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LIST OF ABBREVIATIONS

AML  Anti-Money Laundering
BoA  Bank of Albania
BRRD  Bank Recovery and Resolution Directive
CFRR  World Bank – Centre for Financial Reporting Reform
CRD IV/CRR  Capital Requirements Directive and Regulation
CCSE  Cyber Crisis Simulation Exercises
CSE  Crisis Simulation Exercise
DGS  Deposit Guarantee Schemes
DIA  Deposit Insurance Agency
DIF  Deposit Insurance Fund
DIS  Deposit Insurance system
DPL  Development Policy Loan
EBA  European Banking Authority
EBRD  European Bank for Reconstruction and Development
ECA  Europe and Central Asia
ECB  European Central Bank
EU  European Union
FinSAC  World Bank – Financial Sector Advisory Center
FMA  Financial Market Authority
FSAP  WB/IMF Financial Sector Assessment Program
IFC  International Finance Corporation
IFI  International Financial Institutions
IFRS  International Financial Reporting Standards
IMF  International Monetary Fund
MREL  Minimum Requirements for Own Funds and Eligible Liabilities
NBRB  National Bank of the Republic of Belarus
NBS  National Bank of Serbia
NFSC  National Financial Stability Council
NPLs  Non-Performing Loans
NBU  National Bank of Ukraine
SRB  Single Resolution Board
SRM  Single Resolution Mechanism
SSM  Single Supervisory Mechanism
TTL  Task Team Leader
USD  US Dollars
WB/WBG  World Bank Group
1. INTRODUCTION

Economic growth is critical to ending extreme poverty and boosting shared prosperity. Growing economies create jobs, generate income, produce social benefits and attract investments. To function optimally, economies and markets need strong and resilient banking systems that are well regulated and well supervised. Such systems contribute to domestic and international financial stability, reducing the risk and severity of financial crisis and allowing capital and markets to develop and flourish. Ensuring the stability of the financial sector is thus an important component of the World Bank’s regional strategy.

Following the global financial crisis, a broad financial sector reform agenda has been pursued by international and European Union (EU) institutions, with direct and indirect impact on most Europe and Central Asia (ECA) countries, especially EU member states and candidate or potential candidate countries. One of the most visible initiatives in the region is the Banking Union. Under its aegis, a number of important initiatives have been implemented, for example strengthened capital regulation, enhanced liquidity requirements and measures to prepare for resolution. Client countries seeking to join the EU are harmonizing their national laws and regulations to meet EU requirements. Implementing new regulations and practices poses challenges for our client countries in the ECA region.

The Financial Sector Advisory Centre (FinSAC) was established in Vienna in 2011 as a dedicated technical unit delivering financial sector reform advice and implementation assistance to client countries in the ECA region. It is part of the World Bank Finance and Markets Global Practice and is supported financially by Austria’s Federal Ministry of Finance.

FinSAC is a regional “knowledge center” focused primarily on three broadly defined thematic areas: first, macro-prudential supervisory frameworks and crisis management; second, micro-prudential supervision and regulation including the resolution of non-performing loans; and finally bank recovery and resolution. Advisory and analytical services in these areas are provided mainly through client-specific technical assistance assignments. Technical workshops, conferences, and seminars are organized regularly and FinSAC also conducts relevant and applied research projects with corresponding outreach activities.

FinSAC committed USD 2,327,082 to its activities in 2015, providing technical assistance and knowledge sharing to eligible countries including EU candidate and potential candidate countries, EU member states as active non-graduated World Bank clients, and some EU neighborhood countries. 2015 was a challenging year in terms of financial stability for client countries. These challenges included the re-emergence of the Greek sovereign crisis bringing increased risk to countries whose banking systems have a substantial Greek presence; continued geopolitical tensions in Ukraine; the sharp decline in the oil price, the Russian ruble and Russian economic activity in general, putting pressure
on the financial systems of many ex-Soviet Union countries. Legacies from the global financial crisis continue to weigh on economic activity and credit growth in the region.

Against this background, there was a special focus this year on improving crisis preparedness and supervisory frameworks. FinSAC continued to work with clients in designing and testing the institutional set-up for national financial stability arrangements, with an increasing focus on cyber-preparedness. Another key driver of demand was for input on the implementation and alignment of legal and regulatory frameworks with the EU Banking Recovery and Resolution Directive (BRRD) which has resulted in several important assignments in the area of recovery plans and resolution legal frameworks. Despite significant progress on these, policy issues remain and much work on implementation will be required, particularly in candidate and potential candidate countries.

FinSAC continues to make significant strides towards achieving meaningful results for every dollar invested. Progress is tracked using a results framework, identifying the positive changes made on the ground and listing clearly identified outputs and outcomes. The results achieved in 2015 are detailed at Annex II.
2. THE FINANCIAL SECTOR ADVISORY CENTER (FINSAC)

The Vienna Initiative, a private-public platform to resolve systemic problems in the central and southeastern European banking sector, was launched in 2009. Initially it aimed to maintain the presence of western banks in the region and has subsequently worked to oversee an orderly process of deleveraging and a balanced restructuring of the region’s banking sectors. The Initiative brings together relevant public and private sector stakeholders of EU-based cross-border banks active in the region.

The Financial Sector Advisory Centre (FinSAC) was established in Vienna in 2011 as a follow-up mechanism of the Vienna Initiative to assist authorities in the region deal with some of the legacy issues from the crisis - particularly the resolution of non-performing loans (NPL) and fragmented crisis management frameworks, and the implementation of new regulatory and supervisory initiatives at the international and regional level.

FinSAC is supported financially by Austria’s Federal Ministry of Finance through a Trust Fund Agreement signed in April 2011 and amended in December 2013. This finances the Center and the implementation of the program, managed and administered through FinSAC, to provide advisory and analytical services on policy, technical, capacity building and institution building issues in the financial services sector at the regional level in support of financial sector development at the country level.

FinSAC provides independent, confidential and tailored expertise, technical advice and implementation support to eligible client countries. As a dedicated technical unit it delivers financial sector reform advice and implementation assistance to client countries in the ECA region as part of the World Bank Finance and Markets Global Practice. Assistance includes supporting the development of legislative and regulatory frameworks; encouraging institutional strengthening; and building the capacity to local experts through targeted projects. It also helps implement the WB/IMF Financial Sector Assessment Program (FSAP) recommendations and the policy responses agreed in the Vienna Initiative.

FinSAC offers global knowledge to help develop and disseminate good practices that can enrich regional policy debates and cross-fertilize reforms. It promotes the application of international benchmarks and standards with the support of global and regional organizations such as the Basel Committee, the FSB, the Financial Stability Institute, the European Banking Authority, and the European Central Bank (ECB). FinSAC maintains momentum in client countries at the national level through
bilateral meetings, in-country engagement (often in partnership with WBG country programs or other IFIs), and provides technical advice on specific issues at all levels of government and industry to reinforce the importance of financial stability and strong banking sectors. It convenes knowledge dissemination events, such as conferences, seminars and workshops, on relevant topics of regional interest and produces analytical reports on banking regulatory and supervisory issues.
FINSAC CLIENTS INCLUDE:

- EU candidate and potential candidate countries (Albania, Bosnia and Herzegovina, Kosovo, FYR Macedonia, Montenegro, and Serbia)
- EU member states as active non-graduated World Bank clients (Bulgaria, Croatia, Poland, and Romania)
- EU neighborhood countries (Belarus, Moldova, Ukraine, Armenia, Azerbaijan, and Georgia) with potential expansion to Central Asia.
3. THE REGIONAL ENVIRONMENT IN 2015 AND STRATEGIC PRIORITIES IN THE FINANCIAL SECTOR

3.1 THE EUROPEAN UNION

A BANKING SYSTEM STILL FACING MANY CHALLENGES

There are still lingering domestic challenges in the euro area, which remain in many ways a legacy of the post-2007 bank and sovereign debt crisis. The euro area banking system continues to be challenged by low profitability amid a weak economic recovery. This, combined with a large stock of non-performing loans in a number of countries, constrains bank's lending capacity and their ability to build up stronger capital buffers. Banks will need to further adjust their business models to cope with the persistently weak economic conditions, combined with an environment of historically low interest rates across the maturity spectrum. Beyond these financial vulnerabilities, real economy risks still prevail. High sovereign and private sector debt in several euro countries remains a potential systemic risk. Debt sustainability challenges remain for euro area sovereigns, as well as for the private sector.

The economic recovery across Emerging Europe, particularly the non-euro areas and EU countries in Central and Eastern Europe, is under way with the recent increase in volatility in global financial markets having had only a limited impact on the region, given rather healthy macroeconomic fundamentals. Economic growth is predominantly being driven by robust domestic demand, as very low inflation supports the purchasing power of consumers, while investment activity is benefiting from inflows of EU structural funds.

Euro area banks have continued to make steady progress in strengthening their balance sheets and building up their resilience to adverse shocks. Nevertheless, they still face challenges relating to weak economic growth prospects, legacy issues from the financial crisis, and strengthened regulatory and prudential requirements.

There were many weaknesses in supervisory structures and institutional arrangements for financial sector supervision and regulation revealed during the crisis. In Europe, the rapid financial integration of the past decades was not accompanied by integration of the legal and regulatory framework. The regulatory response to this worsening situation was weakened by an inadequate crisis management infrastructure in the EU, both in terms of the cooperation between national supervisors and between public authorities.

