WORLD BANK GROUP
Finance & Markets
Financial Sector Advisory Center (FinSAC)

ANNUAL REPORT 2016

VIENNA FINANCIAL SECTOR ADVISORY CENTER

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BMF
AUSTRIAN FEDERAL MINISTRY OF FINANCE

Annual Report 2016

Vienna Financial Sector Advisory Center (FinSAC)

Table of Contents

List of Abbreviations

AQR	Asset Quality Review
BCBS	Basel Committee on Banking Supervision
BCP	BCBS Core Principles for Effective Banking Supervision
BoA	Bank of Albania
BRRD	Bank Recovery and Resolution Directive
CBK	Central Bank of Kosovo
CET1	Common Equity Tier 1 Capital
CoE	Cost of Equity
COREP	Common Solvency Ratio Reporting
CRD/CRR	Capital Requirements Directive and Capital Requirements Regulation
CSE	Crisis Simulation Exercise
DIA	Deposit Insurance Agency
DIS	Deposit Insurance system
EBA	European Banking Authority
ECA	World Bank Europe and Central Asia Region
ECB	European Central Bank
EU	European Union
FBiH	Federation of Bosnia and Herzegovina
FINREP	Financial Reporting
FinSAC	World Bank - Vienna Financial Sector Advisory Center
FSD	Financial Stability Department
FSI	Financial Stress Index
FSAP	WB/IMF Financial Sector Assessment Program
FSB	Financial Stability Board
GDP	Gross Domestic Product
G-SIB	Global Systemically Important Bank
IADI	International Association for Deposit Insurers
IAS	International Accounting Standard
IFC	International Finance Corporation
IFI	International Financial Institutions
IFRS	International Financial Reporting Standards
IMF	International Monetary Fund
ITS	Implementing Technical Standards
ITU	International Telecommunications Union
MREL	Minimum Requirements for Own Funds and Eligible Liabilities
NBS	National Bank of Serbia
NFSC	National Financial Stability Council
NIS	Network and Information System
NPE	Non-Performing Exposure
NPL	Non-Performing Loan
NBU	National Bank of Ukraine
OpCo	Operating Company
RS	Republika Srpska
SRB	Single Resolution Board
SRM	Single Resolution Mechanism
SSM	Single Supervisory Mechanism
TLAC	Total Loss Absorbing Capacity
USD	US Dollars

1. Introduction

The World Bank Financial Sector Advisory Center (FinSAC), now in its fifth year of operation, is a dedicated technical unit delivering financial sector reform advice and implementation assistance to client countries in the European and Central Asia region. FinSAC is part of the World Bank's Finance and Markets Global Practice and is supported financially by Austria's Federal Ministry of Finance.

FinSAC is a regional "knowledge center" focused primarily on three broadly defined thematic areas: first, macroprudential supervisory frameworks and crisis management; second, microprudential supervision and regulation including the resolution of non-performing loans (NPLs); and, finally, bank recovery and resolution. Advisory and analytical services in these areas are provided mainly through high quality client-specific technical assistance assignments. Technical workshops, conferences, and seminars are organized regularly and FinSAC also conducts relevant and applied research projects with corresponding outreach activities. FinSAC work streams are designed to innovatively reinforce each other; bilateral technical assistance raises important emerging policy and implementation issues that are then distilled and disseminated in open fora, such as conferences and seminars as well as in FinSAC publications in the form of working and research papers. In turn, these knowledge events and publications trigger new technical assistance requests.

All FinSAC activities are provided in close consultation with the wider World Bank Finance and Markets Global Practice and are designed to complement other World Bank projects and assistance to client countries. FinSAC draws on additional expertise from within the Global Practice when necessary, and also hires specialized consultants to help augment implementation of its work program. Country authorities typically are keenly involved and take a strong interest in implementing bilateral projects. FinSAC continues to build strong partnerships with many other European Union (EU) and global institutions and stakeholders also active in promoting strong and stable financial systems.

2016 was another challenging year in terms of financial stability for client countries. Even though the global financial crisis has passed, financial sectors in FinSAC client countries continue to face a number of challenges: a flurry of harmonized global and EU standards to ensure more resilient and stable financial systems; reduced bank profitability and the problem of asset quality determination evidenced by high NPL ratios; and parent banking groups operating in the region facing a fragile euro area economy and anemic growth; to name a few. Client countries seeking to join the EU are continuing to align their national laws and regulations to meet the EU acquis communautaire requirements.

Helping client countries to implement reform of their banking sectors is at the core of FinSAC's agenda and there has been increasing demand for FinSAC's technical assistance.

FinSAC committed euro 2,578,867 to its activities in 2016, compared to euro 2,234,323 in 2015, an increase of 15 percent. FinSAC provided technical assistance and knowledge sharing to eligible countries including EU candidate and potential candidate countries, EU member states as active non-graduated World Bank clients, and some EU neighborhood countries.

An independent evaluation of FinSAC's activities, conducted in the first quarter of 2016, concluded that FinSAC is a valuable program that deserves to be protected, further strengthened, and continued beyond its sunset date. This welcome validation of the Center sets the scene for the upcoming discussions to secure a longer-term future for FinSAC in its third phase. The positive review prompted an additional contribution of euro 2 million from the Austrian Ministry of Finance in December.

With high levels of NPLs continuing to impact the balance sheets of banks in many client countries, an NPL specialist joined the FinSAC team in April. This in-house expertise has further strengthened the Center's scope to deliver professional advisory services to help reduce the levels of bad loans.

Technical work in the area of bank recovery and resolution remained prominent in 2016. Several assignments addressed the implementation and alignment of legal and regulatory frameworks with the EU Banking Recovery and Resolution Directive (BRRD) in client countries. A conference on EU bank resolution was held in December and addressed if, and how, key objectives in international post financial crisis resolution frameworks, especially the Financial Stability Board's (FSB) Key Attributes, will be achieved in the post crisis resolution framework of the EU. Attended by some 100 banking specialists from Central, South Eastern and Eastern Europe, the potential effects of the new EU resolution regime on host countries in Emerging Europe was a focus of discussion. A new FinSAC publication *Guidebook to the BRRD: Understanding Bank Recovery and Resolution in the EU,* with accompanying case studies, was launched at the conference.

The growing, global, importance of cyber-security is acknowledged in FinSAC's work program on crisis prevention and preparedness. FinSAC organized a financial crisis simulation exercise (CSE) in September in Armenia, with a special focus on managing cyber incidents and attacks on systemic banks and on critical financial infrastructure such as payment and settlement systems. This was the first of FinSAC's new generation CSEs, for which product development with various partners has been ongoing during the last year. Work in this area will continue over 2017.

This annual report outlines FinSAC's work in 2016 and shares examples of "FinSAC in action" to give a sense of the range of technical assistance implemented. There is much scope for replication of these projects in other countries. The report also offers some analysis of the impact and results of different projects. FinSAC is committed to achieving meaningful results for every euro invested and continues to make significant strides towards producing measurable outcomes. Progress is tracked using a monitoring and evaluation framework, identifying impact and listing clearly defined outputs and outcomes. FinSAC is further strengthening this framework to improve its monitoring of technical assistance projects. This includes changes to be better able to design technical assistance and knowledge projects and measure results. The ultimate aim of these changes is to promote clarity in the Center's work and achievements, allow easier assessment of FinSAC's contribution towards the World Bank's development goals, and ensure accountability to Donors.

Demand from client countries continues to grow and a significant work program is already in place for 2017. Moving forward there will be an increased focus on addressing new emerging issues, such as cyber security and fintech, and growing FinSAC as a center of thought leadership on key areas of financial sector policy development and on engaging globally to deepen knowledge and address common issues.

The Center's achievements have been possible only due to the engagement and continuous support of the Austrian Government, the FinSAC and wider World Bank Finance and Markets team, and the commitment of our clients to financial sector reform. FinSAC extends its thanks to everyone who has contributed to its ongoing success.

2. The Financial Sector Advisory Center

A response to the financial crisis

The Vienna Initiative, a private-public platform to resolve systemic problems in the central and south-eastern European banking sector, was launched in 2009. Initially it aimed to maintain the presence of western banks in the region and has subsequently worked to oversee an orderly process of deleveraging and a balanced restructuring of the region's banking sectors. The World Bank, European Bank for Reconstruction and Development, European Investment Bank, European Commission and International Monetary Fund (IMF) all played key roles in the creation and further development of the Vienna Initiative, which brings together relevant public and private sector stakeholders of EU-based cross-border banks active in the region.

FinSAC was established in Vienna in 2011 as a follow-up mechanism to the Vienna Initiative to assist countries in the region deal with some of the legacy issues from the crisis – particularly the resolution of NPLs and fragmented crisis management frameworks, and the implementation of new regulatory and supervisory initiatives at the international and regional level.

Delivering financial sector reform advice and implementation assistance

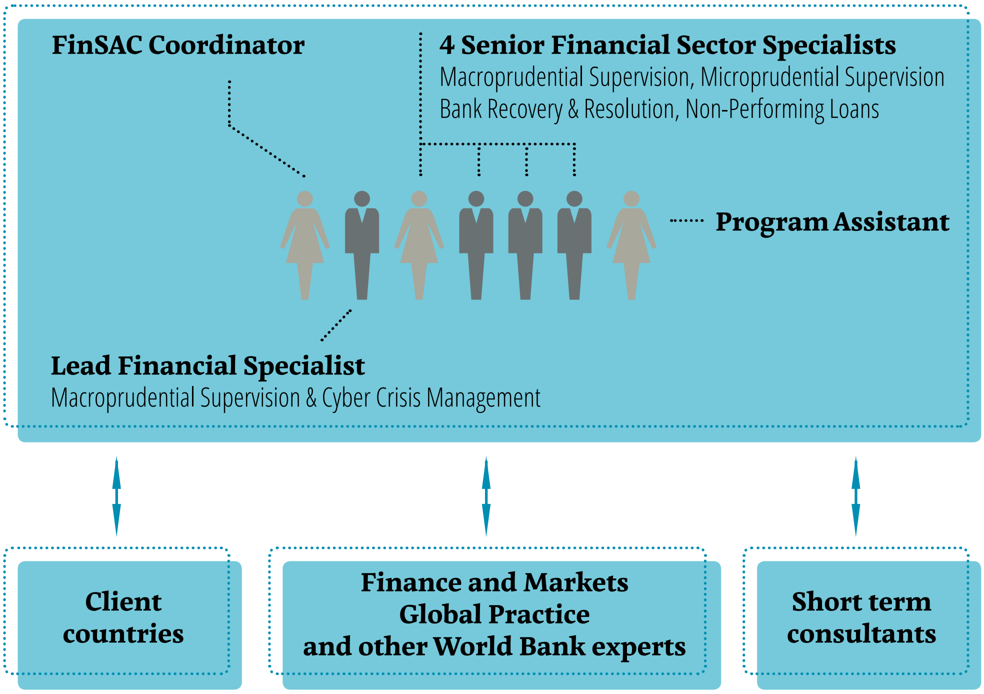
FinSAC provides independent, confidential, and tailored expertise, technical advice, and implementation support to eligible client countries. As a dedicated technical unit, it delivers financial sector reform advice and implementation assistance to client countries in the countries of the Europe and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

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

Supported financially by the Austrian Government

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

The core FinSAC team – promoting financial sector development and stability



During negotiations on FinSAC's second phase in 2013, the Austrian Ministry of Finance committed an additional euro 2 million subject to a positive independent evaluation of FinSAC's activities. This mid-term review was conducted in the first quarter of 2016 with the objective of taking stock of what had worked well and what could be improved. The evaluation concluded that FinSAC is a valuable program that deserves to be protected, further strengthened, and continued beyond its sunset date. Several recommendations, such as increasing staff capacity and developing a supply line of products, were made. The process of implementing these is well underway. Following this positive evaluation report, the Austrian Ministry of Finance made the additional contribution in December 2016.

A center of excellence, part of the World Bank's strategic global vision

The long-term strategy of the World Bank's Finance and Markets Global Practice, adopted in 2015, identifies the promotion of financial depth and stability in its client countries as one of its three major global mandates, beside financial inclusion and finance for development. Just as in most developing economies, financial sector development and stability is a major precondition to sustainable growth in the ECA region and therefore is critical in achieving the World Bank's twin goals of reducing poverty and fostering shared prosperity in this area.

These are long term aspirations and can only be achieved by sustained efforts and constructive collaboration among a country's public and private sectors and its development partners over time. Combining strong integration and coordination with the work of the Global Practice's ECA unit with its physical location in the region, FinSAC has emerged as a key institutional initiative in the delivery of impact-oriented financial sector technical assistance. FinSAC engages in technical work that helps countries implement concrete legislative, regulatory, and institution-building initiatives that strengthen the resilience and efficiency of financial systems.

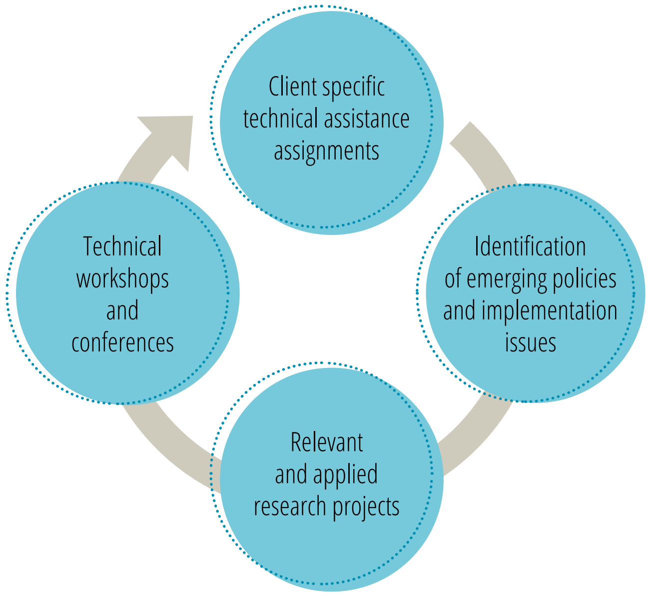
FinSAC's strategic objective is to be a center of excellence for financial sector reform advice and implementation assistance in ECA countries, recognized by client authorities, IFIs, EU authorities and the international community. Its multi-pillar thematic focus and long-term funding structure allows FinSAC to tackle complex (cross-pillar) issues and follow them through to implementation. The operational objective is to achieve strengthened financial stability in Emerging Europe and Central Asia. Progress is assessed using a strategic results framework which considers FinSAC outputs and activities towards achieving national reforms in client countries.

