024
Commercial banks	30	29	29
Branches of foreign credit institutions	34	34	33
Cooperative banks	496	492	489
Banking sector, total:	560	555	551

Total assets of banking sector (at year-end)

Type of financial institution	2022	2023	2024
Commercial banks	2 466 159 559 777	2 720 448 708 766	3 005 461 785 923
Branches of foreign credit institutions	80 558 459 218	80 993 420 907	87 445 644 824
Cooperative banks	186 315 923 685	209 521 446 562	241 104 768 730
Banking sector, total:	2 733 033 942 679	3 010 963 576 235	3 334 012 199 478
y/y change (in %)	6.24%	10.17%	10.73%

Ownership structure of banks on the basis of assets total

Item	2022	2023	2024
Public sector ownership	47.38%	48.57%	47.89%
Domestic ownership total	8.87%	9.17%	9.44%
Foreign ownership	43.75%	42.26%	42.67%
Banking sector, total:	100.0	100.0	100.0

Concentration of asset by the type of financial institutions, 2024

Type of financial institution	The first three largest (%)	The first five largest (%)	HHI
Commercial banks	48.24%	65.90%	1 126.33
Branches of foreign credit institutions	36.16%	52.46%	755.29
Cooperative banks	4.92%	7.09%	40.35
Banking sector, total:	43.48%	59.41%	916.01

Return on Equity (ROE) by type of financial institutions

Type of financial institution	2022	2023	2024
Commercial banks	5.18%	11.22%	15.12%
Cooperative banks	20.76%	24.66%	20.39%
Banking sector, total:	6.39%	12.32%	15.58%

Distribution of market shares in balance sheet total (%)

Type of financial institution	2022	2023	2024
Commercial banks	90.24%	90.35%	90.15%
Branches of foreign credit institutions	2.95%	2.69%	2.62%
Cooperative banks	6.82%	6.96%	7.23%
Banking sector, total:	100.0	100.0	100.0

**The structure of assets and liabilities of the banking sector (%)
(at year-end)**

	2022	2023	2024
Receivables	100.00%	100.00%	100.00%
Financial sector	13.64%	14.78%	14.67%
Nonfinancial sector	43.92%	38.98%	36.59%
Government sector	10.43%	12.43%	13.70%
Other assets	32.01%	33.80%	35.04%
Liabilities	92.59%	91.46%	91.45%
Financial sector	22.92%	22.85%	23.60%
Nonfinancial sector	65.39%	66.07%	64.30%
Government sector	7.35%	6.63%	8.10%
Other liabilities	4.34%	4.44%	4.00%
Capital	7.41%	8.54%	8.55%

Capital adequacy ratio of banks

Type of financial institution	2022	2023	2024
Commercial banks	20.56%	21.85%	21.35%
Cooperative banks	19.13%	20.60%	23.60%
Banking sector, total:	20.46%	21.76%	21.52%

**Asset portfolio quality of the banking sector
(share of impaired receivables / share of non-performing loans)**

Asset classification	2022	2023	2024
Non-financial sector, including	5.51%	5.40%	5.04%
- households	5.03%	5.05%	4.00%
- corporate	6.44%	6.11%	6.94%

**The structure of deposits and loans of the banking sector in 2024 (%)
(at year-end)**

	Deposits	Loans
Non-financial sector, including:	85.74%	80.92%
Households	60.31%	51.46%
Corporate	23.70%	28.91%
Government sector	10.80%	7.68%
Financial sector (excluding banks)	3.45%	11.40%
Total	100.0	100.0

**P&L account of the banking sector
(at year-end)**

P&L account	2022	2023	2024
Interest income	115 339 737 168	165 754 518 563	173 489 171 522
Interest expenses	43 325 923 239	70 632 920 822	66 602 941 463
Net interest income	72 013 813 930	95 121 597 741	106 886 230 059
Net fee and commission income	18 462 730 559	18 703 572 624	19 564 212 112
Other (not specified above) operating income (net)	1 309 837 026	-6 625 528 222	4 495 733 788
Gross income	91 786 381 514	107 199 642 143	130 946 175 959
Administration costs	45 267 867 849	45 720 364 767	51 228 602 327
Depreciation	4 559 426 359	4 943 040 995	5 495 707 885
Provisions	7 872 872 044	9 038 656 414	13 365 210 689
Impairment on financial assets not measured at fair value through profit and loss / Provisions on financial assets (loans, ...)	9 309 444 736	7 058 184 348	7 206 645 206
Profit (loss) before tax	19 135 014 443	41 739 502 297	53 484 441 519
Net profit (loss)	10 747 256 687	27 851 562 475	40 237 694 482

Total own funds in 2024 (in EUR)

Type of financial institution	Total own funds	Core Tier 1	Tier 1	Tier 2	Tier 3
Commercial banks	56 796 465 201	52 544 161 598	53 256 632 000	3 539 833 200	0
Cooperative banks	4 994 839 275	4 917 988 458	4 919 508 925	75 330 349	0
Banking sector, total:	61 791 304 476	57 462 150 056	58 176 140 926	3 615 163 550	0

Macroeconomic environment in the country

In a challenging environment, marked by sluggish external demand and by adverse weather conditions for agriculture, Romania's economic growth slowed in 2024, to 0.8 percent (from 2.4 percent in 2023). The subdued path of economic activity was accompanied by a sizeable widening of the twin deficits, while the annual inflation rate was headed downwards.

While in 2023 gross fixed capital formation made the largest contribution to GDP

dynamics, in 2024 consumption became again the main driver of growth as the 5.6 percent upswing in private final consumption was supported by stronger purchasing power of households, amid waning inflation, income policy measures (increase in the gross minimum wage economy-wide, wage hikes in the public sector, rise in pensions), the remaining in force of certain consumer protection measures and the easing of lending conditions.

A comfortable position in terms of risks to the balance of payments was further

ensured by maintaining the adequacy of international reserves. At the end of 2024, international reserves stood at EUR 70.5 billion, up EUR 4.5 billion against the end of 2023. In terms of value, Romania's gold reserves went up by EUR 2.1 billion from end-2023 (to EUR 8.4 billion), as a result of the rise in the gold price on international markets. In terms of quantity, the gold stock remained unchanged at 103.6 tonnes, out of which 61.2 tonnes stored with the Bank of England.

The annual CPI inflation rate ended the year 2024 at 5.14 percent (1.47 percentage points below the level seen in December 2023), running above the upper bound of the variation band of the target.

In the challenging macroeconomic environment of 2024, monetary policy was geared towards bringing, on a lasting basis, the annual inflation rate back in line with the flat target over the medium term, *inter alia* by anchoring inflation expectations in the medium to long run, in a manner conducive to achieving sustainable economic growth. Specifically, in the first half of the year, the NBR extended the status-quo of the key rates, before lowering them by 0.25 percentage points in each of the Board meetings of July and August. Consequently, the monetary policy rate reached 6.50 percent, while the lending and deposit facility rates stood at 7.50 percent and 5.50 percent respectively.

Developments in the banking sector (including assets total / GDP)

The Romanian banking sector's soundness strengthened further, as shown by the persistence of adequate levels of solvency, liquidity and asset quality indicators, on the back of high profitability, despite the challenges associated with the geopolitical situation in the region.

At 31 December 2024, net assets in the balance sheet of the Romanian banking sector totalled lei 881,848.5 million, up 9.8 percent year on year. As regards bank intermediation, expressed as the ratio of bank assets to GDP, stayed at 50.1 percent in GDP, despite the strengthening of the banking sector assets that have however increased at a pace close to economic growth.

The number of credit institutions conducting banking activity in Romania remained unchanged in 2024, respectively 32, of which 24 credit institutions, Romanian legal entities, and 8 branches of foreign credit institutions, the changes occurring being in the structure, at the level of credit institutions classified according to the nature of capital.

The market share in terms of net assets owned by credit institutions with majority domestic private capital widened from 20.7 percent at 31 December 2023 to 23.3 percent at end-2024, with the transfer of two credit institutions with majority foreign capital to this category following their sale. By strengthening the position of Romanian capital, the market share of credit institutions with majority foreign capital (including branches of foreign credit institutions) continued to decrease from 65.6 percent to 62.4 percent due to the reduction in the number of credit institutions in this category.

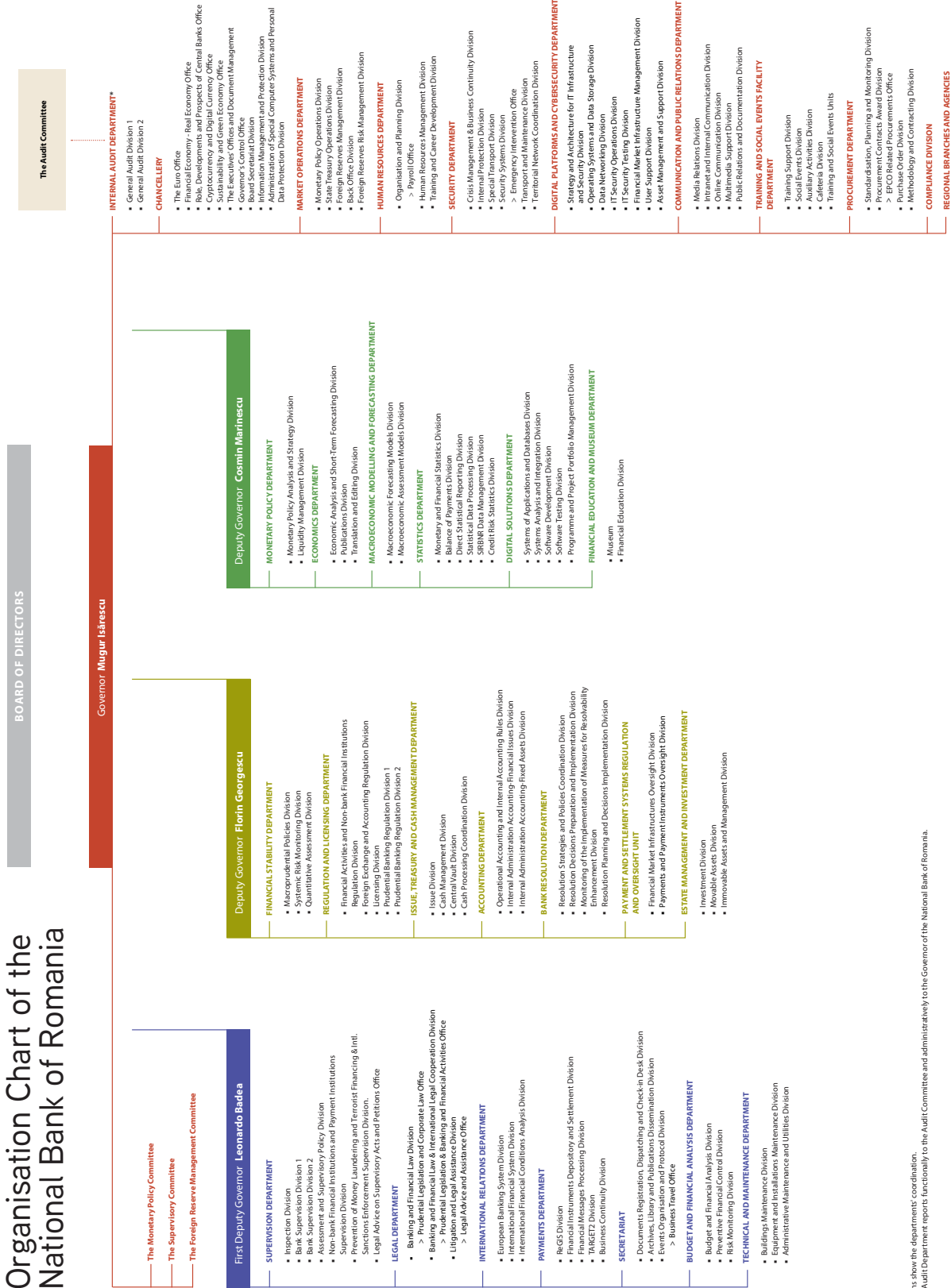
The main risk indicators are complying with the minimum regulatory requirements and the limits established by the EBA for a low level of risks. Solvency indicator (total capital ratio of 24.9 percent, December 2024), liquidity (liquidity coverage ratio of 254.7 percent and net stable funding ratio of 197.2 percent, December 2024) and asset quality (non-performing loan coverage by provisions of 66.0 percent and non-performing loan ratio of 2.5 percent, December 2024) revealed adequate levels. Despite high levels, the profitability has experienced a correction, the return on equity (ROE) standing at 18.4 percent in December 2024, slightly behind the previous year 20.1 percent.

The legal and institutional framework for banking supervision in the country (new developments, legal competence of the Banking Supervisory Authority)

In Romania, the transposition of the CRD VI will be achieved by amending both the primary and secondary legal framework. According to Article 2 of CRD VI, member states have the obligation to adopt and publish the necessary normative acts to transpose the directive into national legislation by 10 January 2026. The main areas where changes to the existing legal framework are necessary, as a result of the elements introduced by CRD VI, are the following: a) independence of the competent authorities; b) strengthening supervisory powers in relation to certain operations carried out by supervised entities (respectively direct or indirect acquisitions of significant participations in financial or non-financial entities, significant transfer of assets or liabilities and mergers or divisions); c) the regime of third country branches (minimum authorisation requirements, prudential requirements, internal governance, supervision and reporting); d) environmental, social and governance (ESG) risks; e) strengthening the sanctioning regime. To avoid inconsistencies with provisions of CRR III, it is also necessary to amend the existing secondary legal framework, particularly the NBR Regulation No. 5/2013 on prudential requirements for credit institutions



Organizational chart of the Banking Supervisory Authority



Note:
Colour patterns show the departments' coordination.
*The Internal Audit Department reports functionally to the Governor of the National Bank of Romania.

Main strategic objectives of the Banking Supervisory Authority in 2024

The key objectives of supervisory activities for 2024, set out in accordance with those defined by the European Banking Authority in the Supervisory Examination Programme, refer to: 1) liquidity and funding risk; 2) interest rate risk and hedging; and 3) recovery operationalisation.

The preparation of the supervisory examination programme for 2024 took into account both the priorities identified by the European Banking Authority in the 2024 European Supervisory Examination Programme (ESEP) for Prudential Supervisors and the findings of the supervisory review and evaluation processes (SREP) conducted in previous years, including also the assessment of credit risk, market risk, IT&C risk and money laundering (ML)/terrorist financing (TF) risks.

The key activities of the Banking Supervisory Authority in 2024

In line with the supervisory examination programme for credit institutions for 2024, throughout the year 18 inspections were conducted, of which 17 at the offices of credit institutions, Romanian legal persons, and one at a branch in Romania of a credit institution having its head office in another EU Member State.

In addition to the key objectives of supervisory activities for 2024, set out in accordance with those defined by the European Banking Authority in the Supervisory Examination Programme (ESEP) for Prudential Supervisors (liquidity and funding risk; interest rate risk and hedging; and recovery operationalization), the continuous assessment of risks included: (i) the assessment of the credit institution's business model and strategy; (ii) the assessment of internal governance arrangements and institution-wide controls; (iii) the assessment of individual risks to capital; (iv) the assessment of capital adequacy; (v) the assessment of individual risks to liquidity and funding; (vi) the assessment of liquidity adequacy, as well as the overall SREP assessment.

International activities of the Banking Supervisory Authority

As regards the responsibilities of the National Bank of Romania concerning the alignment to the European regulatory and supervisory framework, the NBR has pursued the harmonization efforts with regard to the supervision of credit institutions through the participation of Romania in a number of working groups set up at the EBA level. At the same time, the oversight activity continued through JSTs (Joint Supervisory Teams).

In the supervision of cross-border banking groups, the NBR has maintained its cooperation with the other Supervisory Authorities through the Supervisory Colleges, structures that ensure both optimal dissemination of information and joint decisions on capital adequacy and liquidity or recovery plans of supervised credit institutions.

Regarding the structures and substructures of the EBA, the NBR, as the regulatory and Supervisory Authority of the banking sector in Romania, is a member of the European Banking Authority.

Cooperation with other supervisory bodies in the country

The cooperation and coordination between local supervisory bodies is mainly ensured by the National Committee for Macroprudential Oversight (NCMO), established by virtue of Law No. 12/2017 on the macroprudential oversight of the national financial system, as an inter-institutional cooperation structure without legal personality. Four meetings were held in 2024 by written procedure between representatives of the National Bank of Romania (NBR), the Financial Supervisory Authority (FSA) and the Government within NCMO.

Thus, in 2024, the NCMO recommended the NBR, in its capacity as competent authority, to take among others the following actions in relation to credit institutions:

- to keep in place the measure to set the countercyclical buffer rate at 1 percent, given that the banking sector's adequate liquidity and solvency levels allow maintaining the capital reserves and Romania's aligning with the EU-wide trend of using macroprudential instruments to enhance the resilience of credit institutions;
- to impose, starting 1 April 2025, at the highest level of consolidation, a capital buffer for other systemically important institutions (O-SII buffer) applicable to banks identified as systemically important pursuant to the Methodology for identifying systemic credit institutions and calibrating the O-SII buffer, based on data reported as at the reference date of 30 September 2024.

