

Disclosure of information on supervisory measure of 27 September 2022 imposed on credit institution

Information on person responsible for breach	
Business name and registered office of legal person	Deželna banka Slovenije d.d., Kolodvorska ulica 9, 1000 Ljubljana, Slovenia, registration number: 5349907000 (hereinafter: the bank)
Information on breach	
Description of circumstances and conduct entailing breach of ZBan-3 or Regulation (EU) No 575/2013	Breaches of the ZBan-3 (cited in detail in the operational part of the order below) were identified on the basis of an inspection, as a result of which Banka Slovenije issued the bank with the Order on the rectification of breaches referenced PBH-24.60-004/21-004 of 27 September 2022
Nature of identified breaches	Breaches in the area of credit risk management
<p>1. Deželna banka Slovenije d.d., of Kolodvorska ulica 9, 1000 Ljubljana, Slovenia, registration number: 5349907000 (hereinafter: the bank), has breached the second paragraph of Article 171 of the ZBan-3 by failing to apply an appropriate policy with regard to the creation of impairments and provisions, and thereby failing to meet the requirements of:</p> <ul style="list-style-type: none"> - paragraph 108 in connection with Principle 6 of the Guidelines on credit institutions' credit risk management practices and accounting for expected credit losses (EBA/GL/2017/06 of 20 September 2017; hereinafter: the credit risk management guidelines)¹, because in the system for identifying a significant increase in credit risk, the approach to considering forward-looking information, including macroeconomic factors, i.e. once a year, via a points system for determining the rating of the customer on the basis of annual forecasts for the sector and for industries, fails to ensure that forward-looking information is taken into account in timely fashion, sufficiently frequently and with sufficient influence on the identification of increased credit risk. <p>In accordance with paragraph 108 of the credit risk management guidelines in connection with the requirements of the section entitled <i>Determining significant increases in credit risk</i> of Commission Regulation (EU) 2016/2067 of 22 November 2016 amending Regulation (EC) No 1126/2008 adopting certain international accounting standards in accordance with Regulation (EC) No 1606/2002 of the European Parliament and of the Council as regards International Financial Reporting Standard 9 (hereinafter: IFRS 9), the bank must upgrade the system for identifying a significant increase in credit risk in a way that ensures the sufficiently up-to-date use of forward-looking information, including macroeconomic factors or the prospects for the sector and industries, that will have a sufficient and timely influence on the criteria that the bank uses for the purposes of identifying a significant increase in credit risk in accordance with the <i>Methodology for assessing credit risk losses</i>, documenting this in its bylaws;</p>	

¹ The credit risk management guidelines are binding on banks and savings bank pursuant to the second paragraph of Article 2 of the Regulation on the application of the Guidelines on credit institutions' credit risk management practices and accounting for expected credit losses (Official Gazette of the Republic of Slovenia, Nos. 66/17 and 29/18).

- paragraphs 65, 66 and 67 of the credit risk management guidelines, by failing to put in place policies and procedures for model validation (including the model for probability of default (hereinafter: the PD model)) that would clearly describe the validation framework, including the timetable, the verification of the accuracy and quality of data, analysis of the results and action in the event of irregularities being identified, and the preparation of the validation report for the PD model.

The bank must put in place adequate policies and procedures for validation of the PD model, whereby it must fully meet the requirements under paragraphs 65, 66 and 67 of the credit risk management guidelines.

2. The bank's management board must submit a detailed action plan stating the measures selected to rectify the breaches referred to in point 1 of this order to Banka Slovenije by **15 October 2022**. In the action plan the bank's management board must set out the timetable and deadlines for the implementation of the individual measures, and must designate the persons responsible for the implementation of specific measures and/or activities in accordance with the bank's internal organisational structure.
3. The bank must rectify the breaches referred to in point 1 of the operational part of this order by **30 June 2023**, and must submit an interim report and evidence to Banka Slovenije by **15 April 2023** about the activities undertaken to date with regard to the rectification of the breaches referred to in the order, and must submit a final report to Banka Slovenije by **15 July 2023**, enclosing all documents and other evidence from which it is evident that the breaches have been rectified in full.
4. In accordance with Article 310 of the ZBan-3, the following information in connection with this supervisory measure is published on the Banka Slovenije website after these proceedings have been completed:
 1. information about the person responsible for the breach (business name and registered office of legal person);
 2. information about the breach:
 - a description of the circumstances and conduct entailing a breach of the ZBan-3 or Regulation (EU) No 575/2013,
 - the nature of the identified breaches;
 3. the operational part of the decision by which the relevant proceedings are completed; and
 4. information as to whether judicial review proceedings have been initiated against the decision in accordance with the ZBan-3.

Information as to whether judicial review proceedings have been initiated against order on rectification of breaches in accordance with ZBan-3

The bank has not initiated judicial review proceedings against the order on the rectification of breaches.

Information on any rectification of breaches or implementation of ordered measures

The bank has eliminated the breaches within the set deadline. On 19 September 2023, Banka Slovenije issued a decision stating that the breaches have been remedied.