Advocating regional policy issues internationally

Since the global financial crisis, a broad financial sector reform agenda has been pursued by international and EU policymakers. This has had immediate impact, via a variety of direct and indirect channels, on most ECA countries, and particularly so among EU member and candidate countries. Institutional changes in the EU have also overturned the landscape for ECA country financial sector authorities' cross-border coordination. Particularly important in this respect was the 2014 launch of the euro area Single Supervisory Mechanism (SSM), replacing national authorities in the oversight of major euro area banking groups. As many of these euro area banking groups are parent banks of systemically important subsidiaries in ECA countries, financial sector authorities in the region need to align and strengthen their cooperation efforts.

With its depth of knowledge of the region and the challenges being faced, FinSAC is well placed to identify issues and practices that impact its client countries and to raise them with global bodies, such as EU authorities and global standard setters, and

FinSAC delivers ...



highlight them in international fora. In 2016, for example, FinSAC, representatives of the Vienna Initiative, and some client countries met to explore a joint cooperation agreement with the SSM, similar to the Memorandum of Cooperation agreed by the EBA with the Supervisory Authorities of the Federation of Bosnia and Herzegovina, the Republic Srpska, Macedonia, Montenegro, Serbia, and Albania. This would serve the purpose of exercising effective supervision and information sharing.

The Vienna Initiative and FinSAC also promoted a clearly distinct and preferential status for Central, Eastern and Southeastern Europe countries in a letter to the SSM. Not only because their banking systems are dominated by SSM-supervised banks, but also because they are prospective EU member countries and their legal and regulatory frameworks are therefore already aligned with the EU legal framework. Likewise, their supervisory standards and other institutional arrangements are being strengthened to bring them in line with those existing in the EU. Closer cooperation with EU authorities remains a main FinSAC priority and will undoubtedly help – and accelerate – bridging the remaining regulatory and supervisory gaps in client countries.

Collaborating within the World Bank Group, with the EU, and with other IFIs

The core FinSAC team in 2016 comprised 7 full time staff plus short term consultants. They work closely with World Bank Group colleagues in the Headquarters in Washington D.C., in Vienna, and throughout the ECA region. FinSAC continues to build strong partnerships with other institutions and stakeholders. It works closely with many EU institutions, such as the European Commission, the ECB, the EBA and the SRB. The International Telecommunications Union (ITU), a UN agency focusing on cross-border coordination of cyber-security, has contributed to FinSAC's cyber CSEs. Many projects require the effective cooperation of different stakeholders where the World Bank's convening power can prove to be an important advantage. FinSAC staff contribute to other relevant seminars, conferences and events, including those organized by the Joint Vienna Institute.

Examples of external events FinSAC addressed or participated in during 2016:

- **International Monetary Fund/Joint Vienna Institute Workshop for Caucasus and Central Asia Central Bank Deputy Governors;** Vienna, Austria (January)
- **Center for Excellence in Finance Bank Recovery, NPL Resolution and Stress Testing Conference;** Ljubljana, Slovenia (February)
- **The Financial Stability Institute, Banking Supervisors from Central and Eastern Europe and European Supervisor Education Initiative joint seminar on Leverage ratio and Interest Rate Risk in the Banking Book;** Prague, Czech Republic (April)
- **First annual European Central Bank/International Monetary Fund macroprudential Policy And Research Conference;** Frankfurt, Germany (April)
- **World Bank Seminar on Recovery Planning for Bosnia and Herzegovina;** Sarajevo, Bosnia & Herzegovina (May)
- **Workshop on the EU Resolution Framework with a Focus on Bail-In;** Kiev, Ukraine (July)
- **European Banking Authority Common European SREP Framework and Supervisory Assessment of Recovery Plans Workshop;** Sarajevo, Bosnia & Herzegovina (September)
- **Banking conference;** Budva, Montenegro (September)
- **London School of Economic Workshop on Financial Services and Market Regulation;** London, UK (September)
- **Austrian Central Bank (with the Bank for International Settlements) Bicentenary Conference on Central Banking in Times of Change;** Vienna, Austria (September)
- **Joint Vienna Institute Annual Seminar on Macroprudential Issues;** Vienna, Austria (October)
- **The Telecommunication Development Bureau of the International Telecommunication Union and the European Union Agency for Network and Information Security European Cyber Security Forum;** Sofia, Bulgaria (November)

FinSAC CLIENTS INCLUDE

EU candidate and potential candidate countries

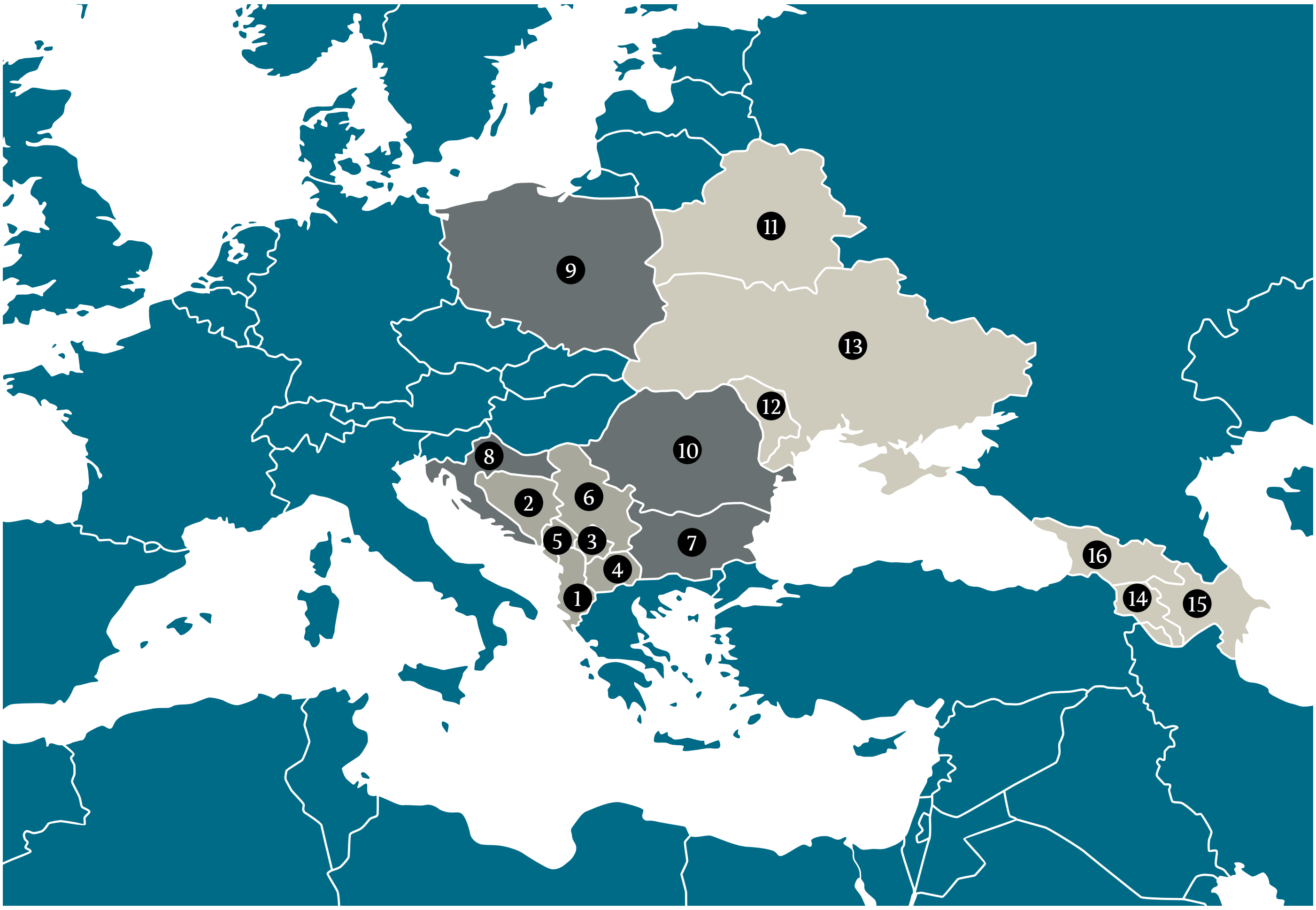
Albania ❶, Bosnia and Herzegovina ❷, Kosovo ❸, FYR Macedonia ❹, Montenegro ❺, and Serbia ❻

EU member states as active non-graduated World Bank clients

Bulgaria ❼, Croatia ❽, Poland ❾, and Romania ❿

EU neighborhood countries with potential expansion to Central Asia

Belarus ⓫, Moldova ⓬, Ukraine ⓭, Armenia ⓮, Azerbaijan ⓯, and Georgia ⓰



3. The Regional Environment in 2016 and Strategic Priorities in the Financial Sector

FinSAC's areas of focus and the requests made by client countries are largely driven by the political and economic situation in the region and the requirements of significant stakeholders. This section considers the broad regional economic situation in 2016, and the key strategic priorities for the financial sector.

3.1 The European Union and the Euro Area

Subdued growth and increased macroeconomic volatility mitigated by accommodative ECB policies

GDP growth in the euro area is expected to drop 0.4 percent in 2016, to 1.6 percent[1]. Both exports and domestic demand lost momentum during the year. Furthermore, the year was characterized by a high level of sovereign/macroeconomic volatility driven by geopolitical risks. The UK's decision to leave the EU in its June 2016 referendum took the markets by surprise and led to a brief episode of volatility. Similarly, the outcome of the US election led to a surge in volatility in the global financial markets in the fourth quarter of 2016. The full macroeconomic implications of these votes have yet to become clear. Finally, the rise of populist anti-EU parties in Europe could have a negative impact on the European banking system due to increased uncertainty regarding the parties' policy orientations and desired reforms.

This weaker economic growth was, however, partly mitigated by very accommodative ECB policies, featuring a favorable monetary response, low interest rates providing cheap funding to banks, and the extension of the ECB asset purchase programs (i.e. the TLTRO II, ABS and covered bond purchase schemes). These policies supported asset prices, spurred a recovery in risk appetites and more importantly led to a visible improvement in borrowing costs, which in turn had a positive effect on lending.

High levels of non-performing loans and low profitability the main risks for EU banks

Most EU banks have improved their balance sheets since the global financial crisis, but are struggling to maintain profitability. EU banks reported an average return on equity of 5.7 percent as of June 2016[2]. This remains below their cost of equity (CoE) and is down more than 100 bp compared to June 2015. This decline in profitability was partly driven by an 8.8 percent decline in their total operating income. Overall, the bearish short-term outlook for European banks' earnings and valuations can be explained by a set of factors including mounting disinflationary pressures, flatter yield curves squeezing banks' net interest margins, legacy issues, one-off litigation costs, more stringent regulations and structural changes that are reshaping banks' business models.

Furthermore, the quality of banks' assets varies across the EU, with some countries facing very high NPLs ratios. European and national authorities are taking supervisory actions, enacting structural reforms, and developing secondary markets to address these problem loans and the associated losses. As a result, NPL ratios fell in more than 60 percent of EU countries in 2016 (see table "Bank non-performing loans to total gross loans"[3]). Developments in Italy, particularly how the EU SSM will help resolve NPLs and strengthen capital, are being watched closely. Banks in Portugal are facing similar challenges, with an even greater likelihood of a spill-over into the country's sovereign debt.

1 Estimated 2016 GDP growth pending final numbers. Source: Global economic prospects: weak investment in uncertain times, World Bank, January 2017

2 Risk assessment of the European banking system, European Banking Authority, December 2016

3 FinSAC calculation based on data from the World Bank, International Monetary Fund, Global Financial Stability Report

Bank non-performing loans to total gross loans (%)[4]

Country Name	2015	2016		Country Name	2015	2016	
Austria	3.4	3.3	↓	Italy	18.0	NA	
Belgium	3.8	3.5	↓	Latvia	4.6	3.8	↓
Bulgaria	20.6	NA		Lithuania	5.8	6.0	↑
Croatia	16.3	15.9	↓	Luxembourg	NA	NA	
Cyprus	47.7	47.0	↓	Malta	9.4	8.9	↓
Czech Republic	5.5	5.2	↓	Netherlands	2.7	2.5	↓
Denmark	3.6	3.4	↓	Poland	4.3	4.4	↑
Estonia	0.982	0.978	↓	Portugal	11.9	12.2	↑
Finland	NA	NA		Romania	13.5	11.3	↓
France	4.0	3.9	↓	Slovak Republic	4.9	4.8	↓
Germany	NA	NA		Slovenia	10.0	8.0	↓
Greece	36.6	37.0	↑	Spain	6.2	6.1	↓
Hungary	11.7	10.0	↓	Sweden	1.2	1.1	↓
Ireland	14.9	9.0	↓	United Kingdom	1.0	NA	

European banks' solvency was further strengthened in 2016, with an increase in the Common Equity Tier 1 (CET1) ratio of 80 bp to 13.6 percent between June 2015 and 2016[5]. The improvement in banks' capital positions was mainly driven by an increase in common equity and in retained earnings following supervisory restrictions on the payment of dividends. The 2016 EBA stress test analyzed 51 banks from 15 EU and European Economic Area countries covering around 70 percent of banking assets in each jurisdiction and across the EU and confirmed the improvements in the European banking sector's resilience. 50 banks reported minimum level of capital above Pillar 1 capital requirements at the end of the stress test period. Whereas, 47 banks had leverage ratio below 3 percent (phased-in basis) and 44 banks had a leverage ratio below 3 percent (fully loaded basis) under the adverse scenario (see table "Key results of the 2016 EBA EU-wide stress test").

Key results of the 2016 EBA EU-wide stress test[6]:

Key Indicators	Starting figures Dec 2015	Baseline scenario Dec 2018	Adverse scenario[7] Dec 2018
CET1	13.2 %	13.9 %	9.4 %
Fully loaded CET1	12.6 %	13.8 %	9.2 %
Aggregate leverage ratio	5.2 %	5.6 %	4.2 %

[4] World Bank, International Monetary Fund, Global Financial Stability Report

[5] Risk assessment of the European banking system, European Banking Authority, December 2016

[6] 2016 EU wide stress test results, European Banking Authority, July 2016

[7] The adverse scenario implies EU real GDP growth rates over the three years of the exercise of -1.2 percent, -1.3 percent and 0.7 percent respectively – a deviation of 7.1 percent from its baseline level in 2018.

