

**Recommendation No 1/2021 of Národná banka Slovenska  
of 12 January 2021  
on capital and profit distributions by banks during the COVID-19 pandemic**

Národná banka Slovenska, in accordance with Section 1(3)(a), point 3, and Section 2(9) of Act No 747/2004 on financial market supervision (and amending certain laws) as amended, and with Section 6(19) of Act No 483/2001 on banks (and amending certain laws) as amended by Act No 46/2011 (hereinafter 'the Banking Act'), has adopted this Recommendation:

**Article I  
Purpose**

- (1) In order to mitigate systemic risk in the financial sector and contribute to economic recovery, on 27 May 2020 the European Systemic Risk Board (ESRB) issued a Recommendation on restriction of distributions during the COVID-19 pandemic (ESRB/2020/7).<sup>1</sup> The ESRB Recommendation is addressed to the competent authorities of Member States and aims at ensuring that banks and insurers are adequately capitalised at the highest level of consolidation and, where appropriate, at the individual or sub-consolidated level.
- (2) Considering that the COVID-19 pandemic is still ongoing and that uncertainty remains about the future impact on the economy and financial institutions, the ESRB on 15 December 2020 adopted a Recommendation (ESRB/2020/15<sup>2</sup>) amending Recommendation ESRB/2020/7 and extending its application until 30 September 2021.
- (3) On 15 December 2020 the European Central Bank (ECB) implemented the ESRB Recommendations by adopting Recommendation ECB/2020/62<sup>3</sup> (hereinafter 'the ECB Recommendation'). The ECB Recommendation is directly applicable to significant credit institutions. At the same time, the ECB requested national competent authorities to implement the ECB Recommendation at the national level also with regard to less significant banks<sup>4</sup> that fall under bank supervision at the national level, which in the Slovak Republic means under the direct supervision of Národná banka Slovenska (NBS).
- (4) This Recommendation applies to banks established in the territory of the Slovak Republic which operate on the basis of a banking authorisation as defined in the Banking Act.
- (5) This Recommendation applies to each bank at the individual level.

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<sup>1</sup>[https://www.esrb.europa.eu/pub/pdf/recommendations/esrb.recommendation200608\\_on\\_restriction\\_of\\_distributions\\_during\\_the\\_COVID-19\\_pandemic\\_2~f4cdad4ec1.en.pdf](https://www.esrb.europa.eu/pub/pdf/recommendations/esrb.recommendation200608_on_restriction_of_distributions_during_the_COVID-19_pandemic_2~f4cdad4ec1.en.pdf)

<sup>2</sup>[https://www.esrb.europa.eu/pub/pdf/recommendations/esrb.recommendation201215\\_on\\_restriction\\_of\\_distributions\\_during\\_the\\_COVID-19\\_pandemic~2502cd1d1c.en.pdf](https://www.esrb.europa.eu/pub/pdf/recommendations/esrb.recommendation201215_on_restriction_of_distributions_during_the_COVID-19_pandemic~2502cd1d1c.en.pdf)

<sup>3</sup>[https://www.bankingsupervision.europa.eu/ecb/pub/pdf/en\\_ecb\\_2020\\_62\\_f\\_sign~6a404d7d9c..pdf?bc87edfa97b9ab56140b289cf090ea81](https://www.bankingsupervision.europa.eu/ecb/pub/pdf/en_ecb_2020_62_f_sign~6a404d7d9c..pdf?bc87edfa97b9ab56140b289cf090ea81)

<sup>4</sup> In this Recommendation, 'less significant bank' means 'less significant supervised entity' as defined in Article 2(7) of Regulation (EU) No 468/2014 of the European Central Bank establishing the framework for cooperation within the Single Supervisory Mechanism between the European Central Bank and national competent authorities and with national designated authorities (SSM Framework Regulation) (OJ L 141, 14. 5. 2014).

**Article II**  
**Capital and profit distributions by banks**

- (1) NBS recommends that banks maintain a sufficient quantity and quality of capital for the duration of the fallout from the COVID-19 pandemic. In regard to the quantity and quality of their capital, banks should take into account the risks of a deterioration in the financial position of firms and households in the Slovak Republic, as well as the fact that banks, via their lending activity, have an indispensable role in the recovery of the domestic economy.
- (2) In distributing their profits, banks are recommended to take a prudent approach and to have particular regard to expectations about capital adequacy developments under the near-term assumptions of a deterioration in loan book quality and reduced profit-generating capacity.

**Article III**  
**Restrictions on capital and profit distributions by less significant banks**

- (1) This Article applies only to banks established in the Slovak Republic which operate on the basis of a banking authorisation as defined in the Banking Act and are subject to direct supervision by NBS.
- (2) NBS hereby adopts the ECB Recommendation in relation to less significant banks and recommends that these banks take a prudent approach in regard to capital and profit distributions and to share buybacks aimed at remunerating shareholders.
- (3) Less significant banks that intend to decide on a distribution of capital or profit or perform a share buyback aimed at remunerating shareholders should inform in advance the NBS department responsible for banking supervision about this intended action. In accordance with Section 6(2) of the Banking Act, NBS will assess whether the bank is taking a prudent approach to the intended action.
- (4) NBS considers a less significant institution to be acting prudently if the capital and profit distributions it intends to make amount to less than 15% of its accumulated profit for 2019 and 2020 or less than 20 basis points in terms of its Common Equity Tier 1 ratio.

**Article VI**  
**Date of effect**

This Recommendation takes effect on 1 February 2021 and applies until 30 September 2021.

**Peter Kažimír**  
**Governor**