

FINANCIAL SECTOR ADVISORY CENTER

# ANNUAL REPORT



**WORLD BANK GROUP**  
Finance, Competitiveness & Innovation

# 2020

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International Development Association or The World Bank

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## Abbreviations used in this report:

<b>BRRD</b>	EU Bank Recovery and Resolution Directive
<b>ECA</b>	Europe and Central Asia
<b>EU</b>	European Union
<b>FCI</b>	World Bank Finance, Competitiveness and Innovation Global Practice
<b>FinSAC</b>	World Bank Financial Sector Advisory Center
<b>FSAP</b>	Financial Sector Assessment Program
<b>IFRS</b>	International Financial Reporting Standards
<b>MREL</b>	Minimum Requirements for Own Funds and Eligible Liabilities
<b>NPL</b>	Non-Performing Loan
<b>SREP</b>	Supervisory Review and Evaluation Process

# Foreword



## Jean Pesme

Global Director  
Finance, Competitiveness & Innovation; Finance  
The World Bank

2020 was a year that has no precedent in modern history. The pandemic and measures to control the virus have taken a huge toll on people and livelihoods that will continue to be felt for a considerable period. Although outright crises have not occurred, the economic impact of the pandemic weighs heavily on financial sectors across the world. This time around, and in marked contrast to the global financial crisis which originated from within the financial sector, banks are playing a positive contribution to the mitigation of the economic fallout from COVID-19 through moratoria and other borrower support measures. At the same time, if taken too far, these measures could lead to stability challenges further down the road. We still have to watch for the possibility that the tough times many households and businesses are facing could lead to credit losses that ripple throughout the financial system. If losses make it harder for banks to give loans, the recovery in economic activity and employment will be hampered, amplifying an already challenging situation.

The World Bank is supporting client countries to weather the storm and minimize the worst of the impacts. FinSAC was established in the aftermath of the global financial crisis to assist Europe and Central Asia countries in building more robust financial sectors. Thanks to its strong reputation among client countries and robust track record, built up over nearly a decade as a provider of stability-oriented financial sector technical assistance, it is now well-positioned to support client countries with the COVID-19-related financial sector challenges. This Annual Report offers a snapshot of FinSAC's work in 2020 and highlights its ability to respond quickly to meet new needs in response to new challenges. I would like to thank the Austrian Federal Ministry of Finance for its steadfast support to FinSAC, that has enabled the World Bank to establish a deep and continuous engagement with eligible countries on stability-related topics.



 **Federal Ministry  
Republic of Austria**  
Finance

**Harald Waiglein**

Director General  
Economic Policy, Financial Markets & Customs  
Federal Ministry of Finance of the Republic of Austria

The COVID-19 pandemic heralded unprecedented challenges for us all in 2020. We were again reminded of the interconnectedness of our world as the virus and its economic and financial sector impact spread quickly, affecting us all deeply throughout our entire region. The pressures on financial stability that will likely arise in the next years will give a renewed urgency to FinSAC's mission and will drive client countries' financial sector priorities. This is why the Austrian Federal Ministry of Finance is proud to continue supporting FinSAC's work in helping build financial stability through the provision of targeted technical assistance and knowledge work. As shown in this Annual Report, FinSAC has been providing practical and implementable solutions for client countries' financial sector challenges. We commend the FinSAC team for its agility, as demonstrated by its rapid switch to virtual service delivery. Looking ahead, we are sure that for its client countries FinSAC will remain a partner of choice when it comes to navigating the difficulties of exit planning from emergency measures in a highly uncertain environment. More broadly, we know that by innovating, sharing good practices, and making effective use of assets and skills the financial systems in our region can play an essential role in supporting the post-crisis recovery and reconstruction.

# Section 1: Introduction

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The World Bank Financial Sector Advisory Center (FinSAC) offers specialized technical assistance to client countries in the Europe and Central Asia (ECA) region, supporting their efforts to build more resilient and more stable financial sectors.

A dedicated technical unit of the World Bank, based in Vienna and funded by the Austrian Federal Ministry of Finance, FinSAC delivers implementation-oriented, bespoke advice to client countries on aspects of macroprudential supervision and crisis management, micro-prudential oversight and non-performing loan (NPL) management, and bank resolution.

Bilateral technical assistance to central banks and prudential regulators across the region constitutes the backbone of FinSAC's work. Activities focus on specific projects requested by client countries, including legal and regulatory reforms to establish modernized bank resolution regimes, strengthening the corpus of financial sector regulations, and tackling NPLs. FinSAC's team of experts has been supporting client countries across the region with advisory work since 2011, inspired by international standards but tailored to the local context. FinSAC also has an important role in sharing knowledge, using its access to information and expertise and understanding of the needs of its clients to produce relevant materials and convene useful events.

## Highlights of 2020

The outbreak of the COVID-19 pandemic in the first quarter of 2020 prompted a series of unprecedented emergency measures – including travel bans, mandatory closure of non-essential business, limitations on gatherings, and mandatory home-based work. In a bid to mitigate the economic fallout of an escalating public health crisis, policymakers around the globe quickly activated fiscal support measures made available to affected sectors and rolled out a series of monetary and liquidity measures aimed at stabilizing stressed global funding markets, as well as other financial and economic measures. Within a very short space of time, many borrowers saw their income flow drastically reduced or dried up altogether, and experienced serious difficulties in staying current on their debt obligations. In order to preserve economic activity, livelihoods, and jobs, many countries introduced measures designed to provide relief to distressed borrowers.

The pandemic required FinSAC to switch to home-based work in March 2020. Although there was no mission travel after that, FinSAC continued delivering its technical assistance program with virtual missions. While this caused some initial delays, the overall impact on project delivery has been contained. FinSAC completed a total of 13 projects over the course of 2020. This included ten technical assistance projects (of which nine were FinSAC-funded, and one was a programmatic project) and three knowledge products. In response to the pandemic, and in line with the World Bank's Strategic Framework for Knowledge, which highlighted increasing client country demand for knowledge-based solutions to address and recover from the pandemic, FinSAC has been advancing the knowledge agenda by preparing a series of policy notes, each

dealing with a particular aspect of the financial sector impact of the pandemic. Overall expenditure amounted to €2,282,744, with a particularly significant drop in travel expenses and expenses related to the organization of knowledge events.

The FinSAC program underwent an independent review in 2020, assessing the performance of the program between 2016 (when the previous mid-term review took place) and 2019. The review confirmed FinSAC's effective track record in the provision of stability-oriented technical assistance with a strong delivery of high-quality technical assistance and knowledge products. The evaluation also found that FinSAC had followed up appropriately on the recommendations raised in the previous mid-term review, with reinforcements in governance, staffing, and monitoring and evaluation among others. The evaluation recommended some actions to improve technical assistance planning and to enhance stakeholder understandings of FinSAC's offering. Although outreach activities have been somewhat limited due to COVID-19 travel restrictions, FinSAC has taken steps to follow-up on the recommendations, including through the introduction of forward-looking client country demand surveys, continued strengthening of cooperation with key European institutions, and proactive participation in the Vienna Initiative. Following the positive outcome of the review, the Austrian Ministry of Finance made a further donor commitment of €5.3 million for the remaining two years under FinSAC 3. The FinSAC team looks forward to providing continued support to its client countries in 2021 and beyond, and wishes to thank the Austrian Ministry of Finance for its steadfast support.

# Section 2: FinSAC in brief

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## An overview of FinSAC



in operation  
since

# 2011



# Based in Vienna, Austria



Comprises a team of  
experienced financial  
sector specialists



Financed by the  
Austrian Ministry  
of Finance



Guided and  
overseen by  
a Steering  
Committee



Enduring  
collaboration/  
partnerships with  
European institutions

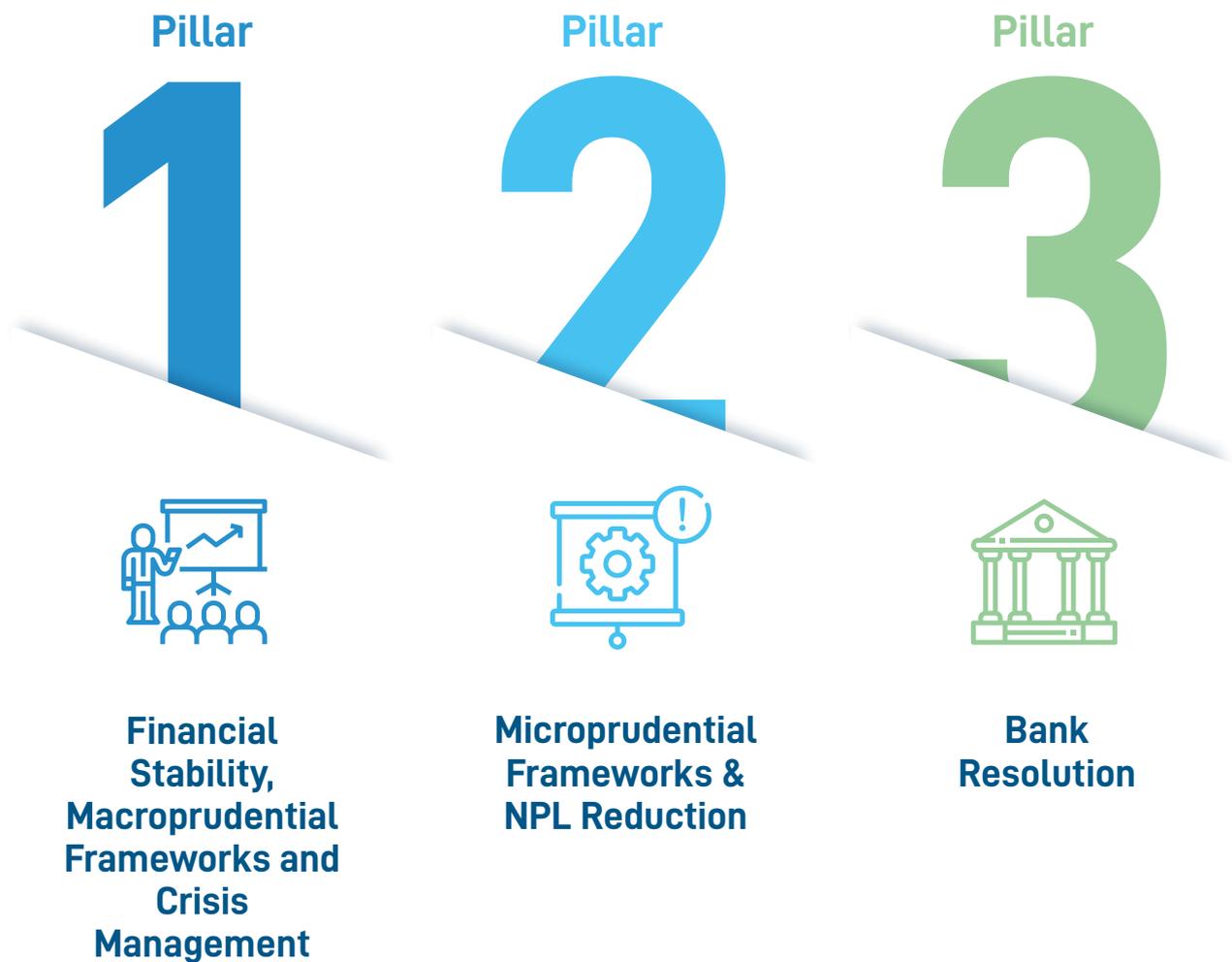


Working with 17 client  
countries in ECA



Supporting other World  
Bank operations in client  
countries

# The three pillars of FinSAC technical assistance



# The FinSAC team



**Miquel Dijkman**

Lead Financial Specialist,  
FinSAC Coordinator  
Macroprudential supervision,  
crisis management



**Aquiles Almansi**

Lead Financial Specialist  
Cyber security and 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



**Nurgul Irsalieva**

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



**Ismael Ahmad Fontán**

Senior Financial Sector Specialist  
Supervisory and regulatory  
affairs



**Milica Nikolic**

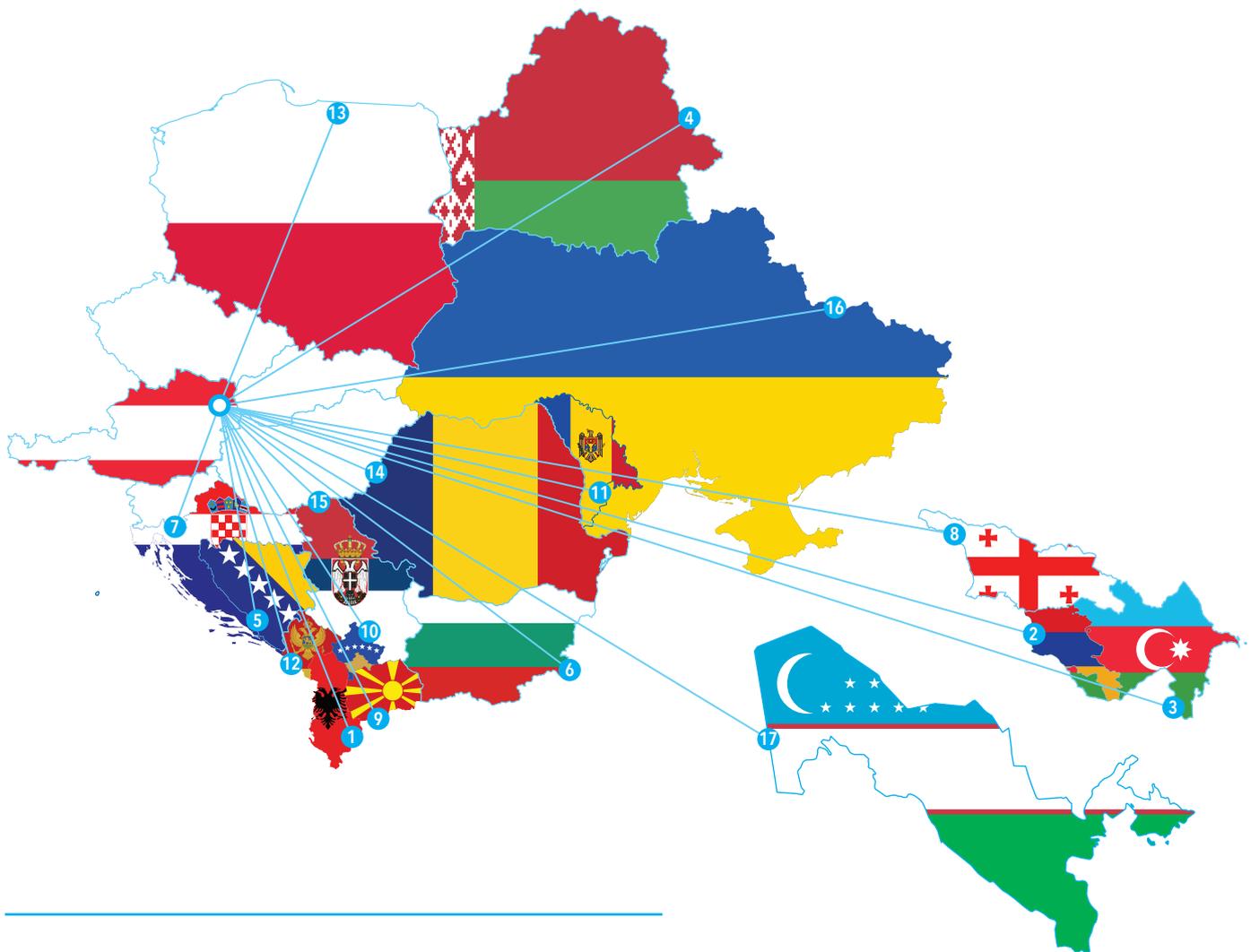
Financial Sector Specialist  
Bank recovery and  
resolution



**Nan Zhou**

Financial Sector Specialist  
Analytics and modeling

## FinSAC client countries



1. Albania
2. Armenia
3. Azerbaijan
4. Belarus
5. Bosnia & Herzegovina
6. Bulgaria
7. Croatia
8. Georgia
9. North Macedonia
10. Kosovo
11. Moldova
12. Montenegro
13. Poland
14. Romania (EU funded project)
15. Serbia
16. Ukraine
17. Uzbekistan



### **FinSAC support for wider World Bank engagements**

FinSAC's focus on financial stability is fully aligned with the strategic priorities of the World Bank's Finance, Competitiveness and Innovation (FCI) Global Practice. In addition to taking the lead in the delivery of technical assistance projects to client countries, FinSAC works closely with FCI units globally, for example to develop knowledge products of wide global relevance, such as the series of COVID-19-related policy notes. FinSAC team members routinely support FCI projects in other regions on a cross-support basis, leveraging FinSAC's work and connecting it to other countries' financial sector challenges.

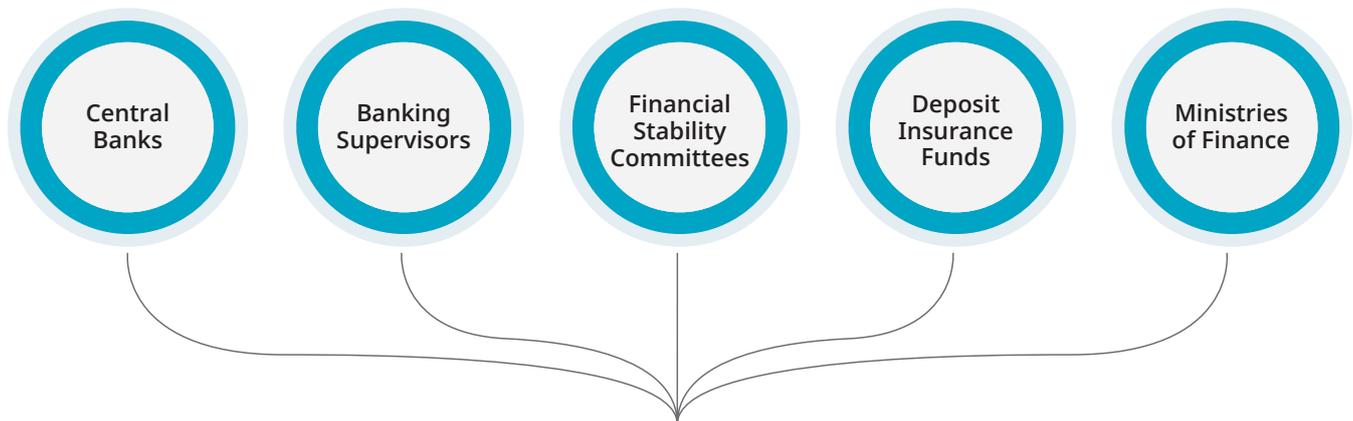
FinSAC staff also participate in World Bank lending operations, by supporting completion of agreed financial sector reforms as part of a larger country lending program. Lastly, FinSAC team members participate in Financial Sector Assessment Programs (FSAPs) undertaken jointly by the World Bank and the International Monetary Fund, that provide a comprehensive framework for the identification of financial system vulnerabilities and developmental challenges.

### **FinSAC governance**

FinSAC's operations and direction are guided by its Steering Committee, comprising two representatives of the Austrian Federal Ministry of Finance's Department of International Financial Institutions, the World Bank Global Director of FCI, and the Practice Manager for Europe and Central Asia in FCI. The FinSAC Coordinator serves in an ex officio capacity. Meetings consider the annual work plan and any specific topic reviews undertaken by the Steering Committee members.

# FinSAC engagement

FinSAC works with



Cross-border banking supervision

Bank recovery and resolution

Deposit insurance

Financial sector governance

Non-performing loans

Workout mechanisms

Corporate governance

Credit risk management

Regulatory standards

Supervisory frameworks and practices

Regulatory capital and liquidity requirements

Institutional structures

International regulation

Financial sector legislation

EU alignment

Fintech

Cyber security



# Visits to FinSAC's website

(January 2020 to March 2021)

**Top 3 most downloaded**  
material from the FinSAC website  
(January 2020 to March 2021)



243

Policy Note on Borrower Relief Measures



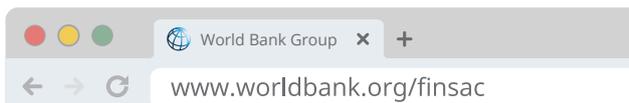
182

Financial Sector Cybersecurity: A Regulatory Digest



76

Policy Note on COVID-19 and Non-Performing Loan Resolution in the Europe and Central Asia region



● Page Views

3,776

● Visits

2,935

● Unique Visitors

2,062

# Section 3: The regional economic environment and financial sector priorities

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The COVID-19 pandemic triggered a global economic crisis of unprecedented magnitude with sharp economic contractions across the board. Protecting lives and allowing health care systems to cope required isolation, lockdowns, and widespread closures to slow the spread of the virus, but that severely affected economic activity. Output losses associated with the health emergency and related containment measures rivaled and often exceeded those observed during the global financial crisis.

Policymakers worldwide were quick to roll out economic and financial sector measures aimed at containing the immediate damage. Central banks eased monetary policy across the globe, with a nearly \$7.5 trillion balance sheet expansion to date in G10 countries, and with about 20 emerging market central banks deploying asset purchases. The global banking system entered the pandemic with comparatively strong capital and liquidity buffers. In addition, a fiscal policy response of \$12 trillion globally has provided substantial support to households and firms. Amidst a rapid resurgence of the virus after the summer months, the year ended in continued uncertainty about the duration and intensity of the shock, as well as the economic recovery trajectory.



