
Disclosure of information on measure imposed on credit institution on 17 April 2018

Information on person responsible for breach	
Business name and registered office of legal person	
Information on breach	
Description of circumstances and conduct entailing breach of ZBan-2 or Regulation (EU) No 575/2013	<p>On the basis of the Bank of Slovenia's request for supervisory examination no. PBH-24.60-014/17-001 of 10 November 2017 and Bank of Slovenia authorisation no. PBH-24.60-014/17-002 of 10 November 2017, between 20 November 2017 and 26 January 2018 Bank of Slovenia staff conducted a supervisory examination at [REDACTED] (hereinafter: the [REDACTED]), in the area of credit risk in housing and consumer loans, the adequacy of the implementation of planned activities from internal audit findings in connection with fraud, and the implementation of the requirements referred to in the order and letter from the examination referenced PBH 24.60-005/16 of 24 January 2017 (the examination took place between 6 June and 30 August 2016).</p> <p>On the basis of the findings of the supervisory examination and the discussion at the 599th meeting of the Governing Board of the Bank of Slovenia, a resolution was passed issuing an order on the rectification of breaches.</p>
Nature of identified breaches	The breaches identified were stated in the operational part of the Order on the rectification of breaches.
Operational part of the decision by which the relevant proceedings are completed	
<p>Credit institution breached:</p> <ol style="list-style-type: none">1. the first paragraph of Article 151 of the ZBan-2 in connection with Article 7 of the Regulation on internal governance arrangements, the management body and the internal capital adequacy assessment process for banks and savings banks (Official Gazette of the Republic of Slovenia, Nos, 73/15, 49/16 and 68/17; hereinafter: the internal governance regulation) by failing to put in place and implement an appropriate policy for managing the credit risk of private individuals and micro enterprises (hereinafter: credit risk policy), and Article 16 of the internal governance regulation by failing to ensure that in its position as a subsidiary ... in the implementation of the strategies and policies of the group and the instructions of the parent [REDACTED] the ...'s operations comply with regulations, standards and bylaws and with the requirements of the Bank of Slovenia and other supervisory authorities. The [REDACTED] has key documents such as the Business Strategy, the [REDACTED] Risk Strategy 2016/17 (hereinafter: the risk strategy), the Policy for Lending to Retail Clients and Micro Enterprises (hereinafter: the credit risk policy), and the Policy of Collateral and of Collateral Monitoring and Management and the Handbook on Collateral and on Collateral Monitoring and Management taken from documents of the group ([REDACTED]), but has failed to ensure implementation in the Slovenian regulatory and macroeconomic environment. <p>The [REDACTED] frequently amends individual provisions of the working guidelines in a manner that is not transparent to persons that are not involved in the credit process on a daily basis and is hard to follow.</p> <p>To rectify the identified breach, the [REDACTED] must put in place and implement an appropriate policy and procedures for managing credit risk, including counterparty risk. On the basis of its knowledge and understanding of the [REDACTED]'s risks, the [REDACTED]'s management body must define and adopt a credit risk strategy and policy to ensure dependence on risk factors from the [REDACTED]'s internal and external environments, and</p>	

must conduct supervision of their proper implementation in accordance with regulations, standards and the ■'s bylaws, and the requirements of the Bank of Slovenia and other competent supervisory authorities. Through the credit risk policy the ■ must ensure that the processes, procedures, methodologies and rules of the internal governance arrangements are implemented such that the reporting flows at all levels are optimal and transparent.

2. the second paragraph of Article 146 of the ZBan-2 (compliance of operations with applicable regulations and standards) by failing to meet the general requirements with regard to credit protection as prescribed by Section 5 of the Regulation on credit risk management at banks and savings banks (Official Gazette of the Republic of Slovenia, No. 68/17; hereinafter: the credit risk regulation) in the case of the valuation of real estate for the purposes of assessing credit risk losses, and Articles 208 and 229(1) of Regulation (EU) No 575/2013 of the European Parliament and Council of 26 June 2013 (hereinafter: Regulation (EU) No 575/2013), in cases of valuation of real estate for the purposes of calculating capital requirements. The ■ has residential and commercial real estate in its portfolio that has been valued on the basis of valuation reports that fail to comply with the applicable valuation standards, or whose valuations have expired, or that has no valuation reports, or whose values are based on old sale and purchase agreements.

To rectify the identified breach, the ■ must bring its Policy of Collateral and of Collateral Monitoring and Management and the Handbook on Collateral and on Collateral Monitoring and Management into line with the requirements of the applicable regulations of the Bank of Slovenia and the EU. The ■ must take account of Section 5 of the credit risk regulation in the case of the valuation of real estate for the purposes of assessing credit risk losses, and Articles 208 and 229(1) of Regulation (EU) No 575/2013 in cases of the valuation of real estate for the purposes of calculating capital requirements. The ■ must also take account of the aforementioned provisions *mutatis mutandis* in the credit risk policy. The ■ must include a request for additional deductions by the group in the internal documents.

