OFFICIAL DOCUMENTS

Third Amendment to the Administration Agreement between the Government of the Swiss Confederation and the International Bank for Reconstruction and Development and the International Development Association concerning the Single-Donor Trust Fund for Financial Sector Development Project in the Kyrgyz Republic (TF072067)

1. Reference is made to the Administration Agreement between the Government of the Swiss Confederation, acting through its State Secretariat for Economic Affairs (SECO) (the “Donor”) and the International Bank for Reconstruction and Development and the International Development Association (collectively, the “Bank” and together with the Donor, the “Parties” and each a “Party”), regarding the Single-Donor Trust Fund for Financial Sector Development Project in Kyrgyz Republic (“Trust Fund”), effective as of August 14, 2013, as amended to date (the “Administration Agreement”).

2. Pursuant to our recent discussions between the Bank and the Donor, the Bank hereby proposes to substitute Section 1 and 2 of the Annex 1 to the Administration Agreement with new Section 1 and 2 provided in the Attachment to this Amendment Letter (Amendment Letter).

3. All other terms of the Administration Agreement shall remain the same.

4. The Bank shall disclose this Amendment in accordance with the Bank’s Policy on Access to Information. By entering into this Amendment, the Donor consents to such disclosure.

5. Each of the Parties represents, by confirming its agreement below, that it is authorized to enter into this Amendment and act in accordance with these terms and conditions. The Parties are requested to sign and date this Amendment, and upon possession by the Bank of this fully signed Amendment, this Amendment shall become effective as of the date of the last signature.

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT
INTERNATIONAL DEVELOPMENT ASSOCIATION

By: __________________________
Authorized Representative

Date: December 6, 2017

SWISS STATE SECRETARIAT FOR ECONOMIC AFFAIRS (SECO)

By: __________________________
Authorized Representative

Date: 11.12.2017
Attachment

1. Objectives

The objective of Trust Fund is to enhance financial sector stability by strengthening the regulatory and supervisory framework (both prudential and market conduct) of financial institutions (e.g. banks, credit unions, and micro finance organizations), including the capacity of NBKR (National Bank of Kyrgyz Republic) as a financial sector regulator; and the capacity of the Deposit Protection Agency as financial safety net participant.

2. Activities

The activities to be financed by the Trust Fund are:

2.1. Bank-executed activities, for which the Bank has implementation responsibility:

(a) Regulatory and supervisory framework for banks: This component continues the work of phase one towards full implementation of risk based supervision for banks in accordance with best international practice. This encompasses finishing the risk based supervisory framework, its technical and operational policies and procedures, its organization and the continuous capacity building to use the framework. Further, this part will support strengthening the relation between risk appetite, risk profile and capital position for banks by developing regulation to introduce the Internal Capital Adequacy Assessment Program (ICAAP) and the Supervisory Review Evaluation Program (SREP). If needed and contingent to available budget, this program might also give technical assistance in moving prudential regulation towards international standard (e.g. asset classification, credit risk, liquidity risk, operational risk and information technology risk, capital adequacy, risk management, external audit, disclosure and consolidated supervision).

(b) Regulatory and supervisory framework for micro finance organizations and credit unions: This component continues the work of phase one and focuses on strengthening the regulation and supervision of micro finance organizations and credit unions. The activities will be based on the technical note on regulation and supervision of credit unions and microfinance organizations, elaborated under the first phase of the Trust Fund. The focus will be on strengthening the prudential requirements for deposit taking credit unions and microfinance organizations (e.g. capital, liquidity, single borrower limit) and creating a level playing field between the different financial institutions, in particular deposit taking financial institutions. In addition, this component will support the development of a prudential supervisory approach to optimize the use of the supervisory resources according to best international practice.

(c) Crisis preparedness and contingency planning: This component continues the work of phase one and focuses on strengthening regulatory and supervisory framework for weak banks. This includes the early intervention framework, the introduction of the concept of risk capital as the main trigger for decisions to request remedial actions from weak banks, and the strengthening of the regime of temporary administrator. It also comprises the development of restructuring and resolution regulations and operational procedures. Furthermore, it will support the enhancement of cooperation between the safety net participants (i.e., National Bank of Kyrgyz Republic [NBKR], Deposit Protection Agency [DPA] and Ministry of Finance [MOF]), building further on the crisis preparedness exercise conducted in October 2016. The work will be conducted in close cooperation and coordination with the development of the risk based supervisory approach.

2
(d) **Deposit protection:** This component focuses on further strengthening the institutional capacity of the DPA. The technical assistance will focus on: (A) improvement of the pay-out process which will start after the implementation of the pay-out software currently under way; (B) the development of an investment policy and enhancement of the investment process; (C) the development of a contingency plan for the DPA (e.g. crisis communication contingency plan, liquidity management contingency plan, back-up funding contingency plan, and contingency plan with matrix for interaction with other safety net players); (E) the improvement of communication with key stakeholders e.g. NBKR and MOF; (F) strengthening of the governance structure; and (G) conduct a survey on public awareness about the DPA and its function.

(e) **Market conduct supervision:** This component continues the work conducted in the first phase. Following the diagnostic report on financial consumer protection and financial literacy and the recently adopted regulation on financial consumer protection, the second phase will focus on supporting the NBKR in establishing the supervisory mandate for market conduct supervision. In addition, most of the work will comprise designing, building, testing and implementation of a supervisory framework for market conduct supervision.

2.2. Recipient-executed activities, for which one or more Recipients (as defined in Annex 2) have implementation responsibility includes carrying out an audit and diagnostic assessment of DEBRA with a view to recommending to the Recipient an appropriate decision/action on the future of DEBRA”