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Dealing with weak banks in FinSAC countries: Progress and challenges ahead

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CONTENTS

Abbreviations ... **5**

Abstract ... **6**

Preface and acknowledgements ... **7**

Executive Summary ... **8**

1. INTRODUCTION ... **16**

2. SCOPE OF THE PAPER ... **18**

2.1. Regional focus: FinSAC client countries ... 18

2.2. Definition of terms used: weak banks ... 19

2.3. Definition of terms used: viable and non-viable banks ... 19

2.4. Definition of terms used: systemic banking crises ... 20

3. KEY FINANCIAL AND REGULATORY FEATURES OF FINSAC CLIENT COUNTRIES' FINANCIAL SYSTEMS ... **24**

4. MEASURES UNDERTAKEN BY BANKS AND SUPERVISORY AUTHORITIES TO MITIGATE AND OVERCOME DISTRESS ... **32**

4.1. Recovery planning and execution ... 32

4.2. Early detection and dealing with weak, but viable banks ... 36

4.3. Managing financial stress ... 38

5. MANAGING BANKING CRISES IN SYSTEMIC SCENARIOS ... **44**

5.1. Context and explanation ... 44

5.2. What is the true extent of the losses? ... 45

5.3. An independent valuation ... 49

5.4. Loss coverage: who foots the bill? ... 50

5.5. Availability of resolution tools in crisis scenarios ... 52

5.6. The need for public backstops ... 66

5.7. Dealing with asset quality 67

5.8. Funding in resolution 73

5.9. The need for domestic and cross-border coordination 75

6. RECOMMENDATIONS 77

7. MAIN REFERENCES 79

Annex 1. Summary of asset management companies in ECA 82

Annex 2. Key banking failures in ECA 2013-2023 84

Azerbaijan (FinSAC client) 84

Bosnia & Herzegovina (FinSAC client) 85

Serbia (FinSAC client) 86

Kazakhstan 87

Kyrgyz Republic 89

Moldova (FinSAC client) 89

Montenegro (FinSAC client) 90

North Macedonia (FinSAC client) 91

Russia 91

Tajikistan 94

Ukraine (FinSAC client) 94

Annex 3. Bank ownership structures in FinSAC client countries 97

LIST OF FIGURES

Figure 1. Number of banks in FinSAC client countries in 2022 24

Figure 2. Bank ownership in FinSAC client countries by share in total assets 25

Figure 3. Aggregated market share by total assets of top-5 banks in FinSAC client countries 25

Figure 4. Evolution of bank solvency ratios in FinSAC client countries (2012-2022) 26

Figure 5. Evolution of bank return on assets ratios in FinSAC client countries (2012-2022) 26

Figure 6. Evolution of bank NPL ratios of FinSAC client countries (2012-2022) 27

Figure 7. Resolution authorities in FinSAC client countries 28

Figure 8. FinSAC client countries: recovery options relevance in banks' recovery plans (RP) 34

Figure 9. Selected cases of systemwide AQRs & viability assessments 46

Figure 10. Stylized burden sharing models for open bank resolution 51

Figure 11. Stylized burden sharing models for transfer strategies 52

Figure 12. Selected asset protection schemes/loss sharing agreements in transfer transactions 55

Figure 13. Investors in transfer transactions: pros and cons 60

Figure 14. Stylized high-level overview of applying bail-in powers to different creditor classes 64

Figure 15. Options for dealing with bad assets in bank resolution 68

Figure 16. Selected asset protection schemes/loss sharing agreements in open bank transactions 69

Figure 17. Selected Asset Management Companies 82

Figure 18. Albania 97

Figure 19. Armenia 98

Figure 20. Azerbaijan 99

Figure 21. Bosnia and Herzegovina 100

Figure 22. Georgia 101

Figure 23. Kosovo 101

Figure 24. Moldova 102

Figure 25. Montenegro 103

Figure 26. North Macedonia 103

Figure 27. Serbia 104

Figure 28. Ukraine 105

Figure 29. Uzbekistan 108

LIST OF BOXES

Box 1. Selected systemic banking crisis in Eastern European countries during the last decade..................................21

Box 2. Resolution strategies and resolution entities in cross-border banking groups in FinSAC client countries 29

Box 3. The failure of Sberbank Europe AG subsidiaries.. .31

Box 4. Foreign ownership in crisis scenarios: pros and cons 35

Box 5. Quasi-resolution regimes: the International Bank of Azerbaijan .... .38

Box 6. 2020-2021 Asset Quality Review in Montenegro.. .48

Box 7. The pitfalls of acquisition by a troubled lender: Kazkommertzbank (KKB) 59

Box 8. Bail-in the case of PrivatBank in Ukraine 65

Box 9. AMCs in selected countries .... .71

Box 10. Capital controls used by Ukrainian authorities in 2014...74

ABBREVIATIONS

ABB	International Bank of Azerbaijan
AMC	Asset Management Company
AQR	Asset Quality Review
BAMC	Bank Assets Management Company of Slovenia
BCBS	Basel Committee on Banking Supervision
BiH	Bosnia and Herzegovina
BRRD	Bank Recovery and Resolution Directive
EBRD	European Bank for Reconstruction and Development
ECA	Europe and Central Asia
ELA	Emergency Liquidity Assistance
EU	European Union
EUR	Euro (currency)
FinSAC	The World Bank Financial Sector Advisory Center
FSB	Financial Stability Board
GDP	Gross Domestic Product
GFC	Global Financial Crisis
IMF	International Monetary Fund
KKB	Kazkommertzbank
KZT	Kazakhstani tenge (currency)
NPL	Non-Performing Loans
PLF	Problem Loans Fund of Kazakhstan
SREP	Supervisory Review and Evaluation Process
ToR	Terms of Reference
UAH	Ukrainian hryvnia (currency)
UK	United Kingdom
US	United States / United States of America
USD	United States dollar (currency)

ABSTRACT

A sound banking crisis management framework is paramount to the financial stability of FinSAC's client countries, especially during systemic crisis scenarios. This paper discusses the key features of FinSAC's client countries' financial systems, takes stock of the reforms undertaken during the last decade, while also identifying and explaining individual and systemic banking crises in the broader ECA region. It focuses particularly on preparedness for systemic scenarios, including the key challenges of deploying the bank resolution tools considering the structural features of these countries' financial systems.

The paper makes recommendations to the policymakers of FinSAC client countries, including (i) continuously strengthening their recovery and resolution planning frameworks, by focusing on operationalization, (ii) enhancing their resolution regimes, including by determining a sound and effective burden sharing model, (iii) strengthening their lender of last resort functions, ensuring the provision of liquidity to solvent, yet illiquid banks and (iv) focusing on crisis preparedness. Nonetheless, authorities from other developing countries may also find these recommendations useful.

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The Financial Sector Advisory Center (FinSAC), based in Vienna, provides independent, confidential, and tailored expertise, technical advice, and implementation support to client countries in the Emerging Europe and Central Asia (ECA) region. 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.

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EXECUTIVE SUMMARY

i. **Key vulnerabilities in the banking systems of FinSAC client countries, exposed during the global financial crisis (GFC), have been addressed over a decade of reform.** Unrestrained loan growth in the run up to the GFC, fueled by wholesale and intragroup funding, especially in foreign currency, led to unsustainable bank business models. Once the crisis struck, banks faced rising levels of non-performing loans (NPL) as borrowers could not manage their high debt burdens (in some cases increased by local currency depreciation). The credit losses triggered capital shortfalls and funding problems, and firms required financial assistance. They were forced to cut lending, resulting in deleveraging, further losses, and recessionary pressures. In response, authorities, international financial institutions, and banks established the Vienna Initiative, with a firm commitment to never let this happen again. Since then, FinSAC client countries[1] have implemented far-reaching reforms, following international and European Union (EU) standards, that are markedly strengthening the resilience of their banking sectors.

ii. **Although there has not been a global systemic banking crisis since the GFC, many countries have experienced bank failures and systemic crises, and these may not be fully avoidable in the future.** Examples of bank failures among FinSAC client countries in recent years include Azerbaijan, Bosnia and Herzegovina (BiH), Moldova, Montenegro, North Macedonia, Serbia, and Ukraine. In some cases, large banking failures have also had systemic consequences, like in Ukraine (2013-2017), Azerbaijan (2015-2017), and Moldova (2014). Systemic banking crises also arose in other countries in the broader Europe and Central Asia (ECA) region, including Kazakhstan (several crisis episodes), Tajikistan (2015), and Russia (2015-2017). Despite the best planning efforts, crises (especially those precipitated by external events) can happen and may be unavoidable in the future.

iii. **The financial systems of most FinSAC client countries share some common features.** They are bank-centric, with limited relevance of capital markets and insurance. Typically, just a handful of banks (between 10 and 20) operate in FinSAC client countries. Foreign ownership levels are high; subsidiaries of foreign banks have on average 43 percent of the asset market share, being above 75 percent in some countries. Foreign banks are usually organized as subsidiaries with almost no use of branches. New banking groups (mainly from Central and Eastern Europe) have emerged as relevant players in the region during the last decade, whereas some Western banking groups retreated from the region. Banking sectors exhibit large concentration; the five largest banks have on average 72 percent of the market share, and in some countries the share is close to 90 percent. State ownership is high in Ukraine, Uzbekistan (the two largest FinSAC client countries) and, to a lesser extent, in Azerbaijan.

iv. **With FinSAC support, most client countries have significantly upgraded their prudential frameworks.** The strengthened frameworks include tightened standards on capital adequacy, liquidity, credit risk classification and provisioning, corporate governance, and risk management. Supervisory frameworks are being enhanced in line with more risk-based approaches. Reforms are driven by a willingness to align regulatory regimes with new international standards, and sometimes also with the EU rulebook as many FinSAC client countries are, or have applied to become, EU candidate countries.

v. **Banks across the region have materially improved their performance since the GFC, although they could still be vulnerable to systemic threats.** NPL ratios have been on a consistent downward trend (with some exceptions), helped also by countries' more rigorous macro financial and other structural measures. Overall, banks in the region operate with sound capital and liquidity levels. They are primarily

1 Albania, Armenia, Azerbaijan, Bosnia and Herzegovina (BiH), Georgia, Kosovo, Moldova, Montenegro, North Macedonia, Serbia, Ukraine and, Uzbekistan. At the time of the writing of this paper, Belarus is not a FinSAC client country.

financing their assets by raising deposits from local customers, resulting in self-sufficient funding models where reliance on parent companies or wholesale markets is nowadays less relevant. Banking systems may have become a "source of strength" rather than one of weakness, bringing stability to the economies of FinSAC client countries. However, this improved performance should not make authorities complacent. As the 2023 bank failures in the United States (US) and the state-assisted sale of Credit Suisse evidenced, the possibility of banking failures and systemic threats may never be too far away.

vi. **Authorities in FinSAC client countries must continuously assess their ability to react to systemic banking crises.** Considering the small size, high concentration, and limited number of banks operating in FinSAC client countries, even a mid-sized bank failure may have systemic consequences, particularly if it is not well managed. Authorities should be aware that the systemic relevance of one bank may rapidly mutate in dynamic financial and economic scenarios ("conditionally systemically important banks"). Authorities in FinSAC client countries need to evaluate conservatively the possible systemic consequences of any banking failure.

vii. **Contingency planning has improved, with banks and authorities regularly preparing recovery and resolution plans but requires further work to broaden and integrate strategies to address systemic risks.** Systemic banks in most FinSAC client countries are preparing recovery plans, setting out the actions they may take during severe financial stress. In resolution plans, authorities outline and operationalize their strategies for dealing with bank failures. Less work has gone into coordinated contingency planning for addressing systemic risks. Both banks and authorities need to step up their efforts in contingency planning.

viii. **Banks in FinSAC client countries face two key challenges in tackling financial stress: limited access to capital markets and reliance on parent companies.** At times of deep financial distress, measures beyond cutting costs or reducing lending may be required. However, shallow or nonexistent local capital markets and lack of access to international money markets may render the issuance of bonds or shares, or the sale of assets, including loan portfolios, non-viable for banks in FinSAC client countries. Furthermore, given the high levels of foreign ownership , many banks are reliant on the capacity and willingness of their parent companies to support them. Parent companies could decide to let stressed subsidiaries fail, especially if the support could jeopardize their own viability. Moreover, certain home authorities in Western countries have implemented policies seeking to limit the exposure of parents to their subsidiaries ("multiple point of entry"). For FinSAC client countries with high levels of state ownership, the banking sector's recovery capacity might rely on sovereign fiscal capacity, which at crisis times may be compromised.

ix. **Importantly, most FinSAC client countries have upgraded or are in the process of upgrading their frameworks to manage bank failures.** These largely follow the Financial Stability Board's (FSB) Key Attributes and the EU's Bank Recovery and Resolution Directive (BRRD). Most FinSAC client countries have implemented new criteria for identifying non-viable banks, as the key condition for placing them under resolution. The new definition usually involves forward-looking features to avoid any undue delays when addressing failed banks. They have established independent resolution authorities, usually as separate units of central banks, with very broad powers, including transfer and bail-in instruments, to deal with bank failures. In parallel, FinSAC client countries can deal with the failure of small banks through specialized bank liquidation regimes, although these frameworks are much less standardized.

x. **The introduction of a resolution regime can encourage distressed banks to be more proactive in finding their own ways to solve their financial distress.** The implementation of a resolution framework can, paradoxically, make its application less likely, as it incentivizes those most likely to be badly impacted by resolution to act faster and more drastically. The use of resolution powers by authorities may result in shareholders and certain debtholders sustaining high losses or being written-off altogether. Shareholders may prefer to voluntarily accept heavy dilutions in share sales to new investors or mergers with stronger banks ("shotgun weddings"). Certain bondholders may also prefer to accept loss-making debt-for-equity swaps, becoming shareholders of the distressed banks.

xi. **Countries must clearly establish their sources of resolution funding, especially in the short to medium term.** FinSAC is working with client countries on arrangements to ensure the longer-term availability of resolution funding. Several countries (Albania, BiH, Moldova, Montenegro, and Serbia) have introduced requirements for banks to issue debt that can be converted or written down in cases of non-viability, albeit with a very extended schedule for compliance that reflects the challenges faced by banks in meeting these requirements. Some countries (Albania, Georgia, Moldova, Montenegro, and North Macedonia) have set up, or are in the process of setting up, industry-financed resolution funds that can be used to cover the costs of resolution, although this funding is unlikely to be available in the short and medium term. Certain countries (Albania, BiH, Moldova, and Montenegro) enable their deposit insurance funds to contribute to bank failures. Even in countries with theoretical access to multiple sources of resolution funding, authorities must realistically assess their availability in a short- or medium-term time horizon. This involves reinforced contingency planning and closer engagement with other public institutions of the financial safety net.

xii. **The new crisis management framework was successfully tested in February 2022 by the failure of Sberbank Europe's subsidiaries in BiH and Serbia.**[2] Following international sanctions against Sberbank Europe, the liquidity of the firm's subsidiaries quickly dried up, as depositors rushed to get their funds back using online and physical channels. BiH and Serbia deployed their new resolution powers to swiftly transfer the shares of their local subsidiaries to other banks, effectively addressing any risks to financial stability. Although these cases can offer valuable lessons for authorities and policymakers, they should not be taken as blueprints as the very specific nature of these bank failures make it very unlikely that they will happen again. Moreover, they happened at a time of financial stability.

xiii. **Financial troubles may prompt authorities to quickly take extraordinary measures to stabilize the banking system.** During systemic crises, there could be doubts over the viability of several – or all – banks, that may even call into question the sovereign's fiscal position. Typically, one of the authorities' first tasks will be to stabilize the situation through underpinning the banking system's liquidity. Central banks may first soften certain monetary policy requirements (e.g., reserve requirements) and extend loans under the lender of last resort function. If the situation deteriorates further, governments may be forced to issue guarantees on bank liabilities or go beyond this to offer deposit blanket guarantees or, in truly extraordinary cases, even introduce moratoria regimes and other administrative measures ("capital controls"). Once they have managed to stabilize the financial situation, authorities will start restructuring the banking system, including by resolving and restructuring banks and addressing systemwide asset quality problems.

xiv. **Comprehensive assessments, including asset quality reviews (AQR) and viability exercises, are essential to estimate the systemwide losses and capital needs.** A credible and well-managed comprehensive assessment, including the review of the most relevant asset portfolios and the projection of capital ratios in different scenarios, is the best tool for authorities to separate viable banks from those that should be resolved or liquidated, and to quantify banks' individual capital shortfalls ("sizing up the bill"). A credible exercise should be technically sound, have a forward-looking nature, be transparent, and carried out with the assistance of internationally recognized firms. Several FinSAC client countries (BiH, Montenegro, and Ukraine) have undertaken AQRs in the last decade.

xv. **Resolution authorities in FinSAC client countries should thoroughly prepare for transfer transactions when planning for resolution.** Considering the features of FinSAC client countries' banking systems, particular attention should be given to transfer transactions. Authorities can identify beforehand potential interested buyers in case of a bank's failure. They can define playbooks where they outline the required steps for these transactions. They can require banks to develop capabilities to quickly generate the data needed for a sale process and setting up a virtual data room to enable buyers' due diligence. Authorities should identify the funding sources they may use to cover the costs of resolution. Critically, in FinSAC client countries with high levels of foreign ownership, resolution authorities need to assess their capacity to disentangle the operations of local subsidiaries from their parent companies.

2 Other Sberbank Europe subsidiaries failed in other European non-FinSAC client countries (e.g., Austria, Croatia, Czech Republic, Hungary and Slovenia).

xvi. **Using transfer tools may pose specific challenges during systemic crises.** Finding suitable buyers in a stressed environment is never easy. Despite good preparation, authorities may struggle to find buyers when deploying transfer powers. It is important that they avoid decisions that result in the failed bank's shares or assets or liabilities transferring to questionable owners, including other weak banks that may see the transaction as an opportunity to solve their own financial troubles ("bidders for resurrection"). The cases of KKB in Kazakhstan or Otkritie or BinBank in Russia can offer a cautionary tale. Some authorities may need to strike a balance between financial stability and market competition in already very concentrated banking markets, while also assessing the risks from making or exacerbating the "too big to fail" problem. Private equity firms may also be possible acquirers, they can bring dynamism to the failed bank's management and are sometimes able to quickly turnaround banks. But their shorter investment horizon and higher risk appetite should prompt authorities to take extra care when assessing their bids. Authorities should avoid, when possible, selling the bank to non-financial investors, particularly when they are engaged in industrial activities, as that may heighten the risks of the bank being used to fund their own non-financial activities, including through related party lending ("piggy banking"). The sale process should be kept as secret as possible to mitigate the risk of information leaks that can derail the process, especially in small countries. Authorities should limit the number of persons, even in their own organizations, on a "need to know" basis. Rumors and leaks, especially in an environment where bail-in is seen as a threat to uninsured depositors and other unsecured liabilities (as currently happens in many FinSAC client countries), and when deposits are available 24/7 at a click, can easily result in turbocharged runs on the bank ("digital bank runs").

xvii. **During systemic scenarios, authorities in FinSAC countries may need to extensively use their resolution powers, deploying "hybrid resolution strategies" combining the use of different resolution tools, powers, and funding sources.** Resolution funding is likely to be required if authorities intend to transfer the entire deposit book (and not only insured deposits); or if they transfer the bank's shares. Authorities need to earmark potential funding sources. Besides imposing losses to shareholders and holders of other capital instruments, they may also draw on contributions from industry arrangements or bailing in loss-absorbing debt (although these funds may not be available in the short or medium term). Once a bank has issued loss-absorbing debt, authorities can decide to write them off (when selling shares) or to leave them behind (in asset transfers), in hybrid resolution strategies combining the use of bail-in and transfer powers. Moreover, during systemic scenarios, extending guarantees to certain loan portfolios or contingent liabilities can help allay buyers' concerns and mitigate information asymmetries when valuation uncertainty is high.

xviii. **A bridge bank can be used to temporarily house some of the assets and liabilities of the failed bank while buying time to find an acquirer but should be used cautiously.** Its rationale should be well grounded on a realistic prospect of quickly finding a suitable buyer, and related to sudden, unanticipated problems that resulted in a bank's failure (e.g., a run on the bank) and not just a mechanism for kicking the can further down the road. Capital and funding sources need to be assigned. As there will be no acquirer to underpin its balance sheet while in operation, liquidity and capital should be sufficient to cover the likely mismatch between the transferred assets and liabilities. Bridge banks should operate within a prudential regime comparable to the one applicable to commercial banks. Authorities should resist the temptation to waive the bridge bank from the application of prudential standards; any exemption should have a strong justification and be time bound. A sunset clause is essential to signal the bridge bank's transitory nature, to ensure it can be placed back into private hands as soon as possible (or liquidated) and avoid the risk of becoming "a bridge to nowhere". There are few examples of bridge banks in FinSAC client countries, the most relevant were the relatively small Terra Bank and Omega Bank in Ukraine in 2014 and 2015. However, bridge banks were used in Poland during 2023 and in the United States during the 2023 regional banking turbulences to manage the failure of mid-sized banks, demonstrating their usefulness in cases of quickly deteriorating liquidity while also showing that a fast sale to an acquirer is possible.

xix. **Open bank resolution based on the use of bail-in powers may be difficult in FinSAC countries due to a lack of loss-absorbing debt, limited liquidity sources in resolution, and possible large amounts of non-performing assets.** As more resolution authorities in

FinSAC client countries have bail-in powers, they are considering them for dealing with large, systemic bank failures. But authorities may face many problems when deploying these powers, raising valid questions about their viability as effective resolution strategies. First, few banks in FinSAC client countries have liability structures supportive of bail-in, as hardly any firm has issued loss-absorbing debt. Moreover, recent bank resolution experiences (Credit Suisse, Banco Popular) have illustrated that recapitalization alone is usually not enough to stabilize a bank. Bailed-in firms can struggle to win back trust from funding providers and therefore liquidity backstops are likely required, which may be difficult for many FinSAC client countries to set up.

xx. **Although FinSAC client countries face significant headwinds to open bank bail-in resolution, authorities can improve the chances of a successful outcome through extensive planning and by combining resolution tools.** Authorities in FinSAC client countries should aim to (i) request their subsidiaries to issue loss-absorbing debt to their parent companies, wherever possible, overcoming the problems of issuing this debt in markets; (ii) establish stand-by arrangements with independent valuers to accelerate the resolution process and mitigate the risk of damaging leaks; (iii) require banks to prepare simple and easy-to-use playbooks that identify, in a granular manner, the steps to be taken to implement the bail-in powers, including the data requirements; (iv) explore how bail-in powers may be combined with transfer powers, for example by writing off shares and loss-absorbing debt before selling the shares to an acquirer; and (v) consider how they will deal with potentially large amounts of non-performing assets, as doubts over the valuation of these assets can often hamper banks' access to funding sources.

xxi. **Bail-in or similar powers have been successfully used by resolution authorities in FinSAC and other ECA countries in combination with other tools, including recapitalization by the state.** The Ukraine authorities bailed-in shareholders and liabilities combined with state recapitalization in the 2017 failure of the largest systemically important bank in the country, Privatbank. The International Bank of Azerbaijan, the largest bank in the country, offered their foreign bondholders loss-absorbing swap offers. The Central Bank of Russia resolved several banks through the Banking Sector Consolidation Fund, combining the write-off of shares and bonds with the transfer of toxic assets to an asset management company (AMC) and the public recapitalization of the failed firms.

xxii. **During systemic scenarios, the use of public money cannot be fully ruled out, but its deployment should be subject to material constraints.** The new resolution frameworks in FinSAC client countries aim to protect taxpayers' money. While use of public funds should only ever be a last resort, it may be deemed necessary, for example to protect financial stability. This needs to be thoroughly assessed by the authorities, ideally beforehand in the context of close cooperation with the ministry of finance (including in financial stability committees). Before extending any public support, the amounts needed for loss absorption and recapitalization should be clearly quantified and shareholders and certain debtholders should first absorb losses ("burden sharing"). Any bank receiving public funds must be subject to further restrictions to protect competition. The modalities for public support, including the reimbursement mechanisms (e.g., capital injection, guarantees on assets or liabilities, extension of loans, etc.) should be targeted to the problems of the failing institution.

xxiii. **When public support results in a bank's partial or total nationalization, authorities must put in place institutional arrangements to ensure the bank will be managed at arm's length.** This aims to reduce the risk of political meddling into the bank's operations. Authorities should approve a restructuring plan, and quickly move to implement it, aiming for the bank's turnaround with the goal of its privatization. Governments should resist the temptation to use nationalized banks as development institutions or economic policy instruments, instead ensuring their operations as commercial institutions.

xxiv. **Asset quality is usually a key element in banking failure, and even more so during systemic crises.** Although many reasons might be behind a banking failure (poor governance and risk management practices, market write-downs, loss of funding sources, legal losses, etc.), low asset quality and high levels of NPLs are usually at their heart. Toxic assets are prominent during systemic banking crises and are a key obstacle to crisis resolution. They can complicate transfers to third parties. Buyers may be reluctant to assume them unless they are protected against further losses; otherwise, they may attach little value to them, resulting in very low offers and triggering more resolution funding needs. In open bank resolutions based on bail-in powers, doubts over asset valuation can leave banks unable to raise funding in markets, as bailing-in liabilities does not directly contribute to generating liquidity for the bank.

xxv. **Authorities can contemplate different options for systemic resolution of toxic assets, but neither AMCs nor asset protection schemes will be easy to implement for FinSAC client countries.** Asset protection schemes can facilitate bank resolutions, as was evident during the 2023 US bank failures and the Credit Suisse state-assisted merger transaction with UBS. But there is no relevant experience in FinSAC client countries of using asset protection schemes in open bank transactions and their application to open bank resolution can be very challenging. Publicly owned and funded AMCs can be used to house the toxic assets from several failed banks, but this option is complicated by several factors, including the potential impact on fiscal sustainability, the operational complexities of their establishment (including the determination of the scope of the transfer or the transfer prices), and the risk of political interference in their decision making. The use of AMCs has been very limited by FinSAC client countries (only Azerbaijan, and linked to a specific transaction), although some other countries in the ECA region have used this option (e.g., Kazakhstan, Slovenia, and Russia).

xxvi. **The availability of funding is essential to overcome any banking crisis, and FinSAC client countries face specific challenges when designing effective liquidity backstops.** During crisis situations, liquidity pressures and lack of access to funding markets requires central banks to act as lenders of last resort, by relaxing some monetary policy instruments, such as the minimum reserves ratio, or through extending emergency liquidity assistance (ELA) to solvent and viable, yet illiquid banks. In FinSAC client countries, the performance of lender of last resort by central banks raises specific challenges. High dollarization of banking systems may demand foreign currency liquidity provision, that can quickly deplete a central bank's limited international reserves, affecting a country's capacity to import essential goods and services. Lack of high-quality collateral may require governments to guarantee central bank funding to banks. In some countries, it may be complicated by the institutional framework (for example, a ban on central bank lending to banks, as is the case in BiH) or the lack of an own currency (Kosovo, Montenegro). Moreover, few FinSAC client countries have adapted their lender of last resort facilities to their new bank resolution frameworks. In any case, central banks should never relax their ELA standards in crisis times, as they may end up facing losses and therefore assuming the costs of bank resolution. In extreme systemic crises, countries must be prepared to contemplate more drastic measures, such as increasing deposit insurance coverage or offering deposit blanket guarantees, imposing moratoria on certain liabilities, and, in very extreme cases, imposing long-lasting capital controls that restrict cash withdrawals or bank transfers, particularly in foreign currency. In the last decade, authorities in FinSAC client countries have deployed some of these powers (Azerbaijan used deposit blanket guarantees and Ukraine introduced capital controls to stabilize the liquidity position of its banking system).

xxvii. **As many FinSAC client countries are small host countries, cross-border coordination and cooperation are important, in both normal and stressed times.** Local subsidiaries in FinSAC client countries are often systemic, yet very small in the context of the banking groups they belong to. Home countries sometimes lack incentives to actively coordinate with the small hosts, as the subsidiaries have a limited influence in the banking group's consolidated risk profile. FinSAC authorities must therefore be proactive in establishing and maintaining constructive relationships with home authorities, actively pursuing participation in supervisory and resolution colleges, signing cooperation agreements, and engaging in regular, bilateral cooperation, including the discussion of recovery and resolution plans. Moreover, authorities in FinSAC client countries can benefit from "lateral coordination" with other host authorities within the same group and may organize or participate in cross-border resolution simulation exercises.

xxviii. **The following recommendations highlight key focus areas for FinSAC client countries to further enhance preparedness to deal with weak banks.** It is worth mentioning that in its policy engagements with the client countries the World Bank is guided by the FSB Key Attributes of Effective Resolution Regimes for Financial Institutions. While many FinSAC client countries are on their transition path to joining the European Union, the requirements of EU Acquis are not always applicable for some countries, and a nuanced approach to EU alignment is warranted during the transition timeframe.

Recovery and resolution planning

Banks and resolution authorities should step up their efforts in recovery and resolution planning. Through recovery planning, banks can regularly test the effectiveness of their crisis management arrangements using dry runs and simulation exercises. Supervisors can make further efforts to integrate their assessment of recovery plans into their overall supervisory framework through the assessment of banks' recovery capacity. In case of foreign-owned banks a thorough assessment of the parent company's willingness and capacity to support the bank may be required.

On resolution plans, after identifying the preferred resolution strategies, authorities should seek to involve banks in facilitating their resolvability, by issuing standards and regularly engaging with banks.

During resolution planning, authorities should focus on the operational steps for implementing the key resolution tools, particularly on transfer strategies. Authorities should closely involve banks in these processes, as the execution of the resolution tools would require their participation. Moreover, authorities should consider "hybrid resolution powers" in their resolution plans, where bail-in powers are used to support the transfer of the failed bank to a third party.

Considering the high level of foreign ownership in many countries in the region, and the underdeveloped nature of the region's financial markets, authorities can request banks to have loss-absorbing debt prepositioned by their parent companies.

When legally possible, resolution authorities should enter into stand-by agreements with valuers and other third parties, to avoid publicizing the contracts in times of crisis.

Enhanced resolution regimes

If not already in place, FinSAC client countries should renew their efforts to introduce and implement a new FSB Key Attributes-based resolution framework. Setting up resolution authorities, conferred with broad resolution powers, can be instrumental in facilitating a failed bank's orderly exit from the market, using either closed or open bank resolutions.

Countries need to consider their burden sharing models for dealing with banking crises. In open bank resolutions, authorities should implement policies supporting the funding sources for absorbing losses and recapitalizing failed banks, including by considering the possibility of introducing minimum loss-absorbing requirements and setting up and financing resolution funds. For closed bank resolutions, authorities should consider the possibility of requesting contributions from the deposit insurance fund to top up the shortage of assets that is likely to arise in any resolution scenario.

Effective lender of last resort function, including in resolution

Most central banks in FinSAC client countries need to upgrade their ELA frameworks. First, central banks in the region should coordinate their exceptional liquidity arrangements with the new bank resolution framework. Second, central banks in highly dollarized economies need to consider how they may provide liquidity in foreign currency by, for example, entering into swap agreements with other central banks. Third, central banks should also operationalize their capabilities to provide liquidity against a broader range of high-quality collateral, including by improving their data processing and valuation capabilities.

Preparedness for systemic crises

Authorities should improve their capabilities to address systemic crises. Authorities in FinSAC client countries should engage in resolution simulation exercises, either domestic or cross-border. The exercises should include the active participation of all relevant authorities (e.g., central bank, banking supervisor, resolution authority, ministry of finance, deposit insurance agency, market supervisor, etc.).

Small host FinSAC client countries should step up their efforts in cross-border coordination and cooperation. As small hosts may not receive much attention from home authorities, FinSAC small hosts should continue to actively seek to participate in supervisory and resolution colleges, and engage on bilateral coordination, not only with home authorities, but also with other hosts (lateral coordination).

Contingency plans are key. National authorities need to understand the type of actions they may need to take during a systemic banking crisis. These discussions can be held in the countries' financial stability committees or similar fora. Authorities may explore the nature and requirements of systemwide diagnostics, the specificities of public support frameworks, the mechanisms for avoiding liquidity outflows in extreme scenarios, and the options for dealing with a potential large stock of non-performing assets.

1. INTRODUCTION

1. **Systemic banking crises have been commonplace in FinSAC client countries and, more broadly, in the ECA region during the last 30 years.** A first wave of crises was triggered by the transition to a market economy of former communist and socialist countries at the beginning of the 1990s. More crises arose around the Russian bond moratorium crisis in 1998. Many countries saw further distress and failures during the GFC. Since then, several episodes can be identified, including Moldova (2014), Ukraine (2014-2016), Azerbaijan (2017), Tajikistan (2017), and Russia (2017-2018). Some of these crises are explained in **Box 1**.

2. **This paper outlines the key elements of effective frameworks to handle weak banks and takes stock of FinSAC client countries' progress towards establishing these.** It focuses particularly on preparedness for systemic scenarios. It provides an overview of the key features of FinSAC client countries' financial systems, identifies recent relevant reforms, and outlines important areas for further attention, including recommendations to guide areas for focus.

3. **The paper endeavors to conceptualize the key policy debates surrounding weak banks within the realm of regional financial systems characteristics.** The focus is directed towards specific areas rooted in the shared features of banking systems in the region, the existing safety nets, the reforms introduced in most FinSAC client countries, and FinSAC's accumulated experience derived from technical assistance to client countries. Consequently, the paper places a heightened emphasis on certain elements of the banking crisis management framework, which may differ from expectations in a different regional context.

4. **Some FinSAC client countries have built up very relevant experience in dealing with weak banks, by introducing recovery plans, using new resolution powers, or liquidating banks.** Countries in the region have had to handle banking failures, in isolation and during systemic crises. In some cases, they were forced to adopt extreme measures such as introducing blanket guarantees, transferring toxic assets to AMCs, and even enforcing capital controls.

Preventative measures such as AQRs and stress testing have become more frequent for health-checking the banking sector. The paper includes recent, relevant examples to draw lessons from them.

5. **The paper seeks to strike a balance between theory and practice, incorporating selected regional case studies.** Whenever possible, the paper strives to illustrate the diverse situations authorities in the region may encounter by drawing lessons from recent, pertinent case studies. The references in the text are complemented by three Annexes, explaining the most relevant individual problem cases for banks in the region and the use of AMCs and listing the banks in all FinSAC client countries.

6. **The paper is mainly addressed to policymakers, central banks, supervisory and resolution authorities, and banks in FinSAC client countries and, more broadly, in the ECA region.** It seeks to provide information and guidance to further embed and enhance existing reforms. Although many FinSAC client countries share some common features, every country is unique, and therefore the responses to any crisis should always be country specific. Therefore, not all recommendations are relevant for all countries. Policymakers, central banks, authorities, and banks are advised to assess the suitability of the recommendations to the context of their countries.

7. **The following sections are structured as follows. Section 2 clarifies the scope of the paper and defines some key terms used.** Section 3 explores the key financial and regulatory features of FinSAC client countries. Section 4 outlines the frameworks that FinSAC client countries have in place to deal with weak banks. Section 5 considers additional elements that authorities in the region may need to consider when managing systemic banking crises. Finally, Section 6 outlines the main recommendations.

2. SCOPE OF THE PAPER

2.1. REGIONAL FOCUS: FINSAC CLIENT COUNTRIES

8. **This paper focuses on the experiences of FinSAC client countries from the ECA region in undertaking reforms to manage bank failures.** It considers primarily FinSAC client countries but also reflects relevant practices from other countries in the region (Belarus, Kazakhstan, Kyrgyz Republic, Russia, and Tajikistan). Some examples and case studies from EU countries, the United Kingdom (UK), and the US are employed to illustrate certain sections.

9. **It mainly considers the evolution of financial systems and the reforms introduced after the GFC that sought to better prevent or manage banking crises.** It notes the measures and tools that banking supervisors and resolution authorities use to manage banking distress, including failures, especially during bank systemic crises.

10. **It should not be understood as a comprehensive or universal guide towards managing systemic banking crises.** This paper does not intend to replace or supersede the already available criteria and principles issued by international standards setters but builds on them and seeks to better understand their applicability to FinSAC client countries. Among others, the paper has extensively reviewed the principles and guides issued by international standard setters, such as the Basel Committee on Banking Supervision (BCBS) and the Financial Stability Board, and other comprehensive policy papers by international financial institutions, such as the International Monetary Fund (IMF). It draws significantly on the EU regulatory framework, as many FinSAC client countries are candidate countries (or are in the process of becoming so) and are therefore aligning their regulatory frameworks to the EU.

11. **It aims to identify the good practices that FinSAC client countries may use in dealing with weak banks, especially during systemic scenarios.** As bank failures rarely happen in isolation, the paper focuses on handling weak banks during systemic banking crises, as these situations typically involve several weak banks and a general distrust in the financial system. Nonetheless, these practices are also relevant for managing individual weak banks.

2.2. DEFINITION OF TERMS USED: WEAK BANKS

12. **This paper uses the definition of "weak banks" by the BCBS.** Pursuant to the BCBS Guidelines for identifying and dealing with weak banks,[3] a weak bank is one whose liquidity or solvency is impaired or will soon be impaired unless there is a major improvement in its financial resources, risk profile, business model, risk management systems and controls, and/or quality of governance and management in a timely manner. A weak bank might be considered viable, in which cases the bank's senior managers will be expected to be kept at the helm, but the supervisor may require to take measures to address their problems. In this paper, weak but viable banks are also referred to as "troubled banks" or "banks in distress/distressed banks."