Questionnaire tables for the 2024 BSCEE Review

Number of financial institutions (at year-end)

Type of financial institution	2022	2023	2024
Commercial banks	23	23	23
Branches of foreign credit institutions	8	8	8
Cooperative banks	1	1	1
Banking sector, total:	32	32	32

Total assets of banking sector (mill.RON) (at year-end)

Type of financial institution	2022	2023	2024
Commercial banks	613,713.3	708,496.9	778,190.6
Branches of foreign credit institutions	85,698.3	93,133.9	101,811.5
Cooperative banks	1,597.2	1,709.6	1,846.3
Banking sector, total:	701,008.8	803,340.4	881,848.4
y/y change (in %)	+9.6%	+14.6%	+9.8%

Ownership structure of banks on the basis of assets total (%) (at year-end)

Item	2022	2023	2024
Public sector ownership	12.1	13.7	14.3
Domestic ownership total	31.9	34.4	37.6
Foreign ownership	68.1	65.6	62.4
Banking sector, total:	100.0	100.0	100.0

Concentration of asset by the type of financial institutions, 2024

Type of financial institution	The first three largest (%)	The first five largest (%)	HHI
Commercial banks	51.8	73.4	1314
Branches of foreign credit institutions	95.4	98.8	6138
Cooperative banks	-	-	-
Banking sector, total:	45.8	64.9	1110

Return on Equity (ROE) by type of financial institutions (%) (at year-end)

Type of financial institution	2022	2023	2024
Commercial banks	15.22	18.58	17.01
Cooperative banks	1.31	0.93	2.43
Banking sector, total:	16.40	20.13	18.44

Distribution of market shares in balance sheet total (%)
(at year-end)

Type of financial institution	2022	2023	2024
Commercial banks	87.6	88.2	88.3
Branches of foreign credit institutions	12.2	11.6	11.5
Cooperative banks	0.2	0.2	0.2
Banking sector, total:	100.0	100.0	100.0

The structure of assets and liabilities of the banking sector (%)
(at year-end)

	2022	2023	2024
Receivables	100.0	100.0	100.0
Financial sector	22.1	25.3	21.8
Nonfinancial sector	52.0	48.6	49.1
Government sector	-	-	-
Other assets	25.9	26.1	27.3
Liabilities	91.3	90.9	90.9
Financial sector	5.3	3.8	3.5
Nonfinancial sector	79.9	79.2	80.2
Government sector	-	-	-
Other liabilities	6.1	7.9	7.2
Capital	8.7	9.1	9.1

Capital adequacy ratio of banks (%)
(at year-end)

Type of financial institution	2022	2023	2024
Commercial banks	23.4	23.6	24.9
Cooperative banks	28.9	28.6	28.4
Banking sector, total:	23.4	23.6	24.9

Asset portfolio quality of the banking sector
(share of impaired receivables / share of non-performing loans) (%)
(at year-end)

Asset classification	2022	2023	2024
Non-financial sector, including	3.8	3.7	3.8
- households	3.5	3.7	3.4
- corporate	4.0	3.6	4.1

**The structure of deposits and loans of the banking sector in 2024 (%)
(at year-end)**

	Deposits	Loans
Non-financial sector, including:	80.4	59.4
Households	50.4	28.3
Corporate	30.0	31.1
Government sector	16.2	37.3
Financial sector (excluding banks)	3.4	3.4
Total	100.0	100.0

**P&L account of the banking sector (mill. RON)
(at year-end)**

P&L account	2022	2023	2024
Interest income	29,151.3	43,126.6	49,171.0
Interest expenses	9,134.5	19,079.0	21,621.4
Net interest income	20,016.8	24,047.6	27,549.6
Net fee and commission income	5,234.8	5,582.8	5,931.1
Other (not specified above) operating income (net)	3,099.5	4,588.7	5,153.3
Gross income	28,351.1	34,219.1	38,836.4
Administration costs	12,883.9	14,199.1	17,129.5
Depreciation	1,890.6	2,104.5	2,242.4
Provisions	-627.2	-19.7	-17.7
Impairment on financial assets not measured at fair value through profit and loss / Provisions on financial assets (loans, ...)	2,081.2	1,560.7	1,796.7
Profit (loss) before tax	11,885.9	16,466.9	17,099.1
Net profit (loss)	10,071.5	13,527.6	14,197.4

Total own funds in 2024 (in mill. EUR)

Type of financial institution	Total own funds	Core Tier 1	Tier 1	Tier 2	Tier 3
Commercial banks	15,829.4	13,806.6	14,078.2	1,751.2	-
Cooperative banks	75.1	75.1	75.1	0.0	-
Banking sector, total:	15,904.5	13,881.7	14,153.3	1,751.2	-



Macroeconomic environment in the country

Despite a multidimensional crisis that has lasted for more than five years, Serbia has managed to preserve economic stability and maintain the confidence of both consumers and investors. This is evidenced by a cumulative real GDP growth of 18% over the period 2020–2024. Alongside this, Serbia recorded record inflows of foreign direct investment (FDI), continued growth in private sector employment and wages, and a record level of foreign exchange reserves.

According to SORS data, Serbia's real GDP growth rate in 2024 was 3.9%, achieved despite numerous challenges from the international environment. On the production side, almost all sectors contributed positively, with the largest contribution coming from the services sector due to its significant share in GDP. The second-largest contribution came from industry, particularly manufacturing, which demonstrated resilience despite reduced production activity among Serbia's key trading partners, and recorded 4.7% year-on-year growth. Mining also contributed positively, primarily due to copper exploitation, while construction benefited from increased government investment in transport infrastructure. Conversely, agriculture contributed negatively to growth due to high temperatures and drought, which also impacted the energy sector by reducing electricity generation from hydro sources.

On the expenditure side, private consumption was the main driver of growth, supported by higher disposable income. Fixed investments also had a strong positive impact, driven by both public and private investment. The only negative contribution came from net external demand, as real imports grew faster than exports.

Developments in the real sector were also supported by continuous improvements in the labor market. The total number of formally employed persons reached a new record in 2024, at approximately 2.37 million persons. Wage growth remained strong (9.1%) throughout 2024, but this growth was actually a catch up for the previous period when inflation was high. The preservation and continuation of wage growth, along with an increase in the minimum wage, further supported domestic demand and improved the living standard of the population.

When it comes to external developments in 2024, current account deficit (CAD) amounted to EUR 3.9 billion, which is an increase in share of GDP to 4.7% from a low of 2.4% in the previous year. The increase in the current account deficit in 2024 was mainly driven by higher deficit on the primary income account due to higher expenditures on income of FDI, as well as the decrease in the services surplus due to the growth of imports of tourism services in conditions of increased disposable income. When it comes to trade in goods, export grew by 6.8%, outpacing growth of imports of 5.9%.

Export growth was led by the growth of manufacturing exports of 8%, followed by positive contributions from agriculture and mining, while electricity exports declined. On the import side, there was a rise in imports of capital, intermediate, and consumer goods, while energy imports declined. The largest contribution to the 10.5% growth in service exports came from ICT and business services. Meanwhile, service imports grew by 17.2%, driven by tourism and business services.

For the fourth consecutive year, Serbia recorded record-high FDI inflows, reaching EUR 5.2 billion in 2024, with net FDI amounting to EUR 4.6 billion. The high geographical and project diversification of investments was maintained, with a continued focus on export-oriented sectors.

Inflationary pressures have been significantly reduced during 2024. Average inflation in 2024 was 4.6%, which is significantly lower compared to 2022 and 2023, when it amounted to around 12%. In line with NBS projections, in May 2024 inflation returned to within the target tolerance band (4.5%) and then has stabilized since then around the upper bound of the target tolerance band of $3 \pm 1.5\%$. Since May, core inflation has been



above headline inflation, moving around 5%. Core inflation was driven by the increase of services prices, which reflects the rising labour costs and higher disposable income.

Fiscal developments in 2024 were also better than expected, with a general government deficit of RSD 191.9 billion (2.0% of GDP), outperforming the planned deficit of 2.7% of GDP. This result was mainly due to lower-than-planned current expenditures, particularly for goods, services, and subsidies, while capital expenditures amounted to 7.3% of GDP. The public debt-to-GDP ratio of the general government stood at 47.5% at the end of 2024, continuing its downward trek below the 60% limit.

Developments in the banking sector (including assets total / GDP)

The Serbian banking sector (which comprises more than 90% of its total financial sector) remained adequately capitalized and highly liquid throughout 2024. The National Bank of Serbia was successful in maintaining financial stability, and NPL has been around its historical minimum. The banking sector profitability was also satisfactory in 2024, pre-tax profit being EUR 1,506.5 million, with ROA of 2.80% and ROE of 20.25%.

At the end of 2024, 20 banks were operating in Serbia, two of which were majorly owned by the Republic of Serbia with a share of 9.0% in banking sector's total assets, three banks were majorly owned by private shareholders with a share of 13.5% and 15 banks were majorly owned by foreign shareholders with a share of 77.5%. Banks whose major shareholders are from Italy were dominant with 26.7% share in total banking sector assets, followed by banks of Austrian (19.0%), Hungarian (14.2%) and Slovenian (9.8%) major shareholders. All other foreign shareholders account for 7.8% of total banking sector assets. Banking sector assets to GDP ratio was 68.8% at the end of 2024.

Total net balance sheet assets of the banking sector in Serbia reached EUR 56.7 billion at the end of 2024 which is an increase of 11.8% compared to the end of 2023.

The level of competition in Serbian banking sector is at a satisfying level. Top five banks have a market share of 61.9% of net assets, 63.9% of total gross loans and 61.7% of deposits. Banking sector HHIs in terms of assets (983), loans (1040) and deposits (983) indicate low market concentration.

Total gross loans amounted to EUR 30.47 billion, which is a growth of 9.6% compared to 2023. Loans to corporates made 47.3% of total loans and amounted EUR 14.41 billion, while loans to households made 45.3% and amounted EUR 13.81 billion. Liquidity and working capital financing loans and investment loans are the main drivers of corporate lending, while household lending is dominated by cash and housing loans.

As a result of numerous supervisory and regulatory measures adopted by the NBS with the aim of reducing NPL in banks' portfolios (especially The Strategy for NPL resolution adopted in August 2015 and The Decision on Accounting Write-off of Balance Sheet Assets adopted in 2017), the gross NPL ratio has been steadily declining since 2015 to 2.53% at the end of 2024, which is around historical minimum. Since the adoption of The Strategy, the gross NPL ratio was reduced by 19.72 p.p.

The corporate sector refers to 40.4% of total NPLs (EUR 324.8 million at the end of 2024). The NPL ratio for corporates was decreased from 2.57% in 2023 to 2.20% in 2024. Households NPLs make 58.5% of total NPLs (EUR 470.2 million at the end of 2024). The households NPL ratio was decreased from 4.31% in 2023 to 3.38% in 2024. The coverage of NPLs by total loan provisions amounted 113.35% at the end of 2024.



At the end of 2024, total deposits were at the level of EUR 42.84 billion, which is an increase by 13.4% compared to the end of 2023. Household deposits made 50.9% of total deposits and amounted EUR 21.82 billion, while corporate deposits made 37.5% of total deposits and amounted EUR 16.04 billion.

Regulations harmonized with "Basel 3" and EU capital and liquidity rules that the NBS had adopted in 2017 have provided an incentive for banks to build significant capital buffers and liquidity reserves, making them capable to cope successfully with the risks that may arise in the system and maintain banking sector stability in case of disturbances. The capital adequacy ratio at the banking sector level was 21.32% at the end of 2024, which is significantly above the regulatory minimum of 8%. In addition to the high capital adequacy ratio, Serbian banking sector is characterized by favorable capital structure, bearing in mind that Tier 1 capital makes more than 91% of total regulatory capital. The high solvency of the banking sector is also indicated by the (Basel III) leverage ratio, which amounted 9.91% at the end of 2024. The proportion of balance sheet capital to total assets stood at 13.91% at the end of 2024.

The average regulatory liquidity ratio for the Serbian banking sector in December 2024 was 2.48, indicating that liquid assets (core liquid assets and receivables maturing within the next 30 days) were more than twice as large as liabilities without maturity and liability maturing within 30 days. Liquid assets comprised 45.38% of total assets and 58.50% of total short-term liabilities at the end of 2024. The funding of the banks' lending activity is adequate, having in mind that gross loans to nonfinancial sector are fully covered with nonfinancial sector's deposits (loan to deposit ratio was 73.26% at the end of 2024). Liquidity coverage ratio of 192.4% also confirmed high liquidity of Serbian banking sector.

The legal and institutional framework for banking supervision in the country (new developments, legal competence of the Banking Supervisory Authority)

The NBS adopted the "Decision Amending the Decision on the Classification of Bank Balance Sheet Assets and Off-balance Sheet Items" and the "Guidelines amending the Guidelines for the Identification of Default" in **February 2024**. Bearing in mind that a significant amount of time has passed since the absolute materiality thresholds that are relevant for determining the debtor's default were initially defined, the amounts that are more relevant and objective at this time have been determined. Namely, these regulations increased the absolute materiality threshold from 1,000 to 10,000 dinars for a natural person borrower or, from 10,000 to 50,000 dinars in case of a legal person borrower, which is in line with comparative regulations, both in the EU and in the region. Both Decisions shall be applied as of 30 June 2024.

In **June 2024**, NBS adopted the "Decision Amending and Supplementing the Decision on the Classification of Bank Balance Sheet Assets and Off-balance Sheet Items". The goal of the amendments is to improve the mandatory content of the borrower's credit file, in order to achieve complete certainty regarding acceptable evidence of employment and income, or pension, and thus enable a more efficient assessment of a borrower's creditworthiness in practice. This is also intended to take into account existing and future advancements in digitalization, considering the passage of time since the initial establishment of the concept of a credit file in domestic regulation.

Also, the "Decision Amending and Supplementing the Decision on the Management of Risks Arising from Outsourced Activities", was adopted in **June 2024**, aimed at further improving the practice of outsourcing the collection of the bank's receivables to third parties, taking into account the experience from the previous application of the "Decision on the Management of Risks Arising from Outsourced Activities" which was adopted in September of the previous year.



In **December 2024**, the NBS adopted the *“Decision Amending the Decision on Temporary Measures for Banks to Facilitate Access to Financing for Natural Persons”*. The adoption of the decision extends for 6 months the temporary measure allowing banks to grant a consumer loan of up to RSD 90,000 to a natural person who does not receive his/her wage or pension via an account with that bank, with the maturity of up to two years, and to accept, as relevant evidence of employment and wage or pension of the borrower in the past three months, the signed statement on such facts issued by such borrower under full criminal and material liability.

Additionally, at an extraordinary meeting in **December 2024**, the NBS adopted regulations coming under the NBS’s remit to support the implementation of the Government’s Youth Housing Loan Programme. Namely, the Youth Housing Loan Programme, among other things, proposed that the minimum down payment by a bank client may amount to 1% of the value of the real estate. In this regard, the NBS adopted bylaws in order to timely set up an appropriate regulatory framework for the implementation of the proposed government programme.

The *“Decision Amending the Decision on Capital Adequacy of Banks”* stipulates another condition that must be met in order for the exposure or parts of the exposure to be considered fully secured by a mortgage - the amount of the loan to which the 35% risk weight is assigned does not exceed 99% of the market value of the residential property that is the subject of the mortgage, if the loan is approved within the programme of government’s support for young people for the purchase of the first residential property. In accordance with the *“Decision Amending the Decision on Measures for Safeguarding and Strengthening Stability of the Financial System”* new exceptions to the 80% LTV limit for all foreign-exchange-denominated and foreign-exchange-indexed mortgage loans approved for natural persons (households) have been introduced: an LTV limit of 99% if the loan is approved within the programme of government’s support for young people for the purchase of the first residential property.

AML

On 27 November 2024, the Government of the Republic of Serbia adopted the Law on Amendments to the Law on Prevention of Money Laundering and the Financing of Terrorism (*“Official Gazette of the Republic of Serbia”*, No. 94/2024), which entered into force on 6 December 2024.

The amendments to the AML Law primarily implement the revised FATF Recommendation No. 1, which has required from countries, financial institutions and DNFBPs to identify and assess the risks of potential violations, non-compliance or evasion of targeted financial sanctions related to proliferation of weapons of mass destruction financing, as contained in FATF Recommendation 7, and to take measures to mitigate these risks.

In this context, a concept of proliferation of weapons of mass destruction financing (hereinafter: WMD proliferation financing) has been introduced into AML Law and customer due diligence measures that obliged entities and relevant authorities are required to take have been expanded to include the prevention of WMD proliferation financing in addition to the prevention of money laundering and financing of terrorism (such as: risk analysis, risk-based customer due diligence, development of indicators for recognised WMD proliferation financing, conducting a national risk assessment, supervision of prevention of WMD proliferation financing, adjusting the dynamics of supervision activities and measures in accordance with the risk of financing the WMD proliferation financing among obligors, as well as with the estimated risk in the Republic of Serbia, etc).

Additionally, Article 11 of the AML Law has been amended, which defines the obligations of the payer’s payment service provider, by stipulating that the payer’s payment service provider must refuse the transfer of funds if it has not collected and verified the data in accordance with the provisions of this Article. By introducing amendments to the AML Law the country also has responded to the assessed risks and vulnerabilities of the real estate sector by restriction, among others, of a natural person receiving cash on hand on the basis of a

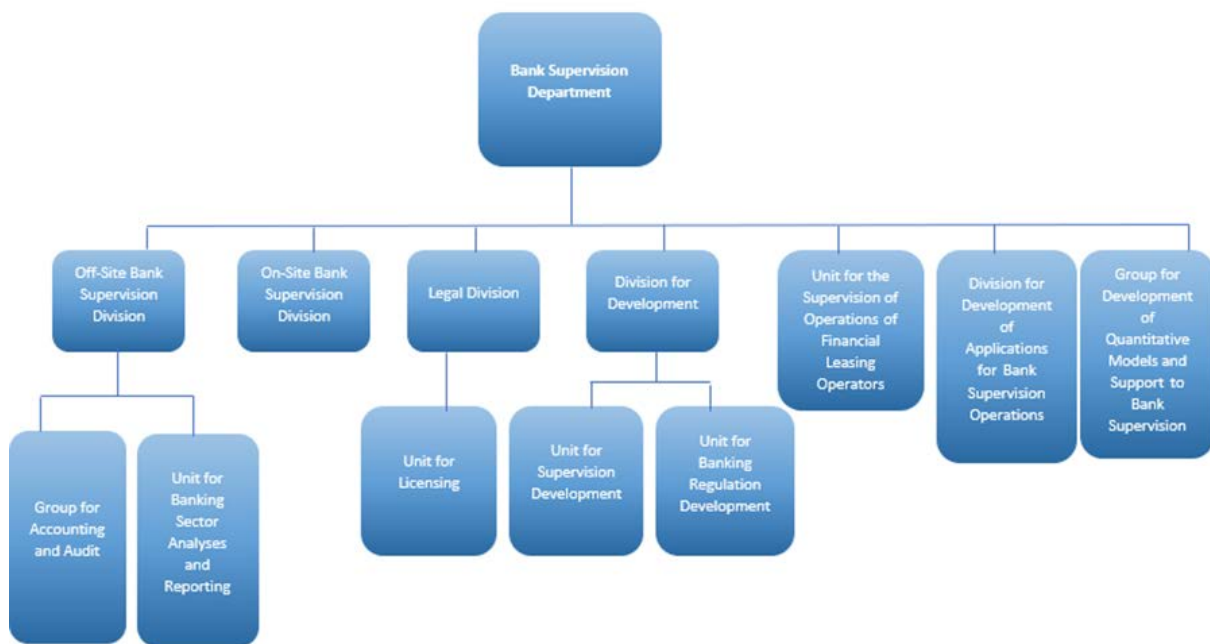


property sale agreement and a loan agreement in the amount of or exceeding 10.000 EUR. The intention of the legislator is to channel through bank accounts all the payments in cash in the amount of or exceeding EUR 10.000,00 based on the purchase and sale of goods/real estate, provision of services and receiving loans.