In the absence of a common framework for crisis management, Member States were faced with a very difficult situation. The larger financial institutions especially had to react quickly and pragmatically to avoid a banking failure. These actions were not coordinated and sometimes led to negative spillover effects on other Member States. Each national supervisor was keen to protect its own banking system. When a bank became weak bailouts were the preferred solution, allegedly to preserve financial stability but generally motivated by the desire to protect and bolster the national banking system. The fragmented structure of the bank supervision and resolution function encouraged moral hazard and excessive risk-taking by banks.
Fragmentation of the legal and regulatory framework also prevented an integrated approach to systemic risk. These systemic weaknesses highlighted the need to create a more integrated architecture to improve financial stability that could bring a uniform and high standard of enforcement, remove national distortions, and mitigate the buildup of risk concentrations.

EU-WIDE LEGISLATION NOW COMING ON STREAM
EU legislation has now been introduced which must be applied by all EU Member States:

— the Bank Recovery and Resolution Directive (BRRD) which sets out the crisis management of banks and large investment firms;
— the Deposit Guarantee Schemes Directive which strengthens the protection of deposits in case of bank failures - most depositors, including companies that are not financial institutions, are eligible; and
— the Capital Requirements Regulation and Directive (CRR/CRD IV) which sets out important prudential requirements of credit institutions and investment firms.

BANKING UNION FOR EURO AREA COUNTRIES
The EU developed Banking Union to further address these issues - based on four interconnected building blocks: common prudential supervision; common resolution (decision and funding); common prudential regulation (Single Rule Book); and common deposit insurance.

The Three Pillars of Banking Union
Banking union applies only to euro area members and non-euro area members who opt to join. Significant progress has been made in setting it up. The first pillar of Banking Union, the Single Supervisory Mechanism (SSM) became operational on 4 November 2014. The second pillar, the Single Resolution Mechanism (SRM), started its operations on 1 January 2015, although most provisions of the SRM regulation only apply as from 1 January 2016. The Single Resolution Board (SRB) has been established and has started to work on the elaboration of resolution plans and related tasks. There are plans within the euro area for national Deposit Guarantee Schemes (DGS) to move progressively to a co-insurance scheme and later to a harmonized European Deposit Insurance Scheme, the third pillar of Banking Union.

Having finalized the Comprehensive Assessment in 2014 and the Supervisory Review and Examination Process, SSM activities in 2015 were focused on strengthening the capital position of euro area banks (and tackling the problem of NPLs). Other key priorities include the harmonization of legal and regulatory practice, by agreeing on a single implementation of the options, and national discretions contained within the CRD IV in the euro area. Consultations on a regulation for significant banks concerning the prudential treatment of general options and discretions and guidance for supervisory teams on how to treat individual cases ended in December 2015.
3.2 EU CANDIDATES, POTENTIAL CANDIDATE COUNTRIES AND NEIGHBORING COUNTRIES

ANOTHER CHALLENGING YEAR FOR FINANCIAL SYSTEMS
2015 was a challenging year in terms of financial stability for EU candidates, potential candidates and neighboring countries. In the Balkans, the re-emergence of the Greek sovereign crisis in the first half of 2015 increased systemic risk in countries where the banking system has a substantial Greek presence. The subsidiaries of Greek banks operating in southeast European countries experienced some deposit outflows in late June, but they remained in the domestic banking system. That said, the central, eastern and southeastern European financial markets have weathered well the bouts of market volatility stemming from worries about Grexit and falling commodity prices. Continued geopolitical tensions in Ukraine, the sharp decline in the oil price, the Russian ruble and Russian economic activity in general put pressure on the financial systems of many ex-Soviet Union countries.

Crisis legacies such as private sector debt overhangs and high NPLs continue to weigh on economic activity and credit growth in the region, although private sector credit growth showed some signs of picking up in some Western Balkan countries, especially in the household sector. The reduction of NPLs, including through loss recognition and the removal of legal, regulatory and tax impediments to debt restructuring, remains a priority for FinSAC engagement with national authorities.

CLOSER HARMONIZATION WITH THE EU
Effective financial sector oversight and crisis management requires systems that allow early and prompt interventions in problem banks. This might include: the ability to facilitate recapitalization from private shareholders when needed; effective resolution mechanisms of failing institutions; emergency liquidity assistance; and appropriate depositor protection to maintain confidence in the financial system. Reforms to address these issues, and to align them more closely with EU, are underway in many countries with different levels of progress. FinSAC is helping national governments understand the implications for them of recent EU legislation, for example liquidity arrangements for cross-border banking groups contained in the BRRD, and is advising on the extent to which EU requirements can be adopted in local legislation, regulations and practices.

The ongoing revisions and reform within the EU also impact countries with banking systems connected to the EU. EU candidate and potential candidate countries, and countries whose banking systems are closely tied to parent banks in EU countries in the ECA region need to address implementation of the new framework which involves a range of questions and challenges.

The advancing reform agenda of European institutions is especially relevant to EU candidate countries, which need to adapt their legal framework to the increasing body of EU secondary regulation. During 2015, the European Banking Authority (EBA) endorsed some 160 technical standards and guidelines developing the Single Rulebook and will gradually focus on their implementation [and impact on financial markets].
IMPROVING REGIONAL COOPERATION

In October, the EBA signed a Memorandum of Cooperation with the supervisory authorities of Bosnia and Herzegovina, the Republic of Srpska, FYR Macedonia, Montenegro, Serbia and Albania establishing a framework for cooperation and information exchange, reflecting the systemic role of EU banking groups in the financial systems of these countries. Other countries should be able to join at a later stage, once their confidentiality regimes are positively assessed by the EBA. It would seem sensible for the EBA to take into consideration the special status of other FinSAC client countries, in terms of the relevance of EU banking groups with operations in their jurisdictions and their likelihood of accession to the EU, when prioritizing the assessment. FinSAC is supporting its client countries to establish a similar Memorandum of Cooperation with the European Central Bank.

3.3 FINSA C: RESPONDING TO DEVELOPMENTS AND CHANGING NEEDS

FinSAC’s strategic objective is to be a center of excellence for financial sector reform advice and implementation assistance in ECA countries, recognized by client authorities, IFIs, EU authorities and the international community. Its unique combination of an implementation-oriented multi-pillar thematic focus and long-term funding structure allows FinSAC to tackle complex (cross-pillar) issues and follow them through to implementation. Many projects require the effective cooperation of different stakeholders where the World Bank’s convening power can prove to be an important advantage.

The operational objective is to achieve strengthened financial stability and sustainable deepening of financial intermediation in Eastern Europe. Progress is assessed using a strategic results framework which considers FinSAC outputs and activities towards achieving national reforms in client countries (see Annex).

FinSAC delivers

- Client-specific technical assistance assignments
- Technical workshops, conferences and seminars
- Research projects with corresponding outreach activities
4. FINSAC ACTIVITIES IN 2015

TIMELY AND TARGETED INTERVENTIONS
Policy makers in client countries continue to demonstrate their commitment in implementing change and improving regulatory frameworks to help ensure sound financial systems and allow for economic growth. In 2015, FinSAC continued to work with client institutions, such as central banks, prudential supervisors, resolution authorities, deposit insurers and Ministries of Finance, to help them keep updated on the latest regulatory developments. Globally led initiatives, as well as EU Directives transposing these, cover capital requirements, bank recovery and resolution, and deposit insurance. These are being implemented by EU member states and client country authorities will need to adjust their regulations and practices as a consequence.

There is ongoing interest in stress-testing, quantitative impact assessments and possible linkages to macro prudential triggers related to credit growth and the resulting activation and depletion of macro prudential capital buffers as well as other prescriptions for macro-prudential policy response. Regulators are keen to improve and benchmark their practices and welcome FinSAC’s advice. Mechanisms for effectively dealing with troubled bank assets and nonperforming loans continue to be relevant for many client countries.

FinSAC is focused on these thematic areas

- Financial stability, macro-prudential supervisory frameworks; crisis prevention and preparedness
- Micro-prudential supervision and regulation including non performing loans
- Recovery and resolution including bank liquidation
Led by client demand there has been some redefinition of FinSAC areas of focus over the last year. This is driven by the desire to target important areas in which FinSAC is uniquely well placed to assist, or which are not well served by other providers of technical assistance, to make maximum impact within FinSAC’s limited resources. The growing, global, importance of cyber-security has, for example, been acknowledged in work on crisis prevention and preparedness and will continue to be developed as a major area of focus. Given the resource constraints and the activities of others in the area an earlier FinSAC focus on improving financial literacy and consumer protection has been scaled back significantly, although this is still recognized as being key to client countries’ long-term development and assistance can be offered on request.

A DEDICATED TEAM WITH A WEALTH OF APPROPRIATE EXPERTISE

FinSAC had some staff turnover in 2015, including a change of Coordinator. By December the core FinSAC team consisted of six dedicated staff whose skills and expertise include economics, law, supervision and regulation, accountancy and risk management. A senior bank supervisor joined the team in April 2015. The NPL expert left in October 2015 and a replacement is being recruited. A senior staff member from Headquarters specializing in cyber security crisis simulation exercises will join FinSAC in 2016. The Vienna-based team are supported by WBG headquarters senior staff as well as international consultants, as needed.

BENEFITTING FROM COLLABORATION WITHIN THE WORLD BANK GROUP, WITH THE EU AND WITH OTHER IFIS

FinSAC works closely with WBG colleagues in Washington DC, Vienna and throughout the ECA region. Headquarters based staff join FinSAC staff on missions on a regular basis, for example for the CSEs where IT expertise is required. FinSAC is also an active participant and speaker during conferences organized by the Vienna based World Bank Centre for Financial Reporting Reform (CFRR). Similarly, the CFRR is a regular speaker and participant at workshops organized by FinSAC.

