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Priorities in banking supervision of the National Bank of Moldova for 2025-2026

The priorities in banking supervision for the period 2025-2026 reflect the National Bank of Moldova`s (NBM) medium-term strategy for the next two years in the field of banking supervision. They are reviewed annually and are based on a comprehensive analysis of the main risks and vulnerabilities in the activity of supervised entities. Additionally, when setting the priorities for banking supervision, the results of the Supervisory Review and Evaluation Process (SREP) are taken into account, as well as the progress made in achieving priorities established in previous periods. These priorities ensure an efficient allocation of available resources for the banking supervision process and may be adjusted, if necessary, in line with the evolving risk landscape.

In 2024, the NBM continued its efforts to strengthen the stability and resilience of the banking system by effectively utilizing available supervisory tools, procedures, and measures. As a result, the banking system of the Republic of Moldova maintains sound capital and liquidity positions.

The reforms implemented in recent years have strengthened the banking sector, ensuring that prudential indicators remain within regulated limits despite adverse external factors.

In the context of the existence of individual and macroeconomic risks, the NBM has established the key areas in the banking supervision process for 2025-2026, both within the scope of off-site supervision and on-site inspections, to ensure that the focused efforts of supervisors lead to the identification, assessment, and appropriate management of relevant risks.

Thus, the banking supervision process will focus primarily on the following key areas:

- I. Corporate governance
- II. Credit risk
- III. IRRBB risk
- IV. Operational risk (fraud/external events/errors in outsourced processes)
- V. Conduct of the bottom-up stress testing exercise
- VI. Analysis, assessment and resolution of vulnerabilities related to payment and settlement systems and payment services
- VII. Preventing and combating money laundering and terrorism financing
- VIII. Risk associated with Information and Communication Technologies (ICT)

I. Corporate governance

Corporate governance plays a key role in ensuring the prudent and sound management of a bank. Effective corporate governance underpins both effective risk management and public confidence in individual banks and the banking system as a whole. The areas that banking supervision will focus on in 2025-2026 in the

field of corporate governance are: the overall management framework of the activity, corporate culture and risk culture, and the organization and functioning of the governing body. The National Bank of Moldova will assess: whether banks have an adequate and transparent organizational structure and have implemented appropriate governance mechanisms; whether banks have a sound corporate culture that is appropriate for the scale, complexity, and nature of their business, and whether it is based on reliable, and clearly expressed values that take into account the risk appetite of banks; whether the governing body demonstrates a sufficient degree of commitment and independence and continuously evaluates the internal governance framework; the interaction between the board and the executive body will be assessed; potential conflicts of interest at the governing body level and their appropriate management, etc.

II. Credit risk

In the context of persistent external risks over several consecutive years, particularly geopolitical risks, challenges related to the energy crisis, and issues directly tied to the economies of trading partner countries, in 2025-2026 the credit risk will continue to be an area of increased focus for the supervisory process. The quality of the loan portfolio directly influences banks' capital, as it determines the level of provisions needed to cover losses from non-performing loans.

In light of the potential effects of the energy crisis, the payment capacity of some debtors could be affected and could lead to cases of default on financial obligations towards creditors, resulting in a possible deterioration in the quality of banks' assets. At the same time, the NBM and the banks have a long-term policy of strengthening their own funds, ensuring that the potential negative impact of these loans could be absorbed.

Supervisors will continue to assess banks' lending policies on an off-site basis under the SREP to ensure that they remain sound and compliant with the risk profile and applicable regulations, and that risks are properly identified and managed.

During the first 11 months of 2024, a recovery in lending was observed. Thus, the loan portfolio increased by 21.9% to MDL 77,875.8 million, mainly due to the increase in loans granted to individuals. It is worth mentioning that these loans have grown approximately fourfold compared to the same period in 2023.

In the context of lending recovery, the NBM will continue to ensure a sound and sustainable lending environment through prudent regulation, monitoring, and intervention when necessary. For the recovery to be sustainable and beneficial, it is crucial that banks adhere to the highest lending standards. This will ensure not only economic growth but also long-term financial stability.