In a session held on 5 December 2024, the Serbian Government passed the conclusion adopting the National Money Laundering, Terrorist Financing and the Weapons of Mass Destruction Proliferation Financing Risk Assessment (hereinafter: the National Risk Assessment). The Assessment includes the Money Laundering Risk Assessment, the Terrorist Financing Risk Assessment, the Legal Persons and Arrangements Risk Assessment, the Money Laundering and Terrorist Financing Risk Assessment in the Digital Assets Sector, the Weapons of Mass Destruction Proliferation Financing Risk Assessment and the Risk Assessment of Terrorist Abuse of the Non-Profit Sector for the Purpose of Financing Terrorism. The Assessments cover a three-year period, from 1 January 2021 to 31 December 2023, whereby Republic of Serbia reviewed and reassessed the risks in the system for the prevention of money laundering, terrorist financing and financing the proliferation of weapons of mass destruction.

In order to recognize new circumstances that may indicate grounds for suspicion of money laundering and/or financing of terrorism, on February 1, 2024, the NBS adopted the revised List of Indicators for Recognising Grounds for Suspicion of Money Laundering or Terrorism Financing for Banks (No 3286, 01/02/2024).

Organizational chart of the Banking Supervisory Authority



The Bank Supervision Department consists of seven lower-level organizational units: Off-site supervision division (with two lower-level organizational units: Unit for banking sector analyses and reporting and Group for accounting and auditing), On-site supervision division, Legal division (with lower-level organizational unit: Unit for licensing), Division for development (with two lower-level organizational units: Unit for supervision development and Unit for banking regulation development), Unit for the supervision of operations of financial leasing operators, Group for development of quantitative models and support to bank supervision and Division for development of applications for bank supervision operations.



Main strategic objectives of the Banking Supervisory Authority in 2024

Regulatory activities of the National Bank of Serbia in 2024 were focused on a series of measures aimed at stabilizing the financial system and supporting the country's economic development. The NBS is committed to the continuous improvement of regulation in the field of banking and actively monitors the amendments in European regulations in the context of the ongoing Basel III finalization process.

AML

Main strategic objectives of the supervisory authority in Republic of Serbia in the field of prevention of ML/FT/WMD proliferation financing was to ensure, through the further development of supervisory activities and skills, the prevention of abuse of the banking sector for the purpose of money laundering, terrorism financing and WMD proliferation financing as well as preserving the financial system

In March 2024, the NBS improved the methodology that governs the implementation of the supervisory ML/FT risk assessment at banks, as well as the instructions for the application of the mentioned methodology, which more closely defines the method of assessment, i.e. the quantification of the factors that the supervisor assesses in order to obtain a final ML/FT risk exposure of banks.

The key activities of the Banking Supervisory Authority in 2024

It is important to highlight that, during 2024, the focus of regulatory activities was on preparing the "Law on Amendments and Supplements to the Law on Banks" (hereinafter: the Law on Banks), which was adopted on March 6, 2025 by the National Assembly of Serbia and published in the Official Gazette of the Republic of Serbia No 19/2025.

The key innovation in the Law on Banks is the establishment of a Bank Resolution Fund, mandatory for all banks, to support bank resolution without relying on taxpayer funds. This aligns with Directive 2014/59/EU (BRRD I) and its 2019 amendments (BRRD II), ensuring a robust framework for handling bank resolution. The Law on Banks also strengthens alignment with Directive 2013/36/EU (CRD IV) by improving risk management, capital adequacy, and disclosure requirements. It introduces the concept of key functions and function holders in line with Directive 2024/1619 (CRD VI). The leverage ratio is further precised in the mandatory category, aligning with Regulation (EU) 2019/876 (CRR II).

Additionally, it creates a legal framework for financial holding companies, aligning with Directive 2019/878 (CRD V). The law also enhances anti-money laundering and terrorism financing measures, supporting Serbia's efforts in the MONEYVAL mutual evaluation. Finally, the law strengthens the National Bank of Serbia's supervisory powers, aligning with CRD 5, by introducing tools like supervisory agreements and "mystery shopper" evaluations.

The implementation of the Law on Banks is scheduled for October 1, 2025, with the exception of the provisions related to key functions and key function holders, which will take effect on January 1, 2026.

Measures Against Banks

During 2024, in the process of banks supervision, the National Bank of Serbia has taken following measures against banks: 2 decisions on orders and measures, 4 letters of warning and 12 fines imposed toward 5 banks and 7 to management bodies. Also, the National Bank of Serbia dismissed 11 control procedures.



Licensing and Approvals regarding Banks

In the procedures for applications for operating licence, various consents and approvals, the National Bank of Serbia in 2024 issued:

- 1 decision on giving prior consent for acquisition of ownership in the bank;
- 13 decisions on giving prior consents for amendments of banks' founding acts and their articles of association;
- 62 decisions on giving prior consent for appointment of managing and executive board members (one request for appointment of executive board member was dismissed);
- 6 decisions on giving prior approval for distributing bank's profit through payment of dividends to its shareholders (one request for giving prior approval for distributing bank's profit through payment of dividends to its shareholders was dismissed);
- 5 decisions on giving prior consent for inclusion ordinary shares in common equity tier 1 capital;
- 2 decisions on giving prior consent for reduce of the common equity tier 1 items referred to in Section 7, item 1 of Decision of the adequacy of capital;
- 5 decisions on giving prior consent for inclusion subordinate obligation in additional capital;
- 1 decision on giving consent to bank/parent company not to include a subordinated company in consolidation of financial statement of their banking group for 2023;
- 190 notifications from banks regarding outsourcing of their business activities were processed and 38 notifications on the assignment of claims were processed;
- 1 decision on giving consent for the opening Representative Offices of foreign bank in the Republic of Serbia;
- 1 decision on giving consent for the acquisition of a subsidiary company and 1 decision on giving consent for founding of a subsidiary company.

On-site inspections

During 2024, in the process of banks supervision, the National Bank of Serbia has taken 19 on-site inspections.

AML

In the area of AML/CFT supervision activities in banks, in 2024 the NBS conducted regular off-site supervisions activities by analyzing bank's responses to submitted questionnaires on their operations in the area of ML/FT risk management, monitoring of compliance submitted internal acts with AML/CFT regulations, monitoring of internal controls finding etc. Also, in 2024, NBS's, performed targeted AML/CFT on-site controls in 10 banks, off-site controls in two banks and in case of irregularity imposed corrective measures and fines.

In order to strengthen administrative capacity the NBS organized internal trainings for its employees in AML/CFT area. In the same period, the NBS representatives participate in online/ physically present trainings organized by the FATF, Council of Europe, OSCE, Guardia di Finanza, Association of Serbian Banks etc.

International activities of the Banking Supervisory Authority

The NBS cooperates with foreign regulatory authorities, for the purposes of cooperation and exchange of data (information) with a view to exercising and promoting its supervisory function.

In that respect in 2024, the NBS continued to implement the Memorandums of Understanding (hereinafter: the MoUs) signed with foreign regulatory authorities in the field of banking and insurance supervision.



The NBS has very successful cooperation with all of the home supervisors of the banks whose subsidiaries are conducting its business in Serbia, through the Supervisory colleges, conference calls, joint on-site review etc.

Regarding the competencies of the NBS, which is the central bank in the Republic of Serbia, and the supervisory authority of the largest part of the financial system in RS, its general empowerment for the cooperation with foreign central banks and regulatory authorities is defined by the Law on NBS and sectoral laws (such as the Law on Banks).

Despite the possibility of exchanging information without concluded MOUs, the NBS has numerous bilateral and multilateral agreements with supervisory authorities from foreign countries.

The NBS most frequently exchanges information with its counterparts about the main findings on performed controls, as well as the information needed in the licensing process.

AML

The representative of the NBS, as a part of the delegation of the Republic of Serbia (composed of representatives of the Administration for Prevention of Money Laundering, NBS and the Ministry of Internal Affairs) participated in the 67th and 68th Plenary meeting of the Committee of Experts on the Evaluation of Anti-Money Laundering Measures and

Financing of Terrorism of the Council of Europe (MoneyVal).

Also, the representative of the NBS followed the FATF session, which was held in hybrid form in February, June and October 2024.

During 2024, NBS participated in AML Supervisory colleges.

Cooperation with other supervisory bodies in the country

The NBS successfully cooperates with all supervisory authorities in the country whenever there is a need for sharing information in accordance with signed MoUs.

Regarding its supervisory task, National bank of Serbia has signed MoUs with following domestic bodies and authorities: Deposit Insurance Agency, Securities Commission, Administration for the Prevention of Money Laundering, Tax Administration of the Republic of Serbia, Commission for Protection of Competition, Association of Serbian Banks, Serbian Business Registers Agency and the Belgrade Stock Exchange.

The NBS successfully cooperates with all before mentioned domestic supervisory authorities whenever there is a need for sharing information in accordance with provisions of MoUs signed.

AML

During 2024 the NBS actively participated in the work of the Coordination Body for the Prevention of Money Laundering and Terrorist Financing and of the National Coordinating Body for the Fight against the Proliferation of Weapons of Mass Destruction, which were set up by the Government of the Republic of Serbia to improve coordination and efficiency of cooperation of all actors in the AML/CFT system and in prevention of the proliferation of weapons of mass destruction in the Republic of Serbia.



Other relevant information and developments in 2024

Thanks to the continuous activities that NBS has been carrying out for years, and the awareness of the importance of the areas that we are authorized to supervise, we were adequately prepared for dealing with all risks which was reflected through the proven stability of the banking sector in the republic of Serbia.

AML

Republic of Serbia (hereinafter: RS) has entered the 6th round of evaluation by The Committee of Experts on the Evaluation of Anti-Money Laundering Measures and the Financing of Terrorism – MoneyVal with the training of stakeholders which took place on 3-4 July 2024. RS has submitted answers to the Technical Compliance Questionnaire and Effectiveness Questionnaire, held several online meetings and exchanged data with the evaluation team. The next stage of the evaluation is the on-site visit which is due in May 2025.



Questionnaire tables for the 2024 BSCEE Review

Number of financial institutions (at year-end)

Type of financial institution	2022	2023	2024
Commercial banks	21	20	20
Branches of foreign credit institutions	0	0	0
Cooperative banks	0	0	0
Banking sector, total:	21	20	20

Total assets of banking sector (at year-end)

Type of financial institution	2022	2023	2024
Commercial banks	46,499,625	50,704,555	56,704,702
Branches of foreign credit institutions	0	0	0
Cooperative banks	0	0	0
Banking sector, total:	46,499,625	50,704,555	56,704,702
y/y change (in %)	8.31	9.04	11.83

Ownership structure of banks on the basis of assets total

Item	2022	2023	2024
Public sector ownership	7.8	8.6	9.0
Domestic ownership total	8.6	14.5	13.5
Foreign ownership	83.6	76.9	77.5
Banking sector, total:	100.0	100.0	100.0

Concentration of asset by the type of financial institutions, 2024

Type of financial institution	The first three largest (%)	The first five largest (%)	HHI
Commercial banks	40.9	61.9	983
Branches of foreign credit institutions	0	0	0
Cooperative banks	0	0	0
Banking sector, total:	40.9	61.9	983

Return on Equity (ROE) by type of financial institutions

Type of financial institution	2022	2023	2024
Commercial banks	13.8	18.0	20.3
Cooperative banks	0	0	0
Banking sector, total:	13.8	18.0	20.3



Distribution of market shares in balance sheet total (%)

Type of financial institution	2022	2023	2024
Commercial banks	100.0	100.0	100.0
Branches of foreign credit institutions	0	0	0
Cooperative banks	0	0	0
Banking sector, total:	100.0	100.0	100.0

The structure of assets and liabilities of the banking sector (%) (at year-end)

	2022	2023	2024
Receivables			
Financial sector	18.3	21.1	21.9
Nonfinancial sector	57.2	53.1	51.6
Government sector	13.9	12.3	13.1
Other assets	10.6	13.5	13.3
Liabilities			
Financial sector	9.1	6.7	6.9
Nonfinancial sector	74.1	76.1	76.0
Government sector	2.3	2.0	1.9
Other liabilities	1.4	1.4	1.3
Capital	13.2	13.8	13.9

Capital adequacy ratio of banks

Type of financial institution	2022	2023	2024
Commercial banks	20.2	21.4	21.3
Cooperative banks	0	0	0
Banking sector, total:	20.2	21.4	21.3

Asset portfolio quality of the banking sector (share of impaired receivables / share of non-performing loans)

Asset classification	2022	2023	2024
Non-financial sector, including			
- households	3.91	4.31	3.38
- corporate	2.48	2.57	2.20

The structure of deposits and loans of the banking sector in 2024 (%) (at year-end)

	Deposits	Loans
Non-financial sector, including:	93.6	93.6
Households	50.9	45.3
Corporate	37.5	47.3
Government sector	1.9	4.7
Financial sector (excluding banks)	4.5	1.7
Total	100.0	100.0



**P&L account of the banking sector
(at year-end)**

P&L account	2022	2023	2024
Interest income	1,550,458	2,671,102	3,093,535
Interest expenses	272,787	728,625	893,546
Net interest income	1,277,671	1,942,477	2,199,989
Net fee and commission income	593,201	659,890	795,023
Other (not specified above) operating income (net)	45,982	46,183	49,842
Gross income	1,916,854	2,648,550	3,044,854
Administration costs	1,020,716	1,157,179	1,285,802
Depreciation	124,387	138,137	152,524
Provisions			
Impairment on financial assets not measured at fair value through profit and loss / Provisions on financial assets (loans, ...)	194,493	237,215	176,463
Profit (loss) before tax	849,142	1,179,136	1,506,512
Net profit (loss)	748,075	1,043,252	1,332,888

Total own funds in 2024 (in EUR)

Type of financial institution	Total own funds	Core Tier 1	Tier 1	Tier 2	Tier 3
Commercial banks	6,572,052	6,036,743	6,050,190	521,862	N.A.
Cooperative banks	0	0	0	0	0
Banking sector, total:	6,572,052	6,036,743	6,050,190	521,862	N.A.

Macroeconomic environment in the country

The Slovak economy grew by over 2% in 2024. Although this pace was similar to the previous year, it remained noticeably below the pre-pandemic average¹. The main driver of GDP growth was household consumption, supported by rising real incomes. Government consumption also contributed positively, reflecting increased spending on wages, goods and services, as well as healthcare.

After a promising start to the year, investment growth slowed amid rising uncertainty and the cyclical nature of EU budget funding. Weak net exports reflected subdued foreign demand, largely due to heightened geopolitical tensions and growing concerns over potential trade wars.

The labour market remained stable, with the unemployment rate approaching historic lows around 5%. Real wages, which had declined in the previous year, rose in 2024, while HICP inflation slowed to 3.2%.

Developments in the banking sector (including assets total / GDP)

Despite the introduction of the bank levy, Slovak banks experienced a successful year in 2024. Their net profit after tax reached €1.1 billion, only €0.1 billion less than in the previous year. In terms of profitability, measured by return on equity (ROE), Slovak banks recorded an ROE of approximately 10.2% at the end of 2024, remaining below the EU banking sector median. Banks in Slovakia benefited from rising net interest income, driven by elevated interest rates throughout 2024. However, higher interest rates on loans weighed on credit demand, both among households and corporates. While household lending maintained moderate growth of around 4% over the year, loans to non-financial corporations (NFCs) declined by 2%.

The ratio of total banking sector assets to GDP fell by 3.3 percentage points to 97.1% during 2024. Due to persistently low non-performing loan (NPL) ratios, banks reduced provisioning by more than one-quarter year-on-year. The resilience of the Slovak banking sector remained solid, with the aggregate total capital ratio standing at 19.9%.

The legal and institutional framework for banking supervision in the country (new developments, legal competence of the Banking Supervisory Authority)

The National Bank of Slovakia (NBS) was established on 1 January 1993 as the independent central bank of Slovakia pursuant to Act No. 566/1992 Coll. on Národná banka Slovenska.

In 2024 NBS carried on with the Eurosystem membership which comprises the European Central Bank (ECB) and national central banks (NCBs) of the countries that have adopted the euro. The NBS joined the Eurosystem upon entering the euro area on 1 January 2009. The Governor of the NBS continued to be a member of the Governing Council of the ECB, the highest decision-making body of the Eurosystem. In this way, the NBS, together with the other NCBs and the ECB, contributed to the achievement of the common objectives of the Eurosystem. The NBS participated in the activities of the Eurosystem and the ESCB through its involvement in the Eurosystem and ESCB committees.

¹ Between 2011 and 2019, the average annual economic growth was 2.6%..

As the national supervisory authority in Slovakia, the NBS has been part of the EU’s Single Supervisory Mechanism (SSM) - a mechanism for the supervision of credit institutions in participating EU Member States - since the SSM became operational on 4 November 2014.