FinSAC staff contribute to other relevant seminars, conferences and events, including those organized by the Joint Vienna Institute. FinSAC also has meetings with the SSM and regular communications with the EBA.

4.1 FinSAC Activities in 2015: Pillar 1: Financial Stability, Macro-Prudential Frameworks and Crisis Preparedness

Under this pillar FinSAC assists authorities strengthen their financial stability frameworks in both crisis prevention (including macroprudential policy-making) and preparedness to actually manage a financial crisis. In 2015, FinSAC continued to work with clients in designing and testing the institutional set-up for national financial stability arrangements. FinSAC technical assistance related to macroprudential frameworks included a focus on the role, remit and analytical capacity within the Financial Stability Departments of client countries’ central banks. In crisis preparedness, the primary FinSAC technical assistance product is the financial Crisis
Simulation Exercise (CSE), including follow-up advice on how to reform crisis preparedness frameworks. Macro-prudential frameworks were strengthened to varying degrees in 2015, home-host relations improved and the level of crisis preparedness increased in many client countries.

**CRISIS SIMULATION EXERCISES**

FinSAC offers CSEs to test information analysis and sharing, decision making, home-host cooperation, and communications within the central bank and between the other national financial sector authorities. These exercises bring together the top level financial authorities of a country to manage complex scenario-based financial sector distress episodes, offering a unique entry point in designing technical assistance interventions in both the macro- and micro-prudential areas as well as bank resolution.

CSEs allow participants to “learn by doing”. Key financial-sector decision makers practice applying existing or proposed legal and operational arrangements in a crisis situation. The exercises are conducted in a virtual environment and can be tailored to the needs of the authorities as the scope can be set up as intra-agency, inter-agency or a combination. An analysis is undertaken following the exercise and a comprehensive CSE Report, outlining the main lessons and policy recommendations, are shared and discussed with the participating authorities. The findings can lead to follow-up implementation assistance.

Two FinSAC CSEs were undertaken in 2015, one in Kosovo in March and another in Albania in June (the latter in the midst of the escalation of the Greek sovereign crisis). Besides the CSEs conducted in 2015, it has to be noted that the ones that took place in late 2014 in Macedonia and Armenia proved to be especially well-timed, given the subsequent escalation of contagion risk from Greece and Russia, countries towards which the financial systems of these two client countries are, respectively, particularly exposed to. These CSEs and the institutional and procedural changes triggered by them allowed the national authorities to become better prepared and focused by the time the real crises had reached them.

FinSAC has now completed CSEs in eight client countries since its inception. A FinSAC working paper “Financial Crisis Simulation Exercises in Europe and Central Asia: Lessons Learned” (available online at [www.worldbank.org/finsac](http://www.worldbank.org/finsac)) analyzes the experience gained and the lessons learned which may be useful for financial
sector authorities in crisis management institution design as well as in shaping future simulation exercises. The paper confirms that while recovery and resolution planning is still at an early stage in some countries there is growing recognition of its importance. Key areas to be addressed by authorities included a need for clearer definition of the roles and responsibilities for declaring a systemic crisis and effectively managing the response. The CSEs had made clear that no “one size fits all” solution existed, different problems would require different solutions. Comprehensive planning and regular testing was an effective preparation, enabling teams to understand the complexities and to develop flexibility, and identify weaknesses, in their potential responses.

INCREASING CYBER PREPAREDNESS
One important area of increased FinSAC focus in 2015, which emerged from CSEs, was that of cyber-preparedness. Cyber incidents (such as malware attacks) are very often contagious and thus, by construction, potentially systemic. Sharing information about incidents is vital to enable preventive and mitigation measures to be quickly taken in unaffected institutions, but in practice this is not always a priority. Cyber issues can too often be viewed as the responsibility of IT departments rather than another operational risk that needs the attention of banks’ board members and senior management.

FinSAC has worked to raise awareness of the key coordination role for central banks and prudential supervisors to try and contain and prevent further escalation of a cyber-attack on the financial system. Cyber events have been introduced within CSE’s scenarios.

A self-assessment questionnaire developed by FinSAC was sent to 14 central banks in the ECA Region. It sought to understand current practices and a working paper outlined the results and recommendations to prevent and quickly recover from a potential cyber-attack. Building on this, FinSAC organized a Cyber-Preparedness Seminar in May attended by 65 central bankers and bank supervisors from the ECA region, consulting and IT companies, commercial banks active in Eastern Europe, and local government officials. Presentations highlighted the risks and suggested measures to address them. Governance and cyber-preparedness - ensuring attacks were quickly identified and appropriately dealt with to limit contagion and quickly resume normal business - were key. Given the potential threat to financial stability, central banks and supervisors had an important role in ensuring that all stakeholders were effectively addressing the risks at an appropriately senior level. Cyber-preparedness would be achieved only by developing greater awareness and planning; improving domestic and cross-border cooperation and knowledge sharing; and investing in IT systems and training and educating staff.

FinSAC also presented the cyber security related findings from its crisis simulation exercises at an annual forum of European central bank IT department heads in Belgrade and at a cyber security workshop in Montenegro, organized by the International Telecommunications Union of the UN.

MACROPRUDENTIAL AND CRISIS PREPAREDNESS FRAMEWORKS

UKRAINE:
FinSAC has been supporting the estab-
lishment of a National Financial Stability Council (NFSC) in Ukraine. FinSAC missions in January and February advised on the internal procedures and functioning of multi-authority NFSCs and the newly established body met for the first time in April when it adopted internal regulations in line with FinSAC’s recommendations. FinSAC is also supporting the newly established Financial Stability Department within the NBU, to quickly build up its analytical capacity. In 2015 a project to implement a liquidity stress testing model in the NBU was completed and assistance with further analytical tools are agreed for 2016.

KOSOVO:
Following the crisis simulation exercise conducted earlier in 2015, the Central Bank of Kosovo had asked FinSAC for technical assistance to enhance its crisis preparedness framework. Work commenced with an inception mission identifying the legal/regulatory, institutional and procedural gaps that have to be addressed. Further technical assistance is expected to take place in 2016 in implementing the proposed changes.

WORLD BANK PUBLICATION
The lessons from FinSAC’s experience with macroprudential frameworks in its client countries, accumulated in the past four years during various technical assistance activities, were summarized in a short policy note titled “Macroprudential Policy-making in ECA Countries”, which is to be published in a World Bank flagship publication on Europe and Central Asia Finance.

4.2 FinSAC ACTIVITIES IN 2015: PILLAR 2: STRENGTHENING MICRO-PRUDENTIAL SUPERVISION AND REGULATION

The objective of work under this pillar is to strengthen the safety and soundness of individual supervised entities through forward-looking supervision and sound regulations. FinSAC helps to build knowledge of changes in international and EU prudential regulations, and works with national authorities towards the establishment and implementation of appropriate systems of supervision and sound prudential regulations in line with international standards and good practice. This can include:

SUPERVISION
• Assessing supervisory approval processes, quality assurance and the governance of supervision;
• Advising on inspection policies and procedures, and the preparation and content of inspection reports;
• Helping implement forward looking risk based supervision;
• Encouraging the use of remedial action and enforcement frameworks;
• Developing, or assessing, supervisory guidance and tools for assessment of bank business models or for risk assessments of individual banks.

REGULATION
• Gap analysis of compliance with CRD IV/ CRR requirements;
• Quantitative impact assessments and advice on action and implementation plans;
• Guidance on implementation of Pillar II framework;
• Guidance on identifying domestic systemically important banks, as required by CRD IV and Basel III;
• Assisting with the development and calibration of the various buffers included in CRD IV and Basel III.

The banking systems of many client countries are dominated by foreign, mostly euro area, banks which can pose specific challenges and risks for host country supervisors. FinSAC advises on cross-border banking supervision including: risk assessments and supervisory strategies for specific risk posed by foreign banks; addressing home-host issues and building safeguards to prevent contagion risk. FinSAC can also help assess and address the prudential impact of transitioning to International Financial Reporting Standards (IFRS). This includes policy advice on timing and safeguards when moving from deterministic regulatory provisioning models to expected loss methodologies and an assessment of the preconditions for increased reliance on IFRS.

NON-PERFORMING LOANS
NPLs can be a serious drag on credit supply - driving up banks’ funding costs and interest margins and draining bank profits and capital. While there has been some improvement in the quality of banks’ loan portfolios, the share of NPLs in the total loan portfolio in client countries remains generally high.

FinSAC has several ongoing programs designed to address the high NPLs and NPLs resolution. These programs have some overlap with micro prudential and recovery and resolution work. They have a long-term horizon and a complex configuration due to the multidimensional nature of NPLs resolution. Indeed, high NPLs can often be explained by the interplay of many factors, which generally fall under four categories:
• Recognition and provisioning of NPLs, resulting in two closely related issues, which should be jointly addressed: improve valuation of collateral to bring it closer to market value and better align prudential and accounting provisions to improve incentives to sell distressed assets,
• Voluntary restructuring of loans to viable companies,
• Judicial resolution, which could be hindered by inadequate insolvency regimes or lack of court effectiveness, and
• Secondary market for the sale of distressed assets.

Every project and country is different but the overall approach to NPLs resolution projects generally involves a diagnostic stage followed by an implementation stage. In the diagnostic stage, slicing and dicing the exposures obtain a detailed analysis of the overall portfolio. This stage also includes a legal analysis of the use and hurdles to voluntary out-of-court restructuring, the efficiency of bankruptcy and court systems, and an assessment of the consistency of the NPLs definitions and provisioning. FinSAC assistance can include benchmarking the existing NPLs identification and classification practices against international good practice while taking into account specific country circumstances and products.

