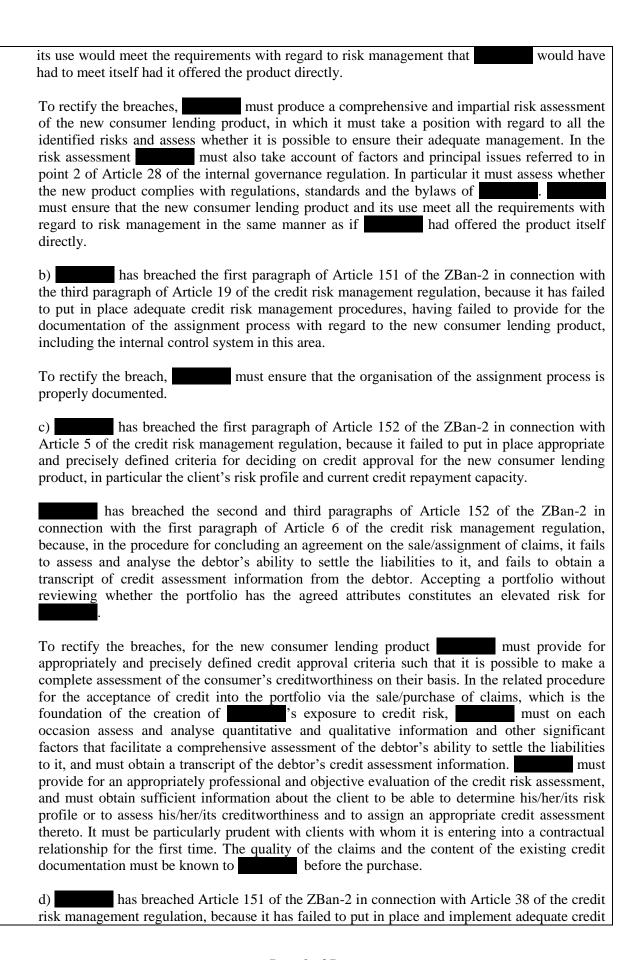
## Disclosure of information on supervisory measure of 3 September 2019 imposed on credit institution

Information on person responsible for breach	
Business name and registered office of legal person	The identity of the person responsible for the breach is not being disclosed, in accordance with point 3 of the first paragraph of Article 278 of the ZBan-2.
Information on breach	
Description of circumstances and conduct entailing breach of ZBan-2 or Regulation (EU) No 575/2013	On the basis of Bank of Slovenia request for inspection PBH-24.60-001/19-001 of 12 February 2019 and Bank of Slovenia authorisation PBH-24.60-001/19-002 of 13 February 2019, Bank of Slovenia staff conducted an inspection of in the area of credit risk in lending to legal and natural persons.  On the basis of the inspection the Bank of Slovenia found breaches of the ZBan-2 and Regulation (EU) No 575/2013, for which reason it issued an order on the rectification of breaches with an additional measure, against which lodged an objection. The Bank of Slovenia consequently issued a decision on an objection, which partly amended the operational part of the order.  The circumstances and conduct entailing a breach of ZBan-2 or Regulation (EU) No 575/2013 are cited in the operational part of the order below, which was amended in accordance with the decision on an objection.
Nature of identified breaches	Breaches in the area of credit risk management
Operational part of the decision by which the relevant proceedings are completed	
1. , registration number: (hereinafter: ), has breached Article 147 of the ZBan-2 in connection with the first paragraph of 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, 68/17, 33/18 and 81/18; hereinafter: the internal governance regulation), because its management body has failed to provide for the regular review (at least once a year) of the adequacy of its risk take-up and management policies, including ensuring that they are updated in relation to the impact of factors in the bank's internal and external environment.	
take-up and management policies, including ensuring their updating and compliance, in accordance with Article 147 of the ZBan-2 in connection with the first paragraph of Article 7 of the internal governance regulation.	
has breached Article 128 of the ZBan-2 in connection with the second paragraph of Article 88 of the internal governance regulation, because it does not have stable internal governance arrangements that encompass effective risk management processes for identifying, measuring or assessing, controlling and monitoring risks, having failed to take account of the results of stress tests in the capital planning process and in the definition of measures in connection with risk strategies and policies.	
must take ac	ecount of the results of stress tests in the capital planning process and in