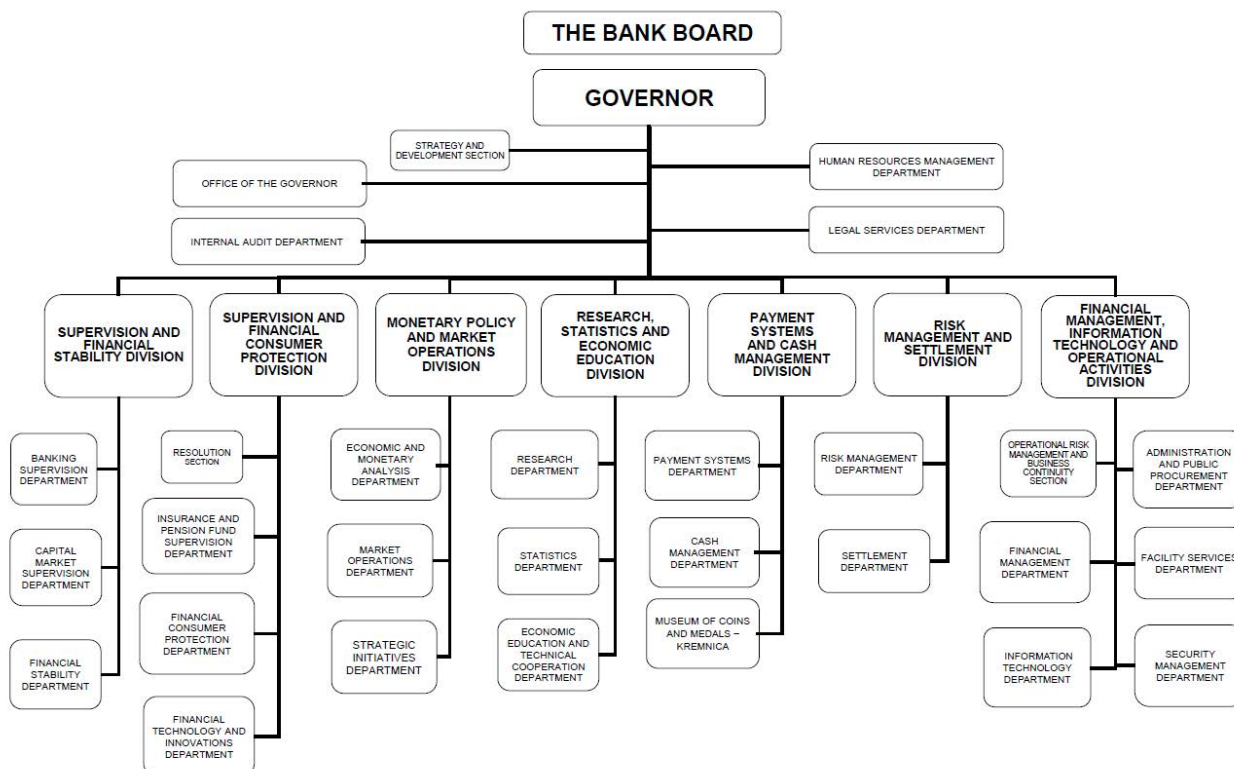
The NBS participated in specific supervisory tasks of the ECB through the direct involvement of staff from the NBS Financial Supervision Department in joint supervisory teams and through cooperation in the preparation of ECB decisions. With regard to the supervision of significant banks, the NBS monitored banks’ activities on a daily basis, continuously monitored quantitative data and supervised risk management processes.

Slovakia’s Resolution Council was established in January 2015 as part of the EU’s Single Resolution Mechanism - the second of the three pillars of the Banking Union. The NBS was tasked with providing expertise to the Council and organizing its work.

Since 1 January 2015, the NBS has been the financial consumer protection authority in Slovakia. As such, the central bank supervises the protection of the rights of financial consumers and other customers in order to support the safe and sound functioning of the financial market.

Following the adoption of the EU Markets in crypto-assets regulation (MiCA), the Slovak financial market entered a new era on 30 December 2024, when the NBS became the supervisory authority for the crypto-assets market in Slovakia

Organizational chart of the Banking Supervisory Authority (as of 31.12.2024)



Main strategic objectives of the Banking Supervisory Authority in 2024

The NBS's strategic objectives in the area of banking supervision are aimed at identifying weaknesses in the sector and mirror the priorities of the ECB's Single Supervisory Mechanism.

The SSM supervisory priorities for 2024-2026 are set after a holistic assessment of banks' main risks and vulnerabilities. Each priority targets a set of vulnerabilities in the banking sector – referred to as “prioritised vulnerabilities” – for which dedicated strategic objectives have been set and work programmes have been developed in order to mitigate the underlying risks. Cross-dependencies between risks are reflected in the design of the work programmes, which are aimed at strengthening both the efficiency and the effectiveness of supervisors' engagement with banks. The three priorities of banking supervision (defined by the ECB) have been introduced as all equally important and thus supervised institutions will be requested to:

1. strengthen their resilience to immediate macro-financial and geopolitical shocks,
2. accelerate the effective remediation of shortcomings in governance and the management of C&E risks, and
3. make further progress in their digital transformation and building robust operational resilience frameworks

In addition to the digital transformation of banks and the strengthening of their operational resilience frameworks, are climate-related risks and the need to increase resilience to immediate financial and geopolitical shocks.

The key activities of the Banking Supervisory Authority in 2024

The 2024 assessment of banks focused primarily on their ability to continue adapting their financial and capital plans to worsening external conditions. A thematic review was conducted in the area of risk data aggregation and risk reporting. The Bank's strategic objectives in the area of banking supervision are aimed at identifying weaknesses in the sector and mirror the priorities of the ECB's Single Supervisory Mechanism. Among the pressing supervisory topics in 2024, in addition to the digital transformation of banks and the strengthening of their operational resilience frameworks, were climate-related risks and the need to increase resilience to immediate financial and geopolitical shocks.

NBS banking supervision was evaluated in 2024 as part of the IMF's Financial Sector Assessment Program (FSAP). The FSAP team made a detailed assessment of the legislative framework of banking supervision and the conduct and processes of on-site supervision, off-site supervision, banking analyses, and procedural actions. The assessment also included an evaluation of compliance with the Basel Core Principles for effective banking supervision. Overall, a significant strengthening of the regulatory and supervisory framework was noted since the previous FSAP mission in 2007, with several recommendations formulated for further improvement and streamlining of supervisory processes.

From 1 November 2024, a new obligation was introduced to assess the suitability of the person responsible for performing AML/CFT tasks (a designated person under the AML Act13) in a bank or a branch of a bank from a third country. The third round of the ML/TF National Risk Assessment (NRA) began in February 2024 with the collection of data from supervised entities and institutions. In November 2024 the Bank expanded reporting requirements to include separate AML reports for independent financial agents, financial advisers, investment firms, and asset management companies.

In 2024 the NBS was deeply engaged in its organisational tasks related to the functions and powers of Slovakia's Resolution Council ('the Council'). During the 2023/2024 planning cycle, it refined resolution steps in the resolution plans of banks and one investment firm, and it actively cooperated in international resolution teams to develop resolution plans for banks in Slovakia that fall under the remit of the EU's Single Resolution Board (SRB). As regards the minimum requirement for own funds and eligible liabilities (MREL), bank-specific MREL requirements were recalibrated in 2024 on the basis of outputs from the 2023/2024 planning cycle. In the case of one bank under the Council's remit, critical functions with the potential to impact financial market stability were identified for the first time during the review of its resolution plan. This led to a significant modification to that bank's resolution plan as well as to the level of its MREL and the manner of calculating that level.

Intensive preparations (mainly legislative and technical) for the start of the application of the EU's new Digital Operational Resilience Act (DORA) continued throughout 2024. Besides the preparations for DORA, the Bank's work in the area of digital resilience in 2024 included contributing to the implementation of an EU cybersecurity framework for Member States.

International activities of the Banking Supervisory Authority

At the international level, NBS focused on integration and cooperation within European structures. Increasing international cooperation in financial markets requires the respective supervisory authorities to work more closely together. Thus, through the European System of Financial Supervision (ESFS), the activities of NBS as supervisor of the domestic financial market were closely coordinated with those of other supervisory authorities in the EU. The single supervisory regime works on basis of continual cooperation between the ECB and the national supervisory authorities. NBS participated especially in supervisory tasks of the ECB through involvement of NBS staff in Joint Supervisory Teams and in the drafting of ECB decisions during 2024. As a part of the European system of financial supervision, NBS continued in co-operation with the European Systemic Risk Board (ESRB), the European Banking Authority (EBA), the European Insurance and Occupational Pensions Authority (EIOPA) and the European Securities and Markets Authority (ESMA). NBS's ongoing cooperation with the EBA focused, in 2024, on the drafting of implementing technical standards (ITSs), regulatory technical standards (regulatory technical standards RTSs), Digital Operational Resilience Act (DORA) and other related legal acts. NBS cooperated with the EBA at all levels of competence, from working groups to the highest approval bodies.

On 6 November 2024, the European Supervisory Authorities (EBA, ESMA and EIOPA) issued Joint Guidelines to establish effective practices on the oversight cooperation and information exchange between ESAs and competent authorities in the context of the EU's DORA Regulation. These guidelines will enhance the Bank's coordination with the ESAs in monitoring cyber risks, exchanging information on threats and incidents, and applying common oversight procedures related to the digital operational resilience of financial institutions.

Cooperation with other supervisory bodies in the country

In 2024 the NBS worked with the Ministry of Finance in drafting a law to implement the EU's MiCA Regulation. Based on the law, the NBS will carry out all tasks entrusted to national supervisory authorities, such as the authorisation of crypto-asset service providers and issuers of asset-referenced tokens, the notification of financial institutions wishing to provide crypto-asset services, as well as the notification of white papers. The NBS will also be responsible for preventing abuse of the crypto-asset market.

Crime in the crypto-asset sector has become an important issue. To help Slovak law enforcement agencies meet the new challenges in this area, the NBS laid on specialised training courses in 2024.

The third round of the ML/TF National Risk Assessment (NRA) began in February 2024 with the collection of data from supervised entities and institutions. In the autumn, a draft final report was prepared by domestic authorities, including the NBS, and sent to the Council of Europe for consideration. The NRA results will be used in communication with supervised entities and will contribute to enhancing AML/CFT processes in financial institutions.

In 2024 the Bank was deeply engaged in its organisational tasks related to the functions and powers of Slovakia's Resolution Council. As regards the minimum requirement for own funds and eligible liabilities (MREL), bank-specific MREL requirements were recalibrated in 2024 on the basis of outputs from the 2023/2024 planning cycle.

Other relevant information and developments in 2024

Intensive preparations (mainly legislative and technical) for the start of the application of the EU's new Digital Operational Resilience Act (DORA) continued throughout 2024.

Besides the preparations for DORA, the NBS's work in the area of digital resilience in 2024 included contributing to the implementation of an EU cybersecurity framework for Member States (the NIS2 Directive), which identifies banking as a critical sector of the economy. With the NBS's proactive support, new legislation was adopted in 2024 to unify and streamline digital resilience requirements for banks, thereby significantly reducing the administrative burden on the banking sector while maintaining a high level of cybersecurity.

Questionnaire tables for the 2024 BSCEE Review

Number of financial institutions (at year-end)

Type of financial institution	2022	2023	2024
Commercial banks	11	10	10
Branches of foreign credit institutions	14	14	12
Cooperative banks	0	0	0
Banking sector, total:	25	24	22

Total assets of banking sector (at year-end)

Type of financial institution	2022	2023	2024
Commercial banks	97 058 062	101 970 173	102 086 201
Branches of foreign credit institutions	15 122 363	18 963 057	21 764 250
Cooperative banks	-	-	-
Banking sector, total:	112 180 425	120 933 230	123 850 451
y/y change (in %)	7.0%	7.8%	2.4%

Ownership structure of banks on the basis of assets total

Item	2022	2023	2024
Public sector ownership	0,49	0,53	0,50
Domestic ownership total	0,14	0	0
Foreign ownership	99,37	99,47	99,50
Banking sector, total:	100.0	100.0	100.0

Concentration of asset by the type of financial institutions, 2024

Type of financial institution	The first three largest (%)	The first five largest (%)	HHI
Commercial banks	70.5%	90.7%	1936
Branches of foreign credit institutions	70.5%	86.8%	2045
Cooperative banks	-	-	-
Banking sector, total:	58.1%	75.6%	1378

Return on Equity (ROE) by type of financial institutions

Type of financial institution	2022	2023	2024
Commercial banks	9.52	12.91	10.38
Cooperative banks	-	-	-
Banking sector, total:	9.52	12.91	10.38

Distribution of market shares in balance sheet total (%)

Type of financial institution	2022	2023	2024
Commercial banks	86.5%	84.3%	82.4%
Branches of foreign credit institutions	13.5%	15.7%	17.6%
Cooperative banks	-	-	-
Banking sector, total:	100.0	100.0	100.0

**The structure of assets and liabilities of the banking sector (%)
(at year-end)**

	2022	2023	2024
Receivables	100.0	100.0	100.0
Financial sector	16.9	19.7	18.2
Nonfinancial sector	68.1	65.1	65.5
Government sector	11.3	11.1	12.2
Other assets	3.7	4.1	4.1
Liabilities	89.3	89.4	88.6
Financial sector	16.1	12.8	9.5
Nonfinancial sector	58.3	57.5	59.9
Government sector	3.0	2.5	2.9
Other liabilities	11.8	16.6	16.3
Capital	10.7	10.6	11.4

Capital adequacy ratio of banks

Type of financial institution	2022	2023	2024
Commercial banks	19.61	20.48	20.14%
Cooperative banks	-	-	-
Banking sector, total:	19.61	20.48	20.14%

**Asset portfolio quality of the banking sector
(share of impaired receivables / share of non-performing loans)**

Asset classification	2022	2023	2024
Non-financial sector, including	1.95	2.01	1.96
- households	1.78	1.75	1.77
- corporate	2.59	2.93	2.81

**The structure of deposits and loans of the banking sector in 2024 (%)
(at year-end)**

	Deposits	Loans
Non-financial sector, including:	91.2	96.4
Households	59.9	64.4
Corporate	31.3	32.0
Government sector	4.3	2.0
Financial sector (excluding banks)	4.5	1.6
Total	100.0	100.0

**P&L account of the banking sector
(at year-end)**

P&L account	2022	2023	2024
Interest income	2 082 402	3 882 950	4 679 237
Interest expenses	337 865	1 663 793	2 226 491
Net interest income	1 744 537	2 219 157	2 452 746
Net fee and commission income	744 077	767 188	843 987
Other (not specified above) operating income (net)	123 667	129 646	128 498
Gross income	2 615 153	3 120 459	3 427 159
Administration costs	1 189 539	1 296 440	1 388 127
Depreciation	174 284	171 084	178 097
Provisions	195 000	113 353	99 216
Impairment on financial assets not measured at fair value through profit and loss / Provisions on financial assets (loans, ...)	188 053	112 535	88 252
Profit (loss) before tax	1 053 458	1 535 114	1 759 791
Net profit (loss)	833 343	1 203 377	1 080 191

Total own funds in 2024 (in EUR)

Type of financial institution	Total own funds	Core Tier 1	Tier 1	Tier 2	Tier 3
Commercial banks	9 056 938 106	7 953 951 336	8 533 951 336	522 986 769	
Cooperative banks	-	-	-	-	-
Banking sector, total:	9 056 938 106	7 953 951 336	8 533 951 336	522 986 769	

Macroeconomic environment in Slovenia

Economic growth in Slovenia slowed in 2024, but at 1.6%, it remained above the euro area average. Amid the fall in inflation, real growth in the wage bill strengthened and revived private consumption, which increased by 1.6%. Overall growth was supported by government consumption, which stood at 8.5%. Gross fixed capital formation declined by 3.7%. The drop was linked to heightened uncertainty, high energy prices, and the government's reduced role in investment following the end of the previous EU financial framework.

Developments in the banking sector

The number of credit institutions in Slovenia stood at 14 end of 2024, down one on the previous year: nine banks, three savings banks and two branches of Member State banks. The banks held the dominant market share in the banking system, accounting for 91.6% of the balance sheet total, followed by the savings banks with 5.5% and the branches of Member State banks with 2.9%.

The banking system's balance sheet total increased by 2.2% in 2024 to end the year at EUR 54.2 billion.

After slowing in 2023, lending to the non-banking sector strengthened again last year, with the loan stock up in year-on-year terms at the end of 2024.

While the stock of loans to NFCs declined by 2.1% over the year, mainly as a result of an increase in loan repayments, the stock of household loans increased by 6.0%. The decline in lending to NFCs was broadly based across activities, across corporate sizes, and in terms of loan purpose.

Household lending continued to increase last year. There were increases in both the stock of housing loans as well as consumer loans.

The quality of bank assets as measured by the NPE ratio remained at a very favourable level in 2024. The NPE ratio remained unchanged between April 2023 and the end of 2024 at 1.0%.

The share of exposures with increased credit risk (Stage 2 under the IFRS) increased significantly in November and December, reaching 5.4% by the end of the year, the highest level of the last two years. This share increased particularly in the NFCs portfolio, from 7.2% to 9.3%, with a decisive impact of manufacturing, where the Stage 2 share almost doubled in the last two months, from 8% to 15.0%. The share of Stage 2 exposures in the consumer loans portfolio also increased, reaching 13.0% in December, the highest figure since measurement began in 2016; the increase followed last year's 14% expansion in consumer loans.

Coverage of NPEs by impairments and provisions increased further last year and remained among the highest in the euro area, with 59.9% in December. Coverage of performing exposures also increased more strongly late in the year, reaching 0.45% in December.

Despite a slight decline, capital ratios in 2024 reflected the continued resilience of the Slovene banking sector. At the end of 2024, the total capital ratio on a consolidated basis stood at 19.8%, down 0.6 percentage points from the end of 2023. The CET1 ratio also declined slightly by 0.2 percentage points, reaching 17.6%.

The banking system's liquidity remained high, despite a deterioration in certain liquidity indicators. The liquidity coverage ratio (LCR) on an individual basis declined by 19 percentage points at system level to 316%, but remained well above the minimum regulatory requirement of 100%, and among the highest in the euro area.

Deposits by the non-banking sector increased in 2024, due to inflows of household deposits, which remain a key source of funding for Slovenian banks, accounting for 50.0% of the balance sheet total. Household deposits increased by 3.0% or EUR 795 million, which is comparable to the increase in the previous year.

Slovenian banks again enjoyed record profits last year, thanks to the high level of income, net interest income in particular, and the low level of net impairments and provisions. Pre-tax ROE was above average. Pre-tax profit in the Slovenian banking system amounted to EUR 1,200 million in 2024, up 5.5% on the previous year. The banks recorded ROE of 18.9%, down slightly on the previous year (20.6%) owing to the increase in equity, but it was still well above average compared with the past, and compared with other banks in the euro area and the EU. The high profits were attributable to the high net interest income in the banking system. Growth in net interest income began to slow when the first interest rate cuts were made, however it was still 8.6% higher than the year before.