## The European Union

Economic activity in Europe suffered a severe shock in the first half of the year then rebounded strongly in the third quarter as containment measures were gradually lifted. However, the subsequent resurgence of the pandemic resulted in disruptions as national authorities introduced new public health measures to limit its spread. In 2020, the European Union (EU) economy contracted by 6.3%, with growth of 3.7% and 3.9% projected for 2021 and 2022.

Output is thus not expected to recover its pre-pandemic levels in 2022. The economic impact of the pandemic has differed widely across the EU, with economies in Southern Europe hit particularly hard. The EU reacted quickly to the havoc the coronavirus pandemic was wreaking to its economy. In a few short months, it agreed to create a €750 billion 'NextGenerationEU' fund financed by commonly-issued debt to shore up the economies of the worst affected countries. About €390 billion of this sum to be distributed in the form of grants, with the remainder coming in the form of loans to facilitate the recovery in Member States. The centerpiece of the NextGenerationEU fund is the Recovery and Resilience Facility, with €672.5 billion in loans and grants available to support reforms and investments undertaken in EU countries. The aim is to mitigate the economic and social impact of the coronavirus pandemic and make European economies and societies more sustainable, resilient, and better prepared for the challenges and opportunities of the green and digital transitions. The rules determining how the money is shared out between countries, and the oversight mechanisms to ensure capitals enact promised reforms, were among the most contentious topics. Countries' individual allocations of recovery money are linked to the economic harm done by the pandemic and require countries to commit to reforms and to abide by basic democratic and rule-of-law principles. In addition to the NextGenerationEU fund, EU leaders also agreed the 2021-2027 multiannual financial framework, setting a budget of €1.1 trillion.



**The EU  
economy  
contracted  
by 6.3%**

Another important landmark was the initiation of EU accession talks with Albania and North Macedonia in March. With this, four of the six Western Balkans countries are in enlargement talks with the EU, after Montenegro began in 2012 and Serbia in 2014. In addition, Bulgaria and Croatia entered the Exchange Rate Mechanism II in preparation for joining the euro area, while the European Central Bank's Governing Council embarked on close cooperation with both countries, marking their entry into the Banking Union.

Towards the very end of 2020, the United Kingdom and the EU agreed a trade deal to replace expiring transitional arrangements, marking the conclusion of Brexit. The deal covers technical aspects of trade for key sectors, including autos, chemicals, pharmaceutical, and professional services as well as a governance mechanism to resolve disputes that may arise between the two sides. From January 1 2021, financial institutions based in the United Kingdom lost automatic access to the EU's single market and have to be granted equivalence rights to serve customers in the EU, under which the EU allows them to conduct certain financial activities. Equivalence rights can be withdrawn at short notice. So far, the EU has granted temporary equivalence rights to British clearinghouses, which operate between buyers and sellers in trades and pledge to complete the deal even if one side reneges.

Financial sector policy priorities in Europe were heavily influenced by the pandemic. Even though most European banks entered the COVID-19 crisis with relatively strong capital and liquidity buffers, the pandemic exacerbated pre-existing weaknesses in earnings against a backdrop of low interest margins and challenges for banks to reduce operating expenses. The pandemic also presented banks with considerable operational challenges, with many staff working from home, temporary closures of branches, and a rapid growth of digital channels to secure continuity in the provision of financial services, although the latter also increased banks' exposure to cybersecurity risks.

The impact of the pandemic on asset quality has emerged as an area of concern. The containment measures introduced during the pandemic resulted in sharp falls in levels of economic activity, household income, and enterprise revenues, and thus loan repayment capacity. In response, policymakers introduced short-term borrower relief measures to provide breathing space to distressed borrowers, usually in the form of legislative and bank-led payment moratoria. With borrower relief measures still in place in many countries, and widely divergent bank practices, the pressures on asset quality are yet to be fully reflected in reported asset quality indicators. The European Banking Authority and the Basel Committee on Banking Supervision have issued guidelines on the prudential treatment of moratoria and other temporary borrower relief measures, recommending that the assessment of payment delays be based on a modified schedule of payments, i.e. taking into consideration the rearranged debt obligations after factoring in the specific borrower relief measures. In addition, they have stated that loans that are subject to an adopted payment moratorium should not automatically be considered unlikely to pay, although banks are still required to apply the unlikely to pay criterion to borrowers whose

short-term payment challenges are likely to transpire into long-term financial difficulties.

Recent events in the EU have highlighted the difficulties of exit planning in a highly uncertain environment, with changes in the outlook necessitating policy reversals. The European Banking Authority initially opted to phase out measures at the scheduled expiry date of September 30, 2020, but following the acceleration of the second wave of the pandemic and the reintroduction of emergency measures across the EU, it reintroduced its Guidelines on Legislative and Non-Legislative Moratoria in early December with minor enhancements. The revised Guidelines, which will be in effect until March 2021, specify that loans can benefit from the application of the Guidelines for a cumulative maximum of nine months.

The prospect of rising provisions for bad loans and the need to ensure that banks can support the economic recovery with loans prompted EU regulators to introduce capital preservation measures, including through the release of countercyclical capital buffers and the introduction of temporary bans on dividend payouts and share buybacks. The EU also embarked on a series of amendments to the Capital Requirements Regulation aimed at promoting continuity in the flow of credit to households and companies. The so-called "quick-fix" comprised the frontloading of various measures from the Capital Requirements Regulation 2 (including a more favorable prudential treatment of small and medium-sized enterprises, the non-capital deduction of certain software assets, and the possibility to temporarily exclude certain exposures to central banks from a bank's leverage exposure measure), as well as an extended use of International Financial Reporting Standards (IFRS) 9 transitional arrangements to exclude most COVID-related loan impairments booked in 2020 and 2021.

## Western Balkans

The pandemic triggered a deep recession in the Western Balkans, with an economic contraction of 4.8% in 2020. Among the primary causes were the drop in both domestic and foreign demand and disruptions in supply chains, especially early in the year when severe containment measures were introduced. A second and much stronger wave of the pandemic hit the Western Balkans since mid-June and political uncertainty about elections in some countries further impeded economic recovery. Mirroring developments in other emerging countries, the Western Balkans experienced a dramatic but short-lived reversal in capital flows in March, although the outflows of equity and bonds were followed by stabilization from April onwards. In parallel, the market for Eurobond issues all but dried up in the same period as risk aversion peaked in global financial markets, but it staged a convincing recovery against the backdrop of a renewed round of monetary policy easing in advanced economies.

Policymakers in ECA countries moved expeditiously to roll out a broad suite of measures aimed at softening the economic blow of COVID-19, including fiscal support to affected sectors (such as SMEs, hospitality, and the rolling out of guarantee schemes mostly to support new lending) and monetary policy easing (e.g. lowering benchmark interest rates in North Macedonia, lowering reserve requirements, and expanding collateral eligibility for monetary policy). Considering a generally high degree of euroization in the region, policymakers have also sought to improve access to forex liquidity – including through a European Central Bank swap facility.



As is the case in the EU, policymakers in the Western Balkans introduced measures aimed at relieving the plight of distressed borrowers. The unprecedented nature and magnitude of the economic shock combined with restrictions in macroeconomic policy space – fiscal space limitations, and high degree of euroization and/or pegged currency regimes – prompted policymakers to introduce exceptional borrower support measures in a bid to provide some breathing space to liquidity-distressed borrowers, that have been extended in most Western Balkan countries. By and large, policymakers in the Western Balkans have aimed to reconcile borrower relief measures with international standards on classification, provisioning, and accounting by using the flexibility embedded in existing frameworks. Most countries in the region that had made a previous effort to align key regulatory definitions with applicable European Banking Authority and Basel Committee on Banking Supervision guidance left these definitions intact, including the hard 90 days-past-due backstop for classifying exposures as non-performing. Nonetheless, some points of divergence are beginning to emerge, including questions regarding the operationalization of the unlikelihood to pay criterion, and several countries have introduced regulatory

## EU neighboring regions – Belarus, Moldova and Ukraine

shortcuts aimed at abolishing or shortening the mandatory cure period before non-performing forbore exposures can be reclassified as performing (e.g. by considering rescheduled loans as new loans).

With these measures still in place, reported NPL ratios have been largely stable, although the prospect of increasing levels of borrower distress clearly points towards increasing NPL volumes and credit provisions and pressures on banks' capital. While there is no room for complacency in the face of potentially the worst economic crisis since the Great Depression in the 1930s, most Western Balkan countries entered the COVID-19 pandemic from a stronger starting position than the global financial crisis. Banks generally have more robust liquidity and capital buffers, and most of the supervisors in the area have either banned or recommended restraint in bank dividend payments and other discretionary capital distributions. Policymakers have also embarked on sweeping reforms to strengthen creditor rights and insolvency regimes, while banks' relatively recent experience with NPL resolution has left them better prepared to work out high volumes of bad debt.

Countries in the Western Balkans have by and large successfully maintained financial stability, although pockets of vulnerabilities emerged. In North Macedonia, the National Bank withdrew the license of Eurostandard Bank, a small locally owned bank, over its failure to recapitalize. Although Eurostandard Bank's difficulties predated the pandemic, its experiences do highlight the challenges that locally-owned banks (that lack access to parent bank support) may face in replenishing capital under the current circumstances.

The onset of COVID-19 triggered a sharp economic contraction starting in the first quarter of 2020 against a weakened external environment, supply-side disruptions, and a slump in domestic demand. Containment measures significantly affected the domestic economy, with the manufacturing, retail trade, and transportation sectors hit particularly hard. The second wave further delayed the recovery, with fiscal space limitations and weakening balance sheets of households, businesses, and banks tempering recovery prospects.

Belarus entered the pandemic from a position of sub-par growth. The combined effect of the pandemic and political unrest exacerbated risks in the banking sector through an increase in deposit volatility, with particularly high demand for foreign exchange. The National Bank eased some prudential banking sector regulations, including softening of asset classification requirements and looser requirements on forex loans. Among other measures, it recommended commercial banks to suspend dividend distributions and refrain from increasing interest rates for restructured debts. Regulatory forbearance measures helped to limit increases in loan impairments and associated provisioning charges, and avoided regulatory limit breaches, including for capital. The largely publicly owned banking sector remained heavily exposed to highly leveraged, loss-making state-owned enterprises. The government's willingness and ability to support these borrowers continued to be an important factor influencing banks' asset quality.

## Southern Caucasus and Uzbekistan

Moldova continued its long-standing banking sector reform, launched in the aftermath of the 2014-2015 raider attacks. The National Bank of Moldova withdrew temporary administration for one of the affected banks, while the sale of shares in two non-systemic domestic banks continued apace. Strong capital and liquidity buffers at the onset of the pandemic provided a welcome cushion against the impact of the pandemic. The National Bank issued a decision advising banks against distributing dividends and introduced a short-lived payment moratorium allowing banks to postpone payment deadlines while freezing classification and provisioning requirements on these loans.

Banks in Ukraine entered the COVID-19 crisis with strong capital and liquidity buffers. The National Bank of Ukraine postponed the planned introduction of additional capital buffers and the annual stress-testing exercise and suspended on-site inspections. Although it did not introduce a payment moratorium, it called on banks to engage in voluntary and prudent loan restructuring. The National Bank also used flexibility in triggering corrective measures, although it did not relax prudential and accounting requirements. It also undertook further improvements to the banking law to improve corporate governance, obtain legal powers to calibrate capital and liquidity requirements based on each individual bank's risk profile, and strengthen licensing and shareholder requirements.

Armenia, Azerbaijan, Georgia, and Uzbekistan experienced the worst economic contraction since the recession of the mid-nineties. The second wave of the pandemic, depressed domestic and external demand, a resurgence of geopolitical tensions in the Southern Caucasus, and a drop in oil prices weighed heavily on the economic outlook.

Although there are currently no evident signs of financial sector strains, the twin shocks of the pandemic and hostilities had a significant impact on the banking sector in Armenia. The Central Bank of Armenia introduced several measures to mitigate the impact on the banking sector, including a reduction in Tier 1 capital adequacy requirements from 10% to 9%, the granting of extended recovery periods to banks whose capital buffers had dropped below regulatory standards, enhanced liquidity provision through the main repo instrument, postponement of liquidity standards of Basel III, and a temporary payment holiday for borrowers affected by the pandemic.

The combined effect of the pandemic, hostilities, and a drop in oil prices also affected the financial stability outlook in Azerbaijan. Measures included a temporary lowering of the capital adequacy requirements, including a reduction in the minimum capital adequacy ratio, a relaxation of countercyclical capital buffers, and more lenient treatment for operational and market risk in capital, as well as a ban on dividend payments. In addition, the authorities introduced a payment moratorium for certain sectors affected by the pandemic that was accompanied by a relaxation in loan classification and provisioning requirements.

Strong capital and liquidity buffers enabled banks in Georgia to cope with liquidity outflows at the initial stages of the pandemic. A voluntary payment moratorium was introduced, leaving banks considerable leeway in terms of borrower selection and support measures. These measures, combined with an uptick in preemptive restructuring, helped to smooth the expected increase in NPL ratios, although strains emerged in the construction, real estate, and hotel sectors. The National Bank of Georgia temporarily lowered capital requirements, by releasing the capital conservation buffer and a portion of the Pillar 2 buffers. It also allowed banks to draw down foreign currency buffers for liquidity management in domestic currency and activated swap operations.

Uzbekistan continued apace with financial sector reforms initiated prior to the pandemic, aimed at transitioning towards a greater role for private capital in the state-dominated banking sector, attracting strategic investors that meet conventional fit-and-proper criteria, and laying the foundations for a modern supervisory framework. To deal with the COVID-19 crisis, the Central Bank of Uzbekistan encouraged banks to consider providing deferrals on loan repayments for households and firms in affected sectors on a case-by-case basis. In addition, selected repayments of state enterprise credits to state banks were deferred.



# Section 4: Technical assistance in 2020

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## Pillar

# 1



**Financial  
Stability,  
Macroprudential  
Frameworks and  
Crisis  
Management**

Within FinSAC's Pillar 1, activities focus on building capacity and institutional frameworks to monitor and mitigate threats to financial stability and strengthening preparedness to face episodes of financial stress. FinSAC assistance includes detailed technical advice on strengthening capabilities for the timely detection and mitigation of threats to financial stability, and on building robust financial stability committees. FinSAC has also assisted client countries in reinforcing financial sector safety nets, including deposit insurance and lender-of-last-resort facilities, and financial crisis policy coordination. FinSAC crisis simulation exercises allow client countries to test their crisis management and cyber security arrangements in a simulated environment.

## PROJECTS COMPLETED IN 2020

## Albania: Deposit Insurance Strengthening

FinSAC supported the Albania Deposit Insurance Agency in conducting strategic evaluations regarding i) the suitability of coverage levels for deposits in banks and savings and credit associations and ii) the adequacy of its ex ante target fund sizes, as required by Albanian law. Two detailed assessment reports were produced by October, based on close consultations with the Deposit Insurance Agency and the Bank of Albania. These analyzed the distributions of deposits, financial institution balance sheets, and the framework for resolving failing banks in Albania. In the coverage policy assessment, FinSAC compared the Deposit Insurance Agency's parameters against international and regional benchmarks and estimated the marginal benefits provided by coverage level increases against their resource requirements. The target fund size analysis was underpinned by a set of tailored stress-tests to evaluate capital and liquidity needs under severe but plausible scenarios of economic downturn, which informed the feasibility of coverage policy options. Throughout the assessment process, FinSAC coordinated closely with technical counterparts in determining the suitability of stress scenarios as well as in evaluating the resolution options and outcomes. Five sets of virtual meetings were held between March and October.

To enhance the Deposit Insurance Agency's analytical capacity on these important topics, FinSAC organized two half-day workshops in December, providing training and practice on the use of the customized stress test toolkit for policy evaluation. 11 staff members took part, including from risk, finance, insurance and compensation, and IT sections. To conclude the project, FinSAC gave a presentation to the Deposit Insurance Agency Management Board detailing the project's context, approach, findings, and recommendations, which they welcomed as very helpful for informing their strategic decisions and undertook to consider closely.

"The Albania Deposit Insurance Agency has greatly appreciated the expertise of the FinSAC team and their professionalism in delivering the key findings through regular meetings, even though this was not easy during the pandemic."

**Genci Mamani**

General Manager

Albania Deposit Insurance Agency

## SPECIAL FEATURE

## Armenia: Crisis management and supervisory framework

After a four-year hiatus, FinSAC re-engaged with the Central Bank of Armenia in 2020. The Central Bank asked FinSAC for a comprehensive gap assessment of crisis management arrangements and of the organizational framework for banking supervision. The technical work was undertaken in the final months of 2020. In practice, the assignment went well beyond the gap analysis originally envisaged and included substantive discussions with the Central Bank about possible policy measures to resolve the most pressing shortcomings.

The crisis preparedness component of the project envisaged a detailed review of the core components of the financial sector safety net to identify obstacles that could prevent the authorities from formulating a comprehensive, timely, and well-coordinated policy response in the face of a serious threat to financial stability. The assessment included (i) early intervention measures; (ii) recovery and resolution planning arrangements; (iii) liquidity support mechanisms, including lender of last resort framework; and (iv) bank resolution. Additionally, the framework for deposit insurance was also reviewed, to assess its operability in a crisis event. The recommendations included amending the main financial laws to introduce a modern bank resolution framework, granting new powers to the Central Bank to apply early intervention measures, including temporary administration for distressed –yet viable– banks, the operationalization of the emergency liquidity assistance

framework, and establishing robust resolution planning arrangements. FinSAC also recommended the creation of a resolution unit, which would steer the resolution preparatory work.

The assessment of the supervisory framework focused on the (i) organizational framework, (ii) administrative procedures within the supervisory function; (iii) supervisory methodologies, (iv) human and material resources available to the supervisory function, and (v) coordination arrangements. FinSAC provided recommendations to enhance risk-based supervision by upgrading the banks' rating methodology and making better use of the internal capital adequacy assessment process and stress-testing. It also suggested rearranging the supervisory function by setting up new specialized units and reassigning staff. Full implementation would require new methodologies for risk assessment, capital assessment, and recovery planning. These are expected to be prepared and pilot programs carried out.

Recognizing the breadth of reforms needed to follow up on the main outcomes of the exercise, FinSAC and the Central Bank embarked on a prioritization exercise to guide reforms for the next few years, aimed at selecting the most pressing items. The outcomes were summarized in an action plan, spanning two years, that describes the actions needed to implement international standards of modern supervision and resolution as carried out by leading

authorities. These focus areas were discussed at length with the Central Bank. They include legal reforms needed to implement a resolution framework aligned with the Financial Stability Board's Key Attributes of Effective Resolution Regimes; revamping risk-based supervision, including introducing a robust early intervention measures framework, methodologies to assess internal capital adequacy requirements and recovery plans, and stress-testing for microprudential supervision; and refurbishing the emergency liquidity assistance operational framework. The action plan has been endorsed by the Central Bank and also serves as an organizing framework for technical assistance in the near to medium-term. While FinSAC will continue its support with a follow-up project focusing on bank resolution and supervision, other sources of World Bank funding are being mobilized to assist the Central Bank with other areas.

"The FinSAC team was very responsive and willing to provide additional information and clarifications on the topics discussed regarding international practices and case studies."

**Nerses Yeritsyan**

Deputy Governor  
Central Bank of Armenia

## Georgia: Assessment of New Cybersecurity Regulations

The National Bank of Georgia requested FinSAC support in enhancing their cybersecurity regulations. During 2019, two orders of the National Bank of Georgia on information security were compared to the twenty-five texts in the FinSAC Financial Sector Cybersecurity: Regulatory Digest identified as being closest to the Georgian regulations. In 2020, FinSAC finalized and delivered a report recording the findings and offering recommendations on key issues that might usefully be addressed by the National Bank, including on the corporate governance of cyber risk and the dimensions of a bank's risk profile that its risk management framework should take into account.

## Kosovo: Deposit Insurance Fund Capacity Development

FinSAC continued its support to the Deposit Insurance Fund of Kosovo (the Fund) with a project in 2020 focusing on i) the development of a supervisory process to ensure bank compliance with Fund regulations, ii) the operationalization of its funding policy, and iii) internal organization and staff capacity development. Over the year, FinSAC contributed to the preparation of two new documents, a Supervisory Manual and a Funding Sustainability Assessment Report, and produced detailed recommendations regarding the Fund's functional organization.

The initial focus of this project was the development of a Supervisory Manual that became a priority after the signing of a Memorandum of Understanding between the Central Bank of Kosovo and the Fund in 2019 (which was supported under a previous FinSAC project). The scope of the Manual includes procedures for validating the calculated insured deposit base by banks, compliance with reporting protocols for the Fund's depositor compensation system, and public disclosure standards. It also specifies the supervisory inspection process in coordination with the Central Bank. The Manual was approved by the Fund's Management Board in July and will guide onsite inspections in 2021.

After the onset of the pandemic, FinSAC was requested to undertake further analysis to understand possible implications for the Fund, taking into account potential deposit growth reversals, shifts in deposit size distributions, and expenses following bank failures. The feasibility of coverage increase was also evaluated in an industry impact analysis using the financial information of Kosovo's member banks.

FinSAC prepared a pair of methodological notes and a computation package, based on the coverage-funding projection model developed for the Fund in 2019. The outcome of the analysis, documented in the Funding Sustainability Assessment Report, was presented in July and revised in December to keep the Fund Management Board updated.

