



List of systemically important banks

According to the regulation¹, the National Bank of the Republic of North Macedonia is obliged at least once a year to update the calculations for identifying the systemically important banks in the Republic of North Macedonia, to determine the capital buffer for each systemically important bank and by 30 April, to publish the identified systemically important banks on its website.

The systemic importance of individual banks should not be associated with the risk profile of the individual banks, but it is an indicator solely of their importance to the banking system and the economy. Given the size and the volume and the type of activities and services they perform, as well as the market segment they cover, the possible problems in these banks can affect the overall banking and financial system and the economy as a whole. Given this, the capital buffer for the systemically important banks aims to additionally increase the resilience of systemically important banks.

In assessing the systemic importance, the National Bank applies the quantitative approach, i.e. the criteria and the quantitative indicators specified in Section II of the Decision on the methodology for identifying systemically important banks. The quantitative approach for identifying the systemically important banks is based on four systemic importance criteria: size, substitutability, interconnectedness and complexity. Each criterion makes an equal contribution (equal weight of importance) in determining the summary assessment of the systemic importance of each bank and consists of one or more quantitative indicators that are calculated as a share of the bank in the total banking system, for the position stated in each of the indicators. Each of the quantitative indicators has equal importance, i.e. the same weight of importance within each criterion. The importance of each bank according to each criterion is determined based on the quantitative indicators included in the individual criteria.

¹ The Banking Law (Official Gazette of the Republic of Macedonia No. 67/07, 90/09, 67/10, 26/13, 15/15, 153/15, 190/16 and 7/19), http://www.nbrm.mk/content/Banking_Law_unof_OVofRM_7_19.pdf, the Decision on the methodology for identifying systemically important banks (Official Gazette of the Republic of Macedonia No. 26/17), http://www.nbrm.mk/content/Regulativa/Odluka_identifikovanje_sistemski_znacajni_banki_ENG.pdf and the Instructions for implementing the Decision on the methodology for identifying systemically important banks (Official Gazette of the Republic of Macedonia No. 34/17), http://www.nbrm.mk/content/Regulativa/Upatstvo_Odluka_identifikovanje_sistemski_znacajni_banki_ENG.pdf.

Systemic importance criteria and quantitative indicators

Systemic importance criterion (weight of importance)	Quantitative indicator (calculated for each bank, as a ratio of the individual position for each bank and the same position on the banking system level)	Weight of the quantitative indicator within the criterion	Weight of the quantitative indicator in the total calculation
Size (25%)	On-balance sheet and off-balance sheet activities	100%	25%
Substitutability (25%)	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 at a level of the banking system	25%	6.25%
	Interbank payment operations	25%	6.25%
Interconnectedness (25%)	Turnover on the interbank market	33.3%	8.33%
	Turnover on the foreign exchange market	33.3%	8.33%
	Payment operations through payment systems	33.3%	8.33%
Complexity (25%)	Placements in and liabilities to foreign financial institutions	50%	12.5%
	International payment operations	50%	12.5%

Based on the criteria and the quantitative indicators, presented in details in Annex 1 of the Instructions for implementing the Decision on the methodology for identifying systemically important banks (including the method of their calculation, the source of data that is a basis for these calculations, as well as the weights of importance of each indicator in the criterion to which they belong and in the total calculation), for each bank in the Republic of North Macedonia, a summary assessment of systemic importance is calculated, as an average of the values calculated for each of the criteria for that bank. The Macedonian Bank for Development Promotion AD Skopje is excluded from the calculations for identifying systemically important banks in the Republic of North Macedonia. According to the regulation, all banks whose summary assessment is equal to or greater than the cut-off point between systemically important and systemically unimportant banks (determined at the level of 350 basis points), are systemically important banks.

The calculation for identifying the systemically important banks for the period April 2019 - March 2020, is made on the basis of the data as of 31 December 2018. According to this calculation, eight banks are identified as systemically important banks, i.e. one bank more compared to the previous calculation (in alphabetical order):

- Komercijalna Bank AD Skopje
- NLB Bank AD Skopje
- Ohridska Bank AD Skopje
- ProCredit Bank AD Skopje
- Stopanska Bank AD Skopje
- Univerzalna Investiciona Bank AD Skopje
- Halk Bank AD Skopje
- Sparkasse Bank Makedonija AD Skopje.

The systemically important banks are obliged to maintain a capital buffer for systemically important banks. 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 level of capital buffer assigned to each systemically important banks is based on its summary assessment.

According to the regulation, the National Bank determines the level of capital buffer for the systemically important banks as a percentage of risk-weighted assets, by classifying the identified systemically important banks in five sub-categories of systemic importance, according to the value of their summary assessment. The National Bank determined the five sub-categories of systemic importance, the intervals and the size of the intervals of each sub-category, according to the data as of 31 December 2016, as determined in Section III of the Instructions for implementing the methodology for identifying systemically important banks. Thus, the sub-categories of the systemic importance and the intervals of each sub-category of systemic importance refer to the data as of 31 December 2016. According to the regulation, the intervals of the individual sub-categories of systemic importance are compulsorily reassessed every three years. Thus, next year, the National Bank will determine new intervals of the sub-categories of systemic importance, according to the new maximum value of systemic importance which will be obtained with the new calculations, according to the data as of 31 December 2019.

For each sub-category of systemic importance, a different level of capital buffer for systemically important banks is envisaged, from 1% up to 3.5%. The intervals of each sub-category of systemic importance and the respective level of capital buffer for the systemically important banks, are given in the table below.

Capital buffer for each sub-category of systemic importance

Systemic importance sub-category	Summary assessment interval	Capital buffer for systemically important banks
5	over 3,178	3.5%
4	over 2,471 to 3,178	2.5%
3	over 1,764 to 2,471	2.0%
2	over 1,057 to 1,764	1.5%
1	350 to 1,057	1.0%

Each systemically important bank is classified in one of the five sub-categories of systemic importance, based on the summary assessment. According to the latest calculations, the identified systemically important banks should maintain capital buffer which ranges between 1% and 2.5% of risk-weighted assets. The National Bank notifies each identified systemically important bank for the level of capital buffer for systemic importance that should be maintained, along with the explanation for the method in which that rate is determined.

The systemically important banks that are published on this list are obliged to fulfill the determined capital buffer by 31 March 2020. If the systemically important bank fails to fulfill the required capital buffer, taking into account the other regulatory capital requirements (legal capital requirements, additional capital requirements and other capital buffers), it will face restrictions in earnings distribution, i.e. in payment of dividends, bonuses, etc. This limitation ranges between 0% and 100% of the earnings, depending on the shortage of the Common Equity Tier I capital to fulfill the required capital buffers. This limitation support the reinvestment of the profit in banks' capital, instead of distributing the earnings in form of dividends, which in turn will accelerate the attainment of the necessary capital buffer and the strengthening of the resilience of the systemically important banks.

National Bank of the Republic of North Macedonia