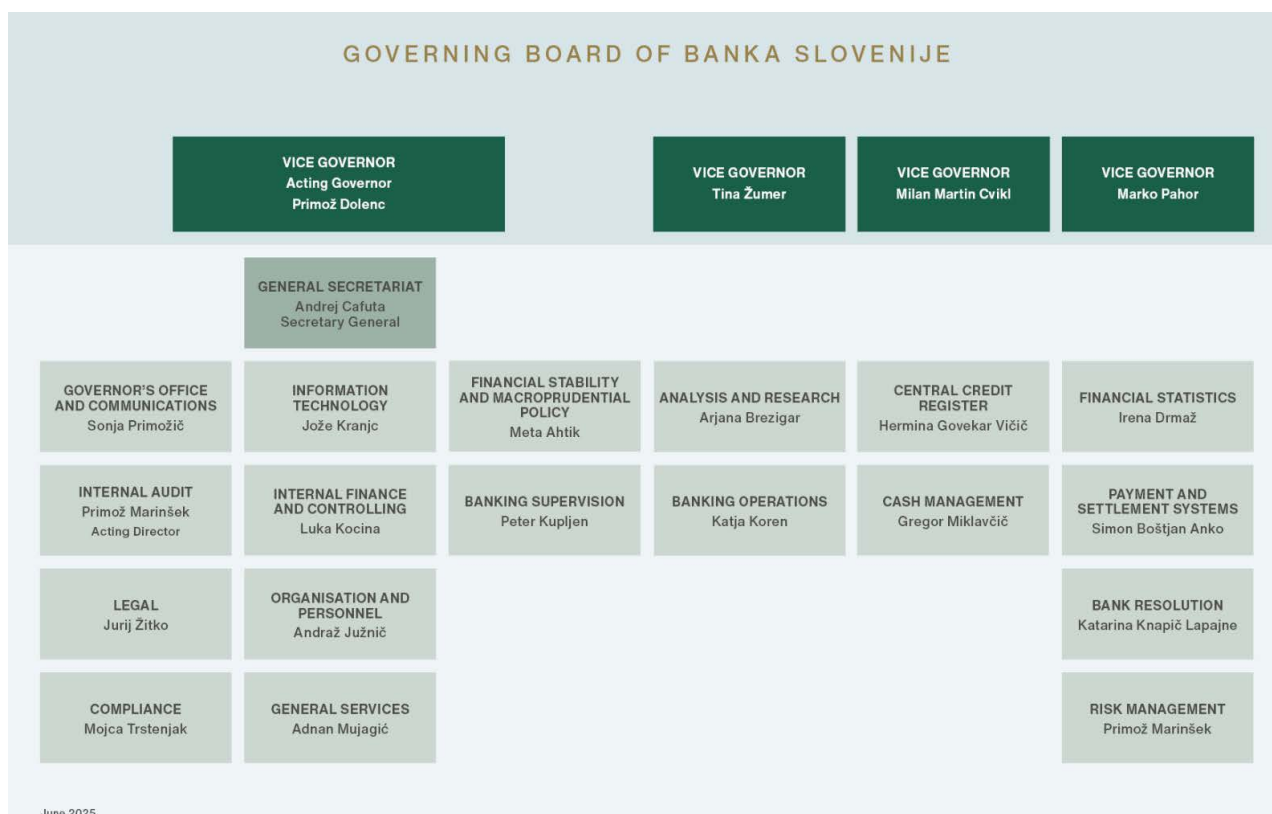
The legal and institutional framework for banking supervision in Slovenia

Banka Slovenije is a member of the Single Supervisory Mechanism (SSM), one of the three pillars of the EU banking union, which complements the economic and monetary union (EMU) and the single market by coordinating the responsibility for bank supervision, resolution and funding at the EU level, ensuring a level playing field for banks across the euro area. Alongside the SSM, which has been in operation since November 2014, the other two pillars consist of the Single Resolution Mechanism (SRM) since January 2015, and the European Deposit Insurance Scheme (EDIS).

According to Banka Slovenije Act (ZBan-3) the central bank carries out supervision of credit institutions in order to maintain the stability and security of their operations, and to maintain confidence in the banking system among depositors. In accordance with the statutory mandate of the Banking Supervision of Banka Slovenije tasks include the performance of licensing (i.e. authorization and notification procedures for the work of the institutions, granting authorisations for members of management boards, and other authorisations prescribed by ZBan-3), the performance of on-site inspections in credit institutions, collecting and analysing quantitative and qualitative information from supervised entities and other sources, cooperation with other supervisors in the country and outside, participation at international supervisory forums, working groups and supervisory colleges.

Banka Slovenije also participates in the activities of the European Banking Authority (EBA), an independent EU authority, whose purpose is ensuring effective and consistent prudential regulation in the European banking sector by putting in place a Single European Banking Rulebook.

Organizational chart of Banka Slovenije



Main strategic objectives of Banka Slovenije in 2024

Banka Slovenije set the following supervisory priorities in 2024, which also formed the basis for the supervision of Slovenian banks:

- credit risk management:
 - adequacy of credit risk management (improvement of IFRS 9 models, adequacy of credit approval processes, timely identification of unlikelihood to pay, adequate creation of impairments);
 - timely identification of an adverse impact on asset quality from geopolitical tensions;
- management of information and communication technologies (ICT);
 - response to cyber risk and outsourcing risk;
 - implementation of the digitalisation strategy;
- strengthened internal governance:
 - effectiveness of management bodies and control functions;
 - identification and management of climate-related risks and environmental risks.

The results of the 2024 SREP were positive in general, the risk assessment having improved, and the Pillar 2 capital requirements having slightly declined. Despite the uncertain geopolitical and trade situation, and the weakened economic environment, the banks are continuing to disclose resilience, with stable capital and liquidity positions. The majority of the qualitative measures within the framework of the SREP addressed deficiencies in the area of internal governance and risk management, and in the area of capital.

The key activities of Banka Slovenije in 2024

Banka Slovenije continually assesses and monitors the changing nature of the risks and vulnerabilities that banks face, and tailor its supervisory activities accordingly. The key supervisory priorities in 2024 included monitoring the strengthening of bank resilience to macroeconomic factors that had begun to deteriorate, and geopolitical tensions caused by military conflicts and political uncertainty. The supervisory priorities in the previous year had also included cyber risks and risks related to climate change.

In the area of credit risk we focused particular attention of rectifying deficiencies in credit risk management, particularly in the area of the timely identification of a deterioration in portfolio quality. Given the increased macroeconomic uncertainty and the geopolitical tensions, early warning of a deterioration in credit factors in portfolios is of key importance. This is particularly true of the more vulnerable portfolio segments, such as those exposed to the car industry and the steel industry. An in-depth inspection was conducted at several significant banks in the area of approval of housing loans, consumer loans and loans to SMEs. Loan approval is one of the key elements of credit risk management at banks, and is increasingly the subject of attention from supervisors, as the approval of high-quality loans can help to prevent non-performing loans in the future.

In line with the supervisory priorities, with regard to credit risk management and the adequate creation of impairments a targeted inspection was conducted at two significant banks in 2024 in connection with the creation of impairments in accordance with IFRS 9 and the capacity to manage new risks for which the bank does not yet have relevant data to be able to incorporate them into its models (energy crisis, disruption to supply chains, elevated inflation, rising interest rates, climate risks). Our finding was that more and more banks are using adjustments when they add the additional impairments for the aforementioned new risks that are not captured by the historical data and therefore cannot be modelled to the impairments calculated by model. The adjustments are vital for ensuring that the bank has sufficient impairments at its disposal should the new risks for which there is no adequate historical data be realised. This approach to creating additional impairments needs to be transparent, and responsive to changes, and must include clear criteria of when and how the bank adds to the volume of impairments calculated by model. The identified deficiencies were addressed to the banks in the form of recommendations, with a follow-up.

In light of the growing cyber risks caused by the increasing digitalisation of processes, the banks' awareness of these risks and the ability to successfully defend against them are of key importance. To review cyber resilience at banks, cyber stress tests were conducted in 2024, with all Slovenian banks participating. One significant bank was also included in the thematic inspection of cyber resilience conducted by the ECB in 2024. The purpose of the thematic inspection was to review the implementation of basic security measures to protect against cyber risks at the bank, and the findings were sent to banks in the form of a follow-up letter.

Banking is becoming increasingly digital. This means that there is a need to devote even greater attention to supervisory strategies for the digital transformation and the requisite risk management capacities. This includes oversight of risks related to the use of innovative technologies, and risks related to the operational resilience frameworks, such as dependency on third parties and cyber risks. In its banking supervision Banka Slovenije addresses the aforementioned risks in the form of regular inspections, and in the form of various targeted questionnaires and analyses. The significant banks were also required to report to the outsourcing register in 2024. The use of outsourced services is a very important issue for supervised entities, particularly in the area of information and communication technologies. The less significant banks will also be required to report on the use of outsourcing in 2025 in accordance with the Digital Operational Resilience Act (DORA).

Two scheduled prudential inspections were conducted at significant banks in 2024, while a third is due to be completed in the early part of 2025. All the inspections are in the area of ICT, with a focus on the adequacy of data management systems, digitalisation processes, the introduction of IT changes, cyber resilience, and outsourcing. Seven scheduled prudential inspections were conducted at less significant banks, in the area of

credit risk, interest rate risk and liquidity risk, and in the area of the ICAAP. Two supervisors were also involved in inspections of significant banks outside Slovenia within the framework of JSTs inside the SSM.

As part of its prudential supervision Banka Slovenije granted several different authorisations in connection with the inclusion of interim profit in capital, the inclusion of capital instruments in the calculation of Tier 2 capital, and the purchase/cancellation of capital instruments. It also granted authorisations for a bank merger and for the purchase of equity investments.

International activities of Banka Slovenije in 2024

In the area of microprudential supervision and the setting of policies/rules for credit institutions, Banka Slovenije actively operates within the framework of the:

- ECB Banking Supervision and EBA,

in the area of macroprudential supervision, Banka Slovenije operates within the institutional framework of the:

- ECB and European Systemic Risk Board (ESRB), and

in the area of bank resolution, Banka Slovenije operates within the framework of the:

- SRM.

Governor or Vice Governors are members of the most senior decision-making bodies of the ECB, EBA, ESRB and Single Resolution Board (SRB), while experts of Banking Supervision Department, Financial Stability and Macroprudential Policy Department, and Resolution Department participate at the SSM networks, EBA standing committees and SSM, EBA, ESRB and SRB committees and working groups.

Banka Slovenije signed Memorandum of Understanding with 5 supervisory authorities some years ago concerning supervision of the largest bank in Slovenia. As in the previous years, Banka Slovenije organised supervisory college for this bank as home supervisor. In addition, Banka Slovenije participated in supervisory colleges as host supervisor.

Cooperation with other supervisory bodies in Slovenia

For the purposes of ensuring effective microprudential supervision in the entire Slovenian financial system, the national competent authorities for the microprudential supervision of banks (Banka Slovenije), insurance corporations and pension funds (Insurance Supervision Agency) and the securities market (Securities Market Agency) meet regularly, coordinate their activities and exchange information on the basis of the Rulebook on the mutual cooperation of supervisory authorities in the area of microprudential supervision.

In the area of macroprudential supervision Slovenia's Financial Stability Board, **chaired by the Governor of Banka Slovenije, and participated by the Minister of Finance and Directors of the Securities Market Agency and the Insurance Supervision Agency discussed systemic risks in 2024, and was briefed on supervisors' macroprudential measures and actions taken to meet the ESRB recommendations.**

Banka Slovenije cooperates with the Securities Market Agency and the Insurance Supervision Agency in the Slovenia's Financial Stability Board working groups:

- **for fintech and cybersecurity.** The working group devoted particular attention to regulating crypto assets, and analysing the potential tokenisation of the broader financial system. In the first half of 2024 the targeted cyber stress tests for the banking sector were conducted. A cyber mapping tool designed to

monitor systemic cyber risk illustrates the key financial and technological connections between financial institutions and firms providing high-tech services.

- for **climate risk**. The working group assessed the transition risks and physical risks in the banking system and at insurance companies, and monitored the evolution of regulations in the area of sustainable financing. The current assessments of climate risk indicate that it is low to moderate at insurance corporations and in the banking system. The realisation of physical risks (floods) in 2023 had a major impact on the insurance sector as expected, while its impact on the banking system was relatively limited.

Other relevant information and developments in 2024

In contrast to prudential supervision, non-prudential supervision is exclusively the responsibility of Banka Slovenije. The central focus is anti-money laundering and countering the financing of terrorism (AML/CFT), which in addition to banks and savings banks covers other entities supervised by Banka Slovenije in accordance with the Prevention of Money Laundering and Terrorist Financing Act (ZPPDFT-2), namely payment institutions, electronic money institutions, currency exchange operators, and entities engaged in virtual currency activities. Alongside the AML/CFT activities, other supervisory activities in 2024 were conducted in connection with consumer lending in accordance with the Consumer Credit Act (ZPotK-2), having regard for the Act Governing Restrictive Measures Introduced or Implemented by the Republic of Slovenia in Compliance with Legal Instruments and Decisions Adopted by International Organisations (ZROUPAMO) and the relevant EU regulations. In accordance with Article 269 of the ZBan-3, Banka Slovenije manages a whistleblowing system.

Banka Slovenije conducted ten inspections and packages of supervisory activity in 2024, and participated in seven supervisory colleges in the area of AML/CFT. A good deal of attention continued to be devoted to various supervisory activities in connection with entities engaged in virtual currency activities. In addition, Banka Slovenije issued numerous opinions and clarifications in 2024 with regard to the implementation of the legal requirements and the guidelines.

Our international cooperation in 2024 saw us again step up our attention to AML/CFT issues, which has been reflected in a rise in the number of international events in which Banka Slovenije participates via various bodies (EBA [AML/CFT standing committee], ECB, European Commission, Council of Europe [Moneyval], OECD). There was a notable strengthening of activity to switch over to the new EU regime in the area of AML/CFT, including the creation of a new EU AML/CFT body (the AMLA), which will also be responsible for conducting direct supervision of certain supervised entities in the future. Within the framework of our remit we regularly exchange information with foreign supervisors, and in 2024 we began activities for the sixth round of assessment for Slovenia's AML/CFT system, which is being conducted by Moneyval.

In the area of bank compliance with the ZPotK-2, which governs consumer credit, four inspections and packages of supervisory activity were conducted in 2024, and a good deal of activity was focused on enforcing changes at banks and savings banks with regard to refunding of early repayment charges paid in the past.

Owing to the ongoing war in Ukraine, and other crisis points around the world, 2024 again saw numerous international restrictive measures in place, which continues to be reflected in Banka Slovenije's activity in this area. We are continuing to devote most attention to our preventive and advisory function, and to the coordination of reporting.

Inspections at supervised entities are still mostly conducted within the framework of comprehensive inspections in the area of AML/CFT (the area of restrictive measures was inspected at eight supervised entities in 2024), but additional supervisory activities were also introduced because of the elevated risk of potential breaches of applicable restrictive measures and the need for a comprehensive overview of the situation. Banka Slovenije

was involved in the drafting of EBA guidelines on internal policies, procedures and controls to ensure the implementation of restrictive measures, and the reformulation of the guidelines for the effective implementation of restrictive measures issued by the permanent restrictive measures coordinating group (SKSOU), which is headed by the foreign Ministry. Cooperation between the competent national bodies strengthened further in 2024, and Banka Slovenije is continuing to provide relevant data on the implementation of financial restrictive measures to the European Commission.

Questionnaire tables for the 2024 BSCEE Review

Number of financial institutions (at year-end)

Type of financial institution	2022	2023	2024
Commercial banks	14	13	12
Branches of foreign credit institutions	2	2	2
Cooperative banks	0	0	0
Banking sector, total:	16	15	14

Total assets of banking sector (at year-end) in ths. EUR

Type of financial institution	2022	2023	2024
Commercial banks	48,988,493	51,427,190	52,675,195
Branches of foreign credit institutions	1,586,535	1,655,032	1,560,756
Cooperative banks	0	0	0
Banking sector, total:	50,575,028	53,082,222	54,235,951
y/y change (in %)	4.8	5.0	2.2

Ownership structure of banks on the basis of assets total

Item	2022	2023	2024
Public sector ownership	12.6	13.0	13.2
Domestic ownership total	9.7	10.0	11.4
Foreign ownership	77.4	77.0	75.4
Banking sector, total:	100	100	100

Concentration of asset by the type of financial institutions, 2024

Type of financial institution	The first three largest (%)	The first five largest (%)	HHI
Commercial banks	68.3%	80.5%	0.2048
Branches of foreign credit institutions	/	/	0.7604
Cooperative banks	/	/	/
Banking sector, total:	66.3%	78.1%	0.1938

Return on Equity (ROE) by type of financial institutions

Type of financial institution	2022	2023	2024
Commercial banks	10.8%	20.6%	18.9%
Cooperative banks	/	/	/
Banking sector, total:	/	/	/

2024 DEVELOPMENTS IN THE SLOVENIAN BANKING SYSTEM

Distribution of market shares in balance sheet total (%)

Type of financial institution	2022	2023	2024
Commercial banks	96.9%	96.9%	97.1%
Branches of foreign credit institutions	3.1%	3.1%	2.9%
Cooperative banks	/	/	/
Banking sector, total:	/	/	/

The structure of assets and liabilities of the banking sector (%) (at year-end)

	2022	2023	2024
Receivables			
Financial sector	27.9	31.3	24.7
Nonfinancial sector	51.8	48.2	49.7
Government sector	14.3	14.9	19.4
Other assets	6.0	5.6	6.2
Liabilities			
Financial sector	4.0	3.3	2.7
Nonfinancial sector	76.8	75.9	75.3
Government sector	1.9	1.5	1.4
Other liabilities	7.2	7.9	8.2
Capital	10.5	10.2	11.5

Capital adequacy ratio of banks

Type of financial institution	2022	2023	2024
Commercial banks	18.5	20.4	19.8
Cooperative banks	/	/	/
Banking sector, total:	18.5	20.4	19.8

Asset portfolio quality of the banking sector (share of impaired receivables / share of non-performing loans)

Asset classification	2022	2023	2024
Non-financial sector, including	1.1	1.0	1.0
- households	1.7	1.7	1.7
- corporate	1.8	1.7	1.7

The structure of deposits and loans of the banking sector in 2024 (%) (at year-end)

	Deposits	Loans
Non-financial sector, including:	96.2	88.0
Households	65.6	46.9
Corporate	30.6	41.1
Government sector	1.8	5.1
Financial sector (excluding banks)	2.0	6.9
Total	100	100

2024 DEVELOPMENTS IN THE SLOVENIAN BANKING SYSTEM

P&L account of the banking sector (at year-end) in ths. EUR

P&L account	2022	2023	2024
Interest income	884,339	1,834,030	2,122,830
Interest expenses	136,524	391,927	556,626
Net interest income	747,813	1,442,102	1,566,202
Net fee and commission income	398,085	386,969	419,394
Other (not specified above) operating income (net)	169,281	202,317	300,776
Gross income	1,315,136	1,977,542	2,286,149
Administration costs	694,561	717,894	905,163
Depreciation	63,001	67,850	72,011
Provisions	9,334	68,417	28,522
Impairment on financial assets not measured at fair value through profit and loss / Provisions on financial assets (loans, ...)	4,807	-60,995	41,727
Profit (loss) before tax	543,439	1,137,152	1,199,924
Net profit (loss)	501,716	1,098,257	1,075,032

Total own funds in 2024 (in tsd. EUR)

Type of financial institution	Total own funds	Core Tier 1	Tier 1	Tier 2	Tier 3
Commercial banks	7,116,674	6,315,125	6,401,658	715,013	/
Cooperative banks	/	/	/	/	/
Banking sector, total:	7,116,674	6,315,125	6,401,658	715,013	/

Macroeconomic environment in the country

While economic activity remained robust in the first quarter of 2024, supported by wage adjustments and front-loaded demand, the impact of monetary tightening on economic activity became increasingly evident during the second and third quarters. Although demand continued to be strong in the final quarter due to campaigns and forthcoming wage revisions, the overall contribution of domestic demand to growth declined significantly throughout the year, with the positive impact of net exports becoming increasingly prominent.