2.3. DEFINITION OF TERMS USED: VIABLE AND NON-VIABLE BANKS

13. **No internationally harmonized definition of "non-viability" exists, although international frameworks[4] usually underscore two elements.** A weak bank may be identified as non-viable, typically when it does not meet or is not expected to meet its applicable minimum requirements and there is no other measure that can effectively address its financial troubles, and it therefore should be placed either into resolution or liquidation. The first component is that the identification of non-viable banks should be assessed based on transparent and well-defined indicators. The indicators may relate to a bank's compliance with its minimum prudential requirements (including but not limited to capital adequacy), its liquidity situation (inability to make payments as they come due), or to its negative asset value (assets lower than its liabilities). A complete assessment will consider not only the current situation but will also take a forward-looking view to assess those triggers ("likely to fail"), effectively enabling authorities to consider a bank as non-viable before it is balance sheet insolvent. Considering a bank "non-viable" should be a last resort so a second condition is usually related to the unlikeliness of any alternative measure, either supervisory or bank-led recovery (including even the bank's takeover by another solvent institution) to restore the firm's financial position.

14. **The definition of a bank as non-viable usually requires professional judgment.** Weak banks may report overstated asset values and capital adequacy ratios, which force authorities to delve into banks' books and apply their own criteria for challenging those valuations. When assessing banks' recovery plans, authorities should determine whether those plans are feasible, credible, and likely to result in restoring the financial situation of the bank. Transparent legal conditions, a well-defined decision-making supervisory framework, and legal protection for banking supervisors support authorities in making these decisions.

15. **The distinction between viable and non-viable is paramount for the subsequent handling of a weak bank.** Viability, or the lack of it, is the key criteria for determining how a weak will be handled, including the applicable crisis management regime, and who will be in charge of it. A weak but viable bank will typically continue to be steered by its board of directors and senior management, under the remit of the supervisory authority, which may force the bank to take measures to bolster its financial position or improve its governance or risk management practices. The management of a non-viable bank, especially if systemically important, will be transferred to the resolution authority, that may use a special resolution manager or temporary administrator, to implement far-reaching powers that can override shareholders' or creditors' property rights. Non-viable small banks may instead be liquidated, and their insured deposits reimbursed.

3 BCBS, July 2015.
4 Key Attributes for Effective Resolution Regimes (FSB, 2011). Guidelines for identifying and dealing with weak banks (BCBS, July 2015).

16. **The paper also distinguishes between open and closed bank resolutions.** A closed bank resolution implies that some of the activities (assets and liabilities) of the failed bank would be transferred to a third party, while its license will be revoked and therefore its legal personality extinguished. In open bank resolutions, often called "going concern resolution", authorities restructure a failed bank's equity and liabilities, to ensure that losses are absorbed, and the bank is recapitalized so it can continue its operations. As a result, its license will not be revoked.

17. **Some countries may have intermediate regimes, applicable to weak banks with serious viability problems yet still viable.** Some legal frameworks provide authorities with powers to write down capital instruments outside the resolution frameworks, or to force banks into a merger and acquisition transaction without shareholders' consent.

2.4. DEFINITION OF TERMS USED: SYSTEMIC BANKING CRISES

18. **There is no single harmonized definition of "systemic banking crisis".** It is important that policymakers and practitioners can promptly identify a banking crisis as the set of actions and policies for its management have specific features. Different authors define "banking crisis" or "systemic banking crisis" in different ways:

- **Laeven and Valencia (2013) define banking crisis as an event that meets two conditions:** (i) significant signs of financial distress in the banking system (as indicated by bank runs, losses in the banking system, and/or bank liquidations), and (ii) significant banking policy intervention measures in response to significant losses in the banking system.[5]
- **Reinhart and Rogoff (2009) define banking crisis based on two types of events:** (i) bank runs that lead to the closure, merging, or takeover by the public sector of one or more financial institutions, and (ii) if there are no runs, the closure, merger, takeover, or large-scale government assistance of an important financial institution (or group of institutions) that marks the start of a string of similar outcomes for other financial institutions.
- **Demirguc-Kunt and Detragiache (1998) define banking crisis in a more flexible manner, as a crisis where any of four conditions are met:** (i) the ratio of nonperforming assets to total assets in the banking system exceeds 10 percent, (ii) the cost of the rescue operation is at least 2 percent of the gross domestic product (GDP), (iii) banking sector problems result in a large scale nationalization of banks, and (iv) extensive bank runs take place or emergency measures such as deposit freezes, prolonged bank holidays, or generalized deposit guarantees are enacted by the government in response to the crisis.
- **A simpler definition, used for this paper, is found in World Bank.**[6] A (systemic) banking crisis occurs when many banks in a country are in serious solvency or liquidity problems at the same time, either because they are all hit by the same outside shock or because failure in one bank or a group of banks spreads to other banks in the system.

19. **After the GFC, systemic crises have continued to arise in FinSAC client countries, while also happening in other countries in the ECA region.** Poor governance and management practices, reckless loan growth, inadequate or even corrupt major shareholders, related party and foreign currency lending, and inadequate regulation and supervision have been at the heart of these crises. **Box 1** explores in more detail the crises in Moldova, Ukraine, and Russia, while **Annex 2** contains more information on the individual banking crises across the region.

5 The definition of "significant losses" depends on meeting either of these conditions (i) a country's banking system exhibits significant losses resulting in a share of NPLs above 20 percent of total loans or bank closures of at least 20 percent of banking system assets, (ii) fiscal restructuring costs of the banking sector are sufficiently high, exceeding 5 percent of GDP. The authors consider policy interventions to be "significant" when three of the following six measures have been used; (i) deposit freezes and/or bank holidays; (ii) significant bank nationalizations; (iii) bank restructuring fiscal costs (at least 3 percent of GDP); (iv) extensive liquidity support (at least 5 percent of deposits and liabilities to nonresidents); (v) significant guarantees put in place; and (vi) significant asset purchases (at least 5 percent of GDP).

6 World Bank Global Financial Development Report 2019/2020: Bank Regulation and Supervision a Decade after the Global Financial Crisis. https://www.worldbank.org/en/publication/gfdr

Box 1. Selected systemic banking crisis in Eastern European countries during the last decade[7]

Moldova: bank heist (2014)[8]

In 2008 and 2010, three Moldovan banks were sold to related parties of one individual. First Unibank (a small bank), then Banca Sociala (a mid-sized bank), and then the largest systemic bank in the country: Banca de Economii, which was state-owned at that time. The state ownership was diluted by issuing new shares which were bought by a shareholder, who took loans from the bank to buy these shares. From 2012 to 2014, many lending operations between these three banks and the shareholder's related parties were conducted, with a fraudulent nature.

At the end of 2014, most loans were granted to insolvent companies offshore, including shell companies in the UK and Hong Kong, which were never reimbursed. Loans to fictitious borrowers resulted in almost US dollars (USD) 1 billion losses (around 80 percent of the assets of the three banks at the time). As losses were unveiled, it was evident that the three banks could not continue their operations. The banks were placed under a special supervision regime. International audit firms were appointed to perform an AQR for other banks in Moldova.

Afterwards, the state provided these three banks with a USD 870 million loan to enable them to pay their liabilities, including their deposits. The loan was provided by the National Bank of Moldova, against the collateral of a 25-year maturity government bond that the state is repaying in annual instalments.[9] The loan amount was at that time 12.5 percent of the country's GDP. The three banks used the loan to repay the deposits in a process that lasted more than six months. Related party deposits were not repaid and remained in the failed banks. Once the repayment process ended, the banks were liquidated.

The National Bank of Moldova continued its clean-up of the banking sector and placed the largest locally owned banks under special supervision, due to a lack of transparency in their shareholder structures (see **Annex 2** for more details). They would be sold years later to other private investors. Moreover, overarching reforms were introduced in the country, including a new Bank Recovery and Resolution Law in 2016 and significant improvements in banking supervision, covering a thorough review of banks' significant shareholders and transactions with related parties.

Ukraine: massive banking clean-up and nationalization of the largest bank (2014-2017)

In 2014, the economic crisis triggered by the Revolution of Dignity, the Russian annexation of Crimea and the armed conflict in Donbass was the tipping point of a major banking crisis in the country. Years of poor regulatory and supervisory enforcement had resulted in widespread problems in the banking system, particularly in domestic banks. Many firms were used as "pocket banks" or "piggybanks" by their owners,[10] channeling deposits towards their non-financial activities. In more egregious cases, shareholders engaged in asset stripping, money laundering, and other fraudulent activities. The framework for managing banking failures in Ukraine was streamlined in 2012[11] and involved the National Bank of Ukraine transferring the failed banks to the Deposit Guarantee Fund, that would try to sell the bank to an acquirer or to transfer some of its assets and liabilities to an acquirer or to a bridge bank. If no solution was possible, the National Bank would withdraw the license of the bank and liquidation proceedings would be opened. One systemically important bank was bailed out by the state.

7 For more information on the Moldovan and Ukraine crises, see "No more sweet deals: the need to reform banks' related parties" (World Bank, 2023). https://star.worldbank.org/publications/no-more-sweet-deals-need-reform-banks-related-party-transactions

8 This section is based on the Kroll Report investigating the fraud at the 3 banks: https://www.bnm.md/files/Kroll_%20Summary%20Report.pdf.

9 According to information from the National Bank of Moldova, see: https://www.bnm.md/en/content/press-release-5.

10 See https://badbanks.bank.gov.ua/

11 See: https://bank.gov.ua/en/archive-news/all/122099-national-bank-of-ukraine-brings-the-nbu-regulations-into-line-with-the-law-of-ukraine-on-households-deposit-guarantee-system.

In 2014, the National Bank, with the support of audit companies, undertook a comprehensive assessment of the health of the banking sector through an AQR and stress test of the largest 35 banks' capital adequacy, following the European Banking Authority's scenarios.[12] The exercise covered banks holding around 80 percent of the assets of the banking sector and revealed capital shortfalls for 18 firms, which were forced to prepare recapitalization plans. In five cases, firms and their shareholders were unable to present a credible recapitalization plan, so the banks were transferred to the Deposit Guarantee Fund and liquidated (including Delta Bank, Ukraine's fourth largest bank, with 5 percent of banking assets at that time).[13]

Further economic deterioration and hryvnia (UAH) depreciation soon demanded a new assessment. A new exercise was undertaken by the National Bank in 2015, involving the AQR of the 60 largest banks over a two-year period (20 banks during 2015 and 40 during 2016). As a result of the exercise, 39 banks reported capital shortfalls, eight of which were resolved.[14] This exercise was supplemented with a comprehensive review of banks' lending to related parties in 2015-2016, that covered 99 banks, 44 of which reported breaches of concentration and related party requirements.[15]

Crucially, the exercise revealed a large capital shortfall in the largest Ukrainian bank, PrivatBank, that would trigger its nationalization in 2016.[16] At that time, the bank's market share was above 15 percent, and higher than 30 percent in retail banking,[17] and it intermediated more than half of the country's retail and small and medium-sized enterprises' payment transactions. The bank's business model was largely based on taking retail deposits and providing corporate loans to related parties. The bank was owned by prominent individuals in Ukraine.[18] The second exercise resulted in huge credit losses in the bank, largely explained by related party lending (according to the National Bank, virtually the entire corporate loan book were loans to related parties, typically with no or fraudulent collateral).[19] As a result of the losses and recapitalization needs, the shares of PrivatBank were transferred to the state in December 2016, after a public recapitalization of EUR 5.4 billion (around 6.5 percent of Ukraine's GDP at that time) and a write-off of PrivatBank's Eurobonds (for a nominal value of USD 595 million)[20] (see **Box 8** and **Annex 2** for more details). The nationalization of the bank was followed by widespread legal challenges, as the former owners tried to recover the property of the bank.

In an unprecedented clean-up of the banking sector, 94 banks out of 180 were liquidated by the Deposit Guarantee Fund in the 2014-2017 period.[21] Major reforms were introduced to upgrade the banking regulatory and supervisory framework, including to ensure that National Bank supervision staff could quickly identify banks' weaknesses and unsound practices and take early action before the deterioration became irreversible.

12 Data in National Bank of Ukraine's Annual Report 2014, page 78.

13 See https://www.fg.gov.ua/en/banki-v-upravlinni-fondu/jsc-delta-bank and https://bank.gov.ua/en/news/all/at-delta-bank-vidneseno-do-kategoriyi-neplatospromojnih.

14 National Bank of Ukraine's "Results of bank diagnostics as of 07/20/2017" (in Ukrainian) https://bank.gov.ua/admin_uploads/article/Test_Results_20072017.pdf?v=4.

15 National Bank of Ukraine's press release, "The National Bank of Ukraine Completes Its Diagnostics on Related Party Lending by Banks", 27 February 2017 (https://bank.gov.ua/en/news/all/natsionalniy-bank-zavershiv-protseduru-diagnostichnogo-obstejennya-bankivskih-operatsiy-z-povyazanimi-osobami).

16 More information can be found in https://www.fg.gov.ua/banki-v-upravlinni-fondu/banki-prodani-derzhavi/pat-kb-privatbank.

17 See the evolution in the period 2014-2017 in the National Bank of Ukraine's Financial Stability Report, June 2018, page 38, https://bank.gov.ua/admin_uploads/article/FSR5_June_2018_eng.pdf?v=6

18 Shareholder structure before the takeout by the National Bank of Ukraine (in Ukrainian) in: https://bank.gov.ua/files/Shareholders/305299/305299_20160331.pdf.

19 According to a National Bank of Ukraine assessment, 97 percent as of 1 November 2015. See: https://bank.gov.ua/en/news/all/vistup-golovi-natsionalnogo-banku-valeriyi-gontarevoyi-pid-chas-spilnogo-brifingu-z-ministrom-finansiv-oleksandrom-danilyukom-schodo-perehodu-privatbanku-u-derjavnu-vlasnist.

20 See https://bank.gov.ua/en/news/all/povidomlennya-derjatelyam-yevroobligatsiy-privatbanku.

21 33 in 2014, 33 in 2015, 19 in 2016 and 9 in 2017. Moreover, 2 banks were liquidated in 2020, 1 in 2021, 4 in 2022 and 5 in 2023. See https://www.fg.gov.ua/en/statistics/number-of-failed-member-bank.

Russia: Banking Sector Consolidation Fund and nationalization of the Garden Ring Banks (2017-2018)

During 2017-2018, the Central Bank of Russia nationalized some of the largest privately-owned banks in the Russian banking sector, using its own financial resources through the Banking Sector Consolidation Fund.

Prior to 2017, when a bank was insolvent or was in difficulties, the Deposit Insurance Authority either requested the Central Bank to withdraw the license and placed the bank into liquidation or appointed a temporary administrator and sought an acquirer to take over and restructure the weak bank.[22] Usually, the Central Bank provided low-cost lending to the acquirer to facilitate the restructuring. Starting from 2014, the Central Bank began a massive clean-up process of the banking sector, where more than 500 banks (out of 1,000) saw their licenses withdrawn. During this period, the Central Bank's powers to take over banks were very limited.

During the clean-up process, some privately-owned banks took over many of the weak banks from the Deposit Insurance Authority. These acquisitive entities were willing to assume high risks and were able to quickly grow their assets, in some cases even to be identified as systemically important institutions.

A new Federal Law, passed in May 2017,[23] created the Banking Sector Consolidation Fund.[24] This gave the Central Bank the ability to take over failing banks through the Fund, write-off their shares and some of their liabilities, recapitalize them, transfer their bad assets to an AMC, and restructure them with the goal of ensuring they become viable again. Critically, the funds required for recapitalization, for providing liquidity, and other purposes (e.g., asset separation) were provided directly by the Central Bank through the Banking Sector Consolidation Fund.

In August 2017, after massive liquidity outflows, the Central Bank took over Bank Otkritie,[25] at the time a systemically important institution and the largest privately-owned bank in Russia. A temporary administrator was appointed, capital instruments were written off, bad assets were transferred to a bad bank, and the Central Bank injected capital and liquidity. As a result, Bank Otkritie was nationalized. In September 2017, the Central Bank took a similar measure with B&N Bank,[26] another large, privately-owned systemically important institution. In December 2017 it was the turn of Promsvyazbank,[27] another privately-owned systemically important institution (the 9th largest bank at that time). During 2018, the Central Bank used its powers to intervene in other, smaller banks (mainly Rost Bank, owned by B&N Bank owners, in March 2018 and Asian-Pacific Bank in April 2018).[28] The Central Bank used one subsidiary of Bank Otkritie (National Bank Trust)[29] as a bad bank or AMC, and non-performing assets of failed banks were transferred to this entity. See **Annex 1** and **2** for more details on National Bank Trust and bank failures in Russia.

Once stabilized, the Central Bank took further measures to restructure the nationalized banks. Bank Otkritie and B&N Bank were merged, with a view to returning the combined entity to private hands. The Central Bank's initial plans were curtailed after the February 2022 Russian invasion of Ukraine, although Bank Otkritie was sold to VTB, another state-owned bank.[30] PromsvyazBank was retained as a state-owned institution, but other smaller entities were sold to private investors.

22 In accordance with the Federal Law No 175-FZ dated October 27, 2008 "On Additional Measures to Support the Financial System of the Russian Federation in the period up to December 31, 2011".

23 Federal Law of 01.05.2017 No. 84-FZ "On Amendments to Certain Legislative Acts of the Russian Federation", May 2, 2017.

24 See https://www.cbr.ru/collection/collection/file/27724/cbr_ir_2020-03.pdf (slide 25) for more details.

25 See https://www.cbr.ru/eng/press/pr/?file=29082017_190359eng2017-08-29t19_03_27.htm#highlight=otkritie and https://www.cbr.ru/eng/press/pr/?file=07122017_160722eng2017-12-07t16_06_50.htm#highlight=otkritie.

26 See https://www.cbr.ru/eng/press/pr/?file=21092017_114120eng2017-09-21t11_40_27.htm#highlight=bank%7Cbanks.

27 See https://www.cbr.ru/eng/press/pr/?file=15122017_110615eng2017-12-15t11_15_59.htm#highlight=promsvyazbank.

28 https://www.cbr.ru/eng/press/pr/?file=26042018_105931eng2018-04-26t10_56_13.htm.

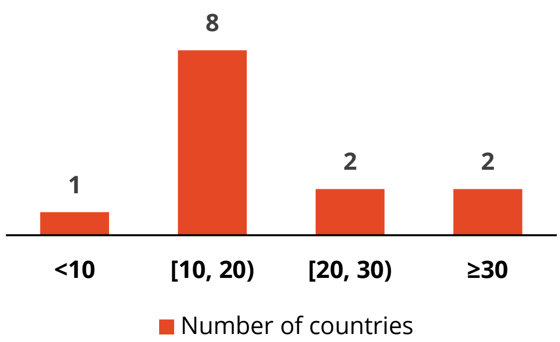
29 Report for 2018 (in Russian) https://www.trust.ru/upload/iblock/23a/%D0%9E%D1%82%D1%87%D0%B5%D1%82%20%D0%B1%D0%B0%D0%BD%D0%BA%D0%B0%20%D0%B7%D0%B0%202018%20%D0%B3%D0%BE%D0%B4.pdf.

30 See https://www.cbr.ru/eng/press/pr/?file=638077401227576761eng_bank_sector.htm#highlight=otkritie.

3. KEY FINANCIAL AND REGULATORY FEATURES OF FINSAC CLIENT COUNTRIES' FINANCIAL SYSTEMS

20. **Many financial sectors in FinSAC client countries share some common features.** They are bank-dominated, where usually few banks operate, typically ranging between 10 and 20 (**Figure 1**). A very modest role is played by capital markets and the insurance sector in financial intermediation.[31] Foreign ownership[32] is high, for example the market share of foreign-controlled banks is as high as 75 percent in Serbia, around 84 percent in Kosovo, and above 75 percent in the Federation of BiH (**Figure 2**). Concentration is also high, as the top 5 banks have around 73% of the asset market share on average, with some countries (Georgia, Moldova) close to 90% (**Figure 3**).

Figure 1. Number of banks in FinSAC client countries in 2022[33]



Source: FinSAC with information from central banks and supervisory authorities[34]

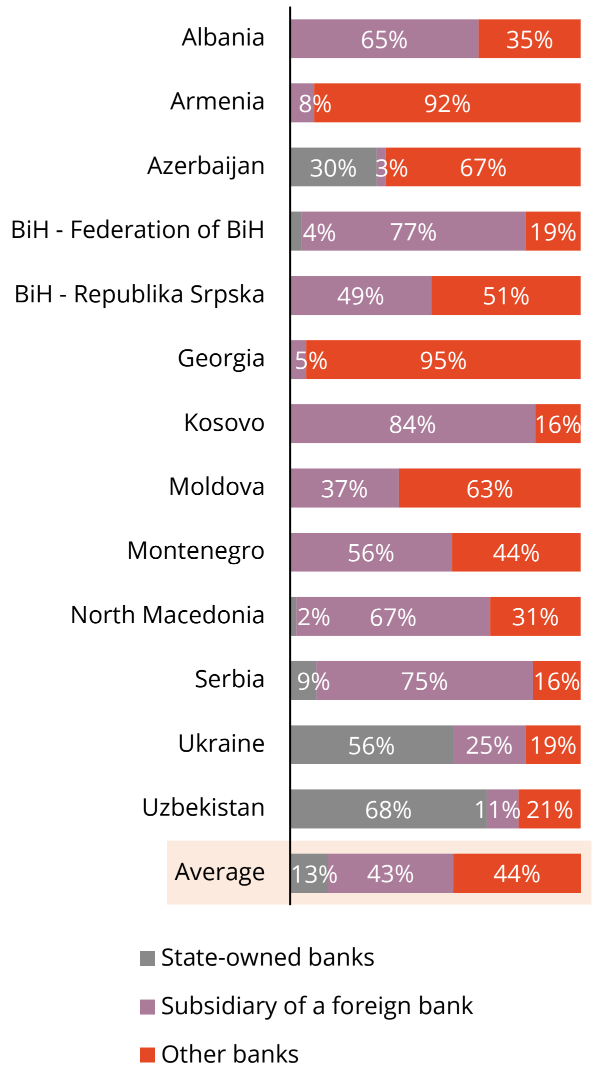
31 Although in certain countries, non-bank financial organizations have a limited, but still relevant, role.

32 With some exceptions (Azerbaijan, Georgia, Uzbekistan), where foreign ownership shares are rather low. The elevated levels of foreign ownership across the region are explained by the process of privatization undertaken in the transition towards a market economy. Former non-market economies' financial sectors comprised state-owned banks that were in urgent need of restructuring and fresh capital. In this context, Western European banking groups (mainly Austrian, French, German, and Italian) bought the shares of state-owned banks during privatization processes.

33 The buckets show the number of FinSAC client countries based on their number of active banks. The two entities of BiH are presented separately, as resolution authorities are defined at entity (and not national) level.

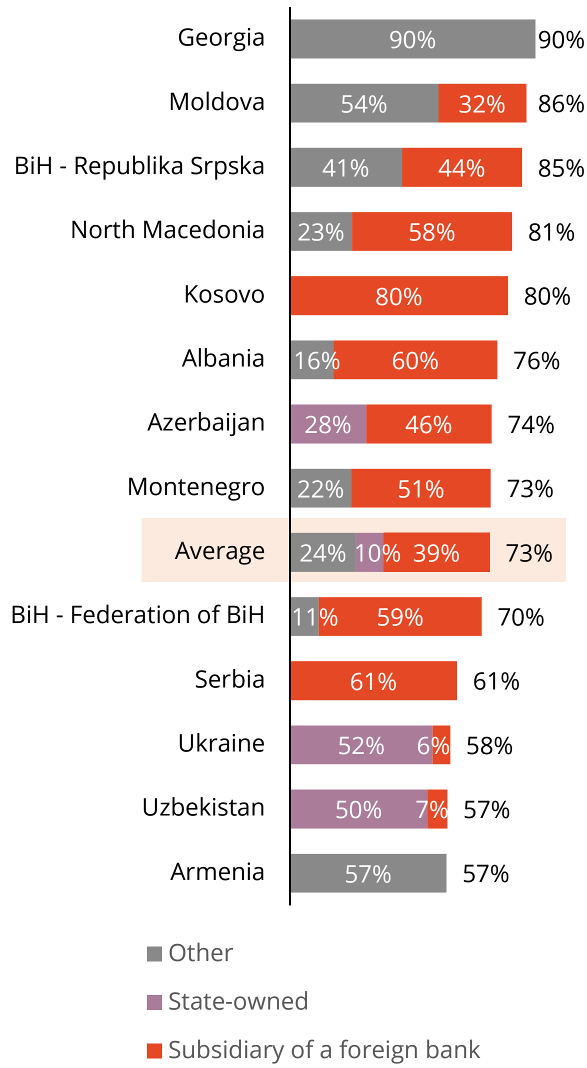
34 Information obtained from the Bank of Albania; Central Bank or Armenia; Central Bank of Azerbaijan; Banking Agency of the Federation of BiH and Banking Agency of the Republika Srpska; National Bank of Georgia; Central Bank of the Republic of Kosovo; National Bank of Moldova; Central Bank of Montenegro; National Bank of North Macedonia; National Bank of Serbia; National Bank of Ukraine; and Central Bank of Uzbekistan.

Figure 2. Bank ownership in FinSAC client countries by share in total assets[35]



Source: FinSAC with information from central banks, national bank associations, and banks[36]

Figure 3. Aggregated market share by total assets of top-5 banks in FinSAC client countries[37]



Source: FinSAC with information from central banks, national bank associations, and banks[38]

21. **Banks in the region have enjoyed several years of improving asset quality and profitability and stronger capital and liquidity positions.** Banks across FinSAC client countries have been operating with higher levels of solvency (**Figure 4**), liquidity, and profitability (**Figure 5**) and improving asset quality (**Figure 6**).[39] Consolidation in FinSAC client countries' banking sectors has continued during the last years, with some banking groups playing an active role.[40]

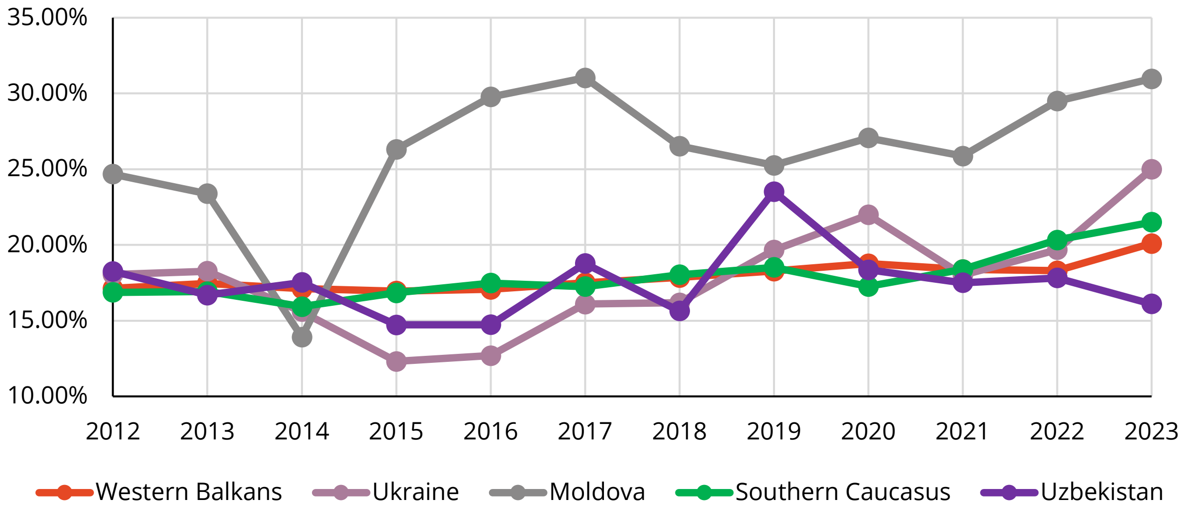
35 We have defined three categories by the nature of bank ownership: (i) state-owned: for cases where the local sovereign domestic state owns a controlling stake in a bank, defined as one above 50 percent of the bank's share capital; (ii) subsidiary of a foreign bank: banks that are subsidiaries of a foreign bank or included in a foreign banking group, including those controlled by the state of a third country; (iii) other banks: includes all other ownership models. The information of BiH is presented broken down by the two entities due to the existence of two banking supervisors.

36 Information as of December 31, 2023, for Armenia, Azerbaijan, Georgia, Moldova, Ukraine, and Uzbekistan. Information as of November 30, 2023, for Kosovo. Information as of September 30, 2023, for Albania, Montenegro, North Macedonia, and Serbia. Data as of June 30, 2023, for the Federation of BiH and the Republika Srpska.

37 Total assets of the 5 biggest banks (by total assets) in the country over the total assets of the banking system.

38 Information as of December 31, 2023, for Armenia, Azerbaijan, Georgia, Kosovo, Moldova, Ukraine, and Uzbekistan. Information as of September 30, 2023, for Albania, Montenegro, North Macedonia, and Serbia. Data as of June 30, 2023, for the Federation of BiH and the Republika Srpska.

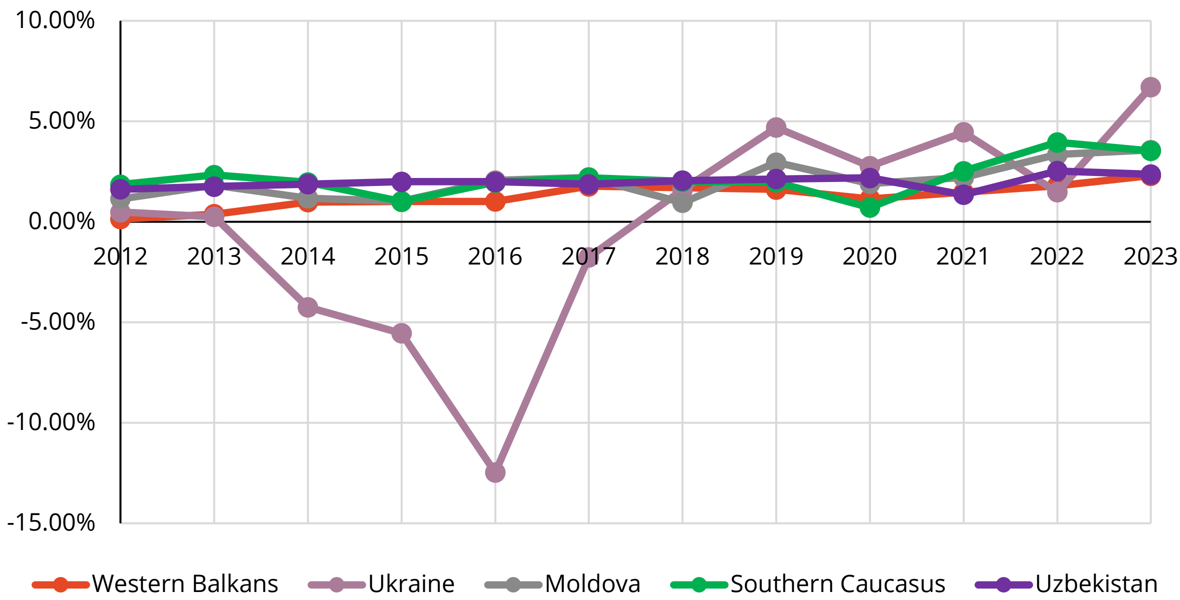
Figure 4. Evolution of bank solvency ratios in FinSAC client countries (2012-2022)[41]



Note: *Data is aggregated in five main geographic areas (i) Western Balkans: Albania, Bosnia, Kosovo, Serbia, North Macedonia and Montenegro. (ii) Ukraine. (iii) Moldova. (iv) Southern Caucasus: Armenia and Georgia. (v) Uzbekistan. When grouping countries, the simple average (i.e., weighting equally each country) is calculated for each year.*

Source: FinSAC with IMF and National Bank of Serbia data (financial stability indicators)

Figure 5. Evolution of bank return on assets ratios in FinSAC client countries (2012-2022)



Note: *Data is aggregated in five main geographic areas (i) Western Balkans: Albania, Bosnia, Kosovo, Serbia, North Macedonia and Montenegro. (ii) Ukraine. (iii) Moldova. (iv) Southern Caucasus: Armenia and Georgia. (v) Uzbekistan. When grouping countries, the simple average (i.e., weighting equally each country) is calculated for each year.*

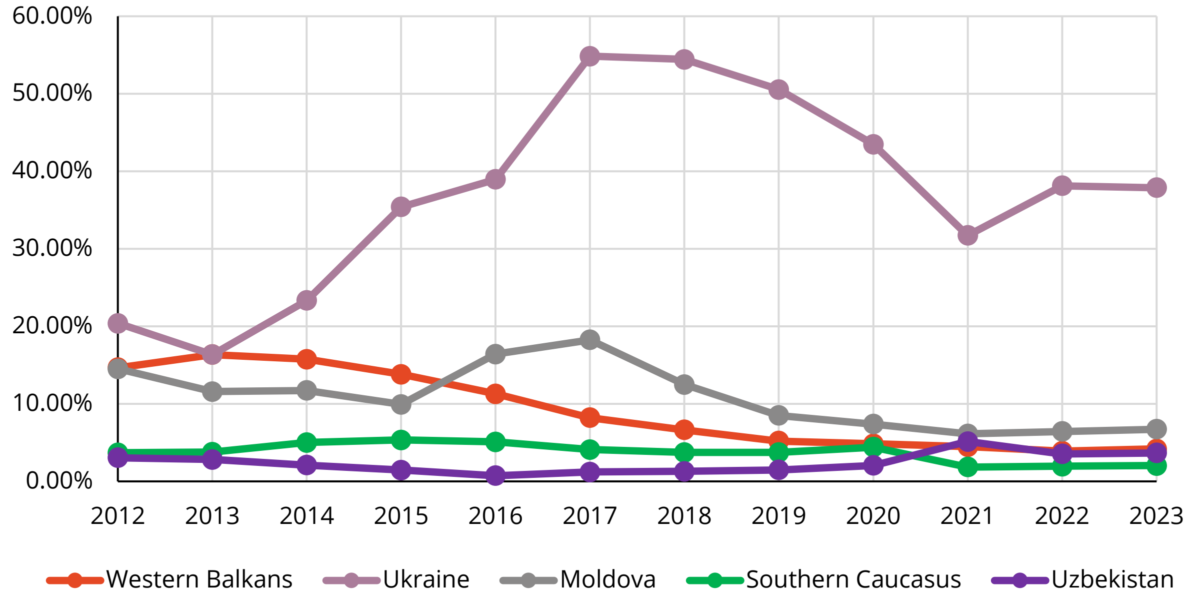
Source: FinSAC with IMF and National Bank of Serbia data (financial stability indicators)

39 NPL ratios decreased quickly during the last decade. In Serbia, NPL ratios went from 9.8 percent in 2017 to 3.6 percent at the end of 2021, and in Albania from 13.2 percent in 2017 to 5.7 percent in 2021. Even in Ukraine, NPL ratios that were at previously remarkably high levels were drastically reduced in the last 5 years (from 54 percent to 30.5 percent), before picking up in 2022 due to the Russian invasion of Ukraine.

40 For example, Hungary's OTP Bank has acquired several banks in the last 5 years in the Western Balkans (Albania, Croatia, Montenegro, Serbia, Slovenia), Eastern Europe (Moldova) and even Central Asia (Uzbekistan), mainly from France's Société Générale. Slovenia's Nova Ljubljanska Banka has been active in the Western Balkans, buying banks in Slovenia (Sberbank) and Serbia (Komercijalna Bank).

41 In Figure 4, 5 and 6 Moldova and Ukraine data are presented separately, as both countries underwent systemic crises in the period covered in the charts.

Figure 6. Evolution of bank NPL ratios of FinSAC client countries (2012-2022)



Source: FinSAC with IMF and National Bank of Serbia data (financial stability indicators)

22. **FinSAC client countries have strengthened their frameworks for preventing and managing banking crises during the last decade.** Regulatory frameworks have been upgraded, supervisory processes streamlined, and new regimes for managing weak banks implemented. As a result, many of these countries have improved their preparedness for dealing with troubled banks.

23. **Basel III Standards are being implemented across the region.** Many FinSAC client countries have adapted, or are in the process of adapting, their prudential frameworks to Basel III, especially EU-candidate countries seeking to converge with the EU acquis. Capital requirements have been lifted, including capital buffers, and liquidity requirements implemented.

24. **Credit risk classification and provisioning standards have become more forward-looking.** Many FinSAC client countries have upgraded their classification and coverage standards in line with the expected-loss approach of International Financial Reporting Standard 9. Certain countries have added an extra safety cushion, through incorporating regulatory backstops to constrain the variability of expected credit losses derived from the banks' internal models.[42] Credit risk management frameworks have also been enhanced with requirements for banks reporting high levels of NPLs to prepare strategic and operational plans, where annual internal targets for reducing NPLs and management actions towards achieving them are outlined. Countries have strengthened their frameworks for avoiding past credit risk mistakes, including new standards restricting new lending to unhedged borrowers in foreign currency, and introducing stricter requirements for related party lending.