Departmental responsibilities and workloads within the Fund were assessed during August and September. FinSAC interviewed all staff members and benchmarked the Fund's setup against other deposit insurers with similar sizes and mandates. A set of recommendations for the internal regulation of organizational structure was prepared for consideration by the Management Board, with an emphasis on the need to continuously develop risk analysis, compensation, and communication functions. The Fund has requested a capacity development strategy to be addressed in a follow-up project once the internal regulation on organizational structure is finalized. Formalization of the risk management framework was also identified as a priority for further action.

Concluded in December 2020, this project enhanced the Deposit Insurance Fund's operational and analytical capabilities and high-level policy decision making. After the onset of the COVID-19 crisis, the Fund's Management Board was able to draw on the Funding Sustainability Assessment Report, a key output of this project, to understand the implications on fund resources as deposit growth became affected under various scenarios of economic uncertainty. The Fund has also marked the beginning of its first supervisory cycle, having submitted the Annual Inspection Plan for the next year to the Central Bank.

# Technical assistance in 2020

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## Pillar

# 2



### Microprudential Frameworks & NPL Reduction

Banking soundness is critical for financial stability in FinSAC client countries, where banks are the cornerstone of financial systems. Within FinSAC's Pillar 2, activities focus on strengthening the safety and soundness of banks through robust prudential regulations and forward-looking supervision. FinSAC assistance includes hands-on support in strengthening prudential regulations on a broad range of areas, including capital and liquidity requirements, loan classification and provisioning, large exposure and related party limits, and others. FinSAC's activities are guided by international best practices but tailored to the local context. FinSAC has also worked with banking supervision departments from across the region on strengthening the effectiveness of supervisory enforcement, including providing advice on onsite/offsite cooperation, supervisory plans, the development of remedial action and enforcement, and bank recovery planning. FinSAC also actively supports authorities to tackle NPLs, assisting countries in establishing regulatory and supervisory policies aimed at ensuring that banks report economically realistic measures of asset quality, and developing tools and strategies to be used in NPL resolution.

## PROJECTS COMPLETED IN 2020

# Moldova: Bank Recovery and Supervision

The National Bank of Moldova requested FinSAC assistance on improving the organizational framework and operational procedures for their supervisory review and evaluation process (SREP). FinSAC initially gathered detailed information on the supervisory practices during the first year of Moldova's implementation of this process, including technical input from both onsite and offsite perspectives. FinSAC then evaluated the organizational structure, resource allocations, and technical aspects underpinning the process in Moldova. A report was prepared and presented to National Bank officials to assist them in evaluating their operational model in a broader European context. Key areas recommended for improvements included the setup of supervisory teams, onsite inspection procedures, horizontal function design, as well as further considerations on approaches towards Pillar 2 capital requirements, application of supervisory proportionality to institutions, and automation in SREP implementation. Further discussions on the report and its recommendations, including clarifying certain aspects, took place in the second half of 2020. The National Bank's Supervisory Unit then commenced the process of amending its organizational structure and operational procedures based on FinSAC's recommendations. With this, the technical assistance project was concluded.

"The National Bank of Moldova highly appreciates FinSAC's knowledge, experience, and involvement. Materials provided were very comprehensive and qualitative, with examples that contributed to understanding. The FinSAC team showed solid knowledge and understanding of the national legal provisions and economic realities and were open and available for all questions, even if those exceeded the original remit."

**Viorel Moraru**

Principal Expert, Banking Resolution Division  
National Bank of Moldova

## Uzbekistan: Licensing, prudential regulation, and supervision of banks

FinSAC's successful pilot project in Uzbekistan in 2019 supported the adoption of a new Banking Law and a guided self-assessment against the Basel Core Principles for Effective Banking Supervision. Follow-up assistance to the Central Bank of Uzbekistan in 2020 aimed to establish a modern supervisory function.

The first part of the technical assistance was hands-on support to the newly established licensing unit in the Central Bank to establish an effective gatekeeper function. FinSAC contributed to the process of introducing comprehensive regulation on bank licensing in line with the new Banking Law and international good practices. Two on-site FinSAC missions took place in January and February 2020, which were used to discuss detailed comments on the regulation and provide training to a broad group of bank supervisors, including those specifically responsible for licensing, and other Central Bank staff on topics including bank licensing, assessment of potential shareholders, and fit and proper assessment of bank board members, senior management, and key personnel. The training sessions were well received and will improve the Central Bank's capacity to implement its gatekeeper function. The new bank licensing regulation was adopted and entered into force on October 1, 2020. It is expected to provide an improved regulatory framework for bank licensing procedures.

The second component of technical assistance supported improvement of the bank prudential regulatory framework in line with international standards. FinSAC helped in (re)drafting: (a) Regulation on Corporate Governance (adopted and entered into force on October 1, 2020); (b) Regulation on Large Exposures and Related Party Exposures to a Bank (adopted and entering into force on January 30, 2021); (c) Regulation on Risk Management in Commercial Banks (finalized and shared with all

banks); and (d) Regulation on Liquidity Coverage Ratio (adopted and entering into force in February 2021). Further support was provided to amend regulations on internal and external audit and draft a new Regulation on Disclosure by Banks which will be finalized in 2021. The outcome of the assistance includes an improved prudential regulatory framework, detailed guidance for commercial banks on how to improve their internal corporate governance and risk management frameworks, and, once adopted, a strengthened methodology for liquidity coverage ratio calculation.

The third component focused on supporting the Central Bank in transitioning towards risk-based supervision. FinSAC contributed to the development of a set of supervisory products on institutional overview, supervisory indicators, and off-site reports. These will improve knowledge and analytical tools for the supervision of banks. FinSAC delivered several on-line trainings for supervisors on risk-based supervision designed to improve the Central Bank's capacity to implement risk-based supervision.

FinSAC also provided more targeted support on microprudential stress-testing of banks and just-in-time advice on several supervisory issues arising from the current pandemic. FinSAC closely coordinated its assistance with the Asian Development Bank and the International Monetary Fund, which conducted a virtual financial sector stability review mission to Uzbekistan in 2020.

Follow-up FinSAC technical assistance in 2021 will focus on supporting improvement of other prudential regulations, further implementation of the risk-based supervisory framework, and implementation of supervisory technology (SupTech).

# Technical assistance in 2020

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## Pillar

# 3



## Bank Resolution

Within FinSAC's Pillar 3, activities focus on ensuring that failing banks can be promptly and effectively dealt with, in a manner that preserves the public interest in financial stability while protecting taxpayers from contingent losses. FinSAC assistance includes guidance on improving legal and regulatory frameworks for banking resolution that are aligned with post-global financial crisis standards and enhancing the capacity of recently established dedicated bank resolution departments. FinSAC also offers detailed information to assist with the adoption of intervention powers and adaptation of resolution tools and options in preparation for any future bank failures.

## PROJECTS COMPLETED IN 2020

### Moldova: Resolution planning in banks

FinSAC assistance to the National Bank of Moldova continued in 2020, building on work in 2019 to establish a resolution fund and analyze the implications for Moldovan banks of introducing minimum requirements for own funds and eligible liabilities (MREL).

The focus of this project was to ensure comprehensive and efficient resolution plans are produced for Moldovan banks. FinSAC assessed resolution planning procedures and the resolution plans that had been prepared for Moldovan systemic banks and provided comments and suggestions on how to improve and operationalize the plans. FinSAC assisted the Resolution Department in identifying parts of the resolution plans in need of further refinement. As a result of the collaboration, some gaps in planning were identified and the Resolution Department introduced new chapters for completion that will improve the quality of plans and make them even more useful for the resolution process. FinSAC also offered support in identifying and addressing potential obstacles to the effective resolution of a bank and on other issues, including how to define resolution scenarios. Following on from the FinSAC assistance, the National Bank issued a new Regulation on Resolution Planning. Further cooperation has been requested for 2021 to continue work on resolution planning and the implementation of MREL.

### Romania: Improving implementation of bank resolution (an EU funded project)

FinSAC completed a project on resolution simulation in Romania in 2020 with the delivery of a detailed report and a series of technical follow up workshops. Since overhauling its resolution framework in line with EU requirements, Romania has been working with FinSAC to give banking supervisors and resolution authorities the opportunity to “practice” handling a bank failure in a simulated environment. A first resolution simulation exercise in 2018 aimed to better acquaint those responsible for the management of potential resolutions with the new framework and to assess inter- and intra-agency information flows and decision-making. Feedback from this led to a second exercise in November 2019, focused on resolution financing, the drafting of a resolution decision, its execution, and testing cooperation aspects within and among authorities. The exercise facilitated the Romanian authorities to try out a new approach, combining bail-in with bail-out under the application of government financial stabilization tools - a combination not stipulated for in resolution planning under current EU rules and therefore without clear definitions of responsibilities and governance issues.

Analysis of the exercise was designed to be inclusive and encourage learning by doing, there were several rounds of comments and discussions involving all parties that fed into a final report delivered in 2020 with conclusions and recommendations. Some of the issues identified are also part of the recent package proposed by the European Commission in their review of the crisis management and deposit insurance framework.

FinSAC then held a series of technical follow-up workshops. These were interactive learning fora, including discussion of European and international good practice examples. Topics included national and European interagency information and cooperation requirements. The workshops considered options for calibrating MREL based on a comparative analysis of different methodologies used by other resolution authorities in the EU, especially on transfer strategies. To assist the National Bank to enhance the analytical basis for bail-in execution, the mechanics and some good practice examples of ex-ante preparations were discussed, and recommendations shared on requirements for the development of bail-in playbooks in Romania.

The exercise and the workshops highlighted areas where significant progress has been already made and aimed to pave the way for further enhancements in resolution preparedness in line with ongoing international developments. These activities were delivered under the “Technical Assistance on Bank Resolution to Romania” project funded by the EU via its Structural Reform Support Programme and implemented in cooperation with the European Commission’s Directorate General for Structural Reform Support.

“I would like to highlight the importance of the exercise in enhancing our capacity as a Resolution Authority, both in terms of technical skills but also the way interactions between key players unfold in a stress environment. The follow up work was very useful in analyzing all the details and to understand what worked well and what should be improved ... workshops provided a very useful overview of some key areas to be addressed during planning phase.”

**Mr Emil Vonvea**

Director Banking Resolution  
National Bank of Romania

## Ukraine: New legal framework for deposit insurance and bank recovery and resolution

This project aimed to assist the Ukrainian authorities draft a new bank resolution and deposit insurance framework, in line with the EU association agreement which requires alignment with the EU acquis. Earlier FinSAC work on this project included a gap analysis of the existing bank resolution framework and discussions of possible regulatory changes with a working group of experts from the National Bank of Ukraine and Deposit Insurance Agency. Work on draft legislation continued in 2020. Though alignment with the EU was the guiding objective, several adaptations for Ukrainian circumstances were proposed. Diverging from the EU two-tier resolution versus liquidation system, FinSAC’s proposed changes were based on ensuring a harmonized approach for big and small banks, allowing for the application of certain resolution tools also to non-public interest banks. After several rounds of discussions on responsibilities between the supervisory and the resolution function, the introduction of a Joint Resolution Council, that provides non-binding advice to the National Bank of Ukraine and Deposit Insurance Agency at the interface between “going concern” and “gone concern”, was included into the draft legislation. FinSAC closed this project with the proposal for legal changes to the Banking Law and the Deposit Guarantee Fund Law as discussed with the working group. Regulatory changes have not (yet) been formally discussed by Parliament as the onset of the pandemic led to a shift in priorities. On completion of this project, follow-up work continued in 2020 under the programmatic project in Ukraine (further details below).

# Programmatic

For some countries it makes sense for FinSAC's assistance to take a more holistic approach, combining elements from some or all of the three FinSAC pillars in one project. This allows for more joined-up assistance and can help ensure that reforms to one area of microprudential policy, for example, are taken account of and work well within the overall macroprudential framework.

## PROJECTS COMPLETED IN 2020

### SPECIAL FEATURE

## Bosnia and Herzegovina: Bank supervision and resolution

In 2020, FinSAC completed a multi-year programmatic technical assistance project with the Banking Agencies of the Federation of Bosnia and Herzegovina and the Republika Srpska. The project in Bosnia and Herzegovina was FinSAC's first project under the programmatic window.

This programmatic project was developed to build on earlier FinSAC technical assistance addressing Bosnia's financial stability challenges in a more systematic manner. It was based on the findings of the 2014 International Monetary Fund/World Bank FSAP and aligned with both the World Bank Banking Sector Strengthening Project and the 2016-2020 Country Partnership Framework, which calls for safeguarding macroeconomic and financial stability as well as fostering access to finance.

The aim was to ensure full harmonization of banking sector activities between the entities, creating a uniform environment for banking sector operation that would provide stability, transparency, and predictability for banks and supervisors alike. This more stable and resilient financial sector benefits businesses

and citizens. The project focused on introducing a new supervisory approach based on the SREP and operationalizing the new bank resolution framework.

FinSAC provided comprehensive assistance supporting the Banking Agencies in transitioning from a 'CAMELS' based to a 'SREP' based supervisory approach. The rationale for such a shift is to improve convergence with the standards of the EU, and to making the supervisory approach more risk based and forward looking.

FinSAC provided technical advice on the design, testing, and implementation of the risk-based supervision approach, modelled on the SREP but ensuring that the methodology adapted the EU approach to the characteristics of the Bosnian banking system. The methodology consisted of four components: business model analysis, assessment of the risks to capital, liquidity and funding risks, and internal governance and risk management. The methodology contains an automatic score, based on indicators, thresholds, and algorithms that combine them, but is also heavily reliant on qualitative analysis by supervisors.

Once FinSAC had prepared the draft methodology, and this was approved by the Agencies, then hands-on support was provided for its testing during 2019. The testing involved several banks from both entities and the active participation by supervisors of the Agencies. FinSAC provided specific templates for use in testing and assisted all the groups in the implementation of the methodology to banks. FinSAC also prepared an IT solution that helped the groups conduct benchmarking analysis and prepare their SREP reports. After a full analysis, the teams also prepared draft SREP letters with the proposed measures for each participant bank. The pilot not only helped to test the methodology, but also allowed the agencies to gain more knowledge of the new approach.

In parallel, in 2019 FinSAC supported the Agencies with other elements required for SREP implementation. FinSAC assisted in the preparation of operational procedures, including internal governance procedures and a detailed calendar covering all the involved areas, while also articulating an approach for proportional implementation of the requirements for smaller, less-systemic banks. The support encompassed advice on the potential transition to the Pillar 2 capital requirements approach, based on the outcome of the SREP supervisory ratings. FinSAC also prepared a methodology for assessing the internal capital adequacy assessment process requirement for banks. This seeks to make reviews by supervisors more harmonized and easier to integrate into the full SREP approach. Although the FinSAC project in Bosnia and Herzegovina was the first of its kind, other client countries, including Armenia and Moldova, have expressed interest in similar activities that FinSAC is planning to initiate in 2021.

In 2020, SREP was rolled out by the two agencies. In the first quarter of 2020, FinSAC gave two weeks of training to each Agency. Training was provided by mixed FinSAC/Agency teams and all supervisory staff of the two Agencies participated. FinSAC also provided technical, hands-on assistance to the review of the recently implemented internal liquidity adequacy assessment process requirements to banks, involving the review of several banks' reports and preparation of internal guidelines for assisting supervisors in their review.

"FinSAC technical assistance helped us approach significant, demanding, and comprehensive processes in a simple and practical way involving reform of the regulatory framework for banking operations and supervision, establishment of a new framework for bank resolution, establishment of a new framework for supervisory reporting, and transition to a completely new supervisory approach SREP."

**Seid Konjhodžić**

Head of Supervision Department  
Banking Agency of the Federation  
of Bosnia and Herzegovina

The project continued support to the authorities in implementation of the bank resolution framework as foreseen in the Banking Laws. During 2018, FinSAC provided assistance on the preparation of a methodology for assessing recovery plans, together with a specific tool to assess those plans. Both were intended to be used by supervisors.

On credit risk, the team worked in 2020 on some supervisory guidelines for assessing credit risk classification and coverage under the newly implemented Decision on Credit Risk, which is heavily based on IFRS9. The guidelines mainly covered the non-modeling parts of the assessment, identifying supervisory criteria for dealing with internal governance, staging, identification of significant borrowers, and methodologies for the individual assessment of large loans.

The project has resulted in several benefits for the Banking Agencies. First, the implementation of the SREP approach has enabled the authorities to implement a risk-based supervision model consistent with the EU-based new Banking Law and regulations. Bosnia and Herzegovina's banking supervisors are now using a system that is similar to those used by most home supervisors of the large banks operating in the country. This helps to strengthen home-host coordination, an essential element of prudential supervision considering the high levels of foreign bank ownership in the country. The project has enabled the Agencies to increase the automation, harmonization, and standardization of the supervisory procedures, particularly those related to supervisory ratings. It has resulted in a decisive step towards the effective implementation of risk, with principles-based

supervision in line with best practices. The new system enables the integration of all the supervisory tools and mechanisms that have been introduced following the passing of the Banking Laws; the internal capital adequacy assessment process, governance and internal control requirements, and recovery plans can be properly integrated into the supervisory framework of the Agencies. Finally, the other pieces of the technical assistance will result in better preparation, both by banks and supervisors, to address potential banking problems and crises, including recovery planning and credit risk assessments. This is even more relevant given the uncertainties surrounding the current economic environment.

"The implementation of the new SREP Methodology, guided by FinSAC throughout the whole process over several years, was one of the most important activities in our process of aligning our supervisory approach with that of the EU. We are very grateful to FinSAC for support and excellent team for all their efforts and we are looking forward to our future cooperation."

**Danijela Njezic Buzadzija**

Director of Regulation and Supervision Support  
Banking Agency of Republika Srpska

## TECHNICAL ASSISTANCE PROJECTS ONGOING INTO 2021

### Georgia: Strengthening the Deposit Insurance Agency

With continued FinSAC technical assistance, the Georgia Deposit Insurance Agency made further progress towards strengthening its deposit insurance scheme in 2020. This will be ongoing into 2021. Achievements during the year included regulatory adjustments for a three-fold increase in deposit insurance coverage for household deposits from July 1, 2020. Amendments to the Law on Deposit Insurance expanding coverage to include legal entities under the scheme were submitted to Parliament in September 2020 and are expected to be adopted in early 2021. A methodology for calculating risk-based premiums, developed in close cooperation with the National Bank of Georgia, was approved. And a management information system, comprising reporting and payout modules to better manage premium flows and payouts, was delivered and is now operational.

These efforts are expected to strengthen the institutional capacity of the Deposit Insurance Agency, including its payout procedures and capacity, and establish the foundation for future development of the deposit insurance system in line with international best practice and the EU legal framework. Further FinSAC technical assistance in 2021 will support conducting payout simulation tests, updating instructions on the payout and calculation of regular insurance premiums to reflect the expanded coverage of legal entities, and conducting a survey on awareness of the deposit insurance scheme in Georgia to inform a communication outreach campaign.

### Kosovo: Macroprudential analysis and financial stability policy coordination

FinSAC launched a new technical assistance project in May 2020 with the Central Bank of Kosovo to further modernize its interagency policy coordination mechanism and strengthen the conceptual and empirical basis for macroprudential policymaking. This assistance is ongoing into 2021. The project involves (i) supporting the Central Bank and other signing parties with the institutionalization of the Memorandum of Understanding for the Financial Stability Committee, specifically in the formulation of a medium-term strategy for addressing existing gaps in crisis contingency measures, and (ii) advising the Central Bank on the development of an analytical model for evaluating credit growth sustainability in Kosovo, with a view to identifying gaps in the systemic risk surveillance framework in the process. Work as part of this project in 2020 focused on the development and application of a methodology for estimating the growth rate of credit under an equilibrium setting. During June to August, FinSAC coordinated a data collection and verification exercise with the Central Bank, which produced a quarterly statistical panel spanning credit intermediary balance sheets, supervisory indicators, private sector debt measures, as well as Kosovo's broad economic performance since 2004. An equilibrium model was developed on the basis of the statistics, taking into account the co-determination of credit growth,

interest rate, and lending standards, the endogeneity between the credit market and the real economy, and frictions due to market structure and information asymmetry. Through a series of virtual sessions, FinSAC elaborated on the econometric approach, and advised the Central Bank on applying it using the codes for estimations in the third and fourth quarters. Preliminary results have been presented and an analysis report is being prepared jointly by the Central Bank and FinSAC to elaborate on the approach and findings from the analysis.

During the COVID-19 crisis, Kosovo's inter-agency financial stability mechanism was partially affected by the reorganization of government and shifting priorities in the face of an unprecedented health emergency. Further work towards the operationalization of the Financial Stability Committee is expected to continue as soon as the institutions involved reengage on this important topic.



## PROGRAMMATIC PROJECTS ONGOING INTO 2021

# Albania: Bank resolution, supervision, deposit guarantee scheme, and NPLs

FinSAC continued its programmatic project to the Bank of Albania in 2020 and it is ongoing into 2021. Centered on operationalizing the EU-aligned bank resolution framework, this project builds on earlier FinSAC projects to offer technical assistance in a more integrated way. It further evolved during 2020 as the COVID-19 pandemic led to the emergence of new priorities that FinSAC responded flexibly to. Progress was made in 2020 on resolution-related secondary legislation. FinSAC discussions with the Bank's Supervisory and Resolution Departments on a bridge bank by-law considered areas with room for interpretation, like the use of the resolution fund for bridge banks and combining bail-in with public funding and related governance questions. Discussions on a MREL by-law focused on options for internal MREL, the eligibility criteria of deposits, the selling financial products that can be bailed in to retail clients, the inclusion of call options, and early redemption rights, as well as the relationship between MREL and macroprudential buffers for activating maximum distributable amount restrictions. A draft by-law was presented to the Bank's Supervisory Council for adoption in December 2020.