EBA technical standards on Non-Performing Exposures and Forbearance can provide common definitions and reporting templates to allow supervisors to assess the level of forbearance activities and non-performing loans on a comparable basis with the EU. The implementation stage includes assisting countries with voluntary
guidelines for out of court restructuring and the review of legislation.

**KNOWLEDGE SHARING EVENTS**

FinSAC joined representatives from central banks and supervisory agencies from the region in Prague in May for the “Financial Stability Institute – Banking Supervisors of Central and Eastern Europe Regional Seminar on Basel III, the liquidity standards and new standardized approach”. FinSAC’s presentation outlined its technical assistance work as well as the current practices and regulations in the area of NPLs.

Tackling the persistent regional economic challenge of NPLs was also the overarching theme of a FinSAC-hosted Vienna Initiative meeting on 26 June. The meeting discussed national progress in implementing action plans with high-level representatives from the region, including the Governor of the Bank of Albania (BoA); the Governor of the Central Bank of Macedonia; the Deputy Governor of the Croatian National Bank, and senior representatives of the Central Bank of Hungary, the National Bank of Romania and of the Serbian Ministry of Finance and National Bank of Serbia. Workshops, including in Albania, Croatia, Hungary and Serbia, had allowed the IFIs to work with local authorities, banks and potential investors to analyze individual problems and develop responses. The representatives underlined the importance of linking the emerging European NPL resolution efforts to those in the euro area, given the strong regional presence of euro area-based parent banks.

FinSAC organized a seminar on the EU SSM in Frankfurt on November 3-4, 2015 with senior representatives of central banks and regulatory agencies from thirteen countries in the ECA region, IFIs and the ECB. Speakers explained the relevance and impact of the SSM for FinSAC client countries. Banking groups operating in these countries are now supervised by the SSM, the seminar helped to facilitate understanding of the SSM’s supervisory stance and improve communication with the ECB. Issues related to institutional settings that were addressed included governance, supervisory board decision making and cooperation between SSM and non-SSM authorities. The EBA explained their role and functions. Assessment of equivalence of confidentiality regimes, regulation and consolidated supervision were also discussed. The seminar looked in detail at SSM requirements and impact in relation to supervisory methodologies and practices and horizontal functions including risk analysis, business model classification, viability assessment, profitability monitoring; on-site supervision; and quality assurance. Among many valuable insights gained from these discussions was the importance of integrated supervisory teams as the cornerstone for effective supervision of significant institutions. There was also discussion of the role of the external auditor in bank supervision and a presentation on research into the relationship between banking supervisors and external auditors.

FinSAC contributed to the discussion on the development of effective supervisory architecture for Belarus, in the light of the Basel Core Principles and the financial sector assessment program for Belarus. A one day roundtable in Minsk on Integrated Financial Supervision was organized with the Central Bank of Belarus on June 26 to discuss different models and review international experience, including the cases of the Dutch National Bank, the Central Bank of Armenia and the National Bank of Ukraine.
**TECHNICAL ASSISTANCE TO NATIONAL AUTHORITIES IN 2015**

**ALBANIA:**
FinSAC continued to provide support to BoA on NPL resolution in 2015.

FinSAC also participated in the Third Albania Financial Forum in Tirana on 25 June 2015, sponsored by the Vienna Initiative, which focused on NPL resolution. FINSAC provided inputs on a best practice legal framework for NPL resolution in Emerging Europe. The meeting endorsed the idea of regular public monitoring on progress in NPL resolution.

**CROATIA:**
At the request of the Ministry of Justice, FinSAC produced a joint report with the European Bank for Reconstruction and Development (EBRD) on proposed amendments to the Croatian “Personal Insolvency Law”. Most key recommendations were included in the draft law, and are expected to be adopted in 2016.

Following this successful cooperation, the Croatian authorities requested support and technical assistance in the area of NPL resolution. A diagnostic report, prepared by a joint FinSAC-EBRD team, was delivered to the Croatian authorities. It identified key impediments to NPL resolution in Croatia, and proposes a series of concrete measures to address the NPL coordination problems.

Other ongoing initiatives include support and capacity-building for judges and insolvency professionals; and further review of the insolvency law, including the area of personal insolvency.

**KOSOVO:**
FinSAC agreed to the Central Bank of Kosovo’s request for a review of its NPL definitions and NPL trends, triggered by the observation that NPLs in Kosovo remain low compared to the rest of the region and had recently started to decrease. A desk review of the relevant NPL and provisioning regulations, inspection reports and bank data will be followed by a number of onsite missions in 2016. An analytical report on the regulation and practice in Kosovo vis-à-vis international standards concerning NPLs, including those issued by the EBA and other institutions, will be drafted and discussed with the Kosovo authorities. It will provide a sound basis for the optimization of the recognition and provisioning frameworks for NPLs in Kosovo, thus contributing to a comprehensive approach to the NPL issue.

**SERBIA:**
FinSAC has continued to assist NBS with the implementation of recommendations contained in the 2014 review of the effectiveness of onsite supervision practices.

FinSAC finalized technical assistance in the area of Anti Money Laundering (AML) supervision practices started in 2014. Policies, procedures and supervision manuals for AML examination and their implementation were reviewed and discussed with bank supervision staff, on-site examiners, risk managers and other stakeholders. A report addressed the procedures for determining the scope and frequency of inspections, the planning of inspections, the preparation and content of Inspection Reports, and the onsite inspection procedures. Even though AML supervision is not a core FinSAC area, this assignment was performed as the AML supervisory process had many similarities to the prudential su-
pervision process.

FinSAC and NBS organized a conference on NPL Resolution in Belgrade in April 2015, which was attended by over 200 participants representing the Serbian authorities, International Financial Institutions (WBG, International Monetary Fund (IMF), EBRD, and the International Finance Corporation (IFC)), local and international banks, private sector actors, and international investors. The conference was opened by the Governor of the NBS and the Serbian Minister of Finance.

Following the conference, the World Bank was asked by the Ministry of Finance to provide support in drafting an inter-agency NPL Resolution Action Plan bringing together initiatives by the NBS and the Ministries of Finance, Justice and Economy, to better coordinate efforts on NPL resolution in Serbia. A matrix of priorities for NPL resolution was developed and an inter-agency working group created to monitor and coordinate NPL resolution efforts. The action plan was adopted by the Serbian government in September 2015 and its implementation is being guided by the working group.

UKRAINE:
A new regulatory and supervisory framework adopted by the NBU governing the transaction with bank related parties, reflected extensive advice and technical support from FinSAC and the IMF. With the help of the FinSAC team, relevant legislative amendments in the banking legislation were introduced and the National Bank were given new supervisory powers to presume relations with the bank borrowers. This was followed with technical assistance to enhance the regulatory framework, FinSAC continue to be involved in drafting new reporting forms, establishing a separate related parties supervision unit, supporting a special related parties review exercise and analyzing the bank restructuring plans to unwind above the limits related party exposures.

FinSAC has been collaborating with the NBU and the EBRD on a draft financial restructuring law to provide a framework for greater cooperation between creditors and debtors in the out-of-court resolution and restructuring of large, complex multi-creditor NPLs on the voluntary basis. The draft law, which has the support of the NBU, the Ministry of Finance, the Ministry of Justice, and the Bankers’ Association, has been completed and submitted to parliament for approval. The proposed framework aims to form a set of binding agreements between commercial banks defining their mode of collaboration in cases of multi-creditor workouts. The Ukrainian authorities and bankers’ association have indicated the need for additional technical assistance with the implementation of the law during 2015-2016.

To shape FinSAC’s long-term technical assistance engagement in the field of micro-prudential supervision and to support the NBU in the process of adoption of comprehensive internal supervisory reform agenda, FinSAC launched an assessment of the current stance of regulatory and supervisory framework in 2015. This aims to identify the gaps with the Basel Core Principles and good international practice and will also cover a gap analysis with the CRD IV/CRR framework, which country authorities agreed to converge to after signing the Association Agreement with the EU. The results of the exercise will contribute to the design a comprehensive reform roadmap for the next few years, which will be sup-
ported by extensive technical assistance by FinSAC in 2016-2017. Other IFI donors will be consulted about the roadmap to ensure the provision of harmonized technical assistance and avoid any overlaps.

4.3 FINSA C ACTIVITIES IN 2015: PILLAR 3: ADDRESSING BANK RECOVERY AND RESOLUTION INCLUDING BANK LIQUIDATION

Defining how to deal with failing banks has been one of the most important regulatory areas emerging from the 2007/08 global financial crisis. The “Key Attributes of Effective Resolution Regimes for Financial Institutions” issued by the Financial Stability Board in 2011 provide the international standard for resolution regimes for financial institutions and are key to addressing the moral hazard and systemic risks associated with institutions that are “too big to fail”.

In Europe, the BRRD provides the new legal basis for bank recovery and resolution and is one of the cornerstones, and a potential game changer, for creating a more stable and fairer banking system that serves the economy at large. Member States had to transpose it into national law by 1 January 2015 (they were given discretion to postpone the implementation of bail-in until 1 January 2016). The fact that a number of Member States were delayed in their national transposition shows that, despite the formal consensus reached, political reluctance and/or technical uncertainties remain. Meanwhile the first (pre-) BRRD resolution cases are being challenged in the Courts. FinSAC has been responding to demand from non EU Member States to understand how the new legislation will affect them.