25. **Banking supervisors in FinSAC client countries have upgraded their supervisory policies, procedures, and tools.** Many of the supervisory authorities in the region have adopted risk-based supervision approaches, usually inspired by the EU's supervisory review and evaluation process (SREP) framework.[43] The implementation of the SREP model is

42 See credit risk regulations of the Banking Agencies of BiH or the National Bank of the Republic of North Macedonia.

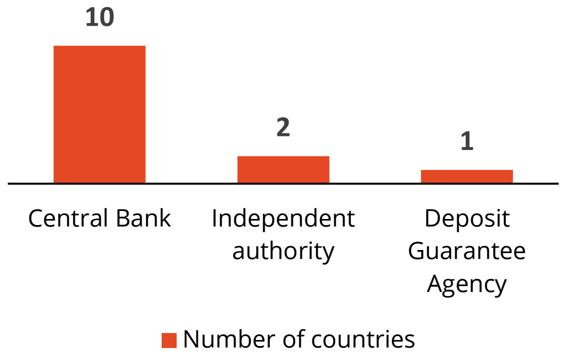
43 In many cases, the SREP approach has replaced the US-based CAMELS framework (capital adequacy, asset quality, earnings, liquidity, and sensitivity), which was previously in widespread use in the region.

having profound implications on banking supervision, triggering important changes in day-to-day supervision, including the reorganization of resources, the definition of new supervisory procedures, changes in the scope and frequency of on-site inspections, and recruitment of staff with the skillsets required to perform the new tasks. Most authorities are setting risk-based Pillar 2 capital requirements or regularly conducting microprudential bottom-up stress tests.

26. **Frameworks to deal with weak but viable banks have been enhanced.** FinSAC client countries have upgraded their early intervention frameworks, conferring far-reaching powers on banking supervisors, including the ability to replace senior managers and board members, request specific measures to address weaknesses, and impose restrictions over banks' activities. Banks are required to invest time and resources in crisis preparedness through annual updates of recovery plans or by meeting the new requirements on resolution planning.

27. **New bank resolution regimes have been implemented, with resolution authorities given comprehensive powers to manage bank failures.** Several FinSAC client countries have passed bank resolution laws, often inspired by the FSB Key Attributes and EU's BRRD.[44] These bank resolution laws typically designate the central bank or the agency in charge of banking supervision[45] as the independent resolution authority (**Figure 7**). These authorities are given broad powers to implement closed and open bank resolutions, including through transfer and bail-in powers. When using them, authorities have the mandate to protect financial stability, guaranteed deposits, and taxpayer money but they are not restricted by having to minimize the costs to the failed bank's creditors.[46]

Figure 7. Resolution authorities in FinSAC client countries[47]



Source: FInSAC using information from client countries

28. **Resolution authorities of some FinSAC client countries are required to prepare resolution plans, at least for large, systemic banks.** This is the case for Albania, BiH, Georgia, Moldova, Montenegro, North Macedonia, and Serbia.[48] In resolution plans, authorities outline the powers and tools (resolution strategies) they intend to use when a bank becomes non-viable, identify any obstacles to the application of the selected strategies, and ultimately request banks to undertake measures to address these. Effective resolution plans are key, particularly for foreign-owned banks, as resolution authorities need to consider how the resolution plan of the subsidiary will be coordinated with the foreign resolution authorities of the wider banking group (**Box 2**). While some countries have made significant progress in preparing resolution plans, there remains much to be done in this area.

44 Some FinSAC client countries have already introduced FSB Key Attributes-based bank resolution laws (Albania, Georgia, Moldova, Montenegro, North Macedonia, Serbia, etc.), whereas others are still in the process of introducing them (Armenia, Kosovo, Uzbekistan) and a few have not yet made substantial headway in their resolution frameworks.

45 Designating the central bank or the independent banking supervisory agency as the resolution authority has predictably been the most common approach, due to cost efficiency, synergies within banking supervision and other functions, and the independence and prestige of the central bank. The central bank has been designated as the resolution authority in Albania, BiH, Georgia, Moldova, Montenegro, North Macedonia and Serbia. In BiH the two independent banking agencies have been conferred with the new powers. The only exemption is currently Ukraine, where the Deposit Guarantee Fund has been designated as resolution authority, mirroring the situation of other large countries (e.g., Denmark, Poland, Sweden, Turkey, etc.). Separating the resolution authority from the banking supervisor can help to mitigate the conflicts of interests that inevitable may arise between the two functions.

46 This mandate is a key difference with the US system. In the US, the Federal Deposit Insurance Corporation, as resolution authority, has the mandate to choose the "least cost option" (i.e., the least cost to the deposit insurance fund). BRRD-inspired resolution regimes are only bound by the "no creditor worse off than in liquidation" principle, that implies that no creditor should receive less in resolution than the amount it would have received in a counterfactual liquidation of the bank.

47 The Federation of BiH and the Republika Srpska are presented separately, as the resolution authority is defined at entity level.

48 FinSAC client countries that have introduced resolution planning requirements have done so according to the model where the resolution authority prepares the resolution plan and conducts the resolvability assessment. This does not imply, though, that banks are not part of the process. On the contrary, resolution authorities in FinSAC client countries are issuing standards that banks need to meet to make themselves more resolvable. This model ensures close involvement of banks in continuously improving their resolvability, while the resolution authority retains the authority to determine the banks' preferred resolution strategy and the areas where banks should focus their resolution work. In other jurisdictions (USA, Indonesia) banks are responsible to prepare resolution plans and the resolution authority should assess their resolvability based on those plans, in a similar role to a banking supervisor.

Box 2. Resolution strategies and resolution entities in cross-border banking groups in FinSAC client countries

Some Western and Central European banking groups have multiple subsidiaries across Eastern and Southeastern Europe. Austrian Erste Bank and Raiffeisen Bank International, Italian Intesa Sanpaolo and UniCredit, German Procredit, Hungarian OTP Bank, and Slovenian Nova Ljubljanska Banka are among the most active banks in the region.

In the context of resolution planning of cross-border banking groups, resolution authorities need to choose their resolution strategies. This involves the identification of the so-called "resolution entities" and "resolution groups": single point of entry or multiple point of entry resolution strategies.

Single point of entry

A single point of entry resolution strategy assumes that only the resolution authority of the parent company will be expected to apply its resolution powers, and therefore only the parent would qualify as a "resolution entity". In case of failure, subsidiaries' losses would be expected to be up streamed to the parent and capital down streamed to the subsidiaries. As a result, only the creditors of the parent company would absorb losses. To operationalize this approach, host resolution authorities need to require the parent company to preposition loss-absorbing debt to their subsidiaries. The single point of entry resolution strategy assumes that the group will continue operating after its orderly resolution.[49]

Multiple point of entry

In a multiple point of entry resolution strategy, resolution authorities identify more than one "resolution entity" in the group, as they expect to use their resolution powers to more than one legal entity in the group. In these cases, losses in resolution entities would be expected to be absorbed by their creditors and not necessarily up streamed to the parent company (except for the equity and capital instruments injected by the parent). In case of resolution, banking groups may be broken up. Therefore, during the planning phase resolution authorities are likely to focus on ensuring that their resolution entities could be independently resolved from the rest of the banking group.[50]

The selection of resolution strategy is commonly conducted in crisis management groups or resolution colleges (see Section 5.9). The resolution strategies of some active banks in FinSAC client countries imply the identification of several resolution entities (especially Austrian banking groups), whereas in other cases the parent company is the only resolution entity.

In principle, resolution authorities for single point of entry groups may pay less attention to the group interlinkages during the resolution planning phase, as the entities under the remit will be expected to continue to be part of the same banking group. On the contrary, authorities responsible for multiple point of entry groups may focus their resolution planning work in limiting group interconnectedness, and where it exists, to subject them to sound, resolution-proof arrangements that do not pose a barrier to the separability of the subsidiary in case of bank resolution. A second, theoretical difference, is that a subsidiary identified as a resolution entity may issue its loss-absorbing debt from the market, whereas one that is not be expected to source this from its parent company. But the latter is not a realistic option for most FinSAC client countries.

Therefore, far more relevant than the decision whether to identify or not a subsidiary as a resolution entity, is that host resolution authorities ensure that their subsidiaries have prepositioned loss-absorbing debt by the parent companies, to be used for recapitalizing the local subsidiary in case of resolution.

49 Some examples of banks with multiple point of entry resolution strategies include Raiffeisen Bank International (see prospectus dated 27 July 2020, EUR 500.000.000 Fixed to Reset Rate Additional Tier 1 Notes of 2020 with a First Reset Date on 15 December 2026, page 17). https://dl.bourse.lu/dl?v=975xooDaiVqlEQOISy9LO3ejUOuwq8xJwirr4SzrGpt2ltDhGng6GywRWZrlSVP6G8GntxJOyorcT/aSN7gYecoDcjfu+ym5BZ9dQqluKm9LyN9wgNgywMwmFTEsDl3yF1BwpI6H9koQgOMd7MuClyhmePFePho89+coIPpvS54=); Erste Group (see "November 2023 – Erste Group debt investor presentation", page 29: https://www.erstegroup.com/en/investors/debt/presentations); and OTP Group (see prospectus, page 2, https://www.otpbank.hu/static/portal/sw/file/MTN_Prospectus_Supplement_4rd_20231215.pdf).

50 An example of single point of entry resolution strategy is UniCredit Group (see UniCredit Group Pillar III disclosure as at 30 September 2023, page 21, https://www.unicreditgroup.eu/content/dam/unicreditgroup-eu/documents/en/investors/third-pillar-basel/2023/UniCredit-Group-Disclosure-Pillar-III-as-at-30-September-2023.pdf).

29. **Most resolution authorities in FinSAC client countries are defining their models to cover the costs of bank failures.** In the wake of the GFC, many countries have moved away from taxpayer-based funding models. The FSB Key Attributes and BRRD seek to ensure that resolution losses will first be assumed by shareholders and creditors and, if needed, by the industry (through resolution or deposit insurance). The possibility of using taxpayers' funds for bank recapitalization remains possible but is subject to further constraints. While FinSAC client countries have firmly advanced towards "bail-in, not bail-out" regimes, their effectiveness can be hampered by the underdeveloped and shallow private debt markets (precluding the issuance of loss-absorbing debt -a key enabler for bail-in implementation), and non-existent or insufficiently funded resolution funds. Countries may also face more benevolent socioeconomic attitudes towards bailouts; unlike many Western countries, most FinSAC client countries did not need to bail-out their banks during the GFC,[51] and the state has a long-term relevant presence in the banking sectors of some countries in the broader ECA region.[52] Finally, some countries do not have sufficient experience in managing banking crises.

30. **The centralized provision of liquidity by the central bank during stress, through ELA, is one of the least developed crisis management mechanisms in FinSAC client countries.** The lack of an independent monetary policy framework (BiH, Kosovo, Montenegro) or the large stock in foreign currency liabilities in some financial systems (Albania, Armenia, BiH, Georgia, Serbia, etc.) are barriers to the effective provision of last resort liquidity to weak but viable banks.[53] Central banks across the region also face challenges over ensuring how emergency liquidity can be provided to banks undergoing resolution, as just a handful of countries have adapted their ELA regimes to the new bank resolution regimes.[54] This is particularly relevant for open bank resolution. In response, some central banks in FinSAC client countries are starting to move towards assessing a firm's viability rather than its static solvency.

31. **The new prudential framework in FinSAC client countries was largely upheld during the challenges of recent years.** Supervisors across the region reacted promptly to the COVID-19 emergency, quickly implementing moratorium regimes that precluded banks from frontloading massive losses at the height of the pandemic, restricting dividend payments, and compelling banks to adopt measures to ensure their operational continuity. The measures appear to have been successful, averting a wave of major defaults while preserving the financial flows to the real economy. The special moratorium regimes that were introduced were quickly abolished, triggering rather modest increases in NPL ratios. Crucially, the failure of the Sberbank network of Eastern and Central European subsidiaries following international sanctions brought against the Russian parent company was well managed using the new toolbox of the resolution framework (see **Box 3** and **Annex 2** for more details).

51 With some notable exceptions, such as Ukraine.

52 This factor may be particularly relevant in countries with a high level of state ownership in the banking sector (e.g., Azerbaijan, Belarus, Kazakhstan, Russia, Ukraine, Uzbekistan, etc.), as the resolution of state-owned banks creates further challenges. An analysis of the challenges of applying resolution to state-owned banks can be found in Meyerhof, Palermo, and Gutierrez (2022) and in IMF (2022).

53 Or the ability to raise foreign currency funding such as using swap lines with foreign central banks, particularly with the European Central Bank. This was the case for the National Bank of Serbia, the Bank of Albania, and the National Bank of the Republic of North Macedonia during the pandemic, see https://www.ecb.europa.eu/press/pr/date/2020/html/ecb.pr200717_2~7d1fb908e4.en.html. For other examples of credit lines with the European Central Bank see: https://www.ecb.europa.eu/press/pr/date/2021/html/ecb.pr210204~f8f544a715.sv.html.

54 Particularly, the traditional condition that only "solvent" banks can receive ELA is challenged by open bank resolution. A bank in resolution is very unlikely to be solvent, although the resolution authority may have designed a resolution scheme that ensures its viability as a going concern, usually through open bank resolution. It is precisely for these cases when ELA is most needed, as bailed-in banks may have been recapitalized but the conversion or write-down of capital instruments and liabilities does not generate liquidity for the failed bank. Similarly, a bank that has been resolved is unlikely to retain high quality collateral, as it may have suffered large cash outflows in its run-up to resolution, as the recent cases (e.g., Banco Popular (2017), Credit Suisse (2023), or Silicon Valley Bank (2023)) evidence, and therefore may need a guarantee from the minister of finance or other entity (e.g., the resolution fund) to access the central bank's liquidity.

Box 3. The failure of Sberbank Europe AG subsidiaries[55]

Sberbank Europe AG, a bank headquartered in Austria and a subsidiary of the Russian state controlled Sberbank, was the intermediate parent company of a network of bank subsidiaries in BiH (with one subsidiary in the Federation and another in Republika Srpska), Croatia, Czechia, Hungary, Serbia, and Slovenia. The Austrian bank also had a relevant branch in Germany. Sberbank had acquired these banks from Volksbank International in 2011.[56]

As a result of the Russian invasion of Ukraine, the EU, US, and UK imposed sanctions on Sberbank and its subsidiaries in February 2022. Customers quickly lost confidence in Sberbank's subsidiaries and sought to withdraw their deposits. The parent company was unable to downstream liquidity to its subsidiaries, as international sanctions precluded it from doing so. As a result, the subsidiaries liquidity quickly dried up, and supervisors considered the subsidiaries as non-viable.

The Austrian bank (including its German branch),[57] and the Hungarian,[58] and Czech[59] subsidiaries had their licenses revoked and were placed into liquidation, triggering a deposit pay-out. Other resolution authorities used their resolution powers to manage the failures of these banks:

- The Bosnian resolution authorities (in the Federation and in Republika Srpska) transferred the shares of the banks to ASA Banka[60] and Nova Banka[61] respectively.
- The National Bank of Serbia sold Sberbank's Srbija shares to AIK Banka,[62] which had agreed previously to take over some of Sberbank's Europe subsidiaries in the region.
- The Single Resolution Board transferred the shares of Sberbank Banka (Slovenia) to Nova Ljubljanska Bank and Sberbank BH (Croatia) to Hrvatska Postanska Banka.[63]

The resolution scheme applied by the authorities corresponded to the so-called multiple point of entry resolution strategy, as all Sberbank's Europe subsidiaries failed simultaneously.

55 See for more details https://www.srb.europa.eu/en/content/sberbank-europe-ag.

56 See https://www.nsbanking.com/news/russias-sberbank-acquires-germanys-volksbank-160212/.

57 See the "Decision of the Single Resolution Board" on the liquidation of the Austrian parent company, Sberbank Europe AG, URL: https://www.srb.europa.eu/system/files/media/document/2022-06-10_SRB-Non-confidential-version-of-the-decision-in-respect-of-Sberbank-Europe-AG.pdf.

58 See https://www.mnb.hu/en/pressroom/press-releases/press-releases-2022/winding-up-proceedings-to-start-at-sberbank-hungary-and-its-austrian-parent.

59 See https://www.cnb.cz/en/cnb-news/press-releases/CNB-revokes-licence-of-Sberbank-CZ/.

60 See https://www.fba.ba/upload/docs/a_decision_on_initiating_resolution_proceedings_against_sberbank_bh_JPg.pdf and https://www.asabanka.ba/asa-banka-kupila-je-sberbank-bh-u-federaciji-bih/.

61 https://abrs.ba/en/press-release-banking-agency/n67 and https://abrs.ba/en/press-release-banking-agency/n68.

62 https://www.nbs.rs/en/scripts/showcontent/index.html?id=17829.

63 See https://www.srb.europa.eu/en/content/sberbank-dd-and-sberbank-banka-dd.

4. MEASURES UNDERTAKEN BY BANKS AND SUPERVISORY AUTHORITIES TO MITIGATE AND OVERCOME DISTRESS

4.1. RECOVERY PLANNING AND EXECUTION

32. **Many FinSAC client countries require banks to prepare ex-ante recovery plans, where they outline the measures, they plan to take to overcome possible distress in a range of scenarios, together with their framework for early detection and management of financial crises.** A recovery plan should include three elements: (i) slow- and fast-moving stressed scenarios, including capital and liquidity pressures, (ii) credible options to cope with a range of scenarios, and (iii) policies and processes to ensure the timely implementation of recovery options in a range of stress situations.[64] Recovery planning intends to enhance a firm's crisis preparedness, and therefore should help banks to rapidly detect, manage, and overcome a crisis. Recovery plans are also a useful instrument for supervisors, as they can compel banks to activate them, and take the required measures to deal with a bank's financial distress.

33. **The range of credible recovery measures, including shareholders' support, for banks in FinSAC client countries depends on the banks' business model, ownership structure, and the institutional features of the systems they operate in.** Any feasible recovery plan is expected to involve raising fresh capital, either by current or new shareholders, as this is usually the clearest evidence of the credibility of the bank's recovery prospects.[65] Banks owned by local investors may struggle to raise capital from current or prospective shareholders, as they may have limited financial capacity and raising equity in the market is seldom an option.[66] Against this backdrop, a thorough analysis of shareholders' financial capacity is crucial to

64 BCBS, 2015

65 The refusal to even consider injecting fresh capital can be interpreted as lack of trust in the bank's prospects, as shareholders may be effectively "voting with their feet." In such cases, banks should consider more drastic measures such as a combination with another solvent bank, to avert its insolvency.

66 A handful of banks have their shares listed in liquid equity markets (e.g., London Stock Exchange), and they might be able to issue new shares if needed.

understand whether they are a source of strength. Key shareholders may support banks through different actions, such as subscribing new shares, injecting capital through subordinate loans or other capital instruments, purchasing toxic assets from the bank, repaying loans, making new deposits or loans to banks, or contributing to the bank with other assets they may own. Banks in the region can improve their capital and liquidity by curtailing, or at least reducing, new lending, although it may jeopardize banks' franchises during idiosyncratic episodes if clients turn to competitors. Nonexistent secondary markets for bank loans can hinder the sale of performing and, more critically, NPLs to third-party investors. In addition, as most weak banks tend to suffer from poor profitability, cost-cutting measures are essential to adjust a firm's overheads to its shrunk revenue base.[67] Finally, weak banks can raise liquidity by launching deposit gathering campaigns (although some may face supervisory restrictions)[68] and through collateralized funding transactions with the central bank, although with significant restrictions if foreign currency is required. Foreign-owned banks may request funding support from their parent companies.

34. **The recovery prospects might differ markedly for domestically owned banks than for local subsidiaries of foreign banking groups.** Capital support by current shareholders may not be possible for local banks, in which case they may need to seek new shareholders or a merger partner. Local subsidiaries in the region have tended to be supported by their parents, as evidenced during the GFC (**Box 4**). While in most cases local subsidiaries in FinSAC client countries are of a small size in the group context, a subsidiary failure can have substantial reputational effects for the parent company.[69] Nonetheless, local supervisors need to carefully analyze the prospects for financial support by parents, especially when home authorities implement resolution planning policies restricting the financial exposures of parents to their local subsidiaries (multiple points of entry, see **Box 2**).[70] In any case, the reliance on group financial support for banks in FinSAC client countries has been sharply curtailed by the strengthening of balance sheets of local subsidiaries during the last decade. **Figure 8** provides a high-level overview of the frequency with which recovery actions are included in bank recovery plans in FinSAC client countries, differentiating by foreign-owned and domestic banks.[71]

35. **Supervisors in FinSAC client countries should critically assess the feasibility of banks' recovery plans and coordinate with resolution authorities in the assessment.** Measures that may be effective in certain scenarios (such as deleveraging or cost-cutting), may not be available in cases of fast-moving liquidity stress. Moreover, some recovery measures may only offer temporary relief while negatively affecting a bank's resolvability. For instance, while buying back bonds below book value can generate gains and capital for a bank, it may also result in reducing the stock of loss-absorbing resources if the bank is not able to overcome its financial situation. Striking the right balance between recovery and resolution requires close coordination between the supervisor and the resolution authority. In most FinSAC client countries, this is facilitated by the consolidation of both functions in the same institution, usually the central bank (see **Figure 7**).

67 Banks usually take an incremental approach to cost cutting. First, banks will try to reduce certain nonessential expenses, such as those related to marketing and other promotional activities, business travel, or employee training. As distress worsens, banks can be forced to make more drastic adjustments, including the renegotiation of contracts with third-party suppliers, holding back new IT investments, branch closures, and employee lay-offs.

68 Supervisors should be aware that weak banks may try to "pay their way out of the crisis" by offering higher remuneration to attract deposits. These actions may have a detrimental effect on the bank's funding and earnings position, as these funding sources are both expensive and volatile. Authorities may set a cap to the interest rate that weak banks can pay for their deposits. In contrast, authorities may encourage banks to take deposits and liquidity from their related parties (e.g., shareholders, parent company, etc.).

69 Many FinSAC client countries can be considered "small hosts". The local subsidiaries of foreign banks are systemically important for the host country, but they are largely irrelevant for the banking groups they are part of. (See Ahmad et al, 2018).

70 Home authorities may restrict or limit the financial exposure from their parent companies to their subsidiaries to fully enable a multiple point of entry resolution strategy.

71 The Figure relies on the experience gathered by FinSAC in supporting client countries in the operationalization of the recovery planning frameworks.

Figure 8. FinSAC client countries: recovery options relevance in banks' recovery plans (RP)

		Relevance	
		Foreign-owned banks	Domestic banks
Capital measures	Capital support by the parent company	High	Not available
	Issuing capital (including subordinated loans) to existing non-financial shareholders	Not available	Medium
	Dividend cancelation	High	High
	Asset sales (loan portfolios, stakes)	Low	Low
Asset quality measures	NPL sales	Low	Low
	NPL sales to the parent company	Medium	Not available
	Other measures (loan write-offs, loan restructuring, etc.)	Medium	Medium
Liquidity and funding measures	Deposit gathering	Medium	Medium
	Loans from the parent company	High	Not available
	Raise funding from the central bank	High	High
	Deleveraging/slowing down loan growth	High	High
Other measures	Cost-cutting measures	High	High
	Take over/merger with another institution	Low	Low

High	Most banks include the measure within its RP
Medium	Around 50% of banks include the measure within its RP
Low	Only few banks include the measure within its RP

Source: FinSAC using information from client countries

Box 4. Foreign ownership in crisis scenarios: pros and cons

Many banks in FinSAC client countries are owned by foreign banking groups, many of them based in Western Europe. These banks usually maintain a foothold in several countries in the region.

In the build-up to the GFC, these foreign parents operated local subsidiaries in FinSAC client countries with a high reliance on parent and wholesale funding. These funding sources enabled them to grow their loan books significantly above their local deposits, often fueling credit bubbles through unsustainable funding models. During the GFC, parent banks were forced to downstream further liquidity and capital to their distressed subsidiaries, putting additional pressures on already weakened parents. Once the crisis was resolved, both supervisors and banking groups took decisive steps to ensure the sustainability of their local subsidiaries' funding models. The establishment of the Vienna Initiative[72] was a cornerstone of the novel approach. The joint efforts by the authorities represented in the Vienna Initiative yielded positive results: most local subsidiaries in the region are financially self-sufficient and better capitalized, running sustainable business models with much less reliance on their parent companies.

Foreign parents can be a source of strength for their distressed local subsidiaries. First, parent companies might support their subsidiaries with capital and liquidity if needed. Belonging to a sound, solvent foreign banking group can be extremely valuable during a systemic crisis scenario, as customers from other competitors may seek to move their savings away ("flight to quality"). A further advantage is that the group can transfer best management practices to local banks during a stressed situation. Finally, in the context of de-risking and scarcity of correspondent banks in some Eastern Europe countries, foreign ownership can become an anchor for the country's financial stability.

Conversely, foreign owners may also be a source of weakness for their subsidiaries. Troubled parents might be exposed to systemic problems in their home countries and local authorities may need to introduce ring-fencing measures to effectively isolate the local subsidiary from group problems. The cases of Hypo Alpe Adria (2013) and Sberbank Europe (2022) can be illustrative. Moreover, in the run up of the GFC, foreign-owned banks contributed to the build-up of risks in the system, by raising intragroup and wholesale foreign currency funding and extending loans to unhedged borrowers also in foreign currency.

Overall, Western foreign ownership of local banks has largely acted as a stabilizing factor for the region's banking markets. There have been many examples of parent companies that have supported their subsidiaries when it was required and very few examples of solvent parent companies that have refused to support their troubled subsidiaries, although some of the more notable cases in Europe are summarized below.

Bayern LB/Rijecka Banka[73]

Bayern LB, a public sector German bank (Landesbank), took over Rijecka Banka from the Croatian State in 2002 but then refused to recapitalize it following the detection of large trading losses (around USD 100 million) in the Croatian bank. The Croatian Deposit Insurance Agency intervened and Rijecka Banka was sold again in 2004, this time to Erste Bank which merged it with its Croatian subsidiary.

Nomura/Investicni a Postovni Banka[74]

In 1998, Nomura, a Japanese bank, acquired a 46.6 percent stake in Czechia's Investicni a Postovni Banka

72 See https://vienna-initiative.com/.
73 See https://www.economist.com/special-report/2002/09/14/rogue-trader-rogue-parent.
74 See Bauer, M., et al. 2002. The Rise and Fall of Investicni a Postovni Banka. https://www.readcube.com/articles/10.2139%2Fssrn.2144277

as a strategic investor. In 2000, the Czech National Bank identified a capital shortfall in the bank and Nomura made further investments, buying shares and subordinated debt. Nonetheless, the bank suffered massive deposit outflows and, when Nomura declined to further its financial support to the entity, was intervened by the Czech National Bank.

Credit Agricole/Emporiki Bank[75]

Another well-known case was Credit Agricole's Greek subsidiary (Emporiki Bank). After buying the bank in 2006, the Greek subsidiary reported massive losses. The parent bank recapitalized its subsidiary several times but ended up walking away from the subsidiary with more than EUR 9 billion losses, after reaching an agreement with the Greek state.

4.2. EARLY DETECTION AND DEALING WITH WEAK, BUT VIABLE BANKS

36. **A stressed firm should be subject to close monitoring by its supervisor.** Authorities need to keep a continuous focus on the bank, that may include daily (or even intra-daily) liquidity reports, that are complemented with more frequent (than under ordinary supervisory stance) financial and prudential reporting and regular contacts with the bank's managers and board members. The contacts may also be extended to shareholders, and even with the home supervisor if the bank is owned by a foreign banking group. Supervisors may step up on-site activities, as extensive verification of the situation might be required.

37. **In stressed scenarios, banking supervisors are usually forced to take measures on top of those adopted by the bank.** First, supervisors should have a comprehensive framework in place for identifying trouble, including both quantitative and qualitative triggers as early warning indicators. Second, they should clarify and reassess the suitability of the bank's management and administrators to continue to manage the bank. Third, they should consider measures to preserve the financial situation of the bank or rein in its risk-taking. The measures may be selected from a broad menu of options. The selection of measures should preserve a degree of flexibility but should also follow transparent and sound escalation and decision-making procedures. Finally, they need to be prepared to escalate the measures if the bank's situation worsens.

38. **As FinSAC client countries roll out new regulatory and supervisory frameworks, they are implementing or upgrading their early warning indicators for early intervention.** Authorities use their supervisory ratings (usually based on SREP) to categorize banks according to their risk profile. Unfavorable ratings usually inform supervisory measures. Authorities also use the compliance with the new regulatory standards as early warning triggers (e.g., leverage ratios, liquidity coverage ratios, etc.).

39. **When the integrity and professionalism of the bank's board members and senior managers raise no concerns, the supervisor may allow the weak bank to define and execute its own set of recovery measures, subjecting to its vetting.** In these situations, the authority minimizes its intervention in the sound management of a weak bank, mitigating any litigation risks that can arise if more intrusive actions are taken.

40. **If the supervisor considers board members or senior managers are unreliable or unsuitable, it may request the bank to replace them.** In more extreme circumstances, when bank owners themselves are untrustworthy, the supervisor may appoint a temporary administrator who assumes most or all the powers of the board of directors and senior management (but not of the shareholders' meeting).[76]

75 See https://www.ft.com/content/e7661f54-183d-11e2-80af-00144feabdc0.

76 There are cases where the supervisor may identify senior managers and directors of a bank as suitable, but the controlling or significant shareholders might be unsuitable. For these situations, authorities may decide to restrict or suspend shareholders' voting rights, based on the detrimental influence that they have on the safe and sound management of the firm, while keeping the bank's senior managers and directors.

41. **The benefits of the appointment of a temporary administrator should be weighed against its risks.**[77] The appointment must be made public immediately, as any third party contracting with the bank will need to know that the temporary administrator is the bank's legal representative. The announcement can effectively flag the bank's delicate situation and magnify liquidity risks, especially when creditors anticipate a resolution situation where the application of the bail-in tool may lead to losses for them. Moreover, the supervisor may be subject to heightened litigation risks if the intervention ends with the failure of the bank, as affected shareholders and creditors may argue that the supervisor was the "de facto administrator" of the bank. Therefore, the appointment of a temporary administrator needs careful consideration, ideally used exclusively for weak yet viable banks whose shareholders cannot be trusted or have been placed under a sanctions regime which effectively impede them from controlling the bank. Such an approach constitutes a significant departure from pre-GFC crisis management regimes, where a temporary administrator would routinely be appointed to manage a weak firm.[78]

42. **Improving the corporate governance and risk management framework can play a pivotal role in addressing the root causes of weak banks' problems.** While credit losses, capital shortfalls, high NPLs, diminished profitability, or poor liquidity are the most common symptoms, weaknesses in corporate governance and risk management are likely to be the reasons for a bank failure. Consequently, supervisors should require weak banks to improve their governance practices or to strengthen their internal control functions.

43. **Supervisors may also adopt measures to restrict weak banks' risk-taking and to preserve capital or liquidity.** In stressed situations, troubled banks may be tempted to pursue "martingale strategies," doubling down on risk-taking to offset their losses, which can, unsurprisingly, end up in colossal losses. Supervisors have several tools at their disposal to address such conduct, such as tightening large exposure limits,[79] limiting the exposures to certain economic sectors,[80] or capping a bank's risk-weighted assets or assets. Supervisors can also limit, restrict, or outright ban certain products or new businesses for the bank, including new acquisitions or the establishment of cross-border branches or subsidiaries.[81] They may additionally restrict the bank's discretion to make capital distributions (e.g., dividend, bonus bans or prohibiting other discretionary payments on capital instruments). Supervisors must be wary, however, of imposing too many restrictions as this could have a detrimental impact on the firms' franchise, potentially exacerbating its troubles. These restrictions would typically be accompanied by a set of measures aimed at rehabilitating the financial situation of the weak banks, including via further cost-cutting measures, spinning-off some assets, or restructuring certain liabilities. In any case, supervisory measures should be time-bound and, if they fail to restore the financial situation of the bank, authorities should not hesitate to consider a bank not viable and place it under resolution or liquidation. Moreover, supervisors may have less flexibility in case of severe stress affecting a firm's liquidity position.

77 The appointment of a temporary administrator can have different modalities. Supervisors may keep the board in place but require an ex-ante validation of their decisions by the temporary administrator ("intervention regime)". Or they can replace the board and confer its power to one or more temporary administrators ("substitution regime"). In cases of narrow shareholder ownership, where most board members have been appointed by the controlling shareholders, the supervisor may prefer to assume all the powers of the board, directly or through the appointment of a temporary administrator.

78 In previous regimes the law typically requested the supervisor to appoint a temporary administrator when a bank breached certain solvency or liquidity triggers. Once appointed, the administrator would have a short period (typically, 2 weeks) to prepare a report for the supervisor, recommending a course of action for the firm which might be (i) restoring the bank to a "business as usual" situation, (ii) taking special resolution actions such as the transfer of certain assets and liabilities to a third party or to a bridge bank, or (iii) liquidating the bank, triggering the pay-out of the firm's insured deposits.

79 A tighter large exposure limit can be useful in different circumstances. It can be imposed when the supervisor has material concerns over the extent of the relationship between the bank and its related parties. In other cases, banks may be tempted into providing new loans to their large and troubled borrowers, precisely to avoid their default, which amounts to no more than "throwing good money after bad" and would result in increasing the losses of the bank once it has failed.

80 This measure might be applicable in systemic scenarios, where certain economic sectors have been earmarked as particularly vulnerable (for example, the construction, shipping, or aviation sectors).

81 A ban on opening new branches or undertaking any new acquisition ensures that the bank is focused on managing its crisis rather than on desperately seeking short term revenue sources. The supervisor may also enforce caps on the remuneration of deposits, as they are typically expensive, volatile funding sources that are unlikely to materially improve the liquidity position of the bank while increasing the financial costs of the bank.

4.3. MANAGING FINANCIAL STRESS

Final measures to prevent non-viability

44. **When recovery measures do not work, a weak bank might be encouraged or forced to be acquired by a competitor or to undertake liability management exercises.** If the firm fails in restoring its financial position through recovery measures or through other early intervention measures required by the supervisor, a weak bank may be encouraged or forced through moral suasion to find a credible merger/acquisition transaction (*shotgun wedding*). A takeover by another bank (or foreign entity) may be the last resort to avert the firm's non-viability. Supervisors must keep in mind that the objectives of bank owners in these situations (e.g., such as maximizing the share price) may clash with those pursued by the supervisor (financial stability and depositor protection). Forced or otherwise authority-facilitated takeovers have been a common crisis resolution mechanism in past crises. A recent case was the state-sponsored takeover of Credit Suisse by UBS (March 2023), where Swiss authorities forfeited the obligation of both banks' shareholders meetings to approve the transaction, to fast track it in a weekend. As in any acquisition, authorities are required to carefully assess the financial, managerial, reputational, and operational capacity of the acquirer to take the weak bank over (see Section 5.5.1 for more details). In other cases, authorities may also encourage or require banks to undertake liability management exercises, resulting in loss absorption by bondholders and other creditors, in transactions whose economic effects can be like resolution. **Box 5** describes the case of the International Bank of Azerbaijan (ABB), where international bondholders absorbed losses through a liability management exercise.

Box 5. Quasi-resolution regimes: the International Bank of Azerbaijan

The ABB is the largest commercial bank in Azerbaijan, which traditionally held a dominant deposit market share (above 40 percent). Since its foundation in 1992, the bank had been controlled by the Azeri state, which increased its participation in the bank to 60 percent of its capital during 2013. ABB's debt instruments were rated by the main credit rating agencies, as it had issued bonds in the international bond markets in several currencies (mainly in EUR and USD) for around USD 3.3 billion, although the debt was not guaranteed by the state. ABB's troubles grew in 2014 and 2015 in the context of a large open short foreign exchange position at a time of negative macroeconomic developments, including plummeting oil prices and a large depreciation of the manat against the USD. Poor governance (including corrupt practices of the former chairman who was subject to public prosecution), connected lending, and lax credit risk underwriting were also features that resulted in a sharp increase in NPLs, amounting to more than 70 percent of the bank's loan book.

The state injected capital in 2015,[82] bringing its stake in ABB above 82 percent.[83] Moreover, between 2015 and 2017, ABB transferred a significant share of its non-performing assets to Aqrarkredit (close to AZN 16 billion, or equivalent USD 10.3 billion),[84] a non-banking

82 See the capital structure and the evolution of public capital injections since 2007 in the Investor Presentation dated 23 May 2017, pages 5 and 6. URL: https://abb-bank.az/storage/uploads/files/1596637038_20170523_-_iba_investor_presentation.pdf.

83 ABB Consolidated Financial Statements, note 1. URL: https://abb-bank.az/storage/uploads/files/1600257718_ifrs-2015-2-eng.pdf.

84 See the capital structure and the evolution of public capital injections since 2007 in the Investor Presentation dated 23 May 2017, page 6. URL: https://abb-bank.az/storage/uploads/files/1596637038_20170523_-_iba_investor_presentation.pdf; and ABB Restructuring Plan Approved in July 2017, press release (AZN 4.9 billion). URL: https://abb-bank.az/index.php/en/maliyye-ve-investisiya/diger-melumatlar/press-relizler/azerbaycan-beynelxalq-banki-ohdeliklerinin-konullu-restrukturizasiyasi-planinin-kreditorlarin-18-iyul-2017-ci-il-tarixinde-kecirilmis-yigincaginda-qebul-olundugunu-elan-edib.

state-owned financial organization with a mission to extend loans to the agricultural sector. Aqrarkredit acted effectively as a bad bank or AMC. Aqrarkredit swapped long-term sovereign bonds for ABB's non-performing assets, providing liquidity support to the bank. See **Annex 1** for more details.

