FINANCIAL SECTOR ADVISORY CENTER

ANNUAL REPORT 2017

WORLD BANK GROUP
Finance, Competitiveness & Innovation

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FINANCIAL SECTOR
ADVISORY CENTER

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WORLD BANK GROUP
Finance, Competitiveness & Innovation
Financial Sector Advisory Center (FinSAC)

BMF
FEDERAL MINISTRY OF FINANCE

Welcome message

Alfonso Garcia Mora

Director for the Finance, Competitiveness, and Innovation Global Practice, World Bank Group

2017 was a fulfilling year for the World Bank Financial Sector Advisory Center. Over its six years of operation the Center has developed and grown. The initial aim, to help client countries deal with the legacy issues from the global financial crisis, has been refined and adapted as reforms are implemented and new issues emerge. The team is excited to see our partners in client countries addressing the challenges head on and achieving tangible progress in areas such as reducing non-performing loan exposures and addressing failing banks. The range and depth of technical assistance continues to advance and be refined. We look forward, for example, to the imminent launch of our "live", periodically updated compilation of cybersecurity laws, regulations, guidelines and other significant documents on cybersecurity for the financial sector. This annual report seeks to give a comprehensive overview of the Center's substantial work undertaken in 2017. FinSAC looks forward to entering a new phase of its work in 2018 and remains deeply grateful to the Austrian Federal Ministry of Finance for its unwavering support.

Harald Waiglein

Director General for Economic Policy, Financial Markets and Customs at the Austrian Federal Ministry of Finance

In our interconnected world of banking and financial institutions it is in all our interests to try and ensure the highest standards of legislation, regulation, and supervision are in place to protect our financial systems and ensure public confidence in banks. The Austrian Federal Ministry of Finance is proud to support its regional neighbors and friends, through the World Bank Financial Sector Advisory Center, as they reinforce their defenses against future financial shocks and develop their ability to respond effectively to the challenges of increasingly sophisticated banking systems.

Contents

Acronyms

BRRD..........EU Bank Recovery and Resolution Directive
CRD...........Capital Requirements Directive
CRR...........Capital Requirements Regulation
ECA...........World Bank Europe and Central Asia Region
EDIS..........European Deposit Insurance Scheme
EU.............European Union
FCI.............World Bank Finance, Competitiveness, and Innovation Global Practice
FinSAC.......Financial Sector Advisory Center
IFRS...........International Financial Reporting Standards
NPL...........Non-Performing Loan

Introduction

The World Bank Financial Sector Advisory Center (FinSAC), established in 2011, is a dedicated technical unit delivering financial sector reform advice and implementation assistance to client countries in the Europe and Central Asia (ECA) region. FinSAC is supported financially by Austria's Federal Ministry of Finance.

FinSAC is part of the World Bank's Finance, Competitiveness, and Innovation (FCI) Global Practice, which identifies the promotion of financial depth and stability in developing countries as one of its three major global mandates for the financial sector, together with financial inclusion and finance for development. Financial sector stability is seen as essential to allow the financial system to fulfill its potential in supporting economic development and is therefore critical in achieving the World Bank's twin goals of reducing poverty and fostering shared prosperity.

FinSAC's development objective is to support client countries in building more resilient and more stable financial sectors. Financial sector stability has a special resonance for the ECA region, which stands out as the World Bank region worst affected by the global financial crisis. The legacy of the crisis continues to weigh heavily on the economic performance of many of these countries.

FinSAC exists to help address these legacy issues and contribute to strong, resilient financial systems. FinSAC is focused on three thematic areas: (i) financial stability, macroprudential frameworks, and crisis preparedness; (ii) microprudential regulatory and supervisory frameworks; and (iii) bank recovery and resolution. It provides implementation-oriented technical assistance; workshops, conferences, and seminars; and conducts relevant and applied research projects, with corresponding outreach activities, on policy, capacity building, and institution building issues in the financial services sector.

In 2017, the financial stability outlook for most FinSAC client countries benefitted from a strengthening of economic conditions. There was an acceleration of economic growth, against the backdrop of an upswing in global economic activity. The gathering strength of the euro area recovery benefitted client countries through trade and financial linkages. Improving macroeconomic conditions together with enhanced supervisory efforts contributed to a modest drop in non-performing loan (NPL) exposures in 2017 in most countries, although NPL ratios remain at elevated levels in several FinSAC countries.

Demand for FinSAC's support remained strong in 2017, particularly for technical assistance. The range of projects covered the full thematic spectrum of FinSAC's area of expertise, but with important differences in the type of engagement across countries. In the Western Balkans, which accounts for more than half of FinSAC's projects, many engagements focused on aligning existing regulatory, supervisory, and bank resolution frameworks with applicable EU standards. By contrast, most of FinSAC's engagements in the EU neighborhood involved hands-on support to client countries facing acute financial stability challenges.

FinSAC committed euro 2,441,790 to its activities in 2017. Spending was fairly evenly distributed between the three thematic areas of focus (the FinSAC pillars), with most expenditure on activities going on the delivery of direct technical assistance in response to client countries' needs and requests. Key themes in 2017 included continued awareness raising of cybersecurity issues, enhancing resolution and recovery frameworks for failing financial institutions, the establishment of robust deposit insurance frameworks, and tackling high levels of NPLs.

FinSAC's achievements have been made possible thanks to the continued generous support of the Austrian Government, and the commitment of FinSAC client countries to financial sector reform, at times in difficult circumstances. Negotiations for the third phase of FinSAC were concluded in December 2017; the Austrian Federal Ministry of Finance has committed euro 8 million for the first three years of this new phase. The FinSAC team looks forward to providing continued support to its client countries in 2018 and beyond.

Purpose and structure of the Financial Sector Advisory Center

HELPING BUILD STRONGER BANKING SYSTEMS

FinSAC began as a follow-up mechanism to the Vienna Initiative, a private-public platform to resolve systemic problems in the central and south-eastern European banking sector launched in 2009, which initially aimed to maintain the presence of parent- banks in the region and subsequently worked towards 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 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 continues to participate in the Vienna Initiative.

PROVIDING TARGETED ASSISTANCE

FinSAC provides independent and tailored expertise, technical advice, and implementation support to eligible client countries. As a dedicated technical unit, FinSAC has emerged as a key player in the delivery of impact-oriented financial sector reform advice and implementation assistance to client countries in the ECA region. Its geographical proximity to clients allows FinSAC to react quickly to client demand and provide flexibility and effectiveness in its response. 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 delivery channels are designed to 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, and make knowledge emerging from technical assistance engagements available to a broader audience.

OFFERING GLOBAL EXPERTISE

FinSAC comprises an expert team which 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 and cooperates closely with global and regional organizations including, for example, the Basel Committee on Banking Supervision, the Financial Stability Board, the Financial Stability Institute, the European Banking Authority, the Single Resolution Board, the Vienna Initiative, and the European Central Bank.

All FinSAC activities are provided in close consultation with the wider World Bank FCI Global Practice and are designed to complement other World Bank projects and assistance to eligible client countries. FinSAC is able to share and access knowledge and expertise in financial sector centers in other regions and also contributes its specialist knowledge within the wider Global Practice, for example through participation in crisis simulation exercises and World Bank Financial Sector Assessment Programs, including on a selective basis in other regions. FinSAC draws on additional expertise from within the Global Practice when necessary, and also hires specialized

The core FinSAC team – promoting financial sector development and stability

Miquel Dijkman

Lead Financial Specialist, FinSAC Coordinator
Macroprudential supervision,
crisis management

Aquiles Almansi

Lead Financial Specialist
Macroprudential supervision,
Cyber Crisis management

Juan Ortiz

Senior Financial Sector Specialist
Microprudential supervision

Pamela Lintner

Senior Financial Sector Specialist
Bank recovery & resolution

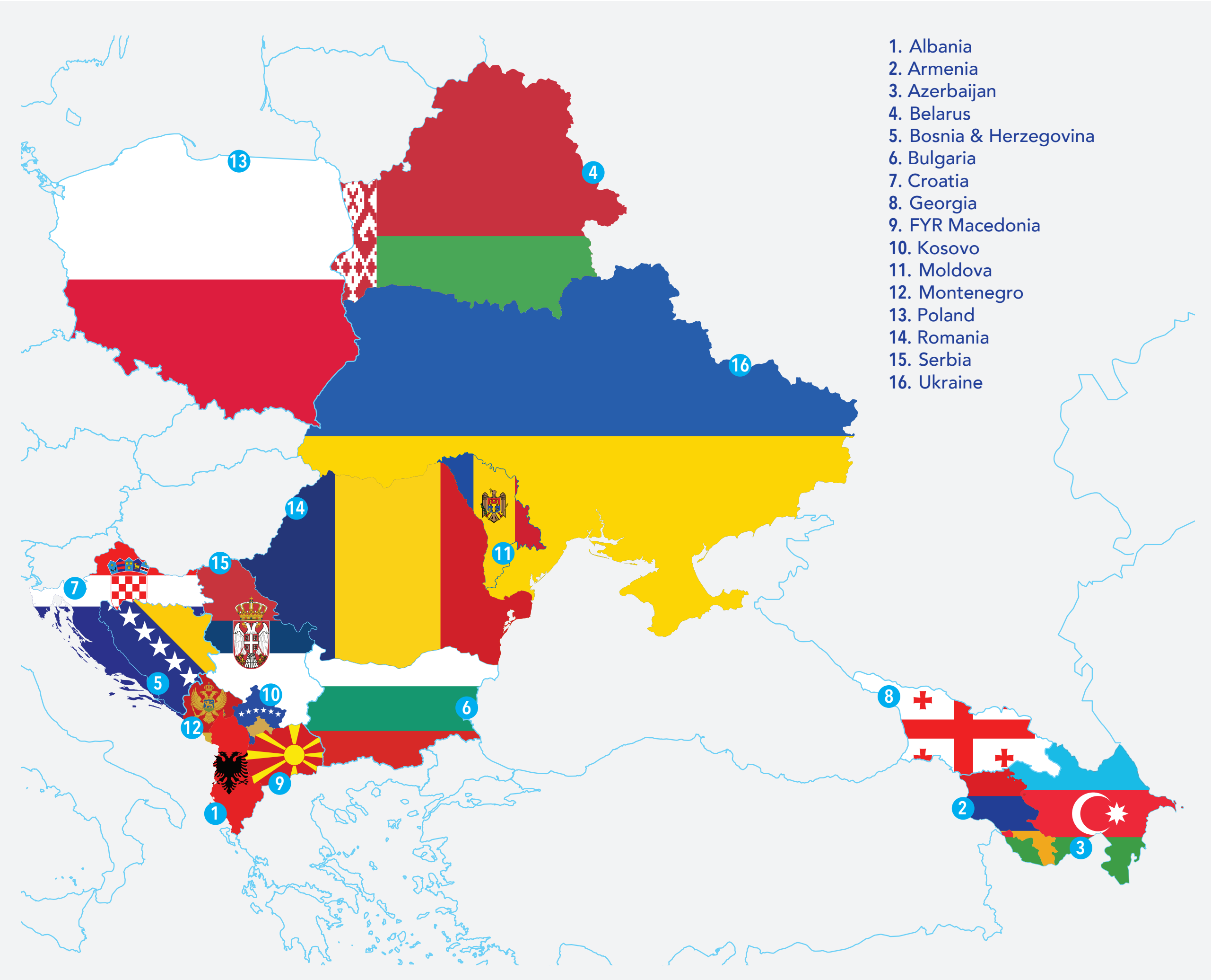
Karlis Bauze

Senior Financial Sector Specialist
Non-performing loans (NPL)

Nurgul Irsalieva

Program Assistant
Administrative support, trust fund administration,
procurement and budgeting, event management

FinSAC Client countries



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 EU and global institutions and stakeholders that are also active in promoting strong and stable financial systems.

VARIED ACTIVITIES AND LEVELS OF ENGAGEMENT

FinSAC engages with client countries at both national and regional levels. Targeted assistance is offered through bilateral exchanges and in-country engagement (often in partnership with World Bank Group country programs or other international financial institutions). FinSAC provides specific technical advice to financial sector authorities aimed to reinforce financial stability and help ensure resilient banking sectors. Activities include knowledge dissemination events, such as conferences, seminars, and workshops, on relevant topics of regional interest and the production of analytical reports on banking regulatory and supervisory issues.

FinSAC's distinct comparative advantage 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. Client countries view FinSAC as a trusted partner, exemplified by the fact that many current technical assistance projects are in follow up to previous engagements.

FINSAC PHASE THREE

The Austrian Federal Ministry of Finance fully funds the Center and implementation of its program through a Trust Fund. The extension of FinSAC with a third stage was concluded in December 2017, with the signing of a new agreement. The third phase covers a five-year period, comprising three years with a two year renewal conditional upon a favorable mid-term assessment. The Ministry has committed a total of euro eight million for the first three years. Only moderate and gradual changes are proposed with respect to FinSAC's thematic and geographical scope. With some shifts in emphasis, the thematic structure is left largely unchanged. Similarly, FinSAC's geographical point of gravity remains with the current set of client countries, albeit with the possible initiation of activities in Central Asia subject to case-by-case approval by the Steering Committee.

To give FinSAC better visibility as a thought leader, and to leverage experience and expertise available in other World Bank regions, FinSAC staff will work selectively on non-FinSAC countries, and cooperation with the World Bank financial sector centers in the East Asia and Pacific region will be strengthened, particularly through the organization of joint knowledge events and research projects. Another priority is to expand institutional cooperation with relevant EU agencies, particularly the European Central Bank in its capacity as European banking supervisor.

Enhancements are also envisaged to FinSAC's governance through the establishment of a Steering Committee, and improvements to its monitoring and evaluation framework to better measure the impact of technical assistance and knowledge products, which in turn help to reinforce project design.

Lastly, in the face of robust client demand bottlenecks, FinSAC will increase its staff in the forthcoming cycle.

The regional environment & priorities in the financial sector

FinSAC activities are largely determined by demand from clients based on individual national requirements, which are heavily influenced by changing macroeconomic conditions nationally, regionally, and globally.

The European Union

SUBSTANTIAL IMPROVEMENT IN THE ECONOMIC OUTLOOK

The global upswing in economic activity strengthened in 2017. Global growth rose to an estimated 3.6 percent in 2017. Broad-based upward revisions in projected growth occurred in the euro area, Japan, emerging Asia, emerging Europe, and Russia – where growth outcomes in 2017 were better than expected.

The euro area recovery gathered strength, with growth estimated to have risen to 2.7 percent in 2017. This represents a significant improvement compared to earlier projections, and a significant acceleration vis-a-vis 2016's 1.7 percent. The increase in growth in 2017 was broad based and reflects an acceleration in exports as well as robust domestic demand growth, supported by accommodative financial conditions. Growth in Bulgaria, Croatia, Poland, and Romania – which are active non-graduated World Bank Clients and FinSAC client countries – also strengthened significantly compared to 2016.

Improving macroeconomic conditions together with enhanced supervisory efforts contributed to a continued general downward trend in NPL exposures in 2017, although NPL ratios remained persistently high in Greece, Cyprus, Portugal, and Italy. The European Banking Authority's Risk Assessment Questionnaire suggested that major impediments to the resolution of NPLs remain, highlighting lengthy and expensive judiciary processes and the lack of liquidity in secondary NPL markets. NPL transaction templates published by the European Banking Authority in 2017 were a first contribution to widen the investors' base and reduce asymmetric information in the secondary market.

BANKING PROFITABILITY AFFECTED BY STRUCTURAL AND CYCLICAL FACTORS

Profitability continued to be affected by the still significant stock of NPLs, difficulties in increasing revenues in a low interest rate environment and a relatively flat yield curve. In some countries, these challenges are exacerbated by fragmented banking sectors, with many financial entities lacking in economic scale.

