



NATIONAL BANK OF THE REPUBLIC OF MACEDONIA

Pursuant to Article 47 paragraph 1 item 6 of the Law on the National Bank of the Republic of Macedonia (Official Gazette of the Republic of Macedonia No. 158/10, 123/12, 43/14, 153/15 and 6/16) and Article 65-f paragraph 1 of the Banking Law (Official Gazette of the Republic of Macedonia No. 67/07, 90/09, 67/10, 26/13, 15/15, 153/15 and 190/16), the National Bank of the Republic of Macedonia Council adopted the following

DECISION

on the methodology for determining systemically important banks (Official Gazette of the Republic of Macedonia No. 26/17)

I. GENERAL PROVISIONS

1. This Decision lays down the methodology on the basis of which the National Bank of the Republic of Macedonia (hereinafter: the National Bank) identifies systemically important banks in the Republic of Macedonia and determines capital buffer for each systemically important bank.

The methodology referred to in paragraph 1 of this item shall contain:

- quantitative approach in assessing systemic importance of each bank, i.e. quantitative criteria and indicators used to identify systemically important banks,
- method of determining capital buffer for systemically important banks, based on the quantitative approach,
- qualitative supervisory assessment,
- method of determining capital buffer for systemically important banks, based on qualitative supervisory assessment.

II. QUANTITATIVE APPROACH FOR IDENTIFYING SYSTEMICALLY IMPORTANT BANKS

2. The quantitative approach for identifying systemically important banks relies on four criteria of systemic importance:

- size,
- substitutability,
- interconnectedness,
- complexity.

The criteria referred to in paragraph 1 of this item shall have the same meaning, i.e. they shall have the same weight when determining the systemic importance of the banks.

The size criterion reflects the importance of the bank in terms of its market share (assets of the banking system). The larger the bank, the greater the likelihood

that its instability can have an adverse effect on the financial system and the public confidence.

The substitutability criterion reflects the role of each bank in the real economy or on a specific market within the financial sector. Banks that perform specific functions for a large number of end users, for whom they represent an important provider of a particular service, have greater relevance to the financial stability. In doing so, the rapid substitution of activities of one bank with another may be limited.

The interconnectedness criterion reflects the presence of banks on interbank markets, foreign exchange markets and banks' share in total domestic payment operations.

The complexity criterion reflects the presence of domestic banks on international markets, i.e. the volume of cross-border activities of banks and the share of banks in international payment operations.

3. Each criterion of item 2 in this decision includes quantitative indicators that show the importance of each bank by each criterion.

The quantitative indicators referred to in paragraph 1 of this item shall have the same meaning, i.e. they shall have the same weight within each criterion.

The quantitative indicators referred to in paragraph 1 of this item are shown in Annex 1, which is an integral part of this Decision.

4. Based on the criteria and indicators of items 2 and 3 of this decision, each bank in the Republic of Macedonia shall be given an aggregate assessment of systemic importance, as an average value of the criteria for that bank.

Notwithstanding paragraph 1 of this item, an aggregate assessment shall not be calculated for the Macedonian Bank for Development Promotion AD Skopje, which is excluded from the identification of systemically important banks in the Republic of Macedonia due to its specific character and its limited type of activities.

5. The cut-off point between systemically important and systemically unimportant banks in the Republic of Macedonia is 350 basis points.

III. DETERMINING CAPITAL BUFFER FOR SYSTEMICALLY IMPORTANT BANKS, BASED ON THE QUANTITATIVE APPROACH

6. Based on the aggregate assessment referred to in item 4 of this decision, each systemically important bank shall be classified into one of the five sub-categories of systemic importance.

Sub-systems of systemic importance shall range between the cut-off point (minimum value) and the aggregate assessment of the bank with the highest systemic importance, increased by one standard deviation of the aggregate assessments of all systemically important banks (maximum value).

7. The capital buffer for each sub-category of systemic importance is presented in Annex 2, which is an integral part of this Decision.