Nonetheless, the far-reaching recovery measures were not enough to overcome the situation. The bank and the Azeri state designed a liability management exercise, where ABB's bondholders were expected to contribute to its recapitalization. In May 2017, ABB suspended its payments to its Eurobonds (but continued paying corporate and retail deposits) and sought protection from foreign bondholders in a New York Court to enable the collective restructuring of its liabilities.[85] ABB offered three options to senior bondholders: (i) swap bonds for newly issued sovereign debt at 5.125 percent rate but with a 20 percent haircut, (ii) swap bonds for newly issued sovereign debt at 3.5 percent rate with no haircut, or (iii) extend the maturity of bonds (without recourse to the Azeri sovereign) at par value and a 3.5 percent coupon. Subordinated debtholders faced a 50 percent haircut.[86] Most bondholders accepted the bid, which was filed in New York. The liability management exercise was instrumental to improving the bank's liquidity position, hedging its foreign exposure, and raising fresh capital.

With a further injection of state capital into the bank and new management appointed, a restructuring plan was implemented with the overall goal of the bank's privatization,[87] agreed by the government in 2015. As of 2024, the bank remains state-owned.

This case illustrates a very extreme recovery scenario, where some of the bank's debtholders were compelled to share the burden of the financial rehabilitation of a large, systemic bank. It also evidences that creditors of state-owned institutions may also be subject to losses, even in the context of a bail-out.

45. **Some FinSAC client countries[88] have introduced a last resort regime that enables resolution authorities to apply bail-in powers on capital instruments outside the resolution regime.** In these countries, crisis management provisions give authorities the ability to use some restrictive bail-in powers for capital instruments[89] prior to (and as a last chance to avoid) the resolution of the bank. Such powers can be deployed when it is imperative to write down or convert these instruments into shares to prevent a bank becoming non-viable. This approach can prove beneficial in situations where the bail-in of capital instruments alone is sufficient to recapitalize a bank, thereby stabilizing it without impacting its operational liabilities.

Dealing with non-viable banks

46. **When all measures discussed above prove unsuccessful, and the bank eventually becomes non-viable, the only remaining alternatives are the resolution or liquidation of the bank.** As explained above, FinSAC client countries have overhauled or are overhauling their frameworks for dealing with non-viable banks. Much like the EU system, most countries have implemented two parallel regimes for managing the failure of non-viable banks: (i) a bank resolution framework, which is expected to apply to large and medium-sized banks, and (ii) an orderly liquidation regime, either court or administrative based, for small firms. Either regime may be theoretically used

85 See the full list of liabilities involved in the Restructuring Plan, annex 1, URL: https://abb-bank.az/storage/uploads/files/1596634982_restrukturizasiya_plan_abb.pdf

86 See the proposed terms of debt restructuring in the Investor Presentation dated 23 May 2017, pages 15 to 17. URL: https://abb-bank.az/storage/uploads/files/1596637038_20170523_-_iba_investor_presentation.pdf.

87 See the restructuring plan, URL: https://abb-bank.az/az/maliyye-ve-investisiya/diger-melumatlar/restrukturizasiya-plani.

88 For example, BiH, Moldova, North Macedonia, Montenegro, Serbia. These powers derive from the local implementation of the EU's BRRD.

89 These powers cover ordinary shares (Common Equity Tier I), additional tier I and tier II instruments. Nonetheless, as the EU has extended these powers to MREL-eligible instruments, it is foreseeable that these countries may also increase the instruments under scope.

for addressing the failure of any non-viable bank, regardless of its size and business model, depending on the circumstances surrounding its failure. And they may even be used simultaneously in a bank failure, as explained below.

47. **A bank resolution framework seeks to ensure the prompt intervention of the resolution authority in non-viable banks, with broad powers once a bank has been identified as not viable (failing or likely to fail).** Many FinSAC client countries define non-viability based on two key conditions. First, a bank's viability may be assessed against clear and transparent triggers related to a bank not meeting its minimum requirements (including but not limited to capital adequacy), its monetary obligations, or maintaining a positive net asset value. Furthermore, the assessment needs to be conducted both at a point in time ("failing") and on a forward-looking basis ("likely to fail"). Second, that the resolution regime is truly the last resort, and that no other measures taken by the bank, or the supervisor could reasonably address the firm's financial situation. This condition immediately links the resolution regime with the previous elements of the crisis management framework. The authority needs to prove, when feasible, that it provided the bank with enough time to address the situation by itself. The approval and subsequent unsuccessful execution of a recovery plan is often crucial to evidence that there were no viable measures to overcome the bank's distress. The condition may also be met if the bank has unsuccessfully tried to seek an acquisition or a merger with another entity. When there is no possible stand-alone set of measures to ensure the recovery of the bank, the authority can reliably prove that the resolution of the bank is effectively the last resort. Importantly, in fast-moving liquidity scenarios, authorities may not be able to give the bank the possibility to address the problems by itself, as deposit runs are characterized by incremental cash outflows and much less time to act.

48. **Following the EU framework, many FinSAC client countries have also introduced the requirement that there should be a public interest in the resolution of the bank.** Typically, public interest implies the mandate to the resolution authority to assess whether the disorderly failure of the bank could impact the country's financial stability.[90] If there no public interest in the resolution of the bank, then the failed firm will be placed into liquidation. The interpretation of public interest is a key consideration when clarifying the scope of the resolution regime. A broad understanding of public interest can support the application of the resolution framework to most failed banks (e.g., Denmark), whereas a more restrictive one would imply that only the failure of the largest entities would be managed through the bank resolution framework (e.g., Italy). In the context of most FinSAC client countries, where only a handful of banks operate (see **Figure 1**), it is expected that the resolution regime will be applicable to most bank failures, as the liquidation of a medium-sized, or even a small bank, may wreak havoc throughout the banking system.

49. **A resolution regime gives broad powers to the responsible administrative authority to implement both open and closed bank resolutions.** Resolution authorities are conferred with a broad range of powers and tools. They can transfer part or all the assets and liabilities or the shares of the failed bank to a private acquirer or to a newly established bridge bank.[91] They can deploy bail-in powers by writing down or converting into shares certain liabilities of the failed bank,[92] particularly indicated for open bank resolution schemes. They may also transfer certain toxic assets to an AMC.

50. **The introduction of resolution regimes signals countries' unwillingness to fund costly bank bailouts. With some exceptions (Azerbaijan, Moldova, Ukraine),[93] most FinSAC client countries have not bailed-out banks during the last decade, unlike**

90 In the EU, this mandate has been divided into two channels: (i) possible direct or indirect contagion to the rest of the financial system and (ii) sudden interruption of critical economic functions that the failed bank provided to the economy or the financial system. The immediate consequence of this regime is that different countries in the EU have interpreted the public interest in rather divergent ways. The assessment of the Single Resolution Board of the lack of public interest in the resolution of the Banca Popolare de Vicenza and Veneto Banca in 2017, two medium-size Italian regional lenders active in the Veneto region, remains emblematic; after the immediate negative assessment by the Single Resolution Board, they were liquidated at a high cost for the public purse.

91 Some bank resolution regimes of the FinSAC client countries enable the resolution authority to transfer the shares of the failed bank to a third party or to a bridge bank. This rule is inspired by the BRRD. It was used in the Resolution of Banco Popular in June 2017, where the shares of the bank were transferred to Banco Santander, and during the resolution of Sberbank's subsidiaries.

92 Typically, some of the bank liabilities are excluded ex-lege, including the insured deposits, secured, or short-term interbank liabilities. Bank resolution regimes often offer further flexibility to exclude other liabilities from bail-in, based on financial stability or the potential impact on the effectiveness of the resolution scheme.

93 Kazakhstan, Russia, and Tajikistan also funded costly bailouts in the last decade.

many Western European countries. This may create a less contentious socioeconomic attitude to bailouts. Nevertheless, the introduction of bail-in and other far-reaching powers is a key step towards a model where the costs of banks failures are expected to be predominantly funded by private agents and not by taxpayers.

51. **The establishment of a Key Attributes-based bank resolution regime requires effective mechanisms for covering resolution costs.** The availability of resolution powers is a necessary, but not sufficient, condition to guarantee an effective resolution regime. Equally, if not more, important is the availability of financial resources that can be swiftly deployed in bank resolutions. Bail-in powers are only effective if failed banks have previously issued debt instruments that can be converted into shares or written off at the point of non-viability. Similarly, transfer powers will only be effective if the failed bank has either issued loss-absorbing debt or if there is an industry-funded deposit insurance with an expanded mandate to top up the transferred assets or a resolution fund. The relatively simple balance sheet structure of the banks in FinSAC client countries, with loans and government debt largely funded by equity and customer deposits, provides resolution authorities with few options to exercise their bail-in and transfer powers when resolving non-viable banks.

52. **Loss-absorbing debt instruments are one of the key sources to cover the costs of resolution.** Some FinSAC client countries (Albania, BiH, Moldova, Montenegro, Serbia) are introducing new loss-absorbing requirements, and others are considering them. Resolution authorities in the region are starting to require banks to meet loss-absorption requirements by issuing debt that can be converted into shares or written-off during resolution. But few instruments have been issued so far, as requirements are phased in over prolonged periods.[94] Shallow or nonexistent local capital markets, limited access to international capital markets, and tight financial conditions linked to the current environment of high interest rates are key challenges faced by banks. In some cases, local subsidiaries of banking groups can issue such instruments to their parents, a relevant factor considering the high level of foreign ownership in some FinSAC client countries (see **Figure 2**).

53. **Industry arrangements, such as resolution funds and deposit guarantee funds, are another key source for covering the costs of resolution in the region.** Bank-funded resolution funds have been introduced by several FinSAC client countries (Albania, Georgia, Moldova, Montenegro, North Macedonia), and are being considered by others. They are funded ex-ante by banks, aiming to be deployed during bank resolution, but they have not yet had time for their funding to grow beyond rather modest levels, raising questions over their ability to fund large bank failures.

54. **Some countries have expanded the mandate of deposit insurers into so-called "paybox plus"[95] models.** In these cases (Albania, BiH, Moldova, Montenegro) deposit insurance funds can also be used to top up the assets of the failed bank in a partial transfer of assets and liabilities to a third party or to a bridge bank. As in resolution involving transfers, the transferred assets (e.g., performing loans) may be lower than transferred liabilities (especially when the authority decides to also transfer uninsured deposits), it is key that deposit guarantee funds have the flexibility to make cash contributions or other supporting actions (e.g., guarantees) to the failed bank to facilitate its transfer to an acquirer. The current tiered approach to deposit insolvency hierarchy, implemented in some FinSAC client countries in line with the EU framework, together with the limitation that deposit guarantee funds cannot make contributions above the losses they would have suffered in a liquidation, can significantly complicate the ability of deposit protection arrangements to make contributions in resolution.

55. **The lack of loss-absorbing debt, underfunded resolution funds, or the limited ability of the deposit insurance funds to make contributions in resolution may result in frameworks still being dependent on public sector support.**[96] Transfer and bail-in powers

94 Some banks in Romania, Poland, and Croatia. International financial institutions have frequently participated in these issuances, subscribing a relevant share of bond issuances.

95 The Deposit Guarantee Fund in Ukraine goes beyond the paybox+ model, as it has responsibilities as a risk minimizer.

96 The question may be complicated by the sovereign's potential lack of access to the debt markets. In some cases, the public sector may be unable to provide the funds required to resolve (or recapitalize) the banks, prompting a sovereign bail-out, potentially linked to a debt restructuring.

may be curtailed by the lack of available resolution funding, meaning authorities may be confronted with difficult decisions. Imposing losses to uninsured depositors or other operational liabilities may only be avoided through a bailout. This topic is covered in greater detail in Section 5.6, which considers the use of bank bailouts.

56. **Although the introduction of new resolution frameworks is expected to make bank liquidation less relevant, it may still be required in certain cases.** First, the resolution and insolvency regimes can be simultaneously applicable to the same bank failure[97] during closed bank resolutions.[98] Second, the liquidation regime was historically the framework for managing bank failures, and some countries may continue to show a preference for liquidating banks instead of resolving them. Liquidation regimes have been used recently in Ukraine (2022),[99] North Macedonia (2020),[100] and Montenegro (2019)[101] and have been key in dealing with large bank failures in other countries, such as Moldova (2014).[102] Third, some countries, especially the largest, may decide to apply a restrictive interpretation of the public interest test, especially if the liquidation regime offers similar powers to the resolution regime and more flexibility in its use.[103]

57. **Liquidation regimes across FinSAC client countries are less harmonized than resolution frameworks.** The lack of an international or a European common reference standard for bank liquidations justifies the differences across the applicable regimes. Unlike the primary objectives of bank resolution, which aim to safeguard financial stability, protect insured depositors or taxpayers' funds, and preserve the continuity of critical functions, the primary goal of bank liquidation is to maximize recoveries on behalf of the bank's creditors. Once the supervisor revokes a bank's license, insured deposits will be paid out and the insolvency procedure will start. The existing frameworks generally fall into two categories: court-based or administrative-based liquidations, although the classification is not always straightforward:

i. In a court-based framework, the insolvent bank's license is revoked by the authority and subsequently placed under the remit of a judge, who appoints a liquidator to manage the process. The judge authorizes the key actions proposed by the liquidator. The resolution authority often retains some responsibilities, such as formally proposing a liquidator to the judge, or a general duty to oversee the process.

ii. In an administrative-based framework, the resolution authority is responsible for the process; it appoints a liquidator and assumes the responsibility to decide on the key actions (e.g., assets sales, foreclosures, etc.).[104] In some countries, the resolution authority may also have similar transfer powers that are used in bank resolution regimes.

97 For example, when the resolution authority decides to selectively transfer the assets and liabilities to a third party or to a bridge bank. Simultaneously or immediately after the transfer, the supervisor would revoke the license of the failed bank and open insolvency proceedings; the creditors that haven't been transferred to the acquirer will seek to recover their claims with the assets that have remained in the rump.

98 N.B. the case of the resolution of Banco Espirito Santo in Portugal in 2014, where some of the assets and liabilities of the failed bank were transferred to a newly created bridge bank (Novo Banco), and the remaining assets and creditors were left at the failed bank, whose license was revoked by the Banco de Portugal afterwards and placed into insolvency proceedings. A similar resolution scheme was conducted by the Banco de Portugal in the resolution of Banif in 2015, this time selected assets and liabilities were transferred to Banco Santander and the bank's unwanted assets were transferred to a bad bank (Oitante).

99 Ukraine liquidated dozens of banks as part of a 2014-2018 clean-up of the banking sector. More recently, after the Russian invasion in 2022, the National Bank of Ukraine placed two Russian-controlled banks under liquidation: International Reserve Bank JSC (Sberbank's Ukrainian subsidiary) and Prominvestbank JSC. Another bank (Bank Sich JSC) was declared insolvent in August 2022. See Annex 2 for more details.

100 Eurostandard Bank's license was revoked by the National Bank of the Republic of North Macedonia and placed into ordinary insolvency proceedings in 2020. See Annex 2 for more details.

101 In 2019 the Central Bank of Montenegro revoked the license of two insolvent banks (Invest Banka and Atlas Banka) after failing to find suitable acquirers once the banks had been placed into temporary administration. See Annex 2 for more details.

102 See Box 1 and Annex 2 for a more complete explanation.

103 As has happened in Italy, where the Banca d'Italia is the authority responsible for bank liquidations. The Italian liquidation regime offers comparable powers for closed bank resolutions (transfers of assets and liabilities) but, unlike the bank resolution framework, the use of public funds has fewer strings attached (particularly, it is not subject to the 8 percent mandatory contribution to loss-absorption of shareholders and creditors before resolution funds and public support can be deployed).

104 Nonetheless, the separation between the two regimes is not clear-cut. In most court-based regimes, the resolution authority retains some relevant roles, such as formally proposing the liquidator to the judge or retaining a high-level supervisory function in the process.

58. **Retaining flexibility on the choice of the regime and actions applicable to a non-viable bank is key.** During resolution planning, authorities identify if, in case of failure, the bank is expected to be placed under resolution or liquidation/insolvency and, in case of resolution, the strategy and tools that the resolution authority expects to use. Typically, the failure of a systemically important bank is expected to be managed through open bank bail-in resolution, medium-sized banks through a transfer strategy, and a small bank through insolvency procedures. But nothing is set in stone. One of the key lessons learnt from the US bank failures of March 2023 is that under certain circumstances, the failure of non-systemic banks may have systemic consequences. Or, in the crisis of Credit Suisse, a state-facilitated merger transaction with UBS was undertaken instead of the planned single point of entry open bank bail-in strategy previously agreed among resolution authorities.

5. MANAGING BANKING CRISES IN SYSTEMIC SCENARIOS

5.1. CONTEXT AND EXPLANATION

59. **The regulatory framework for most FinSAC client countries appears to be well prepared for dealing with banking crises, but a systemic scenario may require the deployment of the regulatory toolbox in a different manner.** In a systemic crisis, the viability of a significant part of the banking sector might be questioned, creating systemic funding risks that in extreme cases can affect the sustainability of the sovereign debt (bank-sovereign feedback loop). In such circumstances, experience shows that authorities need to use their powers and tools in a way that seeks to remove doubts over the viability and sustainability of the banking sector. Severe stress scenarios may demand systemic liquidity actions, including emerging liquidity assistance, blanket deposit guarantees, public guarantees for liabilities or, in very extraordinary cases, capital controls or other similar administrative measures. Once the situation stabilizes, authorities may need to determine the capital needs of the banking sector through comprehensive and granular diagnostic exercises. Non-viable banks may need to be identified and exited from the market through their resolution or liquidation. In some scenarios, authorities may also need to deploy actions to remove the uncertainty that certain classes of impaired assets pose to trust in the banking sector. The following section discusses the steps that authorities can take to remove any lingering questions on the safety and soundness of the banking sector.

60. **Systemic crises usually start with an acute phase, where liquidity pressures can affect bank's capacity to continue their operations.** Systemwide liquidity provision (first through relaxation of the minimum reserves requirements) and lender of last resort or the ELA function may be required. In more extreme cases, other measures, such as increasing deposit insurance coverage or providing blanket guarantees can be useful to stabilize the situation. When none of these measures is effective, authorities may need to resort to capital controls and other administrative measures (See **Box 10**).

61. **Amid profound distrust during a banking crisis, systemic bank diagnosis, including AQRs and forward-looking viability assessments, are key to comprehensively identify banks' capital shortfalls.** In systemic scenarios, uncertainty regarding banks' balance sheets may preclude economic agents from funding the banking sector. Undercapitalized banks may be considered contingent fiscal liabilities for the sovereigns by investors. Questions may arise over private and public financial sustainability. To allay these concerns, an accurate and credible systemwide bank diagnosis is key, including a thorough review of banks' asset classification and provisioning and a forward-looking assessment of their capital adequacy.

62. **Standard resolution toolkits may not be enough for resolving banks during a systemic crisis.** Resolution strategies seeking to transfer a failed bank to a third party might be less viable, as extreme risk aversion may preclude many potential interested parties from bidding. If no bids are received, open bank bail-in resolution may be the only viable resolution strategy for a systemic bank. In this scenario, the key question will be where to find the funds to absorb the losses and recapitalize the bank (e.g., loss-absorbing debt, uninsured deposits, resolution funds, or taxpayers' money) and to underpin its liquidity and funding position.

63. **A detailed understanding of and planning for all the operational aspects of resolution will facilitate smooth implementation.** A thorough understanding of the resolution strategies, advanced contingency planning, effective liquidity mechanisms for providing liquidity to banks in stress, and close coordination and cooperation with other authorities are key to a successful management of the crises.

5.2. WHAT IS THE TRUE EXTENT OF THE LOSSES?

64. **Once authorities have managed to stabilize the crisis, the first step towards solving a banking crisis is an accurate diagnosis of the banking sector.** During systemic crises, uncertainty about the valuation of banks' assets is commonplace. When doubts are affecting many banks, the problems are unlikely to be solved using a piecemeal approach. A comprehensive, credible diagnosis is essential to quantify the true extent of the systemwide losses and the capital needs. Relevant international experiences show that diagnostics are more effective when the review covers two separate elements: (i) asset classification and provisioning or valuation practices (balance sheet assessments or AQRs), and (ii) forward-looking projection of banks' capital ratios (capital plans and stress tests). Depending on the crisis, a diagnosis can have other goals, such as analysis of exposures to related parties, assessment of the banks' credit risk underwriting, monitoring, and restructuring policies, or their internal governance arrangements. The results of these exercises will be the basis for taking corrective actions.

65. **An AQR is a key step to quantify the losses that have already been incurred or are expected by banks in a systemic scenario, typically as "defensive measures" against investor and market distrust.**[105] During these exercises, swathes of credit files are sampled and reviewed by an independent third-party, usually a multinational audit firm. The scope of the exercise is typically tailor-made to the nature of the crisis (see **Figure 9**). The review is undertaken according to the methodology approved in the exercise's terms of reference (ToR), ideally supported by an international financial institution.[106] An AQR is mainly a static assessment; it does not require financial projections of the bank's income statements, balance sheets, or capital ratios.[107] The ToR typically clarifies the reviewed portfolios, the minimum files to be reviewed, and the rules for extrapolating the losses to the unreviewed parts of the portfolios. As a result of an AQR, banks' capital ratios are recalculated after loan reclassifications, adjustments in loan-loss provisions, and other asset values.

66. **AQRs are often supplemented with forward-looking viability assessments.** The revenues, costs, assets, liabilities, and capital of each bank are

105 Some authorities may choose to undertake regular AQRs (e.g., every year or every three years) to ensure the adequateness of the banking sector asset valuation and capital adequacy. Others may undertake an AQR before assuming new supervisory responsibilities for banks (e.g., the European Central Bank's AQR). In other cases, AQRs are conducted once the worst of a crisis is over, to obtain a clean health check of the banking system.

106 Most authorities have publicly disclosed the methodologies and results of the exercise (ECB, Montenegro, Ireland, Kazakhstan, Spain, etc.).

107 Although for the calculation of expected losses, the assessment should involve the projection of borrowers' cash flows in different scenarios.

Figure 9. Selected cases of systemwide AQRs & viability assessments[108]

	FinSAC client	Year	Type of exercise	Number of participating banks	%* of banks with capital shortfalls	% of non-viable** banks	AMC***
Ukraine	✓	2023	AQR and stress test	20	Pending (March 2024)	Pending (March 2024)	No
Montenegro	✓	2020	AQR	13	8%	0%	No
Kazakhstan		2019	AQR	14	0%	0%	No
Ukraine	✓	2015-2016	AQR and stress test	60	65%	12%	No
Ukraine	✓	2014	AQR and stress test	35	49%	No data	No
Bosnia and Herzegovina	✓	2014-2015	AQR and stress test	27	81%	19%	No
Eurozone / ECB		2014	AQR and stress test****	130	20%	5%	No
Slovenia		2013	AQR and stress test	10*****	100%	20%	Stated-owned (BAMC)

** In case that the exercise involved more than one scenario, the most adverse result is presented.*
*** Those reporting negative capital ratios as a result of the exercise.*
**** Asset Management Company.*
*****AQRs are later run by the ECB to each new bank under its direct supervision.*
******Only eight banks took part in the stress test as for the other two the authority initiated an orderly wind-down process.*

Source: FinSAC using publicly available information

projected in a baseline and sometimes stress tested in an adverse scenario. Capital ratios are usually benchmarked against a hurdle rate, to identify capital shortfalls and facilitate the viability assessment. The methodology and the process to project the banks' financials in the scenarios are fleshed out in the ToR. Both AQRs and viability assessments are long and costly exercises, that demand substantial financial, technical, and human resources.

67. The results of the diagnostics are used to break banks down into different groups:

a. **Viable banks with excess capital.** This group includes firms whose projected capital ratios are above the hurdle rate. These banks do not need to prepare remediation plans and can therefore continue to operate on a business-as-usual basis.

b. **Viable banks with capital shortfalls.** This group encompasses firms whose projected capital

108 References: Ukraine 2023 – Press release "The National Bank begins an assessment of the stability of the banking system in wartime conditions" (in Ukrainian) https://bank.gov.ua/ua/news/all/natsionalniy-bank-rozpochinaye-otsinku-stiykosti-bankivskoyi-sistemi-v-umovah-voyennogo-chasu; Montenegro 2020 – Central Bank of Montenegro, Supervision Department, AQR (https://www.cbcg.me/slike_i_fajlovi/eng/fajlovi/fajlovi_kontrola_banaka/aqr/asset_quality_review_of_banks_in_montenegro_181021.pdf); Kazakhstan 2019 – "Final system-wide report on results of the Asset Quality Review of banks in the Republic of Kazakhstan", National Bank of Kazakhstan, December 2019; Ukraine 2015-2016 – "Results of bank diagnostics as of 07/20/2017" (in Ukrainian) https://bank.gov.ua/admin_uploads/article/Test_Results_20072017.pdf?v=4; Ukraine 2014 – NBU's Annual Report 2014, page 78; Tajikistan 2014-2015 - IMF, Republic of Tajikistan, Financial System Stability Assessment, February 2016,; Bosnia and Herzegovina 2014-2015 – IMF, Bosnia and Herzegovina, Financial Sector Assessment Program, Banking Sector Stress Testing, Technical Note, July 2015; Eurozone / ECB 2014 – ECB, "Aggregate report on the comprehensive assessment", October 2014; Slovenia 2013 – Bank of Slovenia, "Full report on the comprehensive review of the banking system", ; Greece 2013 – Bank of Greece, "2013 Stress test of the Greek banking sector", March 2014; Spain 2012 – Oliver Wyman, "Asset quality review and bottom-up stress test exercise", September 2012; Cyprus 2012-2013 – PIMCO, "Independent Due Diligence of the Banking System of Cyprus", March 2013; Portugal 2011 - European Commission, "Ex Post Evaluation of the Economic Adjustment Programme, Portugal 2011-2014", Institutional Paper 040, November 2016; Ireland 2011 – Central Bank of Ireland, "PCAR 2011 Review - Analysis of PCAR banks up to end-June 2012 compared to PCAR 2011", March 2013.

ratios are below the minimum capital hurdles, and therefore face capital shortfalls. They need to prepare recapitalization plans (recovery plans), outlining their remediation measures to restore their capital ratios. Once authorities have thoroughly assessed the plans' credibility and feasibility, they usually demand that banks execute them within a realistic timeline. Banks within this group can be further broken down into two subcategories:

i. **Banks that can cover their capital shortfalls by their own means.** Recovery plans often combine different measures to cover shortfalls, such as NPL sales, cost-cutting, or strengthening the balance sheet through loan deleveraging and deposit gathering. As a rule of thumb, a credible plan must contain a sizable contribution by the bank's shareholders (see Section 4.1 for more details).

ii. **Viable banks that cannot fully cover their capital shortfalls by their own means.** Some viable banks[109] may be unable to cover the capital shortfalls using their own means.[110] These firms may need to accept either a merger with another solvent entity or, as a very last resort and under very extraordinary circumstances, a temporary state recapitalization, particularly for systemic banks. Mergers and acquisitions are preferable to public recapitalizations, as they may not demand taxpayer funds, can reduce overcapacity in the system, and can result in more resilient banks. A public recapitalization should always be the last resort and be subject to strict conditionality on burden sharing, competition, and protection of taxpayer funds (see Section 5.6 for more details). Moreover, a legal deadline for selling the stake shall be established.

c. **Non-viable banks.** Some firms may be identified as non-viable, and therefore either resolved or liquidated. The following sections discuss the specific resolution actions and powers applied to these banks.

68. **When undertaking AQRs and viability assessments, authorities in FinSAC client countries may consider certain key elements:**

a. **Clear determination of the scope of the exercise. Ideally it should cover all banks in a country.** This is not always possible, for example given cost-benefit considerations in financial systems with many small banks, where authorities may target a minimum coverage in terms of system assets or risk-weighted assets (see AQRs in Ukraine 2014 and 2015). However, the limited number of banks operating in FinSAC client countries (usually fewer than 20), may enable countries to implement full-scoped exercises (e.g., Montenegro 2020-2021). A second decision entails the identification of the portfolios under review, which should reflect both supervisory and market concerns.

b. **Clarify the goals of the exercise and the availability of public backstops, if needed.** The announcement of a comprehensive assessment should be carefully undertaken, clarifying the goals of the exercise and the availability of public backstops, if needed. A botched communication process may be counterproductive to the exercise goals.

c. **Engage seasoned and prestigious professional services firms, while retaining the management of the exercise.** Well-recognized, international audit firms can bring valuable audit expertise and manpower to the AQR. International consulting companies can assist with the overall management of the project and provide best practices (modelling, benchmarks, etc.) during the viability assessment and capital shortfall quantification. Engaging international firms can lend consistency and credibility to the exercise but can increase costs substantially, often a key driver for small countries with limited financial resources. The model for funding the costs of the exercise should be clear and transparent from the start. Nonetheless, even when authorities outsource parts of the exercise to audit companies, they should retain the responsibility for the overall exercise and ensure that the work of these entities is subject to quality assurance standards.

109 The separation between a viable bank not able to cover their capital shortfalls by their own means and non-viable banks is complex and demands professional judgment. In these cases, there is a high risk that non-viable banks seek to have their losses understated to be classified into this category, as authorities may be tempted to "save" certain banks.

110 For example, banks whose capital ratios are above the capital hurdle in the base scenario, but they simultaneously report large shortfalls in the stressed scenario.

d. **Define a sound project management framework.** These exercises can involve many firms and individuals. A clear strategic and operational framework is essential to ensure consistency and harmonization of the exercise. Authorities should always supervise the process to ensure proper oversight and provide quality assurance. Moreover, it is a good practice to supplement audit teams with banking supervisors, as they tend to know the firms better and can enhance the comparability of results by ensuring consistency in application of the methodology. Likewise, the exercise can be enhanced by engaging an international financial institution, typically for assisting in the preparation or review of the ToR and in the overall design of the exercise, as they can bring global best practices, enhancing the credibility of the exercise.

e. **Set out a comprehensive and detailed methodological approach in the ToR.** Estimating credit losses and projecting financial flows demands significant professional judgment. To this end, and to bolster the exercise's credibility, the ToR should contain comprehensive methodological assumptions and be fully understood by all participating agents. The principles-based accounting criteria for credit losses should be complemented by technical guidance on the accounting and regulatory classification of the exposures and the assessment of the adequacy of loan-loss provisions and other asset valuations. The exercise should be based on sound macroeconomic scenarios from economic projections by international financial institutions.

f. **Consider how to disclose the results of the exercise.** As the exercise may have been triggered by widespread distrust in the financial system, disclosure of the exercise, including its methodology and results is likely to be key to allay market concerns. Nevertheless, authorities should design a communication strategy with key messages targeting investors, bank depositors and the public in general.

Box 6. 2020-2021 Asset Quality Review in Montenegro[111]

The Central Bank of Montenegro conducted an AQR for the Montenegrin banking sector in 2020 and 2021. It aimed to provide a comprehensive assessment of the credit quality of the sector. The focus of the exercise was on ensuring the adequate classification and coverage of loan portfolios and other relevant assets in the banks' balance sheets. Although the exercise was executed during 2020 and 2021, the reference date was 2019.

The Central Bank retained an international consulting company to assist in the organization of the exercise. Independent international audit firms and appraisal companies were proposed by banks to conduct the exercise. The exercise used the European Central Bank AQR methodology and accordingly it was divided into three phases: (i) portfolio selection, (ii) AQR execution, and (iii) quality assurance and final reports and disclosure.

The scope of the exercise covered the 13 banks operating at that time in Montenegro. A minimum of five portfolios per bank were reviewed, and the covered portfolios represented at least 64 percent of the risk-weighted assets per bank (above 95 percent in some cases). The exercise also covered other assets, including real estate and foreclosed assets, unlisted equity stakes, and level 2 and 3 bonds.

The AQR resulted in additional losses for an amount of EUR 40 million, implying a decrease in the banking sector aggregated capital ratio of 160 basis points. After the adjustments, the aggregated capital ratio was 16.2 percent, materially above the applicable minimum capital ratio (10 percent). Only one bank was required to take capital conservation measures because of the exercise.

111 The structure and the results of the exercise are available at: https://www.cbcg.me/slike_i_fajlovi/eng/fajlovi/fajlovi_kontrola_banaka/aqr/asset_quality_review_of_banks_in_montenegro_181021.pdf.

5.3. AN INDEPENDENT VALUATION

69. **Following the FSB Key Attributes and BRRD, many FinSAC client countries require an independent valuation before taking any resolution action.** As a result of the AQR, some banks may be identified as non-viable and placed into resolution. For these banks, most FinSAC client countries require an independent valuation before taking any resolution action. This valuation seeks to help authorities to: (i) assess the viability of the bank,[112] and (ii) inform the resolution scheme to be implemented.[113] Critically, an independent valuation aims to have all losses thoroughly and timely recognized before any resolution action is executed. A counterfactual valuation is usually also required to test how affected shareholders and creditors would have been treated in case of liquidation, to protect affected shareholders and creditors, but also the resolution authority in case of legal challenges.[114]

70. **While an independent valuation is indicated before taking any resolution action, it is essential when no market price underpins the resolution scheme.** While possibly less relevant for transfers to private acquirers (as there has been an auction with bids), an independent valuation is essential to inform any open bank resolution transaction (e.g., bail-in) or the transfer of assets and liabilities to a bridge bank or to an AMC, as none of these transactions is underpinned by a bid from a private sector entity.

71. **Performing an independent valuation in the circumstances that usually surround the resolution of a bank can be very challenging.** Most resolution regimes foresee the possibility of taking resolution action informed by a provisional valuation prepared by either an independent valuer or by the authority itself. In either case, an independent valuer should carry out a final valuation afterwards.

72. **The results of the AQR can be leveraged and combined with the requirements of an independent valuation.** While the requirements of an independent valuation may differ from those related to the AQR, the independent valuer may rely significantly on the analysis conducted during the AQR, which can simplify the process considerably. If the AQR has been exhaustive and resulted in a thorough review of the valuation of the bank's assets, the operational requirements and complexity of the independent valuation exercise will become much less challenging.

73. **There is limited experience in preparing independent valuations in resolution as there have only been a few cases in the EU and in FinSAC client countries.**[115] These examples have shown that preparing a valuation during a fast-moving bank failure is a complex undertaking. It needs to be thoroughly planned beforehand by the authorities. Launching a public procurement process to award the valuation contract to a third-party firm when a bank is already in trouble may be read by the public as a clear sign of its demise. Valuation processes require that large swathes of data and documents are made available to the valuer; but the failing bank may be unable to timely collect all the relevant information. Once the documentation is available, the full process may require several weeks, if not months, to be properly executed, as asset-by-asset estimations are usually required. If the independent valuer decides to involve many staff and the valuation is performed at the bank's premises, it may sound the alarm to bank's employees, giving rise to negative rumors that could trigger deposit runs. Finally, the valuer fees may be significant; clarifying upfront how valuation costs will be funded is key.

112 Particularly if the conditions for entering resolution also entail the assessment of a bank's assets and liabilities to determine whether the firm's net asset value is negative.

113 Non-viable banks should be either resolved or liquidated. As previously explained, many FinSAC client countries have upgraded their resolution frameworks for dealing with failed banks. Following the reforms, two regimes often coexist: bank resolution for dealing with large and medium-sized banks and liquidation for managing small bank failures.

114 Known as the "no creditor worse-off than in liquidation valuation." It may trigger compensation for loss-making shareholders and creditors if it evidences that they would have received better treatment had the bank been liquidated.

115 The resolution of Banco Popular in 2017 remains the most relevant in the EU. Authorities in FinSAC client countries undertook the valuation of Sberbank's Europe subsidiaries under their remit. See the cases of Sberbank Slovenia https://www.srb.europa.eu/system/files/media/document/2023-12-21_SRB-Non-confidential-version-of-Valuation-2-Report-Sberbank-banka-d.d..pdf and Sberbank Croatia https://www.srb.europa.eu/system/files/media/document/2023-12-21_SRB-Non-confidential-version-of-Valuation-2-Report-Sberbank-d.d..pdf.

74. **Authorities can mitigate many of these risks during the resolution planning phase.** Although challenging, these hurdles can be overcome. Resolution authorities can sign stand-by agreements with independent valuers that can be activated when needed,[116] to spare the authority from conducting a public tender in the vortex of the crisis while also ensuring the valuer's availability (the allotment of specific contracts can then be done quickly through mini auctions). Resolution authorities can require banks to regularly test their ability to swiftly generate, collect, and make available all the required data for a valuation process. To this end, authorities can set standards outlining the data that banks must be able to provide and its frequency.[117] Banks must also show they can provide the documents in an online format (through a virtual data room, for example), which can enable valuers to perform their work remotely, and avoid being on site at the bank's headquarters. The legal framework should clearly identify how and by whom valuation costs should be covered.

5.4. LOSS COVERAGE: WHO FOOTS THE BILL?

75. **Once the size of the bill (the losses and capital needs) has been quantified, the critical questions become how and by whom the shortfalls will be covered.** The term "burden sharing" is used to reflect the mix of funding sources to cover capital shortfalls and depends on several aspects, such as the features and financial situation of the bank, the economic scenario, or, in case of viable banks, the resolution scheme.