A further structural factor of increasing relevance in 2017 was the growing competition from new financial technology players, which put pressure on banks to improve operational efficiency. EU banks began to adapt their business model in response to ensure sustainable profitability. Banks identified financial technology companies as a risk to revenues in business lines relying on standard solutions (such as payment and settlement business), but also saw opportunities in financial technology solutions offering enlarged customer bases and product lines in asset management and commercial banking. Some banks launched digitalization projects in a bid to improve cost efficiency as intermediation margins from traditional banking lending narrowed in an operating environment characterized by persistently low rates. These new opportunities highlighted the importance of cyber and data security, with financial institutions experiencing high volumes and increasingly sophisticated cyberattacks in 2017. Banks also became increasingly reliant on outsourcing of IT services and data to third-party service providers. Despite its benefits in terms of cost efficiency, outsourcing posed security issues and challenges to governance and controls as well as to data management.

NEW EUROPEAN UNION BANK RESOLUTION FRAMEWORK PUT TO THE TEST

While further progress was made in 2017 strengthening EU banks' liquidity and solvency buffers, banking stresses emerged in Italy and Spain. These put the newly implemented bank resolution framework and the single resolution mechanism to the test. The Bank Recovery and Resolution Directive (BRRD) replaces the prior assumption of public reimbursement of a failing bank's creditors (or bail-out) with one of mandatory burden sharing (or bail-in), thus reinforcing market discipline. The shift from bail-out to bail-in represents a major step forward for the EU financial sector policy framework. Consistent with the thrust of the new framework, creditors of a Spanish bank were wiped out before the bank was sold, then recapitalized. By contrast, however, the "liquidation-resolution" of two Italian banks involved significant amounts of taxpayer money and without prior 8 percent bail-in as stipulated under the BRRD. The banks were put into liquidation to be wound up under Italian insolvency proceedings following refused requests from the Italian government for precautionary recapitalization, and the European Central Bank declaring them failing or likely to fail. However, the Italian government argued that there was a regional economic risk from the failure of two important lenders in one region. The European Commission then agreed that state aid could be provided because there would be no distortion to competition. The Italian government committed funds to support the purchase of the banks' "good" assets and government guarantees to support the "bad" assets, to be sold separately.

WITH BASEL III NEARING COMPLETION, EMPHASIS SHIFTED TO INTRODUCTION OF INTERNATIONAL FINANCIAL REPORTING STANDARD 9

The Basel Committee on Banking Supervision published the final set of revisions to the Basel III framework to improve regulation, supervision, and risk management within the banking sector in December 2017. With Basel III nearing completion, attention turned in 2017 to preparing for the implementation of International Financial Reporting

Standard (IFRS) 9, effective in the EU from January 2018. The new standard represents a significant accounting change for banks. It involves the transition from an incurred loss model to an expected credit loss model, to promote a more forward-looking approach to credit losses and improve the accounting recognition of loan loss provisions by incorporating a broader range of credit information. Addressing the significant implementation challenges of IFRS 9 was an important focus for European financial institutions and those supervising them in 2017.

EU candidate and potential candidate countries

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

STRENGTHENING ECONOMIC OUTLOOK CONTRIBUTES TO A MODEST DROP IN NPLS

The strengthening economic outlook of the EU also benefitted economies in the Western Balkans, with real GDP growth in the region expected to have expanded by 2.6 percent in 2017. Growth was stronger and investment-led in Albania, Kosovo, and Montenegro, and stable in Bosnia and Herzegovina, driven by consumption. The political crisis subdued growth in FYR Macedonia, as did an exceptionally cold winter in Serbia.

The favorable economic outlook contributed to a moderate drop in NPLs ratios in most countries in 2017. But it remains the case that many countries made only limited headway in addressing the challenges of primarily corporate distressed debtors. Pressures on asset quality are likely to persist without a comprehensive corporate restructuring program that provides for the orderly exit or closure of unviable companies, and thorough operational restructuring of potentially viable ones. Countries also struggled to develop markets for NPLs, reflecting both deficiencies in the supporting infrastructure (transaction platforms and data deficiencies) as well as a lack of scale that dampens investor interest.

LIMITED CREDIT RECOVERY

Credit recovery was timid, despite the need to bolster financial penetration, with credit-to-GDP ratios moving sideways or contracting. Much needed credit growth was hampered by funding constraints influenced by, for example, (i) stress experienced by parent banks which motivated them to consolidate capital (and at times liquidity) at the parent level; and (ii) regulatory changes.

CONTINUED EFFORTS TO ALIGN REGULATORY AND LEGAL FRAMEWORKS WITH THE EUROPEAN UNION

Countries experienced challenges in seeking to align national frameworks with EU requirements, including the Capital Requirements Directive IV (CRD IV) and the Capital Requirements Regulation (CRR) (together referred to as the CRD IV package), and the BRRD. Given the overall early stage of financial market developments in the Western Balkans, the need for banks to maintain significant pools of high quality liquid assets was especially hard. There were also difficulties operationalizing recovery and resolution plans; typically requiring legislative changes, being overseen by newly established resolution departments.

Beginning the transition towards an expected credit loss model, required by IFRS 9, represented a significant change for many countries, with the need to amend legislation, train staff, and address important data challenges.

EU neighboring regions
Belarus, Moldova and Ukraine

SOME POSITIVE ECONOMIC GROWTH BUT ONGOING ISSUES WITHIN THE BANKING SECTOR

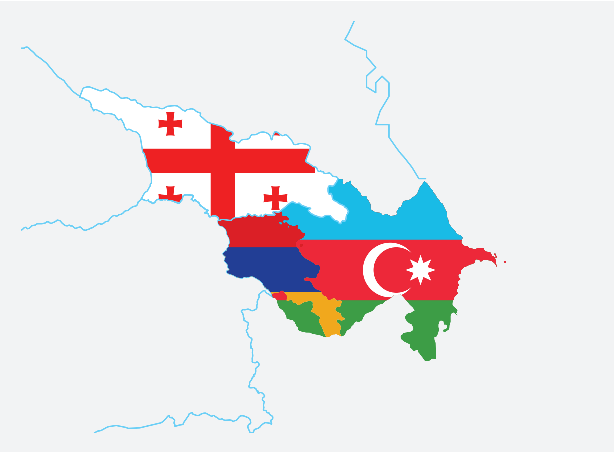
Belarus, Moldova, and Ukraine sustained their recovery from the 2015-2016 recession, with all three countries posting positive economic growth figures in 2017. Despite signs of stabilization, financial sectors in the region continued to be affected by a legacy of high NPLs and high dollarization in the financial system.

In Belarus, the largely publicly owned financial sector remained highly exposed to unrestructured state-owned enterprises, manifesting itself in the financial sector in the form of unabating pressures on asset quality. In addition, the banking system had a significant exposure to liquidity risks due to a high deposit dollarization in combination with limited access to foreign exchange, and to foreign exchange-induced credit risk since many foreign exchange borrowers lack hedges.

In Moldova, wide-ranging efforts to clean up the financial sector continued apace, with particular emphasis on improving shareholder transparency and bank diagnostics, to arrive at economically more meaningful measures of asset quality and capital.

The aftermath of a cumulative 16 percent real GDP decline in 2014-2015, lingering security tensions, and downward pressure on the national currency continued to cause stress in the Ukrainian financial system, as illustrated by further increases in the NPL ratio which reached 55 percent of gross loans at the end of 2017. Together with the International Monetary Fund and the World Bank, the authorities continued their efforts to clean up the financial sector. A framework for the resolution and recapitalization of banks was established, banks were forced to provide a more realistic representation of credit risk, and work continued to reduce related party exposures and enforce transparency in ownership structures. Bank recapitalization plans and timely enforcement action helped to strengthen solvency in the sector, though a considerable number of banks still fell short of the ten percent capital adequacy requirement. The resolution of problem banks in a manner that maximizes asset recovery and minimizes costs to the state continued to present a considerable challenge.

South Caucasus
Armenia, Azerbaijan and Georgia



IMPROVED ECONOMIC OUTLOOK BUT ONGOING VULNERABILITY TO BANKING SECTOR SHOCKS

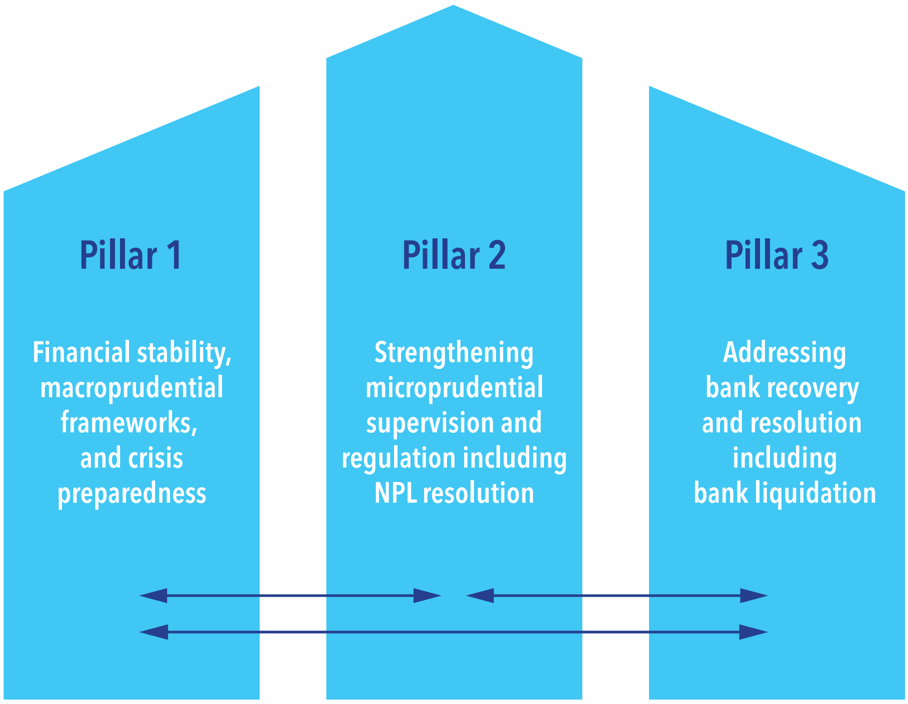
The economic outlook in the South Caucasus strengthened, with an acceleration of economic growth in Armenia and Georgia, and the ongoing recession in Azerbaijan showing signs of bottoming out. More favorable economic conditions enabled banks in Armenia and Georgia to rebuild capital buffers, lower NPLs, and strengthen profitability. Dollarization, however, continued to present a considerable challenge, leaving the banking sector vulnerable to systemic liquidity shocks and foreign-currency induced credit risk. By the end of 2017, both countries reported some positive trends in de-dollarization. In the case of Georgia, the authorities adopted a plan to reduce dollarization, focused on increasing long-term local currency funding and pricing.

Higher oil prices contributed to a more supportive economic backdrop in Azerbaijan, although a legacy of NPLs continued to weigh heavily on the banking sector's performance. The authorities completed a sizeable bad-loan buy-out from the largest bank, but there were widespread concerns about unresolved problems in the rest of the financial system, given large portfolios of restructured and foreign-currency loans, leaving the financial Azeri lenders often dependent on regulatory forbearance.

FinSAC activities in 2017

FinSAC continued to solidify its reputation as a trusted source of knowledge and implementation advice for client countries as they develop new and improved regulatory frameworks to help ensure sound financial systems and allow for economic growth. FinSAC organizes its specialist technical assistance within three distinct areas, the FinSAC pillars, which cover macro and microprudential themes and bank resolution. 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



RAISING AWARENESS AND OFFERING TARGETED SOLUTIONS

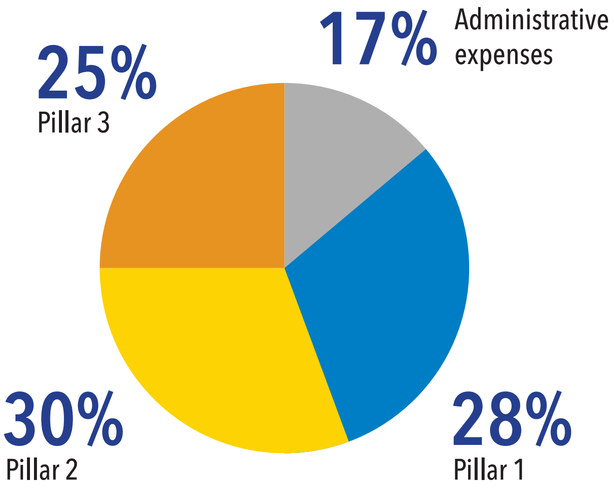
In 2017, FinSAC provided support to EU member states, accession, and neighboring countries to understand and appropriately implement EU directives, regulations, and practices (and feed back to EU institutions how these impact member states and accession countries), notably on resolution and recovery frameworks for failing financial institutions. FinSAC worked with key client institutions, such as central banks, prudential supervisors, resolution authorities, deposit insurers, banks, and ministries of finance to establish robust deposit insurance frameworks. There was an ongoing focus on helping authorities tackle high levels of NPLs. The FinSAC crisis simulation exercise, with its more recent cyber security option, continues to be a useful tool for clients to help identify weaknesses and improve communication and resilience in crisis situations. In addition to the direct assistance offered to authorities in client countries, an important function of FinSAC is to bring together regional counterparts to share and learn from each other, as well as offer a cost-effective means of delivering knowledge information on subjects of common relevance.

FINSAC EXPENDITURE IN 2017

FinSAC committed euro 2,441,790 to its activities in 2017. Spending on the three FinSAC pillars was fairly evenly distributed, with 28 percent on Pillar 1, 30 percent on Pillar 2, and 25 percent on Pillar 3. Operating costs and general expenses for the Center accounted for the remaining 17 percent of expenditure, this included for example budgeting, strategic staffing, staff hiring, cost monitoring, liaison with donors, liaison with World Bank management, staff cost of the program assistant/back up, staff training travel costs, consultants' travel, translation services, utilities, office maintenance, office supplies, depreciation, publications and other printing services, representation cost, coordination, and some business development activities.

The bulk of expenditure on activities under the three pillars was on the delivery of direct technical assistance (84 percent, euro 1,713,200) to client countries in response to their needs and requests. The remaining 16 percent was spent on working papers, conferences, and seminars. Spending on assistance to EU neighboring countries (Armenia, Belarus, Georgia, Moldova, and Ukraine) was highest at euro 886,473. Spending on EU candidate and potential candidate countries (Albania, Bosnia and Herzegovina, FYR Macedonia, Montenegro, and Serbia) totaled euro 604,121. Euro 544,013 was spent on regional activities. Further detail of expenditure is at Annex A.

FinSAC expenditure in 2017



Delivery of direct technical assistance
€ 1,713,200

EU neighboring countries
€ 886,473

EU candidate and potential candidate countries
€ 604,121

Regional activities
€ 544,013

Pillar 1: Financial stability, macroprudential frameworks, and crisis preparedness

FinSAC assists national authorities in client countries to further strengthen their financial stability frameworks and enhance macroprudential policy making. The focus is to help client countries improve their capacity to better detect and respond to emerging threats to financial stability. FinSAC supports countries to articulate an adequate policy response in the event of systemic distress by strengthening existing legal, regulatory, institutional, and operational arrangements.