Implementing an appropriate regulatory response

2016 saw the development and introduction of a range of highly anticipated regulatory policies at the international and EU level. The most significant changes include:

The BRRD was implemented on 1 January 2015 and provided for the bail-in of senior unsecured liabilities from 1 January 2016 onwards. In addition, member states are required to ensure that financial institutions meet a Minimum Requirement for own funds and Eligible Liabilities (MREL). This is calculated based on the amount of own funds and eligible liabilities as a percentage of a financial institution's total liabilities and own funds. MREL includes all Senior Operating Company (OpCo) debt and other senior liabilities such as non-preferred deposits. These EU Senior OpCo debts will not be eligible under the FSB's Total Loss Absorbing Capacity (TLAC) requirements for Global Systemically Important Banks (G-SIBs), leaving the EU banking sector with an important TLAC shortfall. European banks are expected to issue non-preferred senior debt to comply with TLAC and MREL requirements.

The EU Network and Information System (NIS) Directive implemented in July 2016 has established more stringent security and incident-notification requirements for all designated Operators of Essential Services, including financial institutions. Going forward, national regulators in Europe are expected to take a much more proactive role in understanding emerging IT-related risks in their banking systems. Banks will be encouraged to take steps to address legacy IT systems, including their resilience, and governance. Supervisory, regulatory and resolution authorities should also be more aware of their own cyber risks and strengthen cyber security.

The European Commission published proposed amendments to the Capital Requirements Directive and Regulation (CRD V/CRR II) in November 2016, with application dates ranging between 2019 and 2022. These make important steps towards the implementation of the BCBS's regulatory framework. The rules impact both the banking and trading books of financial institutions and introduce important revisions to capital, funding, and liquidity requirements. Topics such as the comparability of the internal credit risk models and improvement of the Pillar II framework are expected to be priorities for EU policymakers in 2017, in spite of the emerging uncertainty surrounding the political support for further global reform in the area of financial stability.

Banks and banking supervisors should also be preparing for the significant structural changes required to implement International Financial Reporting Standard (IFRS) 9. The standard will be effective from January 1, 2018. It measures credit losses on an "expected" rather than "incurred" basis. According to a EBA study, IFRS 9 implementation is expected to lead to an average one-time capital decrease of -59 bp on CET1 ratios and an increase of +18 percent on loan provision compared to IAS39.[8]

[8] EBA report on impact assessment of IFRS 9, European Banking Authority, November 2016

EU member states as active non-graduated World Bank clients: Bulgaria, Croatia, Poland, and Romania
In 2016, GDP growth was positive in Croatia (+2.7 percent), Bulgaria (+3.5 percent), Romania (+4.7 percent), and Poland (+2.5 percent).[9] Even though the performance of the banking sector has improved over the period, profitability and lending have been dampened by low interest rates, exchange rate volatility, the impact of Swiss Franc loan conversions, and increased regulatory charges, such as the introduction of a new tax on financial institutions in Poland and systemic buffers to address risks related the country's USD 36 billion foreign currency mortgages. NPLs remain high and further improvement is expected to be more gradual, as NPLs recognition may increase after asset quality reviews (AQR) in Bulgaria (2016) and in Romania (2017). For this reason, and because of high impairment charges, the transition to IFRS 9 could have a considerable impact on these banks' balance sheets. With low private sector debt penetration rates, the banking sector in these countries still presents a high loan growth potential. Banks need to further improve their operational efficiency. Further consolidation is expected in Romania and Poland triggered by fragmented banking sectors with large branch networks and foreign banks' appetite to sell their local subsidiaries.

[9] Estimated 2016 GDP growth pending final numbers. Source: Global economic prospects: weak investment in uncertain times, World Bank, January 2017

3.2 EU candidate and potential candidate countries

Albania, Bosnia and Herzegovina, Kosovo, FYR Macedonia, Montenegro, and Serbia

Western Balkans banking sector continues to face challenges
GDP growth in the Western Balkans is expected to spike to 2.7 percent in 2016.[10] Although the financial sector size and level of concentration vary considerably across the region[11], the sector is characterized by a low level of intermediation and by the dominance of EU banks.[12] While this foreign ownership has contributed to more efficient, deeper financial systems, it has also increased the region's exposure to external risks.

These include exposure to fluctuations in the EU's economic outlook and regulations; foreign exchange rate risks potentially affecting both banks external funding and asset quality (i.e. FX loans granted to unhedged borrowers); parent bank strategies (including increased capital constraints and deleveraging in the region); and finally, the need to adapt to fast moving technologies. The region also features one of the highest levels of NPLs in the world. These challenges are compounded by low interest rates world-wide and the low-growth environment that banks are operating in.

Progress in supervisory regimes and regulation
Authorities across the region are making progress towards strengthening banking sector regulation and oversight as well as financial stability frameworks. Although at different stages of execution, supervisory agencies in the Western Balkans are moving towards more risk-based supervisory regimes, as well as implementation of Basel II and Basel III requirements and IFRS. Furthermore, each country has formed a Financial Stability Committee (FSC) to facilitate communication and information sharing among domestic financial sector authorities. Going forward, the implementation of new standards (regarding the supervision of systemically important banks, and recovery and resolution planning[13]) and the strengthening of existing ones (corporate governance and identification of ultimate beneficiary owners and related-party lending) should be priorities. There is a need for stringent supervision of banks burdened with high levels of NPLs by enforcing proper loan classification, realistic collateral valuation, and realistic recovery assumptions.

The establishment of the SSM and Single Resolution Mechanism (SRM) has resulted in **the following three broad categories of supervisory and resolution arrangements impacting banks** operating in the Balkans:

Euro area parent banks or holding
- Significant banks
- Less significant banks

Non-euro parent banks or holding
- EU banks (UK, Denmark, Sweden ...)
- Non-EU banks

Domestic banks

In view of its limited resources, the SSM has for now decided to continue supervisory collaboration in the region by stepping into existing bilateral memorandums of understanding between the National Competent Authorities and the third countries. New memoranda are being negotiated and will be established in the near future.

[10] Estimated 2016 GDP growth pending final numbers. Source: Global economic prospects: weak investment in uncertain times, World Bank, January 2017

[11] Concentrations differ across the region, with around two-thirds of total assets in the hands of the three largest banks in FYR Macedonia, Kosovo and Albania; and a more moderate concentration in Serbia, Montenegro and FBiH, where around 45 percent of total assets are owned by the three largest banks. Source: Financial Sector Outlook: Financial Systems in the Western Balkans – Present and Future, World Bank, June 2016

[12] Between 80 and 90 percent of total banking assets are controlled by foreign banks in five of the Western Balkan countries. An exception is Serbia, where state-owned commercial banks control about 20 percent of the banking sector and the level of foreign bank ownership is lower, at 75 percent. Source: Financial Sector Outlook: Financial Systems in the Western Balkans – Present and Future, World Bank, June 2016

[13] Albania enacted its bank recovery and resolution law in 2016

3.3 EU neighborhood countries

Belarus, Moldova and Ukraine
According to World Bank estimates, Moldova and Ukraine were recovering from recession in 2016, with 2.2 percent and 1.0 percent GDP growth respectively, while there was a reduced output contraction in Belarus of -2.5 percent in 2016 (vs. -3.9 percent in 2015).[14]

Moldova's recovery, mostly driven by its agricultural sector, remains fragile due to low external demand and troubled public finance. The recent bank scandal showcases the urgent need to enhance banks' corporate governance and strengthen the supervisory authorities' independence, powers, and capacity.

Ukraine's recovery was supported by improved macroeconomic fundamentals and a less challenging geopolitical environment. In December, the government nationalized the country's largest bank (Privatbank), in order to preserve financial stability.

In Belarus, the highly dollarized banking sector remains exposed to currency risk and has suffered from a decrease of private sector loans and banks' asset quality, which accompanied with weaker profitability, resulted in higher NPLs.

[14] Estimated 2016 GDP growth pending final numbers. Source: Global economic prospects: weak investment in uncertain times, World Bank, January 2017

South Caucasus: Armenia, Azerbaijan, and Georgia
GDP growth in South Caucasus countries is expected to fall by 2.8 percent in 2016 to -1.2 percent[15]. The region suffered from a decrease in oil and gas prices at the beginning of 2016, currency depreciation, and the weaker growth of its key trading partners, namely Russia and China.

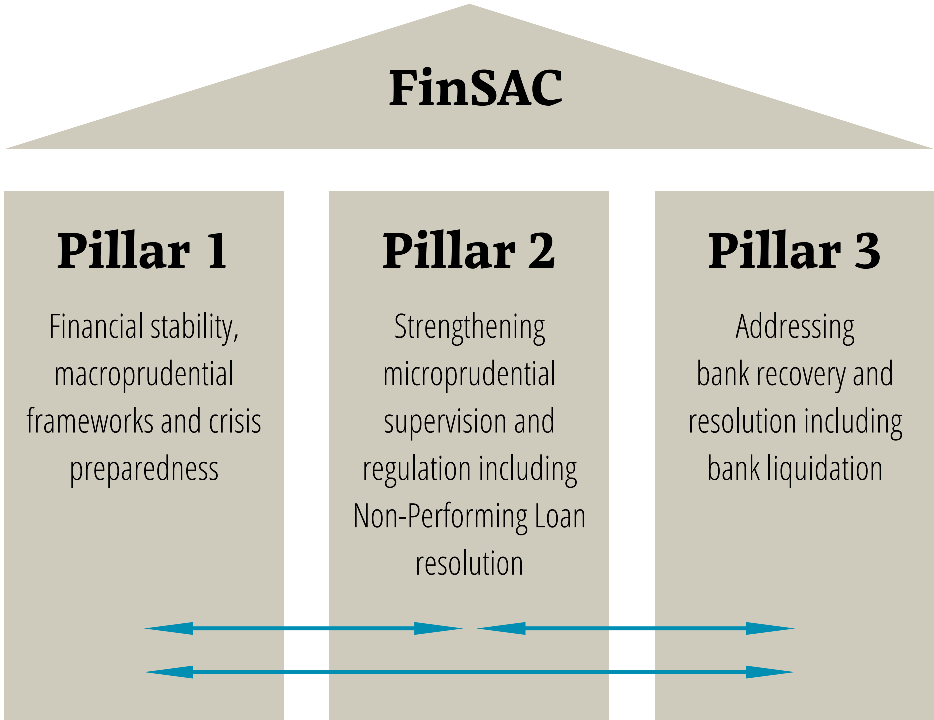
Reported NPLs for the region stand below the 10 percent mark.[16] However, banks' balance sheets have deteriorated due to their sizable exposure to foreign currency fluctuations and the prevailing low-growth environment. Central banks are taking measures to reduce risks to financial stability and intermediation. These measures include changing interest rates policy, injecting capital in the system, restructuring and closing distressed banks, and strengthening oversight, macroprudential, and crisis-management frameworks. In Azerbaijan, for example, the supervisory authority revoked the licenses of ten banks in 2016 and began an asset quality review.

[15] Estimated 2016 GDP growth pending final numbers. Source: Global economic prospects: weak investment in uncertain times, World Bank, January 2017
[16] World Bank, International Monetary Fund, Global Financial Stability Report

4. FinSAC activities in 2016

FinSAC organizes its specialist technical assistance within three distinct areas, the FinSAC pillars, which cover macro and microprudential themes and issues related to bank failure. In addition to dedicated work streams within each of the pillars the FinSAC team work cooperatively between and among the pillars as appropriate and feasible.

The three FinSAC pillars



Helping client countries achieve their aims
In its activities to date FinSAC has successfully proven its ability to support member states, accession and neighboring countries in implementing EU directives, regulations, and practices. It has competently delivered technical assistance services demanded by client countries and established the reputation of a trusted partner and center of technical expertise. FinSAC also provides feedback to EU institutions on Directives and rules and how they impact member states and accession countries.

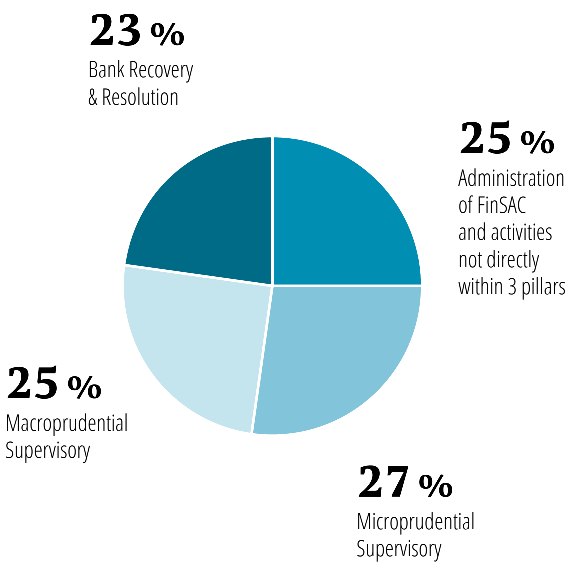
Policy makers in client countries continue to demonstrate their commitment to change and improved regulatory frameworks as part of efforts to ensure sound financial systems and allow for economic growth. In 2016, FinSAC further developed and deepened its impact on client institutions, such as central banks, prudential supervisors, resolution authorities, deposit insurers, and Ministries of Finance. The Center is acknowledged as a trusted source of knowledge and implementation advice on the latest regulatory developments. It is a time of significant change in the sector with global initiatives addressing capital requirements, bank recovery and resolution, and deposit insurance. EU Directives transpose these in the EU context and are being implemented by EU member states. Client country authorities need to understand what adjustments are necessary to their regulations and practices as a consequence.

FinSAC's operations have highlighted solid client demand for financial sector technical assistance. This has been aided by its geographical proximity to prospective clients in ECA countries, allowing FinSAC to provide flexibility and effectiveness in its response. FinSAC's distinct comparative advantage vis-à-vis other technical assistance providers is its implementation-oriented multi-pillar thematic focus and its medium-term funding structure. This means FinSAC can undertake complex engagements, and see them through from inception to implementation. All technical assistance products are designed to meet the specific needs of clients and adjusted to accommodate local or regional specifications.

How FinSAC spent its time and budget in 2016
FinSAC committed euro 2,578,867 to its activities in 2016, compared to euro 2,234,323 in 2015, an increase of 15 percent reflecting growing demand for FinSAC's technical assistance.