FinSAC provided comments on the Bank of Albania's latest round of updates to resolution plans, an area in which the Bank's small team made excellent progress in a relatively short time. FinSAC highlighted some areas for enhancement and a need for additional input from the banking industry regarding the identification of critical services, banks' separability

analysis, and interconnectedness. In addition, a first overview on the purpose and role of requesting bail-in playbooks from banks was discussed.

In June 2020, FinSAC organized two virtual workshops in cooperation with the US Federal Deposit Insurance Corporation. These offered insight into practical aspects of transfer practices, the lesser cost test, resolution valuation, and loss absorbance practices. Pre-reading materials that provided an overview and basic principles for each of the topics and previously collected questions ensured focused and highly interactive discussions during the workshops. A virtual mission including a series of workshops and discussions on operationalizing the resolution framework, featuring experts from the European Single Resolution Board, the Austrian Financial Market Authority, and the National Bank of Romania that was scheduled for December was postponed to early 2021 for COVID-19 related reasons.

Originally envisaged as a two year project, the Resolution Department's request for an extension of the current scope of technical assistance was agreed to help prepare for and address pandemic related challenges; the systemic nature of the current situation might have important ramifications for the range of feasible resolution options, requiring preparation of additional tools including for the use of public support (not usually included in EU based resolution planning frameworks).

## North Macedonia: Macroprudential frameworks, supervision, crisis preparedness, and bank recovery & resolution

FinSAC programmatic technical assistance to the National Bank of the Republic of North Macedonia in 2020 covered macroprudential frameworks, crisis preparedness, bank recovery and resolution, and the development of a supervisory challenger model. This assistance continues in 2021.

Within the macroprudential component of the program, the Memorandum of Understanding on Financial Stability, drafted with assistance from FinSAC, was signed in April 2020 by all financial regulators. This was then used as the basis for a new draft Law on Financial Stability. FinSAC provided comments on the draft law, which was released for public consultation in December 2020 and is expected to be adopted by Parliament in early 2021. An amendment to the Law on the National Bank, which will establish its macroprudential and resolution mandate, is expected to be approved in parallel. FinSAC had several discussions with National Bank colleagues during 2020 on the impact of COVID-19 on the financial sector and COVID-19 related regulatory forbearance measures.

On bank recovery and resolution, FinSAC supported the assessment of bank recovery plans, based on the recovery plan assessment methodology developed with FinSAC assistance in 2019. FinSAC also provided continuous assistance on the preparation of the new Law on Resolution through several virtual meetings and reviews of the draft Law. One specific area in which FinSAC provided advice and drafting

assistance were the articles related to MREL. The approach for that section was to follow the EU's Bank Recovery and Resolution Directive (BRRD) 2 as closely as possible while tailoring it to the country context. Although progress on the law slowed due to initial COVID-19 disruptions, the insolvency of a small bank in the summer of 2020 provided new impetus to move the reforms forward. Approval of the law is now expected in the first half of 2021.

The finalization of the supervisory challenger model was delayed due to the pandemic. The National Bank is working on updating the database used to construct the corporates' rating and probability of default models.

The programmatic project was initiated in February 2019, following the 2018 Financial Sector Assessment Program Update, and was scheduled to end in December 2020. In response to delays in reforms caused by COVID-19 disruption and the National Bank's need to focus on monitoring and responding to the crisis, the project has been extended to the end of 2021.

A review of progress has been completed and priorities identified for 2021. These are: support in preparing a macroprudential strategy, improving systemic risk monitoring, and advising the Financial Stability Committee on guidelines for financial crisis management, information sharing, and coordination. FinSAC will provide support for the preparation of by-laws

once the new Law on Resolution has been finalized. Next steps on the supervisory challenger model, to be supported by FinSAC, pertain to the refinement of the models (construction of diverse macroeconomic scenarios), models' validation (back-testing and representativeness), and development of models for exposures at default and loss given default and calculation of expected credit loss. The work will be completed in the first half of 2021.

“We look forward to completing the upcoming work and remain positive that the cooperation with the World Bank will further improve and strengthen our conduct of work.”

**Anita Angelovska Bezhoska**

Governor

National Bank of the Republic  
of North Macedonia



## Ukraine: Bank recovery and resolution, microprudential frameworks, and NPL resolution

This programmatic technical assistance builds on a series of earlier FinSAC projects, and is ongoing into 2021, focused on three key areas.

The first focus area is **bank recovery and resolution and deposit insurance**. This is aimed at realigning the sub-laws/regulations of the National Bank of Ukraine and Deposit Guarantee Fund with newly overhauled bank resolution and deposit insurance legal framework that introduces the BRRD and Deposit Guarantee Scheme Directive in Ukraine.

During 2020, FinSAC held several workshops with the Deposit Guarantee Fund on different aspects of resolution financing in light of ongoing discussions aiming to align the Ukrainian bank resolution framework with the EU *acquis* based on the Ukrainian-EU association agreement and a draft law worked on in cooperation with FinSAC during 2019/2020. The workshops focused on the use of deposit insurance funds for resolution purposes, the calculation of target ratios both for the Deposit Guarantee Fund and resolution funds as well as bail-in and MREL calculation. The discussions aimed to further increase the understanding of EU principles and provide an update on good practice examples with a view to provide a proper basis to decide on the best solution and adaptation of the EU regulatory to fit Ukrainian circumstances.

Going forward, it is expected that the Ukrainian Parliament will adopt a legislative package introducing the new bank resolution and deposit insurance framework, compliant with EU directives. This would

initiate FinSAC's active engagement with the authorities to realign sub-laws and regulations with the newly adopted legal framework.

The second focus area is **banking supervision and regulation**. This seeks to bring Ukraine closer to international standards in the areas of capital adequacy and liquidity for banks. With FinSAC assistance in 2020, notable steps were achieved in the areas of capital and liquidity for banks and there was continued progress on improving the quality of banking regulation in line with international standards. Additional workstreams have also been added at the request of the authorities on establishing a leverage ratio for banks and on amending the regime for large exposure limits, as well as initiating a risk weight asset calculation for credit risks under the Basel standardized approach.

With FinSAC support, the National Bank's Methodology Department made adjustments to the liquidity coverage ratio, that entered into force in December 2018. Assets denominated in foreign currencies were temporarily included in the scope of high-quality liquid assets to help address the lingering problem of diversification of high-quality liquid assets in foreign currency, that has become more acute for Ukrainian banks during the COVID-19 crisis. Building on previous FinSAC assistance, the National Bank of Ukraine also revised the net stable funding ratio, another essential standard within the Basel reform package, which was approved by the Board of the National Bank at the end of 2019. A test reporting period began in the second half of

2020, which was extended by the Financial Stability Committee to accomplish necessary improvements in the quality of reporting, in cooperation with the banks, to April 2021 – essentially postponing the net stable funding ratio requirement from entering into force until then. It was decided that, in line with EU legislation, both the liquidity coverage ratio and the net stable funding ratio would be calculated on a consolidated basis. In addition, the National Bank developed a regulation governing the capital charge for operational risks, fully aligned with the latest Basel standards. The draft regulation underwent pilot testing in 2020 and is scheduled to enter into force in January 2021.

FinSAC supported the National Bank's ongoing work on the definition and calculation of banking groups' and subgroups' regulatory capital and a new version of the regulatory draft was produced in 2020. There was further work on capital deductions for indirect holdings at the individual level. Progress was made on the regulation setting capital adequacy requirements for market risks for which a first draft is underway. The National Bank also began the process of setting up a leverage ratio for banks and explored how to implement the counterparty credit risk method required for derivative transactions. Lastly, the NBU introduced new provisions on limits to large exposures, in accordance with the EU Capital Requirements Regulation, with a focus on exemptions to be granted on intra-group exposures.

FinSAC will continue supporting these workstreams in 2021. Although reforms are still work in progress, the regulatory framework applicable to the industry is becoming clearer, especially its focus on banks' soundness and resiliency. In the context of the COVID-19 pandemic, where asset quality can deteriorate significantly as economic downturns persist and liquidity and insolvency risks rise, the reforms are particularly timely and relevant.

It is worth noting that some of the draft reforms and also new regulations issued before 2020 (e.g. the new methodology for calculating banks' regulatory capital) will become binding regulations once the necessary amendments to the banking law are approved by the Parliament, in principle during the course of 2021.

"All of our unit would like to thank you for the professional support provided during such difficult outgoing year. We appreciate your participation in the implementation of European requirements in Ukraine and trust in our further fruitful collaboration."

**National Bank of Ukraine**

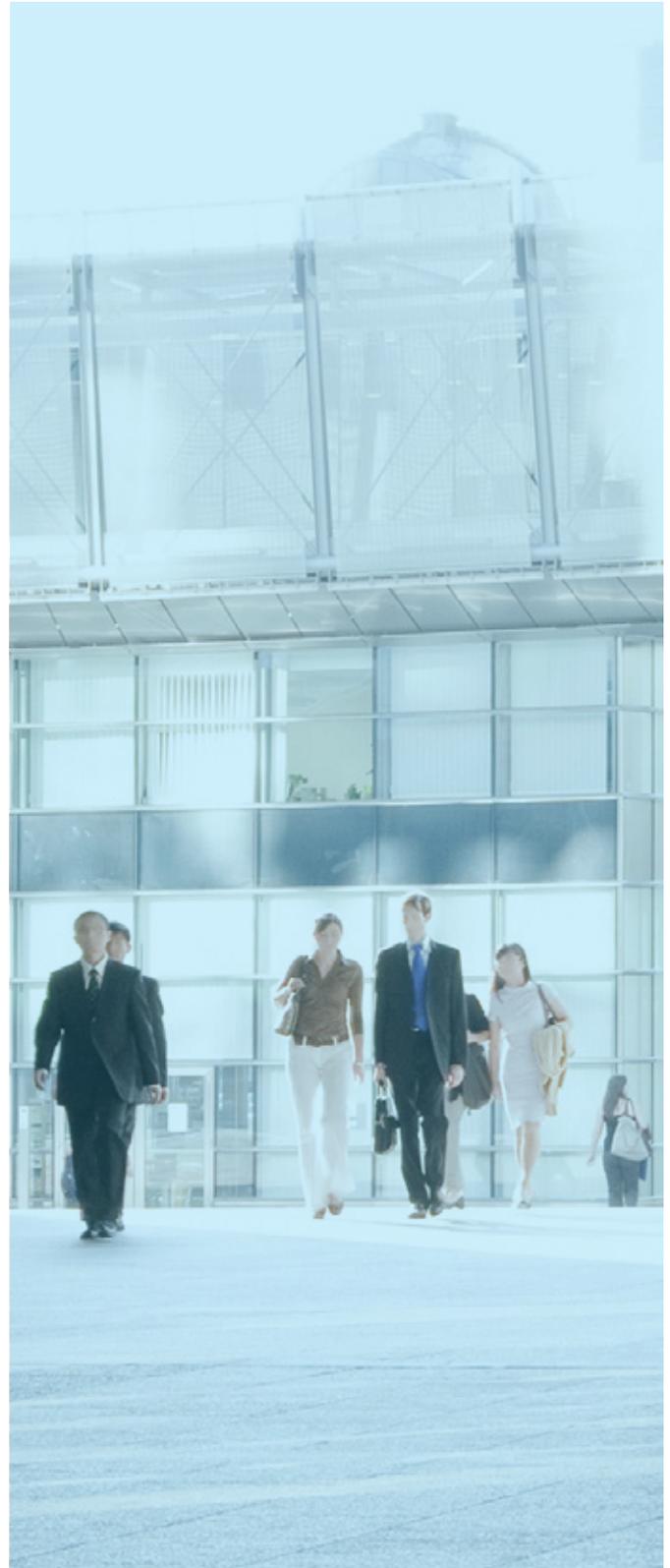
The third focus area is NPL resolution, aimed at implementation of the new NPL Governance and Workout Regulation. This includes NPL workout strategies and resolution planning, as well as enhancement of the asset valuation framework in Ukraine. With the help of FinSAC, two important regulations were adopted by Ukrainian authorities in 2020, enabling state-owned banks to effectively resolve the high stock of NPLs during next 2-3 years. The National Bank adopted a new regulation on NPL write-offs, allowing state-owned banks to write-off 100% provisioned legacy NPLs, while the Cabinet of Ministers (in its role as a shareholder of state-owned banks) adopted a special regulation allowing state-owned banks to realize the accumulated accounting losses and resolve NPLs with haircuts on the loan principal. Following the adoption of these

regulations, the independent supervisory boards of state-owned banks have adopted revised NPL resolution strategies for the next 3 years.

In 2020, FinSAC also continued providing technical assistance to the State Property Fund of Ukraine, aimed to improve the framework of asset valuation in Ukraine, bringing it closer to international good practice and providing more transparency to the market. Support is focused on: (i) a methodology for automatically determining the appraised value of real estate, (ii) review of valuation standards, (iii) improvements in valuation framework, and (iv) improvements in experts' education and licensing. FinSAC produced an algorithm for an automated valuation model to be used by the State Property Fund to estimate the appraised value for residential properties, which should decrease transaction costs for ordinary people buying residential property. The algorithm was programmed with the help of USAID and the model should be operational and launched in Q1 2021. FinSAC also worked on preparation of amendments to the Law on Property Valuation, Property Rights, and Professional Valuation Activities in Ukraine. This is a cornerstone of the valuation framework in Ukraine and has not been changed for more than 10 years. The amendments are not yet approved but are scheduled for further discussions in 2021.

Further enhancements of the NPL resolution framework will continue to be a priority area for FinSAC in 2021, with particular focus on state-owned banks that account for the bulk of the outstanding stock of NPLs. The regulatory changes in 2020 should begin to facilitate a significant reduction of NPLs.

A special focus for FinSAC's engagement in 2021 will be to support the authorities to adopt legal amendments and continue work to enhance asset valuation standards and improve the regulatory framework for appraisers.



## Section 5: Knowledge activities in 2020

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In its role as a knowledge center, FinSAC uses its in-house expertise and excellent collaboration with international specialists to produce timely and focused knowledge products and to convene knowledge events. These are targeted at beneficiaries of technical assistance but, knowledge products in particular, have a much wider reach to other World Bank regions and are available for download from FinSAC's website.

In line with the World Bank's Strategic Framework for Knowledge, which highlights increasing client country demand for knowledge-based solutions to address and recover from the pandemic, FinSAC significantly stepped up its knowledge activities in 2020. It rearranged its knowledge agenda to prioritize the production of a series of policy notes that discuss specific financial sector policy challenges arising from the pandemic. The policy notes, prepared

jointly with colleagues from other FCI global units, are being instrumental in establishing strategic institutional positions on critical topics, such as the appropriate design features of moratoria and other borrower support measures introduced in response to the pandemic, and the management of the widely-anticipated increase in the volume of problem loans. FinSAC insights have influenced World Bank operations, while targeted virtual dissemination events have helped to share key knowledge with policymakers from around the world.

Each year FinSAC organizes an international conference on a relevant and topical subject. Unfortunately, the COVID-19 pandemic meant the planned 2020 conference "Basics of Banking Supervision" had to be postponed. Although unable to offer face-to-face events during much of 2020, FinSAC used videoconferencing to continue to share knowledge, including well received webinars held to present the first COVID-19-related policy note about borrower relief measures in ECA region. In addition to the policy note on borrower relief measures (the other two policy notes are ongoing activities into 2021) two further knowledge activities were completed in 2020, a bail-in simulator and a paper prepared for the Central Bank of Kosovo on corporate governance in the financial sector.

FinSAC continues to schedule virtual events, including supporting the dissemination of its policy notes, and very much hopes that it will not be too long until events can again also be held in person.



## SPECIAL FEATURE

## FinSAC Series of Covid-19-Related Policy Notes

The financial stability impact of the pandemic significantly influenced FinSAC's knowledge agenda, as it quickly adjusted work programs in response to the COVID-19 related pressures to start the preparation of a series of three policy notes. These each deal with a distinct aspect of the financial stability horizon impacted by the pandemic: (i) moratoria and other borrower relief measures, (ii) NPL resolution (paper published in 2020 but dissemination activities carrying over to 2021), and (iii) the handling of problem banks. The first two papers are published and FinSAC has been organizing a series of webinars to disseminate their main insights with interested policymakers. These events have attracted considerable interest from ECA region and beyond.

### FINSAC POLICY NOTE ON BORROWER RELIEF MEASURES



FinSAC's first policy note, published in April 2020, focused on the moratoria and other borrower relief measures that were introduced across the world at the early stages of the pandemic. In a bid to preserve viable economic activity, jobs, and livelihoods

from the impact of the pandemic, policymakers were quick to roll out borrower relief programs, most often through a temporary suspension or reduction of debt service obligations of debtors

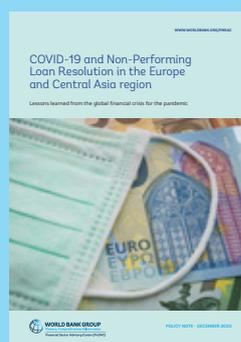
that had experienced a significant drop in income. Policymakers in Europe and Central Asia primarily introduced temporary moratoria, where decisions on which borrowers qualify were usually left to banks. In this way, and in marked contrast to the global financial crisis which originated from within the financial system, banks were expected to provide a positive contribution to the mitigation of the economic fallout from COVID-19. At the same time, if taken too far, these measures could lead to stability challenges further down the road, highlighting the importance of circumspect design.

The policy note looked into the broad design features of borrower relief schemes in several countries in the ECA region. While many countries reacted quickly, decisions were often taken in very short order and possibly without fully considering all the ramifications. The policy note therefore proposed a set of high-level principles for the design of borrower relief measures to protect the public interest in financial stability. The note suggested that before embarking on borrower relief measures, policymakers make an effort to develop a thorough understanding of the financial impact on banks' liquidity and capital of any borrower relief measures and explicitly factor the expected impact into the design. In addition, policymakers would need to beware of moral hazard associated with willful defaulters (who are financially capable but unwilling to pay), and zombie borrowers (whose difficulties predated COVID-19).

In addition, the note recommended that policy-makers ensure that the exceptional and temporary nature of borrower relief measures is broadly understood, and that exit strategies are defined. It also argued that measures are undertaken in a transparent manner, and that banks provide banking supervisors with reliable, frequent, up-to-date, and comparable information regarding loans that have benefitted from borrower relief measures. Lastly, the note recommended that policymakers in ECA region preserve hard-won gains of the past decade in aligning loan loss classification frameworks, provisioning requirements, and accounting standards with international best practices. The easing of regulatory definitions and classification and provisioning requirements should be avoided, as such measures obfuscate banks' true asset quality challenges, undermine comparability within and across countries, distort the veracity of financial information, and blur the distinction between COVID-19-affected borrowers and zombie borrowers.

The series of dissemination events organized to share the outcomes of the note were well-attended. The note was presented to internal, World Bank audiences, as well as to policymakers in ECA, East Asia, and the Middle East and North Africa. In addition, the note was presented at a workshop with the Banking Regulation and Supervision Agency in Turkey, as part of a trainings organized by the Joint Vienna Institute, and to the Vienna Initiative. As of end-March, the note has been downloaded 243 times. The policy note also played an important role in informing the World Bank's dialogue with client countries' financial sector response to the pandemic. In a number of instances, this triggered reforms to hastily introduced borrower support measures, in line with the recommendations made in the note.

## FINSAC POLICY NOTE ABOUT NPL RESOLUTION



The second policy note focused on COVID-19 and the challenges related to NPL resolution in ECA. Although aggregate NPL ratios have generally remained stable across ECA region against a backdrop of borrower relief programs, policymakers and bankers anticipate that

borrower distress will inevitably translate into fresh pressures on asset quality in the banking sector that will become increasingly apparent as these support measures are phased out.

Experiences during the global financial crisis, which left a persistent legacy of high NPLs and left countries trapped in a bad equilibrium of low economic growth and lackluster financial sector performance, highlighted the importance of a prompt and comprehensive policy response. Avoiding a repetition of this should thus be top priority for policymakers and requires the alignment of three sets of policies that are discussed in detail in this policy note, including (i) robust banking regulation and supervision to ensure the proper identification of NPLs and provisioning for credit losses, (ii) strengthening of banks' operational readiness to work out rising volumes of problem assets, and (iii) a legal environment that enables banks to work out bad loans and that avoids unnecessary losses by steering distressed but potentially viable borrowers towards liquidation.

Although most ECA countries entered the COVID-19 pandemic in a better position than the global financial crisis, the policy note advised that there is no

room for complacency. Policymakers and bankers should rise to the challenge and start preparing immediately. Experiences in the region over the last decade point to seven policy priorities for the pandemic set out in the policy note.

First, effective NPL resolution requires the availability of economically meaningful data about banks' exposure to problem assets to gauge the magnitude of the problem, inform NPL resolution strategies, ensure that banks provision appropriately for credit losses, and deal decisively with banks with a high NPL exposure. Softening regulatory definitions and supervision only increases opacity without addressing the underlying problem. Weak banks that are short of capital space to fully recognize their exposure to problem loans may be particularly inclined to engage in questionable practices to present an overly optimistic picture on asset quality.