Adopting and Adapting EU Recovery and Resolution Legislation

FinSAC is working with authorities in client countries to strengthen their national bank recovery and resolution frameworks, including Recovery and Resolution Plans (RRPs), and adopt modern resolution tools to deal with struggling institutions in line with international best practice. Regulatory convergence and alignment with the acquis communautaire is of special relevance for EU-accession countries. Under the harmonized framework of the BRRD, banks are required to prepare recovery plans to overcome financial distress. Authorities have powers to intervene in the operations of banks to avoid them failing. If they do face failure, authorities have comprehensive powers and tools, including expropriation, to restructure them and to resolve failed banks in a way that preserves their critical functions and avoids taxpayers having to bail them out. The Directive also sets out how home and host supervisory and resolution authorities of banking groups should cooperate in all stages of cross-border resolution, from resolution planning to resolution itself, including the establishment of resolution colleges.

Providing comprehensive understandings and advice on the BRRD is proving challenging as many key technical details of how the new system will work in practice are still open. Though already more than a year old, the BRRD introduces some challenging new concepts likely to affect shareholders’ and creditors’ fundamental
rights, and the adoption of recovery and resolution plans, the effects of which will largely depend on the implementation phases. Also, EBA standards specifying and giving “flesh” to the basic legal text of the BRRD have only recently been adopted. The SRB, dealing with resolution of banks within the euro zone, only becomes operational in January 2016 and is still in the drafting phase of resolution plans and minimum requirements for own funds and eligible liabilities (MREL) for the banks under its competence. Regarding the important issue of valuation, deciding the amount of losses and the concrete adoption of resolution tools, a common understanding on the valuation methodology used for resolution purposes still has to be defined at international and European level.

Many client countries will need to adopt or adapt legislation to take account of the requirements of the BRRD. FinSAC is not advising wholesale transposition of the legislation as enacted in the EU. Instead it suggests tailored adaptations which reflect national economic circumstances and local financial markets. FinSAC developed a “BRRD gap analysis matrix” to better assist authorities to understand and possibly adapt their national frameworks in light of the BRRD provisions. This matrix also includes a more technical “Recovery-resolution powers matrix: what powers are available upon which triggering event” to be used as a basis for the design of a new resolution framework. This allows gaps between the BRRD and current national resolution system to be concretely defined and can help guide the key policy decisions on alignment and possible divergences from the BRRD. FinSAC also provided a matrix as a template to assist supervisors in the assessment of banks’ recovery plans, taking into account EBA standards and Bank of England guidance.

FinSAC is developing a methodology to facilitate the comprehensive assessment of the completeness, quality and feasibility of recovery plans against international and EU standards. Intended originally for the assessment of Albanian systemic banks’ recovery plans, it could be applied—with the necessary customization—in other countries of the region.

**BAIL-IN**

The key challenge is to adapt international good practice to the economic circumstances and the needs and possibilities available in emerging markets. The fairly complex process of defining loss absorbing capacity (MREL) for each individual bank, on which the real value and strength of bail-in will depend, is still under development at international level. For authorities in emerging markets with less developed financial markets and a system largely dependent on foreign banks, similar albeit different and additional issues have to be taken into account when defining loss absorbing capacity including from a host perspective. In small countries with less developed capital markets it will be difficult to issue debt and to diversify and limit contagion risk. For subsidiaries of foreign banks, reliance on internal loss absorbing capacity coming from the parent might be a solution. Whatever option is chosen, in a banking system with balance sheets largely funded by retail depositors the challenge is to evolve to balance sheets that make it easier to impose losses.

Another factor that authorities should consider when framing a new system for bail-in are consumer protection and financial literacy policies. The minimum issuance of junior debt forced by the BRRD’s 8% prior
burden sharing (MREL) requires informed investors and depositors. Otherwise retail clients not fully aware of the risks associated with bond-ownership might cause unexpected contagion risks. FinSAC is working with client countries to understand these requirements and their likely impact, both within the EU and more widely.

**KNOWLEDGE SHARING EVENTS**

A two-day workshop “Recovery and Resolution Planning: From Experts to Experts” was held in April in Vienna. More than 40 senior experts from client countries were joined by colleagues from the Austrian authorities, the European Single Resolution Board, ECB, EBA, Bundesbank, Dutch Central bank, FMA, the Polish Bank Guarantee Fund, E&Y and KPMG to discuss these key themes. The workshop examined how to assess and establish credible and feasible recovery and resolution strategies for individual financial institutions; gave insights into the new EU resolution framework under the BRRD/SRM; and answered questions about the implementation of recovery and resolution planning.

A panel on “Independent valuation under the BRRD resolution framework: practical questions and implementation difficulties” was organized for a World Bank Centre for Financial Reporting Reform conference for leading practitioners in the area of banking supervision and the role of auditors hosted at the Austrian National Bank in September. The panel chaired by FinSAC brought together discussants from the Single Resolution Board, EBA, the International Valuation Standards Council, the International Accounting Standards Board, as well as bankers and auditors to discuss topical challenges in identifying a methodology for resolution purposes.

FinSAC co-organized a session on “EU and US Bank Resolution Systems” at a World Bank learning event in October in Washington DC which aimed to explain and compare the bank resolution systems set up in the United States and the EU in the wake of the financial crisis. High level representatives from the US Federal Deposit Insurance Corporation Office of Complex Financial Institutions and the SRB’s Policy Coordination and International Relations Unit gave insights into their respective resolution frameworks and discussed with participants how to devise strategies to tackle problem banks in smaller emerging market economies.

FinSAC joined a World Bank/Polish Bank Guarantee Fund Seminar in February on “Challenges for European Deposit Insurance Systems: Funding, Investment Practices and Reimbursement” in Warsaw, Poland. Specialists from 16 countries, including the United Kingdom, Romania, Croatia, Bulgaria, Finland, Hungary and Poland, the European Commission and the EBA shared their knowledge and experience of deposit insurance systems, especially funding, investment and payout procedures.

**BRRD GUIDE**

FinSAC began preparing a publication for supervisory and resolution authorities in the European and Central Asia region giving a comprehensive overview of the BRRD tools and powers for resolving failing banks. This Guide, expected to be published in the second half of 2016, will outline the Directive’s most important principles, briefly analyze possible scenarios, and explain how practical implementation could work.
**TECHNICAL ASSISTANCE TO NATIONAL AUTHORITIES IN 2015**

**ALBANIA:**
FinSAC supported the resolution authorities to meet the conditions of the Development Policy Loan (DPL), identifying gaps in the current banking resolution framework and issues in need of amending legislation. FinSAC submitted and discussed a gap analysis matrix on the BRRD with the BoA to form a comprehensive assessment of the legal framework for dealing with troubled banks. A comparison between current resolution powers and those provided under the BRRD helped to identify necessary changes. FinSAC has also assisted with the drafting of legislative texts.

Partly motivated by the lessons from the financial crisis simulation exercise conducted by FinSAC, the Albanian authorities were encouraged to take more decisive action on crisis preparedness in order to intervene sufficiently early and timely to contain contagion in the event of distress in the banking system, as well as addressing legal risks for the BoA when taking resolution actions on failing institutions. It was agreed that adoption of a new law on bank resolution will be a conditionality under the DPL II.

In October 2015, a BRRD workshop was co-hosted by the BoA and FinSAC. The workshop began an open dialogue with key stakeholders on preparation of a new resolution law for banks for which simple liquidation is not an option. Speakers from the European Commission, the Single Resolution Board and FinSAC explained the philosophy and rationale of the BRRD and its application by third countries. A follow-up note on key policy decisions for the establishment of a new resolution frame-work was submitted to the BoA in early November. By the end of the year a first version of the draft resolution law, drawn up with the help of an external law firm, was discussed internally by a special working group set-up within the central bank.

Also as part of the DPL II, FinSAC worked closely during 2015 with the Albanian authorities to assess recovery plans submitted by Albanian systemic banks, as required by a Decision of the BoA - becoming the first country in the region to apply the methodology for the assessment of recovery plans. A FinSAC team delivered the methodology to the BoA, which was explained in greater detail during a hands-on seminar for bank supervisors. The final assessment of the recovery plans was completed by the Supervision Department of the BoA, and endorsed by the Board, then incorporated in the supervisory dialogue with banks.

**BOSNIA HERZEGOVINA:**
Following the FSAP, a Technical Note for the Deposit insurance Agency (DIA) on “The Use of Deposit Guarantee Schemes for Resolution Purposes in Bosnia and Herzegovina” was prepared by FinSAC and submitted to the client in October 2015. The Note analyses the use of DGS financing for resolution purposes as provided for under the BRRD and, taking into account the current institutional and economic context in BiH, proposes possible divergences and a more active involvement of the DIA. The Note seeks to provide analytical and conceptual policy guidance focusing on the institutional set up of the resolution fund under the management of the DIA and the scope to draw on the deposit insurance fund (DIF) for resolution purposes. Further engagement to improve the operation and compliance of the DIA with the International Association of Deposit Insur-
Implementation of reform will depend on the outcome of negotiations on the establishment of a new resolution framework. Taking part in a WBG financial sector mission in early November, FinSAC submitted technical comments on draft new banking laws drawn up by the authorities.

GEORGIA:
FinSAC is supporting the Georgian authorities’ efforts to establish a deposit insurance system (DIS) to increase public confidence, protect small depositors and enhance the overall safety net, in line with the EU Directives and other international standards as agreed with the EC. Analytical and advisory support to: (i) finalize and receive Government approval of the DIS concept, and (ii) develop and enact a modern DIS legal framework (Law on Deposit Insurance and accompanying legislation) was provided.