Three quarters of total expenditure was focused, almost evenly distributed, on activities under the three FinSAC pillars. FinSAC work within the three pillars in 2016 was largely concentrated on the delivery of direct technical assistance to client countries in response to their needs and requests.

How FinSAC spent its budget in 2016



The other quarter of expenditure covers costs incurred in the administration of the Center and by FinSAC staff, including the Coordinator and HQ-based support staff, as part of the general program of work but are not directly attributable to any specific project. This includes the cost/time for:

– **General program coordination and management** (budgeting, strategic staffing, staff hiring, cost monitoring, liaison with donors, liaison with World Bank management in HQ, etc.)
– **Business development** (assessing, budgeting and clarifying technical assistance requests, developing marketing materials, etc.)
– **Internal and external reporting** (annual and quarterly reports to the Austrian Ministry of Finance, internal management reporting and approvals, etc.)
– **Internal and external partnership building** (liaison with the EC, SSM, SRB, ECB, World Bank/International Finance Corporation (IFC), etc.)
– **Capacity development and other team activities** (FinSAC staff keeping up-to date with EU and global regulations, attending conferences, staff training, team meetings, etc.)

Delivering measurable results
Achieving FinSAC's objective of strengthened financial stability in Emerging Europe and Central Asia requires long term commitment and engagement. Progress is made in increments. All activities are guided by their contribution to achieving this objective. It is therefore important to monitor and evaluate all FinSAC activities to ensure they are delivering appropriate and useful assistance, and to encourage and take account of client feedback.

Progress is assessed using a strategic results framework, which considers FinSAC outputs and activities, identifying the positive changes made on the ground and listing clearly identified outputs and outcomes towards achieving national reforms in client countries. This is embedded in FinSAC's processes and practices during delivery and on completion of all projects. The information is used to refine and inform future assistance.

As FinSAC continues to evolve it is working to strengthen its monitoring and evaluation framework to further improve this process and deliver more clarity and detail on the results of its activities. A new enhanced framework is being developed that will more clearly define projects' expected outcomes from the concept note stage, and monitor and collect results and lessons learned at the completion stage for heightened accountability, learning, and knowledge sharing. Outcome indicators will be SMART (Specific, Measurable, Achievable, Relevant, Time Bound).

From January to December 2016, 17 projects were completed. 12 were evaluated against the strategic results framework[17]. The 9 technical assistance projects, 2 knowledge events, and one knowledge product all demonstrated positive outcomes and significant impact for FinSAC's clients.

FinSAC projects completed in 2016:

Technical Assistance
1. Albania Legal reform – Bank Resolution Framework
2. Bank of Albania – Assessment of Recovery Plans for systemic banks
3. Armenia Cyber Crisis Simulation Exercise
4. Central Bank of Kosovo – Assessment Analysis of Non-Performing Loans[18]
5. Cooperation with the ECs Joint Research Center – Resolution Financing Albania
6. Kosovo Contingency Plan[18]
7. Macedonia Assessment of Microprudential Supervision
8. Moldova Bank Resolution
9. Ukraine Early Warning System
10. Ukraine Financial Stress Index
11. Ukraine: Supervisory Needs Assessment and Prioritization of Reforms for Banking Supervision

Knowledge Events
12. Workshop on "Macroprudential Policy-making in Emerging Europe"
13. Bank Resolution Conference and related workshop on bail-in and MREL

Research/Knowledge Product
14. Guidebook to the BRRD and accompanying publication of selected case studies
15. Are non-performing definitions comparable across countries? Policy brief[18]
16. Macroprudential policy making in Emerging Europe and Central Asia Policy brief[17]
17. Developing Cyber- and Cross-Border Crisis Simulation Exercises[17]

The strategic results framework for 2016 is enclosed at Annex 2. A review of completed activities was undertaken to confirm the extent to which overall outcome indicators were achieved. Each project was assessed against FinSAC's key objectives. The following table shows how many projects in each pillar contributed to which outcome indicators (each project may be counted against one or more outcome indicators). It shows a particularly strong year for achieving increased compliance with international principles and good practices, and strengthened crisis preparedness and institutional frameworks.

[17] the team did not receive feedback on 2 projects, and the other 3 were primarily internal policy briefs and therefore less directly relevant to the framework's indicators
[18] not reviewed under strategic results framework

Key overall outcome indicators

Key outcome indicators	Pillar 1	Pillar 2	Pillar 3	Total number of indicators met by FinSAC projects[19]
Strengthened crisis preparedness and institutional frameworks	3	–	1	4
Strengthened resolution frameworks	–	–	3	3
Increased compliance with international principles and good practices	–	3	3	6
Enactment of new or improved laws, regulations and good practices	–	–	3	3
Strengthened microprudential supervisory frameworks	–	3	–	3
Fostered capacity building and promoted knowledge sharing	1	–	2	3

Key outcomes by type of deliverables, pillars and countries[20]

Key outcome indicators by deliverables	Pillar 1	Pillar 2	Pillar 3	Total
Capacity building	1	–	1	2
Technical assistance	3	3	3	9
Knowledge product	–	–	1	1
Total	**4**	**3**	**5**	**12**

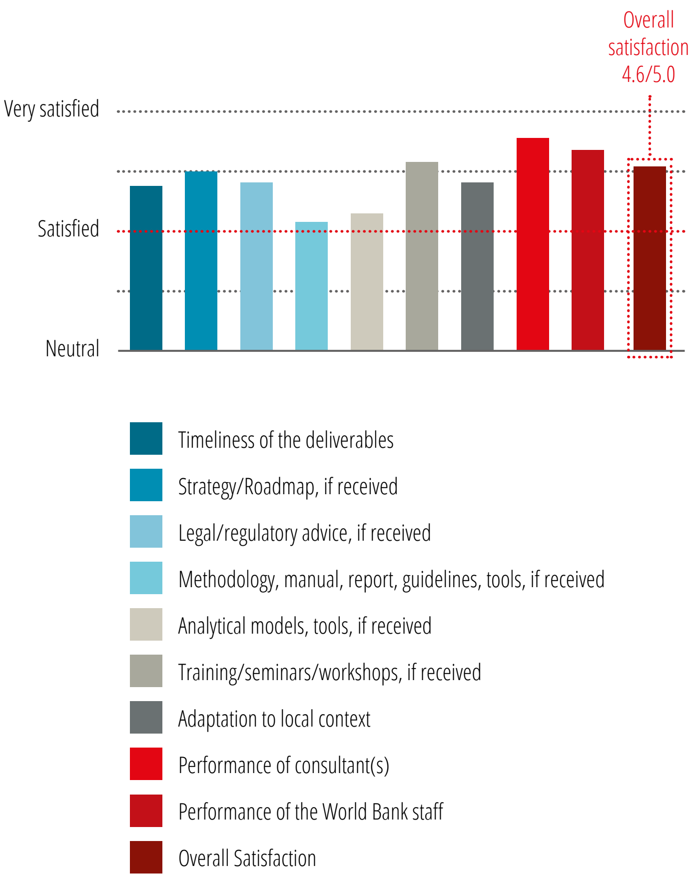
Country	Pillar 1	Pillar 2	Pillar 3	Total
Albania	–	1	2	3
Armenia	1	–	–	1
Macedonia	–	1	–	1
Moldova	–	–	1	1
Ukraine	2	1	–	3
Regional	1	–	2	3
Total	**4**	**3**	**5**	**12**

[19] some projects achieved more than one indicator
[20] based solely on projects completed in the calendar year 2016

Client feedback
By seeking client feedback on its completed technical assistance projects, FinSAC aims to capture insights and lessons learned to enhance the design and effectiveness of its future projects. In January 2017, FinSAC sent a client feedback survey regarding the 11 technical assistance projects completed in 2016.

There was a high response rate of 82 percent, and most were very positive with average grades of 4.6/5.0 for overall satisfaction, 4.7/5.0 for the World Bank staff's performance, and 4.8/5.0 for consultant performance.[21]

Clients' assessment of FinSAC's TA in 2016



All clients reported some level of implementation of recommendations received as part of technical assistance projects. Furthermore, 89 percent of clients reported that FinSAC assistance had helped them initiate new projects or reforms being implemented by clients themselves and/or with support from the World Bank and/or other development partners. In Ukraine, for example, FinSAC's recommendations will be used as part of a new project on the implementation of risk-based supervision. In Macedonia, the project assessing microprudential supervision has led to the revision of the National Bank Supervisory review and evaluation (SREP) methodology.

Clients also provided useful suggestions and recommendations on how to improve the effectiveness of FinSAC's technical assistance including better tailoring its recommendations to the local context, offering more "on the field" engagement (vs. "on line" counselling), and facilitating the sharing of experiences between different central banks.

Some FinSAC hosted events in 2016

Bank Resolution And Recovery Conference
December 2016

– 98 people attended including from 14 client countries
– Senior speakers including from the EBA, ECB, European Commission, SRB and EU central banks
– Participant satisfaction rates were 4.9 out of a maximum 5
– Positive feedback on its value as a networking opportunity

Bail-in and MREL Workshop
December 2016

– 66 people attended including from 13 client countries
– Interaction was encouraged including using electronic voting
– Participant satisfaction rates were 4.9 out of a maximum 5
– Case studies and worked examples helped illustrate complex issues

Macroprudential Policymaking in Emerging Europe Workshop June 2016

– 34 people attended including from 13 client countries
– Helped build a community of central bank financial stability practitioners in FinSAC client countries
– Participant satisfaction rates were 4.8 out of a maximum 5
– Useful highlighting of practical challenges faced by financial stability community and how some EU countries address them

[21] The scale used is: very satisfied=5, satisfied=4, neutral=3, dissatisfied=2, very dissatisfied=1

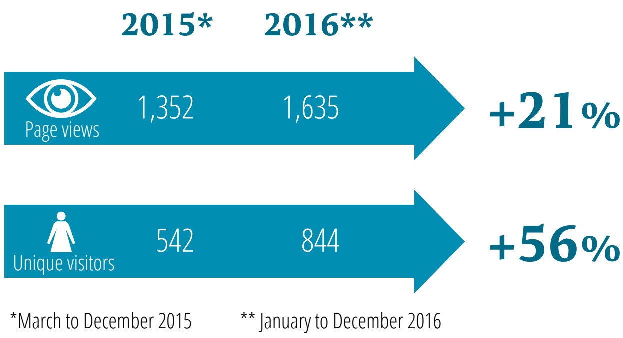
4.1 Activity in 2016: Cross-pillar tasks

Discussions about financial sector policy frameworks often suppose that different policy functions – macroprudential policy and crisis management, microprudential bank supervision and regulation, and bank recovery and resolution – can all be neatly separated and that policy objectives and tools used in one area do not undermine or reinforce the other. In reality, however, these functions can have different (and at times conflicting) policy objectives, their instruments can be cross-functional, and they could be implemented by multiple institutions in government. FinSAC is clear that, while much of its technical assistance is targeted on specific areas of need within each of the three pillars, there is a great deal of overlap and interaction. These interrelations are taken into account in FinSAC's projects and knowledge activities.

FinSAC's range of expertise is usefully combined to offer client countries integrated advice and technical assistance across the pillars. FinSAC is well placed to identify and assess areas of synergy and discordance within the three pillars and to harness its combined knowledge to address them. In 2016, for example, FinSAC microprudential supervisors worked on projects focused on the assessment of recovery plans, closely collaborating with FinSAC's resolution experts, on the premise that choices made in the recovery plan influence the resolution options of a particular bank and, more generally, the financial system.

FinSAC has developed brochures outlining its range of technical assistance products across its three thematic pillars, available on FinSAC's website. The website hosts other information about the Center, its activities, and materials from knowledge events. It was visited approximately 1,600 times in 2016 (+21 percent compared to 2015). The low bounce rate of 26 percent is a good indicator that visitors do not immediately leave the page. The number of unique visitors also increased by 56 percent compared to 2015. Typically, the number of visits increases around the time of knowledge events (i.e. conferences and workshop). Most unique visitors accessed the website in November 2016, coinciding with FinSAC's BRRD conference and workshop and the publication of Guidebook to the BRRD: Understanding Bank Recovery and Resolution in the EU and accompanying case studies on the website.

FinSAC's website in 2016



There are a range of current topics of potential relevance and interest to FinSAC client countries. In 2016 FinSAC initiated research on two such topical issues: governance of policy functions; and the effects of different approaches to the use of resolution tools within banking groups.

FOCUS ON:

Cross-pillar engagement in Albania

In 2016, FinSAC cross-pillar assistance was given to Albania to help update microprudential frameworks to better reflect international good practice, including the development of bank resolution and recovery legislation aligned with the BRRD. The input was important for Albania where the issuance of a bank resolution law and the establishment of a system to assess bank recovery plans was included as a condition of a World Bank Development Policy Loan.

FinSAC used existing synergies and leveraged its networks to offer the most appropriate and constructive assistance. This required close and effective cooperation within the FinSAC team; with the wider World Bank Financial and Markets Global Practice; with regional and global institutions including the IMF and EU agencies; and, crucially, with the Albanian authorities who formed dedicated teams to develop the programs. Areas which were successfully addressed included identifying compliance and divergences from the EU; work to determine the setting of a resolution fund target level and loss absorbing capacity in light of introducing bail-in; identifying the role of the Albanian Deposit Insurance Agency (DIA) in the new framework; input to the draft law; assessment of Albanian systemic banks; and supporting the Bank of Albania (BoA) during the inter-ministerial consultation process as well as in discussions with stakeholders. FinSAC's work continues as the Albanian authorities enter the second stage of regulations developing the law and a further round of assessment of recovery plans.

FOCUS ON: Survey on the Governance of Financial Sector Policy Functions

FinSAC is undertaking a comprehensive study to better understand the governance of financial sector policy functions – whether and how institutions responsible for these functions could be established, what their remit and responsibilities could be, and how they could be coordinated. This would involve developing means and ways of sharing information and communicating, and establishing processes for implementing each function and resolving conflicts when/if they arise.

Good governance practices may come in various institutional forms – for example, single institution (often the central bank) or multiple institutions could be responsible for some or all the functions. In countries where macroprudential policy and microprudential banking supervision functions are handled by separate institutions, arrangements can be made (and indeed are made) for central bank access, as the macroprudential supervisor, to information relevant to the stability of banks. These functions can also be combined in a single institution without compromising the effective working of each function.

An extensive survey on governance practices and policy issues in FinSAC client countries and a range of other, benchmarking, countries was initiated in 2016.
The study, to be completed in 2017, will draw on the survey findings.