Second, an orderly exit from the current exceptional borrower relief measures needs to be engineered. With borrowers still struggling to meet their debt-service obligations there is considerable pressure to perpetuate these schemes, but prolonging exceptional borrower relief carries hidden costs, including a weakening of repayment discipline, allocative inefficiencies associated with zombie borrowers, and a possible adverse impact on banks' liquidity. While the question when and how to phase out the measures does not have a simple answer, the general principle should be to unwind them as soon as circumstances permit, and with careful consideration for the financial impact on banks.

Third, it is vital that banks get organizationally ready for resolving high volumes of bad loans, with fully operational and well-resourced workout units,

underpinned by robust information systems and internal policies regarding the management and resolution of NPLs. Banks' own efforts may be complemented by regulatory requirements that banks with high NPLs articulate NPL reduction strategies (that are embedded in their risk and capital strategies and approved by the bank's management body) and agree with the banking supervisory agency on quantitative NPL reduction targets.

Fourth, banks need to aim for quality in undertaking long-term loan restructuring, rather than the extend-and-pretend practices often observed in the aftermath of the global financial crisis. Loan restructuring should not be used as a tool to merely delay the recognition of inevitable credit losses related to exposures to non-viable or uncooperative borrowers (that should be steered towards an orderly exit). Similarly, it is important that despite the highly uncertain economic outlook, banks make reasonable efforts to distinguish borrowers with transitory liquidity difficulties from those with deeper rooted solvency problems, which has far-reaching consequences for the type of restructuring measures that banks should consider. While the distinction can be challenging, particularly under the current circumstances, this should not discourage banks from making efforts in this direction.

Fifth, while unviable and uncooperative borrowers need to be dealt with resolutely, potentially viable borrowers need to be given an opportunity to rehabilitate. Their rehabilitation entails not only loan restructuring, but also operational restructuring to restore their commercial viability. Encouraging out-of-court workouts for these borrowers is a top priority. Legal frameworks need to enable debt reduction and should be supported by tax regimes that do

not unduly disincentivize restructuring. In addition, consideration can be given to the introduction of time-bound regimes that give debtors and creditors special one-off benefits in exchange for an agreed workout plan.

Sixth, while ECA countries overall have made good progress in overhauling legal frameworks, continued efforts are needed in the institutions that underpin the functioning in practice of these overhauled legal frameworks, and which have often struggled to keep up with legal reforms. These institutional capacity constraints may become acute when faced with renewed pressures on asset quality, with the corresponding increase in debt and litigation cases stretching the capacity of creditors, debtors, advisors, and the judiciary. Where significant gaps have emerged between legal frameworks and practices, policymakers may prioritize upgrading the institutional framework over embarking on a fresh round of complex and time-consuming legal reforms.

Lastly, given the many stakeholders involved, policy coordination is a critical element of any strategy to address high NPLs. Nationwide NPL reduction strategies, designed and implemented with the active participation of private and public sector stakeholders, can help to accelerate the rate of NPL reduction. Key actors include banks and other private sector representatives (such as institutional investors and services) as well as a wide range of national authorities, including central banks and banking supervisory agencies, finance and justice ministries, and civil society representatives, including consumer organizations.

Following the publication of the note in December, FinSAC is organizing a range of dissemination events to bring the outcomes of the policy note to the attention of policymakers in ECA region and beyond. A first high-level session attracted considerable interest, with 136 participants, primarily from central banks in the Europe and Central Asia and Middle East and North Africa region. Additional in-depth technical sessions are being organized for each of the three technical chapters of the note, of which the first two took place in February and March. Both were well-attended with 151 and 99 participants respectively. The note is also being translated into Russian and French.

#### **FINSAC POLICY NOTE ON THE HANDLING OF PROBLEM BANKS**

Rising pressures on asset quality also imply a heightened risk of banking instability. Following the global financial crisis, countries across the region have significantly strengthened early intervention measures for problem banks, enabling more decisive and earlier interventions to rehabilitate problem banks. Special resolution regimes have been established, setting failing banks apart from the general insolvency framework. While these strengthen authorities' capacity to manage idiosyncratic banking crises, it is less evident whether and how these newly introduced tools can be applied in the current context of potentially broad-based banking distress following a horizontal shock that originated in the real economy, rather than the financial sector.

The pandemic has affected all banks at the same time, reducing the feasibility of conventional bank resolution techniques. Standard purchase & assumption strategies may lack willing and financially able acquirers. Open bank bail-in strategies, which have been recently introduced in many countries across the ECA region, may prove difficult to execute due to the general lack of loss-absorbing financial instruments in the banking sector. In addition, bailing-in uninsured retail clients (e.g. uninsured depositors) amidst tense financial market conditions could be counterproductive due to the unsettling effect on confidence in the financial sector. The risk of this combination of challenges is that countries find it increasingly difficult to manage banking crises and maintain financial stability without resorting to the use of public money.

The policy note, to be finalized in 2021, will provide guidance to supervisors and resolution authorities in client countries as they prepare themselves for turbulent times. It will offer advice on the use of existing early intervention and bank resolution frameworks and highlight their limitations under the current circumstances. It will also suggest possible systemic policy responses that could be used to overcome them. Once published, FinSAC will organize a series of virtual events with the relevant policy makers to further discuss the issues raised in the note and help identify workable solutions.



## OTHER KNOWLEDGE PROJECTS COMPLETED IN 2020

### Bail-in simulator

Work on a FinSAC bail-in simulator was completed in 2020. Bail-in is a key resolution tool provided for in the BRRD. It allows for the write-down of debt owed by a bank to creditors or to convert it into equity. Bail-in aims to replicate the losses creditors would incur if the bank had gone bankrupt, thereby reducing the value and amount of liabilities of the failed bank. As this can be a complex tool, FinSAC designed an excel-based simulator to illustrate and compare different resolution tools that might be applied in case of bank resolution. It is inspired by the BRRD but does not comply with it completely, allowing for adjustment to the national context. The simulator is intended as a learning tool for internal purposes. It is not for use in real resolution cases but has been successfully used with client countries to illustrate comparisons of different resolution options using a real bank balance sheet. After several iterations and developments, based on feedback from users, the tool is now finalized and available to be used by FinSAC as part of resolution simulation exercises and in seminars with clients.

### Kosovo: The evolution of the corporate governance in South European banks

FinSAC produced a paper for the Central Bank of Kosovo in 2020, requested to help inform future reforms of their corporate governance framework. The paper reviewed the extent of adoption of international good practices in corporate governance by banks in Kosovo, Albania, Bosnia and Herzegovina, Montenegro, and North Macedonia. Findings included that bank governance practices in the region were converging on international good practice. Bank boards appeared to have the power and authority to play the central and strategic role assigned to them by international good practice, board member independence was increasing, audit committees were in place in almost every bank, the number of risk committees was increasing, and reported disclosure and transparency was close to international standards.



## OTHER ONGOING KNOWLEDGE PROJECTS

### Policy note on related parties' transactions and associated risks

In 2020, FinSAC continued work on a knowledge product that aims to strengthen supervisory authorities' capacity to effectively oversee related parties' transactions and associated risks and their operational readiness to preempt problems that may lead to bank failure. The risks of related party lending (loans to shareholders, affiliates, and associates) for banking stability have been clearly seen in cases of bank failures in ECA. This paper considers issues including narrow definitions of related parties that do not comply with Basel standards and allow supervisors too much discretion to identify related party exposures, and rules governing related party transactions that are overly focused on credit with little on other types of transactions, such as guarantees, off-balance sheet exposures, and claims. Expected to be delivered in 2020, this project was delayed due to the pandemic. Field work is complete, including meetings with a series of relevant counterparts, including supervisors in the EU (European Central Bank, France, Ireland, Spain, Portugal) and ECA (Moldova, Ukraine) as well as interviews with banks and external auditors. These confirm that although supervisors and regulators are concerned about related party transactions there is limited European harmonization on policy and some jurisdictions lack prudential limits. Drafting of the paper, including recommendations on introducing more assertive supervision, will continue in 2021.

### Financial stability committees in Eastern Europe and Central Asia – a stocktake

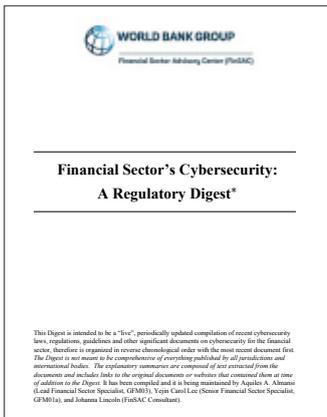
Following the global financial crisis, many countries moved to establish proper institutional arrangements for the monitoring and timely mitigation of threats to financial stability. This has included creating financial stability committees, that usually comprise the central bank, the prudential regulator, ministry of finance, and other agencies. FinSAC has observed considerable variation in the design of financial stability committees among client countries. To better understand the extent to which the performance of financial stability committees in facilitating macroprudential policies can be attributed to their underlying design features, FinSAC has been working on a study drawing on three forms of evidence. The first is a detailed stock-take of de jure institutional characteristics, in terms of mandate, legal basis, power, lead agency, and decision-making mechanism. This is conducted through careful review of relevant laws and memoranda as well as through fact-checking with country regulatory experts. The second aspect is a quantification of technical assessments regarding the severity of systemic risk factors, including on general credit and liquidity conditions, sectoral risks, and transmission channels. This is accomplished by applying natural language processing methods to a large body of financial stability reports and other official documents to determine the perceived intensity of specific risks over time.

The third aspect is a comprehensive classification of implemented macroprudential policies, as documented by the International Monetary Fund, World Bank, European Central Bank, and previous research, according to the risk factors they generally aim to address. These findings are analyzed collectively using regression models.

While good progress has been made in the analysis it has not yet been finalized in a paper, as priority was given in 2020 to analytical work related to the financial stability repercussions of the pandemic. Nonetheless, the insights emerging from the analysis about the set-up and de facto functioning of financial stability committees are already being used to inform FinSAC’s technical assistance engagements in this area, including in North Macedonia (where FinSAC reviewed a new draft law for a revamped financial

stability committee) and Armenia (which included an assessment of the current set-up). In addition, as part of a cross-support project with Indonesia, FinSAC shared the current findings of the study with the technical members of the Indonesian Financial System Stability Committee and made detailed recommendations on strengthening the set-up based on the analysis. FinSAC remains committed to completing the project, which will be published on the FinSAC website in 2021 and shared with relevant contacts.

## Financial Sector Cybersecurity: A Regulatory Digest



The financial sector’s growing reliance on digital information and communications systems has only accelerated during COVID-19 in 2020. Unfortunately, the resulting increased exposure to cyber incidents threatens financial stability more than

The Digest has enjoyed a steadily increasing readership among authorities in client countries and global financial centers in New York and London, frequently benefiting from valuable suggestions from its readers. It has been used by FinSAC to make a detailed comparison of client country regulations with those contained in the Digest. Given the quickly enlarging body of guidance provided by multilateral standard-setters and regulations by national authorities, the Digest and FinSAC can assist financial sector authorities of client countries get started with drafting cyber-risk management regulations and supervisory practices or updating the existing ones.

ever. FinSAC has been publishing Financial Sector Cybersecurity: A Regulatory Digest since December 2017 to contribute to the financial stability of client countries by raising awareness and promoting good regulatory and supervisory practices among national authorities on the rapidly evolving international guidance and associated regulations on cyber-risk management for financial institutions. The Digest is a periodically updated compilation of laws, regulations, guidelines, and other significant cybersecurity publications for the financial sector. The publication includes an index to help financial sector authorities easily find the relevant resources by key concepts in cybersecurity.

The 5th edition, now covering a total of 237 documents, was published in July 2020. It includes a new section which classified the newly added documents into seven thematic areas to help quickly discover which publications may be of interest, especially for those who are not cyber risk specialists. The 6th edition is coming in early 2021 and will include a further new section discussing key cybersecurity issues of note for financial sector supervisors and regulators.

## Linkages with EU and other stakeholders

Effective institutional cooperation arrangements with EU agencies involved in accession and financial sector regulation and supervision greatly enhance FinSAC's capacity to deliver innovative and relevant technical assistance to client countries, as well as its ability to represent the interests of FinSAC countries. Over the years, FinSAC experts have developed a strong professional network spanning the various EU agencies and enabling frequent informal discussions. FinSAC has made continuous efforts to strengthen links with key European bodies, including the European Banking Authority, the European Commission, the European Central Bank, and the Single Resolution Board. Extensive cooperation has evolved with these agencies in the context of knowledge events, with representatives participating as speakers at FinSAC knowledge events and vice versa. In addition, FinSAC has assisted with specialized European Commission projects, while the European Central Bank has recently provided technical experts

to assist with the delivery of a FinSAC project. The Single Resolution Board, which has generously contributed to country-specific workshops, has also flagged its willingness to support FinSAC technical assistance projects.

FinSAC was established in June 2011 as a follow-up mechanism of the Vienna Initiative. It routinely participates in the formal Vienna Initiative meetings and has provided technical presentations. Following the outbreak of the pandemic, the Vienna Initiative significantly stepped up its activities and requested a FinSAC presentation on borrower support measures. FinSAC also cooperates with the Joint Vienna Institute, including contributing to training events and as a co-organizer of NPL resolution training. Staff from the Joint Vienna Institute have contributed as short-term experts to FinSAC projects, including recently in Armenia.



# Sharing FinSAC expertise and knowledge in international fora

## MARCH

FinSAC panel speaker on economic and legal perspectives of close cooperation with the EU Banking Union at *"Without the Euro. Legal and Economic Perspectives of the Euro-Outs on EMU Reform"* Conference.

## APRIL

FinSAC seminar on asset sales practices by European AMCs.

## MAY – JUNE

Series of FinSAC presentations on its policy note about borrower relief measures to a variety of audiences, including World Bank colleagues, policymakers in FinSAC countries, East Asia (at an event organized by the Kuala Lumpur Center), and the Middle East and North Africa (at an event organized by the Arab Monetary Fund), and the Vienna Initiative.

## JULY

FinSAC one-week online course on NPL resolution jointly with the Joint Vienna Institute and the European Central Bank.

FinSAC presentation at *"Rethinking Insolvency and Crisis Management in Light of the COVID-19 Crisis"* webinar hosted by IDLO and Queen Mary University in cooperation with the International Monetary Fund and European Bank for Reconstruction and Development.

## SEPTEMBER

FinSAC participation in Bank of England discussion on the impact of COVID-19 on the banking industry and the importance of effective bank crisis management regimes. FinSAC presentation on the legal aspects of bail in versus bail outs in handling problem banks in a systemic (COVID-19 driven) crisis.

FinSAC panel speaker on Regulatory and Bank Perspectives on Internal and External MREL for MPE and SPE Groups at the 6th Annual Practitioners' European Recovery & Resolution Virtual Summit 2020.

## OCTOBER

FinSAC presentations on borrower relief measures and NPL resolution at a seminar organized by the Joint Vienna Institute and the Austrian National Bank.

## NOVEMBER

FinSAC webinar on the institutional set-up and de facto performance of financial stability committees for the Indonesian Ministry of Finance.

FinSAC seminar on governance and operational arrangements for national working groups for NPL resolution.

FinSAC contribution to IFC seminar on opening the NPL market in Morocco.

## DECEMBER

FinSAC presentations to Turkey's Banking Regulation and Supervision Agency covering borrower relief measures as well as NPL resolution.

FinSAC online workshop for National Bank of Ukraine experts on setting up and improving emergency liquidity assistance frameworks to banks.

FinSAC methodology workshop for the Albanian Deposit Insurance Agency on the determination of deposit insurance target fund size through stress-testing.

# Section 6: Outcomes and results

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Despite the logistical challenges presented by the COVID-19 pandemic, 2020 has been as productive for FinSAC as previous years. The team switched to home-based work in March 2020 and although there was no mission travel after that, FinSAC continued delivering its technical assistance program with virtual missions. While this caused some delays, especially at the start of the pandemic when FinSAC and counterparts were adjusting to the new modus operandi, the overall impact on project delivery has been contained. FinSAC has continued apace with its portfolio of technical assistance projects and stepped up the production of COVID-19 related knowledge work. Demand for FinSAC support continued to be strong, reflecting high levels of trust in FinSAC's financial sector expertise and highlighting the continued relevance of FinSAC's development objective, to support client countries in building stronger, more resilient financial sectors.

This section considers the outcomes of FinSAC assistance and achievement of project indicators in 2020. While assessing the longer-term impact of individual financial stability-oriented technical assistance projects is challenging, the impact of the FinSAC program as a whole was confirmed in the 2020 mid-term review. It concluded that FinSAC projects have helped countries to strengthen their regulatory and supervisory systems for banks and upgrade their respective legal and regulatory frameworks to better identify and mitigate emerging financial sector risks and that FinSAC has had a cumulative effect within each country, improving the resiliency of the financial sector to both endogenous and exogenous shocks. In this way, FinSAC has been making a positive contribution towards its development objective. While the mid-term review focused on the overall outcome of the FinSAC program, for the purposes of FinSAC annual reporting of results, measurable output indicators are used for individual technical assistance projects, with post-program monitoring to assess to what extent expected outcomes have materialized.



## A SNAPSHOT OF 2020

FinSAC completed a total of 13 projects over the course of 2020. This included ten technical assistance projects (nine were FinSAC-funded, of which one was a programmatic project) and three knowledge products, the latter including a paper on bank governance in the Western Balkans, the development of an excel-based tool for quantifying the impact of the use of bail in instruments in resolution, and the first policy note prepared as part of the response to pandemic-related demand. A second policy note was published late December but will be counted as a completed project in 2021 as dissemination events will take place in the first half of 2021. Global travel restrictions meant FinSAC could not organize its annual conference and knowledge event, but instead opted to organize a series of webinars to disseminate COVID-19-related knowledge work. As in previous years, FinSAC's portfolio of completed projects in 2020 included topics from all three thematic pillars that FinSAC covers, with four

completed projects under Pillar 1 (financial stability, macroprudential frameworks, and crisis management), five completed projects under Pillar 2 (microprudential supervision and NPL resolution), one of which was programmatic but work in 2020 focused largely on Pillar 2, and four completed projects under Pillar 3 (bank resolution), one of which was EU funded. Despite the knowledge events originally planned for this year having to be postponed/ adapted due to the pandemic, FinSAC delivered on its commitment to complete at least nine technical assistance projects and at least one analytical piece per year. It should be noted that the list of completed technical assistance projects includes FinSAC's first-ever programmatic project in Bosnia, which consisted of several modules that span various thematic pillars and is significantly larger than FinSAC's projects under the standard window. The following two tables present a complete overview of all projects by countries, pillars, and deliverables.

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

Completed products by deliverables	Pillar 1	Pillar 2	Pillar 3	Total
Knowledge events/products	-	2	1	3
Technical assistance	4	3	3	10
<b>Total</b>	<b>4</b>	<b>5</b>	<b>4</b>	<b>13</b>
Completed products by country/pillar	Pillar 1	Pillar 2	Pillar 3	Total
Albania	1	-	-	1
Armenia	1	-	-	1
Bosnia and Herzegovina*	-	1	-	1
Georgia	1	-	-	1
Kosovo	1	1	-	2
Moldova	-	1	1	2
Romania**	-	-	1	1
Ukraine	-	-	1	1
Uzbekistan	-	1	-	1
Regional	-	1	1	2
<b>Total</b>	<b>4</b>	<b>5</b>	<b>4</b>	<b>13</b>

\*Project in Bosnia and Herzegovina was Programmatic Approach that included work on multiple pillars. However it is listed as Pillar 2 project as majority of the work was related to Pillar2.

\*\*This project was delivered by FinSAC in cooperation with the European Commission's Structural Reform Support Service and funded by the European Union via the Structural Reform Support Program.

**Table 1 cont.:** Structure of completed projects by deliverables, pillars, and countries

Country	Technical Assistance
Albania	Deposit Insurance Strengthening Project
Armenia	Diagnostic on Crisis Management and Supervisory Framework Project
Bosnia and Herzegovina	Programatic Approach on Bank Supervision and Resolution
Georgia	Assessment of New Cybersecurity Regulations Project
Kosovo	Deposit Insurance Fund of Capacity Development Project
Moldova	Bank Recovery and Supervision Project
Moldova	Bank Resolution Project
Romania	Bank Resolution Simulation Exercise
Ukraine	Bank Recovery and Resolution, Deposit Insurance and New Legal Framework Project
Uzbekistan	Licensing, Prudential Regulation and Supervision Project
Date	Knowledge Events/Products
Q3, 2020	Stocktaking Paper on the Evolution of the Corporate Governance of South European Banks
Q4, 2020	Policy Note: Borrower Relief Measures in ECA region
Q4, 2020	Bail-in simulator

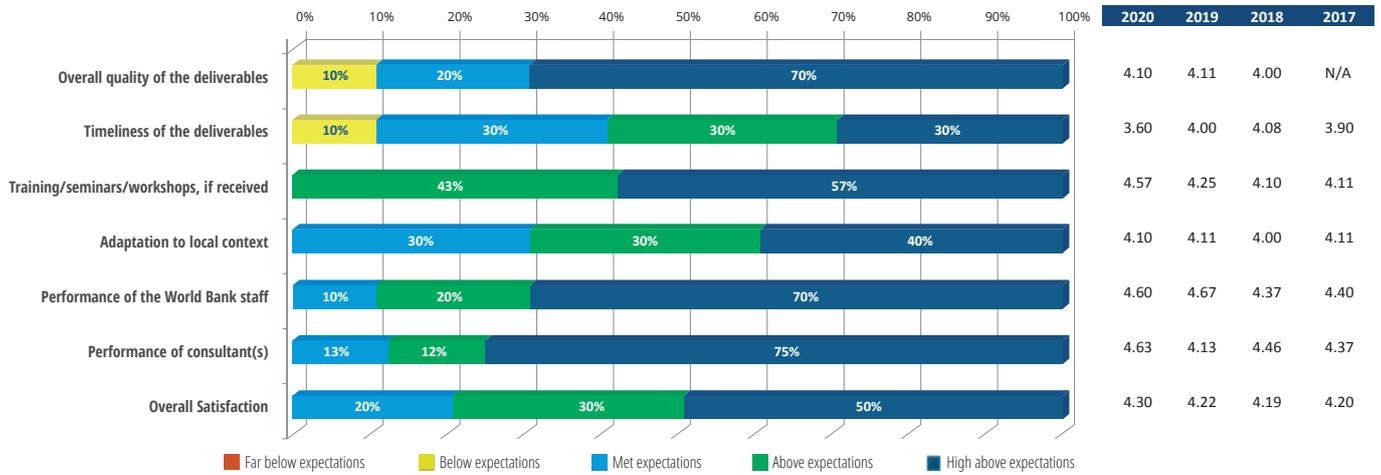
## Client country feedback

FinSAC routinely undertakes client feedback surveys at the end of the calendar year, to seek feedback from the beneficiaries of completed technical assistance projects. The survey results help FinSAC to better recognize the effectiveness of the projects, understand clients' satisfaction with provided assistance, identify areas for improvements, and improve the design of future projects.