Additionally, the assessments during on-site inspections will include verifying the adequacy and soundness of the loan classification and provisioning practices (including those for individuals) to ensure the timely recognition of potential financial distress. Particular attention will be given to the assessment of lending and monitoring procedures and the dynamics of different lending products in relation to banks' risk appetite, as well as to loan recoveries, especially for consumer loans, which are often granted without collateral.

III. IRRBB risk

The IRRBB risk, in the context of external vulnerabilities, remains an area of heightened interest in the supervisory process as of 2025, as adverse changes in interest rates can affect banks' profits and capital. Therefore, in 2025, the IRRBB risk will continue to be reviewed in order to assess the accuracy of banks'

calculations regarding the potential change in economic value due to fluctuations in interest rate levels, as well as the measures and tools implemented by banks to manage this risk.

During the first 11 months of the year, average interest rates on loans in national currency decreased from 10.22% on 31.12.2023 to 8.27% by 30.11.2024, while average interest rates on loans in foreign currency decreased from 6.79% on 31.12.2023 to 5.82% by 30.11.2024. At the same time, during this period, average rates on deposits in national currency also reduced from 4.13% on 31.12.2023 to 3.23% by 30.11.2024 and the average rates on deposits in foreign currency decreased from 2.21% on 31.12.2023 to 1.62% by 30.11.2024.

Thus, in the context of changes in average rates on loans and deposits, it is important that banks are able to properly manage the changes in average rates on loans and deposits across all maturity bands. If banks are not prepared to manage this pressure on revenues, they risk becoming financially vulnerable, which may affect the stability of the entire banking system.

IV. Operational risk (fraud/external events/errors in outsourced processes)

Operational risk is a central priority in banking supervision, with significant implications for confidence in the banking sector. Fraud can lead to considerable financial losses for both banks and customers, while major operational incidents, such as data loss or the failure to execute essential operations, can have a severe impact on the reputation of financial institutions. Such events can erode public and investor confidence, amplifying systemic risks.

In the context of an increasing reliance on external providers, with the outsourcing of critical processes such as those related to information technology, payments or customer support, the operational risks are significantly increasing. Outsourcing involves challenges such as the loss of control over critical operations, vulnerabilities in cybersecurity and data protection, and difficulties in ensuring business continuity in the event of provider failure or insolvency.

A crucial aspect of reducing this risk is ensuring a high level of risk control and transparency regarding these processes. Prompt and efficient internal reporting of operational incidents, accompanied by appropriate corrective measures, contributes to protecting the integrity of the financial sector. At the same time, the NBM will play an essential role in promoting best practices and mitigating the associated risks by enforcing rigorous compliance standards.

V. Conduct of the bottom-up stress testing exercise

The results of the bottom-up stress testing exercise conducted in 2024 revealed a high level of resilience within the banking sector as well as individual banks to the simulated risks. The exercise also facilitated a constructive dialogue between banks and the NBM regarding the models used. In its capacity as the supervisory authority, the NBM remains committed to the continued strengthening of the stress-testing framework applied to banks.

For 2025, the NBM plans to organize a new round of bottom-up stress testing. In this exercise, banks will be required to simulate the impact of at least one baseline scenario and one adverse scenario, using their own internal models. The scenarios and assumptions regarding the treatment of specific balance sheet items will be developed and provided by the NBM.

VI. Analysis, assessment and resolution of vulnerabilities related to payment and

settlement systems and payment services

The control and monitoring of risks associated with the operation of payment and settlement systems, as well as the provision of payment services, are an important component of the supervisory process carried out by the NBM, especially in the context of the digitization of payment services and the complexity arising from the implementation of the open banking concept in 2025.