FINANCIAL STABILITY

The global financial crisis has put the mitigation of systemic risk prominently on the map as a rationale for prudential oversight. This requires the addition of a macro dimension to existing micro-based approaches that focus exclusively on the safety and soundness of individual financial institutions. To effectively mitigate systemic risk, it is however necessary to somehow monitor it. Despite recent progress, this remains a challenging task as risks to financial stability are not easily quantifiable, particularly in developing and emerging economies characterized by rapid structural changes and data availability gaps. Over the course of its existence, FinSAC has been providing extensive support to newly established financial stability departments throughout the region in building analytical capacity to monitor systemic risk. In addition, it has supported countries in building institutional frameworks necessary to translate the outcomes of financial stability analysis into policy actions, including through the establishment of financial stability councils and other coordinating bodies.

CRISIS SIMULATION EXERCISES

One way in which FinSAC helps develop the role, remit, and capacity of financial sector authorities is through crisis simulation exercises. These exercises bring together senior decision makers to simulate managing situations of severe financial sector distress in a virtual environment. They enable participants to practice applying existing or proposed legal and operational arrangements in a crisis situation.

Each exercise is tailor made by FinSAC to the specific needs of the client authority. They can be intra-agency, inter-agency, or a combination of both, and participants can be from one or more national jurisdictions. An area of particular relevance is cyber-preparedness, given the risk of rapid contagion of the financial market infrastructure. FinSAC's cyber-focused crisis simulation exercises allow financial sector authorities to better prepare for 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. After the exercise a comprehensive analysis and report, outlining the main lessons and policy recommendations, is shared and discussed with the participating authorities. This offers a unique entry point for technical assistance interventions.

DEPOSIT INSURANCE

Deposit insurance systems are an important part of a financial sector safety net to maintain depositor confidence. Deposit insurance or guarantee schemes are funded by banks to reimburse a specified amount of compensation to depositors whose bank has failed. A fundamental principle is that no taxpayer funds are used. Deposit insurance helps ensure trust in banks. It is important to financial stability as its existence can prevent bank runs. If depositors have confidence to leave their money in the bank this actually makes it less likely that insurance will have to be paid. The global financial crisis revealed schemes ill-prepared to respond to bank failures, due to a lack of advance planning or insufficient funding. As a direct response the International Association of Deposit Insurers developed "Core Principles for Effective Deposit Insurance Systems". These cover issues including mandate and powers, funding, public awareness, payout capacity, and legal protection of the deposit insurance scheme and its staff. They stipulate a minimum standard against which deposit insurance schemes around the world benchmark themselves. In the EU, the Deposit Guarantee Scheme Directive gives increased protection for depositors, speedier payouts, risk-based premiums, investment rules for the deposit insurance fund, and requires stress testing. FinSAC has responded to the need for deposit insurance reform in client countries and engages with various stakeholders to strengthen deposit insurance schemes in line with the "Core Principles" and EU legislation.

FinSAC technical assistance to national authorities under Pillar 1 in 2017

BELARUS
DEPOSIT INSURANCE
A joint working group from the Deposit Insurance Agency and the Central Bank was formed in early 2017 to develop the concept of deposit insurance reform, with FinSAC help. Detailed data was gathered from commercial banks on the structure of deposits and a concept paper on deposit insurance reform was developed. This was approved by the Financial Stability Council in December 2017. The key issue was how to implement a smooth transition from the permanent blanket guarantee of retail deposits to a limited coverage consistent with international best practice. The paper also included a methodology for risk-based premiums, for setting the target ratio for the deposit insurance fund, and for defining funding sources. In addition, it proposed allowing the inclusion of individual entrepreneurs and small and medium-sized enterprises in the fund's coverage. Members of the working group were supported by FinSAC funding to visit Bulgaria and Poland to learn from these countries' experience of building modern deposit insurance and bank resolution frameworks. Going forward, FinSAC will support the drafting of new deposit insurance legislation, and strengthening the institutional capacity of the Deposit Insurance Agency.

BOSNIA & HERZEGOVINA
DEPOSIT INSURANCE
Technical assistance to the Deposit Insurance Agency in 2017 supported amendments to the Law on Deposit Insurance, including on usage of the deposit insurance fund in bank resolution, which by the end of the year was undergoing parliamentary procedure for adoption. The revised law incorporates the recommendations of the 2014 International Monetary Fund/World Bank Financial Sector Assessment Program. It is in line with the EU framework and includes the future role of the Deposit Insurance Agency fund in resolution financing. The project contributed to the strengthening of the institutional capacity of the Agency, to enable it to meet its deposit insurance and enhanced bank resolution obligations under the new comprehensive bank resolution regime.

FinSAC also helped the Deposit Insurance Agency to develop a target fund ratio methodology, using a model recommended by the International Association for Deposit Insurers to determine the sufficiency of the deposit insurance fund. The target fund ratio is an important safeguard under the new bank resolution framework; with the "analysis of adequacy" it gives the fund a long term goal. In line with the BRRD, a cap for the Fund's total contribution to the financing of a resolution has been set as a safeguard at no more than 50% of the target amount of the fund.

FinSAC technical assistance on bank resolution was most useful for our organization. The introduction to bank resolution and use of the Deposit Insurance Fund under bank resolution made it much easier for us to understand the new EU BRRD requirements.

Sanja Stanković-Trubajić

International Relations Associate
Deposit Insurance Agency of
Bosnia and Herzegovina

GEORGIA
CYBER SECURITY

FinSAC delivered a cyber security crisis simulation exercise at the National Bank of Georgia in March 2017. Its focus was on managing cyber incidents and attacks on systemic banks and on critical financial infrastructure such as payment settlement systems. This was the second of FinSAC's new cyber focused crisis simulation exercises and included commercial banks for the first time, together with the National Bank (including its Governor and two Deputy Governors), the Treasury, and the Georgian National Computer Emergency Response Team. The exercise also included a written evaluation report. The National Bank requested follow up support to implement recommendations and reinforce cyber security preparedness and response frameworks at macro and micro levels.

DEPOSIT INSURANCE

With FinSAC assistance, the Georgian Deposit Insurance Scheme Law was approved and became effective in 2017 and a deposit insurance system begins on January 1, 2018. FinSAC supported development of the deposit insurance system from conception to launch. Activities involved outlining a conceptual framework, creating a Deposit Insurance Agency, assessment and forecasting of funding needs, and preparation of core regulations and procedures for the implementation of deposit insurance coverage for household deposits. The first phase focused on the conceptual framework, producing key estimates for coverage and funding needs, the development of a law, and increasing knowledge of the International Association of Deposit Insurers Core Principles, relevant EU directives, and international good practice. After the Deposit Insurance Scheme Law became effective in June 2017 the second phase of FinSAC activities assisted with setting up the Deposit Insurance Agency and developing core regulations and procedures for the launch of the system in 2018.

The FinSAC crisis simulation exercise was beneficial and interesting for all participants, especially in improving communication among National Bank of Georgia team members, Georgian commercial banks, state treasury representatives, and the computer emergency response team. The simulation results and recommendations have been reflected in policy changes at procedural and organizational levels.

Koba Gvenetazde

Governor
National Bank of Georgia

A series of workshops were held for stakeholders, including on the scheme's launch, organization of the payouts process and international good practice, Agency funding, and contingency financing. FinSAC also participated in stakeholder consultation activities organized by the Ministry of Finance and Deposit Insurance Agency.

MONTENEGRO
DEPOSIT INSURANCE

FinSAC support for the Montenegro Deposit Protection Fund in strengthening its legal, regulatory, and institutional framework continued in 2017. A summary of recommendations for a risk-based contribution system was prepared reflecting the International Association of Deposit Insurers "Core Principles", the EU Deposit Guarantee Schemes Directive, the European Banking Agency's Guidelines on Risk-Based Method, and the recommendations of the European Forum of Deposit Insurers.

Assistance to ensure successful amendment of the deposit insurance law (to be adopted by Q2 2018) was also ongoing. The FinSAC team facilitated other deposit insurers in the region, that have been through the process of implementing the EU Deposit Guarantee Schemes Directive, sharing their experience with their counterparts in Montenegro. Implementation issues were addressed this year, including a first set of risk indicators, a possible excel structure to collect the relevant data, and the data structure to be formed between the Deposit Protection Fund and the Central Bank. The Deposit Insurance Fund of Montenegro expect to start piloting a risk based contribution framework in 2018.

UKRAINE
FINANCIAL STABILITY FRAMEWORK

Support to the National Bank of Ukraine continued in 2017. FinSAC worked with the Financial Stability Department and the Monetary Policy and Research Department to develop a Financial Conditions Index/Credit Supply Indicator. This uses data on quantity (credit volumes), price (lending spreads), and non-price credit conditions (from the Bank's quarterly lending survey) to identify credit supply shocks. The team used a multi-country panel database and a structural vector-autoregression econometric model from which they built a country specific Credit Supply Indicator for Ukraine. Two FinSAC missions allowed for detailed discussions and to train staff to operate the index and interpret the results for regular reporting to management. The National Bank was given a Technical Note describing the results of the project.

> *Every part of the technical assistance was useful. We particularly appreciated a broader regional view of credit supply shocks and related indicators, as well as a more focused look at Ukraine in this respect. The assistance helped to build an analytical toolkit required for the introduction of macroprudential tools, which is scheduled for 2020.*
>
> **Andriy Danylenko**
>
> Financial Stability Department
> National Bank of Ukraine

Examples of FinSAC knowledge activities under Pillar 1

DEEPENING UNDERSTANDINGS OF DEPOSIT INSURANCE

FinSAC supported deposit insurance agencies in client countries with the publication of four papers dealing with issues identified during FinSAC projects of current importance and interest for deposit insurers. The topics are: (i) calculation of the target fund ratio of a deposit insurance fund; (ii) establishment of a risk-based contributions; (iii) investment principles for the deposit insurance fund; and (iv) conducting stress tests of the deposit insurance system. The papers take into account international best practices and regulations of the EU Directive for Deposit Guarantee Schemes. The authors are deposit insurance practitioners from institutions in Finland, Germany, UK, and USA. The papers have been of use for FinSAC projects including in Montenegro, which has a risk-based contribution component, and in Bosnia-Herzegovina where FinSAC supported the deposit insurer to establish a target fund ratio. As a spinoff, FinSAC hosted a one day seminar wherein the four papers were presented to an audience of deposit insurers from FinSAC countries and from other neighboring regions. The event was highly valued by the participants, as illustrated by the 4.8 (out of 5) average score.

GOVERNANCE OF FINANCIAL SECTOR POLICY FUNCTIONS

FinSAC has worked this year to better understand financial sector policy functions governance across the European continent. In January, a survey on governance practices and policy issues including macroprudential policy, microprudential bank supervision, and bank resolution in normal and crisis times was rolled out to a broad set of countries (Albania, Belarus, Bulgaria, Croatia, Czech Republic, Denmark, Georgia, Hungary, Kazakhstan, Kyrgyz Republic, Kosovo, Montenegro, Moldova, Norway, Romania, Russia, Serbia, Sweden, Turkey, and Ukraine). The survey was followed by bilateral follow up discussions to clarify some responses, and gain more granular information and greater insight. The findings of the survey will be presented in 2018.

CRISIS SIMULATION EXERCISE ON THE NATIONAL RESOLUTION FRAMEWORK IN AUSTRIA

A crisis simulation exercise focusing on the national resolution framework was delivered at the Austrian Ministry of Finance on June 26, 2017. The exercise involved teams from the Ministry of Finance, National Bank, and Financial Markets Authority simulating their response to a failing cross-border Austrian parent bank.

CYBER SECURITY DIGEST OF REGULATIONS

Cyber-risk management in the financial sector is an ever-growing theme and regulatory bodies for leading jurisdictions, recognizing the threat, have begun issuing guidance and advice. This includes, for example, the European Union's Directive on Security of Network and Information Systems, and the joint "Advance Notice of Proposed Rulemaking" issued by the United States Federal Reserve Board, Federal Deposit Insurance Corporation, and Office of the Comptroller of the Currency. To help update client countries on these different proposals and to discern what might be most appropriate for them to implement, FinSAC conceived a publication outlining the different existing and proposed regulations on cyber-risk management in the financial sector in leading jurisdictions and highlighting relevant legal/regulatory issues. The first edition of this digest was developed in 2017 for publication in early 2018. It will then be continuously updated to include new initiatives.

FinSAC: Making a difference

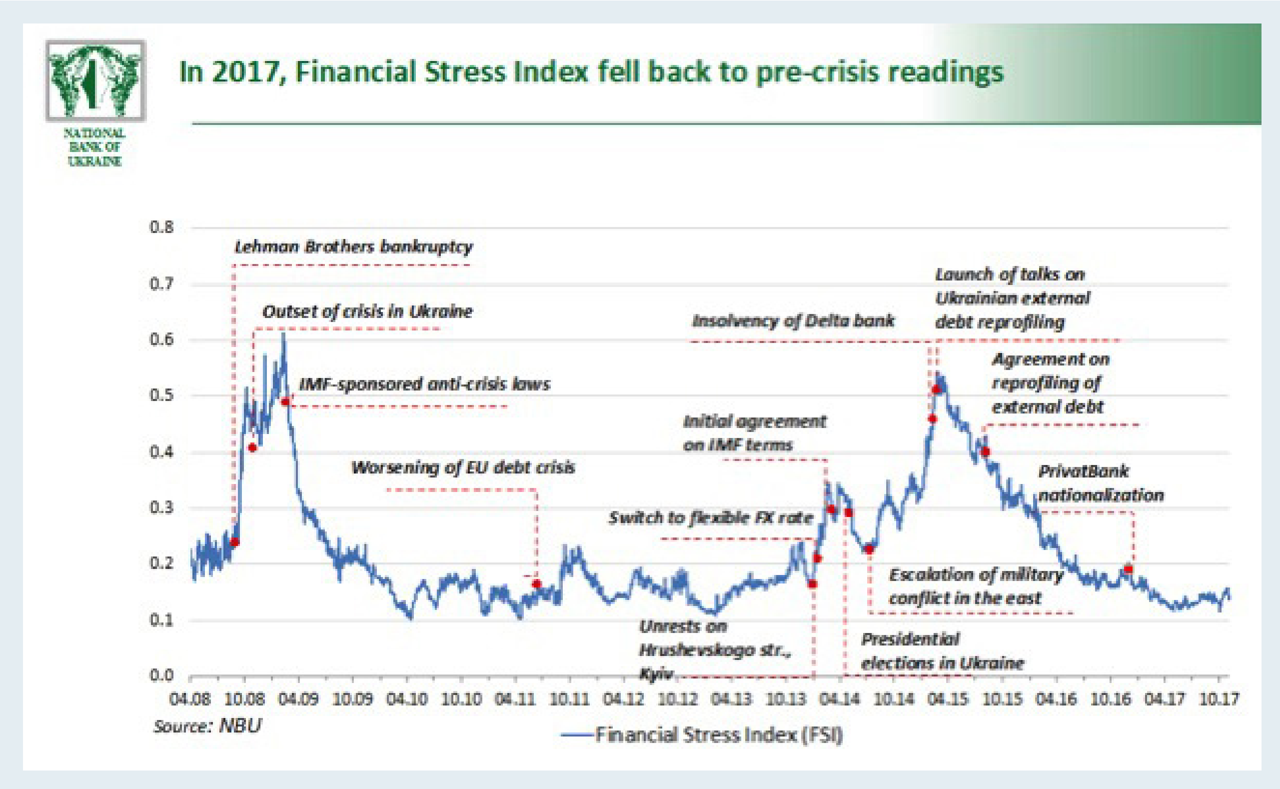
IMPROVING ASSESSMENTS OF FINANCIAL STRESS IN UKRAINE

The Financial Stability Department of the National Bank of Ukraine was established in 2015. From its inception, FinSAC technical assistance was tailored to help the new Department quickly enhance its analytical capacity, to effectively support decision-makers in macroprudential policymaking and crisis management at a critical period for the Ukrainian financial sector. One activity was to construct a financial stress index. Work on developing the index was completed in 2016, and its benefits became visible throughout the course of 2017 as the indicator became operationalized and integrated into policymaking.