This year the response rate was 100%. Despite challenges associated with travel restrictions, work from home, and virtual missions, FinSAC clients reported high levels of satisfaction in almost every aspect of technical assistance with aggregate scores very close to those observed in 2019, although they also pointed to the limitations of virtual missions as a substitute for face-to-face interactions. Respondents

gave high marks for the overall quality of deliverables and the performance of the World Bank staff and consultants. The average score for overall satisfaction is improved slightly compared to 2019 (from 4.22 to 4.30), while the average score for the quality of deliverables stays almost unchanged with an average score of 4.10. Both results show satisfaction is generally above expectations. Although client countries continued to provide positive feedback, this year, for the first time, one respondent highlighted that timeliness of deliverables and overall quality of deliverables had not met expectations. While these scores warrant close monitoring, they reflect communication and organizational challenges that were a consequence of the absence of face-to-face interactions.

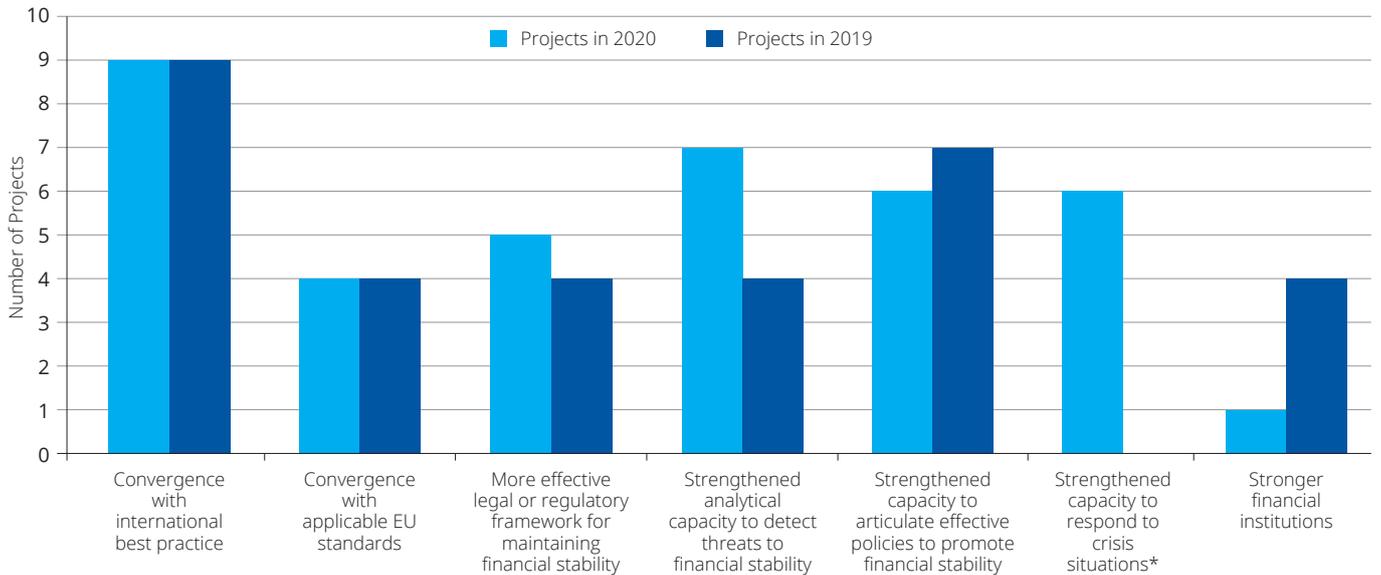
**Figure 1: Client satisfaction with FinSAC technical assistance**



Survey respondents were also asked to reflect in more detail about the positive short- and medium-term benefits they obtained from deliverables provided as part of FinSAC technical assistance projects. While responses depended to a significant degree on the content of the technical assistance, nine out of ten respondents mentioned that convergence with applicable international best practice was one of the main outcomes of the technical assistance. Seven respondents identified strengthened analytical capacity to detect threats to financial

stability as one of the outcomes, while six clients mentioned strengthened capacity to articulate effective policies to promote financial stability and strengthened capacity to respond to crisis situations among the most important outcomes. Convergence with applicable EU standards, more effective regulatory or legal frameworks for maintaining financial stability, and stronger financial institutions were areas where respondents saw a positive FinSAC contribution as well.

**Figure 2: Client satisfaction with FinSAC technical assistance**



\*New category for 2020.

## Assessing the outcomes of completed projects

FinSAC strengthened its monitoring and evaluation framework in 2018, applicable to all projects financed under FinSAC 3. The starting point of the new framework is the articulation of a much more elaborate results chain for all new FinSAC projects. Enhanced post-project monitoring is an integral part of the new monitoring and evaluation framework. This includes an assessment of whether the outcome indicators specified in the results chain at the concept note stage have been achieved within the expected time horizon.

Much of the technical assistance undertaken by FinSAC contributes to long-term reform in client countries. While there are some immediate and quantifiable benefits achieved, often the success of projects can only be fully judged after a period of time, to allow recommendations to be implemented and capacity to be enhanced. In most cases, this assessment requires inputs from the beneficiaries of FinSAC support, who can also provide a broader context and their qualitative insights about the impact of the project.

As desired outcomes are rarely observable straight away, the “time horizon” for verification of the extent to which they have materialized usually takes place some time after completion of the project. Although the outcomes of most FinSAC projects completed in 2020 are discussed in the following section, there are a few projects that are still within their post-project waiting period. This is the case for the two projects in Moldova, which will be discussed in the 2021 Annual Report. Similarly, this section includes a description of five projects that were completed in 2019 but that were still within their post-project waiting period when the 2019 Annual Report was published.

The general pattern emerging from the assessment of outcomes is that most outcome indicators did materialize as expected, although in some cases with delays (that required extensions of the project completion dates). In addition, there were a few projects where client countries’ priorities had shifted from what was originally envisaged at project inception.

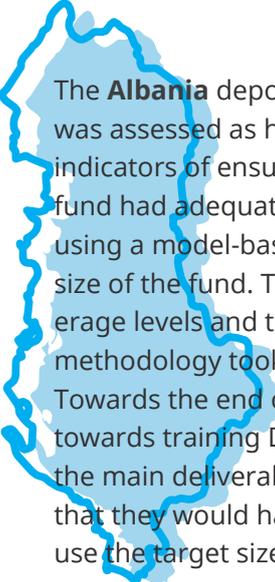


**Table 3:** Assessment of outcome indicators for projects completed in 2020

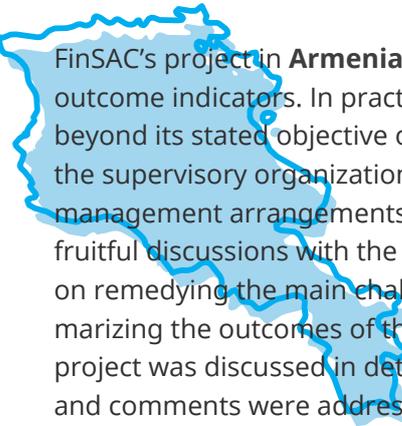
Project	FinSAC activities	Expected outcomes	Outcome indicators for assessment in 2020	Achievement of outcomes so far
<b>Albania:</b> Deposit Insurance Strengthening	Assessment of adequacy of coverage levels. Target fund methodology.	Adequate coverage levels in place. Increased financial stability through the application of a model-based target fund methodology that decreases discretionary decisions about the size of the fund.	1. Change in the coverage levels if needed based on the assessment. 2. Model based methodology for determining the size of ex ante deposit insurance fund in place.	1. Achieved. 2. Achieved.
<b>Armenia:</b> Crisis management and supervisory framework	Review of the Central Bank's supervisory organizational framework, administrative procedures, supervisory methodologies, human and technical resources, and coordination arrangements.	i) Greater awareness of the main shortcomings in the existing framework; consensus about the main weaknesses. ii) Acceleration of reforms to strengthen supervisory organization.	1. Assessment endorsed by the Central Bank. 2. Policy measures launched to address the most pressing gaps.	1. Achieved. 2. Achieved.
<b>Bosnia and Herzegovina:</b> Bank supervision and resolution	i) Implementation support and drafting of the SREP methodology. ii) Support in development and implementation of comprehensive SREP training scheme. iii) NPL gap analysis identifying shortcomings and gaps. iv) Support provided to Banking Agencies in completing the European Banking Authority supervisory equivalence assessment.	i) SREP framework fully operational. ii) Strengthened capacity of Banking Agencies in implementing newly adopted SREP methodology. iii) Strengthened NPL resolution framework contributes to increase in the volume of successfully resolved NPLs. iv) Prudential supervisory and regulatory requirements are considered equivalent to those applied in the EU by the European Commission.	1. Operational procedures for SREP implementation adopted by both Banking Agencies. 2. SREP training scheme developed and implemented. 3. Authorities adopted measures to strengthen the NPL resolution framework. 4. European Commission adopts an Implementing Decision determining that prudential supervisory and regulatory requirements are at least equivalent to those applied in the EU.	1. Achieved. 2. Achieved. 3. Partially achieved. Work was refocused during project. 4. Not yet achieved. Set to one side due to change in client priorities.
<b>Georgia:</b> Assessment of new cybersecurity framework	i) Identifying missing concepts and significant differences with relevant international practice in a detailed report incorporating comments from authorities and peer reviewers. ii) Seminar for financial sector authorities, senior management of regulated entities, and specialized staff. iii) Assistance in drafting proposals to improve the regulation.	i) The authorities better understand how their cybersecurity regulations compare with others to allow further amendments and/or additions to existing regulations. ii) Helps strengthen resilience of the Georgian financial sector to cyber incidents. iii) More effective cybersecurity regulations mitigate cyber risk challenges to financial stability. iv) The World Bank is in a better position to advise financial sector authorities developing their cybersecurity regulations.	1. Updated and approved cyber-regulation in force. 2. New regulation effectively enforced in the financial industry. 3. Similar requests from other countries	1. In progress. 2. Not yet achieved. 3. Achieved.

Project	FinSAC activities	Expected outcomes	Outcome indicators for assessment in 2020	Achievement of outcomes so far
<b>Kosovo:</b> Deposit insurance	<ul style="list-style-type: none"> <li>i) Draft Manual for On-Site Deposit Inspections.</li> <li>ii) Draft Funding Policy Report.</li> <li>iii) Draft internal regulation on organizational structure and draft capacity development strategy.</li> </ul>	<ul style="list-style-type: none"> <li>i) Deposit Insurance Fund can obtain timely, accurate, and comprehensive information directly from banks and receive and share such information with Kosovo's safety net participants.</li> <li>ii) Alignment with relevant International Association of Deposit Insurers Core Principles.</li> <li>iii) Enhanced financial planning to ensure timely response to imminent risks. Application of modeling analysis to determine premium contributions and contingency funding.</li> <li>iv) The institutional structure of the deposit insurer minimizes the potential for real or perceived conflicts of interest</li> </ul>	<ul style="list-style-type: none"> <li>1. Deposit Insurance Fund Management Board adoption of on-site deposit inspections manual.</li> <li>2. Use of the manual in inspections.</li> <li>3. Management Board discussion and decision on funding sustainability and shortfall planning, based on funding policy.</li> <li>4. Management Board adopt recommended enhancements for operational independence at staff and management levels and implement internal regulation on organizational structure.</li> <li>5. Management Board adopt plans on staff capacity development and implement staff capacity development plan and strengthening of skills.</li> </ul>	<ul style="list-style-type: none"> <li>1. Achieved.</li> <li>2. Achieved (from 2021).</li> <li>3. Achieved.</li> <li>4. Partially achieved.</li> <li>5. Not yet achieved.</li> </ul>
<b>Uzbekistan:</b> Licensing, prudential regulation and supervision	<ul style="list-style-type: none"> <li>i) Development of licensing / transfer of ownership regulation, internal manual, and training.</li> <li>ii) Updating of regulations on liquidity, corporate governance, risk management, large exposures, and related parties. Drafting of a new regulation on information to be disclosed regularly by banks.</li> <li>iii) Support a risk-based supervision pilot, develop a system of supervisory indicators for regular monitoring, and train banking supervisors on their use and on basic financial indicator interpretation.</li> </ul>	<ul style="list-style-type: none"> <li>i) More robust gatekeeper function for licensing new banks and evaluating transfer of ownership.</li> <li>ii) Alignment of key banking regulations with international best practices (including Basel Core Principles) and with the new banking law.</li> <li>iii) Supervisory approach more effective in addressing banking sector risk.</li> </ul>	<ul style="list-style-type: none"> <li>1. New bank licensing regulation passed.</li> <li>2. Internal manual agreed and used in actual cases.</li> <li>3. Insights from training being used in practical cases by bank licensing department.</li> <li>4. Prudential regulations passed.</li> <li>5. Pilot successfully concluded and insights being put to use in the supervision of other banks.</li> <li>6. System of supervisory indicators in place.</li> <li>7. Banking supervisors trained.</li> </ul>	<ul style="list-style-type: none"> <li>1. Achieved.</li> <li>2. Achieved.</li> <li>3. In progress.</li> <li>4. Achieved.</li> <li>5. Achieved.</li> <li>6. Achieved.</li> <li>7. Achieved.</li> </ul>
<b>Ukraine:</b> Bank recovery and resolution and deposit insurance framework	Assisting with draft amendments to relevant laws.	<ul style="list-style-type: none"> <li>i) Enhanced early intervention measures, bank recovery and resolution, and deposit guarantee fund frameworks.</li> <li>ii) Alignment with EU acquis as stipulated in EU association agreement.</li> </ul>	Draft legal amendments agreed and to Parliament for adoption.	Partially achieved.

## SUMMARY OF OUTCOMES OF PROJECTS CONCLUDED IN 2020



The **Albania** deposit insurance strengthening project was assessed as having fully achieved its outcome indicators of ensuring that the deposit insurance fund had adequate coverage levels in place and is using a model-based methodology to determine the size of the fund. The analytical work to assess coverage levels and the development of a quantitative methodology took place over the course of 2020. Towards the end of the year, the emphasis shifted towards training Deposit Insurance Agency staff with the main deliverables of the project, and to ensure that they would have the capacity to independently use the target size methodology.



FinSAC's project in **Armenia** fully achieved its stated outcome indicators. In practice, the project went beyond its stated objective of identifying gaps in the supervisory organization framework and crisis management arrangements, as the FinSAC team had fruitful discussions with the Central Bank of Armenia on remedying the main challenges. The report summarizing the outcomes of the technical assistance project was discussed in detail with the Central Bank and comments were addressed in the final draft that was endorsed by both parties. In parallel, the Central Bank expressed a keen interest in a follow-up project to implement the principal recommendations with FinSAC support. Together with the Central Bank, an action plan was developed, aimed at identifying the most pressing reforms that could be followed up as a matter of priority in 2021 with FinSAC support, including support in the implementation of risk-based supervision, recovery planning, early intervention measures, operationalization of emergency liquidity assistance, and the bank resolution framework. The project was also instrumental in crowding in internal World Bank resources which will be used to support bottom-up stress-testing.



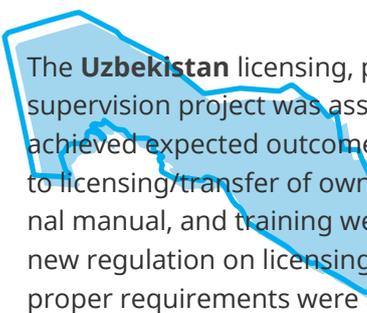
The **Bosnia and Herzegovina** programmatic project on bank supervision and resolution was assessed as having achieved most of its outcome indicators. Indicators relating to the SREP framework were that it should be fully operational with strengthened implementing capacity of Banking Agencies. This was achieved. A new risk based SREP methodology aligned with the European Banking Authority standards with an effective operational framework and procedures was successfully rolled out in 2020 by both Banking Agencies. An SREP training scheme was developed and implemented. All indicators on the development of a resolution plan outline and recovery plan assessment matrix were achieved. The relevant outcome indicator on addressing NPLs was that a gap analysis would have identified shortcomings and gaps. This was only partially achieved as work was refocused during the project towards supervisory, regulatory, and accounting policies, with an emphasis on IFRS 9 implementation. This was assessed to have yielded some early success with IFRS9 Guidelines due to be implemented soon. The support envisaged to complete the European Banking Authority supervisory equivalence assessment did not materialize due to a shift in client priorities.



Assessment of the cybersecurity framework in **Georgia** aimed to identify areas for improvement and assist financial sector authorities, senior management of regulated entities, and specialized staff to better understand and address identified gaps. FinSAC assisted in drafting amendments to the National Information Security Law which have been submitted to the Parliament. This law has not yet been approved but some technical legislation on strong customer authentication has been passed. FinSAC continues to support a role for the National Bank of Georgia in regulating and supervising cyber risk in systemic institutions.



The **Kosovo** deposit insurance capacity development project was assessed as having achieved its targeted outcomes of informing the Deposit Insurance Fund's policy decisions at a high level and enhancing its operational and analytical capabilities. After the onset of the COVID-19 crisis, the Fund's management board was able to draw on the funding sustainability assessment report, a key output of this project, to understand the implications on Fund resources as deposit growth becomes affected under various scenarios of economic uncertainty. The report was prepared according to the funding policy which FinSAC helped develop in 2019. The Supervisory Manual designed as part of this project, will be used to guide onsite inspections starting from the first quarter 2021. The assessment noted the implementation of a new internal organizational structure for the Fund was not yet achieved but remained with the Fund's management board. This had meant that technical assistance on the formulation of a staff capacity development plan, which would build on the new organizational structure, was postponed.



The **Uzbekistan** licensing, prudential regulation, and supervision project was assessed as having mostly achieved expected outcomes. The indicators related to licensing/transfer of ownership regulation, internal manual, and training were mostly achieved. A new regulation on licensing was passed and fit and proper requirements were approved. Both entered into force in October. New licensing applications are being assessed based on the requirements of the newly adopted regulation and Central Bank supervisors have been trained on the licensing of banks and assessment of shareholders, as well as fit and proper assessment of bank board members, senior management, and key personnel. Work on an internal licensing manual (and also a risk-based supervisory manual and internal regulation on banking supervision committee but these are beyond the scope of the original project) will continue in 2021. The outcome indicator on updating of banking regulation

was achieved. Several prudential regulations were developed and approved, including on corporate governance and on large exposures and related parties. FinSAC has also worked with the Central Bank of Uzbekistan on regulations on risk management, liquidity coverage ratio as well as internal and external audit (which were not part of the initial scope). Their finalization and approval have been delayed until 2021. On risk-based supervision, outcome indicators relate to instituting a system of supervisory indicators and the number of Central Bank supervisors trained. These were assessed as having been achieved. A system of supervisory indicators has been developed and is currently being used by bank supervisors, including for preparing reports for senior management and four capacity building trainings and workshops were held for Central Bank supervisors, focused on the overview of risk based supervision, risk identification and assessment, the system of supervisory indicators, and off-site analysis of commercial banks.



The **Ukraine** project completed in 2020 sought to enhance legal frameworks for early intervention measures and bank recovery and resolution and the deposit guarantee fund. Outcome indicators were that draft amendments were developed and submitted to the Banking Committee of the Ukrainian Parliament for adoption. These were assessed as having made limited progress. Draft legal amendments were shared within a working group of experts from the National Bank and Deposit Guarantee Fund. While good progress was made with the technical drafting of the two laws, the pandemic caused a shift in priorities, delaying the finalization of the drafts and the subsequent submission to the Banking Committee of Parliament. As part of the ongoing programmatic approach, FinSAC continues to engage with the National Bank and the Deposit Guarantee Fund, pushing for a resumption of the work on the legal frameworks.