76. **Viable banks are expected to raise capital by their own means, as use of public funds should be reserved for very extraordinary circumstances and subject to strong safeguards.** Typically, each viable firm may define their own burden sharing model where the "pain" is shared between shareholders (through new capital contributions, costly dilutions, or dividend cutting), creditors (debt-for-equity swaps), managers (as they may be replaced and/or their bonuses curtailed), and employees (through remuneration cuts or lay-offs). When a firm faces large capital needs, share placements and cost cutting measures might be topped-up by liability management exercises, where the bank's creditors are offered to participate in raising capital by swapping their claims for new shares (see **Box 5**).

77. **Different sources might be used to cover the costs of resolution and/or liquidation, as in these cases the decision on burden sharing is no longer on the bank.** A first source should be "insiders," typically comprising the failed bank's shareholders, its related parties, and subordinated creditors, who should always be exposed to the financial consequences of a bank's failure. A second source comprises creditors that are expected to be exposed to losses, including loss-absorbing debtholders. A third source encompasses other creditors that may only be subject to losses in very extreme cases, including uninsured depositors and other unsecured creditors. A fourth source is made up of funds available in industry-funded resolution funds. A fifth entails the deposit guarantee funds. Finally, taxpayers' money may be used in extraordinary circumstances.

78. **Although the choice of the burden sharing model in resolution significantly varies across countries, some minimum principles should underpin all models.** Shareholders, subordinated creditors, and, where applicable, related party creditors (the "insiders") should always be subject to losses, as they are directly or indirectly responsible for the decisions that triggered the failure of the bank, or they invested their funds on the basis that they would be exposed to losses if the bank fails (and were therefore supposed to actively exercise market discipline). Loss absorption should follow, as a rule, the insolvency ranking, and deviations should be limited and well-grounded in the laws. Certain creditors cannot and should not be subject to losses for reasons related to financial stability or legal security. These are the fully secured creditors and the insured deposits, as they enjoy legal protection. Any use of taxpayer funds should be subject to strong constraints.

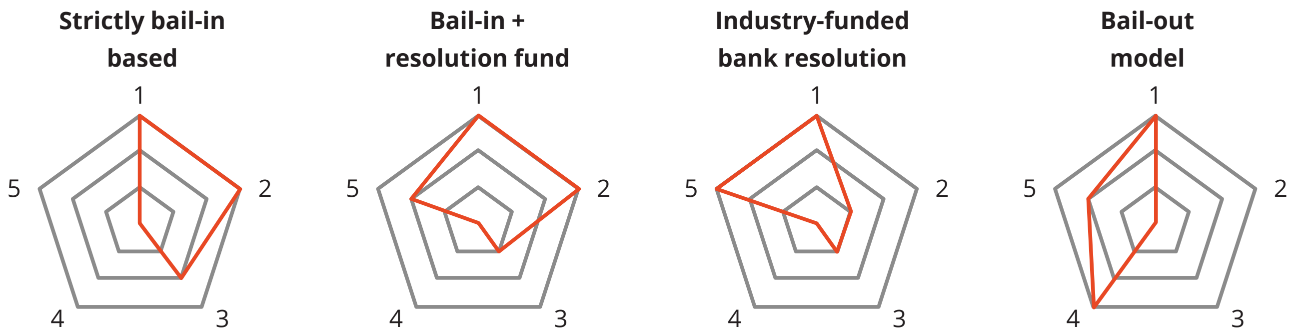
116 Stand-by arrangements are not legally possible in all jurisdictions.

117 The Bank of England and the Single Resolution Board initiatives on ensuring valuation readiness and capabilities for banks are illustrative.

79. **The specific burden sharing model in resolution will depend on several factors and is usually contingent on the prevailing economic circumstances.** Every country has its own, specific burden sharing model, which may change over time. It depends on the regulatory framework (resolution and liquidation powers) and other aspects such as (i) the authorities willingness to effectively use their resolution powers, (ii) the socioeconomic attitude towards bank bail-outs, at the same time dependent on past banking crises and the existence of a market economy in the country, (iii) the nature of banking ownership, particularly when foreign and state ownership is high, (iii) the access of the banking sector to private debt markets and the availability of loss-absorbing debt instruments, and (iv) the existence of a privately funded resolution fund or the possibility to use the deposit guarantee fund in bank resolution. Finally, the choice of burden sharing model is also contingent on the prevailing market and economic circumstances when the decision is made, as even the failure of non-systemic banks may have a systemic impact during severe stress.

80. **Large, systemic banks may be resolved according to open bank resolution (open bank bail-in), and authorities may need to consider their burden sharing model underpinning these strategies.** Open bank resolution primarily seeks the continuity of the operations of the failed firm, often as a stand-alone entity. Besides absorbing losses, authorities need to find financial resources for recapitalizing the failed bank, so it can operate as a going concern. The choice of the burden sharing model in these cases usually involves a trade-off between bail-in and bail-out. Since the adoption of the FSB Key Attributes, many countries have implemented requirements that force firms to issue loss-absorbing debt instruments to enable resolution through bail-in. These loss-absorbing requirements are not likely to be fully implemented in the near term in most FinSAC client countries, which may increase the chances of bailouts (or even may make these strategies not viable altogether). Some FinSAC client countries have complemented these loss-absorbing debt requirements with privately funded resolution funds, also reducing the risk of using taxpayers' money. The use of other funding sources in open bank resolution is less relevant, as deposit guarantee contributions are typically off-limits in these situations and extending the bail-in to other creditors (e.g., uninsured deposits) may create unacceptable risks to financial stability and may undermine the failed bank's business model. **Figure 10** outlines stylized different burden sharing models for open bank resolution, based on different policy choices.

Figure 10. Stylized burden sharing models for open bank resolution



1 Shareholders, subordinated debtholders and related party creditors

2 Loss absorbing debt

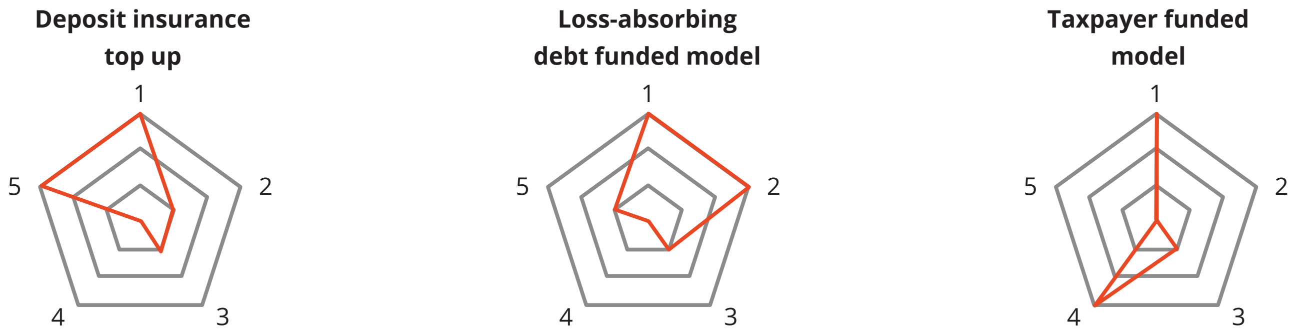
3 Other uninsured and unsecured creditors

4 MoF/Taxpayers

5 Industry (resolution and deposit Insurance funds)

Source: FinSAC

Figure 11. Stylized burden sharing models for transfer strategies



1 Shareholders, subordinated debtholders and related party creditors

2 Loss absorbing debt

3 Other uninsured and unsecured creditors

4 MoF/Taxpayers

5 Industry (resolution and deposit Insurance funds)

Source: FinSAC

81. **The decision on burden sharing is also paramount for transfer strategies, including closed bank resolution.** Resolution authorities may selectively transfer the failed bank's shares or its assets and liabilities to a third-party acquirer or a bridge bank. Loss-absorption is usually achieved by leaving shareholders, subordinated creditors, and related parties in the rump, usually with the failed bank's unwanted assets, but can also be achieved by writing down or converting certain liabilities prior to the share transfer. Even so, a contribution is usually required to balance the assets and liabilities, as transferred liabilities tend to exceed the transferred assets. A decision should therefore be made on the funding source to top the latter up. To this end, authorities may use the deposit guarantee fund (in certain regimes, where they can make contributions to bank resolution), the resolution fund (if one exists and is funded), by leaving further creditors in the rump (risking financial stability), or by partially writing off some of the transferred liabilities. **Figure 11** outlines stylized different burden sharing models for closed bank resolutions.

5.5. AVAILABILITY OF RESOLUTION TOOLS IN CRISIS SCENARIOS

5.5.1. Transfer Transactions

A. Key elements of transfer transactions

82. **Transfer transactions are one the most frequently used resolution tools for dealing with bank failures, particularly in some jurisdictions.** In principle, the most desirable way for managing non-viable banks is transferring their assets and liabilities or their shares to a third party, usually a competitor, which can swiftly integrate and operate the failed bank's critical operations. Most resolution regimes in FinSAC client countries include transfer tools (known as sale of business in the EU and purchase & assumption in the US), which empower resolution authorities to transfer the shares (open bank resolution) or selected assets and liabilities (closed

bank resolution) to a third-party acquirer. Hundreds of failed banks have exited the market through these transactions, particularly in the US. Transferred customers continue to have access to their accounts, credit balances, and other banking services, as the acquirer takes over the transferred activities of the failed bank (or the failed bank continues to operate under a new owner).

83. **The use of transfer powers in FinSAC client countries raise specific challenges and risks, that might be exacerbated in a systemic crisis.** Information leaks, a lack of suitable buyers, or complexities in the sale process are common obstacles to these transactions. However, authorities can implement measures to expedite the process. The following paragraphs consider both these obstacles and potential remediation actions. Although also useful when using transfer powers in non-systemic scenarios, they are critical during systemic banking crises.

84. **Several steps are required to execute a transfer in resolution, which makes the process challenging.** Authorities will be expected to select legal[118] and financial[119] advisors for complex transactions. The sale process typically involves several steps including: (i) pre-selection of interested bidders, (ii) contacting bidders and obtaining signed non-disclosure agreements, (iii) organization of due diligence process, including the data room, (iv) receipt of binding offers,[120] and (v) final decision on winning bid.

85. **Many individuals may be involved in the transfer process, heightening the risk of damaging information leaks.** In addition to the authorities' staff, their legal and financial advisors, and the experts conducting the independent valuation, more parties may be involved. These include the bidders' internal teams and their own legal and financial advisors. Some managers of the failed bank may also need to actively participate in the process, as their cooperation may be required. Given the small size of financial systems in most FinSAC client countries, avoiding information leaks is even more complex. If leaks happen, depositors and other funding providers may seek to withdraw their funds, leading to a run on the bank.

86. **Authorities should take measures to mitigate the risk of leaks.** The resolution authority may limit the number of individuals involved in the process, for example, by restricting participating parties to those most likely to become active bidders. To this end, the authority can undertake a pre-selection process during resolution planning.[121] The restriction may also apply to the supervisory and resolution authorities, as the staff involved in the transaction should be as limited as possible, and based on those who have an essential role. Every participant in the process must be required to sign a non-disclosure agreement and be included in an updated insider list. Finally, the process should be conducted as quickly as possible. Authorities should have a contingent communication plan in case the transaction is leaked to the market, containing the indicated messages for these situations.

87. **Making high quality data available to potential bidders is key to a successful sale.** If material information is missing, or the quality of data is poor, bidders may decide to lower their bids or refuse to bid altogether. During resolution planning, authorities can request banks to be prepared to swiftly generate all

118 Legal advisors assist the authority in the preparation of all required legal documentation, including confidentiality agreements, invitations to the bidding process, and the contractual documentation for the transfer. Involving external legal advisors is particularly indicated when the authority lacks relevant experience in these transactions, or involves some complexities such as partial transfers, asset protection schemes, etc.

119 Financial advisors can assist the authority in the organization of the sale process, including identifying and contacting potential interested bidders, organizing the due diligence process, including the data room, and conducting negotiations with the bidders on behalf of the authority.

120 In some cases, an additional phase may involve requesting the interested bidders sending a non-binding offer to the authority. However, this step might be skipped if the transaction needs to be executed urgently for example, due to the stressed situation of the failing bank.

121 Some resolution authorities analyze potential interested buyers of banks whose preferred resolution strategy are based on transfer schemes. This analysis usually entails the assessment of the financial and operational capacity of the potential buyers and the strategic rationale of the transaction for the shortlisted buyers. The Single Resolution Board has issued standards to clarify how banks should prepare for transfer transactions to facilitate their resolvability.
See https://www.srb.europa.eu/system/files/media/document/20211025%20SRB%20Operational%20guidance%20for%20banks%20on%20separability%20for%20transfer%20tools%20FINAL.pdf.

the required data for a sale process. Authorities can define the minimum information that firms need to collect and upload to a virtual data room and clarify the expected timeframe for doing so.

B. Assisted transfer transactions

88. **A loss-sharing agreement can facilitate a transfer if there is uncertainty about the quality of the failed bank's assets or a risk of inadequate due diligence.** Giving the buyer guarantees can be an enabling action for transfer transactions when there is not enough time for comprehensive due diligence, or when insufficient information is available. Loss-sharing agreements (also known as asset protection schemes) typically involve transferring to the guarantor a proportion of the losses in earmarked asset or liability portfolios. Such guarantees can: (i) mitigate the information asymmetries that arise in these transactions, (ii) ensure that the guaranteed assets are transferred and managed by the buyer, effectively precluding any politically sensitive public management of these assets (for example, if they are transferred to an AMC), (iii) encourage the active and sound management of the assets with a view to maximize the recoveries as part of the losses are proportionally assumed by the buyer, and (iv) remove frontloading financial pressures to industry arrangements (if they are provided by them), as guarantees may be drawn over an extended period.

89. **The guarantees can bring significant advantages to the beneficiary.** Besides protecting it from losses in the covered assets; beneficiaries can consider them when calculating the capital requirements[122] and loan-loss provisions of the protected portfolio.[123] Moreover, the debts of some borrowers in the protected portfolio may see their fortunes improve, enabling the beneficiary bank to expand its customer base. Finally, the acquiring firm can extract synergies by leveraging its workout units to manage the distressed assets.

90. **The guarantor needs to carefully assess the guarantee's design and structure.** Flawed schemes can result in the poor management of the guaranteed assets by the beneficiary, increasing losses for the guarantor. This risk can be mitigated through a sound legal design of the instrument:

i. The scope of the guarantee should be clearly determined, and losses should be capped. The guarantees should be as specific as possible, strictly covering the losses from the guaranteed assets, that should be ring-fenced. The scope of the guarantees can be determined by following some limited, well-defined criteria. Assets can be earmarked mainly using credit quality (e.g., underperforming or non-performing loans). This criterion can be complemented by economic sector or product, especially when certain exposures (e.g., construction, infrastructure) or products (e.g., high-risk mortgages, loans to related parties, FX lending, etc.) were behind the bank failure. If the guarantee also covers contingent liabilities (e.g., tax liabilities, pending administrative fines, legal challenges, etc.), it will need to comprehensively identify the liabilities within the scope. Loss-sharing agreements cannot cover the general performance of the acquired business or cover any loans originated after the transfer, as this may effectively insure the beneficiary against its own mismanagement ("heads I win, tails you lose").

ii. Incentives should be developed for the sound management of the guaranteed assets and/or the liabilities by the acquirer. Loss-sharing arrangements may include a proportion of losses that should be assumed by the beneficiary[124] ("a franchise"). The guaranteed amount must be high enough not to be ignored by the beneficiary but not too high to discourage the active management of the assets by the beneficiary. Other mechanisms

122 It is crucial that the guarantee is an eligible credit risk mitigation technique that meets the minimum requirements of the personal (unfunded) guarantees in the applicable regulatory framework. The Basel framework for credit risk mitigation techniques typically require the guarantees to be direct and callable at first demand, among other requirements.

123 An important question that is commonly raised in these cases is whether the beneficiary should classify the covered assets as non-performing. Banks will seek to exclude them (at least in proportion to the extent of the guarantee). Asset classification regimes typically exclude the classification of loans based on their performance and without considering their guarantees. Nonetheless, the beneficiary can always consider the guarantees when estimating their credit losses and therefore, loan loss provisions.

124 The loss-sharing scheme may involve a structure whereby the guarantor assumes most of the losses (80 percent-90 percent), whereas only residual losses are assumed by the beneficiary. Depending on the scheme, the mechanism may be proportional or structured (e.g., the beneficiary only assumes losses beyond a certain level).

to ensure the sound management of the assets can involve the periodic assessment of the covered portfolio by an independent third-party (monitoring trustee).[125]

iii. Guarantees are expected to be provided by industry arrangements. Use of industry arrangements (e.g., resolution fund or deposit guarantee funds) is more natural to instrument guarantees during asset transfers. Public guarantees are less common, particularly in closed bank resolutions. Authorities may need to assess the legal capacity and readiness of industry arrangements to provide these guarantees. For instance, few deposit insurance funds in FinSAC countries may be able to provide them, either because they are not allowed to make contributions in resolution or because they are not explicitly contemplated in the relevant laws.

iv. The features of the guarantee should be thoroughly regulated in a contract. The contract must clearly define the concept of "losses" that trigger the coverage, by using "final losses" rather than accounting losses. Contracts must regulate the actions that require the specific approval of the guarantor. Debt forgiveness, portfolio sales, certain restructuring actions, or debt-to-equity-swaps above a minimum threshold should be previously authorized, as they can trigger large payments for the guarantor.

v. The guarantor can set up a structure with sufficient resources to monitor the performance of the guarantee. Guarantees usually contain detailed provisions on the definition of losses, the actions that need the prior authorization of the guarantor, and mechanisms for dispute resolution. As disagreements can emerge,[126] guarantors can set up internal or outsourced structures to oversee the performance of the guarantee.

vi. A sunset clause is usually an important feature of these contracts. This clause is set at a date that reflects the expectations for the period in which most guaranteed assets may have been wound down. If the guarantee continues to be in force at that date, the contracts commonly regulate a final payment, based on a third-party valuation selected under the rules of the contract. The final payment terminates the contract.

91. Experience during the GFC supports that sale transactions can be enabled by these guarantees. **Figure 12** shows cases, most recently in 2023, where asset protection schemes were used in resolution to facilitate asset transfers. These cases did not happen in FinSAC client countries but are used to illustrate the potential usefulness of these arrangements.

Figure 12. Selected asset protection schemes/loss sharing agreements in transfer transactions

Year	Type of resolution	Failed bank	Beneficiary bank	Guarantee provider	Covered amount	Costs to beneficiary bank	Duration / maturity	Type of portfolio
				SWITZERLAND				
2023	State-Assisted sale	Credit Suisse	UBS Group AG	Swiss Confederation	CHF 9,000 millions*	Annual fee 0.4% + From 0% to 4% of loss amount**	Unlimited***	Non-core assets (3% of total assets)

125 This mechanism was implemented, for example, in the case of Nord LB. See State Aid Case by the European Commission, specifically paragraphs 33, 38, 122, 126, 141, 142 and 210. URL: https://ec.europa.eu/competition/state_aid/cases1/20203/283125_2123117_150_5.pdf.

126 The beneficiary may, in some cases, have incentives to quickly wind down the guaranteed assets, even at the expense of lower cash flows, whereas the guarantor is typically interested in maximizing the recoveries from the assets. These tensions are natural and should be managed accordingly.

Year	Type of reso-lution	Failed bank	Bene-ficiary bank	Gua-rantee provider	Covered amount	Costs to beneficiary bank	Duration / maturity	Type of portfolio
				USA				
2023	P&A	Silicon Valley Bank (SVB)	First–Citizens Bank & Trust Company	FDIC	Commercial loans portfolio: 50% above USD 5 billion****	0	5 years (reimbur-sement for 8 years)*****	All commercial loans purchased (USD 60 billions)
2023	P&A	First Repu-blic Bank (FRB)	JPMorgan Chase Bank	FDIC	Single family residential mortgages: 80% Commercial loans, including CRE: 80%	0	Single family residential mortgages: 7 years Commercial loans, including CRE: 5 years	Single family residential mortgages Commercial loans, including CRE†
2009	P&A	Colonial Bank	Branch Banking & Trust Company, (BB&T)	FDIC	Single Family and commercial portfolios: 80% below USD 5 billion; 95% thereafter††	0	Single Family loan portfolio: 10 years Commercial portfolio: 5 years	Single family residential mortgage loans and other real estate††† Commercial portfolio††††
2009	P&A	Guara-nty Bank	BBVA Compass	FDIC	Single Family and commercial portfolios: 80% below USD 2.285 billion; 95% thereafter†††††	0	Single Family loan portfolio: 10 years Commercial portfolio: 8 years	Single Family loan portfolio Commercial portfolio
2009	P&A	Indy-mac Bank, FSB	OneWest Bank, FSB	FDIC	SFR: 80% below a threshold; 95% thereafter‡ Reverse mortgage: 1st loss up to USD 200 million	0	March 2019	Single Family Residential (SFR) Mortgage Loan Reverse Mortgage

Year	Type of reso-lution	Failed bank	Bene-ficiary bank	Gua-rantee provider	Covered amount	Costs to beneficiary bank	Duration / maturity	Type of portfolio
				SPAIN				
2012	Sale of busi-ness (share deal)	Banco de Valencia	Caixa-Bank	FROB	EUR 439 millions (APS[‡‡]) EUR 166 millions (guarantees[‡‡‡])	0	10 years	Credit portfolio and guarantees (SMEs and self-employed)
2011	Sale of busi-ness (share deal)	Banco CAM	Banco Sabadell	DGF	EUR 7,225 millions (APS[‡‡])	0	10 years	Credit portfolio, foreclosed assets and subsidiaries
2010	Sale of busi-ness (share deal)	Cajasur	Kutxa-bank	FROB	EUR 392 millions (APS[‡‡])	Euribor 1yr + 0.50%	5 years	Credit portfolio, foreclosed assets and subsidiaries

APS: Asset Protection Scheme.
DGF: Deposit Guarantee Fund.
FROB: Fund for the Orderly Bank Restructuring (Spanish Resolution Fund).
[*] First tranche of CHF 5 billion to be faced by UBS before the Government faces losses.
[**] UBS paid a pre-agreed conclusion fee of CHF 40 million when voluntarily terminated the agreement.
[***] The agreement was signed on 12 June 2023 and UBS voluntarily terminated it on 11 August 2023.
[****] First tranche of USD 5bn of losses not covered by Federal Deposit Insurance Corporation. Thereafter, it covers 50% of losses for a period of 5 years.
[*****] First-Citizens Bank & Trust Company will reimburse Federal Deposit Insurance Corporation for every dollar recovered in an 8-year period.
[†] Total portfolio amounting USD 172.9.
[††] No first tranche was included in the agreement.
[†††] Single family residential mortgage loans and other real estate amounting USD 3.5 billion.
[††††] Construction, commercial real estate and commercial and industrial loans and securities and other commercial assets amounting USD 10.8 billion.
[†††††] Portfolio guaranteed amounted USD 9.7 billion.
[‡] First loss faced by the beneficiary bank up to USD 2,551 million; 80% coverage between USD 2,551 million and 30% of the initial covered portfolio (i.e., USD 3,826 million); 95% thereafter.
[‡‡] Estimated values of final Asset Protection Schemes amount by external experts dated 31/12/2018.
[‡‡‡] Estimated values of additional guarantees other than Asset Protection Schemes by external experts dated at 12/31/2018.

Source: FinSAC with information from Spanish Fund for Orderly Bank Restructuring (Resolution Authority) and Bank of Spain; Federal Deposit Insurance Corporation from the US; UBS and Swiss Government; Federal Reserve

C. Transfer of liabilities

92. **The transfer of liabilities to a third-party should be considered carefully, as it too raises significant challenges.** First, the subordinated liabilities and liabilities to related parties should always be either written off prior to the transfer or left behind in the rump. The decision about other unsecured, uninsured liabilities should be adopted on a case-by-case basis considering the available bids, the impact of the decision on the transferred business, and financial stability considerations. The transfer of contingent liabilities can create specific challenges, as their involved amounts are uncertain.

93. **Failed banks may not have thoroughly identified their related party liabilities.** Some bank failures are triggered by fraud and transactions with related parties. In these cases, related party transactions, including liabilities, may have been misreported. As transfer transactions are conducted quickly, authorities may not have enough time to accurately identify the related party liabilities, and therefore they might be transferred to the acquirer without suffering any losses. It is important that the authority uses specific mechanisms to reverse the transfer where related party liabilities are identified ex-post. Nonetheless, especially if the failure involves fraudulent transactions by insiders, authorities may need to deal with loans to related parties, rather than related party liabilities, as insiders are likely to have withdrawn their funds long ago.

94. **The transfer of contingent liabilities to the acquirer raises specific risks, that can be addressed through extending guarantees when needed.** Bidders may be put off by the prospects of assuming a failed bank's contingent liabilities, as they are typically difficult to quantify and are subject to significant uncertainties, especially if the failure has involved fraudulent activities. Resolution authorities can mitigate this risk by ensuring that all relevant information regarding contingent liabilities is included in the data room, to enable bidders to conduct their own due diligence. Guarantees can be offered to the buyer covering further losses stemming from these liabilities.

D. Selection of acquirers

95. **Finding suitable buyers for failed banks is not straightforward: existing banks are usually the best candidates.** Finding an acquirer can be challenging, especially during a systemic crisis. Other licensed banks (either locally or foreign owned) are usually the best candidates, as they can combine their existing business with that of the failed bank, extracting synergies from the integration, while they are well-known by the authorities, and they have already a license. They are typically in the best position to conduct a thorough and quick examination of the failed bank's books, as incumbents may share clients and products with the failed bank. When already licensed banks are not willing or able to take over the failed bank, authorities need to scan the market for alternative investors. Foreign banks, private equity funds, or non-financial investors may be considered (**Figure 13**).

96. **Banks already operating in the country may face different hurdles.** Competitors may not have sufficient financial or operational capacity to conduct the takeover of a large, failed bank. Local banks may be more focused on underpinning their own viability in systemic scenarios, resulting in muted interest for the failed bank. Parent companies of foreign-owned subsidiaries might not be interested in increasing their exposure to the country, especially if they are suffering from capital pressures at the consolidated level. Large banks may not be able to participate in the process on the grounds of excessive concentration in the banking markets,[127] especially when both the potential acquirer and the failed bank are large, systemic institutions.

97. **Thoroughly scrutinizing the financial, managerial, operational, and reputational capacity of the acquirer, together with its rationale for undertaking the transaction, is essential.** Authorities may be tempted to be more lenient in these cases, as the potential acquirer may relieve them of a problem. Troubled banks usually have the strongest incentives to acquire the failed bank, as their real goal might be to "save themselves" through the acquisition in a "bidding for resurrection", especially if "sweeteners"

127 Certain FinSAC client countries exhibit high concentration levels. In Georgia, the two largest banks' market share is above 70 percent.

Box 7. The pitfalls of acquisition by a troubled lender: Kazkommertzbank (KKB)

KKB, a systemically important bank in Kazakhstan, acquired BTA, a firm with long-standing solvency and asset quality problems, through a series of shares purchases in 2014-2015. After securing its control, KKB surrendered BTA's banking license, assumed most of its assets and liabilities, and funded the assets retained by BTA in its own balance sheet. According to the National Bank of Kazakhstan, KKB did not undertake an adequate due diligence of BTA's assets and, consequently, the acquisition resulted in further losses triggering a net asset shortfall for KKB.[128]

By 2017, several inspections by the National Bank had unveiled KKB's problems. The state, through the Problem Loans Fund (effectively Kazakhstan's bad bank, see **Annex 1**), purchased the firm's toxic assets at nominal value.[129] After a comprehensive audit of KKB's assets, additional asset value adjustments were required, resulting in the write off of the bank's equity value. Afterwards, KKB was sold to Halyk Bank for a symbolic amount (Kazakhstani tenge [KZT] 1).

The resolution of KKB did not result in any losses for KKB's creditors, including its bondholders. KKB's shareholders and the state (through the purchase of problematic loans at face value) shared the costs of the failure of the bank.

are attached to the deal. Transferring the assets and liabilities to a weak institution may temporarily solve today's problems at the expense of creating a bigger problem in the future.[130] Authorities are required to thoroughly assess the financial, managerial, operational, and reputational capacity of the potential acquirer to undertake the transaction like in any other merger and acquisition transaction. The problems of the acquired entity may justify an even more conservative approach. **Box 7** explains a case where the acquisition of one troubled bank created a bigger problem.

98. **Private equity investors may also be contemplated as acquirers, but they also raise risks as bank owners that should be mitigated.** Internationally active private equity funds are the by-default alternative investors after competing banks have been ruled out. Private equity investors usually have the financial capacity and willingness to invest more aggressively when other, more traditional, investors have lowered their risk appetite. Some well-known private equity funds have already made controlling investments in banks in the region in recent years.[131] However, private equity investment cycles are typically shorter, effectively pursuing more aggressive business models and seeking quick business turnarounds. These risks have prompted some authorities to lay out additional requirements for private equity investors, for example, requesting the deposit of a certain amount of cash in an escrow account to be contingently used to recapitalize the bank in case of losses, in addition to the in-depth assessment of the reputation of the fund and their experience in the region.

128 See National Bank of Kazakhstan's "Financial Stability Report of Kazakhstan 2015-2017", section 9.1. URL: https://nationalbank.kz/en/news/otchet-o-finansovoy-stabilnosti/rubrics/235.

129 See Box 9.

130 N.B. the cases of Otkritie and BinBank in Russia (the so-called Garden Ring Banks). These banks grew aggressively through the acquisition of failed banks from the Deposit Guarantee Fund, before being themselves resolved after fraud was unveiled during the massive clean-up of the banking sector in 2015 and 2016. See https://www.reuters.com/article/russia-banks-otkritie-fall-idUSL8N1LG67H/ for additional information on the case of Otkritie, including comments from the First Deputy Chairman at the Central Bank of Russia.

131 N.B. the case of Advent, that in 2015 acquired 80 percent of the Western Balkan operations of the nationalized Hypo Alpe Adria Bank (the European Bank Reconstruction and Development acquired the remaining 20 percent), that included banks in BiH, Croatia, Montenegro, Serbia, and Slovenia. The parent company was listed on the Austrian Stock Exchange in 2019. After several share divestments, Advent no longer controls the operations bought from Hypo Alpe Adria Bank (later rebranded as Addiko Bank). See https://www.addiko.com/static/uploads/press-release-hypo-group-alpe-adria-ag-see-banking-network-acquired-by-advent-international-and-ebrd.pdf

99. **Banking groups not operating in the country may also be interested in the takeover of the failed bank.** A foreign bank may use the acquisition of a failed bank as an opportunity to enter a new market. In these cases, authorities need to pay special attention to the suitability of the potential buyer, since having a foreign banking license does not necessarily mean sound management, financial capacity, or transparency. They should consider (i) the financial and operational capacity of the foreign bank and the group it may be included in, (ii) whether the acquisition fits into the overall strategy of the acquirer in the region (e.g., it already has a network of local banks in the region), (iii) the ability of the home country to perform consolidated supervision over the resulting banking group, (iv) if the acquisition would impair the ability of the authorities to conduct supervision of the bank, and (v) particular attention should be paid to the track record of the bank in the prevention of money laundering and terrorism financing.

100. **Finally, non-financial investors might be willing to take over the bank (Figure 13).** Local or foreign non-financial corporations may appear during the selling process, sometimes within a consortium. These investors are less likely to be suitable owners of any bank; authorities must thoroughly scrutinize the rationale of the bid, the reputation, the financial capacity of the bidders, and all their non-financial interests as these bidders may try to use the bank to cheaply fund their non-financial undertakings.[132]

Figure 13. Investors in transfer transactions: pros and cons

	Pros	Cons
Banks already operating in the country (incumbents)	Ability to extract synergies from the acquired business (e.g., integration) The acquirer may know well the failed bank businesses Ensures the continuity of the failed bank's critical functions Quicker process because of the absence of licensing requirements	Risk of weak banks bidding for resurrection
Foreign banks without presence in the country	Increases competition in the market Can transfer best practices from the broader group Can bring stability and credibility to the market, especially in a systemic situation	Less knowledge of the market may result in demand for higher guarantees
Private equity investors	Can bring expertise in turning around the failed bank's business Access to deep pools of management and financial resources	Private equity short investment cycles may result in excessive risk taking to maximize the return on capital May bring aggressive commercial practices that can affect financial stability Their financial commitment is typically limited to the initial investment

132 Financial history is littered with bank owners that used bank deposits to cheaply fund their industrial undertakings. The nationalization of the Rumasa Holding in Spain (1983) remains one of the most spectacular cases, involving more than 30 banks, see https://www.bde.es/wbe/en/publicaciones/publicaciones-coleccion/guia-archivos-historicos-banca-espana.html. More recently, the nationalization of Privatbank in 2016, the largest Ukrainian bank, was at least partly explained by the oversized exposures to the non-financial group of the controlling shareholder.

	Pros	Cons
Industrial (non-financial) investors	Local investors may be known by the authorities	May use the bank to fund the non-financial activities of the owners Lack of experience in managing banking businesses Need to assess the financial capacity of the owners

Source: World Bank

5.5.2. Bridge bank transactions

A. Relevant aspects for setting up a Bridge Bank

101. **Faced with difficulties finding a buyer for a failed firm, countries may need to buy time through the transfer of assets and liabilities to a bridge bank.** Resolution authorities are usually empowered to transfer certain assets and liabilities from the failing bank to a newly created intermediate or bridge bank, set up to temporarily hold these assets and liabilities and provide the critical functions of the failed bank while finding a suitable buyer. In case of a scarcity of buyers, setting up a bridge bank can be an attractive option, but it does not come without risks. Notably, these entities may become "bridges to nowhere" if the franchise of the failed bank continues to deteriorate during the bridge period and loses any appeal to a potential buyer. Decision-making may become subject to political influence, particularly when the bridge bank is recapitalized by the state.

102. **There is only limited experience in setting up and managing bridge banks and few successful cases in FinSAC client countries or the region.** Although most FinSAC client countries can set up a bridge bank for the transfer of a failed bank's assets and liabilities, few have used one. In Ukraine, the bridge bank Krystalbank was set up to acquire the business of the failed Terra Bank (December 2014) and sold three months later[133] to a third-party investor.[134] The bridge bank RVS was also established in Ukraine in June 2015 to acquire the assets and liabilities of the failed Omega Bank and subsequently sold to another investor. In other parts of the world there has been greater use of bridge banks. In the US, bridge banks are part of the Federal Deposit Insurance Corporation toolkit and commonly employed when bank failures are triggered by deposit runs, as authorities have not had the time to prepare for the bank's sale., Bridge banks were used in the US in 2023 for resolving Silicon Valley Bank and Signature Bank.[135]

103. **Certain key aspects must be considered if a bridge bank is to be established:**

a. **Advance operational planning.** A bridge bank needs a specific management team, a business model, operating plan, etc. These aspects must be carefully considered beforehand since it is very unlikely that the authority would have sufficient time to address all the issues when a bank is in trouble.

b. **Sound prudential requirements.** The temporary nature of bridge banks may support some limited waivers to the applicable regulatory regime, provided that the bridge bank is sufficiently capitalized, liquid, and subject to sound governance and risk management standards. It will largely depend on the timeframe and the systemic relevance of the bank itself, as funding providers may finance the bridge bank if they perceive it to be sufficiently solvent. In this context,

133 See https://www.fg.gov.ua/articles/1839-do-uvagi-vkladnikiv-pat-terra-bank-vkladi-yakikh-buli-peredani-pat-perekhidniy-bank-kristalbank.html

134 Deposit Guarantee Fund Report for 2014, page 48, URL: https://www.fg.gov.ua/storage/files/zvit-2014-engl.pdf.

135 Bridge banks were established for the resolution of SVB and Signature Bank in March 2023 as sudden liquidity pressures did not allow the resolution authority (the Federal Deposit Insurance Corporation) to find suitable buyers for the banks in time.

authorities may decide to subject the bridge bank to the minimum capital adequacy requirements but exclude it from any capital buffers, particularly those related to macroprudential and countercyclical considerations. However, if the bridge bank lifespan goes beyond the short term (e.g., longer than 3 months), the rationale for a more lenient regulatory regime will disappear altogether.

c. **Determining the source of capital is a key decision.** Authorities may set up a bridge bank by selectively transferring to it assets and liabilities from a failed bank. In the best scenario, transferred assets will exceed the liabilities and therefore the bridge bank will have a positive equity value. However, this is very unlikely as: (i) failed firms typically have large amounts of non-performing assets (although there may be other reasons behind the failure) and (ii) for financial stability reasons, authorities may decide to transfer the full deposit book, even if uninsured. When the transferred liabilities exceed the transferred assets, authorities may have different options to capitalize the bridge bank: (i) use the bail-in powers to convert some of the transferred liabilities (e.g., senior unsecured debt, uninsured deposits) into shares, (ii) use industry funds, or (iii) recapitalize the bank with public money. Public recapitalization has implications for the governance of the bridge bank, as the ministry of finance will be likely to intervene in the key decisions, particularly on the appointment of board members and senior managers and on the sale of the bridge bank.

d. **Authorities would need to ensure that the bridge bank has access to liquidity and funding sources.** Even if a bridge bank is recapitalized, this does not ensure a bank's ability to continue funding its assets. Bridge bank depositors, especially if uninsured, may seek to withdraw their funds from it, jeopardizing the liquidity position of the entity. Against this backdrop, authorities may need to identify the funding sources a bridge entity can access. Although private funding sources should be prioritized, markets may be closed for the entity, especially when investors and funding providers do not see realistic prospects for selling the bridge bank, fearing its future liquidation. Authorities may need to consider alternative funding sources, such as public guarantees covering ELA funding or other liabilities or, in more extreme cases, imposing a moratorium on certain liabilities to preserve liquidity. See Section 5.8 for more details.

e. **Sunset clause.** Consistent with its transitory nature, the operation of a bridge bank is limited to a certain time horizon. Authorities may set up a bridge bank for a specific period (e.g., one year) and may subsequently decide to extend its life one or several times if the bank is not sold within that period. Nonetheless, the ability to continuously prolong the bridge bank's operation should be subject to strict legal limits and its use should be avoided unless justified by extraordinary circumstances, especially considering that politicians may be tempted to be involved in the bridge bank's lending and investing decisions.