the definition of measures in connection with risk strategies and policies, in accordance with the second paragraph of Article 88 of the internal governance regulation. has breached Article 151 of the ZBan-2 in connection with Article 13 of the 3. Regulation on credit risk management at banks and savings banks (hereinafter: the credit risk management regulation), because it has failed to put in place and implement adequate credit risk management policies and procedures, including counterparty risk, having failed during the credit approval and monitoring process to assign debtors and exposures to rating grades on the basis of clear credit rating criteria, thereby failing to assign debtors and exposures with similar credit risk to the same rating grades. The existing system of rating assignment of legal and natural persons does not conform to other systems of classification and credit risk monitoring at In its management of credit risk and counterparty risk, has breached Article 178(1) of Regulation (EU) No 575/2013, because it fails to apply the definition of default referred to in the aforementioned article in its systems for assigning debtors and exposures to rating grades. has failed to clearly define criteria for the debtor being unlikely to pay its credit obligations to the credit institution, as a result of which it is failing to provide for timely recognition of default status, before the occurrence of material arrears of more than 90 days, and consequently is failing to adjust the rating grade of the debtor or the exposure to the actual level of credit risk. Consequently it has also breached Article 127 of Regulation (EU) No 575/2013, because it erroneously assigns exposures to the class of exposures in default for the purposes of calculating capital requirements for credit risk under the standardised approach, and reports erroneously in template 18 F 18.00 of Annex V of Commission Implementing Regulation (EU) No 680/2014. To rectify the identified breaches, within the framework of the credit approval and monitoring must supplement its policies and procedures with clear assignment criteria that are sufficiently precise to allow employees in the credit approval and monitoring process to make the same interpretations and consistently assign debtors and exposures with similar credit risk to the same rating grades. In the formulation of criteria for assigning debtors and exposures to rating grades, must take full account of the definition of default set out in Article 178 of Regulation (EU) No 575/2013. The internal systems of assignment at must provide for the correct reporting of nonperforming exposures in template 18 F 18.00 of Annex V of Commission Implementing Regulation (EU) No 680/2014, and must provide for the correct assignment of exposures to the class of exposures in default in accordance with Article 127 of Regulation (EU) No 575/2013 for the purposes of calculating capital requirements for credit risk under the standardised approach. has breached the first paragraph of Article 148 of the ZBan-2 and Article 167 of the ZBan-2 in connection with the second paragraph of Article 30 of the internal governance regulation, because it does not have an action plan for managing the risks of a new consumer lending product, and its practices in taking up the risks of a new consumer lending product do not comply with the policy of with regard to the management of such risks, thereby having failed to provide for comprehensive and impartial risk assessment based on relevant risk scenarios, having regard for any deficiencies in the risk management process and in internal controls for effective risk management, the impact of the introduction of the new product on the risk absorption capacity, etc. The product was introduced despite the identification of numerous risks that could arise during its introduction. account of all the deficiencies in the risk management process and in internal controls for effective management of the corresponding risks, and failed to ensure that the new product and



risk management procedures for a new consumer lending product, having failed to put in place appropriate information infrastructure for the collection and storage of data deriving from the processes of the identification, measurement or assessment, control and monitoring of credit risk. IT support is not yet provided integrally, and the booking and payment of loans is still manual, which increases the risk of human errors during entry in the system.