**Table 4:** Assessment of longer-term indicators of projects completed in 2019

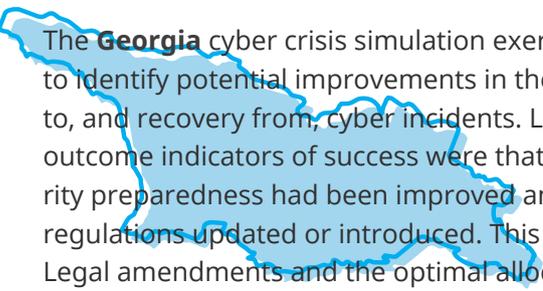
Project	FinSAC activities	Expected outcomes	Outcome indicators for assessment in 2020	Achievement of outcomes so far
<b>Belarus:</b> Assessment of cybersecurity regulations	Identify missing concepts and significant differences between existing regulatory framework. Recommend additions and amendments as appropriate.	(i) The authorities acquire a better understanding about how their cybersecurity regulations compare with other jurisdictions. This should lead to amendments and/or additions to existing regulations. (ii) More effective cybersecurity regulations mitigate cyber risk challenges to financial stability. (iii) Helps strengthen resilience of the Belarusian financial sector to cyber incidents. (iv) The World Bank is in a better position to advise financial sector authorities developing their cybersecurity regulations.	1. Updated and approved cyber-regulation in force. 2. New regulation effectively enforced in the financial industry. 3. Other similar requests from other countries.	1. In progress. 2. Not yet achieved. 3. Achieved.
<b>Georgia:</b> Cyber crisis simulation exercise	Identify potential improvements in interactions among State agencies in response to and recovery from cyber incidents.  Suggest possible measures to improve cyber incident interactions.	(i) The authorities improve understandings of effective interactions, and how existing regulations affect the different parties involved, which may lead to amendments and/or additions to existing regulations. (ii) Helps strengthen resilience of the Georgian financial sector to cyber incidents. (iii) FinSAC is in a better position to advise financial sector authorities developing their cybersecurity regulations.	1. National Bank updates existing regulations and/or issues new ones. 2. Other National Bank initiatives to improve its own cybersecurity preparedness and that of supervised institutions. 3. Other similar requests from other countries	1. In progress. 2. In progress. 3. Achieved.
<b>Moldova:</b> Bank resolution	Advice in the set-up of a Resolution Fund and new regulations on resolution.	Strengthened framework for bank recovery and resolution.	1. MREL implementation report approved. 2. MREL approach for Moldova designed and implemented.	1. Achieved 2. In progress
<b>Montenegro:</b> Banking legal and regulatory framework	Technical assistance on the handling problem banks. Review updated financial sector laws.	More decisive and timely enforcement vis-à-vis banks identified as problematic. Stronger financial sector laws.	1. Effective enforcement actions undertaken vis-à-vis problem banks. 2. Updated laws approved with FinSAC comments incorporated.	1. Achieved. 2. Achieved. But due to COVID effectiveness date was postponed to January 2022.
<b>Serbia:</b> Prevention of formation and accumulation of new NPLs	Corporate health study and dissemination seminar.	Additional information about the financial state of corporates that helps assess the effectiveness of the previous NPL reduction strategy and helps banks make better informed lending decisions.	Number of non-viable companies put in liquidation or restructured.	Not yet achieved.

## SUMMARY OF OUTCOMES OF PROJECTS CONCLUDED IN 2019.

There were five projects completed in 2019 with time horizons for outcome monitoring of specific indicators during 2020.



The assessment of **Belarus'** cybersecurity regulations aimed to identify missing concepts and significant differences in the regulatory framework and recommend additions and amendments. Longer-term outcome indicators of success were that a new cyber regulation was in force and being used. This is currently in progress. Information Security Regulations for the Financial Sector are being developed and the authorities expressed an interest in advice on: a) international practices of exchange of information containing bank secrets or other confidential data in activities to ensure cybersecurity of the banking system; b) international approaches on statistics reflecting the results of activities of computer security centers (CERTs, CSIRTs, SOCs) in response to incidents in the financial sector; and c) audit of IT services outsourcing.

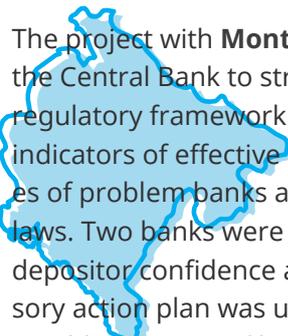


The **Georgia** cyber crisis simulation exercise sought to identify potential improvements in the response to, and recovery from, cyber incidents. Longer-term outcome indicators of success were that cybersecurity preparedness had been improved and relevant regulations updated or introduced. This is ongoing. Legal amendments and the optimal allocation of responsibilities for cybersecurity are being discussed. FinSAC remains in contact with National Bank of Georgia officials in taking this forward. Insights from the simulation may help the authorities propose an optimal allocation of responsibilities with the Data Exchange Agency and the Ministry of Defense within the amended Law.

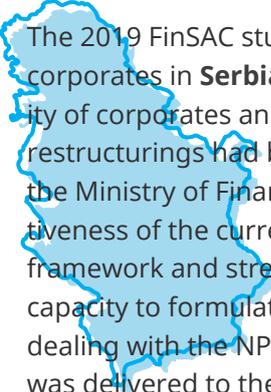


The **Moldova** project completed in 2019 assisted with the drafting of new regulations on resolution and in the set-up of a resolution fund. Indicators of success included that by 2020 the MREL implementation report had been approved and that the MREL approach for Moldova was being implemented. These indicators are on course to be met, with

some delay. A resolution fund has been set up and the MREL implementation is planned for 2021 with FinSAC support.



The project with **Montenegro** focused on helping the Central Bank to strengthen the banking legal and regulatory framework. It fully achieved its outcome indicators of effective enforcement action in cases of problem banks and the approval of updated laws. Two banks were resolved without disruption to depositor confidence and a further bank's supervisory action plan was updated and mostly completed. In addition, a set of banking laws, that had been reviewed by FinSAC, were adopted in December 2019. Authorities continued working on the large set of implementing regulation during 2020 and adopted all the bylaws before the end of 2020, as planned. Overall, the reforms undertaken with FinSAC support helped to strengthen the legal and regulatory basis for banking supervision and resolution and narrow the gap between the standards applied by regional banks operating in Montenegro and domestically owned and non-systemic banks.



The 2019 FinSAC study on the financial health of corporates in **Serbia** provided insights into the viability of corporates and how effective previous NPL restructurings had been. The project was to support the Ministry of Finance better understand the effectiveness of the current regulatory and supervisory framework and strengthen the Serbian authorities' capacity to formulate an operational strategy for dealing with the NPL flow. On completion, the study was delivered to the Ministry of Finance and plans were made to review it with them. Unfortunately, this was rather overtaken by the pandemic. FinSAC remains in contact with the Ministry and will continue to monitor their progress in putting non-viable companies into liquidation or restructuring.

## Section 7: A look ahead to 2021

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With FinSAC 3 successfully replenished and a robust track record as a provider of stability-oriented financial sector technical assistance built up over the past decade, FinSAC is in a strong position to support client countries in 2021 with their pandemic-related financial stability challenges. Activities will be guided by the need to contain the impact of the pandemic on financial sectors and ensure that banking sectors can support the economic recovery with new lending aimed towards green, resilient, and inclusive development. In this way, FinSAC is well-aligned with the World Bank's objective to contain the impacts of the pandemic, resume progress toward countries' development goals, and lay the groundwork for a sustainable recovery.

FinSAC will continue to advance the knowledge agenda in 2021, including by focusing on key topics of concern to financial sector policymakers in client countries. The COVID-19 related policy notes and accompanying knowledge events have helped to give visibility to FinSAC's expertise and to pave the way for client country engagements. Demand in 2021 is expected to shift towards hands-on support in mitigating the financial stability impact of the pandemic. Key topics for the year include the phasing out of borrower support measures and the return to pre-pandemic loan classification and provisioning requirements, banks' financial and operational capacity to weather significant increases in NPL volumes, and resolution authorities' readiness to put recently enhanced bank resolution toolkits to practical use when needed. FinSAC is looking forward to supporting client countries in facing these challenges.

## FinSAC's portfolio

As was the case in previous years, bilateral technical assistance projects will continue to be the backbone of FinSAC's activities in 2021. FinSAC started the new year with a full work program. Three analytical and five technical assistance projects (of which three are programmatic) were carried over from 2020. Priority will be given to completing the existing portfolio of technical assistance projects, with demand for COVID-19 related financial sector support channeled through new projects. Discussions about follow-up technical assistance projects are currently ongoing with Armenia, Bosnia and Herzegovina, Kosovo, Moldova, and Uzbekistan, building on the projects successfully completed in 2020. FinSAC aims to bring these discussions to a conclusion in the first quarter. Although there is still a lot of uncertainty, large-scale vaccination undertaken over the course of 2021 may allow FinSAC to gradually return to the office, and possibly enable FinSAC to resume in-person missions. While the impact of the switch to home-based work and remote missions on the delivery of FinSAC's technical assistance work program has been contained, a resumption of onsite visits would help to deepen the dialogue with client countries and promote business development. Eventually, the lifting of travel restrictions may allow FinSAC to organize knowledge events in Vienna, which have been on hold since the start of the pandemic. While these restrictions remain in force, FinSAC will be organizing smaller, targeted webinars.

## Expected client country demand across FinSAC's three pillars

The pandemic continues to shape client countries' financial sector priorities. FinSAC's three pillar thematic structure continues to be highly relevant, although COVID-19 will likely cause some shifts in emphasis. While FinSAC was originally established to help countries navigate the challenging aftermath of the global financial crisis, over time its work program evolved towards supporting client countries in aligning legal, regulatory, and supervisory frameworks with international best practices and EU standards. The post-COVID-19 financial stability challenges could cause the pendulum to swing back again, with increased demand for hands-on support for financial sector stabilization rather than alignment with best practices.

# 1

## Pillar 1:

Financial  
Stability,  
Macroprudential  
Frameworks and  
Crisis  
Management

Against a backdrop of rising financial stability risks, client countries have expressed increasing interest in FinSAC support focused on strengthening crisis preparedness arrangements. FinSAC can assist client countries with FSAP-style crisis preparedness diagnostics, assessing weaknesses in the financial sector safety net (that comprises the central bank's lender of last resort framework, deposit insurance, bank resolution, and interagency coordination mechanisms) as well as with targeted technical assistance to address the main identified shortcomings in these areas. In addition, conventional crisis simulation exercises, can provide an opportunity for the authorities to practice communication, coordination, and decision making in crisis situations in their given framework. Client countries may also be increasingly interested in cybersecurity. The restrictions introduced during the pandemic have motivated banks to forge ahead with digitalization programs, which have also increased the financial sector's exposure to cyber incidents. FinSAC can provide targeted support to client countries through cyber security-focused crisis simulation exercises and technical assistance on improving regulatory frameworks to mitigate cyber security risk in financial institutions. An internationally recognized set of best practices does not yet exist, so FinSAC's Digest of Cyber Security Regulations and Guidance will continue to serve as a reference point for technical assistance to client countries in this area.

# 2

## Pillar 2:

Microprudential  
Frameworks &  
NPL Reduction

FinSAC anticipates increased client country demand for support in strengthening regulatory and supervisory frameworks, with significant interest in work on supervisory organization, the introduction of SREP-like methodologies, and rewriting financial sector regulations. Within Pillar 2, the NPL resolution agenda is expected to gain in relevance in the next years. Experiences in the aftermath of the global financial crisis highlighted the importance of a prompt and comprehensive policy response to rising pressures on asset quality. FinSAC is well-positioned to advise on regulatory and supervisory frameworks (relevant for proper identification and provisioning for credit losses), banks' operational readiness to work out rising volumes of bad loans (including through the operationalization of workout units), and the enabling legal and taxation environment.

Although the first line of defense in NPL resolution is for banks' workout units to manage NPLs on their own, pressures on asset quality can eventually become systemic in nature. In response to such systemic NPL problems, countries have at times resorted to establishing centralized asset management companies – public, private, or joint entities that manage

non-performing assets from the financial system with the goal of maximizing the recovery value. In recent months, there have been renewed calls at the EU level to establish public asset management companies. Faced with a surge in NPL levels, FinSAC client countries may start considering setting them up too. This is not without challenges. Many emerging countries that have established asset management companies in the past have faced serious difficulties (which explains why their performance in emerging countries has been mixed). FinSAC, drawing on World Bank expertise, could provide support with this, especially to establish the most appropriate institutional design.

# 3

## Pillar 3:

### Bank Resolution

FinSAC expects continued strong client demand for support in strengthening bank resolution regimes. Over the years, FinSAC has provided extensive support to client countries in establishing legal and regulatory regimes aligned with relevant international standards (i.e. the Key Attributes and the BRRD), operationalizing recovery and resolution planning, and providing extensive capacity development to newly established resolution departments. Most FinSAC client countries in the Western Balkans now have updated resolution regimes in place, although progress is more uneven in the EU neighboring regions and in the Caucasus. The financial stability challenges associated with the pandemic will put recently overhauled bank resolution frameworks to the test and may motivate countries that have not yet modernized their regime to move forward with plans to initiate reforms. FinSAC may be asked for assistance in both scenarios.

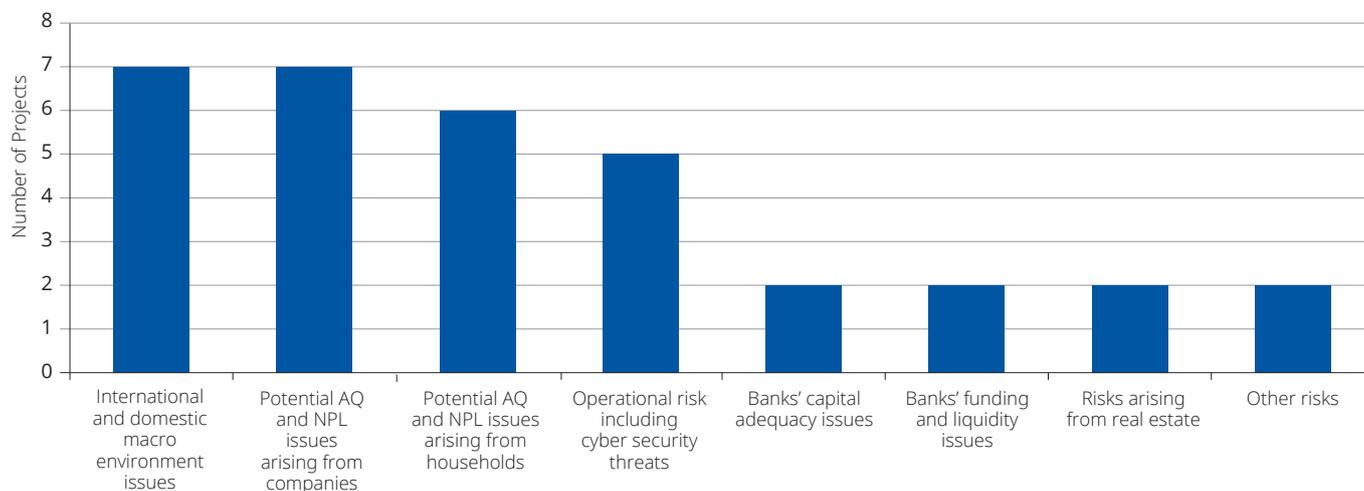
With banking sector risks on the increase, there may be a shift in client country demand towards hands-on support in dealing with problem banks. Thanks to its substantive experience accumulated over the past decade, FinSAC is well-positioned to assume a role as a trusted advisor on public policy in dealing with distressed banks, aimed at protecting the public interest in financial stability, minimizing taxpayers' exposures to losses, and maintaining confidence. Among FinSAC's areas of expertise are aspects such as determining non-viability, use of resolution techniques, and protecting critical functions.

## Client country demand for 2021

As recommended in the mid-term review, FinSAC has undertaken measures to better understand client country demand. It submitted a brief survey to client countries towards the end of 2020, which asked about client countries’ financial sector policy priorities to help identify areas for possible FinSAC support. Going forward, the survey will be shared annually with client countries, with a brief description of the outcomes in the Annual Report (and bilateral follow-up with client countries as needed). Responses were submitted by 11 different agencies that have received FinSAC’s technical assistance. Overall, the outcomes of the survey mirror to a significant degree the assessment of the financial stability outlook discussed above.

In terms of risks, respondents’ main concerns relate to the deterioration of the domestic and international macro environment, pressures on asset quality related to the deterioration of the financial position of households and companies, and from increased cybersecurity risks in the financial sector. Overall, respondents were less concerned about banks’ liquidity and funding and capital, and the state of financial and real estate markets.

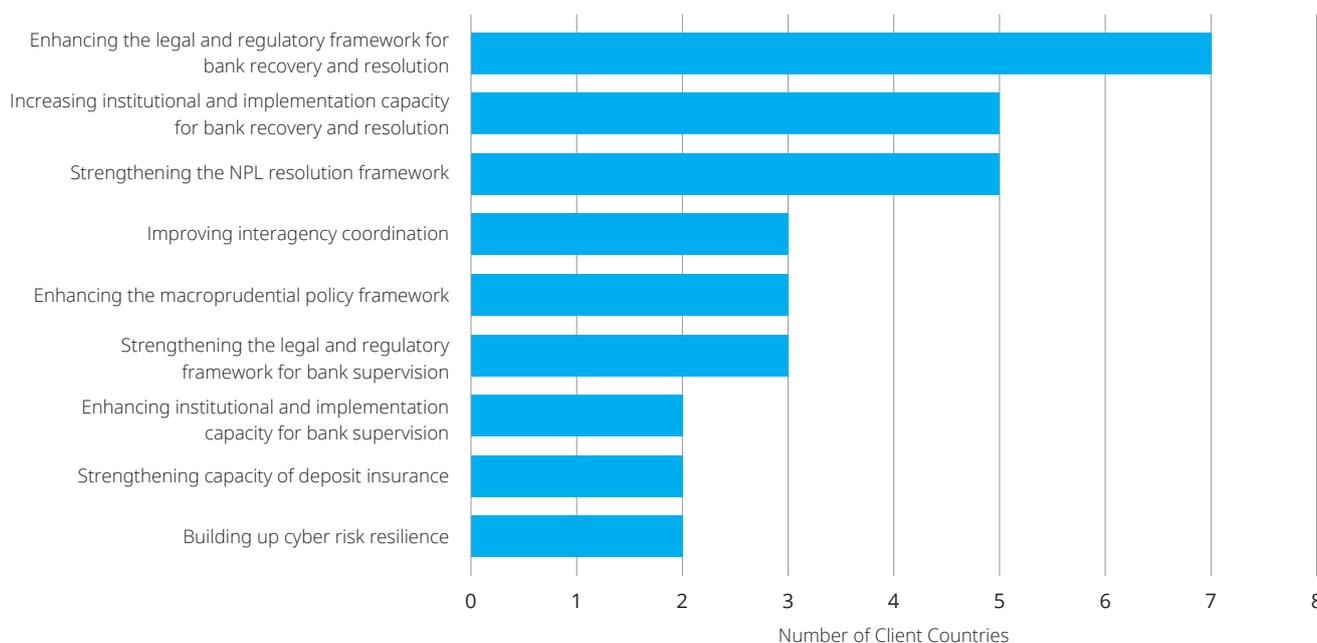
**Figure 3:** Client countries’ perspectives on financial stability risks



Client countries identified enhancements to banking resolution (including legal and regulatory reforms as well as implementation capacity) and the strengthening of NPL resolution frameworks as top priorities for financial sector policy in 2021. Some respondents

also indicated that reforms are planned to strengthen the macroprudential framework, interagency cooperation, banking regulation and supervision, and cybersecurity, but the outcomes of the survey suggested that these are less of a priority.

**Figure 4:** Client countries' policy priorities



Lastly, the survey contained an open question about countries' interest in FinSAC technical assistance in 2021. Respondents expressed an interest in support on a variety of topics, including NPL identification (in relation to temporary borrower support measures

and IFRS 9 introduction) and resolution, strengthening of crisis management, deposit insurance and macroprudential frameworks, and bank resolution and resolution planning.