The slowdown in economic activity throughout the year had a limited impact on the core labor market indicators, and the unemployment rate declined on an annual basis.

The disinflation process that began in June continued during the second half of the year, with annual inflation reaching 44.4% by the end of 2024. Domestic demand conditions, which weakened throughout the year due to the effects of monetary tightening, reached levels supportive of the decline in inflation in the second half of the year. Credit usage increased in the first half of the year but remained moderate during the remainder of the year, supported by the macroprudential measures implemented. Additionally, the more limited depreciation of the Turkish lira compared to the previous year has alleviated inflationary pressures stemming from this channel.

In 2024, the Central Bank of the Republic of Türkiye (CBRT) continued to implement quantitative tightening measures aimed at reducing the Turkish lira liquidity surplus to support monetary tightening. Through these measures the policy rates the main monetary policy tool affected monetary and financial conditions as well as expectations, while imbalances in Turkish lira liquidity were corrected, contributing to increased effectiveness of monetary policy. Additionally, alongside monetary tightening, regulations aimed at increasing the share of Turkish lira deposits strengthened the transmission mechanism and improved the funding composition of the banking system.

Developments in the banking sector (including assets total / GDP)

Banking Regulation and Supervision Agency (BRSA) contributes to enhancing the efficiency of financial intermediation by ensuring the proper and effective functioning of financial markets and strengthening the reliability of the financial system, as the authority responsible for the regulation and supervision of 80.2% of the financial sector.

Representing approximately 77.8% of total financial sector assets, the Turkish banking sector had reached an asset size of TRY 32.7 trillion as of December 2024, equivalent to nearly 75.2% of the country's gross domestic product (GDP). The sector recorded a 38.7% annual growth in the past year and continues to offer significant growth potential due to its relatively low level of financial penetration.

The banking sector's balance sheet, which is heavily weighted toward loans, demonstrates the effective performance of economic intermediation functions. As of December 2024, the total loans in the sector amounted to 16.1 trillion TRY, and total deposits reached 18.9 trillion TRY. Loans accounted for 49.2% of the sector's total assets, with approximately 76% of these loans allocated to the real sector firms, supporting production and employment. The annual loan growth rate, adjusted for exchange rates and parity effects, was 29.9% in December 2024.

Historically, the banking sector in Türkiye has had a deposit intensive funding structure, with deposits making up 57.9% of liabilities. The total deposits increased by 19.6% annually as exchange rates and parity effects adjusted. Meanwhile, the sector has not encountered any challenges in sourcing funds from international

markets or in rolling over existing external borrowings. Supported by the improvement in the country's risk premium, the sector has expanded its external borrowing capacity. In recent periods, rollover ratios for foreign borrowings, including syndicated loans, have generally exceeded 100%. As of December 2024, the foreign borrowing in the sector amounted to 138.4 billion USD, up from \$112.3 billion in December 2023.

The ratio of non-performing loans (NPL) to total loans stood at 1.6% in December 2023 and slightly increased to 1.8% in December 2024. The limited increase in NPLs, alongside healthy loan growth, has kept the NPL ratio at low levels. Looking ahead, a slight increase in this ratio is expected in line with the economic activity. The banking sector continues to manage risks to asset quality through a strong capital base, profitability, high liquidity ratios, and solid balance sheets.

One of the standout features of the Turkish banking sector is its strong capital structure. As of December 2024, the capital adequacy ratio of the sector stood at 19.7%, well above the legal requirement of 8% and the target rate of 12% set by the BRSA Board. The core capital adequacy ratio and the Tier 1 capital adequacy ratio were 15.6% and 16.8%, respectively, far exceeding the minimum regulatory thresholds of 4.5% and 6%.

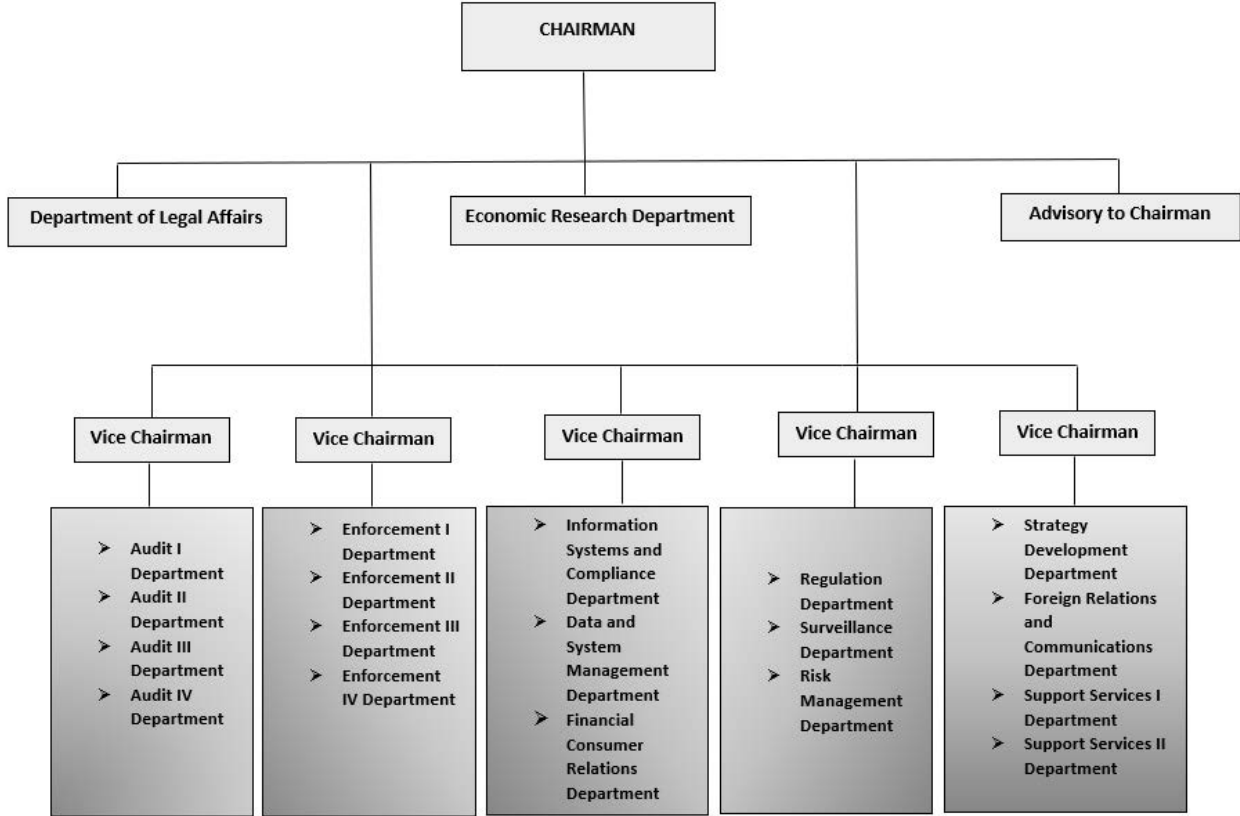
In 2024, the net profit of the Turkish Banking Sector increased by 6.2% (TRY 38.7 billion) annually and realized TRY 659 billion. Profitability has contributed significantly to the sector's robust capital structure. Although profitability in the banking sector has moderated to some extent, internal capital generation remains robust, and the sector continues to preserve its strong capital position.

The sector continues to demonstrate strength across other financial soundness indicators, including liquidity indicators, foreign exchange position, and leverage ratio. All banks in the system comfortably meet the Basel-compliant Liquidity Coverage Ratio (LCR) requirements. Furthermore, the Net Stable Funding Ratio (NSFR) was introduced in 2023, marking another critical step in enhancing the system's resilience to liquidity risks.

The legal and institutional framework for banking supervision in the country (new developments, legal competence of the Banking Supervisory Authority)

The BRSA with the authority given by the Banking Law No. 5411 (The Banking Law) regulates and supervises banks (deposit banks, investment and development banks, participation banks and the branches in Türkiye of such institutions established abroad), financial holding companies, financial leasing companies, factoring companies, financing companies, asset management companies and savings financing companies. Moreover, the BRSA authorizes independent audit, rating and valuation companies that give service to banks or financial holding companies. Within the scope of the Law on Bank Cards and Credit Cards, organizations and entities, which establish a card system, issue cards and enter into merchant agreements, as well as merchants and cardholders are also regulated by BRSA.

Organizational chart of the Banking Supervisory Authority



Main strategic objectives of the Banking Supervisory Authority in 2024

The BRSA's main strategic objective is to ensure market efficiency, with aiming full functioning credit system, protecting depositor's rights and improving financial markets.

The major strategic objectives of the BRSA are summarized as follows;

- Ensuring the confidence and stability in the financial markets and effective operation of the credit system,
- Enhancing continuity plans of banks,
- Improving prudent approach based on the effective management of risks,
- Improving the capacity to analyze systemic fragilities,
- Strengthening corporate structures of non-bank financial institutions under BRSA supervision,
- Supporting the development of the participation banking and Islamic finance, and digital banking implementations,
- Supporting the ecosystem needed for development of green finance and increasing the share of Türkiye in the international green finance market,
- Supporting the development of sustainable finance framework

Other objectives of the BRSA for 2024 are summarized below;

- The BRSA aimed to enhance the resilience of the financial system, ensuring the secure integration of innovative practices, and establishing a regulatory framework aligned with international standards in the area of sustainable finance.
- The BRSA has aimed to support the effective management of climate-related financial risks as part of Türkiye's sustainable finance journey.
- With a view to ensuring that the opportunities offered by digitalization are harnessed in a secure and effective manner, the BRSA has aimed to strengthen the regulatory framework governing digital banking and to advance the practices related to information systems security and risk management.
- The year 2024 marked a period during which the BRSA shaped its strategies and priorities in line with its medium-term goals and objectives. In this context, the BRSA aimed to strengthen its institutional capacity and ensure the efficient use of its resources.
- The BRSA aims to continue its efforts to promote inclusive and sustainable development in financial markets with a vision that supports financial stability and fosters innovation.
- In line with the Basel Committee's publication '*Basel III: Finalising Post-Crisis Reforms*,' the BRSA has aimed to achieve full compliance of the capital adequacy framework applicable to the banking sector with international banking standards, and to carry out the necessary legislative revisions in this regard.
- The BRSA has supported scientific studies that contribute to the development of the financial sector and, accordingly, has aimed to enhance the effectiveness of the financial sector.
- The BRSA aims to make the internal capital adequacy assessment processes of banks more effective and to increase compliance with international best practices in this field.

The key activities of the Banking Supervisory Authority in 2024

The BRSA continued its regulation, supervision and enforcement activities in 2024 with a prudential perspective based on the effective management of risks. In parallel with the developments in national and international markets during the year, many important steps were taken for the sound functioning of the banking sector and the credit market.

Efforts to incorporate the provisions of "*Basel III: Finalizing Post-Crisis Reforms*" standard into the capital adequacy legislation were carried out intensively throughout 2024. As the scope of the draft regulations is extensive, those drafts that have been completed were shared with the public and relevant stakeholders for consultation, and many others have reached the stage of being submitted for public comment. In the upcoming period, it is planned that the related draft regulations will be finalized in accordance with the established work schedule and published, taking into account the commitments undertaken by Türkiye and the practices of other jurisdictions.

An RCAP assessment was conducted starting in September 2024 to assess banking regulations regarding the limitation of large exposures for the measurement of credit concentration risk and the net stable funding ratio for the measurement of liquidity risk in Türkiye. Within this scope, Both regulations were found to be "fully compliant" under the RCAP assessment. The relevant report was approved by the Basel Committee on 02.04.2025, and published on its official website for public access.

The BRSA continued its work in 2024 on the "Sustainable Banking Strategic Plan (2022–2025)," which was published in 2021. An important development within these efforts is the finalization of the "Communiqué on the Calculation of Banks' Green Asset Ratio," which was prepared in 2023 and presented to the public and relevant parties. The Communiqué entered into force upon its publication in the Official Gazette dated April

11, 2025, and numbered 32867. In parallel, the Guideline on the Management of Climate-Related Financial Risks was prepared based on the document titled “Principles for the Effective Management and Supervision of Climate-Related Financial Risks” published by the Basel Committee in June 2022. It was published on the official website of the BRSA in April 2025 and is planned to enter into force in July 2025. In 2024, cooperation continued with the World Bank (WB) – International Bank for Reconstruction and Development (IBRD) under a technical assistance project on climate-related financial risk stress testing and scenario analysis, aimed at analyzing, measuring, and forecasting such risks. Close engagement was also maintained with relevant domestic and international stakeholders on topics closely related to sustainable finance, such as the development of a national green taxonomy, carbon trading markets, and sectoral strategies and policies. Activities of the Network for Greening the Financial System (NGFS), the Sustainable Banking and Finance Network (SBFN), the Basel Task Force on Climate-related Financial Risks (TCFR), and the Financial Stability Board (FSB) were closely followed within the scope of relevant memberships, and contributions were made.

In 2024, the BRSA participated in the regularly held “Security Committee Meetings” organized within the scope of the Sectoral Computer Emergency Response Team (SOME) activities and cyber incidents concerning the banking sector, as well as fraud incidents targeting bank customers. Articles and reports containing information on current cyber threats from various platforms were monitored. The BRSA also periodically connected to the SOME Communication Platform to follow up on relevant cybersecurity incidents, and, when necessary, obtained additional information from banks to track specific issues. In addition, regarding cybersecurity, presentations were delivered and issues along with proposed solutions were discussed during the Social Engineering Fraud Prevention Workshop, held on April 19–21, 2024, in cooperation with the Ministry of Trade and the Banks Association of Türkiye (BAT), with the participation of representatives from numerous public and private banks, financial institutions, and relevant non-governmental organizations. Furthermore, within the scope of cooperation between the BRSA and the Türkiye Cyber Security Cluster (TSGK), one-on-one meetings were held on October 9–10, 2024, with the participation of 41 banks and approximately 60 TSGK members.

In 2024, extensive efforts were carried out in the field of combating money laundering and the financing of terrorism. In addition to the assessments carried out within the scope of financial structure and rating studies, the BRSA actively participated in numerous trainings, workshops, and meetings on the subject.

In 2024, a total of 11 establishment permissions were granted by BRSA. These included 2 investment banks, 2 participation banks, 2 finance companies, 3 asset management companies, 1 financial leasing company, and 1 savings finance company. Additionally, 7 operating licenses were granted, 4 of which were for deposit banks (including 3 digital banks), 2 for asset management companies, and 1 for a finance company. Furthermore, in the area of digital services, 1 bank was granted a permission to provide banking services through open banking interfaces.

In 2024, 3 regulations were amended, 12 Board Decisions were taken. In 2024, the updated inspection manuals were prepared in line with the BRSA’s adopted risk-based supervision approach and with a dynamic, forward-looking perspective, taking into account the “Guidelines on Common Procedures and Methodologies for the Supervisory Review and Evaluation Process (SREP) and Stress Testing” issued by the European Banking Authority (EBA). In addition, to ensure the more efficient use of limited supervisory resources and personnel, the BRSA, alongside full-scope financial condition assessments, also prepared “Activity and Risk Review Reports” in 2024. In 2024, the supervisory teams operating under the Deputy Presidency responsible for supervision conducted a range of inspections, resulting in the issuance of a total of 150 reports covering financial condition assessments and rating reports, compliance inspections, and matters such as notifications and complaints. In addition, 12 preliminary risk assessment opinions and 3 reports prepared in response to inquiries requested by the Financial Crimes Investigation Board (MASAK) were issued. Furthermore, 235 opinions were provided on various other matters. As a result of the supervisory activities conducted in the non-bank financial sector in 2024, a total of 77 reports and opinions were issued. In addition, the BRSA conducts on-site examinations

of the models, techniques, and processes used by banks for risk measurement and management, and also carries out related analyses and research. In 2024, a total of 1,533 reports, including 756 legal limits analyses, 756 monthly ratio analyses and 21 bank supervision reports, were prepared as part of off-site supervision activities. As part of the BRSA's activities related to monitoring and assessing economic developments, in 2024, a total of 4.239 reports were prepared. In 2024, the BRSA continued its efforts to protect the rights and raise awareness of financial consumers, who are considered to be an important supporter of financial stability, and the complaints and application follow-up process was conducted meticulously.