3. - point 2 of the first paragraph of Article 23 in connection with point 9 of Article 3 of the internal governance regulation by basing the limit system for limiting credit risk inherent in retail lending solely on target indicators within the framework of the ■'s business plan, simultaneously failing to provide for management of risk take-up and risk concentration;
- the first paragraph of Article 17 in connection with point 9 of Article 3 of the internal governance regulation because the target indicators of credit risk inherent in retail lending are failing to ensure that risk take-up is in accordance with the adopted risk appetite.

To rectify the breach, the ■ must put in place a limit system to limit exposure to credit risk inherent in retail lending, i.e. quantitative restrictions and measures based on which the ■ manages the take-up of risks and their concentration across products and other risk management criteria, and that the ■ sets with regard to its risk appetite and various stress scenarios.

4. - the sixth paragraph of Article 12 of the credit risk regulation by failing in the assessment of the retail lending portfolio to periodically assess the exposure to credit risk in extreme conditions;
- point 2 of the first paragraph of Article 22 of the internal governance regulation by failing to apply the results of stress tests for the purpose of identifying risks and examination of the adequacy of risk assessments for the retail lending segment;
- point 3 of the first paragraph of Article 22 of the internal governance regulation by failing to compile a toolkit of potential measures for managing the risks inherent in retail lending in the case of extreme conditions;
- the second paragraph of Article 22 of the internal governance regulation by failing to take account of the results of stress tests in the introduction of new products and the setting of limits;
- the third paragraph of Article 22 of the internal governance regulation by failing to have each of the stress scenarios examined and approved by the ■'s management board.

To rectify the breach, in the assessment of the retail lending portfolio the ■ must take account of potential adverse changes in the future economic environment and must periodically assess exposure to credit risk in extreme conditions by analysing scenarios and conducting stress tests.

To rectify the breach, the ■ must provide for a comprehensive approach to the implementation of stress tests and sensitivity analysis in retail lending that includes the application of the results of stress tests for the purposes of:

- identifying credit risk and the development of the ■'s exposure to credit risk,
- examining the adequacy of assessments or measurements of credit risk.

To rectify the breach, the ■ must compile a toolkit of potential measures for managing the risks inherent in retail lending in the case of adverse business circumstances for the ■.

To rectify the breach, the ■ must take account of the results of stress tests in the process of examining and planning the ■'s risk appetite in the introduction of new products and the setting of risk limits.

To rectify the breach, the ■ must ensure that on each occasion the management board examines and approves the stress scenarios for assessing the retail lending portfolio, and briefs the risk committee accordingly.

5. The ■'s management board must submit a detailed action plan stating the measures selected to rectify the breaches referred to in points 1 to 4 of this order to the Bank of Slovenia by 15 May 2018. By 15 May 2018 the ■ must also report the name of the responsible member of the management board and the names of the responsible persons designated in accordance with the ■'s internal organisational structure, or the names of the ■'s external contractors, who will be responsible for implementing individual activities to rectify breaches and for preparing and implementing the action plan.

In the action plan the ■'s management board must define the timetable for the implementation of individual measures, and the persons responsible for the implementation of individual measures and activities in accordance with the ■'s internal organisational structure.

The ■ must rectify the breaches by 31 October 2018, and must deliver a report to the Bank of Slovenia by 15 November 2018, enclosing documents and other evidence from which it is evident that the breaches have been rectified.

6. In accordance with Article 277 of the ZBan-2, the following information in connection with this supervisory measure shall be published on the Bank of Slovenia website after these proceedings have been completed:

- information on the breach;
- a description of the circumstances and conduct constituting the breach,
- the nature of the identified breaches;
- the operational part of the decision by which the relevant proceedings were completed; and
- information as to whether judicial protection proceedings have been initiated against the decision in accordance with the ZBan-2.

In accordance with the second paragraph of Article 278 of the ZBan-2 in connection with the first paragraph of Article 278 of the ZBan-2, the identity of the person responsible for the breach, i.e. the identity of the ■, shall not be published.

Information as to whether judicial protection proceedings have been initiated against the decision in accordance with the ZBan-2

Against the order the institution did not lodge an objection.

Information on any rectification of breaches or implementation of ordered measures

The credit institution has eliminated the breaches within the set deadline. On 23 April 2019, Banka Slovenije issued a decision stating that the breaches have been remedied.