FOCUS ON: Research on the impact of banking group resolution approaches on small host countries

Many of FinSAC's client countries are "small host" supervisors, overseeing foreign owned banks that are not material to the solvency of the banking group but are systemic in the host country. These authorities face particular risks, only some of which are addressed by specific safeguards built in international standards and EU legislation on supervisory cooperation. FinSAC research was initiated in 2016 to look in more detail at some of these risks.
Two approaches to bank resolution within banking groups are stipulated by the FSB:

1) 'Multiple Points of Entry' (MPE), where resolution tools can be applied to different parts of the banking group; and 2) 'Single Point of Entry' (SPE), where resolution tools are only applied at the top level of a banking group (often a holding). The resolution authority's choice of entry point is a cornerstone of the subsequent resolution strategy. FinSAC's research is focused on the extent to which this decision fundamentally impacts banks' target set-ups in the going concern, with the risk of consequent ripple effects on the mid- to long-term structure of the banking sector in small host countries.

This research is being further developed together with the Austrian Central Bank. A paper will be published in 2017 assessing the possible effects and (dis)advantages of each of the standardized approaches from a small host perspective, including for the individual bank, the supervisory and resolution authority, as well as broader financial stability aspects. This will assist FinSAC client countries, as small hosts, better understand the potential impact on subsidiaries of internationally active banking groups and will highlight to the supervisors of parent holdings the possible downstream effects of their decisions.

4.2 Activity in 2016 within Pillar 1: Financial stability, macroprudential frameworks and crisis preparedness

Under this pillar, FinSAC assists authorities build their knowledge to strengthen their financial stability frameworks in both crisis prevention (including macroprudential policy-making) and preparedness to actually manage a financial crisis. In 2016, FinSAC continued to work with clients in designing and testing the institutional set-up for national financial stability arrangements. FinSAC technical assistance related to macro-prudential frameworks included a focus on the role, remit, and analytical capacity of financial sector authorities in client countries.

Crisis Simulation Exercises

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

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

One important area of increased FinSAC focus, which emerged from CSEs, is that of cyber-preparedness. Cyber incidents (such as malware attacks) are very often contagious and thus, by nature, potentially systemic. Sharing information about incidents is vital to enable preventive and mitigation measures to be quickly taken in unaffected institutions, but in practice this is not always a priority. Cyber issues are too often viewed as the responsibility of IT departments rather than another operational risk that needs the attention board members and senior management, at individual banks as well as the prudential supervisor. FinSAC has worked to raise awareness of the key coordination role for central banks and prudential supervisors to try and contain and prevent further escalation of a cyber-attack on the financial system. Cyber events have been introduced within CSE's scenarios.

CSEs

- allow client country authorities to test their crisis preparedness;
- identify gaps in their early crisis response and regulatory and legal frameworks;
- assess decision-making and information sharing processes;
- highlight cyber security;
- and demonstrate a model for authorities to use in regular CSEs of their own.

FOCUS ON: Cyber-CSEs: A new FinSAC product

Banks, large investment firms, insurers and other parts of the financial market infrastructure can be vulnerable to potentially devastating cyber-attacks. Given the interconnectedness of financial markets a problem in one area of the network can quickly spread, with systemic impact. FinSAC works with client countries to improve their cyber-preparedness by helping raise awareness; test for vulnerability; and encourage the development of systems of governance and policy frameworks that require systemically important companies to identify, monitor, and mitigate risks in IT systems. FinSAC's work includes awareness assessments, seminars bringing central bankers and supervisors together with experts in the field; and the newly improved CSEs with a cyber security focus.

Taking advantage of the experience already accumulated by running CSEs, which have included cyber incidents as triggers of financial instability scenarios, FinSAC introduced a cyber-focused CSE in 2016. Simulation exercises allow financial sector authorities to better recognize the business decisions required in response to a cyber incident, often in high-pressure and fast-moving situations and which cannot be delegated to IT experts. They also build connections between the unusual counterparts or stakeholders in this type of situation (in-house and external IT specialists, national security personnel, etc.).

The first exclusively cyber-motivated simulation exercise took place in Armenia, in September 2016. The Head of ICT Applications and Cybersecurity at the ITU joined the exercise to observe. The next exercise of this kind is scheduled to take place in Georgia in March 2017.

Regulatory bodies, recognizing the threat, have begun issuing guidance and advice, such as the recent EU NIS Directive, the joint "Advance Notice of Proposed Rulemaking" issued by the Federal Reserve Board, OCC and FDIC, and other similar initiatives. To help update client countries on these different proposals and to discern what might be most appropriate to implement in their jurisdiction FinSAC began work in 2016 on a publication which will outline the relevant legal/regulatory issues.

Technical assistance to national authorities in 2016

Armenia
FinSAC delivered its first cyber security CSE at the National Bank of Armenia in September focused on managing cyber incidents and attacks on systemic banks and on critical financial infrastructure such as payment settlement systems. The CSE was well received by the authorities and has allowed them to be better prepared in case a real-life cyber attack hits the financial system. Feedback from the exercise is being used to further tailor the cyber security CSE to client countries' needs.

Kosovo
Following the CSE conducted by FinSAC in 2015, the Central Bank of Kosovo asked FinSAC for technical assistance to enhance its crisis preparedness framework. This work commenced in late 2015 and was completed in mid-2016 following two missions earlier in the year. A comprehensive package of deliverables was prepared and shared with the Central Bank of Kosovo (CBK), consisting of an enhanced gap analysis covering all the legislative, procedural and institutional weaknesses of the current crisis management framework and suggestions as to how progress can be made to address them. FinSAC also made detailed contents suggestions for a Bank Resolution Manual, being worked on jointly by the CBK and the Deposit Insurance Fund of Kosovo.

Ukraine

FinSAC continued supporting the newly established Financial Stability Department (FSD) within the National Bank of Ukraine (NBU), to quickly build up its analytical capacity. In 2016, two separate FinSAC technical assistance projects with the FSD were completed: one on setting up an early warning system for the Ukrainian banking sector and another focusing on the construction of a Financial Stress Index (FSI). The early warning system was developed with FSD staff, who collected and structured the necessary data. A model was finalized and FSD staff were trained on how to operate the index and how to interpret the results and report them regularly for management. The FSI has already been endorsed by NBU senior management and is due to feature regularly in the NBU's recently launched semi-annual Financial Stability Report publication series. It is a composite FSI from high-frequency (daily) data covering such sub-markets as banking, government securities, foreign exchange and corporate bonds. The FSI is envisaged to help the work of not just the NBU, but it will also be regularly submitted to and discussed at the meetings of the National Financial Stability Council (NFSC). The NFSC is a multi-authority regulatory body, established in 2015 with support from FinSAC, which is now fully operational and playing an important role in banking sector clean-up and restructuring. It will use the FSI in its assessments of the current degree of financial stress, as it is the responsibility of the NFSC to declare a systemic crisis situation in Ukraine.

Knowledge Activities

Macroprudential Policymaking in Emerging Europe and Central Asia Policy Brief, was published by FinSAC in May 2016. The policy brief summarizes the experience gathered since FinSAC's inception via its technical assistance to central bank financial stability departments and CSEs. The findings were presented as an introduction to the FinSAC Macroprudential Workshop, setting the stage for the workshop's discussions.

FinSAC organized a one-day **Workshop on Macroprudential Policymaking in Emerging Europe** on June 2, 2016, in Vienna. Participants and speakers included senior financial stability experts of central banks and regulatory agencies from seventeen countries in Europe as well as from FinSAC, the Joint Vienna Institute, the Bank of International Settlements, and the ECB. The Austrian authorities were represented by speakers and session chairs from the Austrian Central Bank and the Financial Market Authority. The workshop focused on macroprudential analysis challenges, using examples from EU member states, covering: (i) institutional set-up; (ii) policy instruments; and (iii) analytical capacity.

FinSAC gave a presentation on its CSEs and participated in the Caucasus and Central Asia Central Bank Deputy Governors' Forum in Vienna organized by the IMF and the Joint Vienna Institute. FinSAC will continue to be invited to this recently launched annual forum in the future.

4.3 Activity in 2016 within Pillar 2: Strengthening microprudential supervision and regulation

Work under this pillar aims to help FinSAC's client countries strengthen the safety and soundness of individual supervised entities through forward-looking supervision and sound regulations. FinSAC advises in tailor-made ways to adapt to changes in international and EU prudential regulations, working with national authorities to establish and implement appropriate supervisory systems and sound prudential regulations in line with international standards and good practice. On supervision, this includes assessing supervisory processes and methodologies towards implementing forward looking risk based supervision. Regarding regulation, examples of technical assistance are carrying out gap analysis of compliance with EU prudential regulation, quantitative impact assessments, and advice on action and implementation plans.

Consistent with the fact that the banking systems of many client countries are dominated by foreign, mostly euro area, banks FinSAC advises on cross-border banking supervision including: risk assessments and supervisory strategies for specific risks posed by foreign banks; addressing home-host issues; and building safeguards to prevent contagion risk. FinSAC can also help assess and address the prudential impact of transitioning to IFRS and supervisory reporting standards (FINREP and COREP), working with the Vienna-based World Bank Center for Financial Reporting Reform (CFRR) as appropriate. This includes policy advice on timing and safeguards when moving from deterministic regulatory provisioning models to expected loss methodologies and an assessment of the preconditions for increased reliance on IFRS.

In 2014, the International Accounting Standards Board published IFRS 9, Financial Instruments, introducing the notion of expected credit loss (ECL) in the accounting framework, to replace the concept of incurred loss used under the current IAS 39 standard. The effective implementation of IFRS 9 is scheduled for January 2018. The expected change of standards has a profound influence on the way banks provide for NPLs. The EBA undertook a first impact assessment of IFRS 9 in 2016, in preparation for its implementation. The results, published on November 2016, revealed that the estimated increase in provisions for banks participating in the exercise was on average 18 percent (and up to 30 percent for 86 percent of the respondents) compared to the levels of provisions under the current standard[22]. Banks, in general, were found to still be at an early stage of preparation for implementation of the new standard. Prudential supervisors in the region will have to build capacity to implement this new and complex accounting standard.

The comprehensive reform of capital and liquidity requirements launched by the BCBS after the crisis[23] and revisited in 2012, is being implemented by BCBS member and non-member countries on topics already agreed. These include the fundamental review of the trading book, the review of the banking book (IRRB, securitization, standardized approach, and IRB models), and the revised standardized measurement approach for operational risk. The work program of the BCBS also affects the leverage ratio, Pillar 3 disclosure, large exposures, etc. Transposition into EU legislation has been taking place steadily, including through, inter alia, the CRD IV/CRR and BRRD—plus EBA's implementing technical standards—and the establishment of the SSM and the SRM. However, agreement on some measures of the reform, such as the capital floor or the comparability of risk weighted assets, are still pending in the international arena.

In April 2016, the BCBS issued guidance on definitions of NPLs and forbearance for consultation. The document aimed to provide a coherent definition of non-performing exposures (NPEs) that would include not only loans 90 days-past-due but also exposures unlikely to be repaid. Two additional aspects, where the guidance provided clarification, were the consideration of collateral in categorizing assets as non-performing, and migration of exposures from "non-performing" to "performing". In addition, a clearer set of criteria were provided for forbearance term, including circumstances under which the exposure ceases to be identified as forborne. A particular emphasis was put on borrowers financial soundness factor before the exposure is upgraded. The deadline for consultation expired on July 2016, but the final new guidance note was not yet published in 2016.

In September 2016, ECB published its draft guidance note to banks on NPLs for consultation. The guidance covers the main building blocks of successful NPL resolution: strategy, governance, and operations. It also provides recommendations to banks and sets out a number of good practices that should be used by ECB's supervised banks. Due to the deep penetration of European banks into south east European financial systems, this initiative is likely to have tangible effects on the banking systems in FinSAC client countries. The ECB intends to finalize this guidance in early 2017, and implement it as an integral part of the ECB's supervisory expectations.

FinSAC strengthened its capacity in NPL resolution in 2016 and the NPL technical assistance product offering was streamlined

[22] https://www.eba.europa.eu/-/eba-provides-its-views-on-the-implementation-of-ifrs-9-and-its-impact-on-banks-across-the-eu

[23] http://www.bis.org/publ/bcbs189.pdf; http://www.bis.org/publ/bcbs238.pdf; http://www.bis.org/bcbs/publ/d295.pdf

and split into specific stand-alone modules. Technical expertise is offered in the following areas: early warning systems of NPL recognition; the application of latest prudential regulation (European and international) on NPL identification; accounting and prudential aspects of NPL provisioning; the tools and strategies for NPL resolution; available options for internal and external NPL management, including asset management companies; and aspects of corporate governance arrangements for NPL resolution. All technical assistance products are tailored to the need of clients and local or regional specifications.

FOCUS ON:

Supervisory Practices

Many of FinSAC's client countries aspire to join the EU, which entails adapting their supervisory policies and procedures to those of the SSM. These hinge on the Supervisory Review and Evaluation Process (SREP), which is a set of methodologies and standards used by the SSM to assess banks' risks, their governance arrangements, and their capital and liquidity situation. These assessments are integrated into an overall assessment, which determines the level of supervisory engagement. Furthermore, the SSM reviews and assesses each bank's internal capital adequacy assessment process and internal liquidity adequacy assessment process, including top-down and bottom-up supervisory stress tests, to inform the SREP decisions and other supervisory measures.

FinSAC is working with a number of countries to implement the building blocks of the supervisory practice of the SSM, adapted to their specificities. Proportionality is a basic feature of supervisors in the EU, and is especially relevant for client countries. By adopting the SSM supervisory framework, to the extent appropriate, they achieve greater compliance with EU accession requirements and also increase their efficiency in supervising banks.

FOCUS ON:

Supervisory Reporting

Technical assistance provided by FinSAC, also covers the supervisory reporting arrangements, as developed in the FINREP and COREP frameworks (respectively FINancial REPorting and COmmon solvency ratio REPorting), as applied by the EBA through implementing technical standards (ITS), with a view to harmonize and adapt the framework to changes in the CRD, the CRR, and in the accounting standards. FINREP is designed for financial institutions that publish financial information following the international accounting standards (IAS/IFRS), which have to submit similar information to the supervisory authority. The COREP framework is used by banks under the Basel framework as implemented by the EU capital adequacy regime. The EBA ITS includes templates for capital adequacy and solvency ratio, credit risk and securitization and operational risk; it also includes templates for large exposures, asset encumbrance liquidity, and the leverage ratio, methodologically consistent with FINREP and COREP. By adapting their financial and prudential reporting frameworks to FINREP and COREP, supervisors in the region will increase their efficiency by using coherent and comparable information. Additionally, banks will benefit from increased data analysis capabilities and enhanced financial and risk decision making; EU banks' subsidiaries would also see their administrative burden reduced. Again, proportionality is essential for the development of the sensible local reporting standards.