International activities of the Banking Supervisory Authority

In order to improve the effectiveness of the consolidated supervision, the BRSA collaborates with foreign supervisory authorities. As stipulated in Article 98 of the Banking Law, the BRSA cooperates and exchanges information with these institutions for the harmonization of policies and regulations within the framework of bilateral memorandum of understanding. From the establishment of the BRSA until the end of 2024, a total of 41 memoranda of understanding (MoUs) have been signed with 40 authorities from 36 countries. Most recently, an MoU was signed with the European Central Bank (ECB) on 19 September 2024. In addition, the final version of the MoU with the BRSA for Regulation and Development of the Financial Market of the Republic of Kazakhstan was signed in July 2025, and negotiations with other international authorities are going on. The BRSA has strong ties with multinational institutions such as International Monetary Fund (IMF), World Bank (WB), Organization for Economic Cooperation and Development (OECD), Black Sea Economic Cooperation Organization (BSEC). In 2024, a total of 38 meetings were held with international financial institutions and authorities primarily the World Bank, IMF, ECB as well as credit rating agencies, foreign banks, and investment institutions. These meetings extensively addressed topics such as indicators of the Turkish banking sector, the regulatory framework for banking, and the impact of macroeconomic variables on the banking sector, with mutual exchange of information and experience. Within the scope of work carried out under the Organization for Economic Co-operation and Development (OECD), the BRSA actively participated in various committees and task forces primarily the Committee on Financial Markets and provided opinions and contributions to reports and survey studies prepared by the OECD within the scope of its responsibilities. In order to contribute to the Progress Report prepared by the EU Commission, the BRSA contributed to the studies carried out by the said institution regarding the developments in the chapters within the scope of the BRSA's purview and banking sector related issues. BRSA is a member of Basel Committee on Banking Supervision (BCBS), Islamic Financial Services Board (IFSB), Standing Committee on Supervisory and Regulatory Cooperation (SRC), which is the standing committee of Financial Stability Board (FSB) and the Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI). In this context, the BRSA contributed to the initiatives undertaken by the BSBS, SRC, IFSB, and FSB, and actively participated in their meetings.

Cooperation with other supervisory bodies in the country

The Financial Stability Committee (FSC) consists of the Deputy Minister of Treasury and Finance, chairmen of the CBRT, the BRSA, the Capital Market Board (CMB), the Saving Deposit Insurance Funds (SDIF), Insurance and Private Pension Regulation and Supervision Agency, Presidency of Strategy and Budget and chaired by Minister of Treasury and Finance. The FSC convened four times in 2024. Based on Article 98 of Banking Law, views were exchanged and information was shared in 2024 with the Strategy and Budget Department of the Presidency, Ministry of Treasury and Finance, CMB, MASAK, SDIF and Central Bank in order to ensure coordination and cooperation among these agencies in executing policies related to financial markets. In addition to these agencies, the BRSA exchanged views on the issues concerning the banking sector with other

public institutions and organizations especially the Ministry of Foreign Affairs and the Ministry of Commerce. The Coordination Committee has been established per the Article 100 of the Banking Law and consists of BRSA's Chairman and Vice Chairmen and, also SDIF's Chairman and Vice Chairmen. The Committee is in charge of ensuring that maximum cooperation is established between the BRSA and the SDIF. At the quarterly meetings of the Committee in 2024, evaluations and information exchange were made on the general outlook of the banking sector, measures to be taken as a result of credit institution audits, calculation of risk-based insurance premiums and situations which require procedures by SDIF.

Questionnaire tables for the 2024 BSCEE Review

Number of financial institutions (at year-end)

Type of financial institution ¹	2022	2023	2024
Commercial banks	41	43	43
Branches of foreign credit institutions	5	5	5
Cooperative banks	0	0	0
Banking sector, total:	57	62	63

Total assets of banking sector (at year-end)

Type of financial institution (billion TRY)	2022	2023	2024
Commercial banks	13,528.3	22,193.7	30,785.1
Branches of foreign credit institutions	35.9	17.3	16.3
Cooperative banks	-	-	-
Banking sector, total:	14,347.4	23,550.4	32,667.7
y/y change (in %)	55.7	64.1	38.7

Ownership structure of banks on the basis of assets total²

Item	2022	2023	2024
Public sector ownership	34.55	45.49	45.94
Domestic ownership total	75.10	74.98	75.60
Foreign ownership	24.90	25.02	24.40
Banking sector, total:	100.0	100.0	100.0

Concentration of asset by the type of financial institutions, 2024

Type of financial institution	The first three largest (%)	The first five largest (%)	HHI
Commercial banks	38.99	56.19	845
Branches of foreign credit institutions	94.12	100	2.345
Cooperative banks	-	-	-
Banking sector, total:	38.99	56.19	854

Return on Equity (ROE) by type of financial institutions

Type of financial institution	2022	2023	2024
Commercial banks	51.23	42.83	28.7
Cooperative banks	-	-	-
Banking sector, total:	49.69	41.53	30.5

¹ There are no cooperative banks in Türkiye. Commercial banks are defined as deposit taking institutions, therefore investment & development banks are excluded. We have, as of year-end 2024, 20 investment & development banks. Branches of foreign credit institutions are also included in commercial banks.

² Domestic and foreign ownership shares of the banking assets add up to 100%.

Distribution of market shares in balance sheet total (%)

Type of financial institution	2022	2023	2024
Commercial banks	91.6	94.29	94.24
Branches of foreign credit institutions	0.3	0.06	0.05
Cooperative banks	-	-	-
Banking sector, total:	100.0	100.0	100.0

The structure of assets and liabilities of the banking sector (%) (at year-end)

	2022	2023	2024
Receivables			
Financial sector	3.92%	4.53%	3.58%
Nonfinancial sector	58.49%	54.24%	66.27%
Government sector	30.70%	34.14%	22.21%
Other assets	6.90%	7.09%	7.44%
Liabilities			
Financial sector	13.3%	13.8%	13.3%
Nonfinancial sector	66.4%	67.9%	64.2%
Government sector	5.9%	4.8%	3.2%
Other liabilities	4.7%	4.5%	10.4%
Capital	9.7%	9.0%	8.9%

Capital adequacy ratio of banks

Type of financial institution	2022	2023	2024
Commercial banks	19.3	18.8	19.4
Cooperative banks	-	-	-
Banking sector, total:	19.5	19.1	19.7

Asset portfolio quality of the banking sector ³

(share of impaired receivables / share of non-performing loans)

Asset classification	2022	2023	2024
Non-financial sector, including	2.1	1.6	1.8
- households	1.9	1.6	2.9
- corporate ⁴	2.2	1.6	1.5

³ NPL Ratio

⁴ SME loans are included.

**The structure of deposits and loans of the banking sector in 2024 (%)
(at year-end)**

	Deposits	Loans
Non-financial sector, including:		
Households	59.7%	24.2%
Corporate	37.2%	74.2%
Government sector	3.1%	1.2%
Financial sector (excluding banks)	NA	NA
Total	100.0	100.0

P&L account of the banking sector (at year-end- billion TRY)

P&L account	2022	2023	2024
Interest income	1,403.2	2,603.2	5,944.5
Interest expenses	638.9	1,905.0	4,958.2
Net interest income	764.3	718.3	986.3
Net fee and commission income	144.5	405.9	790.9
Other (not specified above) operating income (net)	86.1	194.7	-145.5
Gross income	1,714.9	3,347.9	1,231.6
Administration costs	88.9	191.5	13.0
Depreciation	12.0	21.6	39.5
Provisions	135.6	156.9	139.7
Impairment on financial assets not measured at fair value through profit and loss / Provisions on financial assets (loans, ...)	91.2	59.9	65.4
Profit (loss) before tax	574.1	724.9	4,958.2
Net profit (loss)	433.5	620.8	660.3

Total own funds in 2024 (in EUR)

Type of financial institution	Total own funds	Core Tier 1	Tier 1	Tier 2	Tier 3
Commercial banks	103.8	80.8	87.7	16.2	-
Cooperative banks	-	-	-	-	-
Banking sector, total:	113	89	96.5	16.5	-

Macroeconomic environment in Ukraine

Russia's war against Ukraine continues. However, despite the persistence of high security risks, as well as further destruction and losses caused by Russian aggression, the Ukrainian economy gradually revived for the second year in a row – real GDP grew by 2.9% in 2024. However, GDP growth slowed compared to 2023 (5.5%). The slowdown is attributed to poorer harvests due to heat and drought in the summer and fall, which negatively affected yields, relatively weak external demand, as well as the realization of the risks of intensified hostilities and increased Russian air strikes, resulting in electricity shortages. At the same time, the stable functioning of the maritime corridor supported economic growth.

Although fiscal policy remained loose, the fiscal impetus for economic growth declined. In particular, the consolidated fiscal deficit, excluding grants, narrowed to about 24% of GDP, compared to almost 27% of GDP in 2023. The fiscal policy contributed to the resilience of both consumer and investment demand. Private sector investments, in particular, were aimed at building logistics capacities and autonomous power supply facilities in the face of renewed electricity shortages. Public investment, in turn, was focused on rebuilding infrastructure, military purposes, and the development of the defense industry.

The recovery in economic activity was accompanied by further improvements in the labor market. Increased demand for labor led to a rise in employment and a gradual decline in the unemployment rate. However, the labor market conditions remained challenging, with the recovery being uneven across sectors and regions due to the changing structure of the economy and significant internal and external migration. The lack of labor restricted business activity and led to high wage growth (nominal wages grew by 23.1% and real wages increased by 15.6%).

The brutality of Russia's invasion forced millions of Ukrainian civilians to flee their places of residence and the country. According to UNHCR, the UN Refugee Agency, there were about 6.8 million people outside Ukraine as of the end of 2024 (their number increased by about 500 thousand in 2024), of which 4.3 million received the status of temporary protection in the EU. The forced migrants were mostly women, in their most productive age, and children. Both external and internal migrants are gradually adapting in host countries and regions.

After a long period of decline, the inflation trajectory reversed in May 2024. Since June, inflation has been on the rise, reaching 12% yoy in December 2024. The rapid growth in consumer prices was largely driven by temporary factors, primarily the ones related to effects of weaker harvests in 2024. Core inflation also increased to 10.7% yoy in December, driven by businesses' higher expenses on raw inputs, materials, and electricity, as well as by wage increases amid persisting labor shortages. The depreciation of the hryvnia exchange rate also had an impact. Inflation reaching double digits negatively affected the inflation expectations of economic agents. However, they remained relatively stable thanks to the NBU's prudent monetary policy.

Development in the banking sector (including assets total / GDP).

Sector Structure

In 2024, the number of operating banks in Ukraine decreased by two, to 61: ComInvestBank (0.04% of the sector's net assets) was withdrawn from the market due to violations of Ukrainian legislation and regulatory requirements, and Alpari Bank (less than 0.01% of the sector's net assets) ceased operations at its own initiative. The exit of these banks from the market did not have any significant impact on the sector.

During the year, two small banks were reclassified as state-owned banks after they were transferred from sanctioned entities to state ownership: First Investment Bank (0.01% of total sector assets) and Motor-Bank (0.02% of sector assets). In spite of that, the share of net assets of the state-owned banks dropped by 0.3 pp, to 53.3% over the year. The share of retail deposits in the state-owned banks declined by 1.2 pp, to 63.3%.

Assets

The volume of the banks' net assets rose 16.2% yoy in Q4 (or 13.1% yoy with the exchange rate held fixed at start-of-period level) to UAH 3.4 trillion (44.7% of GDP; to UAH 3.8 trillion or 49.3% of GDP for total assets). Bank investments in domestic government debt securities were up by more than one-third year-on-year. The banks expanded the share of government bonds in their assets to maintain portfolio profitability in the face of declining interest rates. Meanwhile, banks' holdings of the NBU certificates of deposit fell by 11.6% in year-on-year terms.

In 2024, the economy recovered thanks to its successful adaptation to the difficult conditions of the war. This drove demand from borrowers, which contributed to the gradual growth of the banks' loan portfolios. According to a lending survey conducted by the NBU, demand for corporate loans grew throughout 2024. Bankers' estimates of demand for loans to large companies in Q4 2024 were the highest since 2021.

Net hryvnia corporate loans had grown for a year-and-a-half in a row as of the end of 2024. The yoy increase was 20.6%. Net hryvnia loans to SMEs rose somewhat faster, by 22.1% yoy, while their share in the net hryvnia corporate loan portfolio increased to 60.2%, up by 0.7 pp over the year. The loan portfolio grew the most in state-owned banks: by 24.8% over the year. The share of loans granted under the state lending support *Affordable Loans 5-7-9%* program was 33.7% in the hryvnia net corporate loan portfolio at the end of the year. Net hryvnia loans with maturities of over three years rose by more than 58% over the year.

Net hryvnia retail loans were growing rapidly, by 39.9% over the year. This portfolio continues to be dominated by unsecured loans. Growth in mortgage loans slowed to 60.7% yoy at the end of the year, while the share of mortgages in the portfolio of net retail hryvnia loans increased slightly, by 1.7 pp over the year. Mortgage loans were further issued almost exclusively under the eOselia state program.

Loan quality

The quality of the loan portfolio is improving. Over the year, the NPL ratio declined by 7.1 pp, to 30.3%. The share of retail NPLs is declining faster than that of corporate NPLs. The main driver of the NPL ratio decline remained loan write-offs and the growth in new loans. In 2024, the NPL ratio declined in all groups of banks. The share of corporate borrowers that defaulted on hryvnia loans in 2024 decreased to about 4%.

Funding

Client deposits dominate in the structure of banks' liabilities. Their share was consistently high throughout the year (over 90%). External debt decreased by USD 0.15 billion compared to 2023 and remained at approximately USD 1.6 billion throughout the year (below the level seen at the end of 2023), representing about 2% of liabilities.

Hryvnia retail deposits with banks increased by 11.5% over the year, with growth across all groups of banks, to UAH 1.2 trillion (15.9% of GDP). Term hryvnia retail deposits also grew – by 8.8% over the year. FX retail deposits increased by 2.7% over the year, also primarily due to inflows to current accounts.

Hryvnia corporate deposits rose by 19.0%, to UAH 1.56 trillion (20.4% of GDP). All groups of banks, except for PrivatBank, showed growth. FX corporate deposits increased by 5.5% yoy for the year as a whole.

The LCR short-term liquidity ratios in all currencies and in foreign currencies are more than three times the minimum requirements.

Interest Rates

Interest rates on retail deposits fell during the year: the UIRD (Ukrainian Index of Retail Deposit Rates) for twelve-month hryvnia deposits decreased by 1.1 pp to 13% over the year, while that for three-month deposits dropped by 1.0 pp to 13.1% per annum as of the end of December. Interest rates on new hryvnia retail

deposits amounted to 9.6% per annum in December. Interest rates on corporate loans decreased by 2.9 pp over the year to 14.7% in December, while interest rates on retail loans fluctuated between 27% and 28%.

Financial Performance

In 2024, the banks received UAH 90.9 billion in profit, 39% of which was generated by PrivatBank. Return on equity for 2024 was 25.5. Net interest income grew by 16.4% over the year, remaining the main source of high profit. Net fee and commission income also grew noticeably, by 11.3% over the year. The cost-to-income ratio (CIR) gradually deteriorated throughout the year, totaling 46.4% in Q4, compared to 39.2% on average for the year. Overall, the year saw the release of loan provisions and the addition of loss provisions for domestic government debt securities.

Major changes in regulation

Starting from 1 January 2024, 100% of the amount of operational risk has been taken into account for the calculation of the capital adequacy ratio. What is more, in August 2024, the banks switched to a new capital structure and ratios, and began to cover market risk with capital. The banks' transition to a new capital structure increased the Common Equity Tier 1 capital – the highest quality component of capital (due to the inclusion of retained earnings, which were previously mostly reflected in lower-tier capital, as well as the inclusion of interim profit without an audit confirmation in accordance with transitional provisions). Thus, the banks' capital is sufficient to cover all significant risks. During the year, the capital adequacy ratio remained high, totaling about 17% for regulatory and Tier 1 capital as of 1 January. All of the banks were in compliance with capital adequacy requirements at the end of the year.

The legal and institutional framework for banking supervision in the country

1) Law of Ukraine No. 3587-IX *On Amending Certain Laws of Ukraine on Improving Corporate Governance* dated 22 February 2024, which provides for the extension of the provisions of the Law of Ukraine *On Management of State-Owned Property* to banks with state participation (which are not state-owned banks within the meaning of the Law of Ukraine *On Banks and Banking*, as well as newly acquired state-owned banks for a period of one year following their acquisition by the state), regarding the appointment of new management, but only in terms of:

the procedure for establishing supervisory boards, specifically setting the requirement for a majority of independent members on the supervisory board, the selection of candidates in accordance with the procedure determined by the Cabinet of Ministers of Ukraine, as well as the grounds for early termination of the powers of members of the supervisory board

setting the requirements for the justification of remuneration of managers and members of supervisory boards, the possibility of insuring their liability, as well as reporting on such remuneration as required by the NBU

2) Law of Ukraine No. 3706-IX *On Amendments to the Tax Code of Ukraine and Other Laws of Ukraine on the Specifics of Exporting Certain Types of Goods Under Martial Law* dated 9 May 2024 (hereinafter referred to as "Law No. 3706-IX")

Law No. 3706-IX introduces specific procedures for conducting transactions to export certain types of goods during the period of martial law (a revised export control regime replacing the one previously established by Law of Ukraine No. 2881-IX *On Amendments to the Tax Code of Ukraine and Other Laws of Ukraine Regarding the Application of Export Control Regime for the Duration of Martial Law and State of Emergency* dated 12 January 2023). Law No. 3706-IX introduced amendments to the Tax Code of Ukraine, which, in particular:

grant the regulatory authorities the right to receive, free of charge, from taxpayers, as well as from the NBU, banks, and other financial institutions, information regarding compliance with the settlement deadlines for export and import transactions established by the NBU, in line with the procedure prescribed by the Law of Ukraine *On Banks and Banking*

require officials and civil servants of regulatory authorities to notify, based on the results of the inspection, the bank servicing the taxpayer of the absence of violations of settlement deadlines established by the NBU for export and import transactions, information about which was received from the NBU and banks. The form and procedure for notifying banks is established by the Ministry of Finance of Ukraine.

In addition, the Law of Ukraine *On Banks and Banking* establishes an obligation for banks to provide the State Tax Service of Ukraine with information about the completion of settlements for transactions involving the export of certain types of goods subject to export control regime within three business days following the date of completion of such settlements.