A financial stress index is a composite index constructed from high-frequency (daily) data covering such financial sub-markets as banking, government securities, foreign exchange and corporate equities and bonds. It is particularly useful in crisis management, as it builds on daily data, covering a number of financial market segments and compressing the information to help quick decision-making.
The Ukrainian financial stress index is a state-of-the-art analytical tool, following a concept developed at the European Central Bank, but customized substantially to the data availability and special characteristics of the Ukrainian financial markets. It was developed over the course of two FinSAC missions, in close cooperation with Financial Stability Department staff, whose knowledge of the local markets were essential for the proper selection of sub-indicators and structuring the data. After a preliminary version of the model was presented to and approved by the Department's management, staff were trained on how to operate the index and how to interpret the results and report them regularly for management.

After becoming operational the index's value as an analytical tool was endorsed by National Bank of Ukraine senior management. It started to feature regularly in internal reports and in the Bank's new publication, the semi-annual Financial Stability Report (see example chart below).

National Bank of Ukraine: Financial Stability Report chart



The index is not just helping the work of the National Bank. The Financial Stability Department also serves as the Secretariat for the National Financial Stability Council, a multi-authority policy coordination body with the statutory responsibility to declare a systemic crisis situation in Ukraine. The index is regularly submitted to and discussed at the meetings of the Council and used in their assessments of the current degree of financial stress.

With the increasingly important and visible role of the index for the National Bank's financial stability analysis and communication, it felt timely to provide more information about the motivation and methodological background behind it. In June 2017, the National Bank published a detailed article, co-authored by FinSAC, about the index in its quarterly research bulletin.

This project is a good example of combining World Bank and client expertise to ensure a quick absorption of knowledge transfer and maximize its impact. Key to its success was the client's clear expression of its needs and dedication of human resources (experienced and motivated staff) as well as FinSAC's physical proximity (allowing multiple short missions as the project progressed) and flexibility to tailor the original product to the client's needs.

Pillar 2: Strengthening microprudential supervision and regulation

Banking soundness is critical for financial stability in FinSAC client countries where banks are the cornerstone of financial systems. FinSAC's 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 works closely 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. FinSAC has also been working with client countries to address and resolve high levels of NPLs. Despite recent progress, NPLs continue to weigh on financial sector performance and (through their adverse impact on profitability, funding costs and lending volumes) economic outcomes throughout the region.

SUPERVISION AND REGULATION

Many of FinSAC's client countries aspire to join the EU and are therefore moving towards greater convergence with the regulations, policies, and procedures of the Single Supervisory Mechanism. The main prudential regulations to be transposed are the CRR/CRD IV together with the technical standards prepared by the European Banking Authority and issued by the European Commission. These level one and two rules are to be adapted to the specific features of aspiring countries, with due consideration of the proportionality principle. In the EU the Supervisory Review and Evaluation Process is a set of methodologies and standards used to assess banks' risks, their governance arrangements, and their capital and liquidity situation. FinSAC works with client countries to adapt and implement the EU's building blocks of supervisory practice to achieve greater convergence with EU practices and increase their efficiency in supervising banks. Technical assistance also covers supervisory reporting arrangements, including financial reporting and common solvency ratio reporting, which can increase efficiency through the provision of coherent and comparable information. FinSAC can advise on the prudential impact of transitioning to IFRS including assessment of the preconditions, policy advice on timing, and safeguards when moving to IFRS 9 and the adaptation of regulatory models to the change. World Bank/International Monetary Fund Financial Sector Assessment Program reports customarily include action plans for strengthening compliance with the Basel Committee on Banking Supervision's standards (most importantly capital, liquidity, and supervision), with which FinSAC is involved for client countries and helps implement.

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.

NON-PERFORMING LOANS

While there has been some improvement in the quality of banks' loan portfolios, the share of NPLs in the total loan portfolio in some client countries remains high and requires further attention and improvement in the NPL resolution framework. NPL resolution is a complex, multifaceted task, and FinSAC has been working with client countries to address the many challenges in a holistic way by doing an initial comprehensive assessment and identifying priority areas for actions. It offers a comprehensive supply line of products and professional advisory services on NPLs including: general assessment of the NPL resolution framework in a country; early warning systems of recognition; the application of the latest prudential regulation (European and international) to ensure proper and timely identification and provisioning for problem loans; segmentation principles and actual segmentation of NPLs; the tools and strategies for resolution; available options for in house and external management, including asset management companies; corporate governance arrangements for resolution; and a framework for out of court loan restructuring, particularly for large multi-lender cases.

FinSAC technical assistance to national authorities under Pillar 2 in 2017

ALBANIA

NPLs

At the Bank of Albania's request, FinSAC conducted an in-depth review of the existing framework for the resolution of large corporate NPLs, which typically involve several creditor banks. FinSAC worked with the Albanian authorities to map (i) current impediments to the out-of-court restructuring of multi-lender large corporate NPLs (which represent almost half the NPL stock), and (ii) the scope for and limitations to the introduction of best international practice in Albania. A draft framework for the out-of-court restructuring of multi-lender large corporate NPLs in Albania was prepared and presented, together with other international examples, at a FinSAC seminar in Tirana, which was well attended by commercial banks. The framework was then fine-tuned following feedback at the seminar and submitted to the Bank of Albania. The Albanian authorities subsequently requested a study into the financial health of Albanian corporates which is underway, financed by the International Finance Corporation. This study should facilitate the implementation of a new regulation on out-of-court restructuring, based on the FinSAC draft framework, to be issued by the Bank of Albania in 2018.

> *We found FinSAC's presentation of draft agreements between banks, and between banks and borrowers, most useful. This provided significant insights on the process, definitions, and threshold for borrowers; the cooperation process; decision making; the role of the Bank of Albania; and bringing banks into a cooperation framework to find joint solutions. Discussions with FinSAC experts allowed us to compare our views and potential approach with similar international experiences.*
>
> **Gerond Ziu**
>
> Head of Credit Risk Supervision Unit
> Bank of Albania

BOSNIA & HERZEGOVINA

CAPITAL AND LIQUIDITY REQUIREMENTS

FinSAC assisted the supervisory agencies of the Federation of Bosnia & Herzegovina and the Republika Srpska by conducting a quantitative impact study aimed at gauging the impact of the introduction of new capital and liquidity requirements, aligned with international standards. The findings of the study helped fine-tune the draft regulations ahead of formal approval. The outcomes of the study published by the agencies, found that all banks would comply with the new capital and leverage requirements and that all but one of the banks had liquidity coverage ratios above 100 percent.

> “
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> *The FinSAC team helped our institution understand the new EU regulation and how it can be aligned with the specific market in BiH.*
>
> Tanja Pavlović
>
> Head of Development Division
> Bosnia & Herzogovina Federal Banking Agency

REGULATION & REPORTING

FinSAC continued to support authorities in drafting key prudential regulation based on international standards (Basel II and III) e.g. capital, internal capital adequacy assessment process, liquidity, large exposures, risk management, interest rate risk in the banking book, consolidated supervision, and developing reporting templates and instructions. Both the regulations and reporting are to be adopted in 2018.

SUPERVISORY APPROACH

FinSAC worked with the banking agencies in 2017 developing a project plan to design and put in place a new supervisory approach based on the European Supervisory Review and Evaluation Process. This new approach will be holistic and forward looking to support supervisory efficacy. The project plan encompasses the project organization, deliverables, and timelines. Development of the new supervisory approach will continue in 2018.

FYR MACEDONIA

REGULATION & REPORTING

FinSAC continues to work with the National Bank of Macedonia to prepare for the implementation of IFRS 9, which is mandatory for Macedonian banks starting January 2018. FinSAC has been working with the National Bank, and with technical experts from the Banco de España, on the construction of an expected credit loss model, using data from the National Bank's credit registry, thereby supporting a smooth introduction of the new accounting standard.

MOLDOVA

REGULATION AND SUPERVISION

FinSAC worked closely with the National Bank of Moldova throughout 2017 to improve ongoing supervision. It provided assistance to the inspections of three banks under special supervision. This included commenting on the content of the draft inspection reports, advising on the terms of reference and review methodology, and reviewing the examination reports.

FinSAC also assisted the National Bank to develop a regulation on bank governance and risk management, and on the legal provisions on bank governance in a draft new banking law. The focus of the assistance was to address governance problems that facilitated the USD one billion banking fraud that occurred in 2014. FinSAC has advised on actions to be taken to initiate legal action, based on the forensic audits of the defrauded banks, to recover some of the USD 600 million that has been traced; and discussed the inclusion of a possible development policy operation prior action related to such actions.

SERBIA
SUPERVISORY APPROACH

FinSAC supported the National Bank of Serbia to develop a stress test framework to be used in the microprudential supervision of banks and to challenge the institutions' internal stress test results in the internal capital adequacy assessment process. Two workshops were delivered in Belgrade for staff from the Banking Supervision Division of the National Bank of Serbia in 2017. The first, on stress testing supervisory frameworks, sought to understand the objectives and needs of the National Bank of Serbia, discuss good practices in supervisory stress test exercises used by authorities in different jurisdictions, look at the technical aspects of stress test models, and outline a practical roadmap for implementation. The second workshop, on supervisory assessment of internal ratings-based capital requirements models, reviewed good practices regarding the process of approving internal models for capital requirements calculation, considered common practices in the estimation of credit risk parameters, looked at examples of good practices and common errors found during the supervisory review of internal models, and discussed the potential implementation of a supervisory review process.

> *One thing we found irreplaceable from FinSAC technical assistance was the sharing of real world experience and insight into stress testing. We were looking for information on coping with real world problems in modelling, rather than the ones presented in books and educational materials, and our expectations were more than satisfied. The experience FinSAC shared with us was priceless and was something that, in spite of our best efforts, we could not find from any other form of source.*
>
> **Miloš Cipović**
>
> Junior Quantitative Analyst
> National Bank of Serbia

UKRAINE
CAPITAL ADEQUACY AND LIQUIDITY

FinSAC continued supporting Ukraine's efforts to better align key regulatory frameworks with international standards in 2017. Ongoing activities focus on reforms to key areas including capital definition, the liquidity coverage ratio, the draft banking law, amendments to the regulations governing large exposures and risk management, and NPLs.

FinSAC worked closely with the National Bank of Ukraine on the preparation of a liquidity coverage ratio (which with the net stable funding ratio will replace the current liquidity ratio for banks). Important progress was made, especially in the definition of high quality liquid assets and the collection of data on inflows from banks. The liquidity coverage ratio is expected to be finalized by mid-2018.

FinSAC continued to provide input on the draft banking law, the vetting process of top managers in banks, legal protection for national bank personnel against lawsuits, and the role of the compliance officer in conflict of interest situations.

Examples of FinSAC knowledge activities under Pillar 2

SEMINAR ON THE NPL RESOLUTION FRAMEWORK IN UKRAINE

As part of its ongoing TA project on NPLs, FinSAC organized a seminar in Kyiv in March focused on the comprehensive assessment of the NPL resolution framework in Ukraine. 50 Ukrainian participants, including from the National Bank, Deposit Guarantee Fund, Banking Association, and individual banks, took a holistic look at NPLs and the establishment of an effective resolution framework. Under three pillars, 17 areas were reviewed and for most of them a list of remedial actions were proposed.

WORKSHOP ON NPL MANAGEMENT AND WORKOUT IN ALBANIA

FinSAC organized a workshop for 40 participants on NPL management and workout on April 26, 2017. The workshop was for risk and workout specialists at Albanian banks and supervision experts from the Bank of Albania. The aim of the seminar was to increase the capacity of the Albanian financial system to deal with NPL stock, in particular of large corporates. The main themes of discussion were: i) general NPL resolution framework, ii) international experience with out-of-court NPL workouts, iii) presentation of Tirana approach (out-of-court multi-lender NPL workout framework in Albania) and iv) good practice in corporate debt workouts. The workshop was part of the ongoing TA engagement on NPL resolution in Albania.

FinSAC: Making a difference

SUPPORTING UKRAINE TO TACKLE NPLS

Ukraine has one the highest NPL ratios in the world. NPLs reached 58 percent of gross loans in July 2017. Contributory factors include the consequences of the global financial crisis and subsequent economic recession; currency devaluation which eroded unhedged borrowers' debt-servicing capacity; the collapse of economic activity in parts of the country; and sharp negative adjustment in real estate prices. A significant portion of the stock of bad loans is concentrated within the corporate sector – the top-20 groups of borrowers account for 49 percent of corporate banking loans.

The World Bank and other international financial institutions (including the International Monetary Fund, and the European Bank of Reconstruction and Development) are providing financial and technical assistance to help address the problem. FinSAC, together with the World Bank local office, conducted a comprehensive assessment of the NPL resolution framework in Ukraine, identifying priority areas for actions and thus streamlining the workload of national authorities and external advisers. The methodology used was based on a gap analysis with euro area peers.

A FinSAC seminar in Kyiv in March considered the study findings and took a holistic look at NPLs and the establishment of an effective resolution framework. The complexities of NPL resolution, involving a range of different stake holders, make such a holistic approach essential to achieving any meaningful decrease in rates. The National Bank of Ukraine responded quickly, enlisting FinSAC assistance in three areas identified as requiring substantial further work: (i) collateral valuation identified as problematic in the NPL assessment, (ii) NPL write-offs and (iii) NPL governance/workout.

(i). FinSAC assessed collateral valuation practices in the EU and shared the findings together with advice on possible improvements for implementation in Ukraine. These included: i) to regulate collateral valuation rules for the banks (e.g., valuation methods used, frequency, minimum requirements for appraisers), ii) the construction of a database of real estate appraisals for assets used as collaterals and iii) the establishment of regulation (directly or indirectly) for appraisers that deliver services in the financial industry. Based on this, the Risk Management Department of the National Bank of Ukraine initiated construction of a data base for collateral values used in the financial sector.

(ii). FinSAC provided a written summary of NPL write-off practices implemented in other countries, including in Europe. The document advised implementing a similar mandatory NPL write-off regulation in Ukraine based on quantitative and qualitative parameters.

(iii). FinSAC developed a set of Guidelines for Effective Management and Workout of NPLs. This aimed to assist in efforts to issue a binding regulation for banks regarding the functioning of NPL resolution units in banks. The final guidelines reflect extensive discussions with the National Bank and other banks, and World Bank internal review. They cover the main aspects of the workout cycle (i.e., early warning system, identification of NPLs, organization of workout units in the banks, segmentation, best practice for organizing workouts, including workout strategies) and include specific examples of how restructuring could be tackled in Ukraine.

The National Bank of Ukraine also sought FinSAC's advice on their draft regulations on risk management and connected borrowers in the context of NPL resolution. The team delivered written comments to the National Bank experts which were incorporated in the draft regulations.

FinSAC's assistance in close collaboration with other international financial institutions will continue into 2018.

Pillar 3: Addressing bank recovery, resolution, and bank liquidation

Work under this pillar is focused on how failing banks are dealt with, one of the most important regulatory areas which emerged from the 2007/08 global financial crisis. FinSAC works 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 benchmarks promoted by FinSAC include the Financial Stability Board's 2014 "Key Attributes of Effective Resolution Regimes for Financial Institutions". These 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"). Experiences in the global financial crisis and evolving international best practices prompted Europe to overhaul bank resolution schemes. The EU's BRRD is designed to give a stable and fair banking system that serves the economy at large by making sure a failing bank can be resolved swiftly with minimal risk to financial stability and public support. FinSAC helps client countries understand how this legislation affects them, especially relevant for EU-accession countries, and how they can harness aspects of the legislation to improve their own resolution regimes.