As part of awareness building activities, FinSAC organized a three-day Deposit Insurance Workshop jointly with the Ministry of Finance in August 2015. The workshop included extensive discussions with participants on the role, elements and EU legal provisions for the DIS.

MOLDOVA:
A World Bank financial sector mission, funded by FinSAC, visited Moldova in May to assess the authorities’ plans and preparations to resolve three banks under special administration; and to follow up on the results of the Kroll forensic scoping report to identify further action and avenues of support to the Moldova authorities regarding the loss and recovery of approximately USD 1 billion of deposits. The National Bank of Moldova is receiving further assistance on the transfer of deposits, as well as specialist technical assistance on social welfare payments.

SERBIA:
Following the reforms supported by a WB funded DIA lending project, FinSAC provided TA to the government on the effects of the newly introduced resolution framework on the DIA’s mandate and its role in the new process especially its involvement in the least-cost test and required information exchanges. FinSAC indicated its preparedness to provide technical assistance in the form of case studies illustrating the application of the least-cost test as well as on the triggering of the use of DIF money under resolution.

UKRAINE:
FinSAC continued supporting the NBU in establishing an effective recovery and resolution planning framework. The draft regulations on recovery planning were extensively discussed with NBU to adapt them to local circumstances. FinSAC will continue to provide technical assistance as the NBU begins the analysis and assessment of recovery plans.
5. FOCUS FOR 2016

FinSAC is consolidating its position as a niche player in technical assistance and a “center of excellence” with a focused mandate to maximize impact within its limited scale. The Center’s work continues to be well received by client authorities. Work will continue in 2016 to help develop resilient financial systems. Implementation of financial sector reform internationally and by the EU will continue to offer opportunities for FinSAC to assist both EU and non-EU member countries incorporate new requirements into national legislation, drafting secondary legislation and regulations.

BUILDING ON OUR CSE EXPERIENCE TO OFFER NICHE ASSISTANCE

The World Bank has been running crisis simulation exercises (CSEs) since 2008, including national exercises in the following FinSAC countries: Albania, Armenia, Croatia, Macedonia, Moldova, Montenegro, and Romania which have provided valuable insights for client authorities. While cyber incidents have been present in several of the corresponding scenarios as triggers of banking problems, those exercises have been oriented towards the typical decisions that financial sector authorities need to take. Given the mounting threat to financial stability derived from manmade or accidental cyber incidents, FinSAC is now developing new Cyber Crisis Simulation Exercises (CCSEs) to focus attention on this area and provide a safe environment to practice management of this type of threat.

CLIENT SPECIFIC TECHNICAL ASSISTANCE ASSIGNMENTS

FinSAC has a growing pipeline of specific technical assistance requests for 2016 and more will be defined over the course of the year as part of ongoing policy dialogue with client countries.

In Albania, the adoption of the new bank resolution law is expected for June 2016 and authorities have indicated their interest and need for FinSAC assistance in the implementing phase. Especially on the adoption of by-laws e.g. for recovery and resolution planning but also on more practical implementing aspects such as legal techniques for bail-in, the drawing up of resolution plans and valuation for resolution purposes.

FinSAC will support the management of the National Bank of the Republic of Belarus (NBRB) to develop terms of reference for an Asset Quality Review and conduct Forward Looking Scenario Analysis of banks’ balance sheets, to assess the impact of deterioration in the macro environment and the reduction of government directed lending on the banks’ capital position. The findings will be used to guide further technical assistance aimed at future regulatory reforms, strengthening bank supervisory practices and capacity building.

Support for the Georgian authorities’ introduction of a DIS, to increase public confidence, protect small depositors and enhance the overall safety net in line with the EU Directives and other international standards as agreed with the EU, will continue.
in 2016. The focus will be on the establishment of a public deposit insurance authority (agency or a fund) and operationalizing the DIS.

In Kosovo, FinSAC will continue to work with the central bank and the deposit insurance agency to strengthen the crisis preparedness framework and work out a detailed financial crisis contingency plan.

Technical assistance will be given to the National Bank of the Republic of Macedonia related to the architecture and control framework of banking supervision and the assessment and development of supervisory methodologies.

In Montenegro, assistance will be provided to strengthen the institutional capacity of the Montenegrin Deposit Protection Fund towards meeting its deposit insurance and enhanced bank resolution obligations under the bank resolution regime and serve as a core part of the financial sector safety-net.

In Serbia, technical assistance to the Deposit insurance Agency in the form of case studies will illustrate the application of the least-cost test and the triggering of use of DIF money under resolution.

In Ukraine, Technical assistance to the Financial Stability Department of the NBU on macroprudential analytical tools will continue in 2016, focusing on the construction of a Financial Stress Index, an Early Warning System and a Financial Conditions Index. FinSAC will finalize the assessment of the current bank supervisory framework at the NBU against Basel Core Principles of effective banking supervision, and the gap analysis of the current bank supervisory framework with the European CRDIV/CRR framework. This will be followed by detailed consultations, including with other IFI donors, on the design of a comprehensive reform roadmap and the requirements for technical assistance.

In Bosnia and Herzegovina (BiH), the adoption of the new Banking Laws is expected in mid-2016 and authorities have indicated their interest and need for FinSAC assistance in the implementing phase of the foreseen bank resolution framework including on the establishment of resolution units under the Banking Agencies as well as the adoption of respective by-laws. Moreover, in line with the respective strategies for Basel II/III implementation and subsequent operational work plans of the Banking Agencies, authorities are interested in FinSAC support in establishing common procedures and systems for the supervisory review and evaluation processes as well as adoption of respective instructions and guidelines. The authorities also confirmed interest in a “bottom - up” crisis simulation exercise for the whole financial safety-net in BiH.

**RESEARCH PROJECTS WITH CORRESPONDING OUTREACH ACTIVITIES**

Three important research pieces are currently under development; a guide to the BRRD, a working paper on policy options for small host supervisors, and stocktaking exercise on financial sector governance.

**BRRD GUIDE**

The FinSAC BRRD Guide will provide supervisory and resolution authorities in the European and Central Asia region with a comprehensive overview of the BRRD tools and powers for resolving failing banks. The guide aims to outline the most important principles, including flow charts illustrating complicated decision making processes,
and provide short analysis and comment, explaining how practical implementation works. The Guide will be published, and launched at a seminar, planned for Fall 2016.

POLICY OPTIONS FOR “SMALL HOST” SUPERVISORS

FinSAC will publish a paper detailing policy options for small host supervisors in 2016. These authorities face specific risks, only some of which are addressed by safeguards built into international standards and EU legislation on supervisory cooperation. The paper will analyze the policy options for these small hosts in regulation, supervision (including recovery) and resolution encompassing EU and non-EU countries, including supervisory and resolution cooperation between European banks supervised by the SSM and third countries.

STOCKTAKE OF FINANCIAL SECTOR GOVERNANCE

FinSAC receives frequent questions from client countries on how others organize the governance of their financial sector regulatory and supervisory functions. A research project will survey the current governance and oversight structures of financial sector policies/practices in ECA countries and other benchmarking countries to investigate how authorities organize macro prudential and micro prudential supervision and regulation, bank recovery and resolution, crisis management and consumer protection functions, and policy issues relevant to the governance and oversight of these functions. The findings will be used to identify good practices and ECA-specific considerations relevant for the choice of the appropriate governance structure for financial sector policy frameworks to be published later in the year.

MID-TERM REVIEW

In accordance with the Trust Fund Agreement a mid-term review of FinSAC will take place in the first quarter of 2016, to carry out an independent evaluation of the FinSAC program between 2014 and early 2016. The evaluation is not an audit and will focus on activities during that period and the strategic direction of the FinSAC program. The effectiveness, efficiency, relevance, impact and the lessons learnt will be assessed by an independent evaluator. The outcome of the evaluation will allow the donor and the World Bank to shape the future strategic direction of FinSAC.
6. ANNEXES

FINANCIAL INFORMATION (DISBURSEMENT OF TRUST FUND EXPENDITURE/GRAPHICS)

DETAILED RESULTS FRAMEWORK
ANNEI I: FINANCIAL INFORMATION
DISBURSEMENT OF TRUST FUND EXPENDITURE/GRAPHICS

AS OF MARCH 31, 2016

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
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<tbody>
<tr>
<td>Contributions paid-in</td>
<td>€ 10,177,200</td>
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<tr>
<td>Contributions to be received</td>
<td>€ 3,000,000</td>
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<tr>
<td>Investment Income</td>
<td>€ 109,654</td>
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<tr>
<td>Administration Fee</td>
<td>€ 508,860</td>
</tr>
<tr>
<td>Disbursements</td>
<td>€ 7,494,255</td>
</tr>
<tr>
<td>Fund Balance (incl. commitments)</td>
<td>€ 2,283,739</td>
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</table>

<table>
<thead>
<tr>
<th>Quarter</th>
<th>Disbursements 2013</th>
<th>Disbursements 2014</th>
<th>Disbursements 2015</th>
</tr>
</thead>
<tbody>
<tr>
<td>Q1</td>
<td>€ 503,295.81</td>
<td>€ 295,835.78</td>
<td>€ 638,483.07</td>
</tr>
<tr>
<td>Q2</td>
<td>€ 346,790.83</td>
<td>€ 585,281.57</td>
<td>€ 659,241.68</td>
</tr>
<tr>
<td>Q3</td>
<td>€ 343,022.86</td>
<td>€ 301,967.77</td>
<td>€ 323,288.19</td>
</tr>
<tr>
<td>Q4</td>
<td>€ 649,639.78</td>
<td>€ 499,192.57</td>
<td>€ 613,310.00</td>
</tr>
<tr>
<td>Total</td>
<td>€ 1,842,749</td>
<td>€ 1,682,278</td>
<td>€ 2,234,323</td>
</tr>
</tbody>
</table>