5.5.3. Open bank resolution using bail-in powers.

104. **Open bank strategies based on bail-in powers are gradually becoming one key element of modern resolution regimes for large bank failures.** When a non-viable systemic bank cannot be realistically resolved by its transfer to a third-party, writing down the value of its shares and converting certain liabilities into new shares can be a valid solution to stabilize and recapitalize the bank.[136] The failed bank can continue to operate as a going concern, and therefore its customers, including depositors and borrowers, will continue to have access to their banking services without any interruption.

105. **An effective open bank resolution based on bail-in powers requires some preconditions.** First, a bank's liability structure should support the bail-in execution by ensuring that the bank has previously issued loss-absorbing debt. Second, the law should determine the conditions upon which the write down and conversion powers can be used, to mitigate any future legal challenges by avoiding inconsistencies between the insolvency ranking and the bail-in treatment that may give rise to the no creditor worse-off than in liquidation risk. Third, the deployment of bail-in powers should be based on

136 In addition, bail-in powers can also be combined with other resolution tools, such as writing down the value of the shares and liabilities in a transfer transaction, or to provide capital to a bridge bank.

an independent valuation by a third-party. Fourth, following the stabilization of the bank, a restructuring plan addressing the root causes of the failure should be required to turn around the business and avoid the repetition of problems.

106. **Following global and European trends, some FinSAC client countries[137] have complemented the introduction of bail-in powers with requirements for banks to meet minimum loss-absorbing requirements.** Global and European standards (FSB's total loss-absorbency capacity or EU's minimum requirements for own funds and eligible liabilities) require firms to progressively build up their loss-absorbing capacity, mainly by issuing subordinated or quasi-subordinated debt to wholesale investors that can be written down or converted into capital in resolution. In practice, countries' experiences have evidenced that loss-absorbing buffers should be built up gradually during an extended period, since required amounts can be large and the pool of interested investors limited. In FinSAC client countries, the difficulties of ensuring sufficient loss-absorbing capacity are exacerbated by plain vanilla balance sheet liability structures (made up of pure equity and deposits)[138] and limited or no market access. Bailing-in uninsured deposits may be the only (and very risky) alternative to a costly bail-out. **Figure 14** outlines the high-level implications of applying bail-in powers to different creditors in the context of FinSAC client countries.

107. **Once internal and industry resources have been exhausted, resolution authorities may need to explore additional sources, including public capital.** As contributions by deposit insurance funds may not be suitable for open bank bail-in resolution for systemic banks, authorities may need to resort to public resources. Ideally, they should only be used for recapitalizing the bank, not for absorbing losses. Different mechanisms and structures may be used to channel public funds, with distinct implications for recoveries and on the public involvement in failed banks' management. The most usual manner to publicly recapitalize a bank involves the ministry of finance, directly or through a controlled fund or entity, deciding to subscribe new shares or other capital instruments to recapitalize the bank, resulting in its partial or full nationalization. An alternative approach may involve an industry arrangement (e.g., a resolution fund) borrowing from the state to recapitalize the bank. This structure can limit the state influence in the bank while also mitigating taxpayer risk, since the state does not control the bank and the banking sector will be effectively guaranteeing the reimbursement of the state loan though its future contributions to the industry arrangement. The arrangement would progressively repay the loan to the state using banking sector contributions and revenues from its investments, including from the bailed-out bank's shares. Some basic principles for the use of public money are detailed in Section 5.6.

108. **During extreme systemic episodes, the extent of the losses can force the authorities to apply bail-in powers to senior creditors, including uninsured depositors.** During severe systemic crises, the fiscal position of the sovereign may be compromised and may not be able to raise funding to recapitalize banks. In this context, authorities may need to combine partial nationalization with alternative measures, such as extending bail-in powers to uninsured depositors. Restrictions on the availability of deposits, even if uninsured, during systemic scenarios can be detrimental to a country's financial stability. Harsh and long-lasting capital controls may be required in these situations. For these reasons, bailing-in deposits appears to be a very extreme and risky measure, whose implementation is reserved for exceptional systemic episodes that combine banking crisis with troubled sovereigns. See section 5.8 for more details.

109. **When exercising bail-in powers, authorities should carefully consider legal risks.** Aggrieved creditors and shareholders will invariably challenge authorities' decisions in court, using different arguments. Bailing-in liabilities governed by a foreign law may involve litigation risks (see **Box 8**). Inconsistencies between the insolvency ranking and bail-in sequencing and deficiencies in the independent valuation can be exploited by those bringing legal actions against the authority or the failed bank.

137 See Section 4.3 for more details on the countries requiring banks meeting loss-absorbing requirements.

138 Banks, especially foreign-owned, may have a limited amount of other liabilities, such as intragroup subordinated and senior liabilities to certain foreign creditors.

Figure 14. Stylized high-level overview of applying bail-in powers to different creditor classes

Legal Hierarchy (+ to -)		Relevance for FinSAC countries	Bail-in feasibility
Ordinary shares	■ To be written off or highly diluted	High	High
Additional Tier 1 instruments	■ Write-off or conversion into shares	Low	High
Tier II bonds and loans and other subordinated loans	■ Write-off or conversion into shares	High	High
Related party deposits and other loans	■ Write-off, as they are usually "insiders" ■ Insolvency ranking may create legal problems if not coordinated with bail-in sequencing	High	High
Other loss-absorbing debt	■ Expected to be used for conversion into shares	Low	Medium
Uninsured deposits and other unsecured liabilities	■ May create contagion and financial stability issues ■ Uninsured deposits may be converted only in extreme cases	High	Low
Insured deposits and secured liabilities	■ Legally excluded from bail-in	High	Not possible (excluded from bail-in)

	Relevance for FinSAC countries	Bail-in feasibility
High	Instruments common in balance sheets of banks in FinSAC client countries	Instruments expected to be always affected by bail-in
Medium	Instruments that most banks in FinSAC client countries hold in their balance sheets	Instruments that are very likely to be affected by bail-in
Low	Instruments that rarely banks in FinSAC client countries hold in their balance sheets	Instruments expected to be affected by bail in only in extraordinary cases

Source: FinSAC

110. **Authorities may need to carefully assess the indirect impact that the use of bail-in powers may have in the real economy through corporate channels.** The unavailability of corporate deposits may hamper business' ability to continue their operations, including paying back their loans, creating systemwide asset quality problems. Some bailed-in creditors may refuse to repay their loans to the bank, believing they are entitled to compensate their claims with their bail-in losses (commingling risk).

111. **Resolution authorities should also consider other implications of bail-in implementation.** In some countries, the write-down of liabilities may be considered taxable income, potentially reducing the amount of capital that can be raised through bail-in. Authorities shall be aware that converting liabilities into newly issued shares will result in a new shareholder structure, with some debtholders suddenly becoming significant shareholders, triggering fit and proper assessments by the supervisors.

Box 8. Bail-in the case of PrivatBank in Ukraine

In December 2016, the Ukrainian authorities decided to nationalize PrivatBank, the largest systemically important institution in Ukraine. At that time, the bank was controlled by two oligarchs and had more than 20 million customers with a market share above 30 percent in retail banking[139] and intermediated more than 50 percent of the country's payment transactions. The bank was considered by the National Bank of Ukraine as following a "vacuum cleaner" business model, using its large retail deposit base to mainly fund the non-financial activities of its owners.

The second National Bank AQR exercise in 2015/2016, together with a comprehensive review of Ukrainian banking sector related party lending, unveiled a large capital shortfall in PrivatBank's balance sheet, after discovering that 97 percent of the corporate loan book involved lending to the bank's related parties and a large amount of theoretically collateralized loans was nonexistent (see **Box 1** for more details). The shortfall was quantified at UAH 148 billion (USD 5.5 billion at the time). Extensive negotiations with the owners to recapitalize and restructure the bank were not successful.[140]

Given the systemic relevance of the bank, the Ukrainian authorities ruled out the liquidation of the bank. Instead, the authorities wrote-off the existing shares, converted certain liabilities into shares, including deposits by related parties and Eurobonds for a total amount of UAH 29.4 billion (USD 1.2 billion at the time), and then transferred the shares to the Ministry of Finance for a symbolic amount (UAH 1). To complete the recapitalization, the Ministry of Finance injected new equity into PrivatBank in February 2017, for an amount of UAH 116.8 billion (USD 4.32 billion at the time).[141, 142]

PrivatBank's case is notable for many reasons. First, it involved the largest systemic bank in the country. Second, the bail-out amounts were above 6 percent of Ukraine's GDP, a huge figure for a single bank and that is indicative of the fraud's massive scale. Third, it was the first case of bail-in of senior unsecured liabilities in Eastern Europe (and one of the first in Europe, after Cyprus in 2013-2014).

The decisions by the Ukrainian authorities included the bail-in, through write-off, of PrivatBank's Eurobonds for an amount of USD 595 million,[143] that had been issued through a special purpose vehicle in the UK. The bonds were subject to UK law, and therefore the decision by the Ukrainian authorities required recognition by the British authorities. The UK Courts upheld the decision of the Ukrainian authorities after the Bank of England recognized the Ukrainian framework for bail-in as broadly comparable in its objectives and anticipated results to those of the UK resolution regime.

139 For more details on the events during 2014-2017 see National Bank of Ukraine's Financial Stability Report, June 2018, page 38, https://bank.gov.ua/admin_uploads/article/FSR5_June_2018_eng.pdf?v=6.

140 Additional details are available in a speech by the former NBU Governor at a joint press briefing with the Minister of Finance (December 2016), https://bank.gov.ua/en/news/all/vistup-golovi-natsionalnogo-banku-valeriyi-gontarevoyi-pid-chas-spilnogo-brifingu-z-ministrom-finansiv-oleksandrom-danilyukom-schodo-perehodu-privatbanku-u-derjavnu-vlasnist.

141 See National Bank of Ukraine's Financial Stability Report, June 2017, page 17, https://bank.gov.ua/admin_uploads/article/FSR3eng_final.pdf?v=6.

142 This was not the last time that the Ukrainian state had to inject additional capital in the bank.

143 See https://bank.gov.ua/en/news/all/povidomlennya-derjatelyam-yevroobligatsiy-privatbanku.

112. **Contingency bail-in plans can be a useful tool (bail-in playbooks).** These plans can outline how and when the bailed-in liabilities will be frozen, how the write-down or the conversion into new shares will be implemented, and how the shares will be delivered to the bank's new shareholders. Plans may also detail the communication and disclosure actions required when exercising these powers. Authorities can require firms, as part of the resolution planning process, to develop bail-in playbooks, as many of the actions required to operationalize bail-in powers can be instrumented through the failed institution.

113. **Authorities can develop contingency arrangements for dealing with third-party independent valuers.** The independent valuation will inform the losses and the extent of the recapitalization, which in turn are key inputs to determining the scope and extent of the exercise of the bail-in powers. As explained in Section 5.3, the valuation process is complex, requiring extensive preparations both by the authorities and by the valuers themselves. Contingency arrangements can decisively contribute to the success of the process, with authorities implementing procedures to ensure the prior shortlisting of valuers who are independent, possess the required professional capabilities, and can fully access the documentation required for the valuation.

5.6. THE NEED FOR PUBLIC BACKSTOPS

114. **In systemic scenarios, taxpayer money may need to be deployed as a last resort to safeguard a country's financial stability.** In cases of insufficient loss-absorbency capacity or pre-funded industry funds, the existence of public backstops is key. Even before the diagnosis of the banking sector, authorities may decide to earmark backstops to cover potential capital shortfalls and, if applicable, resolution costs. However, not all countries may favor use of public funds to support the banking industry, especially in overindebted sovereigns or those with no market access. For these scenarios, capital controls may be required (see Section 5.8 and **Box 10** for more details).

115. **Public support can be instrumented through different mechanisms, depending on the nature of the crisis, and they are usually combined.** Equity injections are indicated for solvency problems, resulting in the partial or total nationalization of the bank. Subordinated loans or other capital instruments may be adequate when solvency problems are perceived as transitory. Asset purchases, usually through a public-funded AMC, may be useful in cases where uncertainties on valuation of certain assets can curtail banks' access to financing. Guarantees to liabilities may also facilitate banks' access to finance, either to the central bank facilities or to private funding markets.

116. **Taxpayers' funds should only be used as a last resort, where financial stability is at risk, and subject to appropriate safeguards, that are summarized below:**

a. **Burden sharing.** Before injecting public funds, shareholders and certain creditors should have absorbed losses and, where applicable, contributed to the recapitalization of the bank (included but not limited to subordinated debtholders and related party creditors). Other creditors' contributions should be maximized (e.g., senior unsecured creditors) if it does not endanger financial stability or otherwise hamper the resolution of the bank. See Section 5.4 for more details.

b. **Recovery mechanisms should be clear from the outset.** Depending on the nature of the support, the reimbursement mechanism may differ. An investment in shares or in other capital instruments is expected to be recovered by their remuneration (through dividends or interest) and ultimately by selling the capital investments to a third party (or by being bought back by the bank, if the solvency of the entity allows it). If the state intervention consists of purchasing nonperforming assets from banks, the state may recover them through their work out or sale, usually by setting up a public AMC (see Section 5.7 and **Annex 1**). Guarantees on liabilities may need to be properly remunerated, and, in case of calling them, the insolvency ranking shall be stated in the guarantee. If the state decides to extend loans (including subordinated debt) to the bank, the recovery should be made through interest payments and ultimately their repayment.

c. **Governments should put in place structures to ensure that the resulting ownership rights are exercised at arm's length.** A partial or full nationalization of a bank should be temporary. Firms must be returned to private hands as soon as market conditions allow.[144] Authorities should avoid using state-owned banks as development institutions. When a bank is state-owned, authorities may introduce measures to mitigate the risk of public interference into bank's affairs. The minister of finance may appoint independent directors to the bank's board and avoid any direct role in the decision-making of the bank, giving only high-level instructions on the management of its shareholding (e.g., approval of the strategy). Holding the shares through a specialized agency separated from the minister of finance, managed by independent professionals can increase the operational autonomy of the nationalized bank.[145] Central banks are ill-placed to become shareholders of a nationalized bank, since this situation can create conflicts of interests with their banking supervision and price stability functions.[146]

d. **To pave the way for privatization, the bank's new directors and managers should prepare a restructuring plan.** The plan should identify the root causes of failure and identify the measures that need to be implemented to ensure the long-term financial sustainability of the bank. The execution of a restructuring plan effectively operates as a blueprint for a later privatization and should include financial, commercial, and managerial measures to quickly turnaround the business of the bank. The plan may foresee the wind down or sale of loss-making and/or non-core parts of the business, streamlining the firm's governance and risk management structures, or cutting costs or increasing revenues through commercial plans. Financial measures may seek to strengthen the balance sheet position through de-risking, limiting risk-weighted assets growth, or increasing the bank's deposit base.

5.7. DEALING WITH ASSET QUALITY

117. **Doubts over the quality of banks' assets may hamper the resolution of troubled banks.** During crises, recapitalization may not be enough for a bank to be able to fund its assets as uncertainty on the performance of large portfolios may persist. In these cases, investors and depositors may be reluctant to finance the bank until the doubts over the valuation of those assets are lifted.[147] Beyond the mechanisms to underpin the failed banks' liquidity (discussed in Section 5.8), removing the uncertainty surrounding the valuation of problematic portfolios can be key to facilitate banks' funding. After the losses were unveiled by the AQR, different mechanisms can be used to remove the uncertainty from banks' balance sheets. Assets can be written down (triggering capital needs), transferred to an AMC (usually a contentious and complex option), or be guaranteed through loss sharing agreements provided by either an industry fund or the ministry of finance.

144 Admittedly, this period can be very long. For example, in the UK the divestment of shares of the Royal Bank of Scotland (now NatWest) is still not fully executed in 2024, more than a decade after the investment. In Ukraine, UkrgazBank was nationalized in 2009 and continues to be state-owned, as also happened with PrivatBank. In Russia, all banks nationalized during the last crisis (Bank Otkritie, etc.) continue to be state-owned.

145 For example, the UK Financial Investments Limited, which in 2018 was folded into UK Government Investments. See "UK Government Investments Limited Annual Report and Accounts 2017-18", page 8 https://www.ukgi.org.uk/2018/07/05/uk-government-investments-annual-report-and-accounts-2017-18/.

146 See Box 2 for an explanation of Central Bank of Russia's ownership of nationalized banks under the Banking Sector Consolidation Fund. The National Bank of the Kyrgyz Republic ownership of Keremet Bank (formerly, Rosin Bank) is also an example.

147 This lack of trust is not without reason. There are many examples of banks that were recapitalized or restructured several times, each time the authorities claimed it was the final one. See the case of Bankia and several other savings banks in Spain, or Irish, Greek, and Cypriot banks during the GFC and the eurozone debt crisis.

Figure 15. Options for dealing with bad assets in bank resolution

Resolution type	Option	Sub-option	Implications
Transfer-based resolution	Bad assets not transferred (staying in the rump)		■ The bad assets are liquidated / be part of the bankruptcy state. The recoveries go typically to the shareholders and creditors in the insolvent bank ■ Widens the negative gap between assets and liabilities, increasing the need for resolution funding ■ Can be value-destructive, and demands specialized management to asset workout
Transfer to a third party (share deal / asset deal) Transfer to a bridge bank	Transferring the bad assets to the acquirer	At market value	■ The acquirer may attach a very low value to the assets, widening the negative gap between the assets and liabilities and amplifying the need for resolution funding ■ The acquirer/bridge bank can leverage its management capabilities to work out the assets
		With an asset protection scheme / loss-sharing agreement	■ Assets transferred to the recipient / acquirer, with a scheme protecting the acquirer in case of losses ■ The assets can be transferred at a higher value, narrowing the negative gap between transferred assets and liabilities, curtailing the need for frontloading resolution funding ■ The acquirer/bridge bank can leverage its management capabilities to work out the assets
	Transferring the bad assets to an AMC		■ Assets to be transferred to either a systemic or bank-specific AMC ■ Assets transferred above their market value (usually, long-term economic value) which narrows the negative gap between assets and liabilities ■ Large funding needs to purchase the assets (usually covered by public funding) ■ Need to establish asset workout capabilities
Open Bank resolution	Assets retained by the failed bank	Maintaining the bad assets in the balance sheet	■ The assets continue to be managed by the failed bank, that can leverage its workout capabilities ■ Uncertainty in the asset valuation can negatively affect banks' funding capacity, if assets are booked above their market value ■ If they are booked at stressed market values, loss absorption would increase, amplifying bail in or bail out needs
		Synthetic Asset Protection Scheme	■ The assets continue to be managed by the failed bank, that can leverage its workout capabilities ■ The bank does not need to write down the value of the assets, mitigating the needs for bail in or bail out amounts ■ The uncertainty over the bad assets' valuation is removed, as trust in the bank may be recovered by funding providers ■ Need an upfront rigorous estimation of losses
	Transferring the bad assets to an AMC		■ Assets to be transferred to either a systemic or bank-specific AMC ■ Assets transferred above their market value (usually, long-term economic value) which narrows the negative gap between assets and liabilities ■ Large funding needs to purchase the assets (usually covered by public funding) ■ Need to establish asset workout capabilities

Source: FinSAC

118. **Using loss-sharing agreements in open bank resolution has several advantages.** The guarantees can decrease banks' capital requirements and the need for new loan loss provisions. The beneficiary bank's funding position will expectedly improve as funding providers would be reassured by the effects of the guarantee on bank solvency, as losses would be transferred to the guarantor.

119. **Most of the critical aspects already discussed for loss sharing arrangements in transfers are also relevant for these guarantees.** In addition to what has already been said in Section 5.5 (definition of the scope, incentives, loss definition, authorizations by the guarantor, etc.), it is key that contracts include specific incentives that encourage the early termination of the arrangement by the beneficiary bank. Unlike those used in transfers, guarantees may be remunerated at a level that incentivizes its early cancellation. Additional restrictions can apply to the beneficiary until the guarantee is terminated (i.e., asset caps, limits of the interest rate paid on deposits, ban on acquisitions, etc.). The guarantee should not include any early termination penalty for the beneficiary bank. Experience shows that if these incentives are well structured, beneficiary banks may be interested in terminating as soon as their situation improves. During the GFC, these schemes were used to provide protection to systemic banks in the US and UK for large asset portfolios,[148] and more recently for Nord LB.[149] **Figure 16** outlines the key features for loss sharing agreements granted in open bank transactions. There are no relevant cases in FinSAC client countries.

Figure 16. Selected asset protection schemes/loss sharing agreements in open bank transactions

Year	Type of resolution	Failed bank	Beneficiary bank	Guarantee provider	Covered amount	Costs to beneficiary bank	Duration / maturity	Type of portfolio
				GERMANY				
2019	Open Bank assistance	Nord LB	Nord LB	State of Lower Saxony	EUR 3,650 millions*	EUR 13.9 millions in 2019**	31 December 2024 (extendable)†††††	Ship and Aircraft Customers loan portfolios
				USA				
2009	Open Bank assistance	BofA	BofA	FDIC***	USD 130,843 millions	50 basis points**** 75 basis points***** 100 basis points†	Earlier between maturity and June 30, 2012	Debt issued between 14 October 2008 and 30 June 2009
2008	Open Bank assistance	Citi	Citi	FDIC***	USD 175,904 millions	50 basis points**** 75 basis points***** 100 basis points†	Earlier between maturity and June 30, 2012	Debt issued between 14 October 2008 and 30 June 2009

148 See the case of Citigroup and Bank of America in the US, and of Royal Bank of Scotland and Lloyds Banking Group in the UK.

149 For Nord LB, the State of Lower Saxony provided asset guarantees for 3 portfolios in 2019: (i) maritime-linked NPL assets, (ii) performing shipping loans, and (iii) aviation finance. Moreover, the State of Lower Saxony, together with other public shareholders, recapitalized the bank.

Year	Type of reso-lution	Failed bank	Bene-ficiary bank	Gua-rantee provider	Covered amount	Costs to beneficiary bank	Duration / maturity	Type of portfolio
				UK				
2009	Open Bank assis-tance	Lloyd's	Lloyd's	Treasury (Asset Prote-ction Agency)	N/A	GBP 2,500 millions[††]	N/A	N/A
2009	Open Bank assis-tance	RBS	RBS	Treasury (Asset Prote-ction Agency)	90% of GBP 222 billions[†††]	Years 1-3: GBP 700 millions/year Thereafter: GBP 500 millions/year	Unlimited[††††]	Troubled assets amounting GBP 282,000 millions

APS: Asset Protection Scheme.
[*] EUR 1,850 million corresponding to Aircraft Customers segment and EUR 1,800 million corresponding to ship finance portfolio.
[**] Estimation of EUR 340.2 million for 2020 (as a whole year of the guarantees received).
[***] Under the Temporary Liquidity Guarantee Program (TLGP).
[****] Maturity up to 180 days.
[*****] Maturity from 181 to 364 days.
[†] Maturity up from 365 days.
[††] Lloyd's rejected to participate before the APS started and was charged with GBP 2,500 million exit fee (for implicit support during the period of negotiations).
[†††] RBS retained the first GBP 60 billion of losses and the residual 10% of all further losses of a portfolio amounting GBP 282 billion. No losses were face by the Asset Protection Agency.
[††††] RBS left the scheme on 18 October 2012.
[†††††] By the end of 2022, and following the exercised extension option by Nord LB, so these contracts now have a term until 31 December 2028.

Source: FinSAC with information from NORD/LB; the Federal Deposit Insurance Corporation from the US; Asset Protection Agency (UK); Her Majesty's Treasury (UK); Bank of England; and European Commission

120. **An AMC may be set up to acquire bad or toxic assets from troubled banks, but this raises significant challenges.** An AMC may be used for an individual bank failure but is more common in a systemic context. When certain loan or asset portfolios simultaneously affect several firms in the same country, undermining trust in the banking sector, authorities may decide to set up an AMC to buy these assets from the banks and remove the uncertainties affecting them.

121. **There are several key considerations for authorities before setting up an AMC.** First, the scope of transferred assets, ideally this should only include those responsible for mistrust in the banking sector. Second, which banks should transfer covered assets to the AMC; from a cost-benefit consideration, it is recommended that only banks that are non-viable (or in danger of becoming non-viable) are forced to accept public support. Third, transfer prices should be transparent, soundly calculated, and subject to independent review. While assets may be priced above their market values (expected to be deeply distressed), they should not be set at or close to nominal or book values, as that may result in a free equity contribution for the beneficiary banks. Fourth, the funding structure of the AMC is key. Decisions shall be made on the equity and debt structure, considering the financial sustainability of the AMC by realistically projecting the AMC's expected cash flows and their debt-shouldering capacity. In most cases, AMC capital is provided by the state, at least partially. Fifth, a sunset clause is essential to signal that AMCs should not perpetuate in the system, albeit the deadline

for liquidation should be considerably longer than in the case of bridge banks. Sixth, the AMC should be subject to a strong regulatory framework for corporate governance, risk management, disclosure, and accounting. Some countries have gone as far as subjecting AMCs to prudential supervision.

122. **Besides removing uncertainty from the banking sector, AMCs can bring further advantages.** By transferring the assets to the AMC, bankers may refocus on growing their profitable business. Moreover, if AMCs purchase assets from several firms, they may be able to leverage their capacities to work out loans and borrowers, particularly for large borrowers. AMCs can also be instrumental in kickstarting the secondary market for NPLs in the country, since they will be expected to divest through asset sales.

123. **No FinSAC client country has experience of setting up an AMC.** It could be challenging for some FinSAC client countries as AMCs demand significant financial and managerial resources, which cannot be taken for granted in small countries with sovereigns with limited access to capital markets.[150] Nonetheless, comparable countries (e.g., Kazakhstan and Slovenia) have established systemwide AMCs in the last decade. The Central Bank of Russia established one subsidiary of one resolved bank to acquire the toxic assets of all the resolved banks (National Bank Trust).[151] Moreover, a state-owned non-banking institution devoted to agricultural credit (Aqrarkredit) was used in 2015-2016 to transfer the toxic assets in the restructuring of the ABB,[152] becoming a de facto bad bank. **Box 9** explains the Kazakh and Slovenian AMCs. See **Annex 1** for more details.

124. **Authorities in FinSAC client countries should be aware of the complexities involved in setting up these structures.** Setting up an AMC may seem a quick and relatively seamless mechanism to relieve asset quality, capital, and even liquidity pressures from the banking system during crisis situations. Authorities may also attach value to the extended period they will have for the orderly sale of the acquired assets, avoiding distressed sales that can further depress the value of the transferred assets. But experience advises caution. The inherent challenges related to AMC must not be underestimated: ensuring its sound governance, determining the long-term economic value when setting the transfer price or raising the funding for acquiring the assets. Moreover, while establishing an AMC may be relatively quick; winding it down may take decades. Therefore, FinSAC client countries should only consider setting up these structures in very extraordinary circumstances, as a last resort to remove systemwide asset quality pressures.

Box 9. AMCs in selected countries

Slovenia: Bank Assets Management Company[153]

Due to the deteriorating situation in the banking sector caused by several years of economic recession, and with the aim of ensuring financial stability, the Slovenian Government established the Bank Assets Management Company (BAMC) at the end of 2012.[154]

The BAMC's key function was to reinforce certain systemic banks by acquiring toxic assets from them, mainly NPLs to corporates and SMEs, with a view to maximizing their recoveries through intensive work out activities.

During the second half of 2013, the Bank of Slovenia conducted an AQR and a stress test of the largest banks.[155] The exercise involved third parties, including

150 With some exceptions. Ukraine and Uzbekistan are large countries with sizable financial sectors.

151 Two more resolved banks (Rost Bank and AVB Bank) were also merged into National Bank Trust. Additional information on the process can be found in sections 1.1, 1.3 and 1.8 of the National Bank Trust's Annual Report for 2018 (in Russian) https://www.trust.ru/upload/iblock/23a/%D0%9E%D1%82%D1%87%D0%B5%D1%82%20%D0%B1%D0%B0%D0%BD%D0%BA%D0%B0%20%D0%B7%D0%B0%202018%20%D0%B3%D0%BE%D0%B4.pdf.

152 See Box 5 for more details on the transfer of assets from the ABB to Aqrarkredit.

153 In Slovenian: Družba za upravljanje terjatev bank, d. d.

154 Official Gazette of the Republic of Slovenia, No 105/12.

155 Ten banks and banking groups representing approximately 70 percent of the Slovenian banking system.

international consultants and real estate appraisers. Besides covering capital shortfalls, the exercise aimed to facilitate the transfer of deteriorated assets by weak banks to the BAMC. Four large, systemic banks[156] transferred their toxic assets to the BAMC in 2013 and 2014. Transfer prices were based on assets' economic long-term value, estimated at EUR 1,527 million implying close to 70 percent haircut on the assets' nominal value. The consideration in exchange of the assets was paid by the BAMC in both cash and sovereign-guaranteed bonds. In 2016, two more banks[157] transferred their deteriorated assets to the BAMC.

The BAMC focused on maximizing recoveries from the transferred assets. Slovenia decided to close the BAMC by the end of 2022, transferring all its residual assets and liabilities to the Slovenian Sovereign Holding, which assumed management of the assets.

Kazakhstan: Problem Loans Fund

During the GFC, the Kazakh economy suffered a sharp recession. The challenging economic situation was exacerbated by poor governance and risk management practices in the Kazakh banking sector. Many banks suffered from poor profitability, weak capital positions, liquidity shortages, and a large stock of NPLs, that peaked above 20 percent in 2010[158] and remained at very high levels in the following years.

As part of the Post-Crisis Recovery Program, the Problem Loans Fund (PLF) was set up in 2012 by the National Bank of Kazakhstan[159] to assist banks reducing NPLs on their balance sheets. In a multi-pronged effort to deal with asset quality problems, banks were also permitted to establish subsidiaries into which they could transfer the troubled assets from their balance sheets.

The PLF acquired non-performing assets from commercial banks, with a view to managing them and maximizing their recoveries. To this end, the PLF issued bonds to fund the acquisition of the assets. Crucially, the loans were purchased at nominal values. From 2012 to 2017, the PLF was managed by the National Bank of Kazakhstan. In 2017, the Fund management was transferred to the Ministry of Finance.

From 2017, the PLF undertook several transactions, including the purchase in July 2017 of 59 percent of the loan portfolio of Kazkommertzbank (see **Box 7**), a systemic bank, for an amount above KZT 2 trillion (USD 6.1 billion at that time).[160] The PLF also facilitated the liquidation of the Bank of Astana in 2018[161] by receiving assets in the amount of KZT 126.4 billion (USD 366 million), as well as obligations in the amount of KZT 100.1 billion (USD 290 million); and purchased a large portfolio of agricultural loans from Tsesnabank for an amount of KZT 1.054 trillion (USD 2.837 billion) in two stages between September 2018 and February 2019.[162]

156 NLB, NKBM, Abanka, and Banka Celje.

157 Probanka and Faktor Banka.

158 World Bank, Bank nonperforming loans to total gross loans (%) – Kazakhstan, https://data.worldbank.org/indicator/FB.AST.NPER.ZS?end=2020&locations=KZ&start=2008&view=chart.

159 Resolution of the Board of the National Bank of the Republic of Kazakhstan dated May 30, 2011, No. 53 "On the Establishment of the Joint-Stock Company "Problem Credit Fund"".

160 Strategy 2017-2027 of the PLF, December 2020 and changes in November 2021 and September 2022, pages 13-14 (in Russian), https://www.fpl.kz/media/file/strategy-2017-2027.pdf

161 Strategy 2017-2027 of the PLF, December 2020 and changes in November 2021 and September 2022, pages 14-15 (in Russian), https://www.fpl.kz/media/file/strategy-2017-2027.pdf

162 Strategy 2017-2027 of the PLF, December 2020 and changes in November 2021 and September 2022, page 15 (in Russian), https://www.fpl.kz/media/file/strategy-2017-2027.pdf

5.8. FUNDING IN RESOLUTION

125. **A failed firm's recapitalization may not be enough to ensure its continuous access to funding, as investors' trust may need to be won back.** In transfer transactions to third-parties, funding gaps are expected to be covered by the acquirer. But in open bank bail-in resolutions and transfers to bridge banks there is no acquirer to support the failed bank's assets. In these cases, the bank's funding providers may not be fully reassured by the recapitalization of the bank and doubts over its performance may persist, especially in the period following the bank resolution. A recapitalized bank may still have (potentially large) funding needs, that industry arrangements are unlikely to have the financial capacity to cover. Central banks are usually in the best position to provide liquidity during banking crises. ELA or other lender of last resort facilities can be key mechanisms to provide funding to banks heading towards or in resolution.

126. **The possibility of providing ELA to a bank under resolution might be hampered by a strict interpretation of the traditional requirements of these liquidity facilities.** Under Bagehot principles, ELA may only be provided to solvent yet illiquid institutions against sufficient collateral. But when a bank has entered resolution, it is precisely due its non-viability. And a non-viable bank is unlikely to have liquid collateral. It may therefore be difficult for a central bank to provide liquidity through ELA or another special facility to a bank under resolution.

127. **An ELA regime may need to be fine-tuned to ensure that it can be used to provide liquidity to banks in open bank resolution or to bridge banks.** The traditional solvency requirement, measured as a static compliance with minimum capital requirements, can be complemented with a forward-looking perspective, using instead the concept of viability. A bank undergoing open bank resolution procedures may be identified as viable, and therefore creditworthy, if there is a credible recapitalization plan that reasonably ensures the turnaround of the bank in a relatively short timeframe.[163] As central banks are commonly also bank supervisors and resolution authorities, they are likely to have first-hand information on the recapitalization plans of a failed bank. Conversely, a bank that meets its statutory minimum capital requirements may not be viable if expected future losses are likely to result in capital breaches in the foreseeable future, and therefore the bank may not have a viable business model. Some FinSAC client countries have started to adapt their ELA frameworks to the concept of viability (e.g., National Bank of Moldova,[164] National Bank of Georgia[165]), although practices are at a relatively early stage.

128. **Central banks may need to widen the definition of eligible collateral.** Central banks may accept non-liquid assets, such as performing loan portfolios, if they are subject to comprehensive due diligence and appropriate valuation adjustments. In FinSAC client countries, limited asset encumbrance and secured finance can facilitate pledging loan portfolios to the central banks. Nonetheless, central banks would need to implement mechanisms for estimating collateral values, and engage in operational preparations with banks, to ensure that firms have the documentation and data ready to access the facility.

129. **Where banks do not have sufficient available collateral, guarantees may be required.** Countries need to examine the mechanisms to facilitate troubled banks' access to central bank funding in cases where viable firms run out of eligible collateral. Even when industry arrangements, such as resolution funds, can extend guarantees, in extraordinary circumstances public guarantees may be the only mechanism to enable banks' access to central bank funding.

130. **Some FinSAC client countries face idiosyncratic challenges when defining their ELA frameworks.** Many financial systems are highly dollarized (or euroized), as a large share of the banks' liabilities are denominated in foreign currency. Kosovo and Montenegro do not have an independent currency. BiH has its currency pegged to the euro and the

163 The European Central Bank Agreement on emergency liquidity assessment establishes that a bank that does not meet its solvency requirements can be considered equally solvent if it has defined a credible recapitalization plan in a maximum of 24 weeks. See section 4.1 of the Agreement published in November 2020, URL: https://www.ecb.europa.eu/mopo/ela/html/index.en.html.

164 See paragraph 25 of the National Bank of Moldova's Decision "On the approval of the Regulation on Emergency Liquidity Assistance". URL: https://www.bnm.md/en/content/regulation-emergency-liquidity-assistance-approved-decision-executive-board-national-bank.

165 See article 33, paragraph 3, point (c) of the Organic Law of Georgia on the National Bank of Georgia.

Central Bank of BiH is legally banned from lending to commercial banks.[166] In dollarized financial systems, scarcity of foreign currency is likely to be a key driver of the banking system liquidity needs. Central banks in the region may resort to currency swaps or liquidity lines with other central banks to cover for foreign currency shortages.