KEY ASPECTS OF THE EU BANK RECOVERY AND RESOLUTION DIRECTIVE FOR CLIENT COUNTRIES

Many client countries need to, or are choosing to, adopt or adapt their national legislation in alignment with the requirements of the Directive. Updated versions of 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"*, first published in 2016, were issued in 2017 and are available on the FinSAC website. These publications provide a detailed explanation of the legislation, and give examples of the realities of resolution cases. In its technical assistance projects, FinSAC supports client countries in adopting the resolution principles developed at the international level, while taking into consideration the specificities of the local context such as human resource limitations, and the dominance of foreign banks. There is often limited availability of financial instruments that can be bailed in, as bank funding models are dominated by deposits and capital markets are generally underdeveloped.

RECOVERY AND RESOLUTION

Under the Key Attributes and the BRRD's harmonized framework, 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 banks do face failure, the Directive gives authorities comprehensive powers and tools, including interference with property rights, to restructure and to resolve them 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. Bail-in is the most innovative of the tools given to resolution authorities by the BRRD in the context of bank resolution. The bail-in tool achieves loss absorption without closing the bank 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. A 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 for each individual bank, on which the real value and strength of bail-in will depend, is a fairly complex process. The FinSAC prototype bail-in simulator was first tested in 2017 and will further be developed in 2018 to help financial sector authorities better understand the implications that their ability to bail-in different bank liabilities would have for different types of creditors and the use of deposit insurance money for resolution purposes.

Technical assistance to national authorities in 2017

ALBANIA

FinSAC has worked closely with the authorities in Tirana during 2017 to operationalize the newly created resolution framework for Albania and advance the assessment of banks' recovery plans. Progress included the creation of a resolution unit within the Bank of Albania. FinSAC assisted with the process of drafting by-laws on valuation, and on recovery and resolution planning including the adaptation of European Banking Authority and Single Resolution Board bank information templates to the local framework. The first recovery plans under the new framework are due to be submitted in early 2018. FinSAC has also offered advice on issues including internal information and cooperation exchange rules, the drafting of a resolution manual (ongoing), and provided example resolution fund calculations during the preparations of the resolution fund by-law. FinSAC has had discussions with the Albanian Deposit Guarantee Agency about its role, powers, and obligations under the new resolution framework.

BELARUS

The Belarusian authorities requested help from FinSAC in aligning the country's legal and institutional framework for bank resolution with international best practice, as summarized in the "Key Attributes". A joint Central Bank and Deposit Insurance Agency working group was formed and worked throughout 2017 on this reform, using the Financial Sector Assessment Program diagnostic report produced in late 2016. With FinSAC assistance, the Working Group developed a concept paper on bank resolution reform which was then approved by the Financial Stability Council in December 2017. The concept envisions expanding the range of resolution instruments, ensuring that shareholders and creditors are primarily responsible for possible losses, clarifying the mechanism of possible state support, and delineating the respective responsibilities of the Central Bank and the Deposit Insurance Agency in the bank resolution process. Members of the working group were supported by FinSAC funding to visit Bulgaria and Poland in November 2017 to learn from these countries' experience of building modern bank resolution frameworks. Going forward, FinSAC will support the drafting of new bank resolution legislation, and the strengthening of institutional capacity of Deposit Insurance Agency and the Central Bank to undertake resolution actions as required.

BOSNIA AND HERZEGOVINA

FinSAC continued assisting both authorities in the preparation and implementation of the new resolution framework. FinSAC advised on and discussed 15 implementing acts to be adopted by each of the Banking Agencies in the area of of recovery and resolution in accordance with the new banking law including on recovery and resolution planning, valuation, bail-in, bridge banks, and guidelines on the assessment of recovery plans. As the new Law on the Banking Agencies also required amendments to the Agency Statutes, draft proposals were prepared for the authorities taking into account their new resolution responsibilities and enhanced supervisory powers. Assistance was further provided on defining cooperation and information exchange requirements in light of the new resolution responsibilities. Moreover a case study was conducted on recovery and resolution planning to provide insight into what a plan should look like and what to focus on.

FYR MACEDONIA

FinSAC has begun a project with the National Bank aimed at strengthening the country's problem bank recovery and resolution framework. The project is assisting with the preparation and implementation of new laws and regulations by providing comments to the drafts produced by the authorities. FinSAC is supporting the implementation of recovery planning by preparing a workshop for supervisors on the assessment of recovery plans; and advising on the assessment of, and supervisory response to, the first batch of recovery plans submitted.

UKRAINE

FinSAC supported a working group of representatives of the Deposit Guarantee Fund and of the National Bank of Ukraine on further aligning the bank recovery and resolution framework in Ukraine with international good practice, notably the EU. As a first step FinSAC provided the working group with a list of questions and the FinSAC recovery/resolution powers matrix to better understand the tools and powers currently available when dealing with a problem bank. The results of this gap analysis were then discussed in detail with the resolution working group and a preliminary list of areas requiring change to ensure an effective bank resolution framework, sufficiently aligned with international good practice, were identified. A draft White Paper on the Strategic Development of an Enhanced Bank Resolution Framework in Alignment with the EU acquis was submitted to the authorities for review. It highlights the main challenges under the current framework and outlines the key features and conditions for building up a revised framework in line with the BRRD and international principles.

Examples of FinSAC knowledge activities under Pillar 3

FINSAC WORKSHOP ON BANK RECOVERY AND RESOLUTION IN UKRAINE

As part of its ongoing technical assistance engagement on banking resolution, FinSAC organized a workshop in Kyiv on 27 November. This considered the purpose and state of play of recovery and resolution planning with representatives of the Deposit Guarantee Fund and National Bank of Ukraine responsible for bank recovery and resolution. It aimed to increase understandings on the value and potential future development of the national bank recovery and resolution framework. The workshop benefited from a contribution by the Austrian Central Bank sharing its experience and expertise. Discussion of two small case studies on critical aspects of recovery plan assessment and the drafting of resolution plans helped deepen participants' insight.

As part of the same project, FinSAC hosted a workshop for Ukrainian judges on the role of the judiciary in bank resolution. This conference in Kyiv on 5 and 6 October brought Ukrainian judges and relevant staff from the National Bank and the Deposit Insurance Agency together with practitioner lawyers and judges from other countries to discuss the role of the judiciary in bank resolution and liquidation cases and international good practice. Most interlocutors were from European countries, given Ukraine's association agreement with the EU, but practitioners from other countries that have undergone financial crisis, like Argentina in the 1990s, and high-level experts from the US also shared their knowledge and experience.

REGIONAL WORKSHOP ON RESOLUTION REGIMES IN EUROPE

FinSAC organized a workshop 'Resolution Regimes in Europe: Implementation of effective resolution regimes in the region' in cooperation with the Fiscal Stability Board cross border crisis management group on April 19, in Vienna, Austria. 85 senior level technical staff responsible for resolution-related policies from client countries and representatives of European authorities discussed resolution concepts and the challenges of implementing bank resolution in Europe. Workshop themes included the process of implementing effective resolution regimes in the region; the conditions for, and effects of, resolution strategies and loss absorbing capacity in resolution; and cross border cooperation and impediments to the resolvability of systemically important cross-border firms.

FINSAC BAIL-IN CALCULATOR

FinSAC developed a first version of its "bail-in calculator" in Java programming language. This bail-in simulator (inspired by the Canadian Deposit Insurance Corporation) will 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. Work will continue on the further development of the calculator in 2018.

FinSAC: Making a difference

HELPING ALBANIA OPERATIONALIZE ITS NEW RECOVERY AND RESOLUTION REGIME

As a candidate for accession to the EU, Albania has been working to implement the requirements of the BRRD. The critical first step was the development of a new legal framework. FinSAC has been working closely with the Bank of Albania and other relevant authorities through all phases of this process, including analysis of the existing framework against international and EU principles and good practice, involvement in the drafting of revised legislation, support during the process of adopting the legislation, drafting implementing regulations, preparing methodological documents, and training supervisors and staff from the Resolution Department.

The new Bank Resolution Law was adopted by the Albanian parliament in December 2016. FinSAC assistance in 2017 therefore focused on helping the Bank of Albania to operationalize the newly created recovery and resolution framework and advance the assessment of banks' recovery plans. FinSAC support through missions, targeted workshops, and ongoing close contact including regular email communications to address ad-hoc questions was targeted on the following areas:

RECOVERY PLANS

The first recovery plans under the new legislation are due to be submitted in early 2018. Previous supervisory assessments were made against a framework that was not yet fully aligned with EU standards. Communication with the banking industry on the new requirements was therefore important in 2017. FinSAC provided example calculations and templates (adapting European Banking Authority and single resolution board information templates to the local framework) to assist in completing plans. A methodology for the assessment of recovery plans by the Bank of Albania was developed in 2016. A two-day workshop trained supervisors on the assessment methodology, which was then trialed on the first batch of recovery plans submitted by significant Albanian banks. The methodology was adjusted as required and is now fully implemented for the current and future assessment of recovery plans.

SUPERVISORY CAPACITY BUILDING

A key objective of supervisory work for recovery planning is to ensure effective integration with other supervisory tasks, including the supervisory review and evaluation process, the internal capital adequacy assessment process, and the internal liquidity adequacy assessment process which the Bank of Albania is also implementing. Proposals for integration were discussed at a FinSAC workshop in 2017. Common features and particularities of the different supervisory tasks were discussed, as were ways of optimizing and leveraging efforts and including international examples, to help Albania ensure an integrated supervisory process. Efforts are underway to improve internal cooperation within the Bank of Albania. De Nederlandsche Bank has also been involved to develop information exchange rules between different units within the Bank.

CREATION OF A RESOLUTION UNIT

FinSAC has been providing hands-on support to the newly established resolution unit within the bank of Albania. This unit is taking the lead in developing effective resolution planning in Albania and will be responsible for deciding on the application of resolution tools in case of need. Areas of involvement include FinSAC's work with the unit to develop a resolution manual, detailing the practical aspects of resolution planning including the resolvability assessment and the definition of minimum requirements for own funds and eligible liabilities taking into account the Bank of Albania's role as a host country. With FinSAC support, a staff member of the new resolution unit team was able to spend three weeks with the staff of the Single Resolution Board of the EU. This was an extremely useful experience and provided a depth of insights, as well as practical learning experience, of all aspects of resolution planning within the euro area. This knowledge gained will be disseminated and applied within the Albanian resolution unit when it comes to the adoption of resolution plans starting in 2018.

DEVELOPMENT OF LEGISLATION

It is important that new or revised legislation does not contradict or complicate supervision. Through an internal Bank of Albania working group, FinSAC has been working closely with various departments within the Bank of Albania to promote coordination and to ensure that rules, regulations and laws for resolution purposes are consistent with those used in banking supervision – e.g. that early intervention measures in the Resolution Law fit with existing supervisory measures contained in the Banking Law. FinSAC also helped with the process of drafting necessary new by-laws. These included the contents of recovery plans and assessment criteria; resolution plans including resolvability assessment; reporting templates for recovery and resolution planning based on European Banking Authority and single resolution board adapted to the local framework; valuation; and establishment of a resolution fund including sample calculations.

FINSAC KNOWLEDGE BUILDING EVENTS IN 2017

FinSAC workshop on objectives, methodology, and supervisory stress test framework
Belgrade, March

FinSAC seminar on comprehensive assessment of the NPL resolution framework in Ukraine
Kyiv, March

FinSAC workshop on bank recovery and resolution for the Ukraine Deposit Guarantee Fund and National Bank of Ukraine
Kyiv, March

FinSAC seminar on comprehensive assessment of the NPL resolution framework in Ukraine
Kyiv, March

FinSAC workshop in cooperation with the Financial Stability Board Cross Border Crisis Management Group on resolution regimes in Europe
Vienna, April

FinSAC workshop on NPL management and workout in Albania
Tirana, April

FinSAC crisis simulation exercise for the Austrian Ministry of Finance focused on the national resolution framework
Vienna, June

FinSAC workshop on supervisory approval and monitoring of internal models
Belgrade, July

FinSAC workshop on supervisory use of the internal capital adequacy assessment process and interactions with recovery planning
Tirana, September

FinSAC presentation to Austrian National Bank Research and Financial Stability Departments on constructing a credit supply indicator using lending survey data
Vienna, September

FinSAC workshop on the role of the Judiciary in Bank resolution for Judges
Kyiv, October

FinSAC case study event on resolution planning and resolvability assessment
Bosnia and Herzegovina, November

FinSAC deposit insurance seminar on addressing emerging challenges in funding, investment, risk-based contributions, and stress testing
Vienna, November

FinSAC workshop on recovery and resolution planning
Kyiv, November

FINSAC PARTICIPATION IN EXTERNALLY ORGANIZED KNOWLEDGE BUILDING EVENTS IN 2017

Participation in International Monetary Fund and Joint Vienna Institute Caucasus and Central Asia Central Bankers' Forum
Vienna, January

Keynote speaker at Albanian Association of Banks Retail Banking Forum
Tirana, February

Presentation of the NPL resolution framework to the European Commission Directorate General for Structural Reform Support Service
Brussels, March

Participation in the Florence School of Banking and Finance Executive Seminar on financing banking resolution
Florence, June

Presentation on legal aspects & lessons learned from recent bank resolution & liquidation cases in the banking union, World Bank International Monetary Fund BBL
Washington DC, July

Presentation on bail-in and recent resolution cases in the European Union at World Bank Resolution Workshop
Istanbul, July

Participation in European Bank for Reconstruction and Development workshop "Increasing investment in NPLs in Bulgaria: A practical approach"
Sofia, September

Presentation of EU NPL resolution experiences at World Bank/State Bank of Vietnam Workshop on NPLs
Hanoi, September

Presentation about NPLs resolution challenges for Central and South Eastern European countries at the Austrian Central Bank's East Jour Fixe
Vienna, September

Participation in workshop and presentation on Macro-Financial Stability in Central, Eastern and South-Eastern Europe organized by Joint Vienna Institute
Vienna, October

Presentations about NPL resolution in Latvia and NPL regulation in Conference on Resolution and Deposit Insurance hosted by the South African Reserve Bank and the World Bank
Cape Town, October

Participation in Bank Al-Maghrib Regional Symposium on Financial Stability
Rabat, December

Outcomes and results in 2017

Demand for FinSAC's services continued to be strong in 2017, reflecting FinSAC's strong reputation in client countries as a trusted technical assistance partner and center of technical expertise. Client demand has also been boosted by generally high levels of client satisfaction, illustrated by the fact that when a FinSAC project concludes client countries often request new technical assistance to further advance reform.

As part of FinSAC's continuous efforts to strengthen results measurement, this annual report for the first time includes a dedicated section about outcomes and results of FinSAC's activities. The overarching objective is to better gauge the impact of FinSAC's activities on the ground, and to gain a better understanding how FinSAC's work contributes to its development objective - to support FinSAC client countries in building more resilient and more stable financial sectors.

A SNAPSHOT OF 2017

As was the case in previous years, technical assistance projects represented the lion's share of FinSAC's activities. Over the course of 2017, a total of fourteen projects were completed, of which ten were technical assistance projects, two international knowledge events, and two knowledge products. In addition to the projects closed in 2017, FinSAC had an active portfolio of fourteen technical assistance projects at the end of 2017.