Disbursements 2013 | Disbursements 2014 | Disbursements 2015

<table>
<thead>
<tr>
<th>Year</th>
<th>Disbursements 2013</th>
<th>Disbursements 2014</th>
<th>Disbursements 2015</th>
</tr>
</thead>
<tbody>
<tr>
<td>2013</td>
<td>€ 700,000</td>
<td>€ 600,000</td>
<td>€ 500,000</td>
</tr>
<tr>
<td>2014</td>
<td>€ 400,000</td>
<td>€ 300,000</td>
<td>€ 200,000</td>
</tr>
<tr>
<td>2015</td>
<td>€ 100,000</td>
<td>€ 0</td>
<td>€ 0</td>
</tr>
</tbody>
</table>

Disbursement by categories (for the period of 1 January 2015 – 31 December 2015)

<table>
<thead>
<tr>
<th>Description</th>
<th>EURO</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Staff costs</td>
<td>1,400,014</td>
<td>62.7</td>
</tr>
<tr>
<td>Consultant fees</td>
<td>345,652</td>
<td>15.5</td>
</tr>
<tr>
<td>Travel expenses</td>
<td>283,895</td>
<td>12.7</td>
</tr>
<tr>
<td>Publications &amp; Workshops</td>
<td>58,318</td>
<td>2.6</td>
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<tr>
<td>Associated overhead costs</td>
<td>21,443</td>
<td>1.0</td>
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<tr>
<td>TF Admin fee</td>
<td>125,000</td>
<td>5.6</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>2,234,323</strong></td>
<td><strong>100.00</strong></td>
</tr>
</tbody>
</table>

---

1 Incl. FinSAC Coordinator, five TTLs and one program assistant
2 Incl. Short Term consultants and consultant firms
3 Incl. travel expenses of both staff and consultants/visitors
4 Incl. office maintenance, utilities, cleaning services, office supplies, depreciation etc.
Disbursement by activities (for the period of 1 January 2015 – 31 December 2015)

<table>
<thead>
<tr>
<th>Activity</th>
<th>EURO</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Administrative cost(^5)</td>
<td>740,370</td>
<td>33.1</td>
</tr>
<tr>
<td>Bank Resolution</td>
<td>251,329</td>
<td>11.2</td>
</tr>
<tr>
<td>Macroprudential Framework</td>
<td>302,002</td>
<td>13.5</td>
</tr>
<tr>
<td>Microprudential Framework</td>
<td>356,529</td>
<td>16.0</td>
</tr>
<tr>
<td>Crisis Simulation</td>
<td>253,175</td>
<td>11.3</td>
</tr>
<tr>
<td>NPL</td>
<td>330,918</td>
<td>15.0</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>2,234,323</strong></td>
<td><strong>100.00</strong></td>
</tr>
</tbody>
</table>

\(^5\) Incl. cost of all types of categories not related to the particular TF activities and all general expenses: contracts of designer, corrector, staff cost of program assistant/back up, travel cost for staff for training, consultants’ travel, translations services, utilities, office maintenance, office supplies, depreciation, publications and other printing services, representation cost, coordination and some business development activities.
ANNEX II: RESULTS FRAMEWORK TABLE
**UKRAINE: ESTABLISHING A NATIONAL FINANCIAL STABILITY COUNCIL**

<table>
<thead>
<tr>
<th>MACRO-PRUDENTIAL FRAMEWORK / INPUTS</th>
<th>FINSAC ACTIVITIES</th>
<th>FINSAC OUTPUTS / INDICATORS</th>
<th>EXPECTED CLIENT OUTCOMES</th>
<th>POTENTIAL CLIENT OUTCOME INDICATORS</th>
</tr>
</thead>
<tbody>
<tr>
<td>FINSAC ACTIVITIES</td>
<td>Advice to the Ukrainian authorities on governance arrangements for the NFSC. Assistance to the NBU Financial Stability Department on how to perform effectively the role of the Secretariat for the NFSC.</td>
<td>Sharing best practice with the NBU regarding the internal procedures of multi-authority FSCs.</td>
<td>Enhanced capacity for macro-prudential policymaking and strengthened crisis preparedness due to better coordination among stakeholder authorities.</td>
<td>Meeting frequency of NFSC. Substance/ importance of items on agenda.</td>
</tr>
<tr>
<td>FINSAC OUTPUTS</td>
<td>Legislation (presidential decree) on NFSC</td>
<td>Legislation (presidential decree) on NFSC adopted.</td>
<td>Enhanced analytical capacity of the macro-prudential authority, via new regular internal risk reports on systemic risk launched within the central bank, based on the output of newly built analytical models.</td>
<td>Enhanced capacity for macro-prudential policymaking and strengthened crisis preparedness due to better coordination among stakeholder authorities.</td>
</tr>
<tr>
<td>FINSAC OUTPUTS / INDICATORS</td>
<td>Regular meetings of the NFSC commence.</td>
<td>Successful adaptation of analytical tools to the client's environment and needs; reflected in client satisfaction.</td>
<td>Usage of new analytical tools in internal reports and in Financial Stability Review.</td>
<td>Usage of new analytical tools in internal reports and in Financial Stability Review.</td>
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<tr>
<td>канчільні результати</td>
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**UKRAINE MACRO-PRUDENTIAL CAPACITY BUILDING: LIQUIDITY STRESS TESTING**

- Work together with staff from the newly established Financial Stability Department of the National Bank of Ukraine (NBU) to build a liquidity stress-testing model, completing the NBU’s stress testing framework.

**FINSAC Annual Report 2015**

Annexes
<table>
<thead>
<tr>
<th>CRISIS SIMULATION EXERCISES (CSES)</th>
<th>FINSAC ACTIVITIES / INPUTS</th>
<th>FINSAC OUTPUTS</th>
<th>FINSAC OUTPUT INDICATORS</th>
<th>EXPECTED CLIENT OUTCOMES</th>
<th>POTENTIAL CLIENT OUTCOME INDICATORS</th>
</tr>
</thead>
<tbody>
<tr>
<td>KOSOVO CSE</td>
<td>Conduct CSE with senior policymakers</td>
<td>Next-day presentation to participants about Exercise outcome/lessons</td>
<td>CSE Report</td>
<td>Turnout: 30+ participants, including CB Deputy Governor, senior representatives from the Ministry of Finance, Head of Deposit Insurance</td>
<td>Strengthened crisis preparedness, better coordination among stakeholder authorities</td>
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<td>Endorsement of CSE Report by main client (CB)</td>
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<td>Clarity and commitment to the role of central banks as key stakeholders in responding to a crisis</td>
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<td>Better cooperation between authorities in the process of using public funds for bank liquidity assistance/bank resolution</td>
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<td>Client better prepared to manage renewed contagion from Greece</td>
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</tbody>
</table>

FinSAC Annual Report 2015

Annex II: Results Framework Table
## MICRO-PRUDENTIAL FRAMEWORK

<table>
<thead>
<tr>
<th>FINSAC ACTIVITIES / INPUTS</th>
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</thead>
</table>
| UKRAINE:  
NEW SUPERVISORY FRAMEWORK GOVERNING THE TRANSACTIONS WITH RELATED PARTIES          | Review of current regulatory framework on bank related parties and benchmarking it to best international practice.  
Support NBU in designing legislative amendments and NBU were given new supervisory powers to presume relations with the bank borrowers.  
Support NBU in designing new regulatory framework.  
Support in establishing a separate related parties supervision unit at NBU, supporting a special related parties review exercise and analyzing the bank restructuring plans to unwind above the limits related party exposures. | Draft package of proposed legislative changes,  
Draft new regulation defining the criteria for identifying the related parties,  
Proposals on how to structure the separate unit for the supervision of related parties,  
Draft ToR and reporting formats for Related Party review exercise,  
Participation as an advisor in the NBU steering committee meetings created to approve the results of the review. | Proposals discussed, agreed and adopted by NBU board. | Performing more effective, risk based and efficient banking supervision.  
Better use of scarce supervisory resources.  
Improved governance, accountability and risk management in financial institutions.  
Better supervised and more resilient banking system. | Improved level of compliance with Basel Core Principles for Effective Banking Supervision.  
More precise and comprehensive assessment of risks across the banking system.  
A lower incidence of failure of supervised institutions due to earlier and more effective detection of concentration in the banks’ portfolios. |
UKRAINE:
REFORM OF BANKING SUPERVISION FRAMEWORK

Support NBU in the process of design of comprehensive supervisory reform agenda.
Initiate the assessment of the current stance of regulatory and supervisory framework to identify the gaps with the Basel Core Principles and good international practice.
The assessment to be finalized in 2016 and include a gap analysis with the CRD IV/CRR framework.
Proposals discussed and agreed with NBU management.
Performing more effective, risk based and efficient banking supervision.
Better use of scarce supervisory resources.
Improved governance, accountability and risk management in financial institutions.
Better supervised and more resilient banking system.
Improved level of compliance with Basel Core Principles for Effective Banking Supervision.
More precise and comprehensive assessment of risks across the banking system.
A lower incidence of failure of supervised institutions due to earlier and more effective detection of risks in the banks.