FOCUS ON: Non-performing loans

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

FinSAC has been working with a number of client countries to address high levels of NPLs and tackle NPLs resolution. In 2016, FinSAC prepared a supply line of product offerings in the field of NPLs as a reference for clients to better understand FinSAC's capabilities to deliver targeted advice on the resolution of problematic loans. The previous product line was reviewed and streamlined to include a more comprehensive approach to NPL identification, recognition, provisioning, and resolution. It also covers the latest regulatory initiatives in NPL resolution (e.g. EBA definitions of NPEs and forbearance). FinSAC has strengthened its capacity and boosted its scope to deliver professional advisory services on NPLs to clients in the last year.

FinSAC technical assistance on NPLs has some overlap with microprudential and recovery and resolution work. They have a long-term horizon and a complex configuration due to the multidimensional nature of NPLs resolution. Indeed, high NPLs can often be explained by the interplay of many factors, which generally fall under four categories:

- Recognition and provisioning of NPLs, resulting in two closely related issues which should be jointly addressed: improve valuation of collateral to bring it closer to market value and better align prudential and accounting provisions to improve incentives to sell distressed assets,
- Voluntary restructuring of loans to viable companies,
- Judicial resolution, which could be hindered by inadequate insolvency regimes or lack of court effectiveness, and
- Secondary market for the sale of distressed assets.

Every project and country is different but the overall approach to NPLs resolution projects generally involves a diagnostic stage followed by an implementation stage. In the diagnostic stage, a detailed analysis of the overall portfolio is obtained by slicing and dicing the exposures. This stage also includes a legal analysis of the use and hurdles to voluntary out-of-court restructuring, the efficiency of bankruptcy and court systems, and an assessment of the consistency of the NPLs definitions and provisioning.

FinSAC assistance can include benchmarking the existing NPLs identification and classification practices against international good practice while taking into account specific country circumstances and products. EBA technical standards on NPEs and Forbearance can provide common definitions and reporting templates to allow supervisors to assess the level of forbearance activities and NPLs on a comparable basis with the EU. Furthermore, FinSAC can deliver detailed segmentation of NPL portfolios in a specific country and, based on this analysis, provide best available options for NPL resolution. The implementation stage includes assisting countries with voluntary guidelines for out of court restructuring and the review of legislation.

Technical assistance to national authorities in 2016

Albania

FinSAC is working with the BoA to address potential obstacles to implementation of an NPL Action Plan, endorsed by the Ministry of Finance and the BoA in August 2015. Work will continue into 2017 to draft guidelines for voluntary multi-lender out-of-court NPL restructuring.

Bosnia and Herzegovina:

FinSAC was closely engaged with authorities in Bosnia and Herzegovina in 2016 in preparation for a quantitative impact study (QIS) of implementation of new capital and liquidity regulations, in line with Basel III. The study, due to take place in February 2017, will gauge the effects of draft regulations and assess the ability to use national discretions. The technical assistance included designing the templates and accompanying instructions for the QIS, as well as responding to queries from banks.

Kosovo

FinSAC undertook a review of NPL definitions and NPL trends at the request of the CBK, triggered by the observation that NPLs in Kosovo remain rather low compared to the rest of the region.

Macedonia

FinSAC supported the National Bank of the Republic of Macedonia (NBRM) review of the architecture and control framework within the bank supervision department. FinSAC's findings and proposals to improve the efficiency of on- and off-site microprudential supervision were presented in a draft report, most of which are being implemented by the NBRM.

FinSAC also supported the NBRM assessing the effectiveness of the licensing and regulation-writing functions performed by the Division of Supervision. The draft report was delivered in November.

Serbia
FinSAC worked with the National Bank of Serbia (NBS) to strengthen supervisory stress-testing capability, in terms of top-down exercises, such as the one carried out by the EBA for the EU banking system, and their analytical abilities to assess the quality of the stress tests done by banks in the context of capital planning.

Ukraine
FinSAC is engaged in a technical assistance program spanning two years (2016–2018), tailored to the priorities of the NBU, aimed at bringing Ukraine closer to meeting international standards in the areas of capital adequacy; liquidity; leverage ratio; and disclosure of "qualitative information" – bank strategies and policies, corporate governance, remuneration, and risk management. As a first stage FinSAC assessed compliance with the BCBS's Core Principles for Effective Banking Supervision (BCP) and the EU's CRD IV/CRR and reported on gaps with existing and draft Ukranian legislation. This contributed to building a road map for reforms, agreed with the NBU, which will bring Ukraine closer to international standards in these areas. The NBU is undertaking a demanding program of internal restructuring and transformation of the overall soundness and functioning of the banking sector. The World Bank is committed to supporting them in this, along with other providers of assistance and know-how.

FinSAC is assisting in the process of updating legislation and introducing new regulations. An initial review was undertaken of draft amendments proposed to the Regulation on Capital Structure (own funds). FinSAC provided detailed comments and suggestions, which will be incorporated in an amended draft to be further considered during FinSAC's next mission in early 2017.

FinSAC also held extensive discussions with NBU staff on proposed changes to NBU regulations to include new provisions in the area of concentration risks and related parties, a matter of particular concern in Ukraine. Recommended additions to the draft regulations included the need to include procedures for identifying and measuring transactions with related parties as well as procedures for mitigating risks stemming from excessive exposures to connected parties.

FinSAC reviewed draft amendments to the banking law designed to align more closely with BCP. These reflect significant progress in areas such as licensing, transfer of significant ownership, major acquisitions, and NBU powers. The possibility of bank engagement in lotteries and related businesses has been removed from the law.

Knowledge Activities
A Policy Brief, **Are Non-performing definitions comparable across countries?**, published in March 2016, summarizes a FinSAC study on loan classification and provisioning practices in 26 ECA countries. It offers analysis of some important considerations that make the comparison of NPL ratios and provisions across jurisdictions so challenging, and shares some good practices for NPL definitions useful for prudential supervisors who are considering aligning their prudential frameworks more closely with IFRS.

A workshop in Vienna in November for staff from the Banking Supervision Division of the NBS brought together experts from the ECB, the Austrian Central Bank and other specialized firms for further discussions on supervisory stress-testing including good practices and current trends.

4.4 Activity in 2016 within Pillar 3: Addressing bank recovery, resolution and bank liquidation

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

In Europe, the BRRD is the new legal basis for bank recovery and resolution and is one of the cornerstones, and a potential game changer, for creating a more stable and fairer banking system that serves the economy at large. Now fully transposed into national law by all EU member states some political and/or technical uncertainties remain. FinSAC is working with client countries to help them understand how the new legislation will affect them, especially relevant for EU-accession countries, and how they can harness aspects of the legislation to improve their own resolution regimes.

FOCUS ON:

Adopting and adapting EU recovery and resolution legislation

FinSAC is working with authorities in client countries to strengthen their national bank recovery and resolution frameworks, including recovery and resolution plans, and adopt modern resolution tools to deal with struggling institutions in line with international good practice.

The EU's BRRD aims to prevent moral hazard in the banking system by requiring that any extraordinary public financial support to a resolution process entails at least some bail-in of shareholders and creditors, in accordance with the order of their priority claims under normal insolvency proceedings.

Under the harmonized framework of the BRRD, banks are required to prepare recovery plans to overcome financial distress. Authorities have powers to intervene in the operations of banks to avoid them failing. If they do face failure, authorities have comprehensive powers and tools, including expropriation, to restructure them and to resolve failed banks in a way that preserves their critical functions and avoids taxpayers having to bail them out. The Directive also sets out how home and host supervisory and resolution authorities of banking groups should cooperate in all stages of cross-border resolution, from resolution planning to resolution itself, including the establishment of resolution colleges.

Many client countries will need to, or may choose to, adopt or adapt their national legislation to take into account the requirements of the BRRD. To assist in this process FinSAC produced *Understanding Bank Recovery and Resolution in the EU: a Guidebook to the BRRD* and accompanying publication *Bank resolution and bail-in in the EU: Selected case studies pre and post BRRD*, available on the FinSAC website. These publications outline and explain the legislation, suggest adaptations for non-EU countries which reflect national economic circumstances and local financial markets, and give some examples of the realities of resolution cases.

FinSAC developed a BRRD gap analysis matrix, available to client countries on request, enabling the concrete definition of gaps between the BRRD and current national resolution systems. This can help guide key policy decisions on alignment and possible divergences from the BRRD. This matrix also includes a more technical recovery-resolution powers matrix: what powers are available upon which triggering event that can be used as a basis for the design of a new resolution framework.

FinSAC created a matrix template to assist supervisors in the assessment of banks' recovery plans, taking into account EBA standards. Developed with a friendly user interface, and with consideration to making it easily deployed by FinSAC client countries, the matrix seeks to ensure users can fully understand the calculations underlying the simulators numerical results.

FOCUS ON:

Bail-in

The overarching objective of the BRRD resolution regime is to make sure a bank can be resolved swiftly with minimal risk to financial stability. Bail-in is the most innovative of the tools given to resolution authorities by the BRRD in the context of bank resolution. Under bail-in, losses are imposed on owners and creditors of a failing bank, rather than on taxpayers under a "public bail-out". The bail-in tool achieves loss absorption by either converting the liability into a common equity instrument, such as a share, or by writing down or writing off the principal amount of the liability (both are a form of "bail-in"). The key challenge for client countries is to develop systems appropriate to the economic circumstances and the needs and possibilities available in emerging markets. Defining loss absorbing capacity (MREL) for each individual bank, on which the real value and strength of bail-in will depend, is a fairly complex process. Authorities in emerging markets, with less developed financial markets and a system largely dependent on foreign banks, face issues when defining loss absorbing capacity including from a host perspective. In small countries with less developed capital markets it will be difficult to issue debt and to diversify and limit contagion risk. For subsidiaries of foreign banks, reliance on internal loss absorbing capacity coming from the parent might be a solution. Whatever option is chosen, in a banking system with balance sheets largely funded by retail depositors the challenge is to evolve to balance sheets that make it easier to impose losses.

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

FinSAC developed a prototype bail-in simulator in 2016 (inspired by the Canadian Deposit Insurance Corporation) to help financial sector authorities in client countries better understand the practical implications that their ability to bail-in different bank liabilities would have on the fiscal cost of a resolution process, as well as its implications for different types of creditors and the use of deposit insurance money for resolution purposes. The prototype will be further tested and made available to client countries in 2017.

Technical assistance to national authorities in 2016

Albania
A new bank resolution law drawn up with FinSAC technical assistance was adopted by the Albanian Parliament in December 2016. FinSAC assisted the BoA in developing the law with workshops, expert discussions, providing background information, and answering questions during the drafting stage, through the inter-ministerial consultation process, and in discussions with stakeholders.

A transposition table showing compliance and divergences from the EU BRRD was developed by FinSAC.

FinSAC cooperated with the EU Commission's Joint Research Center to produce a report for the BoA analyzing how the introduction of a minimum bail-in requirement (such as the 8 percent rule foreseen under the EU BRRD) would affect individual banks' balance sheets. This will help inform the process of setting an adequate requirement for local circumstances.

FinSAC discussed with, and prepared a note for, the Albanian Deposit Insurance Agency (DIA) on the possible effects of the new resolution framework on the DIAs role and the use of deposit guarantee schemes for resolution purposes.

FinSAC prepared a Methodology for the Assessment of Recovery Plans, to help the BoA assess compliance of recovery plans with the relevant EU regulation and technical standards.

FinSAC completed assistance with recovery planning. The BoA provided final assessment of recovery plan letters, including their observations and recommendations, to Albanian systemic banks, as endorsed by the BoA Board and in line with FinSAC's recommendations.

Bosnia and Herzegovina
Supported by the IMF and the World Bank, both the Federation of Bosnia and Herzegovina (FBiH) and Republika Srpska (RS) have prepared amendments to their respective banking laws establishing clear responsibility for bank resolution vested with the bank supervisory authorities, and introducing an enhanced set of resolution tools aligned with the BRRD. The new law was adopted by Parliament in RS in December 2016 and is expected to be passed in FBiH by early 2017.

Technical assistance to the BiH DIA supported revision of the Law on Deposit Insurance incorporating the recommendations of the 2014 Financial Sector Stability Assessment and addressing the future role of the DIA fund in resolution financing. The amended laws, ensuring deposit guarantee contributions for resolution purposes under the safeguard that no creditor should be worse off than under hypothetical liquidation, were sent to Parliament in both entities and are expected to be passed by early 2017.

FinSAC assistance to the BiH DIA in developing a target fund ratio methodology and setting a long term funding goal is ongoing. The model being used is recommended by the International Association for Deposit Insurers (IADI) to determine the sufficiency of the deposit insurance fund.

Georgia
FinSAC continued its support for deposit insurance system (DIS) reform in Georgia. This included engagement in continued policy dialogue with the authorities and other stakeholders, including banking sector representatives, on the main features of the reform (including coverage level, collection of premiums from member banks, target fund level, timeline for the DIS reform, and governance of DIS agency).

The program financed the visit in February 2016 of a Georgian delegation (from the Ministry of Finance and the National Bank of Georgia (NBG) to Turin to participate in the regional meeting of IADI and EU DIS committees and an international conference on bank resolution and deposit insurance.

The authorities of Georgia, with FinSAC support, revised and finalized a strategy paper on reform of the DIS. A draft deposit insurance law, reflecting FinSAC input, is expected to be approved by Parliament in early 2017.

Moldova
Work continued with the National Bank of Moldova (NBM) to enhance its toolkit for future resolution cases, especially for the three largest remaining banks in the system, by developing a proposal for a bridge bank law. FinSAC supported development of the law and encouraged the authorities to expand their legislative proposal to fill other gaps in their overall supervisory and resolution framework.

FinSAC also supported NBM and the Ministry of Finance with resolution options for a distressed bank. Three different resolution options were modeled and the various risks of each option and possible mitigation measures, including the need for legal analysis, were addressed. Further technical assistance supported supervisors conducting the examination of the bank and input was given on important elements to consider in reviewing the bank's compliance and progress with the agreed Action Plan.

