



### List of systemically important banks

Pursuant to the latest amendments to the Banking Law (published in "Official Gazette of the Republic of Macedonia" no. 190/16) from October 2016, the National Bank Council adopted the Decision on the Methodology for identifying systemically important banks ("Official Gazette of the Republic of Macedonia" no. 26/17)<sup>1</sup>, which prescribes the methodology based on which, the National Bank identifies systemically important banks in the Republic of Macedonia and determines capital buffers for each systemically important bank. In addition, the Governor of the National Bank adopted the Instructions on implementing the Decision on the Methodology for identifying systemically important banks ("Official Gazette of the Republic of Macedonia" no. 34/17)<sup>2</sup>.

Identifying systemically important banks and determining capital buffers which shall be maintained by these banks is one of the standards of the banking operation, determined with the Basel 3 agreement and the relevant European directive, as a response to the global financial crisis in 2008. The application of such standard enables to separate the systemically important banks i.e banks which, due to their size, complexity and connectivity, are important for the stability of the banking system in the country, and provide regular and uninterrupted services, especially if they are an important service provider for significant number of customers, while the rapid change of activities by another bank is restricted. A systemically important bank, under no circumstances, shall be considered as an indicator that the bank is more risky compared to other banks in the country.

Pursuant to the regulation, every year, by 30 April at the latest, the National Bank is required to identify systemically important banks and publish them on its web site. In identifying systemically important banks, the National bank applies the quantitative approach i.e quantitative criteria and indicators, defined in chapter II of the Decision on the Methodology for identifying systemically important banks. This approach is based on four systemic importance criteria: size, substitutability, interconnectedness and complexity. Each criterion consists of one or more indicators, which are calculated as share of the bank in the overall banking system, for the position which is listed in each indicator.

<sup>1</sup> <http://www.nbrm.mk/?ItemID=E4FA6C4F90F65C42B7416C13DF208DA2>

<sup>2</sup> <http://www.nbrm.mk/?ItemID=E14643CC10284E40934705D79459B442>

## Systemic importance criteria and quantitative indicators

<b>Systemic importance criteria (weigh of importance)</b>	<b>Indicator (calculated for each bank, as a ratio of the individual position of each bank and the same position on the level of the banking system)</b>	<b>Weigh of indicator within the criteria</b>	<b>Weigh of indicator in the total calculation</b>
<b>Size 25%</b>	On-balance sheet and off-balance sheet activities	100%	25%
<b>Substitutability 25%</b>	Credit exposure to non-financial entities	25%	6.25%
	Deposits of non-financial entities	25%	6.25%
	Credit exposure to 20 largest debtors-non-financial entities on the banking system level	25%	6.25%
	Interbank payment operations	25%	6.25%
<b>Interconnectedness 25%</b>	Interbank market operations	33.3%	8.33%
	Foreign exchange market operations	33.3%	8.33%
	Payment operations through payment systems	33.3%	8.33%
<b>Complexity 25%</b>	Placements in and liabilities to financial institutions	50%	12.5%
	International payment operations	50%	12.5%

According to the first calculations, made as of 31 December 2016, the following banks are identified as systemically important banks:

- "Komerčijalna Banka" AD Skopje
- "NLB Bank" AD Skopje
- "Ohridska Bank" AD Skopje
- "ProCredit Bank" AD Skopje
- "Stopanska Bank" AD Skopje
- "Halk Bank" AD Skopje
- "Sparkasse Bank Macedonia" AD Skopje

Systemically important banks shall maintain higher capital, through the so-called capital buffer for systemically important banks, which ranges between 1.0% and 3.5% of the risk weighted assets, in accordance with the level of the systematic importance of the bank. The higher capital requirement strengthens the capital position of the systemically important banks, increasing their stability and resilience to shocks, which, contributes in strengthening the stability of the overall banking system.

The National Bank informs each identified systemically important bank for the level of the capital buffer for systemically important bank that should be maintained. The identified systemically important banks are required to meet at least half of the capital buffer until 30 September 2017, and are required to meet the full level of the capital buffer until 31 March 2018. If the systemically important bank does not meet the required amount of capital buffer, it is limited to distribute earnings, i.e. to pay dividends, bonuses, etc. This limitation ranges

from 0% to 100% of the earnings, in accordance with the capital deficiency level for the required capital buffer. Thus, instead of distributing the earnings in form of dividends, the earnings can be reinvested (partially or fully) in the capital positions of the bank, which will assist the bank in reaching the required capital buffer, will strengthen its capital position and stability, and will reduce the adverse impact of the potential instability of the systemically important bank on the stability of the banking system.

National Bank of the Republic of Macedonia