# Annex: Disbursement of Trust Fund by FinSAC

## FINSAC 3 (TF072993 - disbursement end date is 31 June 2023)\*

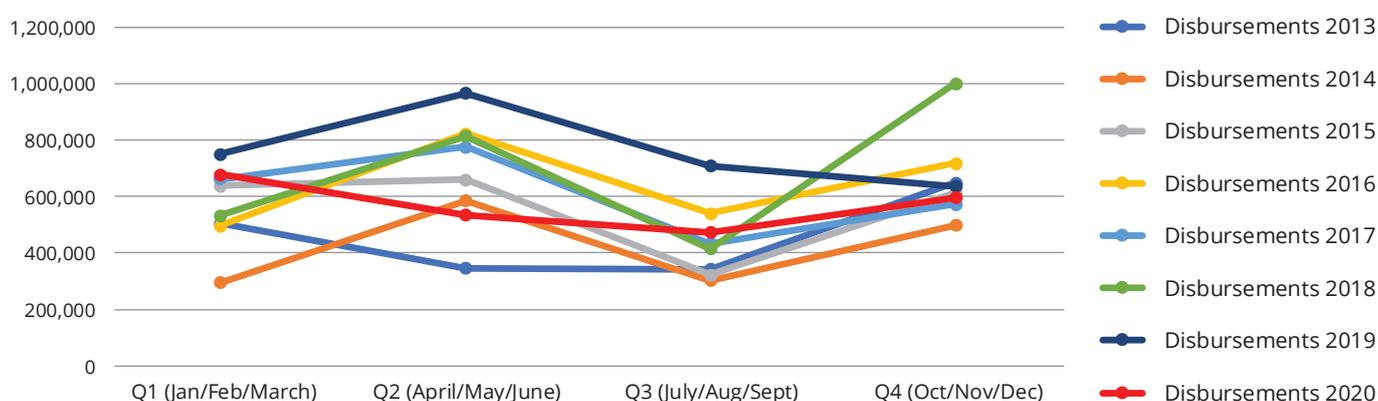
Contributions paid-in	€ 11,500,000.00
Contributions to be paid	€ 1,800,000.00
Investment Income**	€ (52,229.33)
Disbursements	€ 5,483,041.81
Fund Balance incl. commitments	€ 5,964,728.86

\*FinSAC 3 TF includes original AA for €8 million and amendment to AA for €5,3 million

\*\*Due to negative savings rate in EUR

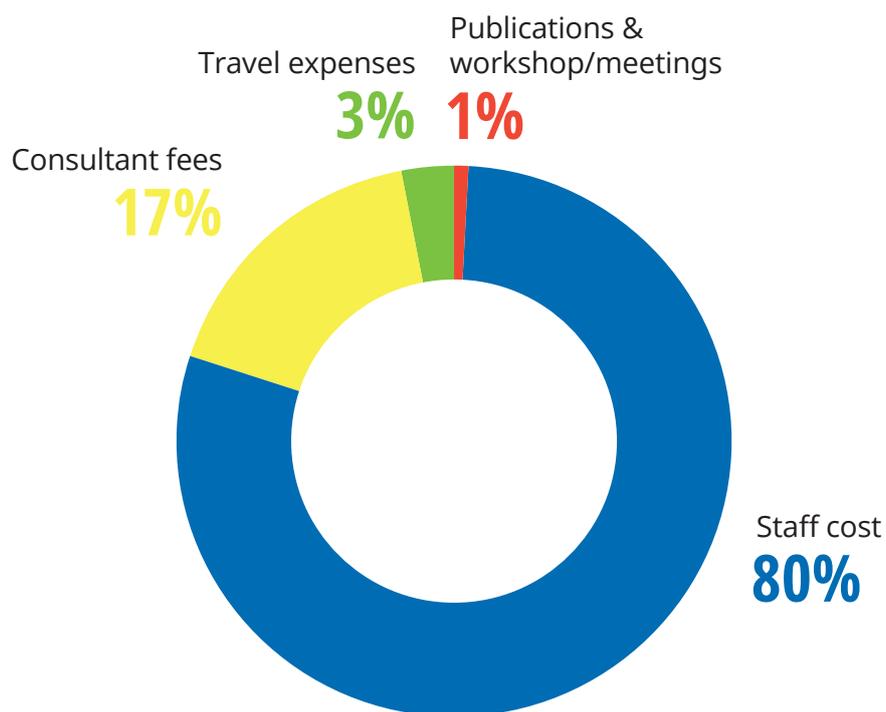
	Disbursemt 2013	Disbursemt 2014	Disbursemt 2015	Disbursemt 2016	Disbursemt 2017	Disbursemt 2018	Disbursemt 2019	Disbursemt 2020*
Q1 (Jan/Feb/Mar)	€ 503,296	€ 295,836	€ 638,483	€ 495,853	€ 660,469	€ 533,788	€ 749,983	€ 677,770
Q2 (Apr/May/June)	€ 346,791	€ 585,282	€ 659,242	€ 823,747	€ 775,256	€ 814,793	€ 965,546	€ 534,821
Q3 (July/Aug/Sept)	€ 343,023	€ 301,968	€ 323,288	€ 540,713	€ 433,911	€ 414,172	€ 708,361	€ 473,043
Q4 (Oct/Nov/Dec)	€ 649,640	€ 499,193	€ 613,310	€ 718,554	€ 572,154	€ 1,000,470	€ 637,033	€ 597,110
<b>Total</b>	<b>€ 1,842,749</b>	<b>€ 1,682,278</b>	<b>€ 2,234,323</b>	<b>€ 2,578,867</b>	<b>€ 2,441,790</b>	<b>€ 2,763,223</b>	<b>€ 3,060,923</b>	<b>€ 2,282,744</b>

\*includes FinSAC3 TF072993



**Disbursement by categories (for the period of 1 January 2020 – 31 December 2020)**

Staff costs <sup>1</sup>	€ 1,823,575.41	80%
Consultant fees <sup>2</sup>	€ 385,286.05	17%
Travel expenses <sup>3</sup>	€ 58,562.27	3%
Publications & workshop/meetings	€ 15,320.69	1%
<b>Total</b>	<b>€ 2,282,744.42</b>	<b>100%<sup>4</sup></b>



1 Incl. FinSAC Coordinator, one program assistant, eight TTLs, and related unit TTLs supporting FinSAC program

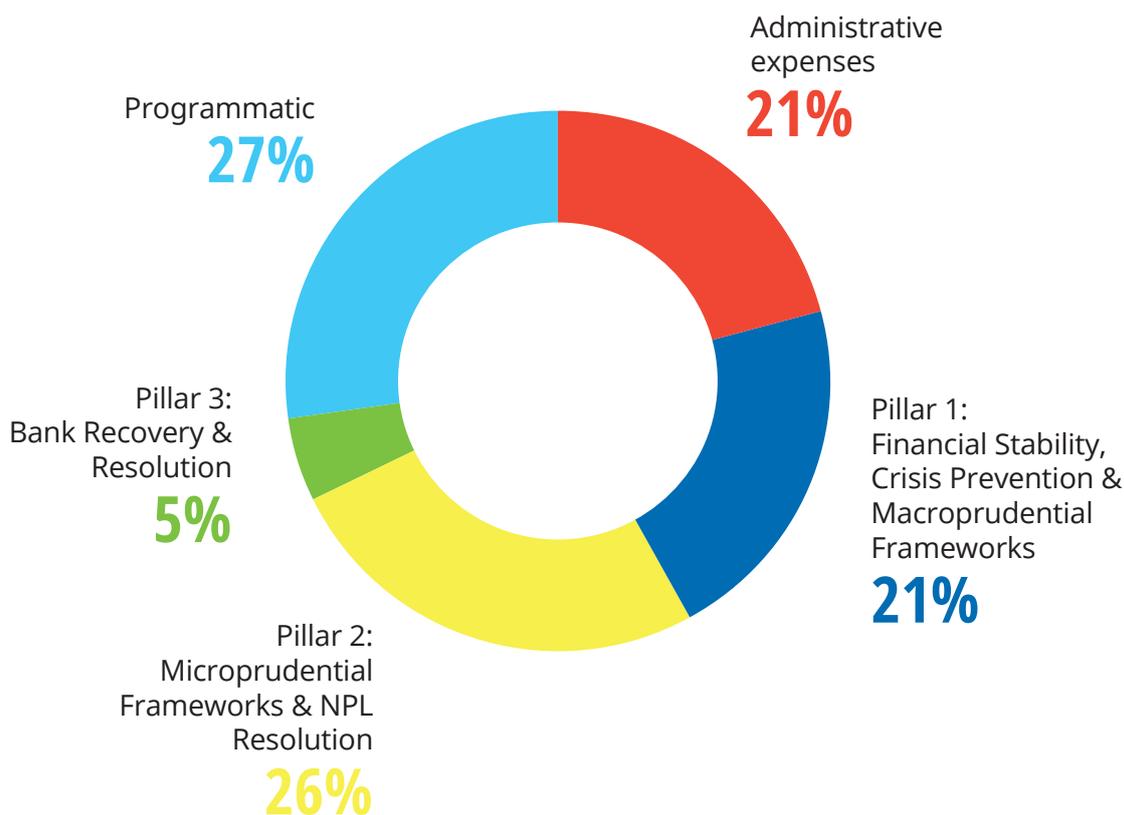
2 Incl. Short Term consultants and consultant firms

3 Incl. travel expenses of staff and consultants/visitors

4 In this graphic percentages have been rounded to the nearest whole number

**Disbursement by pillars (for the period of 1 January 2020 – 31 December 2020)**

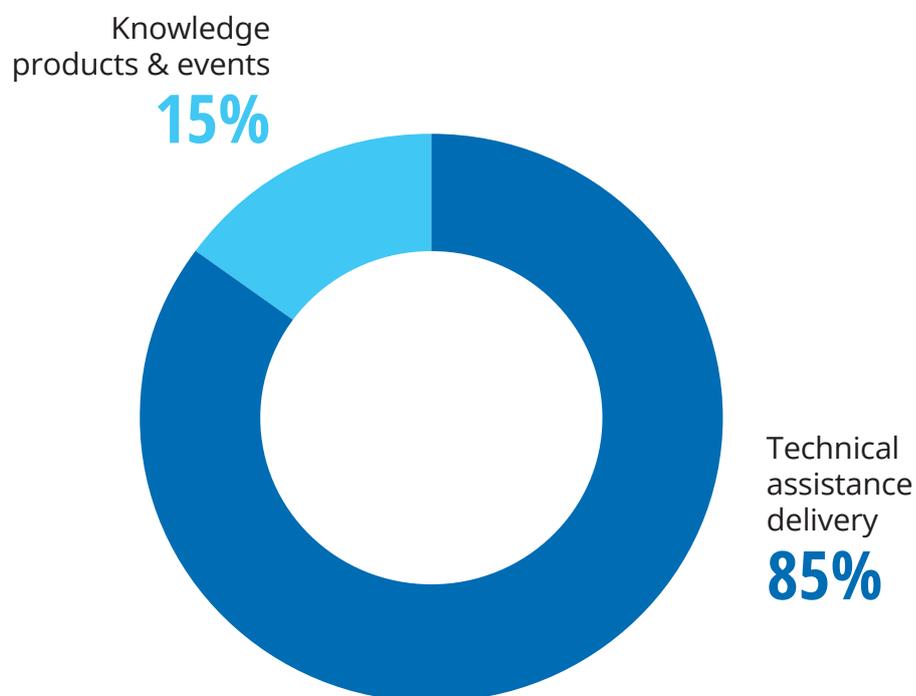
Administrative expenses <sup>5</sup>	€ 468,183.57	21%
Pillar 1: Financial Stability, Crisis Prevention & Macroprudential Frameworks	€ 482,296.89	21%
Pillar 2: Microprudential Frameworks & NPL Resolution	€ 594,809.26	26%
Pillar 3: Bank Recovery & Resolution	€ 112,151.58	5%
Programmatic	€ 625,303.12	27%
<b>Total</b>	<b>€ 2,282,744.42</b>	<b>100%</b>



<sup>5</sup> Incl cost of all types of categories not related to specific projects and all general expenses: program management, contracts of designer, corrector, staff cost of program assistant/back up, travel cost for staff for training, general translation services, utilities, office maintenance, office supplies, depreciation, publications and other printing services, representation costs, coordination, and some business development activities.

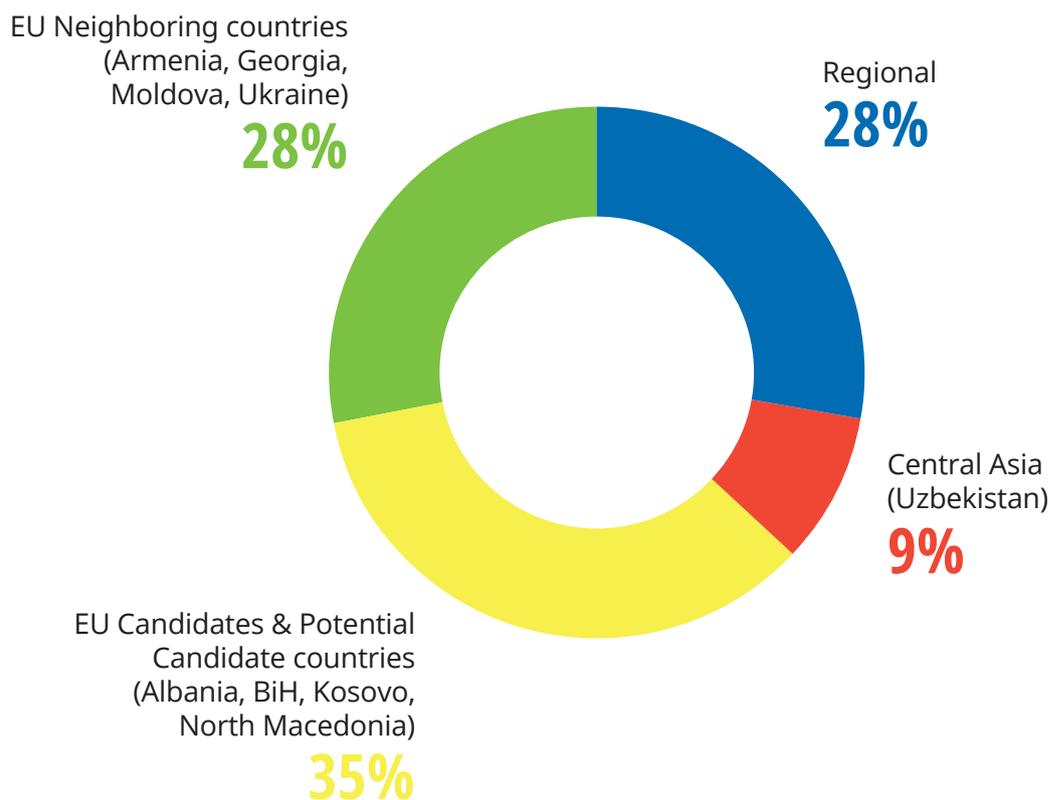
**Disbursement by output (for the period of 1 January 2020 - 31 December 2020)**

Technical assistance delivery	€ 1,549,869.61	85%
Knowledge products & events	€ 264,691.24	15%
<b>Total (excl admin expenses)</b>	<b>€ 1,814,560.85</b>	<b>100%</b>



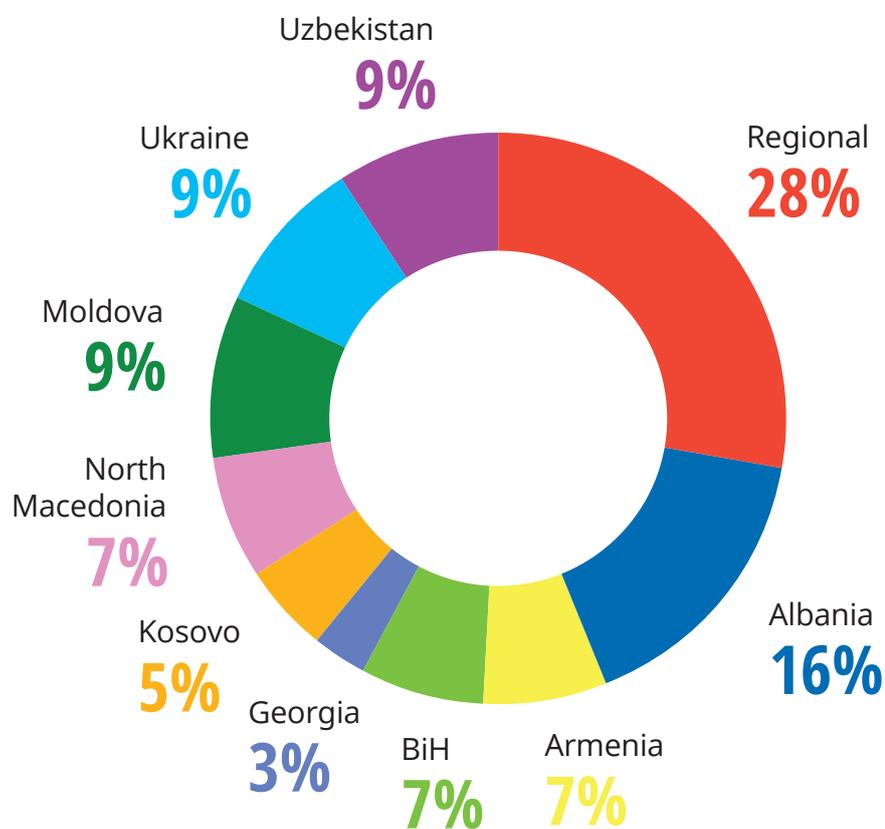
**Disbursement by pillars (for the period of 1 January 2020 – 31 December 2020)**

Regional	€ 506,422.67	28%
EU Candidates & Potential Candidate countries (Albania, Bosnia and Herzegovina, Kosovo, North Macedonia)	€ 638,068.54	35%
EU Neighboring countries (Armenia, Georgia, Moldova, Ukraine)	€ 499,298.91	28%
Central Asia (Uzbekistan)	€ 170,770.73	9%
<b>Total (excl admin expenses)</b>	<b>€ 1,814,560.85</b>	<b>100%</b>



**Disbursement by pillars (for the period of 1 January 2020 – 31 December 2020)**

Regional	€ 506,422.867	28%
Albania	€ 284,513.37	16%
Armenia	€ 119,007.88	7%
Bosnia and Herzegovina	€ 130,809.14	7%
Georgia	€ 50,123.41	3%
Kosovo	€ 93,191.50	5%
North Macedonia	€ 129,554.53	7%
Moldova	€ 161,961.23	9%
Ukraine	€ 168,206.39	9%
Uzbekistan	€ 170,770.73	9%
<b>Total (excl admin expenses)</b>	<b>€ 1,814,560.85</b>	<b>100%</b>



# Annex: Financial indicators

Economy		Capital			Liquidity			Profitability	
		Regulatory capital/ RWA	Tier 1 capital/ RWA	Capital/ total assets	Liquid assets/ total assets	Liquid assets/ short- term liabilities	Deposits/ total noninterbank loans	Return on assets	Return on equity
European Union member states	Bulgaria	22.7	22.1	11.9	30.3	36.3	144.7	0.7	5.2
	Croatia	24.9	24.3	13.4	36.2	48.1	119.6	0.7	5.4
	Poland	19.1	16.9	9.2	20.8	36.5	110.4	0.4	5.2
	Romania	22.8	20.7	9.9	54.0	157.3	141.5	1.1	9.8
EU candidate and potential candidate countries	Albania	18.3	17.2	10.4	13.6	18.5	206.8	1.2	10.6
	Bosnia and Herzegovina	19.2	18.1	12.5	29.1	42.7	120.7	0.8	6.0
	Kosovo	16.5	14.7	11.7	30.1	40.4	133.9	1.7	14.0
	Montenegro	18.5	17.4	10.0	22.2	35.1	108.3	0.5	3.6
	North Macedonia	16.7	15.3	11.6	21.5	35.7	121.9	1.3	11.3
	Serbia	22.4	21.6	13.6	37.3	50.9	116.4	1.1	6.5
EU neighboring regions	Belarus	17.2	13.9	14.2	15.8	122.9	81.9	1.5	10.6
	Moldova	27.1	26.8	12.9	50.6	241.8	172.8	1.7	9.6
	Ukraine	22.0	15.7	11.7	69.1	86.8	139.0	2.8	21.7
South Caucasus and Central Asia	Armenia	16.9	14.7	13.1	25.6	108.8	105.4	1.3	9.0
	Georgia	17.6	12.8	10.3	21.1	25.2	81.7	0.2	1.5
	Uzbekistan	18.4	15.2	13.1	15.4	39.9	-	2.2	10.3

Note: The statistics, represented in percentages, are prepared using latest information available by April 30, 2021. They typically reflect conditions of financial systems as of September 2020. Georgia and Uzbekistan are reflected using December 2020 data. The background colors of indicators represent their rankings among the countries, with deeper blue reflecting more favorable positions and deeper red less favorable. The arrows left of values indicate changes beyond one historical standard deviation away from the most recent three-year averages. The icons on the right illustrate indicator evolutions over a 10-year timespan. Underlines indicate calculations for countries that unilaterally adopted the euro (Kosovo and Montenegro) as their domestic currency. “-” and “-” respectively indicate cases of missing and censored report values.

Economy		Exposures						
		NPLs net of provisions / capital	NPLs / total gross loans	Large exposures / capital	FX-denominated loans / total loans	FX-denominated liabilities / total liabilities	Net open FX position / capital	
European Union member states	Bulgaria	20.8	5.8	57.0	33.7	37.6	0.2	
	Croatia	5.4	7.2	52.5	54.3	53.1	6.2	
	Poland	8.9	4.0	-	22.3	15.7	0.1	
	Romania	10.1	4.4	59.6	32.2	31.0	-0.8	
EU candidate and potential candidate countries	Albania	10.5	8.1	84.8	49.2	49.9	8.4	
	Bosnia and Herzegovina	7.8	6.1		53.9	48.1	4.4	
	Kosovo	4.5	2.5	89.5	0.1	4.2	3.5	
	Montenegro	7.1	5.9	91.1	0.2	4.9	0.7	
	North Macedonia	-6.9	3.3	281.5	42.3	44.9	10.1	
	Serbia	6.7	3.7	73.8	64.7	62.3	0.2	
EU neighboring regions	Belarus	18.8	4.8	189.1	49.1	63.7	3.9	
	Moldova	8.6	7.4	10.1	30.1	42.9	-14.2	
	Ukraine	21.9	41.0	87.4	39.1	39.1	-	
South Caucasus and Central Asia	Armenia	16.9	6.6	146.0	50.0	52.8	1.9	
	Georgia	7.3	2.3		55.3	61.4	3.1	
	Uzbekistan	3.6	2.1	223.9	49.2	59.7	4.0	