131. **Moratoria regimes can buy authorities time in certain cases.** Authorities may decide to impose a moratorium on certain liabilities, particularly on deposits, for a short period of time (e.g., 48 hours) while authorities are arranging the resolution schedule. This type of moratorium should be very limited in time and as limited as possible in scope, as it runs the risks of amplifying liquidity risks for the troubled firm. Any decision on imposing a moratorium should be carefully communicated to the public, clearly stating its contents, the reasons behind it, and declaring that whereas it is of a temporary nature, its restrictions will only be progressively lifted once the reasons behind its imposition gradually disappear.

132. **Nonetheless, systemic crises may demand more drastic measures.** During systemic banking crises, distrust may affect most banks and authorities may be forced to resort to more extreme actions. Blanket deposit guarantees can signal that no depositor will be expected to make any losses, primarily to stem any deposit outflows. They need to be weighed against its credibility, as the sovereign may need to step in if the guarantees are finally called. The use of blanket guarantees has been relatively infrequent in FinSAC client and other ECA countries.[167]

133. **Capital controls may be the last resort in cases where trust in the system has been lost.** Capital controls can be adopted to limit depositors' capacity to transfer funds out of the banking system: cash withdrawals and money transfers (especially abroad) might be subject to limitations or ex-ante controls to avoid the systemic insolvency of the banking system. Experience suggests that, once imposed, capital controls may remain in force for lengthy periods and are lifted only slowly as confidence is regained. **Box 10** summarizes capital controls introduced by the Ukrainian authorities in 2014.

Box 10. Capital controls used by Ukrainian authorities in 2014[168]

Severe distrust in the banking sector triggered large deposit outflows for Ukrainian financial institutions during 2013 and 2014. To mitigate systemwide liquidity risks, Ukrainian authorities gradually introduced restrictions on capital controls from February 2014, which were further tightened during 2014 and 2015. The restrictions were gradually lifted but were in place until August 2017. The key restrictions for Ukrainian residents were:

- Limits in their cash withdrawals in foreign currency from current and deposit accounts to the foreign currency equivalent of UAH 15,000 daily (around EUR 1,200 at the time). The limit was progressively relaxed several times (UAH 20,000 in September 2015, UAH 50,000 by end 2015, UAH 100,000 in June 2016, and UAH 250,000 in September 2016), until it was abolished in August 2017.

166 As stated in Chapter X, Article 67 paragraph 1, of the Law on the Central Bank of Bosnia and Herzegovina. URL: https://www.cbbh.ba/Content/Read/14

167 Azerbaijan introduced a three-year blanket guarantee in 2016 that was extended three times until April 2021, when it finally expired (see https://www.cbar.az/press-release-2835/on-improving-deposit-insurance-framework?language=en). Belarus continues to have a blanket guarantee for deposits of individuals (see article 8 of the Law No. 369-Z of July 2008 "On Guaranteed Compensation of Bank Deposits of individuals" (in Russian), URL: http://en.adc.by/zakonodatelstvo/law%20369-3.pdf).

168 See the initial restrictions Resolution NBU 27.02.2014 No. 104 amend. NBU 06.02.2014 No. 49: https://bank.gov.ua/ua/news/all/pro-zahodi-schodo-zabezpechennya-rivnovagi-na-valyutnomu-rinku. They were relaxed several times, for example, in 2016 https://bank.gov.ua/ua/news/all/natsionalniy-bank-pomyakshuye-timchasovi-obmejennya-na-valyutnomu-rinku. In 2017 the restrictions were lifted altogether for individuals https://bank.gov.ua/ua/news/all/natsionalniy-bank-skasovuye-ostanni-obmejennya-na-vidachu-koshtiv-z-bankivskih-rahunkiv.

- Restrictions on cash withdrawals of domestic currency of UAH 150,000 per day per client from May 2014 (again, later relaxed and lifted in June 2016).
- Limits on transfers in foreign currency abroad to the equivalent of UAH 15,000 per month without supporting documents and UAH 150,000 with supporting documents, but they were only imposed for a limited period.
- Limits on early repayment of loans in foreign currency to non-residents.

Non-residents also faced restrictions in transfers of foreign currency outside Ukraine (UAH 15,000 per month) with supporting documents, albeit exemptions applied. Restrictions also affected legal entities and banks.

This case exemplifies that, once capital controls are introduced, they tend to be long-lasting and can only be gradually lifted as they depend on trust in the credibility of the financial system being won back. Similar examples can be found in Cyprus, linked to deposit bail-in of the banking sector (2013), and in Iceland, following its massive banking crisis (2009).

New, far-reaching restrictions were introduced by the Ukrainian authorities following Russia's invasion of Ukraine on 24 February 2022.[169] Since their adoption, the National Bank has adjusted them many times to ensure they remain suitable for the evolving situation.

5.9. THE NEED FOR DOMESTIC AND CROSS-BORDER COORDINATION

134. **The management of a crisis in FinSAC client countries is likely to require significant cross-border coordination, as seen during the Sberbank case.** As noted earlier, many local subsidiaries of foreign banking groups are relevant players across the region. Therefore, a solvency or liquidity banking crisis may involve the participation of foreign parent entities as, following measures taken by local subsidiaries, banks may resort to group financial support to overcome their troubles. This situation underlines the coordination needs amongst home supervision and resolution authorities, both during normal and crisis situations.

135. **FinSAC client countries have mainly a small host perspective.** Some FinSAC client countries face the well-known "small host problem": while their local subsidiaries may be relevant (even systemically important) for the host country, they may be individually meaningless in the context of the banking group to which they belong. Therefore, home authorities do not have strong incentives to closely coordinate with small hosts. Home authorities may not invite host authorities to colleges, and small hosts may receive proportionately less information than other host authorities. Against this backdrop, it is important for FinSAC authorities to actively demand attention from home authorities.

136. **Cross-border coordination can be streamlined through several mechanisms.** First, authorities may require that banks include the group dimension in both recovery and resolution plans, by describing how coordination between the group and the local subsidiary may be conducted during crisis times, or the conditions under which group financial support may be provided. Second, authorities in FinSAC client countries may sign or update memoranda of understanding and other coordination arrangements with the relevant home authorities to ensure their applicability under newly introduced resolution regimes. Third, authorities should make efforts to participate in regular coordination and cooperation exercises, for example by joining supervisory and resolution colleges organized by home authorities or by participating, whenever possible, in cross-border crisis simulation exercises.

169 See the Resolution number 18 of the National Bank of Ukraine. URL: https://bank.gov.ua/en/legislation/Resolution_24022022_18

137. **Moreover, lateral coordination between host authorities should be considered.** The presence of banking groups with subsidiaries in several FinSAC client countries suggests possible coordination of actions between host authorities. The failures of Hypo Alpe Adria (2013-2014)[170] and Sberbank (2022), evidence that subsidiaries belonging to the same group can fail simultaneously, even if the subsidiaries operate locally and have different products, clients, and funding sources. Authorities in FinSAC client countries should seek to prepare for these types of crises by cooperating and coordinating between themselves in normal times.

138. **As already mentioned, public funding cannot be fully ruled out in a systemic crisis scenario.** A lack of better alternatives may prompt authorities to inject public money in banks. In this scenario, close cooperation with the ministry of finance is essential for the effective resolution of the crisis. Regular cooperation and coordination arrangements should be established in normal times to facilitate common understanding of the implications of a systemic crisis, the role of the ministry of finance in that situation, and the conditions under which its intervention may be conducted. Planning for coordination of authorities' activities during crisis times may also involve the deposit guarantee fund.

139. **FinSAC client countries should implement effective domestic cooperation and coordination arrangements for both normal and crisis times.** Most FinSAC client countries have already set up financial stability committees, where domestic authorities with financial stability responsibilities (typically, central banks, ministries of finance, banking supervisors, resolution authorities, market and insurance supervisors, and deposit insurance agencies) regularly share information and engage in common activities for ensuring crisis management readiness and preparedness.

170 See the "The Facts about Hypo Alpe Adria" prepared in April 2016 by the Financial Market Authority (FMA) and the Osterreichische Nationalbank (OeNB), URL: https://www.fma.gv.at/en/the-facts-about-hypo-alpe-adria/.

6. RECOMMENDATIONS

140. As a result of reforms introduced during the last decade, banking sectors in FinSAC client countries have increased their resilience against financial stress. Reforms have strengthened the prudential requirements, tightened the governance and risk management standards, and introduced new frameworks for dealing with weak banks. As a result, banks' profitability, capital adequacy, asset quality, and liquidity have improved.

141. However, this must not encourage complacency. Banking failures are costly affairs and usually result in large economic and fiscal costs for countries. The numerous banking crises in recent years, including the market turbulence in March 2023, are a clear reminder to remain vigilant.

142. The following recommendations are addressed to policymakers, central banks, supervisory and resolution authorities, and banks alike. Although many FinSAC client countries share some common features, every country is unique, and therefore the responses to any crisis should always be country specific. Therefore, not all our recommendations would be relevant for all countries. Policymakers, central banks, authorities, and banks are advised to assess the suitability of the recommendations to the context of their countries.

Recovery and resolution planning

Banks and resolution authorities should step up their efforts in recovery and resolution planning. Through recovery planning, banks can regularly test the effectiveness of their crisis management arrangements using dry runs and simulation exercises. Supervisors can make further efforts to integrate their assessment of recovery plans into their overall supervisory framework through the assessment of banks' recovery capacity. In case of foreign-owned banks a thorough assessment of the parent company's willingness and capacity to support the bank may be required.

On resolution plans, after identifying the preferred resolution strategies, authorities should seek to involve banks in facilitating their resolvability, by issuing standards and regularly engaging with banks.

During resolution planning, authorities should focus on the operational steps for implementing the key resolution tools, particularly on transfer strategies. Authorities should closely involve banks in these processes, as the execution of the resolution tools would require their participation. Moreover, authorities should consider "hybrid resolution powers" in their resolution plans, where bail-in powers are used to support the transfer of the failed bank to a third party.

Considering the high level of foreign ownership in many countries in the region, and the underdeveloped nature of the region's financial markets, authorities can request banks to have loss-absorbing debt prepositioned by their parent companies.

When legally possible, resolution authorities should enter into stand-by agreements with valuers and other third parties, to avoid publicizing the contracts in times of crisis.

Enhanced resolution regimes

If not already in place, FinSAC client countries should renew their efforts to introduce and implement a new FSB Key Attributes-based resolution framework. Setting up resolution authorities, conferred with broad resolution powers, can be instrumental in facilitating a failed bank's orderly exit from the market, using either closed or open bank resolutions.

Countries need to consider their burden sharing models for dealing with banking crises. In open bank resolutions, authorities should implement policies supporting the funding sources for absorbing losses and recapitalizing failed banks, including by considering the possibility of introducing minimum loss-absorbing requirements and setting up and financing resolution funds. For closed bank resolutions, authorities should consider the possibility of requesting contributions from the deposit insurance fund to top up the shortage of assets that is likely to arise in any resolution scenario.

Effective lender of last resort function, including in resolution

Most central banks in FinSAC client countries need to upgrade their ELA frameworks. First, central banks in the region should coordinate their exceptional liquidity arrangements with the new bank resolution framework. Second, central banks in highly dollarized economies need to consider how they may provide liquidity in foreign currency by, for example, entering into swap agreements with other central banks. Third, central banks should also operationalize their capabilities to provide liquidity against a broader range of high-quality collateral, including by improving their data processing and valuation capabilities.

Preparedness for systemic crises

Authorities should improve their capabilities to address systemic crises. Authorities in FinSAC client countries should engage in resolution simulation exercises, either domestic or cross-border. The exercises should include the active participation of all relevant authorities (e.g., central bank, banking supervisor, resolution authority, ministry of finance, deposit insurance agency, market supervisor, etc.).

Small host FinSAC client countries should step up their efforts in cross-border coordination and cooperation. As small hosts may not receive much attention from home authorities, FinSAC small hosts should continue to actively seek to participate in supervisory and resolution colleges, and engage on bilateral coordination, not only with home authorities, but also with other hosts (lateral coordination).

Contingency plans are key. National authorities need to understand the type of actions they may need to take during a systemic banking crisis. These discussions can be held in the countries' financial stability committees or similar fora. Authorities may explore the nature and requirements of systemwide diagnostics, the specificities of public support frameworks, the mechanisms for avoiding liquidity outflows in extreme scenarios, and the options for dealing with a potential large stock of non-performing assets.

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ANNEX 1. SUMMARY OF ASSET MANAGEMENT COMPANIES IN ECA

Section 5.7 of the document considers the use of AMCs to acquire bad or toxic assets from troubled banks. This annex outlines some recent examples of the use of AMCs in countries in the ECA region.

Figure 17. Selected Asset Management Companies

	Azerbaijan	Kazakhstan	Russia		Slovenia
FinSAC client	✓				
Asset Management Company	Aqrarkredit	Problem Loans Fund	National Bank Trust	Closed-end Mixed Unit Investment Fund Spetsialny	Bank Assets Management Company
Ownership structure	State-owned	State-owned	State-owned[171]	State-owned	State-owned
Type of institution	Non-banking state-owned financial organization	Ad hoc company	Nationalized bank in 2017	Ad hoc company	Ad hoc company
Year of establishment	1987,[172] 2015 as AMC	2012	1995	2018	2012
Status	Active	Active	Active	Active	Closed in 2022[173]

171 National Bank Trust became state-owned when its parent company, Bank Otkritie, was bailed out in 2017.
172 Asset transfers took place in the period 2015 – 2018.
173 By the end of 2022 all its assets (claims and tangible assets) and liabilities were transferred to the Slovenian Sovereign Holding.

	Azerbaijan	Kazakhstan	Russia		Slovenia
Assets bought / received	AZN 16 billion (equivalent to USD 10.3 billion)[174]	KZT 4 trillion (equivalent to USD 10.4 billion at end of 2019)[175]	> RUB 2,074 billion (USD 33.5 billion) gross value[176] or RUB 236 billion (USD 3.9 billion) net value[177]	No data available	EUR 5.8 billion (equivalent to USD 6.2 billion at end of 2022)[178]
Financing structure	Issuance of bonds[179]	Issuance of bonds and liabilities received with assets.	Capital injections by the Central Bank of Russia.[180] Deposits by the Central Bank. Liabilities from merged banks.	Capital injections by the Central Bank.	Issued bonds guaranteed by the government.[181]
Purpose	To be a sustainable and profitable financial-credit institution providing a range of services to the agrarian sector.	To assist banks to reduce NPLs on their balance sheets by issuing bonds to fund the acquisition of the assets.	To manage maximum recovery amounts from troubled assets received from banks bailed out by the Bank of Russia 2017-2019 (e.g., National Bank Trust; Bank Otkritie; Promsvyazbank; B&N Bank; Rost Bank; Bank AVB)	To recover the maximum amount from assets received from the bail out of Asian-Pacific Bank in 2018	To sell or restructure assets acquired from banks to maximize their value, repay its bonds, and minimize the taxpayer burden.

174 See the capital structure and the evolution of public capital injections since 2007 in the Investor Presentation dated May 23, 2017, page 6 (AZN 11 billion). URL: https://abb-bank.az/storage/uploads/files/1596637038_20170523_-_iba_investor_presentation.pdf.; ABB Restructuring Plan Approved in July 2017, press release (AZN 4.9 billion). URL: https://abb-bank.az/index.php/en/maliyye-ve-investisiya/diger-melumatlar/press-relizler/azerbaycan-beynelxalq-banki-ohdeliklerinin-konullu-restrukturizasiyasi-planinin-kreditorlarin-18-iyul-2017-ci-il-tarixinde-kecirilmis-yigincaginda-qebul-olundugunu-elan-edib; and Aqrarkredit Annual Accounts 2020, note 18 (AZN 0.1 billion). URL: https://aqrarkredit.az/upload/Image/Audit%20Hesabat%C4%B1%202020.pdf

175 Problem Loans Fund Annual Report 2018 and Annual Report 2019, (https://www.fpl.kz/en/godovoi-otchet).

176 Based on assets held by the non-core bank assets as of 1 January 2020 (CBR Annual Report 2019, page 152).

177 Received through asset transfers (e.g., Promsvyazbank; B&N Bank) and from mergers with banks by the Central Bank of Russia (e.g., Rost Bank; Otkritie [spin-off of a separate legal entity from PJSC Bank FC Otkritie]; AVB Bank).

178 Contractual (gross) value of transferred / merged assets. Imre Balogh "Lessons learnt from work of DUTB" May 2018, page 4 (https://thedocs.worldbank.org/en/doc/922641527522965142-0130022018/original/NPLConferenceDay110ImreBalogh.pdf).

179 Those issued in 2015 were subscribed by the Central Bank of the Republic of Azerbaijan and guaranteed by the state.

180 Central Bank of Russia. Directly or indirectly through Fund of Banking Sector Consolidation.

181 Article 12 of the Slovenian Law "On the measures of the Republic of Slovenia to strengthen the stability of banks" establishing the Bank Assets Management Company.

ANNEX 2. KEY BANKING FAILURES IN ECA 2013-2023

AZERBAIJAN (FINSAC CLIENT)

ABB

Resolution type: Bail-out; Asset transfer to AMC; Debt restructuring

Year: 2015-2017

Short description:

- ABB is the largest commercial bank in Azerbaijan, which traditionally held a deposit market share above 40 percent.
- The state injected capital in 2015 and provided liquidity support to the bank. In the period 2015-2017, ABB transferred a significant share of its non-performing assets to Aqrarkredit (close to AZN 16 billion[182]), a non-banking state-owned financial organization, acting effectively as a bad bank. Aqrarkredit swapped long-term sovereign bonds for ABB's non-performing assets.
- Those recovery measures were not enough to overcome the bank's troubles. ABB and the Azeri state implemented a liability management exercise, where ABB's foreign bondholders accepted bond swaps, including haircuts in their nominal value. The state injected additional capital with the intention to privatize the bank.
- As of early 2024, the bank remains state-owned.

Several small banks

Resolution type: Liquidation

Year: 2015-2016

Short description:

- The Central Bank of Azerbaijan revoked licenses of 2 insolvent banks in 2015 (Evrobank OJSC and Azerbaijan Credit Bank OJSC). Afterwards it closed a further 6 banks in January-February 2016 (including United Credit Bank OJSC; Bank of Azerbaijan OJSC; Technikabank OJSC). The closed banks' combined market share was close to 6 percent of the banking system's total assets.
- Provisional administrators were appointed for more banks in 2016 (Dekabank OJSC; Zaminbank OJSC; KredoBank OJSC; Ganjabank OJSC; Caucasus Development Bank OJSC; Bank Standard KB; and Atrabank OJSC).

182 Equivalent USD 10.3 billion.

Atabank OJSC and 3 other small banks

Resolution type: Liquidation

Year: 2020

Short description:

- Atabank's market share in September 2019 was 1.7 percent of the system assets, 1.4 percent of the deposits, and 2.75 percent of loans.
- As a result of Atabank's financial problems during 2018 and 2019, it was unable to reimburse client deposits. Atabank was inspected by the Central Bank of Azerbaijan in the second part of 2019 and the bank's shareholders were told to inject further money into the bank. They did not comply.
- The Central Bank of Azerbaijan decided in April 2020 to appoint a temporary administrator for Atabank. The bank license was subsequently revoked and Atabank was placed under liquidation procedures. No losses were imposed to the bank's depositors, as a blanket guarantee for individuals was in force at the time in the country.
- The Central Bank revoked the licenses of 3 small banks (Amrahbank OJSC, NBCBank OJSC, and AGBank OJSC) between April and in May 2020.

Gunay Bank OJSC and Mugan Bank OJSC

Year: 2023

Short description:

- Gunay's market share in December 2022 was 0.61 percent of the system assets, 1.01 percent of total loans, and 0.34 percent of total deposits.
- "Gunay Bank" OJSC was declared bankrupt by the decision No. 2-3(103)-42/2023 of the Baku Court of Appeal dated May 18, 2023, bankruptcy proceedings were initiated, and the Deposit Insurance Fund was appointed liquidator of the Bank.
- Mugan's market share in December 2022 was 1.65 percent of the system assets, 2.11 percent of total loans, and 1.35 percent of total deposits.
- "Mugan Bank" OJSC was declared bankrupt by the decision No. 2-3(103)-54/2023 of the Baku Court of Appeal dated October 24, 2023, the bankruptcy procedure was initiated, and the Deposit Insurance Fund was appointed liquidator of the Bank.

BOSNIA & HERZEGOVINA (FINSAC CLIENT)

Bobar Banka

Resolution type: Liquidation

Year: 2014

Short description:

- At the end of the first quarter of 2014, Bobar Banka accounted for 5.2 percent of total assets of the banking sector in Republika Srpska, ranking 6th.
- On December 23, 2014, the Banking Agency of Republika Srpska, following the proposal by the temporary administrator appointed in late November, decided to revoke Bobar Banka's license and place the bank under liquidation, triggering an insured deposit pay out by the Deposit Insurance Agency.
- The payment of insured deposits began on January 19, 2015. The total number of insured depositors in Bobar Bank, according to the data as of December 23, 2014, was 21,379, for a total amount of BAM 86.6 million (USD 53.9 million).

Hypo Alpe-Adria

Resolution type: Sale of shares

Year: 2014

Short description:

- By the end of the first quarter of 2014, Hypo Alpe-Adria accounted for 7.2 percent of total assets of the banking sector in the Federation of BiH and for 17.3 percent in Republika Srpska, ranking 4th and 3rd respectively.

- After significant financial difficulties, in June 2013, Heta Asset Resolution AG (formerly Hypo Alpe-Adria-Bank International, A.G.) transferred some of its subsidiaries to the newly created company Hypo SEE Holding AG., including Hypo Alpe-Adria-Bank d.d., Mostar and Hypo Alpe-Adria-Bank a.d., Banja Luka.[183]
- In October 2014, the Western Balkan subsidiaries (Croatia, Serbia, Slovenia, Bosnia & Herzegovina, and Montenegro) were separated from Heta Asset Resolution for its subsequent sale to a third party.
- In December 2014, funds managed by Advent International (80 percent), and the European Bank for Reconstruction and Development (EBRD) (20 percent) entered into an agreement for the acquisition of the Western Balkan subsidiaries of Heta Asset Resolution.
- During 2016 the new group was rebranded as Addiko Bank. The two Bosnian subsidiaries were also renamed.

Banka Srpska

Resolution type: Liquidation

Year: 2016

Short description:

- Banka Srpska a.d. Banja Luka was one of the two smallest banks in Republika Srpska when it had its banking license revoked on April 30, 2016, after which its insured deposits were paid out by the Deposit Insurance Agency on May 2016.

Sberbank BH d.d. Sarajevo (Federation of BiH) and Sberbank a.d. Banja Luka (Republika Srpska)

Resolution type: Sale of business (share deal)

Year: 2022

Short description:

- Sberbank BH d.d. Sarajevo and Sberbank a.d. Banja Luka were two of the European subsidiaries of Sberbank Europe AG, a bank headquartered in Austria and a subsidiary of the Russian Sberbank. By the end of 2021 Sberbank BH d.d. Sarajevo had a market share in the Federation of BiH of 6.6 percent both in loans and deposits. Sberbank a.d. Banja Luka had market shares of 12.0 percent in loans and 11.5 percent in deposits in Republika Srpska.
- Because of the international sanctions on Sberbank and its subsidiaries following the Russian invasion of Ukraine in February 2022, customers quickly lost confidence in Sberbank's subsidiaries and sought to withdraw their deposits. The parent company was unable to downstream liquidity to its subsidiaries, as international sanctions precluded it from doing so. As a result, the subsidiaries' liquidity quickly dried up and supervisors considered the subsidiaries as non-viable.
- The Banking Agency of the Federation of Bosnia and Herzegovina sold Sberbank BH d.d. Sarajevo to ASA Banka using its transfer powers.
- The Banking Agency of Republika Srpska sold Sberbank a.d. Banja Luka to Nova Banka.

SERBIA (FINSAC CLIENT)

Sberbank Srbija a.d. Beograd

Resolution type: Sale of business (share deal)

Year: 2022

Short description:

- Sberbank Srbija a.d. Beograd (accounting for 3.8 percent of Serbian banking sector's assets) was one of the European subsidiaries of Sberbank Europe AG, a bank headquartered in Austria and a subsidiary of the Russia's Sberbank.

183 The Hypo Alpe-Adria Group was nationalized by the Austrian government in December 2009 after suffering large losses in the previous years.

- Because of the international sanctions on Sberbank and its subsidiaries following the Russian invasion of Ukraine in February 2022, confidence in Sberbank's Europe subsidiaries quickly dried up, as depositors sought to withdraw their deposits. The parent company was unable to downstream liquidity to its subsidiaries, as international sanctions precluded it from doing so. The bank's liquidity shortage prompted the National Bank of Serbia to consider Sberbank Srbija as non-viable.
- The National Bank of Serbia transferred Sberbank Srbija shares to AIK Banka a.d. Beograd, which had agreed previously to take over some of the subsidiaries of the group.

KAZAKHSTAN

BTA Bank

Resolution type: Bail-out; Debt restructuring; Sale of shares

Year: 2009-2015

Short description:

- BTA Bank JSC dates to the USSR. The entity was renamed as BTA Bank in 2008 and was the largest bank of Kazakhstan at that time.
- In 2009, bank investigators in Kazakhstan accused its former sole owner of issuing billions of dollars in fraudulent loans to offshore companies he secretly controlled.
- In the context of anti-crisis measures in February 2009, the Government of Kazakhstan, through its Samruk Kazyna Sovereign Wealth Fund, agreed to purchase 75.1 percent of BTA's Bank shares.
- Between mid-2009 and 2010, BTA Bank undertook an international debt restructuring exercise with its borrowers in different jurisdictions. The restructuring ended in September 2010, affecting liabilities amounting to USD 16.7 billion.
- In 2012, renewed problems forced the bank to deepen the restructuring of its liabilities. As a result, by end 2012 certain labilities were written down from around USD 11.1 billion to USD 3.3 billion.[184] Creditors received cash in the amount of USD 1.618 million and newly issued bonds in the amount of USD 750 million. Moreover, the bank issued new common shares pursuant to the conversion of USD 1.189 million of deposits from Samruk-Kazyna and the Bank received a USD 1.592 million subordinated loan from Samruk-Kazyna. Following these transactions, BTA Bank was effectively recapitalized by approximately USD 10 billion. Samruk-Kazyna increased its majority shareholding in the Bank to 97.3 percent, while former bondholders held around 2.5 percent of the bank's shares.
- In February 2014, Kazkommertzbank and Kenes Rakishev (former chairman of BTA Bank's Board of Directors) each bought a 46.5 percent stake in BTA Bank from Samruk-Kazyna. Kazkommertzbank paid USD 465 million for the shares.

Alliance Bank

Resolution type: Bail-out; Debt restructuring; Sale of shares

Year: 2009-2014

Short description:

- Following severe pressure because of the 2008 financial crisis, in 2009 Alliance Bank (Kazakhstan's fourth-largest bank at the time) defaulted on its debts. In early 2009, Samruk-Kazyna bought from the former main shareholder a 76 percent shareholding in Alliance Bank, effectively resulting in the partial nationalization of the bank. The transaction also involved the commitment by Samruk-Kazyna to make a deposit of KZT 24 billion (USD 200 million) in the bank.
- Additionally, the bank initiated a debt restructuring process as a last attempt to avoid its failure. The debt restructuring was undertaken in 2010, which reduced the external debt of Alliance Bank from USD 4.5 billion to USD 1.1 billion and extended the residual maturity of the affected liabilities.
- Financial troubles continued at Alliance Bank and in early 2014 the bank announced the

184 Including deposits of Samruk-Kazyna JSC with the Bank for USD 600 million.

need for a new debt restructuring. In May 2014 Samruk-Kazyna sold a 16 percent stake to a new shareholder for KZT 1.5 billion (USD 8.1 million), together with a 79.88 percent stake in Temirbank JSC (a former subsidiary of BTA Bank). In November 2014, Alliance Bank completed a debt restructuring by reducing debt from USD 1.2 billion to USD 600 million (mainly through debt-to-equity swap), while also raising a 10-year long-term deposit from Samruk-Kazyna for an amount of KZT 220 billion (USD 1.2 billion) to support the deal.

- Alliance Bank in 2015 was merged with two other Kazakh banks, TemirBank and ForteBank.

Kazkommertzbank (KKB)

Resolution type: Bail-out; Asset transfer to AMC; Sale of shares

Year: 2017

Short description:

- KKB, a systemically important bank in Kazakhstan, acquired the previously nationalized BTA Bank through a series of shares purchases in 2014-2015. After taking it over, KKB surrendered BTA's banking license, and assumed most of its assets and liabilities, whereas extended loans to BTA to fund the assets that it did not assume. According to the National Bank of Kazakhstan, KKB did not undertake adequate due diligence of BTA's assets and, consequently, the acquisition resulted in losses for KKB.
- In 2017, after several inspections by the National Bank, KKB's problems were unveiled. The Kazakh State, through the Problem Loans Fund (effectively Kazakhstan's bad bank), purchased the firm's toxic assets at nominal value. After a comprehensive audit of KKB's assets, accounting adjustments triggered the bank's equity write off. Finally, the bank's shares were sold to Halyk Bank, the second largest lender at the time, for a symbolic amount (KZT 1).
- The resolution of KKB did not result in any losses for its creditors, including its bondholders. KKB's shareholders and the Kazakh sovereign (through the purchase of problematic loans at face value) assumed the costs of the failure of the bank.

Tsesnabank

Resolution type: Bail-out; Asset transfer to AMC; Sale of shares

Year: 2019

Short description:

- In 2018, Tsesnabank was the leading lender to Kazakhstan's agro-industrial industry (65 percent of the agricultural industry loan portfolio) and the second largest bank in Kazakhstan. The devaluation of the KZT in the years before 2018 resulted in a significant increase in the foreign currency-denominated debt burden, that severely affected the creditworthiness of Tsesnabank's borrowers in the agricultural industry.
- To improve the financial soundness of the bank, Tsesnabank transferred NPLs for an amount around KZT 1,054 trillion (USD 2,836 billion) to the state-owned Problem Loans Fund during 2018 and 2019.
- In addition to the transfer of NPLs, the National Bank (e.g., liquidity provision) and the Government (e.g., through restructuring state-controlled senior unsecured creditors) provided support to Tsesnabank to strengthen its capital and liquidity position and attract new investors. Following the previous transactions, JSC "First Heartland Securities" (a state-owned company) acquired a controlling stake in Tsesnabank in February 2019.
- Tsesnabank and First Heartland Bank (another bank entity in the acquiring group) were merged in 2019 to create First Heartland Jysan Bank.

ATF Bank

Resolution type: Bail-out; Sale of shares

Year: 2020

Short description:

- ATF Bank was acquired by UniCredit for USD 2.1 billion in 2007. The bank was later sold in 2013 to a local investor for USD 500 million.
- Following financial troubles, the bank was bailed out by the National Bank of Kazakhstan in 2017,

for an amount of KZT 100 billion (USD 260 million). A new bailout was undertaken in early 2020 when NPLs reached 29%. ATF Bank's financial position was bolstered by large cash deposits from Samruk-Kazyna.

- At the end of 2020, Jysan Bank acquired 99.77 percent of ATF Bank's shares. As part of the deal, Jysan Bank recapitalized ATF Bank for KZT 97 billion (USD 230 million).

KYRGYZ REPUBLIC

Rosin Bank

Resolution type: Nationalization following ELA transaction

Year: 2018

Short description:

- In 2010, Asia Universal Bank was the largest bank in the Kyrgyz Republic. Following a temporary downturn, the bank was nationalized, and the National Bank of the Kyrgyz Republic appointed a temporary administrator to manage Asian Universal Bank's affairs.
- As a result, the National Bank initiated bankruptcy proceedings for Asian Universal Bank and launched a restructuring process. It set up a bridge bank (Zalkar Bank) to receive certain assets and liabilities from the failed firm. By the end of 2010, Zalkar Bank was the sixth largest bank in the country.
- After several failed attempts to sell the bridge bank, in May 2013 Russia's Investment and Trade Business Holding Company purchased 90 percent of Zalkar Bank's shares for close to USD 4 million (the Government of the Kyrgyz Republic kept the remaining 10 percent). The bank was renamed "Rosin Bank". The new shareholder committed to further recapitalize the bank.
- From June 2018 to May 2019, a special regime of direct banking supervision, involving the permanent presence of supervisors in the bank, was implemented at Rosin Bank, that at that time was affected by legal problems and liquidity pressures.
- In October 2018, the National Bank became the controlling shareholder of Rosin Bank's shares (71.65 percent) after the bank failed to repay a loan collateralized by shares granted by the National Bank to cope with liquidity problems triggered by deposit outflows. The bank was further recapitalized in 2019 and 2020. In September 2019, the bank was renamed as Keremet Bank OJSC. In early 2024, the Kyrgyz Government took over the bank from the National Bank.

MOLDOVA (FINSAC CLIENT)

Banca de Economii SA; Banca Sociala SA; and Unibank SA

Resolution type: Bail-out; Bail-in (related parties); Liquidation

Year: 2014

Short description:

- By the end of 2014, the National Bank of Moldova detected that three banks did not comply with minimum capital requirements. Massive fraud was unveiled at the three banks, that at the time held around 30 percent of the total assets in the Moldovan banking system. The National Bank of Moldova identified a shortfall of more than 80 percent of the banks' asset values as a result of large losses from related party lending and widespread fraud connected to the ultimate beneficial owner of the banks. The capital position of the banks was then stated at minus MDL 12,345.8 million (minus USD 967 million).
- The three banks were placed under special administration and the National Bank of Moldova restricted the repayment of deposits to the banks' related parties.
- In October 2015, the National Bank withdrew the banks' licenses and began the process of their forced liquidation.
- To enable the repayment of the banks' deposits, the National Bank granted loans to the three banks, that were guaranteed by the Moldovan

government. A total MDL 6,934 million (USD 543 million) were repaid to individual investors, MDL 4,588 million (USD 359 million) to companies, and MDL 2,623 million (USD 205 million) to financial entities in Moldova.

Victoriabank; Moldova Agroindbank; and Moldindconbank

Resolution type: Special supervision regime/intensive supervision; Sale of shares

Year: 2016

Short description:

- Due to the detection of problems related to non-transparent shareholder structure and high-risk lending operations, the National Bank of Moldova placed three banks that collectively held at that time more than 60 percent of the sector assets (Victoriabank, Moldova Agroindbank, and Moldindconbank) under a special supervision regime in June 2015. The special supervision regime was replaced with intensive supervision in October 2016 until the problems in these banks were resolved. The National Bank created monitoring groups for each bank that examined the financial situation, transactions, and management bodies' agenda, and participated in the institutional bodies' meetings of the banks.
- In November 2016, Banca Transilvania[185] announced its intention to acquire 39.2 percent of shares in Victoriabank. Banca Transilvania and EBRD agreed to establish an investment holding company to acquire the shares (VB Investment Holding), with the Romanian bank holding around 62 percent and EBRD 38 percent. The deal was closed in January 2018 resulting in VB Investment Holding controlling a 66.7 percent shareholding in Victoriabank, that was subsequently increased to 72.19 percent in 2018.
- In April 2019, the National Bank of Moldova revoked the measures prescribed for the special supervision period of Moldova Agroindbank after it was found that the bank was able to ensure the transparency of its shareholders, following the acquisition of 41.09 percent of the bank's share capital by a private equity fund (Heim Partners limited).[186]
- Moldindconbank was placed under early intervention in October 2016. A temporary administrator was appointed (substituting the special supervision regime) because a group of persons acquired a qualifying holding in the bank's share capital (63.89 percent), without prior permission of the National Bank. Voting rights were suspended for these shareholders, and they were required to dispose of shares (the shares were seized as part of a criminal case and cancelled in January 2018, in accordance with legal provisions). Thereafter, the National Bank suspended the mandates of certain members of the management bodies and appointed temporary administrators. A new package of shares representing 63.89 percent of the bank's share capital was issued and put on sale at the initial price set by an international audit firm. The shares were finally sold to a Bulgarian investor in March 2019 at a total value of MDL 764.0 million (USD 44.5 million). Subsequently, it acquired another 13.73 percent and 0.013 percent, reaching a 77.63 percent holding by the end of 2019. The National Bank ended the early intervention regime of Moldindconbank on February 11, 2020.

MONTENEGRO (FINSAC CLIENT)

Invest Banka Montenegro AD and Atlas Banka AD

Resolution type: Temporary administration, moratorium and liquidation

Year: 2019

Short description:

- Central Bank's on-site inspections in 2018 revealed that Invest Banka (market share below 1 percent) and Atlas Banka (around 5 percent market share)

185 The second largest commercial bank by assets in Romania by that time.

186 A company representing an international consortium of investors: EBRD, Invalda INVL, and Horizon Capital.

were critically undercapitalized and insolvent. The Central Bank introduced a temporary administration in both banks in December 2018. The authority imposed a moratorium on all the banks' liabilities, save for the exemptions stipulated by the Law, in order to conserve the assets of both banks.

- The report of the temporary administrator of Atlas Banka evidenced that as of December 2018, with an adequate set of measures (cost cutting, asset sales, debt collection from related parties, capital increase etc.), the bank's business model could be considered sustainable. A similar report was drafted for Invest Banka at the same date.
- The Central Bank revoked the license of Invest Banka in January 2019, opening insolvency proceedings. After two unsuccessful share issues and a deterioration of the bank's assets, the Central Bank revoked Atlas Banka's banking license at the beginning of April 2019, and placed the bank under ordinary insolvency proceedings.