Montenegro
Work began with the Montenegro Deposit Protection Fund (DPF) to identify areas of the deposit insurance law which need amendment to ensure compliance with the EU Directive for Deposit Guarantee Schemes as well as the IADI Core Principles.

Ukraine
Technical assistance was provided this year to the NBU on the strategic development of an enhanced bank resolution framework with a special focus on bail-in. A FinSAC workshop in Kyiv in July for the NBU and the Ukrainian Deposit Insurance Fund, and including an IMF representative, gave an overview of the new EU resolution framework, and discussed the current Ukrainian resolution framework and the possible introduction of bail-in. Following this workshop a report was submitted providing guidance on if and how bail-in could support the effective resolution of failing banks while ensuring overall financial stability and reducing the likelihood of public support.

Knowledge Activities
FinSAC presented on recovery planning at a workshop in Ljubljana on stress testing, recovery planning, and NPLs.

Promoting strong bank recovery and resolution frameworks

Organized by the Center of Excellence in Finance, FinSAC joined other participants from supervisory agencies, central banks, and ministries of finance of nine countries at the three day event.

FinSAC has developed a range of of tools to help authorities assess different aspects of resolution. A BRRD gap analysis matrix defines gaps between EU and non-EU national resolution systems. A recovery-resolution powers matrix identifies which powers are appropriate in which triggering event. A matrix template for supervisors helps in the assessment of banks' recovery plans, taking into account EBA standards. A prototype bail-in simulator/calculator will be able to better clarify the practical implications and costs of bail-in under the BRRD.

The new EU bank recovery and resolution framework has wide reaching implications, both within the EU but also for countries with banking relationships with the EU. FinSAC's **Understanding Bank Recovery and Resolution in the EU: a Guidebook to the BRRD** and accompanying publication **Bank resolution and bail-in in the EU: Selected case studies pre and post BRRD** outline and explain the legislation, suggest feasible adaptations for non-EU countries reflecting national economic circumstances and local financial markets, and discuss some real resolution experiences. The Guidebook, published in December, outlines the key provisions of the EU resolution framework in more than 20 chapters and aims to be an accessible reference source, especially for non-EU countries interested in, or impacted by, the EU Bank Recovery and Resolution Directive. Ten selected resolution case studies detail how some EU countries approached resolution in the wake of the financial crisis including the first examples post BRRD.

FinSAC organized a **Conference on Bank Resolution in the EU** in December in Vienna. Attendees included some 100 banking specialists from Central, South Eastern and Eastern Europe, to discuss the new resolution framework in the EU and its potential effects on host countries in Emerging Europe. Speakers included representatives from the SRB, ECB, EBA, European Commission, national Resolution Authorities as well as academia and civil society.

A specialist **workshop on Bail-in,** which followed the bank resolution conference in December, provided an overview on the concepts of bail-in and loss absorbing capacity, i.e. MREL in the EU and TLAC at the international level. It discussed the setting of MREL for subsidiaries of foreign banks and challenges encountered in operationalizing bail-in. A case study and group work provided participants with a detailed insight on the sequencing of write-down and conversion and potential exclusions from bail-in.

Feedback on the BRRD Guidebook and Case Studies

86 %

of respondents stated that the **quality of the BRRD Guidebook and Case Studies were high** (14 % average/high)*

76 %

of the respondents stated the Guidebook and Case Studies were **very relevant for their work.** (19 % average/high, 5 % average)*

* = On a scale of high, average/high, average, average/low or low

All would **recommend** the Guidebook and Case Studies to their colleagues.

What respondents liked the most about the Guidebook was that it was **clear, with a simple writing style, nice illustrations, timely, and relevant to their own country. Respondents suggested a second edition** of the guidebook, including further topics such as: "unfit" bail-in investors, supervisory colleges, implications of SPE and MPE, valuation, precautionary recap, home/host issues in the resolution of cross-border groups and adding practical (numerical) examples.

Conference on Bank Resolution in the EU, Vienna

Workshop on Bail-in, Vienna

A selection of quotes received from respondents

"The guidebook is very timely, especially for candidate countries in the process of reforming resolution frameworks. It helps explain the BRRD and its impact on the financial systems of non-EU countries."

"I really liked the question orientated approach to chapter content."

"The case studies help us to understand the resolution process and the effect of different resolution tools."

"Great structure, concise, and good illustrations."

"The guidebook does not just repeat what is in the BRRD, but also provides a user-friendly explanation of the rationale behind it."

4.5 Client Testimonials

"The Supervision Department of the Bank of Albania benefitted from on the job training and assistance offered by FinSAC. Together we reviewed and assessed Recovery Plans submitted by systemic banks in 2015, performed a joint assessment and drafted the respective recommendations for banks."

Jonida Kaçani,
Deputy Director of Supervision Department Bank of Albania

"FinSAC provided an in-depth introduction to the practical use of Early Warning Systems and Financial Stress Index as well as an overview of the relevant methodological issues. One of the most valuable and appreciated elements of the technical assistance was FinSAC's depth of analysis of Ukranian data to ensure local specificities could be accounted for in the design of sound systems."

Vitaliy Vavryshchuk,
Director, Financial Stability Department
National Bank of Ukraine

"The FinSAC simulation exercise was set in an environment of financial crisis, making it even more challenging."

Andranik Grigoryan,
Head of Department
Central Bank of Armenia

"FinSAC's assistance addressed important issues for NBM related to bank supervision, resolution and liquidation. We received relevant advice, had our questions answered, and discussed a range of approaches to problems. FinSAC's advice was especially useful in the application of an early intervention regime."

Ion Sturzu,
Vice-governor National Bank of Moldova

"The advice from FinSAC with respect to the organizational structure, workload burden, and possible solutions, gave us useful ideas on how we can improve the overall efficiency of bank supervision."

Viktorija Gligorova,
Deputy manager of Off-site Supervision and Licensing Department
National Bank of the Republic of Macedonia

5. A look ahead to 2017

FinSAC enters 2017 with an increasing demand for technical assistance across its three pillars and a full knowledge activity work program. Implementation of financial sector reform internationally and by the EU will continue to offer opportunities to FinSAC to assist both EU and non-EU countries to incorporate new requirements into national legislation, drafting secondary legislation and regulations. Potential to improve and expand activities, especially to address emerging issues, will be a focus.

Client specific technical assistance assignments
The second of the innovative cyber-security themed crisis simulation exercises will take place in Georgia in March 2017. FinSAC will also offer assistance to progress the creation and operationalization of a deposit insurance agency in Georgia.

In **Ukraine,** FinSAC will continue to provide technical assistance to the NBU to update existing norms and introduce new regulations in the area of capital adequacy and liquidity. This will allow the NBU to align its regulations with the CRD IV/CRR while taking into account the specific requirements of the Ukrainian banking system. In support of efforts to address NPL resolution, three areas were identified as most important in terms of scope technical assistance is being negotiated on: (i) tax and court fee impediments for NPL resolution, (ii) reform of real estate valuation profession and the methodology for the valuation of real estate assets, and (iii) regulation on the minimum standards for in-house NPL resolution units in banks. The work in Ukraine is closely coordinated with other technical assistance advisors and donors.

Technical assistance on bank recovery and resolution to **Bosnia and Herzegovina** will continue in 2017. It will be focused on the following five key themes: i) establishing the new resolution unit; ii) the adoption of key by-laws; iii) the assessment of recovery plans; iv) adoption of a resolution manual; v) identification of possible additional reporting needs; vi) helping ensure information is in place to set MREL and assess the possible impact of bail-in; and vii) drawing up resolution plans.

Further support will be provided to **Montenegro** in completing changes to national law incorporating the provisions of the EU Directive on Deposit Guarantee Schemes.

In **Belarus,** FinSAC worked closely with the authorities in 2016 to develop a program of technical assistance aimed at

FinSAC in 2017: consolidating success and increasing thought leadership on financial sector reform challenges

strengthening the country's deposit insurance and problem bank resolution frameworks. Proposals for both projects have been agreed, each following a two-stage approach encompassing amendments to relevant laws and regulations followed by implementation, which will be pursued in 2017.

Research projects with corresponding outreach activities
FinSAC will work further on the specific risks faced by "small host" supervisory and resolution authorities that oversee foreign owned banks, not material to the solvency of the banking group but systemic in the host country. Together with its close partner the Austrian Central Bank, FinSAC will prepare a joint paper offering analysis, policy insights, and recommendations, particularly on the EU operational arrangements for supervisory cooperation during supervision and resolution, and will give country examples and approaches from FinSAC client countries. Once finalized the paper will be presented at a FinSAC conference on the subject, with broad anticipated attendance by client countries and relevant EU and international representatives.

Work on the Governance of Financial Sector Policy Functions paper, building on the results of the 2016 survey will continue, collecting data on governance practices and policy issues across financial stability policy functions (i.e. macroprudential policy, microprudential bank supervision, bank resolution) in a range of countries worldwide in both normal and crisis times. FinSAC will organize a conference in 2017 to present the findings of this paper.

FinSAC will further refine and field test the "bail in" simulator, a computer application developed to help bank resolution authorities estimate the impact of a bail in on different classes of creditors. The simulator will be aligned with the BRRD and will be made available to resolution authorities in client countries.

FinSAC projects ongoing from 2016 into 2017

Technical Assistance

1. Bank Recovery & Resolution: Business Development
2. Bosnia & Herzegovina Bank Resolution Framework Technical Assistance
3. Bosnia & Herzegovina Deposit Insurance Strengthening Project
4. Bosnia & Herzegovina Quantitative Impact Study for the introduction of Basel III
5. Cyber-Crisis Management for Financial Sector Authorities
6. Design of the Terms of Reference for Asset Quality Review & Support in Conducting Forward Looking Scenario Analysis
7. Georgia Technical Assistance on Introduction and Implementation of Deposit Insurance System
8. Macedonia: Assessment of the Processes of Licensing and Banking Regulation
9. EU Institutional and Regulatory Developments
10. Macroprudential Frameworks: Business Development
11. Microprudential Supervision: Business Development
12. Moldova Bank Resolution & Restructuring
13. Montenegro Deposit Insurance Strengthening Project
14. NPL Business Development and Regional Outreach
15. Poland Deposit Insurance Systems
16. Serbia Operational aspects of micro stress testing
17. Ukraine Financial Conditions Index
18. Ukraine Strengthening Resolution Framework
19. Ukraine Supervisory Needs Assessment and Prioritization of Reforms for Banking Supervision
20. Ukraine Improving the quality of banking regulation in line with the EU Framework

Knowledge Events

21. Conference on Cross Border Banking Supervision and Resolution: The Small Host Perspective
22. Conference on Governance of Financial Sector Policy Functions
23. Workshop on Resolution Regimes in Europe

Research

23. Publication of Paper on Cross Border Banking Supervision and Resolution: The Small Host Perspective
24. Publication of Paper on Governance of Financial Sector Policy Functions

FinSAC's future: consolidating success and addressing changing needs

The success of FinSAC's first and second phases were largely due to its ability to successfully support member states, accession, and neighboring countries to implement EU directives. FinSAC competently delivered assistance demanded by its client countries and has established the reputation of a trusted partner and center of technical expertise. FinSAC has also to some extent provided feedback to EU institutions on Directives and rules and how they impact member states and accession countries. These initial phases have highlighted solid client demand for financial sector technical assistance. This has been aided by FinSAC's geographical proximity to prospective clients in ECA countries, allowing it to provide flexibility and effectiveness in its response. FinSAC's clear comparative advantage vis-à-vis other technical assistance providers is the distinctive mixture of its implementation-oriented multi-pillar thematic focus and its medium-term funding structure. This allows FinSAC to undertake complex engagements, which can be seen right through the process with country authorities.

Negotiations with the Austrian Ministry of Finance for FinSAC's third phase began in 2016 and will continue in 2017. It is expected that FinSAC will continue to deliver technical assistance to its existing client countries (plus Central Asia) on implementation of EU rules and Directives and other international standards and provide feedback to EU institutions.

In addition, FinSAC will strive to become a center of thought leadership on selected subject matters, particularly those where the EU has not yet formulated new policies. To achieve this, and in light of the experience of the first two phases, some aspects are likely to be reassessed. For instance, FinSAC resources have traditionally been secured in three year time increments. This timeframe has proved rather short to hire and retain experienced financial sector professionals. It is proposed that in future resources be provided for a five year time horizon.

For FinSAC to make a quantum leap and become a thought leader, it is important that experience from other parts of the world are also taken into account, especially in those areas where Europe is not at the forefront of the global debate. To this end, it is expected that in phase three, FinSAC will draw in experience from other World Bank staff engaged in those thematic areas. This would also give opportunities to better connect FinSAC with the standard setters (BCBS, FSB) in which the World Bank participates as a representative of developing countries.

In addition, these added global resources would allow FinSAC staff to be able to work with other regions (paid for by non FinSAC resources) to deepen and expand their own knowledge and transfer relevant international experience. This arrangement should also make the prospect of employment in FinSAC more attractive. The FinSAC model has recently served as a blueprint for the inception of two similar donor-funded World Bank financial sector centers in South-East Asia. These technical assistance delivery centers in South Korea and Malaysia have similar mandates covering different regions. Closer linkages, through targeted joint events and exchanges with staff of these centers, will allow FinSAC to tap into best practices of other regions.

Lastly, to shape its thought leadership work program, FinSAC will convene globally recognized international experts from academia, industry, and the public sector twice a year to select and discuss topical issues from within its established mandate.

The World Bank's Board of Directors asked management to reform the trust fund cost recovery framework to recover administrative overhead expenses, or indirect costs, while also creating a simpler and more transparent system. A new cost recovery framework to meet these demands, part of a larger effort at the World Bank Group to make it more efficient and effective including through achieving USD 400 million in cost savings, was recently implemented. FinSAC is managed as a stand-alone bank-executed trust fund. The new FinSAC phase will see an increase in indirect costs of 17 percent (the Bank wide average is 14.4 percent). This increase has been partly off-set by other cost-saving initiatives, which will result in lower travel costs and consultant fees. An additional challenge is that FinSAC is a euro denominated trust fund, but continues to incur many costs expressed in USD, which has boosted euro spending due to foreign exchange fluctuations. The combined effects of increased cost recovery and decreasing value of the euro compared to the USD mean that the size of FinSAC's third tranche will need to be carefully calibrated to support strategic, operational, and staffing plans.