SERBIA:
ASSESSMENT OF ONSITE EXAMINATION PRACTICES FOR AML/CFT

Review and benchmarking of onsite examination practices.
Scope of inspections, inspection planning, inspection reports, onsite examination procedures, focused on AML/CFT activities.
Supplementary report on AML/CFT supervision.
Proposals to improve the efficiency of onsite AML examination practices.
Proposals discussed and endorsed by the Governor and Senior Management of NBS.
Client satisfied with proposed solutions and committed to implementation.
Performing more effective, risk based and efficient onsite AML examinations.
Better use of scarce supervisory resources.
More risk based supervision.
Improved governance, accountability and risk management in financial institutions.
Better supervised and more resilient system.
Improved level of compliance with Basel Core Principles for Effective Banking Supervision and FATF Principles assessed by World Bank IMF FSAP teams.
Improved compliance with international AML/CFT good practice, reflected in better scores in international assessments.
## NON-PERFORMING LOAN RESOLUTION

<table>
<thead>
<tr>
<th></th>
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<tr>
<td><strong>SERBIA NPL</strong></td>
<td>Organized first inter-agency workshop on NPL resolution, co-hosted by the Bank of Serbia, bringing together Government agencies, private sector actors and international agencies (IMF, EBRD, EIB, IFC, etc.) in April 2015</td>
<td>Coordination and organization of the conference with the Ministry of Finance and Central Bank.</td>
<td>Over 100 participants, primarily from Serbia. Very positive feedback. Serbia NPL action plan formally adopted and implemented</td>
<td>NPL Working Group formally established at conference Working group has been meeting since April 2015</td>
<td>Reduction in level of NPLs</td>
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<td>In collaboration with IMF, EBRD and Government agencies, drafting of NPL action plan</td>
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<td><strong>CROATIA NPL</strong></td>
<td>Provided input and recommendations to the Ministry of Justice on the draft amendments to the insolvency law Provided input and recommendations on draft of new personal insolvency law Conducted diagnostic mission, along with the EBRD, on key impediments to NPL resolution in Croatia (report shared with the Croat authorities in 2015).</td>
<td>Technical report on amendments to insolvency law, plus presentation to insolvency law working group Technical report on personal insolvency law In collaboration with EBRD, comprehensive report on impediments to NPL resolution in Croatia</td>
<td>Three technical report produced and shared with the authorities</td>
<td>New insolvency law adopted in 2015 In the wake of the NPL report, a technical assistance mission is in development on the topic of Tax treatment of NPLs</td>
<td>Reduction in level of NPLs</td>
</tr>
</tbody>
</table>
## NON-PERFORMING LOAN RESOLUTION

<table>
<thead>
<tr>
<th>ALBANIA NPL</th>
<th>Supported the Bank of Albania (BOA) in developing standards for voluntary out-of-court restructurings.</th>
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<tr>
<td></td>
<td>Organized hands on expert workshops with BOA and private sector banks to promote multi-creditor workouts.</td>
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<td>Provided expert input and third party consultant support for the operational and financial restructuring of large, complex defaulted Corporates.</td>
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<td>Organized and supervised third-party advisory services on out-of-court resolution.</td>
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<td></td>
<td>Helped National Bank of Albania organize inter-bank resolution of large, complex NPLS, through a series of seminars, workshops and meetings between commercial banks.</td>
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<td>Over 30 cases of large complex NPLs reviewed by inter-bank working group.</td>
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<td>Over 13 cases resolved.</td>
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<td>NBA to continue to use supervisory tools to lead commercial banks to collaborate in the area of NPL resolution for large, complex cases.</td>
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<td>Reduction in NPL.</td>
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<table>
<thead>
<tr>
<th>UKRAINE NPL</th>
<th>Support NBU in designing a law on Financial Debt. restructuring to provide a framework for greater cooperation between creditors and debtors in the out-of-court resolution and restructuring of large, complex multi-creditor NPLs.</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Collaborate with other IFIs and private sector stakeholders within the context of the Vienna initiative to develop a regional approach for tackling high levels of NPLs across Central and South Central Europe.</td>
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<td>Organize and host workshops to improve cooperation, raise awareness and share knowledge amongst key stakeholders.</td>
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<td>Average client satisfaction as measured by client satisfaction surveys.</td>
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<td>Increase in the number of viable Corporate obligors successfully restructured.</td>
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<td>Reduction in the overall size of NPLs.</td>
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</table>
### BANK RECOVERY & RESOLUTION

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<tr>
<td><strong>ALBANIA</strong></td>
<td>Assessment of local law for resolving banks against international best practice esp. Key Attributes and the BRRD. Several missions Legal support and</td>
<td>BRRD gap analysis matrix Co-organization of a workshop in Tirana Comments and legal support for the drafting of a new resolution law</td>
<td>Provided evidence and analysis of gaps in the current system to ensure timely and successful intervention in problem banks. Well informed authorities and stakeholders</td>
<td>Presentation of a draft law by the BoA to the MoF and final adoption in Parliament</td>
</tr>
<tr>
<td><strong>SERBIA</strong></td>
<td>Participation in a Mission to identify the effects of the new resolution framework adopted in early 2015 on the Deposit Insurances role and mandate.</td>
<td>Tailored country specific “decision tree” on bank resolution stages. Assessment note of the DiAs role and the use of Deposit insurance Fund for resolution purposes under the new legal framework.</td>
<td>Enhanced understanding of the DiA on the practical effects and implementing stages of the new system established including the role of the least cost test.</td>
<td>Conduction of a case study to demonstrate the likelihood and amounts of the use of DIF money for bank resolution purposes as well as the use of public support. (Planned for 2016)</td>
</tr>
</tbody>
</table>
## BANK RECOVERY & RESOLUTION

<table>
<thead>
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<tr>
<td><strong>BIH</strong></td>
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<tr>
<td>FinSAC participation in two Financial sector missions</td>
<td>Technical Note for DIA on &quot;The use of Deposit Guarantee Schemes for resolution purposes in Bosnia and Herzegovina&quot; Technical comments sent to the MoFs on the draft New Banking Laws with a focus on the setting up of resolution financing arrangements</td>
<td>Increased DIAs awareness on its role and mandate under the new resolution system. Support authorities to better understand the effects and possible alternatives in their alignment processes with the BRRD resolution framework.</td>
<td>Adoption of a MoU between DIA and the supervisory Agencies Adoption of a new resolution law (in 2016).</td>
<td>Enhanced resolution framework and Deposit insurance system in line with FSAP recommendations and the EU standards. Improved compliance of the DIA with the International Association of Deposit Insurers (IADI) Principles</td>
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<tr>
<td><strong>MOLDOVA</strong></td>
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<tr>
<td>World Bank staff and consultant mission and time assessing insolvent banks, resolution options, legal framework for resolution, forensic audit RFP, and diagnostic audit TOR and draft</td>
<td>Analysis of bank resolution legal framework – production of a &quot;decision tree&quot; showing key decision points and powers Written advice to government on resolution (liquidation) of three insolvent banks Written comments on RFP for forensic audits of three insolvent banks Written comments on TOR for diagnostic audits of the next three big banks Review and comment on the one draft diagnostic audit delivered in 2015</td>
<td>Report on bank resolution legislation; recommended amendments Report on resolution options for BEM, Banca Sociala, and Unibank with recommendations Report on crisis management framework with recommendations</td>
<td>Legal amendments to strengthen NBM's supervisory powers: (i) grant legal immunity to supervisors; and (ii) eliminate MOJ powers to review NBM regulations NBM withdrawal of licenses of the three insolvent banks and began liquidation (done) NBM RFP for forensic audits following TA's recommendations (done) NBM instruction to next three banks to undergo diagnostic audits using TOR that incorporated TA's recommendations (done) Diagnostic audits completed (one done; two more expected)</td>
<td>Enhanced bank resolution legal framework as measured against international and EU standards Enhanced prompt remedial actions or intervention in troubled banks as measured against international and EU standards More prompt interventions as measured by time between identification and intervention More timely identification of risks in banking sector Recovery of stolen assets and/or accountability of perpetrators</td>
</tr>
</tbody>
</table>
### Advisory work on Deposit Insurance System Development in Georgia, including analysis of the local environment, review of the international practices and preparation of recommendations for DIS creation in Georgia along with the draft legislation, DIS reform strategy and action plan.

#### FINSAC ACTIVITIES / INPUTS
- Advisory work on Deposit Insurance System Development in Georgia,
- Analysis of the local environment,
- Review of the international practices,
- Preparation of recommendations for DIS creation in Georgia,
- DIS reform strategy and action plan.

#### FINSAC OUTPUTS
- Recommendations and technical notes on DIS creation in Georgia,
- Analysis of DIS coverage, exposure forecast, and funding strategy calculations,
- Technical note on consideration of risk based premium,
- Draft DIS strategy,
- Draft DIS Law,
- DIS creation timeline,
- DIS 3-day training workshop,
- Participation of Georgian DIS working group in Turin conference.

#### FINSAC OUTPUT INDICATORS
- Increased awareness of authorities about financial safety net importance and the role of DIS in financial stability,
- Increased awareness of EU and BIS/IADI principles for effective deposit insurance,
- Higher commitment to and acceptance of the Georgian authorities to DIS creation in line with the international practices.

#### EXPECTED CLIENT OUTCOMES
- Adoption of DIS strategy (2016),
- Adoption of DIS draft and its submission to Parliament for approval (2016),
- Agreement on DIS creation timeline (2016) and phase-in period for DIS funding accumulation (5 years).

#### POTENTIAL CLIENT OUTCOME INDICATORS
- Enhanced financial safety net in Georgia,
- Increased financial market resilience and readiness to reduce the risk of contagion from depositors run in smaller banks,
- DIS created in line with EU directive and BIS/IADI principles.