Table 1: Number of completed projects by deliverables, pillars and countries

Completed projects by deliverables	Pillar 1	Pillar 2	Pillar 3	Total
Knowledge events/products	3	–	1	4
Technical assistance	3	6	1	10
Total	**6**	**6**	**2**	**14**

Completed projects by country/pillar	Pillar 1	Pillar 2	Pillar 3	Total
Albania	–	1	1	2
Bosnia and Herzegovina	1	1	–	2
Georgia	1	–	–	1
Serbia	–	1	–	1
Ukraine	1	3	–	4
Regional	3	–	1	4
Total	**6**	**6**	**2**	**14**

Table 2: List of projects completed in 2017

Country	Technical Assistance
Albania	Assessment of Recovery Plans for Systemic Banks Guidelines for Implementation of Multi-lender NPL Restructuring "London Approach"
Bosnia and Herzegovina	Deposit Insurance Strengthening Project Quantitative Impact Study for the Introduction of Basel III
Georgia	Crisis Simulation Exercise
Serbia	Operational Aspects of Micro Stress Testing
Ukraine	Financial Conditions Index Guidelines for the Effective Management and Workout of NPLs Review of Collateral Valuation Practices in the Financial Sector in Ukraine Review of NPL Write-off Practices in Ukraine

Date	Knowledge Events/Products
19 April, 2017 30 November, 2017	Workshop on Resolution Regimes in Europe – Vienna, Austria Conference on Deposit Insurance Systems – Vienna, Austria
October, 2017 November, 2017	Paper on Financial Sector's Cybersecurity: A Regulatory Digest Paper series on Deposit Insurance Systems

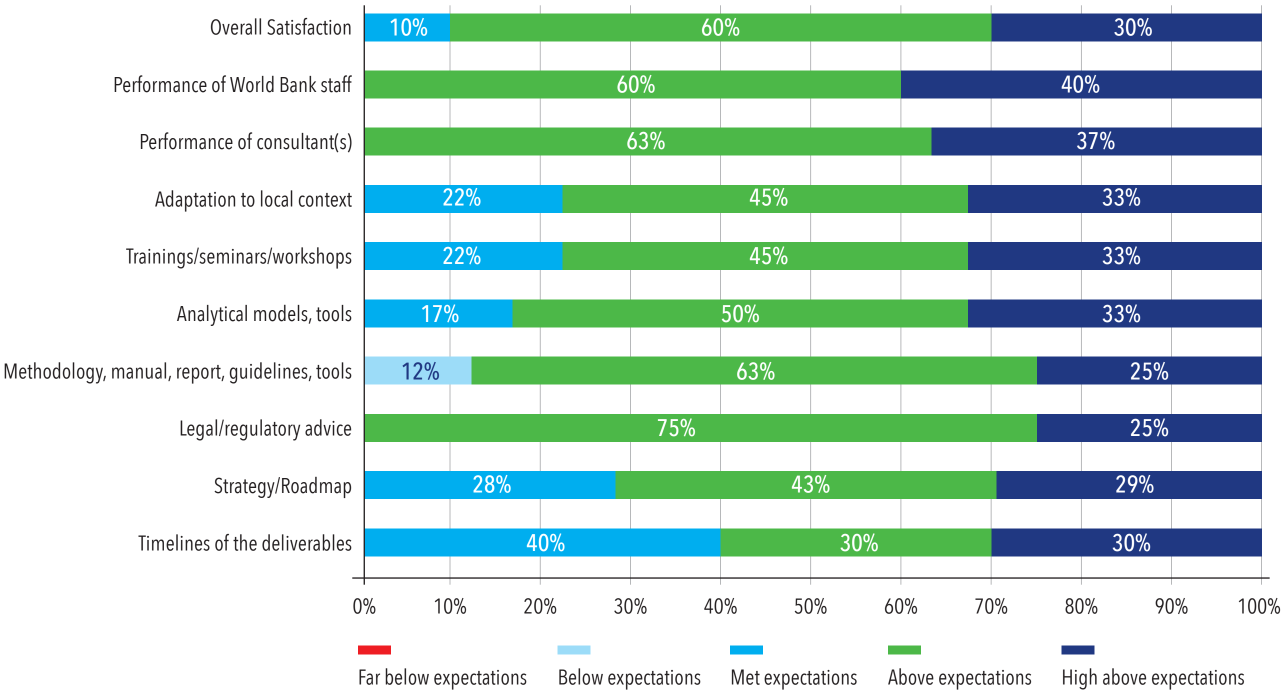
CLIENT FEEDBACK

It is standard practice for FinSAC to invite feedback from the end users of its services to assess project effectiveness and identify areas for improvements. The quality and relevance of technical assistance projects are evaluated using a client feedback survey. The survey is a useful tool to communicate with clients and to help FinSAC better understand whether projects have addressed clients' needs, and to gauge the client authority's appetite to engage in follow up projects - an important means of being able to foresee prospective client demand. The outcomes can be used to inform the design of new technical assistance projects, thereby strengthening FinSAC's offerings to client countries.

FinSAC received survey feedback on nine of the ten technical assistance projects completed in 2017. As in earlier years, survey results point to strong client satisfaction. For 90% of respondents, overall satisfaction was above or highly above their expectations. No clients found any aspect of FinSAC's engagement far below expectations. Legal and regulatory advice were particularly valued and respondents provided positive feedback about the performance of World Bank (including FinSAC) staff and consultants.

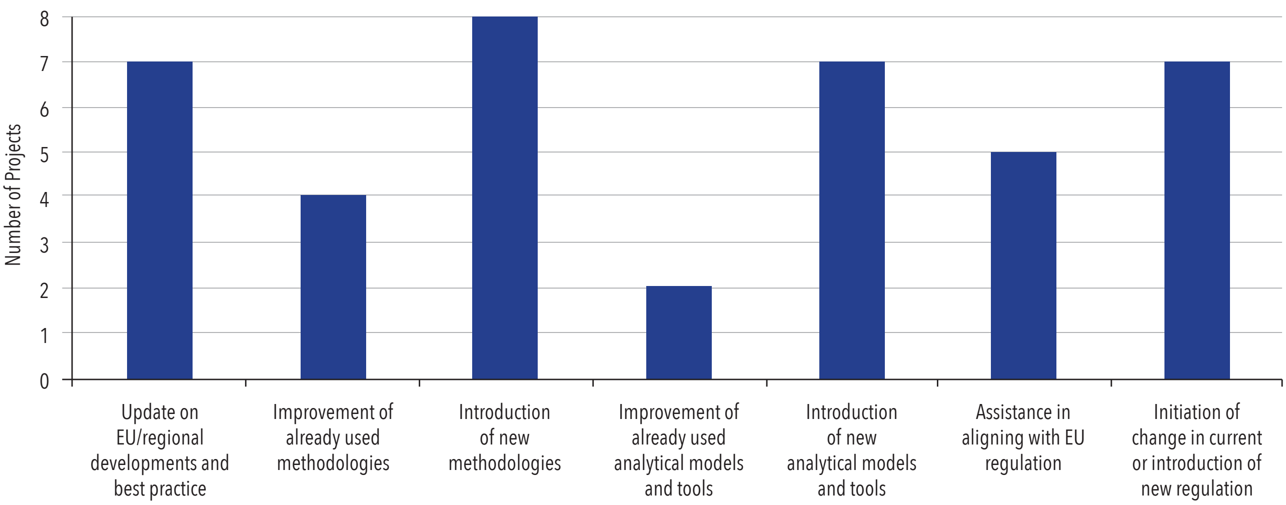
Survey respondents were also asked to reflect in more detail about the benefits they obtained from deliverables provided as part of FinSAC technical assistance projects. They indicated that these deliverables benefitted their institutions in numerous ways, including through the introduction of new methodologies, provision of analytical models and tools, and a strengthening of legal and regulatory frameworks – either through FinSAC inputs to updates of existing laws and regulations, or through FinSAC support in the preparation of new laws and regulations. Client countries were also appreciative of FinSAC's efforts to raise client awareness of relevant international best practices, and EU and regional regulatory developments. Lastly, respondents perceived FinSAC's technical assistance to be tailored to the nature of their challenges and specificities of their context. In addition to focusing on solutions to a given problem, FinSAC is seen to work closely with clients to ensure the proposed solution is feasible, practical, and implementable. Most technical assistance projects in 2017 therefore included knowledge events (workshops or seminars) to disseminate information, share knowledge, and directly address any queries, issues, or problems, which were highly valued by clients. Participants in FinSAC knowledge events were asked to complete a standardized evaluation form. In addition to the knowledge events organized as part of technical assistance projects, FinSAC also held two international workshops in 2017. These events were greatly appreciated by the participants, as is illustrated by an average overall satisfaction score of 4.6 out of 5.

Graph 1: Client satisfaction with FinSAC services



Note: These figures represent answers to survey questions. Not all questions were relevant for all clients and were therefore not answered.

Graph 2: Main outputs of FinSAC technical assistance in 2017



* Each project contributed to more than one outcome. Therefore sum on the graph does not correspond to the total number of projects.

Table 3: Clients' overall satisfaction with FinSAC's international workshops

Knowledge event	Number of participants	Overall satisfaction
Workshop: Resolution Regimes in Europe	85	4.3
Workshop: Deposit Insurance Systems	50	4.8

Note: Overall satisfaction scores out of a maximum 5.

ASSESSING OUTCOMES

This year's survey also featured several questions wherein respondents were requested to reflect about the outcomes of FinSAC support, i.e. the likely or achieved short-term and medium-term effects of the outputs prepared as part of FinSAC technical assistance. Recent trends in the development profession have advocated a stronger orientation of monitoring and evaluation systems towards development results, in addition to documenting outputs and deliverables.

Measuring the outcomes of stability-oriented technical assistance work as undertaken by FinSAC is challenging. Successful projects contribute to a lower probability and/or less disruptive financial crises, which cannot be observed or measured. In addition, it often takes a while before the full benefits of FinSAC technical assistance projects materialize, and the impact may therefore not yet be thoroughly understood when respondents provide feedback through the survey. Effective financial sector reform is a slow, measured process. Change must be appropriate and achievable which requires widespread consultation and stakeholder engagement.

In their responses to the survey, recipients of FinSAC technical assistance indicated that FinSAC support contributed to positive outcomes. Five clients indicated that FinSAC support contributed directly to the enactment of new or improved laws and regulations, four projects resulted in strengthened institutional frameworks, and nine projects contributed to the introduction of new or improved methodologies, tools and manuals. All respondents stated that projects concluded in 2017 helped to increase compliance with international good practice and/or achieve greater convergence with applicable EU standards. Survey respondents in seven out of nine projects stated that the main outcomes were a strengthening of legal/regulatory frameworks for prudential oversight and alignment with international best practice. Respondents also stated that half of the projects resulted in more resilient financial institutions, strengthened capacities for mitigating financial stability risk, procedural changes, and convergence with applicable EU standards.

While client feedback provides important insights regarding the outcomes of FinSAC support, additional efforts are needed to obtain a more comprehensive picture. This includes among others (i) pre-identified outcome indicators included in concept notes for new FinSAC activities; and (ii) post-project monitoring to verify whether these outcome indicators have materialized within the expected timeframe. FinSAC will address these as part of a broader ongoing effort to strengthen its results framework.

Survey respondents also provided useful suggestions and recommendations to further improve the effectiveness of FinSAC's technical assistance, which will be considered by the team for 2018 and beyond. These included extending the duration of more complex projects, organizing workshops in the official language of the client country, and replicating FinSAC's regional workshops/conferences in client countries to facilitate knowledge exchange across countries.

Graph 3: Main outcomes of FinSAC technical assistance in 2017 as noted by survey respondents

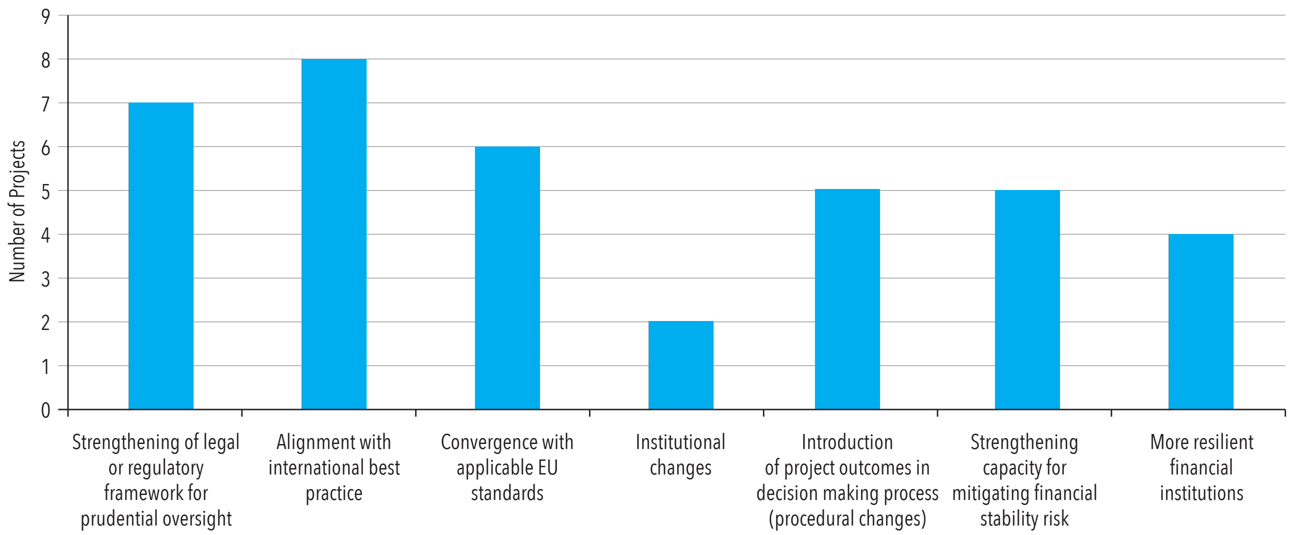


Table 4: Key outcomes achieved in 2017 – Breakdown by thematic pillar

KEY OUTCOMES ACHIEVED BASED ON CLIENT FEEDBACK AND FINSAC ASSESSMENT	Total No. of Projects
Financial Stability, Macroprudential Frameworks and Crisis Preparedness	
Strengthened macroprudential supervisory frameworks	3
Strengthened institutional frameworks	1
Strengthened manuals, tools, methodologies for crisis prevention and mitigation	2
Strengthened manuals, tools, methodologies for deposit insurance system	3
Increased compliance with international best practice and/or convergence to applicable EU standards	5
Laws or regulations enacted/amended	1
Fostered capacity building and promoted knowledge sharing	6
Strengthening Microprudential Supervision and Regulation	
Strengthened microprudential supervisory frameworks	6
Strengthened institutional frameworks	2
Increased compliance with international best practice and/or convergence to applicable EU standards	6
Laws or regulations enacted/amended	3
Strengthened manuals, tools, methodologies for NPLs	3
Fostered capacity building and promoted knowledge sharing	6
Addressing Bank Recovery, Resolution and Bank Liquidation	
Strengthened resolution frameworks	1
Strengthened institutional frameworks	1
Increased compliance with international best practice and/or convergence to applicable EU standards	2
Laws or regulations enacted/amended	1
Strengthened manuals, tools, methodologies for the assessment of recovery plans	1
Fostered capacity building and promoted knowledge sharing	2

A look ahead to 2018

FinSAC technical assistance continues to be in high demand by its client countries. 14 technical assistance projects initiated in 2017 will continue in 2018 and more are in the pipeline. The guiding principle in 2018 will continue to be the promotion of defined policy and institutional changes aimed at improving financial stability and intermediation efficiency, with a medium-term implementation timeframe and with a proactive division of labor with authorities, local experts, and other stakeholders. Many of the upcoming work streams build on earlier projects to further enhance or implement new stages of reform.