FinSAC has achieved its early ambition of becoming a recognized brand, capable of delivering timely and expert financial sector technical assistance to the ECA region. With the continued generous support of the Donor, FinSAC is ready to further roll out its effective, results-focused, advisory program and to cement its position as a regional "center of excellence" for financial sector reform implementation.

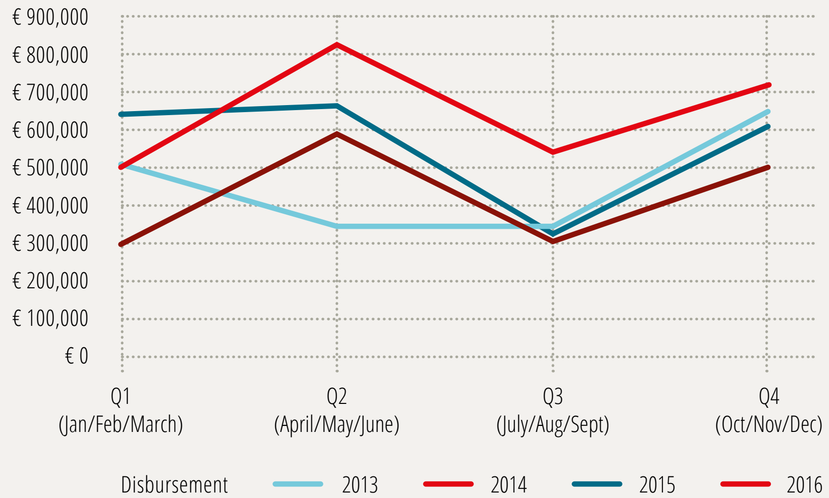
Annexes

Annex 1: Disbursement of Trust Fund by FinSAC

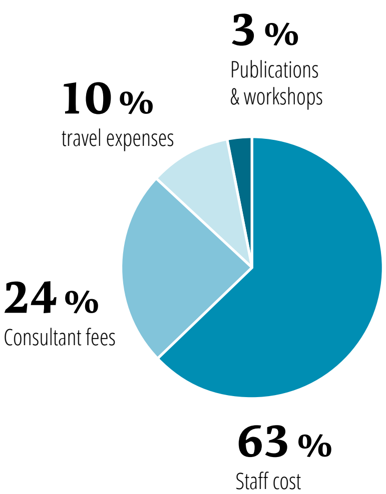
As of January 1, 2017[24]	
Contributions paid-in	€ 12,677,200
Contributions to be paid	€ 500,000
Investment Income	€ 99,678
Administration Fee	€ 633,860
Disbursements	€ 9,552,398
Fund Balance incl. commitments	€ 2,566,118

[24] Extract from Systems Applications Products (SAP). Figures are not final as some disbursements may be accounted for at a later stage.

	DISBMT 2013	DISBMT 2014	DISBMT 2015	DISBMT 2016
Q1 (Jan/Feb/March)	€ 503,296	€ 295,836	€ 638,483	€ 495,853
Q2 (April/May/June)	€ 346,791	€ 585,282	€ 659,242	€ 823,747
Q3 (July/Aug/Sept)	€ 343,023	€ 301,968	€ 323,288	€ 540,713
Q4 (Oct/Nov/Dec)	€ 649,640	€ 499,193	€ 613,310	€ 718,554
Total	€ 1,842,749	€ 1,682,278	€ 2,234,323	€ 2,578,867



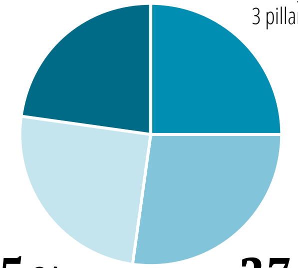
Disbursement by categories (for the period of 1 January 2016 – 31 December 2016)



Staff costs for Vienna based FinSAC staff and non Vienna based staff working on FinSAC projects, for example staff based in World Bank Headquarters	€ 1,634,360	63 %
Consultant fees including for: i) Academics hired on an ad-hoc basis to contribute to or review knowledge products and papers; ii) Senior technical experts on specific topics (for example stress testing and bank licensing), who participate and contribute to clients' missions and meetings under FinSAC supervision; iii) 2 technical consultants (one IMF staff on assignment), working on the development of knowledge products and ad-hoc tasks requested by task team leaders across FinSAC's pillars iv) Operational support for example in the organization of conferences, graphic design, editing, website.	€ 605,815	24 %
Travel expenses of staff and consultants	€ 258,924	10 %
Publications & workshops	€ 79,768	3 %
Total	**€ 2,578,867**	**100 %**

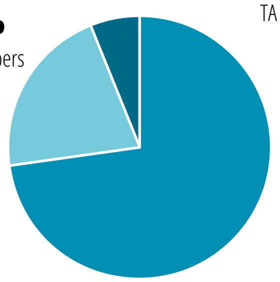
Disbursement by pillars (for the period of 1 January 2016 – 31 December 2016)

Administration of FinSAC: expenses incurred as part of the general program of work that cannot be attributed to a specific project. This includes: – Program coordination and management (budgeting, strategic staffing, staff hiring, cost monitoring, liaison with donors, liaison with World Bank management in HQ, etc.) – Business development (incl. assessing technical requests, developing marketing materials, etc.) – Internal and external reporting (incl. annual and quarterly reports, etc.) – Internal and external partnership building (incl. with the EC, SSM, SRB, ECB, World Bank/IFC, etc.) – Capacity development and other team activities (incl. keeping up-to date with EU and global regulations, attending conferences, staff training, team meetings, etc.).	€ 647,954	25 %
All activities and assistance under pillar 1 macroprudential framework	€ 697,715	27 %
All activities and assistance under pillar 2 microprudential framework	€ 641,109	25 %
All activities and assistance under pillar 3 bank resolution & recovery	€ 592,088	23 %
Total	**€ 2,578,867**	**100 %**



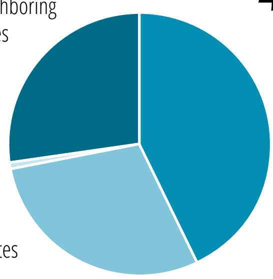
Disbursement by output for activities within the 3 pillars (for the period of 1 January 2016 – 31 December 2016)

Technical assistance (TA) delivery	€ 1,404,227	73 %
Working papers	€ 409,378	21 %
Conferences/workshops	€ 117,308	6 %
Total	**€ 1,930,913**	**100 %**



Disbursement by country groups (for the period of 1 January 2016 – 31 December 2016)

Regional	€ 837,221	43 %
Group I: EU Candidates & Potential Candidate countries (Albania, FBiH, Kosovo, Macedonia, Montenegro, Serbia)	€ 565,377	29 %
Group II: EU Member states (Poland)	€ 15,978	1 %
Group III: EU Neighboring countries (Belarus, Moldova, Ukraine, Armenia)	€ 512,338	27 %
Total	**€ 1,930,914**	**100 %**



Annex 2: Results Framework Table

Financial stability, crisis preparedness and macroprudential frameworks

	FinSAC activities/inputs	FinSAC outputs	FinSAC output indicators	Expected client outcomes	Client outcome indicators
Armenia: Cyber Crisis Simulation Exercise	Preparation and delivery of cyber-specific CSE.	De-briefing presentation following the exercise; Detailed report on the exercise.	Participation of relevant stakeholders; Feedback from participants.	Strengthened capacity for managing cyber incidents in the financial sector.	Central bank senior management's awareness of cyber risk; Institutional changes (establishment of information-sharing arrangement among banks).
Kosovo: Crisis Preparedness	Assist CBK to get better prepared to manage financial crises.	Gap Analysis Report on Crisis Preparedness; Reports: detailed suggestions for the contents of the Bank Resolution Manual/bank-specific crisis management binders.	Client satisfaction with the reports.	Strengthened crisis management capacity.	Procedural and institutional changes, revised MoU between central bank and deposit insurance agency.
Ukraine: Financial Stress Index	Assist NBU Financial Stability Department to construct financial stress index.	Model description; Training of NBU staff to use model.	Client satisfaction with model.	Strengthened analytical capacity for crisis management.	Use of model results in NBU Financial Stability Report.
Ukraine: Early Warning System	Assist NBU Financial Stability Department to construct an Early Warning System for the banking sector.	Model description; Training of NBU staff to use model.	Client satisfaction with model.	Client capacity to monitor systemic risk increases.	Use of model results in internal reports to senior NBU decision-makers.

Microsupervision Framework

	FinSAC activities/inputs	FinSAC outputs	FinSAC output indicators	Expected client outcomes	Client outcome indicators
Albania: Assessment of Recovery Plans	Prepare a draft Methodology for the assessment of recovery plans; Assist the BoA to assess recovery plans submitted by Albanian systemic banks.	Draft Methodology for the supervisory assessment of recovery plans; Observations to the BoA assessment reports.	Methodology adopted and used by the BoA; Recovery plans assessed and supervisory decisions made.	Enhanced supervisory capacity of the BoA; Strengthened crisis preparedness.	Better quality of subsequent recovery plans.
Kosovo: Review of NPL Definition & Trends	Review of the applicable regulation on credit risk management in comparison with international standards.	Report Assessment Analysis of Non-performing loans.	Client satisfaction with the report.	Enhanced regulation on credit risk management.	New regulation on credit risk management.
Macedonia: Review of The Control Framework & On- & Off-Site Examination Practices for Bank Supervision	Review and benchmarking of on- and off-site supervision.	Report on Micro-Prudential Banking Supervision.	Proposals discussed and adopted by the NBRM.	Improved efficiency of On- and Off-site examination practices.	Implementation of the proposed measures.
Ukraine: Supervisory Needs Assessment and Prioritization of Reforms for Banking Supervision	Assessment of compliance bank supervisory with the Basel Core Principles and a gap analysis with the CRD IV/CRR framework; Support in the design of the reform roadmap on how to improve the banking supervision and bring it in line to CRDIV/CRR framework.	BCP summary report with detailed list of recommendations; CRDIV/CRR report with detailed assessment of compliance with EU framework; Detailed Roadmap on how to improve the banking supervision in Ukraine.	Client satisfaction.	Enhanced regulatory framework (Improved level of compliance with Basel Core Principles) and supervisory capacity of the NBU leading to a more precise and comprehensive assessment of risks across the banking system and a lower incidence of failure of supervised institutions due to earlier and more effective detection of risks in the banks.	Approval and implementation of the reform roadmap by the NBU management board.

Resolution Framework

	FinSAC activities/inputs	FinSAC outputs	FinSAC output indicators	Expected client outcomes	Client outcome indicators
Albania: Bank Recovery & Resolution Law	Analysis of current framework and required legal amendments.	BRRD gap analysis matrix; Comments and legal support for the drafting of the resolution law.	Proposals discussed and taken into account.	Enhanced legal bank recovery and resolution framework including resolution funding aligned with BRRD; Well informed authorities and stakeholders.	Adoption of new resolution law in line with EU standards.
Albania: Cooperation with the ECs Joint Research Center – Resolution Financing	Provision of an analytical basis for the introduction of a minimum bail-in requirement and reference point for the target level of the resolution fund.	A report on symbol simulation results on Albanian safety net and DGS.	Client satisfaction.	Adapted the calculation of resolution fund target level and loss absorbing capacity to country specificities.	Creation of resolution funds and introduction of bail-in provision in the new resolution law.
Moldova: Bank Resolution & Restructuring	Advised the central bank and ministry of finance on resolution options for one distressed bank and on the scope of a special central bank examination of two additional distressed banks to inform restructuring and supervision strategies for them.	Report detailing resolution options and risks; Report advising central bank supervision team during the safety, soundness, and compliance examination of two distressed banks, including the objectives and scope of the examinations.	Client satisfaction.	Strengthened capacity to resolve and/or restructure distressed banks.	Implementation of the recommendations contributing to greater stability of the banking sector.

Learning events

	FinSAC activities/inputs	FinSAC outputs	FinSAC output indicators	Expected client outcomes	Client outcome indicators
FinSAC Macroprudential Workshop	Organize workshop for Heads of Financial Stability in client country central banks.	Workshop delivery; Policy Note on main topic.	Participation of clients; Feedback from participants.	Strengthened capacity for macroprudential analysis and policy-making; Knowledge transfer between clients.	Feedback from participants.
Conference on Bank Resolution in the European Union & Bail-in workshop	Organize a conference for Heads of resolution/ supervision. Organization of workshop and case study for experts.	Conference and workshop delivery.	Participation of clients; Feedback from participants.	Strengthened capacity; Knowledge transfer between clients and update on EU developments.	Feedback from participants.
Guidebook to the BRRD: Understanding Bank Recovery & Resolution in the EU & accompanying publication "Bank resolution & bail-in in the EU: Selected case studies pre & post BRRD"	Structural set-up, selection of contributors, ensuring external quality assurance etc.	Publication of the book.	Feedback from readers.	Strengthened capacity and Knowledge transfer.	Feedback from readers.

Annex 3: Selected financial indicators for client countries[25]

GDP growth 2016 | Bank capital to asset ratio 2016 | Non Performing Loans to total gross loans 2016

Country	GDP growth 2016	Bank capital to asset ratio 2016	Non Performing Loans to total gross loans 2016
Albania	+3.2 %	10.1 %	20.0 %
Bosnia & Herzegovina	+2.8 %	14.7 %	12.1 %
Kosovo	+3.6 %	12.4 %	6.2 %
Macedonia, FYR	+2.0 %	11.5 %	7.2 %
Montenegro[26]	+3.2 %	13.3 %	13,4 %
Serbia	+2.5 %	20.7 %	20.9 %
Bulgaria[26]	+3.5 %	11.6 %	20.6 %
Croatia	+2.7 %	13.4 %	15.9 %
Poland	+2.5 %	9.6 %	4.4 %
Romania	+4.7 %	8.6 %	11.3 %
Belarus	-2.5 %	12.6 %	11.5 %
Moldova	+2.2 %	NA	NA
Ukraine	+1.0 %	11.0 %	30.4 %
Armenia	+2.4 %	15.7 %	9.3 %
Azerbaijan[26]	-3.0 %	14.8 %	5.3 %
Georgia	+3.4 %	14.6 %	3.7 %

[25] Source: World Bank, International Monetary Fund, Global Financial Stability Report

[26] 2015 NPL and CAR ratios