Within the process of monitoring and controlling payment and settlement systems and payment services, particular attention shall be given to the actions taken by payment service providers to ensure the continuity and efficiency of the activity carried out in payment systems, as well as to the actions taken by them to increase users' confidence in cashless payment instruments. In this context, the National Bank will focus its efforts on the following aspects:

- monitoring and assessing financial market infrastructures, and analyzing the operational resilience of banks as participants in these infrastructures;
- monitoring the participation of banks, as payment service providers, in payment schemes and arrangements, the issuance, circulation and/or acceptance of payment instruments, as well as verifying their activity through contractual relationships with third parties involved in the provision of payment services;
- monitoring the application by banks, in their capacity as payment service providers, of the strict customers authentication process, and verifying their activities regarding the provision of payment services through electronic payment instruments with remote access;
- assessing the trends in card market indicators in the context of the capping of interchange fees by the NBM Decision No. 180/2019, and verifying the proper implementation of the fees.

The envisaged actions are designed to contribute to the strengthening of the payment system in the Republic of Moldova and to the efficient management by payment service providers of operational and liquidity risks, as well as to facilitate the implementation of new payment services and instruments, enhance innovation, and increase the security of payment services, encouraging the use of cashless payments.

VII. Preventing and combating money laundering and terrorism financing

During 2025 and2026, the NBM will continue to implement measures to ensure an efficient system for preventing and combating money laundering and terrorist financing, in both the banking sector and non-bank financial institutions under its supervision.

To this end, the NBM will use a risk-based approach for the proportional allocation of resources and supervisory actions, aimed at monitoring vulnerabilities and threats specific to the sectors under supervision. This will ensure tailored monitoring and intervention against the risk of money laundering and terrorism financing associated with each sector.

Particular emphasis will be placed on verifying the measures implemented by the entities to identify and correctly assess the risks of money laundering and terrorism financing, customer due diligence measures, the identification and reporting of suspicious transactions and activities to the competent authority, data retention, and actions taken to improve the internal control system.

In its supervisory activities, the NBM will also monitor the mechanisms developed by entities to identify customers and high-risk transactions, including politically exposed persons, non-resident customers, and

those with complex or unclear ownership structures. Another important objective will be the identification of the beneficial owners of customers.

The NBM will closely monitor the implementation by supervised entities of internal policies and procedures for applying international restrictive measures and will assess the effectiveness of the controls implemented to prevent the risks of circumvention of international sanctions.

In order to improve the knowledge of the supervised entities' employees, the NBM will organize informative sessions, focused on the efficient implementation of requirements to prevent and combat money laundering and terrorist financing. These sessions will cover issues related to the identification and verification of customer identities through electronic means.

In the same context, in order to improve its internal supervisory capabilities in the area of preventing and combating money laundering and terrorist financing, the NBM will continue to develop its employees' skills in identifying specific risks and using specialized IT solutions. At the same time, cooperation with the Office for the Prevention and Fight against Money Laundering, the Security and Intelligence Service, the State Tax Service and other relevant authorities will be continued in order to enhance the exchange of information and prevent the use of the banking and non-bank financial system for money laundering and terrorist financing purposes.

VIII. Risk associated with Information and Communication Technologies (ICT)

The risks related to ICT and operational resilience require continuous and constant supervision, given their potential to generate significant impact.

Supervision in the field of Information and communication technologies (ICT) is crucial to ensuring the security, operational resilience, and regulatory compliance of banks, given the increasingly complex risks associated with digitalization and cyber threats. This includes identifying and managing ICT risks, analyzing the effectiveness of the controls in place, and helping banks adapt to today's technological challenges.

For the years 2025-2026, the NBM plans to assess the ICT situation in licensed banks, focusing on key areas such as governance, vulnerability management, monitoring of critical services and systems, testing of business continuity plans, penetration testing, and the management of outsourced services.

The NBM will also expand the use of off-site supervision through a detailed questionnaire designed to identify major risks and monitor the measures implemented.

Through these actions, the National Bank of Moldova supports licensed banks in strengthening their resilience, ensuring their ability to manage risks, respond to challenges, and maintain continuity of operations.

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