The expectation is that the bulk of new demand from the Western Balkan countries will be aimed at aligning regulatory, supervisory, and resolution frameworks with applicable EU standards. Prospects for EU accession will be boosted by the European Commission's new Western Balkans strategy, launched in February 2018. The new strategy confirms the European future of the region, but accession is an objective and merit-based process which depends on the concrete results achieved by each individual country. While the strategy covers all six Western Balkan states, Montenegro and Serbia – which have both already begun formal accession talks – have been singled out as the only two countries currently capable of full EU membership by 2025. The strategy explains the steps that these two countries need to take to complete the accession process by 2025. Demand for FinSAC support from the remaining countries covers a broader range of areas. In some countries facing pressing financial stability challenges, such as Moldova and Ukraine, FinSAC continues to provide hands-on support to authorities in their efforts to stabilize the financial system.

FinSAC's work will continue to be organized within the three thematic pillars, as outlined below.

PILLAR 1 - FINANCIAL STABILITY, MACROPRUDENTIAL FRAMEWORKS, AND CRISIS PREPAREDNESS

Several FinSAC client countries have already established the basic institutional set-up for macroprudential policymaking and have made good progress in building analytic capacity to support decision-makers. FinSAC has supported moves towards alignment of financial sector legal, regulatory, and supervisory frameworks with international best practice, especially EU requirements. In these countries, the focus for 2018 will be on the further refinement of tools and methods for the analysis of systemic risk, as well as the implementation of macro prudential policy tools, such as the countercyclical capital buffer, postulated in Basel III and in the EU's CRD IV. Less advanced client countries will continue to benefit from FinSAC assistance in 2018 in the creation of a proper institutional framework for macroprudential policy. This includes ensuring that national financial stability councils and central bank financial stability departments are established and possess the basic analytical tools necessary for monitoring systemic risk.

FinSAC will also continue its work on strengthening deposit insurance schemes in the region, which was a major work stream in 2017. FinSAC assistance consists of hands-on support to operationalize newly established deposit insurance agencies, as well as strengthening existing schemes, including by accelerating pay-outs, setting fund target ratios, and establishing risk-based premiums. Client country needs in this area will also depend on progress towards establishing a European Deposit Insurance Scheme.

With respect to crisis preparedness, FinSAC will continue to respond to requests for assessments of the crisis preparedness framework or aspects thereof, and for financial crisis simulation exercises including those focused on cyber incidents/attacks on the financial system. The 2017 cyber crisis simulation exercise in Georgia has, for example, generated two workstreams which will begin in 2018; assisting with the development of cyber-security regulations for the country's financial sector, and with the organization of the National Bank's cybersecurity arrangements.

PILLAR 2 - MICROPRUDENTIAL REGULATORY AND SUPERVISORY FRAMEWORKS

The international regulatory agenda continues to evolve, largely driven by international standard setting bodies and EU developments. Stronger capital requirements and buffers, and internationally harmonized liquidity and leverage requirements, are part of the Basel III Framework and have been transposed through the CRR/CRD IV in Europe. Supervisory and regulatory frameworks have also become more complex and principle based, with a greater emphasis on supervisory discretion. Decisions on the systemic importance of domestic institutions, the calibration of capital and liquidity buffers, the implementation of stress testing requirements, the analysis of bank's business models in a low interest rate environment, and following up on the results of asset quality reviews are among the challenges for prudential supervisors on which FinSAC will continue to offer support in 2018.

An area of concern for non-EU client countries is the increase of risk weights on government bond exposures (which until now have been zero) for non-EU countries unless they have passed a supervisory equivalence assessment from January 2018. This is a particular issue for some client countries with banks that are significant buyers of government securities. FinSAC will be helping them understand the requirements and – depending on interest from affected countries – may undertake additional work to understand the expected impact on FinSAC client countries.

Implementation of IFRS 9 from January 2018 represents a challenge for client countries. The standard is, overall, an improvement compared to IAS 39 in terms of accounting for financial instruments by banks. The changes in credit loss provisioning should contribute to addressing the G20's concerns about the issue of 'too little, too late' in the recognition of credit losses, as well as improving the accounting recognition of loan loss provisions by incorporating a broader range of credit information. Nonetheless, the transition towards the new accounting standard is associated with significant implementation challenges, including the comprehensive disclosures in the first annual financial statements under IFRS 9. For banks with a calendar year end that are not early adopters of IFRS 9, these financial statements will be for the year ended 31 December 2018. However, before issuing these annual financial statements, many banks will issue interim financial statements under IAS 34. Some banks are also planning to issue a separate transition document, outside of any annual or interim financial statements, to help users better understand the IFRS 9 financial statements they will subsequently receive and the impacts at, and beyond, adoption. FinSAC will continue to work with client countries to ensure they are aware of the changes and requirements of IFRS 9 and are equipped to work with them.

Despite recent encouraging developments, there is a possibility that some client countries may be faced with a renewed uptick in NPL ratios due to more stringent regulatory definitions (following Basel III and European Banking Authority guidelines) combined with the transition towards expected credit loss models as part of IFRS 9. In addition, prospects of monetary tightening could raise interest rates, which could put renewed pressure on overindebted borrowers in the region. This is particularly the case in countries that have made limited headway in addressing the challenges of primarily corporate distressed debtors (closure of unviable ones and thorough operational restructuring of potentially viable ones). A comprehensive NPL reduction strategy is a multidimensional task that requires decisive policy actions on a series of cross-cutting issues, including the legal framework, financial regulatory policies, and tax policies related to restructuring and write offs. FinSAC can assist in designing new, or strengthening existing, regulation and legislation; and help with the development of early warning systems to identify potential NPL problems. For the EU candidate countries, FinSAC will focus in 2018 on the implementation of current EU regulations, particularly the EBA standards.

PILLAR 3 - BANK RECOVERY AND RESOLUTION

FinSAC will continue to support client authorities in 2018 in the process of aligning their legal and regulatory framework with international best practice, particularly the Key Attributes of Effective Resolution regimes. There continues to be demand for advice on establishing bank resolution regimes that are aligned with the BRRD, assistance may also be required to support countries in the implementing phase on the adoption of bylaws and operationalizing bail-in and minimum requirements for own funds and eligible liabilities. The assessment of recovery and resolution plans and issues related to cross border resolution are also expected to be areas of demand for FinSAC assistance.

To help achieve its objectives and meet client countries demand, FinSAC anticipates some staffing growth, implementation of a new enhanced results framework, and the establishment of a new Steering Committee in 2018 to regularly review and guide work plans.

2018 promises to be another busy year in the delivery of targeted technical assistance to client countries, and also in the wider objective of securing FinSAC's position as a center of excellence in financial sector knowledge provision.

Table 5: FinSAC projects ongoing from 2017 into 2018

Country	Technical Assistance	
Albania	Bank Resolution Framework	
Belarus	Strengthening Deposit Insurance Framework Improvement of the Bank Resolution Framework	
Bosnia and Herzegovina	Bank Resolution Framework Support in Development and Implementation of European Supervisory Approach Support in Development and Implementation of European Supervisory Reporting	
Georgia	Introduction and Implementation of DIS	
FYR Macedonia	Bank Recovery & Resolution Risk Management Regulation and Supervision Implementing IFRS 9	
Moldova	Bank Resolution & Restructuring	
Montenegro	Deposit Insurance Strengthening Project	
Ukraine	Improving the Quality of Banking Regulation in Line with the EU Framework Strengthening Resolution Framework The Role of Judiciary in Bank Resolution - Collection of Bank Resolution Rulings	
	Knowledge Events/Products	**Time/Location**
Workshops / Conferences	NPL Resolution	15-16 May 2018 / Vienna, Austria
	Cross Border Banking Supervision and Resolution: The Small Host Perspective	Prelim. Q3 2018 / Vienna, Austria
	Governance of Financial Sector Policy Functions in ECA'	Q3 2018 / Vienna, Austria
	The Single Point Entry Versus Multiple Point Entry: Effects on FinSAC Client Countries	Prelim. Q3 2018 / Vienna, Austria
Working Papers	Governance of Financial Sector Policy Functions in ECA	Q3 2018
	Cross Border Banking Supervision and Resolution: The Small Host Perspective	Q3 2018
	The Single Point Entry Versus Multiple Point Entry: Effects on FinSAC Client Countries	Q3 2018
	Series of papers about NPL Resolution as part of NPL conference	Q3 2018

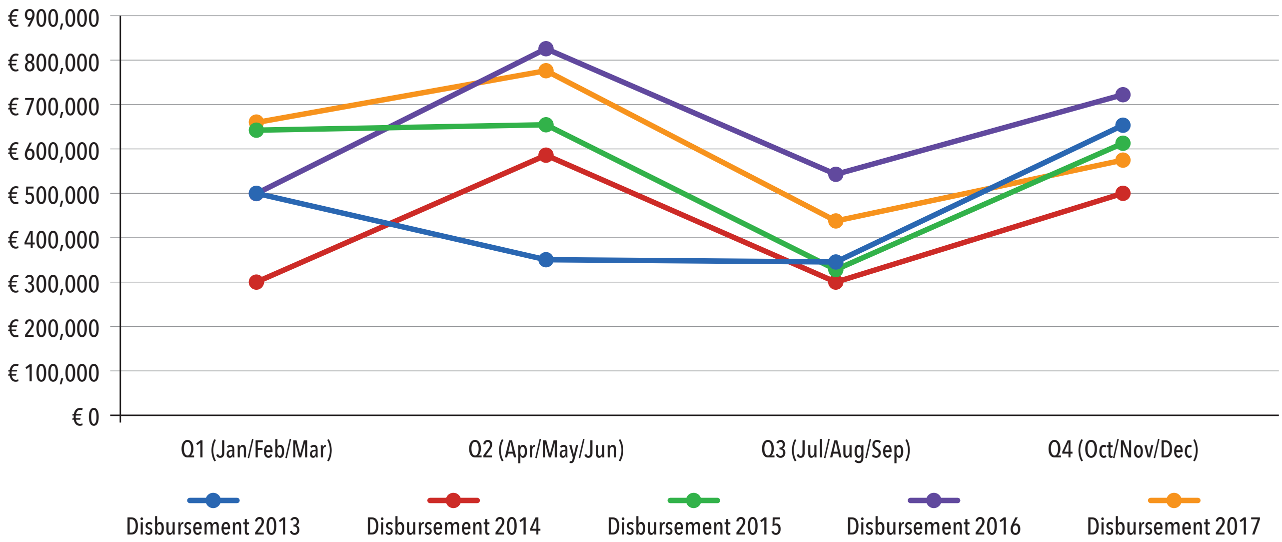
Annex A: Financial disbursements

AS OF JANUARY 1, 2018

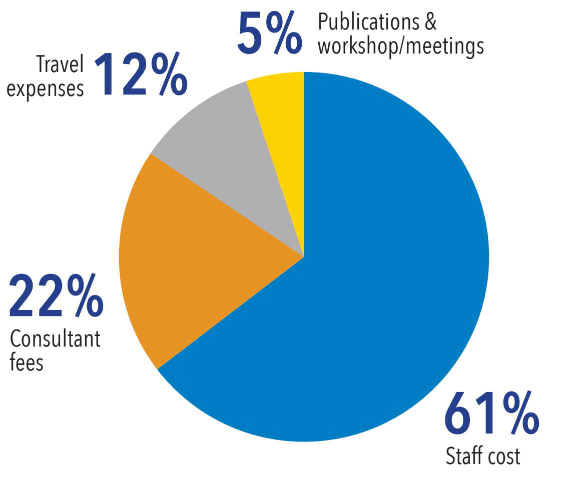
Main TF071659 & parallel TF072761	
Contributions paid-in	€ 15,177,200
Contributions to be paid	€ 0
Investment Income	€ 82,941
Administration Fee	€ 683,361
Disbursements	€ 11,991,059
Fund Balance incl. commitments	€ 2,585,721

Main TF072993 (FinSAC III) effective December 2017	
Contributions paid-in	€ 2,000,000
Contributions to be paid	€ 6,000,000

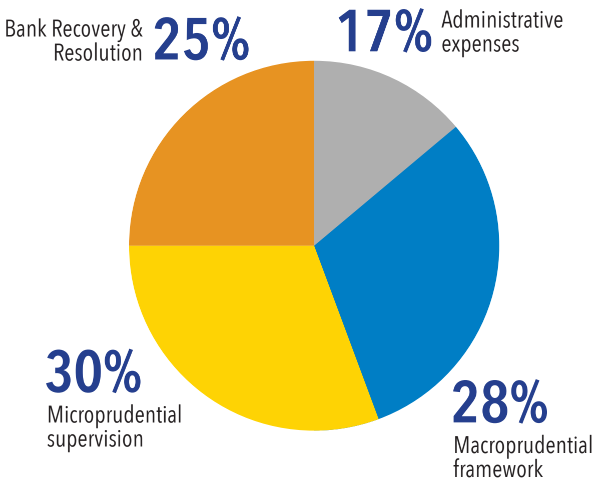
Period	Disbursements 2013	Disbursements 2014	Disbursements 2015	Disbursements 2016	Disbursements 2017
Q1	€ 503,296	€ 295,836	€ 638,483	€ 495,853	€ 660,469
Q2	€ 346,791	€ 585,282	€ 659,242	€ 823,747	€ 775,256
Q3	€ 343,023	€ 301,968	€ 323,288	€ 540,713	€ 433,911
Q4	€ 649,640	€ 499,193	€ 613,310	€ 718,554	€ 572,154
Total	**€ 1,842,749**	**€ 1,682,278**	**€ 2,234,323**	**€ 2,578,867**	**€ 2,441,790**



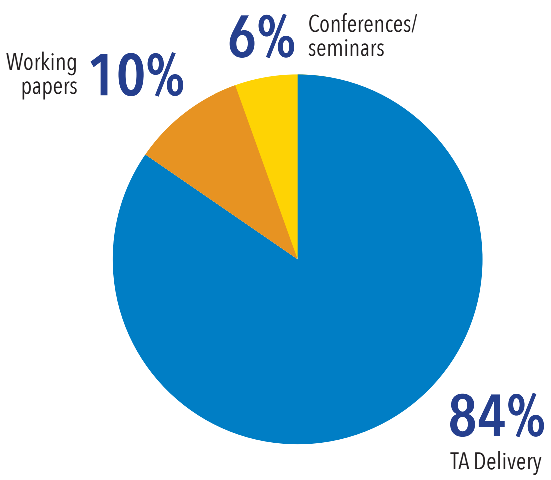
Disbursement by categories (1 January 2017 – 31 December 2017)		
Staff costs[1]	€ 1,484,402	61%
Consultant fees[2]	€ 530,727	22%
Travel expenses[3]	€ 296,123	12%
Publications & workshop/meetings	€ 130,538	5%
Total	**€ 2,441,790**	**100%**



Disbursement by pillars (1 January 2017 – 31 December 2017)		
Administrative expenses[4]	€ 407,185	17%
Macroprudential framework	€ 685,395	28%
Microprudential supervision	€ 723,628	30%
Bank resolution & recovery	€ 625,582	25%
total	**€ 2,441,790**	**100%**

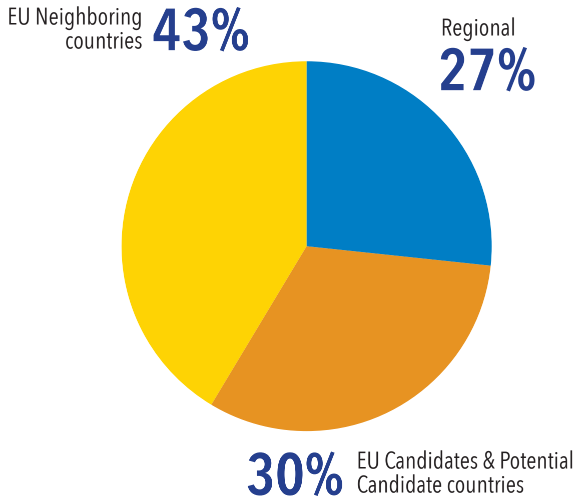


Disbursement by output (1 January 2017 – 31 December 2017)		
Technical assistance (TA) delivery	€ 1,713,200	84%
Working papers	€ 196,657	10%
Conferences/workshops	€ 124,750	6%

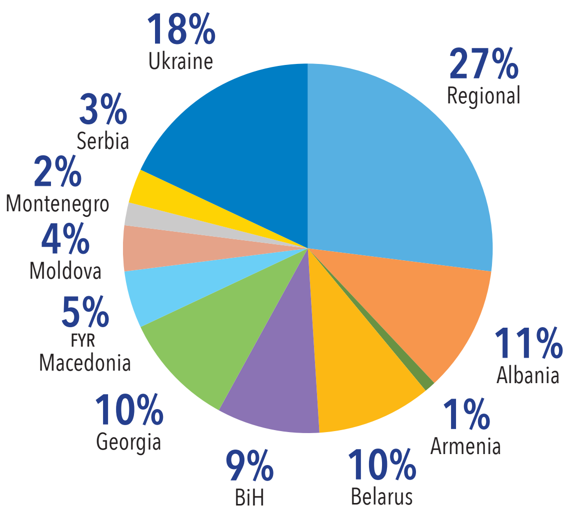


1 Incl. FinSAC Coordinator, four TTLs and one program assistant
2 Incl. Short Term consultants and consultant firms
3 Incl. travel expenses of staff and consultants/visitors
4 Incl cost of all types of categories not related to the particular TF activities and all general expenses: contracts of designer, corrector, staff cost of program assistant/back up, travel cost for staff for training, general consultants' travel, general translations services, utilities, office maintenance, office supplies, depreciation, publications and other printing services, representation cost, coordination and some business development activities.