NORTH MACEDONIA (FINSAC CLIENT)

Eurostandard Bank

Resolution type: Liquidation

Year: 2020

Short description:

- In the years preceding 2020, the National Bank of North Macedonia undertook several supervisory actions over Eurostandard Bank, mainly related to the bank's credit risk management practices. In June 2020, Eurostandard Bank held 1.6 and 1.7 percent of the system loans and deposits, respectively.
- In 2019, the National Bank detected a capital shortfall in the bank and urged shareholders to recapitalize it. The failure to meet the recapitalization commitments and rapid and higher credit risk materialization took the bank's capital adequacy ratio to critical levels (below 2 percent).
- Eurostandard Bank's license was revoked by the National Bank and the bank was placed under insolvency proceedings in August 2020. North Macedonia's Deposit Insurance Fund reimbursed insured depositors (up to EUR 30,000 per person).

RUSSIA

Bank Otkritie

Resolution type: Bail-out after writing off shares and capital instruments; Asset transfer to AMC; Sale of shares

Year: 2017

Short description:

- In 2017, Bank Otkritie was a systemically important credit institution ranked 8th by assets, as one of the largest private banks in the country, after years of rapid asset growth, including through the acquisition of several financial institutions in the country.
- In July-September 2017,[187] Bank Otkritie's financial position deteriorated sharply, as it was excluded from the list of eligible counterparties in the new credit rating regulations of the Central Bank of Russia. Since its potential failure would have entailed a material threat to the Russian financial system, the Bank of Russia decided on August 29, 2017, to implement measures aimed at improving the financial stability of Bank Otkritie, using its new restructuring powers. The measures included the appointment of a temporary administrator,[188] a capital injection, and liquidity provision from the Banking Sector Consolidation Fund (owned by the Bank of Russia), guaranteeing the continuity of the bank's operations. No moratorium on payments under creditors' claims was introduced.
- Despite these measures, Bank Otkritie breached its minimum capital requirements in September 2017. Thus, the Bank of Russia acquired additional

187 For example, Bank Otkritie also suffered troubles with liquidity due to non-conformity to the requirements for the credit rating level for raising temporarily available funds of state corporations, the federal budget, and extra-budgetary funds. In July 2017, the bank faced a drastic outflow of corporate and household funds, which exceeded RUB 630 billion over two months.

188 Composed of Bank of Russia officers and employees of the Banking Sector Consolidation Fund management company.

ordinary shares of the Bank in the amount of RUB 456.2 billion (USD 7.7 billion) in December 2017, which gave the Bank of Russia 99.9 percent of ordinary shares in the bank.

- Part of the bank's troubled assets were transferred to its subsidiary National Bank Trust, that was used by the Bank of Russia as a bad bank for the management of troubled assets (also from other banks). And was merged by B&N Bank (see below).
- In December 2022, Bank Otkritie was sold to state-owned VTB Bank for RUB 340 billion (USD 5.1 billion).

B&N Bank (Binbank)

Resolution type: Bail-out after writing off shares and capital instruments; Asset transfer to AMC; Sale of shares

Year: 2017

Short description:

- Between 2014 and 2016, B&N Bank experienced a quick growth, becoming the 12th bank by assets, and one of the largest private banks in the country. The growth was facilitated by the acquisition of several failed credit institutions in Russia.[189] However, the acquisition exposed B&N Bank to material risks.
- From August 2016, the Bank of Russia requested B&N Bank a plan to improve its asset quality; but the measures were not successful. The bank's liquidity problems in August–September 2017 prompted the bank's shareholders to make a request to the Bank of Russia for its financial rehabilitation.
- The Bank of Russia decided on September 20, 2017, to implement measures aimed at improving the financial stability of B&N Bank. The measures included the appointment of a temporary administration,[190] a capital injection and the provision of liquidity from the Banking Sector Consolidation Fund. No moratorium on payments under creditors' claims was introduced.
- Further support measures by the Bank of Russia were RUB 56.9 billion (USD 1 billion) for recapitalization purposes in March 2018 and the transfer of part of the bank's troubled assets to the National Bank Trust.
- On October 30, 2018, the Bank of Russia decided to merge Bank Otkritie with B&N Bank. The combined entity was subsequently (December 2022) sold to state-owned VTB.

Promsvyazbank

Resolution type: Bail-out after writing off shares and capital instruments; Asset transfer to AMC; Bail-in

Year: 2017

Short description:

- In December 2017, the Bank of Russia found that Promsvyazbank, a systemic bank and ranked 9th by assets in Russia, was undercapitalized and required it to increase its capital reserves by over RUB 100 billion (USD 1.6 billion). The bank was not able to raise its capital in the required amounts.
- On December 15, 2017, the Bank of Russia decided to implement measures aimed at improving the bank's financial stability, including the appointment of a temporary administrator,[191] as well as capital injections and liquidity provision by the Banking Sector Consolidation Fund, guaranteeing continuity of operations. No moratorium was introduced.
- On December 22, 2017, the Bank of Russia decided to bail-in Promsvyazbank's subordinated debt and certain liabilities to related parties.
- In March 2018, Promsvyazbank's shares were transferred to the State Corporation Deposit Insurance Agency, that raised its shareholding in Promsvyazbank to 99.99 percent, and was then transferred to the Federal Agency for State Property Management. The measure allowed Promsvyazbank to comply with its capital requirements. Additionally, the bank's troubled assets were transferred to National Bank Trust, the public AMC.

189 Including MDM Bank, Binbank Digital, and ROST BANK.
190 Composed of Bank of Russia officers and employees of the Banking Sector Consolidation Fund management company.
191 Composed by employees of the Banking Sector Consolidation Fund.

National Trust Bank

Resolution type: Bail-out; Transformation into an AMC

Year: 2018

Short description:

- National Bank Trust was a subsidiary of Bank Otkritie. When a temporary administrator was appointed to the latter on August 30, 2017, National Trust Bank continued to operate as a going concern.
- In March 2018, the Bank of Russia approved a plan to participate in the implementation of measures to prevent bankruptcy of the National Trust Bank and a temporary administrator was appointed. In May 2018, the Bank of Russia became the majority shareholder,[192] by fully subscribing the bank's capital increase.
- In 2018, the Bank of Russia decided to create a Bank of Problematic and Non-Core Assets based on National Trust Bank. Between July 2018 and mid-2019, several banks were merged with the National Trust Bank, including Rost Bank; Bank Otkritie Special Bank (with troubled assets from Bank Otkritie); and JSC AVB Bank.
- In addition to those mergers, National Trust Bank also received assets from other banks bailed out by the Bank of Russia, including Promsvyazbank and B&N Bank.
- The total value of assets under the management of the Bank of Problematic and Non-Core Assets at the initial book value exceeded 2 trillion rubles (USD 28.7 billion) in January 2019.[193]
- In early 2024, the National Trust Bank continues to be majority controlled by the Bank of Russia.[194]

Rost Bank

Resolution type: Bail-out

Year: 2018

Short description:

- Rost Bank was a sister entity of B&N Bank, as it was owned by the same shareholders. When a temporary administrator was appointed to the latter in September 2017, Rost Bank continued to operate as a going concern.
- The Bank of Russia then decided, in December 2017, to implement measures aimed at improving the financial stability of Rost Bank, including the appointment of a temporary administrator,[195] and capital and liquidity injections by the Banking Sector Consolidation Fund, guaranteeing the continuity of the bank's operations. In May 2018, the Bank of Russia became the direct owner of more than 99.9 percent of ordinary shares of Rost Bank for RUB 350 million (USD 5.7 million), and two weeks later Rost Bank was merged into National Bank Trust.

Asian-Pacific Bank

Resolution type: Bail out; Asset transfer to AMC; Sale of shares

Year: 2018

Short description:

- By 2018, the Asian-Pacific Bank ranked 60th by assets and was one of the largest and socially important regional banks of Siberia and the Far East.
- The Bank of Russia, in April 2018, implemented measures aimed at improving the financial stability of Asian-Pacific Bank, including the appointment of a temporary administrator,[196] as well as capital injections and liquidity provision by the Banking Sector Consolidation Fund, to ensure the continuity of the bank's operations. No moratorium was introduced.
- In late September 2018, the Bank of Russia acquired additional shares in the Asian-Pacific Bank to become the owner of more than 99.99 percent of the total ordinary shares.

192 Controlling 99.9999997 percent of the shares, of which a 2.00000057 percent was indirectly held through Bank Otkritie.
193 RUB 207,254 million at fair value (USD 3.0 billion).
194 Bank of Russia Annual Report for 2022, page 170. URL: https://www.cbr.ru/collection/collection/file/46299/ar_2022_e.pdf
195 Made up of Bank of Russia officers and employees of the Banking Sector Consolidation Fund.
196 Composed by employees of the Banking Sector Consolidation Fund.

- In December 2018, the Bank of Russia decided to establish a Closed-end Mixed Unit Investment Fund Spetsialny managed by the Banking Sector Consolidation Asset Management Company using Banking Sector Consolidation Fund funds. This focused on acquiring toxic assets from the Asian-Pacific Bank, facilitating its later transfer to a third-party.
- The Asian-Pacific Bank was finally sold in September 2021 to an investor from Kazakhstan Pioneer Capital Invest LLP for RUB 14 billion (USD 192.88 million).

TAJIKISTAN

Fononbank and Tojprombank

Resolution type: Liquidation

Year: 2017

Short description:

- Fononbank and Tojprombank were two small non-systemic banks.
- To improve their financial situation and protect the interests of depositors and borrowers, the National Bank of Tajikistan appointed a temporary administration in Fononbank between 2015 and 2016 and in Tojprombank in 2016.
- Despite initial recapitalization plans, the National Bank of Tajikistan revoked their banking licenses in February 2017, and the Deposit Guarantee Fund reimbursed their insured depositors.

AgroinvestBank and TojiksodiroktBank

Resolution type: Bail-out; Liquidation

Year: 2021

Short description:

- The government had acquired capital instruments in several AIB capital issuances since 1992 (2003, 2010, and 2012). The EBRD also became a shareholder in 2009 when it bought a 25 percent + 1 share in AgroinvestBank.
- At the end of 2016, due to AgroinvestBank's and TojiksodiroktBank's systemic importance, the National Bank of Tajikistan prepared two recapitalization plans to restore their financial situation, including a capital injection by the government in each bank. The government then became the main shareholder of the two banks.
- Following several years of balance sheet losses and sustained financial difficulties, the National Bank revoked their licenses in May 2021. The individual depositors were covered by the Individual Deposit Insurance Fund up to the amount insured of TJS 30,000 for deposits in local currency (approx. USD 2,631).

UKRAINE (FINSAC CLIENT)

Rodovid Bank

Resolution type: Bail-out; Liquidation

Year: 2009-2017

Short description:

- The JSC Rodovid Bank (a top 20 bank in Ukraine at the time)[197] was severely affected by the GFC and in March 2009 a temporary external administration took over the operational management of the bank. In 2009, the Ukrainian Government provided public capital to the bank in an amount of UAH 8.4 billion (USD 1.05 billion). The bank received a further UAH 3.95 billion (USD 495 million) from the state in 2011. As a result, the state ownership increased to 99.9 percent.
- From 2011, Rodovid Bank was subject to financial recovery procedures.[198] The goal was to work out the assets retained and repay the received state funds within 5 years, working effectively as a bad bank. However, the original plan was not achieved, due to difficulties in asset work out and Rodovid's high costs and low revenues.
- On February 25, 2016, the National Bank of Ukraine adopted a decision, agreed with the Ministry of

197 Out of more than 160 banks in Ukraine at the time.

198 In accordance with the order of the Cabinet of Ministers No. 880-r of September 14, 2011, the decree of the National Bank of Ukraine No. 471 of December 23, 2011, and license of the bank operating under financial recovery procedures No. 1 of June 15, 2012.

Finance, to declare the Rodovid Bank insolvent and to transfer its assets to the Individual Deposit Guarantee Fund. The decision to liquidate the bank was finally adopted on December 19, 2017.

Terra Bank

Resolution type: Bridge bank

Year: 2014

Short description:

- The deterioration of the financial situation of Terra Bank (a top 50 bank in Ukraine at the time) in July 2014 prompted the National Bank of Ukraine to appoint a temporary administrator to directly control the bank's affairs.
- In the following months, the measures taken by the bank failed to stabilize its financial situation. As Terra Bank was unable meet its financial obligations to depositors and other creditors and breached the regulatory requirements, the National Bank declared it a problem bank in early August 2014.
- In December 2014, the Deposit Guarantee Fund set up the bridge institution "Krystal Bank" to facilitate the resolution of Terra Bank. On December 22, 2014, the Deposit Guarantee Fund transferred some of Terra Bank's assets and liabilities to Krystal Bank. After the transfer, Terra Bank's license was revoked, and it was placed under liquidation procedures.
- In February 2015, Krystal Bank was sold to a private individual, and in March 2015, lost its status as a "transitional or bridge bank" and received a full banking license.

Omega Bank

Resolution type: Bridge bank

Year: 2015

Short description:

- Omega Bank, a small Ukrainian banking institution was declared a problem bank by the National Bank of Ukraine in January 2015 due to its direct involvement in risky activities, as evidenced by its deteriorating financial situation. National Bank administrators were appointed. Omega Bank failed to submit credible measures to address its problems and the bank's financials continued to deteriorate.
- Subsequently, Omega Bank was classified as insolvent, based on which the Deposit Guarantee Fund placed the bank under temporary administration and in May 2015 established the bridge bank "RVS",[199] to take over certain assets and liabilities.
- In August 2015, the bridge bank RVS was sold to the Ukrainian Business Group LLC for UAH 31.86 million (USD 1.46 million).

Delta Bank

Resolution type: Liquidation

Year: 2015

Short description:

- Delta Bank quickly grew its assets, becoming the fourth largest bank by total assets, worth UAH 60.303 billion (USD 3.8 billion), as of January 1, 2015.[200]
- In early 2014, the National Bank extended loans for an amount of UAH 4,150 million (USD 497 million) to Delta Bank to strengthen the bank's liquidity position and protect the interests of depositors. Following approval of the bank's capitalization program in September 2014, Delta Bank received an emergency loan worth UAH 960 million (USD 74.3 million) backed by securities guaranteed by the state.
- The measures proved to be only a temporary solution to the bank's problems. Contingency measures by the bank's shareholders and management proved insufficient, and the planned recapitalization never materialized.
- As a systemically important bank, the Ministry of Finance and the National Bank explored potential state participation in the recapitalization process. However, given the poor quality of the bank's

199 Assets transferred included: (i) nine real estate properties with a total value of UAH 68.7 million (USD 3.3 million); (ii) 33 land plots, with a total value of UAH 12.3 million (USD 0.6 million); (iii) claim credit rights for 65 personal loans worth UAH 6.7 million (USD 0.3 million); (iii) claim credit rights for 204 loans of legal entities worth UAH 140.6 million (USD 6.7 million).

200 Of more than 150 banks in Ukraine at the time.

assets, Delta Bank was declared insolvent by the National Bank at the beginning of March 2015.

- 94 percent of depositors were within the minimum guaranteed amount of UAH 200 thousand (USD 8,775), making them eligible for full reimbursement by the Deposit Guarantee Fund.

Privatbank

Resolution type: Bail-out; Bail-in

Year: 2016

Short description:

- In December 2016, the Ukrainian authorities nationalized PrivatBank, the largest systemically important institution in Ukraine (with more than 20 million customers), and previously controlled by two oligarchs.
- In 2016, the National Bank unveiled a large capital shortfall in PrivatBank's balance sheet of UAH 148 billion (USD 5.5 billion), after discovering that 97 percent of the corporate loan book was lent to related parties and many theoretically collateralized loans were nonexistent.
- Ukrainian authorities proceeded to write-off the bank's shares and convert certain liabilities into newly issued shares, including loans by related parties and Eurobonds for a total amount of UAH 29.4 billion (USD 1.2 billion). Once issued, those shares were transferred to the Ministry of Finance for UAH 1 (implying the full write-off of the bank's liabilities). New equity was then injected by the Ministry of Finance into the bank. The recapitalization was completed in February 2017, with the infusion of new capital for UAH 116.8 billion (USD 4.32 billion).

IR Bank JSC

Resolution type: Liquidation

Year: 2022

Short description:

- IR Bank was ranked 10th by total assets in the Ukrainian banking sector at the beginning of 2022. It was Sberbank's fully owned Ukrainian subsidiary.
- Following the Russian invasion of Ukraine, and in accordance with the resolution of the Board of the National Bank of Ukraine dated February 24, 2022, No. 19 "On the peculiarities of the termination of the activities of banks in conditions of martial law", the National Bank decided on February 25, 2022, to revoke the banking license and liquidate IR Bank.

Prominvestbank JSC

Resolution type: Liquidation

Year: 2022

Short description:

- In early 2022, Prominvestbank was the Ukrainian subsidiary (99.77 percent of bank's capital) of the Russian State Development Corporation VEB.RF.
- Following the Russian invasion of Ukraine, and in accordance with the resolution of the Board of the National Bank of Ukraine dated February 24, 2022, No. 19 "On the peculiarities of the termination of the activities of banks in conditions of martial law", the National Bank decided on February 25, 2022, to revoke the banking license and liquidate Prominvestbank.

Bank Sich JSC

Resolution type: Liquidation

Year: 2022

Short description:

- Bank Sich was a small firm ranked in top 30 by total assets in the Ukrainian banking sector. On-site inspections by the National Bank between January and August 2022 unveiled Bank Sich's deteriorating asset quality and financial position, including materially above sector average deposit costs. Moreover, Bank Sich did not to pay interest to the National Bank for refinancing loans provided under an agreement dated October 2018.
- The National Bank declared Bank Sich insolvent on August 9, 2022, considering both the bank's deteriorated financial position and the lack of alternative measures to redress its financial position. The Deposit Guarantee Fund then introduced a temporary administration on August 10, 2022.
- After the Deposit Guarantee Fund failed to find a buyer for the insolvent bank, the National Bank decided on October 6, 2022, to revoke Bank Sich's license and began liquidation procedures on October 10, 2022.

ANNEX 3. BANK OWNERSHIP STRUCTURES IN FINSAC CLIENT COUNTRIES

This annex summarizes the ownership structures of banks in some countries in FinSAC client countries. Banks are assigned to one of three categories:

- state-owned bank. Covers the cases where public national authorities own more than 50% of the shares or a controlling stake in the firm;
- subsidiary of a foreign bank. Includes those banks in which a foreign banking group owns more than 50% of the shares or a controlling stake; or
- other: banks with ownership structures that do not fit either of the previous categories (e.g., owned by a third country state; owned by a local group / individual; etc.).

Figure 18. Albania

Bank	Type of bank/ownership	Parent of the foreign banking group (if any)	Parent's home country
American Bank of Investments	Other		
Banka Kombëtare Tregtare	Subsidiary of a foreign bank	Çalık Holding	Türkiye
Credins Bank	Other		
FIBank Albania	Subsidiary of a foreign bank	First Investment Bank, AD	Bulgaria
Intesa Sanpaolo Bank Albania	Subsidiary of a foreign bank	Intesa Sanpaolo	
S.p.A.	Italy		
OTP Albania	Subsidiary of a foreign bank	OTP Bank	Hungary
ProCredit Bank	Subsidiary of a foreign bank	ProCredit Holding AG	Germany
Raiffeisen Bank Albania	Subsidiary of a foreign bank	Raiffeisen Bank International AG	Austria
Tirana Bank	Other		

Bank	Type of bank/ownership	Parent of the foreign banking group (if any)	Parent's home country
Union Bank	Other		
United Bank of Albania	Other		

Source: FinSAC with information from banks

Figure 19. Armenia

Bank	Type of bank/ownership	Parent of the foreign banking group (if any)	Parent's home country
Ameriabank CJSC[201]	Other		
ACBA Bank OJSC	Other		
AMIO Bank CJSC	Other		
Araratbank OJSC	Other		
Ardshinbank CJSC	Other		
Armeconombank OJSC	Other		
ArmSwissBank CJSC	Other		
Artsakhbank CJSC	Other		
Byblos Bank Armenia CJSC	Subsidiary of a foreign bank	Byblos Bank SAL	Lebanon
Converse Bank CJSC	Other		
Evocabank CJSC	Other		
Fast Bank CJSC	Other		
HSBC Bank Armenia CJSC[202]	Subsidiary of a foreign bank	HSBC Holdings plc	United Kingdom
ID Bank CJSC	Other		
InecoBank CJSC	Other		
Mellat Bank CJSC	Subsidiary of a foreign bank	Mellat Bank	Iran
UniBank OJSC	Other		
VTB Bank (Armenia) CJSC	Subsidiary of a foreign bank	VTB Bank PJSC	Russian Federation

Source: FinSAC with information from banks

201 A transaction involving the transfer of a controlling shareholder to Bank of Georgia was announced in 2024.
202 A transaction involving the sale of the bank to Ardshinbank was announced in 2024.

Figure 20. Azerbaijan

Bank	Type of bank/ownership	Parent of the foreign banking group (if any)	Parent's home country
Accessbank CJSC	Other		
AFB Bank CJSC	Other		
Azerbaijan Industry Bank OJSC	Other		
Azer-Turk Bank OJSC	State-owned		
Bank BTB OJSC	Other		
Bank Eurasia OJSC	Other		
Bank Melli Iran (Baku Branch)	Subsidiary of a foreign bank	Bank Melli	Iran
Bank of Baku OJSC	Other		
Bank Respublika OJSC	Other		
Bank VTB (Azerbaijan) OJSC	Subsidiary of a foreign bank	VTB Bank PJSC	Russian Federation
Expressbank OJSC	Other		
ABB OJSC	State-owned		
Kapital Bank OJSC	Other		
Nakhchivanbank OJSC	Other		
Pasha Bank OJSC	Other		
Premium Bank OJSC	Other		
Rabitabank OJSC	Other		
TuranBank OJSC	Other		
Unibank OJSC	Other		
Xalq Bank OJSC	Other		
YapiKredi Bank Azerbaijan CJSC	Subsidiary of a foreign bank	YapıKredi Bank AŞ	Türkiye
Yelo OJSC	Other		
Ziraat Bank Azerbaijan OJSC	Subsidiary of a foreign bank	Ziraat Bankasi A.Ş.	Türkiye

Source: FinSAC with information from banks

Figure 21. Bosnia and Herzegovina

Bank	Type of bank/ownership	Parent of the foreign banking group (if any)	Parent's home country
FEDERATION OF BIH			
Addiko Bank d.d. Sarajevo	Subsidiary of a foreign bank	Addiko Bank AG	Austria
ASA Bank d.d. Sarajevo	Other		
Bosna Bank International d.d. Sarajevo	Other		
Intesa Sanpaolo Banka d.d. Bosna i Hercegovina	Subsidiary of a foreign bank	Intesa Sanpaolo S.p.A.	Italy
Komercijalno-investiciona Banka d.d. V. Kladusa	Other		
NLB Banka d.d., Sarajevo	Subsidiary of a foreign bank	NLB d.d., Ljubljana	Slovenia
Privredna Banka Sarajevo d.d. Sarajevo	Other		
ProCredit Bank d.d. Sarajevo	Subsidiary of a foreign bank	ProCredit Holding AG	Germany
Raiffeisen Bank d.d. BiH	Subsidiary of a foreign bank	Raiffeisen Bank International AG	Austria
Sparkasse Bank dd Bosna i Hercegovina	Subsidiary of a foreign bank	Erste Bank	Austria
UniCredit Bank d.d.	Subsidiary of a foreign bank	UniCredit Bank SpA	Italy
UnionBanka d.d. Sarajevo	State-owned		
ZiraatBank BH d.d.	Subsidiary of a foreign bank	Ziraat Bankasi A.Ş.	Türkiye
REPUBLIKA SRPSKA			
Addiko Bank a.d. Banja Luka	Subsidiary of a foreign bank	Addiko Bank AG	Austria
Atos Bank a.d. Banja Luka	Other		
Bank Poštanska štedionica a.d. Banja Luka	Subsidiary of a foreign bank	Banka Poštanska štedionica ad Beograd	Serbia
MF Bank a.d. Banja Luka	Other		
Naša Banka a.d. Banja Luka	Other		
Nova Banka a.d. Banja Luka	Other		
NLB Bank a.d. Banja Luka	Subsidiary of a foreign bank	NLB Banka	Slovenia
UniCredit Bank a.d. Banja Luka	Subsidiary of a foreign bank	UniCredit Bank SpA	Italy

Source: FinSAC with information from banks

Figure 22. Georgia

Bank	Type of bank/ownership	Parent of the foreign banking group (if any)	Parent's home country
Bank of Georgia	Other		
Basis Bank	Other		
Credo Bank	Other		
Halyk Bank	Subsidiary of a foreign bank	JSC Halyk Bank	Kazakhstan
Isbank Georgia	Subsidiary of a foreign bank	JSC Isbank Turkey	Türkiye
Kartu Bank	Other		
Liberty Bank	Other		
Pasha Bank	Subsidiary of a foreign bank	OJSC PASHA Bank	Azerbaijan
Paysera	Other		
Pro Credit Bank	Subsidiary of a foreign bank	ProCredit Holding AG	Germany
Silk Bank	Other		
TBC Bank	Other		
Tera Bank	Other		
VTB Bank	Subsidiary of a foreign bank	VTB Bank PJSC	Russia
Ziraat Bank	Subsidiary of a foreign bank	Ziraat Bankasi A.Ş.	Türkiye

Source: FinSAC with information from banks

Figure 23. Kosovo

Bank	Type of bank/ownership	Parent of the foreign banking group (if any)	Parent's home country
Banka Ekonomike	Other		
Banka Kombëtare Tregtare Kosovo J.S.C	Subsidiary of a foreign bank	Çalık Holding	Türkiye
Banka për Biznes	Other		
Credins Bank, Kosovo	Subsidiary of a foreign bank	Credins Bank	Albania
NLB Bank	Subsidiary of a foreign bank	NLB Banka	Slovenia
Pribank J.S.C.	Other		
ProCredit Bank	Subsidiary of a foreign bank	ProCredit Holding AG	Germany
Raiffeisen Bank Kosovo	Subsidiary of a foreign bank	Raiffeisen Bank International AG	Austria

Bank	Type of bank/ownership	Parent of the foreign banking group (if any)	Parent's home country
TEB J.S.C	Subsidiary of a foreign bank	BNP Paribas	France
Türkiye Cumhuriyeti Ziraat Bankasi	Subsidiary of a foreign bank	Ziraat Bankasi A.Ş.	Türkiye
Türkiye Is Bankasi	Subsidiary of a foreign bank	Türkiye İş Bankasi A.Ş.	Türkiye

Source: FinSAC with information from banks

Figure 24. Moldova

Bank	Type of bank/ownership	Parent of the foreign banking group (if any)	Parent's home country
Banca Comerciala COMERTBANK S.A.	Other		
Banca Comerciala ENERGBANK S.A.	Other		
Banca Comerciala EuroCreditBank S.A.	Other		
Banca Comerciala Moldindconbank S.A.	Other		
Banca Comerciala MOLDOVA - AGROINDBANK S.A.	Other		
Banca Comerciala ProCredit Bank S.A.	Subsidiary of a foreign bank	ProCredit Holding AG	Germany
Banca Comerciala Romana Chisinau S.A.	Subsidiary of a foreign bank	Erste Bank	Austria
Banca Comerciala VICTORIABANK S.A.	Subsidiary of a foreign bank	Banca Transilvania	Romania
Banca de Finante si Comert S.A.	Other		
Joint Stock Commercial Bank EXIMBANK	Subsidiary of a foreign bank	Intesa Sanpaolo S.p.A.	Italy
OTP Bank S.A.	Subsidiary of a foreign bank	OTP Bank	Hungary

Source: FinSAC with information from banks

Figure 25. Montenegro

Bank	Type of bank/ownership	Parent of the foreign banking group (if any)	Parent's home country
Addiko Bank AD Podgorica	Subsidiary of a foreign bank	Addiko Bank AG	Austria
Adriatic Bank AD Podgorica	Other		
Crnogorska Komercijalna Banka AD Podgorica	Subsidiary of a foreign bank	OTP Bank	Hungary
Erste Bank AD Podgorica	Subsidiary of a foreign bank	Erste Bank	Austria
Hipotekarna Banka AD Podgorica	Other		
Lovćen Banka AD Podgorica	Other		
NLB Banka AD Podgorica	Subsidiary of a foreign bank	NLB Banka	Slovenia
Prva Banka Crne Gore AD Podgorica	Other		
Universal Capital Bank AD Podgorica	Other		
Zapad Banka AD Podgorica	Other		
Ziraat Bank Montenegro AD Podgorica	Subsidiary of a foreign bank	Ziraat Bankasi A.Ş.	Türkiye

Source: FinSAC with information from banks

Figure 26. North Macedonia

Bank	Type of bank/ownership	Parent of the foreign banking group (if any)	Parent's home country
Capital bank AD Skopje	Other		
Centralna Kooperativna Banka AD Skopje	Subsidiary of a foreign bank	Central Cooperative Bank AD	Bulgaria
Development Bank of North Macedonia AD Skopje	State-owned		
Halk bank AD Skopje	Subsidiary of a foreign bank	Halk Bankasi AS	Türkiye
Komercijalna Banka AD Skopje	Other		
NLB Banka AD Skopje	Subsidiary of a foreign bank	NLB Banka	Slovenia
ProCredit bank AD Skopje	Subsidiary of a foreign bank	ProCredit Holding AG	Germany
Silk Road Bank AD Skopje	Other		

Bank	Type of bank/ownership	Parent of the foreign banking group (if any)	Parent's home country
Sparkasse Banka AD Skopje	Subsidiary of a foreign bank	Erste Bank	Austria
Stopanska Banka AD Bitola	Other		
Stopanska Banka AD Skopje	Subsidiary of a foreign bank	National Bank of Greece S.A.	Greece
TTK Banka AD Skopje	Other		
Univerzal Investment Bank AD Skopje	Other		

Source: FinSAC with information from banks

Figure 27. Serbia

Bank	Type of bank/ownership	Parent of the foreign banking group (if any)	Parent's home country
3Bank a.d. Novi Sad	Other		
Addiko Bank a.d. Beograd	Subsidiary of a foreign bank	Addiko Bank AG	Austria
Adriatic Bank Akcionarsko Društvo Beograd	Other		
Agroindustrijsko Komercijalna Banka AIK Banka a.d. Beograd	Other		
ALTA Banka a.d. Beograd	Other		
API Bank a.d. Beograd	Other		
Banca Intesa a.d. Beograd	Subsidiary of a foreign bank	Intesa Sanpaolo S.p.A.	Italy
Bank of China Srbija a.d. Beograd	Subsidiary of a foreign bank	Bank of China	China
Banka Poštanska štedionica a.d. Beograd	State-owned		
Erste Bank a.d. Novi Sad	Subsidiary of a foreign bank	Erste Bank	Austria
Eurobank Direktna Akcionarsko Društvo Beograd	Other		
Halkbank a.d. Beograd	Subsidiary of a foreign bank	Halk Bank	Türkiye
Mirabank a.d. Beograd	Other		
Mobi Banka a.d. Beograd	Other		

Bank	Type of bank/ownership	Parent of the foreign banking group (if any)	Parent's home country
NLB Komercijalna Banka AD Beograd	Subsidiary of a foreign bank	NLB Banka	Slovenia
OTP Banka Srbija a.d. Novi Sad	Subsidiary of a foreign bank	OTP Bank	Hungary
ProCredit Bank a.d. Beograd	Subsidiary of a foreign bank	ProCredit Holding AG	Germany
Raiffeisen Banka a.d. Beograd	Subsidiary of a foreign bank	Raiffeisen Bank International AG	Austria
Srpska Banka a.d. Beograd	State-owned		
Unicredit Bank Srbija a.d. Beograd	Subsidiary of a foreign bank	UniCredit Bank SpA	Italy

Source: FinSAC with information from banks

Figure 28. Ukraine

Bank	Type of bank/ownership	Parent of the foreign banking group (if any)	Parent's home country
A - Bank JSC	Other		
Alpari Bank JSC	Other		
Altbank JSC	Other		
AP Bank JSC	Other		
Asvio Bank JSC	Other		
Bank Portal JSC	Other		
Bank 3/4 JSC	Other		
Bank Alliance JSC	Other		
Bank Avangard JSC	Other		
Bank Credit Dnipro JSC	Other		
BANK FAMILNY Prjsc	Other		
Bank For Investments and Savings JSC	Other		
Bank Grant JSC	Other		
Bank Trust-Capital JSC	Other		
Bank Ukrainian Capital JSC	Other		
Bank Vostok PJSC	Other		

Bank	Type of bank/ownership	Parent of the foreign banking group (if any)	Parent's home country
BTA Bank JSC	Other		
CB Accordbank PJSC	Other		
CB Globus JSC	Other		
CB Privatbank JSC	State-owned		
Citibank JSC	Subsidiary of a foreign bank	Citigroup Inc.	USA
Clearing House JSC	Other		
Cominbank JSC	Other		
Cominvestbank JSC	Other		
Credit Agricole Bank JSC	Subsidiary of a foreign bank	Credit Agricole S.A.	France
Credit Europe Bank JSC	Subsidiary of a foreign bank	Credit Europe Group N.V.	The Netherlands
Creditwest Bank JSC	Subsidiary of a foreign bank	Altınbaş Holding Anonim Şirketi	Türkiye
Krystal Bank JSC	Other		
Deutsche Bank Dbu JSC	Subsidiary of a foreign bank	Deutsche Bank AG	Germany
EIB JSC	Other		
First Investment Bank JSC	Other		
FUIB JSC	Other		
Idea Bank JSC	Other		
IiB JSC	Other		
ING Bank Ukraine JSC	Subsidiary of a foreign bank	ING Bank N.V.	The Netherlands
JSB Radabank JSC	Other		
JSB Ukrgasbank PJSC	State-owned		
JSB Pivdenny Bank Pjsb	Other		
JSCB Industrialbank PJSC	Other		
Kredobank JSC	Subsidiary of a foreign bank	Powszechna Kasa Oszczędności Bank Polski Spółka Akcyjna (General Savings Bank)	Poland
Lviv JSCB	Other		
Metabank JSC	Other		

Bank	Type of bank/ownership	Parent of the foreign banking group (if any)	Parent's home country
Motor-Bank JSC	Other		
MTB Bank PJSC	Other		
Okci Bank JSC	Other		
Oschadbank JSC	State-owned		
OTP Bank JSC	Subsidiary of a foreign bank	OTP Bank	Hungary
Piraeus Bank ICB JSC	Subsidiary of a foreign bank	Piraeus Financial Holdings S.A.	Greece
Policombank JSC	Other		
Poltava-Bank JSC	Other		
Pravex Bank JSC	Subsidiary of a foreign bank	Intesa Sanpaolo S.p.A.	Italy
Procredit Bank JSC	Subsidiary of a foreign bank	ProCredit Holding AG	Germany
Raiffeisen Bank JSC	Subsidiary of a foreign bank	Raiffeisen Bank International AG	Austria
RwS Bank JSC	Other		
SEB Corporate Bank JSC	Subsidiary of a foreign bank	Skandinaviska Enskilda Banken AB (SEB)	Sweden
Sense Bank JSC	State-owned		
Sky Bank JSC	Other		
Tascombank JSC	Other		
Ukrainian Bank for Reconstruction and Development JSC	Other		
Ukreximbank JSC	State-owned		
Ukrsibbank JSC	Subsidiary of a foreign bank	BNP Paribas S.A.	France
Unex Bank JSC	Other		
Universal Bank JSC	Other		

Source: FinSAC with information from banks

Figure 29. Uzbekistan

Bank	Type of bank/ownership	Parent of the foreign banking group (if any)	Parent's home country
Agrobank	State-owned		
Aloqa Bank	State-owned		
Anor Bank	Other		
Apex Bank	Other		
Asaka Bank	State-owned		
Asia Alliance Bank	Other		
AVO Bank	Other		
Business Development Bank	State-owned		
Davr Bank	Other		
Garant Bank	Other		
Hamkorbank	Other		
Hayot Bank	Other		
Invest Finance Bank	Other		
Ipak Yuli Bank	Other		
Ipoteka-Bank	Subsidiary of a foreign bank	OTP Bank	Hungary
Saderat Bank	Subsidiary of a foreign bank	Saderat Bank	Iran
Kapital Bank	Other		
KDB Bank Uzbekistan	Subsidiary of a foreign bank	Korean Development Bank	South Korea
Madad Invest Bank	Other		
Mikrokreditbank	State-owned		
National Bank of Uzbekistan	State-owned		
Octobank	Other		
Orient Finance bank	Other		
People's Bank	State-owned		
Poytakht Bank	State-owned		
Smart Bank	Other		
TBC Bank	Subsidiary of a foreign bank	TBC Bank	Georgia

Bank	Type of bank/ownership	Parent of the foreign banking group (if any)	Parent's home country
Tenge Bank	Subsidiary of a foreign bank	Halyk Bank	Kazakhstan
Trust Bank	Other		
Turon Bank	State-owned		
Universal Bank	Other		
Uzpromstroybank	State-owned		
Uzum Bank	Other		
Yangi Bank	Other		
Ziraat Bank Uzbekistan	Subsidiary of a foreign bank	Ziraat Bankasi A.Ş.	Türkiye

Source: FinSAC with information from banks