IV. QUALITATIVE SUPERVISORY ASSESSMENT

8. In addition to the quantitative approach of section II of this Decision, the National Bank may also apply a qualitative supervisory assessment based on which banks whose aggregate assessment is below the cut-off point can be identified as systemically important banks.

V. DETERMINING CAPITAL BUFFER FOR SYSTEMICALLY IMPORTANT BANKS, BASED ON QUALITATIVE SUPERVISORY ASSESSMENT

9. A bank identified as systemically important under the qualitative supervisory assessment referred to in section IV of this Decision shall be classified in the lowest sub-category of systemic importance, as required in section III of this Decision.

VI. DYNAMICS FOR DETERMINING SYSTEMICALLY IMPORTANT BANKS AND FOR ALLOCATING CAPITAL BUFFER FOR SYSTEMICALLY IMPORTANT BANKS

10. Under the methodology referred to in item 1 of this Decision and the Instructions from item 12 in this Decision, the National Bank shall identify systemically important banks no later than 30 April each year.

11. According to the law, the National Bank shall publish a list of banks identified as systemically important and shall notify each systemically important bank of the capital buffer rate it is supposed to maintain.

Banks referred to in paragraph 1 of this item shall comply with the capital buffer rate for systemically important banks by 31 March next year.

12. The Governor of the National Bank shall adopt Instructions for implementation of this Decision specifying in particular:

- criterion importance weights of item 2 of this Decision,
- indicator importance weights of item 3 of this Decision in the criterion to which they belong and in the total calculation,
- manner of determining the aggregate assessment referred to in item 4 paragraph 1 of this Decision,
- the manner of determining the intervals of each sub-category of systemic importance of item 6 of this decision,
- the intervals of each sub-category of systemic importance (i1, i2, i3, i4 and i5 of Annex no. 2 of this decision),
- the content of the notification of systemically important banks of item 11 of this Decision.

If the National Bank decides to apply the qualitative supervisory assessment of item 8 of this Decision, in the Instructions referred to in paragraph 1 of this item, it shall also prescribe the information and data used to apply the qualitative supervisory assessment.

The Instructions of paragraph 1 of this item shall be reviewed at least once every three years, reassessing the intervals of each sub-category of systemic importance.

13. The National Bank shall, no later than 30 April 2017 identify systemically important banks as of 31 December 2016.

VII. TRANSITIONAL AND CLOSING PROVISIONS

14. This Decision shall enter into force on the eighth day from the day of its publication in the Official Gazette of the Republic of Macedonia.

15. Notwithstanding item 11 paragraph 2 of this Decision, any bank that notified the National Bank by 30 April 2017 that it was identified as a systemically important bank shall fulfill at least half of the capital buffer rate by 30 September 2017 and the other half of the capital buffer rate by 31 March 2018.

D No. 02-15/II-6/2017
27 February 2017
Skopje

Dimitar Bogov
Governor

Chairman
of the National Bank of the
Republic of Macedonia Council

Annex 1

Systemic importance criteria and quantitative indicators included in each criteria

Systemic importance criteria	Indicators (calculated for each bank, as a ratio of individual position for each bank and same position for the banking system)
Size	On-sheet and off-sheet activities
Substitutability	Credit exposure towards non-financial entities
	Deposits of non-financial entities
	Credit exposure to 20 largest debtors - non-financial entities in the banking system
	Interbank payment operations
Interconnectedness	Interbank market operations
	Foreign exchange market operations
	Payment operations through payment systems
Complexity	Placements in and liabilities to financial institutions
	International payment operations

Annex 2

Capital buffer for each subcategory of systemic importance

Subcategory of systemic importance	Interval	Capital buffer for systemically important banks
5	above i4	3.5%
4	above i3 to i4 (maximum amount)	2.5%
3	above i2 to i3	2.0%
2	above i1 to i2	1.5%
1	350 to i1.	1.0%