Disbursement by country groups (1 January 2017 – 31 December 2017)		
Regional	€ 544,013	27%
EU Candidates & Potential Candidate countries (Albania, BiH, FYR Macedonia, Montenegro, Serbia)	€ 604,121	30%
EU Neighboring countries (Armenia, Belarus, Georgia, Moldova, Ukraine)	€ 886,473	43%



Disbursement by countries (1 January 2017 – 31 December 2017)		
Regional	€ 544,013	27%
Albania	€ 225,263	11%
Armenia	€ 12,293	1%
Belarus	€ 212,965	10%
BiH	€ 173,476	9%
Georgia	€ 214,545	10%
FYR Macedonia	€ 94,105	5%
Moldova	€ 76,037	4%
Montenegro	€ 42,512	2%
Serbia	€ 68,765	3%
Ukraine	€ 370,633	18%



Annex B: Completed projects – key results

Pillar	Type of product	Country/Project	FinSAC Activities /Inputs (Description of the activity and context)	FinSAC Outputs (Result of technical assistance)	Outcome (Benefit)	Indicators	Baseline	Target
Pillar 1: Financial Stability, Macroprudential Framework and Crisis Preparedness	Technical Assistance	Bosnia and Herzegovina: Deposit Insurance Strengthening Project	Technical assistance to the DIA supported amendments to the Law on Deposit Insurance (DI) including the usage of the deposit insurance fund in bank resolution.	Input and advice on new (revised) Law on Deposit Insurance. The revised law incorporates the recommendations of the 2014 FSAP in line with the EU framework as well as the future role of the DIA fund in resolution financing. Assistance in developing a target fund ratio methodology.	Convergence with applicable EU standards. Institutional and procedural changes (introduction of project outcomes in decision making process). Strengthened capacity for mitigating financial stability risk, more resilient financial institutions and an enhanced toolkit for responding to financial distress in a cost-effective manner.	New legislation: DIA Management Board approved draft Law on Deposit Insurance Nov 6, 2017. The Council of Ministers adopted the initiative and sent the Law to Parliament on a shortened adoption procedure on Nov 9, 2017.	Law on Deposit Insurance with gaps.	New (revised) law incorporating the recommendations of the 2014 FSAP in line with the EU framework as well as the future role of the DIA fund in resolution financing.
		Georgia: Crisis Simulation Exercise	Crisis Simulation Exercise (CSE) to test: i) the new legal and institutional framework, ii) communication, cooperation, and coordination and identify whether any further design enhancements are required.	Planning, delivery and follow up of CSE for National Bank of Georgia, Georgian commercial banks, state treasury representatives, and computer emergency response team. Report with the records and methodology on evaluation of the new type of interactions that cyber-focused exercises generates (CSE scenarios have a special focus on managing cyber incidents and attacks on systemic banks and on critical financial infrastructure such as payment settlement systems).	Increasing awareness and better understanding of the potential impact of cyber incidents and the need for proper and fast communication. Enhanced response capacity in the event of a cyber event.	Policy changes in IT and Information Security Management departments. Institutional changes (establishment of a separate organizational unit for cyber risk management).	Limited awareness of cyber-security outside IT department; limited response capacity.	Central bank senior management's awareness of risks to the financial sector, incl. cyber risk. Institutional changes (establishment of information-sharing arrangement among banks).
		Ukraine: Financial Conditions Index	Assist NBU Financial Stability Department in building a Financial Conditions Index (FCI) for their banking sector for differentiation between credit supply shocks from credit demand in line with the EU developments and best practice.	Construction of a FCI model, a multi-country panel database and a SVAR econometric model based on which the country specific FCI for Ukraine was built. A draft Technical Note describing the results of the project.	Better understanding of the driving forces behind different shocks. Enhanced timely recognition and response capacity in the event of a shock. Strengthened capacity for monitoring financial stability risk.	Use of FCI model as part of analytical framework for introduction of macroprudential tools.	Gaps in the analytical toolkit for monitoring systemic risk.	Analytical toolkit required for introduction of macroprudential tools scheduled for 2020.

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Pillar 1: Financial Stability, Macroprudential Framework and Crisis Preparedness	Knowledge Product	Financial Sector's Cybersecurity: A Regulatory Digest	Develop and deliver a paper that increases awareness about cyber security and gives a digest of relevant legislation.	A continuously updated publication that outlines the different existing and proposed regulations on cyber-risk management in the financial sector in leading jurisdictions and highlights relevant legal/regulatory issues.	Dissemination of existing and proposed regulations on cyber-risk management to the broader audience.	Number of downloads of the papers N.A.	Limited awareness of cybersecurity and its legislation.	High download volumes.
		Series of Papers about Deposit Insurance Systems	Develop and deliver policy papers to cover gaps of knowledge in this area and share international best practice in this field.	Four guidance papers, each covering one of the following four topics: (i) funding of the DI scheme; (ii) investment decisions; (iii) risk-based contributions; and (iv) stress testing of a banking sector.	Dissemination of best practices regarding key themes in the design of deposit insurance systems.	Number of downloads of the papers N.A.	Deposit insurers in client countries experiencing knowledge gaps with respect to design of deposit insurance schemes.	High volume of downloads of the papers; requests for TA to put to practice the ideas put forward in the paper in client countries.
	Capacity Building	Deposit Insurance Seminar	Organized and hosted a workshop in Vienna "Deposit Insurance Systems" to share knowledge on international best practice on this topic with all client countries.	Delivered a workshop bringing together technical staff from the DI agencies in FinSAC client countries, MENA region, EU authorities and international experts. Generated discussions and shared knowledge in four key areas for all types of DI schemes covered in the FinSAC series of papers about DIS.	Enhanced knowledge about topics that were identified as very important during the FinSAC technical assistance program.	Outcome of participants' survey, conducted upon conclusion of the event (average score: 4.8). Attendance: 50 participants from 15 client countries in ECA and Middle East region.	Deposit insurers in client countries experiencing knowledge gaps with respect to design of deposit insurance schemes.	Overall participant assessment grade above 4 (out of 5). Attracting the right participants (country, seniority level, number).

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Pillar 2: Strengthening Microprudential Supervision and Regulation	Technical Assistance	Albania: Guidelines for implementation of multi-lender NPL restructuring "London approach"	Advice on new solution to strengthen capacity for mitigating financial stability risk related to large borrowers with multiple creditor banks.	Provided and presented framework for out-of-court restructuring of multi-lender large corporate NPLs in Albania, together with other international examples. FinSAC experts provided methods for adressing solution to large borrowers exposed in more than one bank and related draft agreements.	Strengthening of legal or regulatory framework for prudential oversight and alignment with international best practice. Strengthened capacity to work out distressed loans to largest corporate borrowers.	New framework for addressing the challenges associated with distressed large borowers in place. A new regulation for addressing large borrowers exposed in more than one bank and two draft agreements, based on templates provided by FinSAC experts, are prepared and ready to be discussed with banks.	Severe gaps in legal and regulatory environment creating obstacles for the successful workout of distressed loans to large corporates.	New methodology and regulation in place. Increase in successful workouts of large corporate loans.
		Bosnia and Herzegovina: Quantitative Impact Study for the introduction of Basel III	Assessing potential unintended effects of proposed draft regulation introducing revised international prudential standards on BiH's banking system, including noncompliance.	Recommended modifications of the following aspects of proposed capital regulation: - risk weightings of mortgage housing finance and consumer lending, - exposures to BiH's public sector. - capital conservation buffer.	International prudential standards more effectively tailored to the specificities of the Bosnian banking sector. Strengthened regulatory framework for prudential oversight; regulation aligned with international good practice and convergence to applicable EU standards which takes into account local specificities.	FBA implemented so far: - pillar 1 and pillar 2 decisions - decisions related to consolidating supervision and recovery plans - decisions about resolution are in the final stage of developing - improved methoidology and manual for AQR.	Draft regulation which implements international prudential standards (Basel III package), not yet fully tailored to the Bosnian context.	New regulation that enhances the soundness of BiH's banks and their risk management, as well as prudential oversight by prudential authorities in line with international good practices but taking into account local specificities.
		Serbia: Operational Aspects of Micro Stress Testing	Assistance to the National Bank of Serbia in strengthening supervisory stress-testing capability in line with EU good practice and improving analytical capacity to assess the quality of banks' stress tests in the context of capital planning.	Introduction of best practices and real world examples. Introduction of new stress test and enhancement of the existing stress testing methodology for the off-site division regulatory stress testing. Improvements in the areas of structural organization of employees during the stress testing exercise. Enhancement of the existing analytical models in the area of coping with data granularity and selection of appropriate satellite model.	Alignment with international good practice and strengthened regulatory framework for prudential oversight together with more resilient financial institutions.	Increased awareness of the importance of bottom up stress testing. Initialization of the bottom up exercise with a clear roadmap for a sound stress testing framework, the first of its kind in the Serbian banking sector. A new department within the National Bank of Serbia's supervision structure was created to improve collaboration and procedures with other departments.	Stress test methodology which is not comprehensive and in line with the current best practice.	Comprehensive stress test methodology accompanied by appropriate regulatory changes and existence of the bottom up exercise for the whole banking sector; new methodology effectively used and integrated in the NBS's monitoring work.

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Pillar 2: Strengthening Microprudential Supervision and Regulation	Technical Assistance	Ukraine: Guidelines for the Effective Management and Workout of NPLs in Ukraine	Development of guidelines for the effective management ond workout of NPLs.	FinSAC developed a set of Guidelines for the Effective Management and Workout of Non-Performing Loans which includes: - early warning system, - identification of non-performing loans, - organization of workout units in the banks, - segmentation, - best practice for organizing workouts, including workout strategies, - specific examples of how restructuring could be tackled in Ukraine.	Strengthening of regulatory framework and banks' operational readiness to work out NPLs.	Regulation will be in place in Q2 2018. The NBU is working on converting the Guidelines into regulation. The Guidelines were shared with the Ministry of Finance for potential sharing with state owned banks (above 50% of the bankning market).	Gaps in regulation and industry practices; few succesful NPL workouts.	Binding regulation for banks regarding the functioning of NPL resolution units in banks in place; banks effectively complying with the new standards; increase in successful NPL workouts.
		Ukraine: Review of Collateral Valuation Practices in the Financial Sector of Ukraine	Assistance to improve the existing collateral evaluation framework.	An assessment of collateral valuation practices in the EU. FinSAC suggested a set of possible improvements for implementation in Ukraine including: - issuance of regulation on collateral valuation rules for banks, - construction of a database of real estate appraisals for assets used as collaterals, - establishment of regulation for appraisers that deliver services in the financial industry.	Strengthening of the framework for collateral valuation contributing to more effective management of banks' credit risk.	The National Bank of Ukraine amended the Risk regulation by introducing additional requirements for appraisals. Non-qualified appraisers will be penalized for providing their services to the financial industry. The NBU is working on creating an internal database for collateral values used in the financial system.	Inadequacies in the collateral evaluation framework, and widespread malpractices in the financial sector (including overvaluation of collateral).	New collateral valuation framework in place and effectively enforced.
		Ukraine: Review of NPL Write-off Practices in Ukraine	Assistance in preparing NPL write-off policies.	A written summary of NPL write-off practices implemented in other countries, including in Europe. Recommendation to implement a similar mandatory NPL write-off regulation in Ukraine based on quantitative and qualitative parameters.	Strengthened legal framework for prudential oversight and convergence with applicable EU standards. Acceleration in off-loading of NPLs burdening banks' balance sheets; Strengthened capacity for mitigating financial stability risk and more resilient financial institutions.	Improved awareness of the NBU on the need to introduce mandatory NPL write-off requierments as an effective way to reduce the NPL ratio. The NBU is having internal discussion now how to implement this recomendation. Positive signal is that there is no resistance from the Association of Commercial Banks in Ukraine.	Absence of NPL write-off policies.	The set of comprehensive NPL write-off policies that will include implemented practices in other coountries.

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Pillar 3: Addressing Bank Recovery, Resolution and Bank Liquidation	Knowledge Product	Albania: Assessment of Recovery Plans for Systemic Banks	Development of a new methodology for the assessment of recovery plans and assistance in its implementation.	Drafting by-laws on content, indicators, and minimum assessment criteria for the assessment of recovery plans, and the adaptation of EBA and SRB bank information templates to the local framework. Increased know how and technical expertise of staff in the supervision department. Enhanced knowledge about good international practice in this area.	Strengthened regulatory framework for prudential oversight, alignment with international best practice, and convergence to EU standards.	Resolution department was created within the Bank of Albania. The regulation "On the recovery plans of banks" was approved on December 6, 2017.	Absence of a methodology for the assessment of recovery plans, and regulation that is not completely in line with relevant EU regulation.	Recovery plans compliant with the relevant EU regulation and technical standards. Adequate methodology for the assessment of recovery plans.
	Capacity Building	Resolution Regimes in Europe	Organized and hosted a workshop about resolution regimes in Europe, in cooperation with the FSB cross border crisis management group (CBCM) to share knowledge about implementation of effective resolution regimes in the region.	Delivered a workshop about different resolution regimes from the region where good practice and experience were shared.	Responsible authorities more familiar with new standards for bank resolution. Strengthened capacity of principal authorities to implement effective resolution regimes.	Overall participants' assessment: grade 4.3 out of 5. Attendance: 85 participants from the client countries and European authorities.	Major gaps in knowledge among FinSAC client authorities regarding the latest developments in banking resolution.	Overall participant assessment grade above 4 (out of 5). Attracting the right participants (country, seniority level, number).

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