3) Law of Ukraine No. 3720-IX *On Compulsory Third Party Insurance Against Civil Liability in Respect of the Use of Land Motor Vehicles* dated 21 May 2024, which extended the validity of the Law of Ukraine *On Simplifying Reorganization and Capitalization Procedures for Banks* for two more years (until 1 August 2026)

4) Law of Ukraine No. 3983-IX *On Specifics of Sales of Stakes Owned by the State in the Authorized Capital of Banks* dated 19 September 2024, which was adopted to replace the Law of Ukraine *On Specifics of Sales of Stakes Owned by the State in the Authorized Capital of Banks the State Participated in* dated 2012 (recognized as invalid)

The Law applies to systemically important banks, all or part of the shares in the authorized capital of which are owned by the state, and in which the body managing the corporate rights related to the state-owned shares is the Cabinet of Ministers of Ukraine (CMU) or the Ministry of Finance, excluding State Savings Bank of Ukraine PJSC (Oshchadbank) and State Export-Import Bank of Ukraine JSC.

The Law defines the powers of the CMU, the NBU, other state authorities, the sales committee, and the sales advisor organizing the preparation and implementation of the sale, and sets out the requirements and mandatory conditions for the purchase and sale agreement for banks' stakes.

5) Law of Ukraine No. 3994-IX *On Amendments to Certain Laws of Ukraine On the Consolidation of Functions of the State Regulation of the Financial Services Markets* dated 8 October 2024, which introduces amendments to a number of Ukrainian laws, in particular:

the Law of Ukraine *On the National Bank of Ukraine* to clarify certain NBU functions related to setting requirements for ensuring accessibility of services provided in the banking system of Ukraine on non-bank financial services markets that are subject to state regulation and supervision by the NBU, as well as on the payment market, for persons with disabilities and persons with reduced mobility, as well as to harmonize terminology with the Law of Ukraine *On Payment Services*.

Furthermore, the Law optimizes the functional powers of the NBU Board committees, specifically: powers to supervise payment service providers are transferred to the Committee on Banking Supervision and Regulation, and Oversight of Payment Infrastructure, and excluded from the powers of the Committee on Regulation and Supervision of Non-Bank Financial Services Markets.

and the Law of Ukraine *On Banks and Banking*, which stipulate that in the event of violation by a bank of legislation regulating activity in the payment market, the maximum fine (except for the fine for violation of laws related to protection of consumer rights in the payment market) shall not exceed 5% of the amount of transactions conducted with violation of laws.

Main strategic objectives of the Banking Supervisory Authority in 2024

The NBU implements strategic goals through its strategy. Inflation targeting remains the top priority in order to provide for a stimulating economic environment aimed at economic renewal and reconstruction. During the Russian invasion much attention is paid to enhancing security and continuity of operational processes – both internal and for the whole of the Ukrainian financial sector. Maintaining functional digital channels of communication is of the utmost importance in this context. Much attention is given to implementing financial inclusion requirements to make financial services accessible by all citizen groups. The NBU considers digital transformation as a primary enabling factor for its effectiveness and is currently performing a number of strategic actions to develop its cloud infrastructure, efficiently combat cyber threats, research effective AI tools and enhance the existing computational infrastructure. Promising RegTech and SupTech possibilities are being investigated and CBDC options are being explored. To enhance the financial literacy of Ukrainian households the NBU is implementing a nationwide effort to increase the financial literacy and combat financial fraud. Venues of regulating virtual assets are being assessed with a regulatory framework in the process of creation.

Activities of the Banking Supervisory Authority in 2024

In 2024, the NBU took a significant step in implementing European acquis in the area of regulating the activities of banks and banking groups in Ukraine.

To this end, the NBU Board approved a number of regulations that introduce or update requirements for banks and banking groups.

1. Prudential liquidity ratios on a consolidated basis - the liquidity coverage ratio (LCR) and the net stable funding ratio (NSFR), were introduced.
The minimum value of these ratios is 100%. Banking groups are required to meet the minimum values of the LCR starting 1 April 2025, and of the NSFR starting 1 July 2025.
2. Minimum capital adequacy requirements for banks have been updated under a new (three-tier) structure. Since 5 August 2024, the following updated ratios are in effect:
 - common equity Tier 1 (CET1) ratio of 5.625%
 - Tier1 ratio (Tier 1) of 7.5%
 - regulatory capital (total capital) adequacy ratio of 10%.

At the same time, the NBU introduced a number of transitional provisions to balance the implementation of European requirements against preserving the banking system's ability to continue to ramp up lending support for the economy. These provisions include:

- applying a step-by-step schedule for achieving the minimum regulatory capital adequacy ratio (8.5% by 31 December 2024; 9.25% by 30 June 2025; 10% from 1 July 2025)
 - allowing banks to include in their common equity Tier 1:
 - the profit for H1 2024 and the first nine months of 2024 without prior approval of the NBU, and a review of interim financial statements
 - funds received by banks as payment for ordinary shares or used to increase their face value, before 31 December 2024.
3. The requirements for capital adequacy of banking groups and subgroups of banking groups have been updated. Requirements have been introduced for the calculation of capital adequacy of the credit and

investment subgroup (CIS), which are based on the new (three-tier) capital structure. In particular, the NBU established:

- procedure for calculating Tier 1 common equity, Tier 1 capital, regulatory capital for credit and investment subgroups, as well as requirements for components of the capital
- three new capital adequacy ratios for the CIS
- requirements for the formation of CIS capital buffers.

As banks account for a significant share of the assets of banking groups, the updated capital adequacy requirements for banking groups have been introduced with transitional provisions that are similar to the transitional provisions that were introduced for banks.

4. The NBU has established the requirements for the calculation, by banks and banking groups, of the Leverage Ratio (LR), which is a new Tier 1 capital adequacy ratio aimed at restraining excessive growth in low-risk assets.

Also, as part of implementing the leverage ratio, the EU acquis governing the assessment of counterparty credit risk (CCR) for derivative transactions are being introduced. Such an assessment will be carried out using the simplest Original Exposure Method (OEM), which corresponds to the current state of the derivatives market, as the derivatives market is limited and the volume of derivative transactions conducted by Ukrainian banks is negligible.

The NBU has set the minimum LR for banks and banking groups at 3%. Banks and banking groups will be required to comply with the minimum LR starting 1 September 2025 and 1 April 2026, respectively.

5. The NBU has introduced requirements for the organization of the Internal Liquidity Adequacy Assessment Process (ILAAP) in banks and banking groups.

The NBU has established a requirement to prepare annual reporting on the ILAAP and submit it to the NBU for evaluation as part of the Supervisory Review and Evaluation Process (SREP).

6. The NBU has established the procedure for banks and banking groups to assess the minimum amount of settlement risk to be covered with capital.

The new requirements for banks and banking groups provide for the use of test calculations that will be performed:

- by banks from 1 November 2025 to 28 February 2026
- by responsible persons of banking groups from 1 April to 1 October 2026.

Following an analysis of test calculations, the NBU will set the date when the minimum settlement risk will begin to be incorporated into the calculation of capital adequacy ratios.

Furthermore, due to the passage of Ukrainian laws introducing unified rules for relations between individuals and businesses and the state in accordance with EU standards, the NBU has brought its regulations into line with said laws. Specifically, amendments have been made to a number of NBU regulations to improve procedures for regulating the activities of banks and banking groups and to increase the transparency and efficiency of how the NBU performs its public administration functions.

International activities of the Banking Supervisory Authority

In 2024 the NBU's international activities were focused on measures to:

- foster the provision of assistance by Ukraine's international partners in the wake of russia's full-scale invasion of Ukraine;
- continue isolation of russia in order to narrow its opportunities to finance the criminal war against Ukraine;
- continue to advance toward the goal of the EU membership;
- develop Ukraine's financial sector and strengthen the NBU's institutional capacity as a regulator.

Despite the war, the NBU continued to actively work together with international financial organizations, such as the IMF, World Bank Group organizations, the EBRD, and the EIB. The result of this cooperation was the launch by these organizations of projects and programs to support the Ukrainian economy, financial sector, state budget and population.

The program of cooperation with the IMF remained the NBU's priority in 2024, in particular the focus was on implementation of the Extended Fund Facility program that was approved in 2023. It was designed to last for four years and resolve balance of payments problems and restore medium-term external sustainability, fiscal and debt sustainability, and medium-term external viability, while promoting long-term growth in the context of post-war reconstruction and process of Ukraine's accession to the European Union. The financing under the Extended Fund Facility program is about USD 15.6 billion (SDR 11.6 billion).

The NBU, together with the Ukrainian government, works with the organisations of the World Bank Group on systemic projects, under which financing is allocated for the state budget support and the implementation of investment projects in Ukraine in order to develop the financial sector.

In 2024, Ukraine continued to advance toward the goal of the EU membership. Following the European Council's decision to start negotiations on Ukraine's accession to the EU, the European Commission (EC) on 14 December 2023 began an official screening of Ukraine's national legislation.

Within the framework of the screening, the NBU coordinates the holding of meetings with the EC on negotiating chapters 4, Free Movement of Capital and 9, Financial Services, including the formation, coordination, and presentation of a common Ukrainian position to the EC.

On 20 November 2024, a bilateral meeting was held under negotiating chapter 4, Free Movement of Capital, which is led by the NBU. During the event, the Ukrainian side presented information on the current status and plans for the implementation of the relevant EU acquis in the areas of Free Movement of Capital and Payments, Payment Systems, and Anti-Money Laundering and Countering the Financing of Terrorism. In total, in 2024, as part of the second stage of the screening, the NBU representatives participated as speakers in four bilateral meetings.

The NBU is actively engaged in fulfilling the EC's recommendations outlined in the Ukraine Progress Report, part of the EU's enlargement package. The results of the NBU's efforts in the area of European integration were acknowledged in the EC's Ukraine Progress Report published in October 2024.

The implementation of the EU-Ukraine Association Agreement remains an important area of the NBU's work, particularly with regard to its commitments on financial services, payment systems, capital liberalization, anti-money laundering and countering the financing of terrorism, and consumer protection. NBU representatives engaged in the work of the EU-Ukraine Association bodies to discuss progress in the financial sector and participated in preparation of the meetings of the high-level bilateral bodies, such as the EU-Ukraine Summit

and the meeting of the EU-Ukraine Association Council, and implementation of tasks resulting from these meetings.

In preparation for the implementation of the EU's financial support instrument for Ukraine, the Ukraine Facility, which provides for the receipt of up to EUR 50 billion in funds over 2024–2027, the NBU took an active part in the development of the Ukraine Plan provided for by this instrument. The NBU has identified three indicators in Ukraine's Plan, specifically regarding the assessment of the banking system's resilience, the approval of a Non-Performing Loan (NPL) Resolution Strategy, and the adoption of legislative amendments for their improved resolution. After Financial Stability Council on 6 June 2024 approved the Lending Development Strategy, which contains a separate section on measures to resolve NPLs, one of the indicators was met ahead of schedule.

In addition, as a part of its efforts to provide international financial support to Ukraine, the NBU took part in the preparation of a new EU macro-financial support program for Ukraine for 2025, totaling up to EUR 35 billion.

The NBU, in line with its mandate as the central bank of an EU candidate country, held a number of meetings during the year, both at the highest management level and at the expert level, with the EC, the European Central Bank (ECB), the European Banking Authority, and the European Insurance and Occupational Pensions Authority. The main focus of the relationship includes the approximation of national financial legislation to EU legislation, central bank independence, accession to the Single Euro Payments Area (SEPA), building a war risk insurance system in Ukraine, and preparations for future negotiations with the EU on Ukraine's membership.

Despite the military aggression from Russia, the NBU has remained active in technical cooperation with IFIs, EU central banks and financial sector regulators.

The NBU has maintained an ongoing dialogue with its international partners such as the IMF, the World Bank Group, the EBRD, the Swiss State Secretariat for Economic Affairs (SECO), the Swedish International Development Cooperation Agency (Sida), the Deutsche Gesellschaft für Internationale Zusammenarbeit (GIZ), and others.

In addition, cooperation with central banks and financial sector regulators of other countries has been expanding and deepening. In 2024, the NBU engaged the professional knowledge and practical experience of 36 central banks from EU member states and other countries worldwide. The closest cooperation has been with the ECB, as well as the central banks and regulators of England, Sweden, France, Italy, Germany, Lithuania, Poland, Spain, the Netherlands, and Latvia.

Twenty-three donor-funded projects and programs have been under implementation, six of which were newly initiated.

Over the reporting year, the NBU was active in strengthening its contractual relationships with other supervisory authorities in the field of regulation and supervision.

In particular, two memorandums with Magyar Nemzeti Bank were signed - Memorandum of Understanding on cooperation and information exchange in the field of regulation and supervision, as well as a Memorandum of Understanding in the area of anti-money laundering and combating the financing of terrorism.

Cooperation with other supervisory authorities

The NBU continues to cooperate with other financial regulators under the Financial Stability Council. In 2024, the Council met three times to discuss risks to financial stability and ways to mitigate them. The Council provides a forum for the professional discussion of systemic risks to domestic financial stability. It comprises top executives of the NBU, Ministry of Finance of Ukraine, Deposit Guarantee Fund, National Commission on Securities and Stock Market, Ministry of Economy of Ukraine, and Presidential Office.

Other relevant information and developments in 2024

In response to the crimes committed by Russia, the NBU during 2024 continued to actively participate, including through interdepartmental cooperation with national stakeholders and communications with foreign sanctions coordinators and regulators, in the development and implementation of sanctions policies. The NBU's institutional capacity and the effectiveness of sanctions have been significantly strengthened by building up expertise, enabling the NBU to improve and enhance its holistic approach to the design and implementation of sanctions policy.

Fruitful cooperation and coordination with specialized regulators of the countries in the sanctions coalition resulted in the development of a number of powerful sanctions packages, including both personal and sectoral sanctions.

In 2024, the NBU also communicated actively with the central banks of Ukraine's partners to develop mechanisms to leverage frozen Russian sovereign assets and proceeds from those assets in order to support Ukraine. Through constant and persistent communication with partners on the use of Russian assets to Ukraine's benefit, the NBU team contributed to the approval of a decision by the G-7 countries to disburse a loan to Ukraine out of proceeds from Russian assets (ERA loans), and to the subsequent implementation of that decision.

Through joint efforts, the NBU and the ECB formalized the requirements for financial groups regarding their strategies and plans to wind down their business in the Russian market.

The NBU, within its mandate as Ukraine's financial market regulator, also took steps to encourage international financial groups to accelerate their exit from the Russian/Belarusian market by using the instruments of licensing requirements for supervised entities.

In particular, the NBU expanded the list of attributes of compromised business reputation that are designated to certain qualifying shareholders and managers of Ukrainian banks and NBFIs. The business reputation of qualifying shareholders in banks and NBFIs, including parent banks of international financial groups represented in Ukraine, may be considered compromised if such groups have not exited the markets of the aggressor states and continue to operate in such markets through financial institutions registered in the Russian Federation or the Republic of Belarus.

In such circumstances, the NBU will restore the impeccable business reputation of the parent banks of international financial groups if they submit plans to exit the markets of the aggressor states and commit to implement those plans.

In 2024, the NBU started communicating with international financial groups about the submission of such plans to the regulator.

Questionnaire tables for the 2024 BSCEE Review

Number of financial institutions (at year-end)

Type of financial institution	2022	2023	2024
Commercial banks	67	63	61
Branches of foreign credit institutions	-	-	-
Cooperative banks	-	-	-
Banking sector, total:	67	63	61

Total assets of banking sector (at year-end)

Type of financial institution	2022	2023	2024
Commercial banks	2 716 794	3 311 132	3 767 180
Branches of foreign credit institutions	-	-	-
Cooperative banks	-	-	-
Banking sector, total:	2 716 794	3 311 132	3 767 180
y/y change (in %)	15.20	21.88	13.77

Ownership structure of banks on the basis of assets total

Item	2022	2023	2024
Public sector ownership	52.95	56.14	55.43
Domestic ownership total	27.82	24.35	24.53
Foreign ownership	19.23	19.51	20.05
Banking sector, total:	100.0	100.0	100.0

Concentration of asset by the type of financial institutions, 2024

Type of financial institution	The first three largest (%)	The first five largest (%)	HHI
Commercial banks	45.88	57.83	0.093
Branches of foreign credit institutions	-	-	-
Cooperative banks	-	-	-
Banking sector, total:	45.88	57.83	0.093

Return on Equity (ROE) by type of financial institutions

Type of financial institution	2022	2023	2024
Commercial banks	11.02	31.57	29.06
Cooperative banks	-	-	-
Banking sector, total:	11.02	31.57	29.06

Distribution of market shares in balance sheet total (%)

Type of financial institution	2022	2023	2024
Commercial banks	100.0	100.0	100.0
Branches of foreign credit institutions	-	-	-
Cooperative banks	-	-	-
Banking sector, total:	100.0	100.0	100.0

Capital adequacy ratio of banks

Type of financial institution	2022	2023	2024
Commercial banks	19.68	21.07	17.35
Cooperative banks	-	-	-
Banking sector, total:	19.68	21.07	17.35

Asset portfolio quality of the banking sector (share of impaired receivables / share of non-performing loans)

Asset classification	2022	2023	2024
Non-financial sector, including	31.69 / 38.12	23.66 / 37.35	33.01 / 30.29
- households	7.71 / 30.44	3.36 / 23.52	2.76 / 15.49
- corporate	23.97 / 40.01	20.30 / 41.09	30.25 / 34.65

P&L account of the banking sector (at year-end)

P&L account	2022	2023	2024
Interest income	217 053	304 437	351 588
Interest expenses	65 358	103 043	117 290
Net interest income	151 695	201 394	234 298
Net fee and commission income	50 173	49 978	56 542
Other (not specified above) operating income (net)	8 126	9 955	6 735
Gross income	357 549	446 362	507 637
Administration costs	82 434	92 325	110 927
Depreciation	8 152	10 159	12 207
Provisions	121 204	17 813	9 638
Impairment on financial assets not measured at fair value through profit and loss / Provisions on financial assets (loans, ...)	73 / 355 173	77 / 346 832	78 / 326 209
Profit (loss) before tax	29 277	159 023	186 811
Net profit (loss)	21 921	82 835	90 907

Total own funds in 2024 (in EUR)

Type of financial institution	Total own funds	Core Tier 1	Tier 1	Tier 2	Tier 3
Commercial banks	6 148	5 996	5 997	150	-
Cooperative banks	-	-	-	-	-
Banking sector, total:	6 148	5 996	5 997	150	-