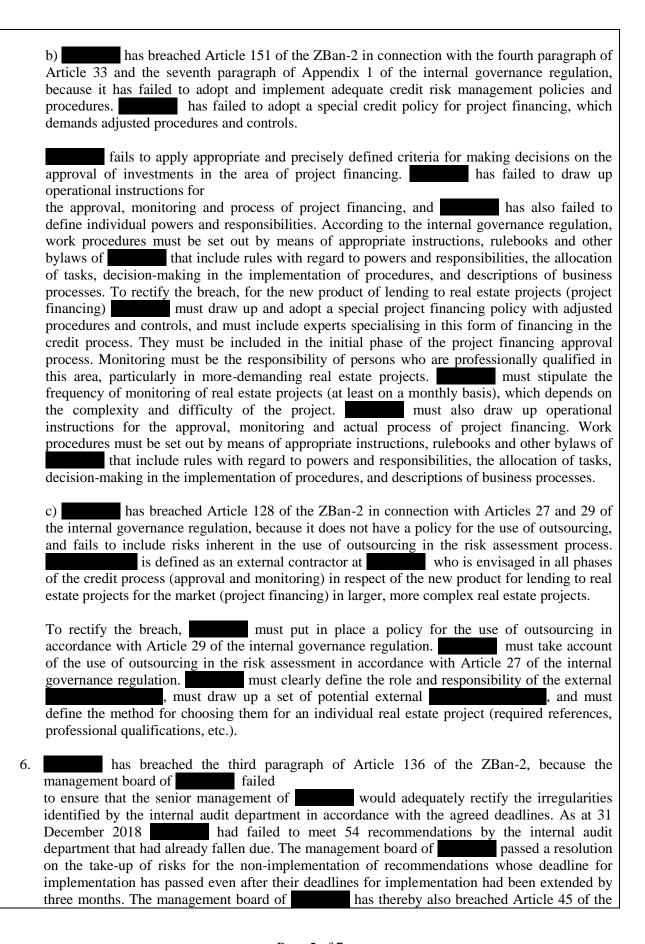
To rectify the breach, for the new consumer lending product must put in place

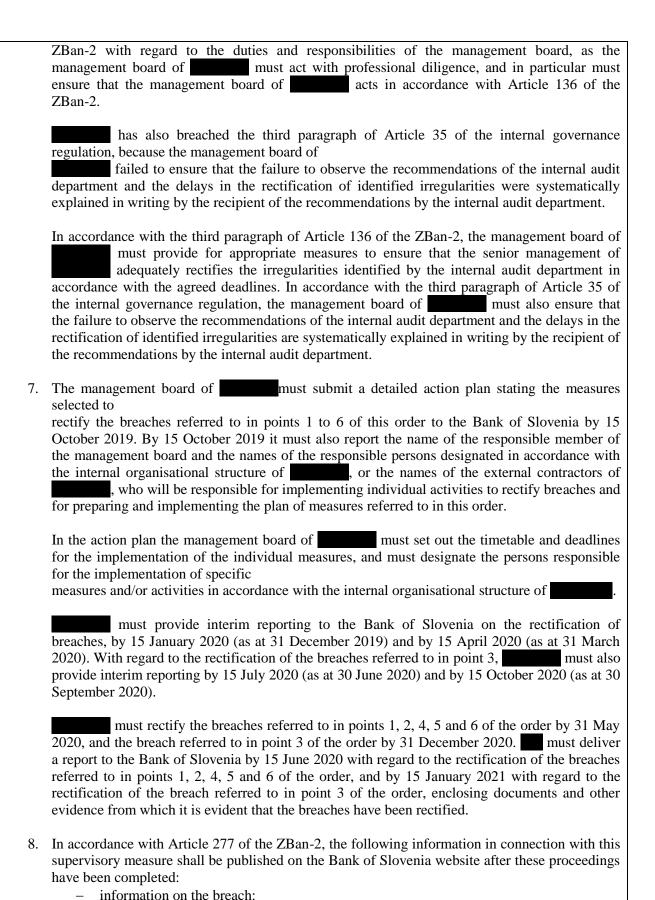
To rectify the breach, for the new consumer lending product appropriate information infrastructure for the collection and storage of data deriving from the processes of the identification, measurement or assessment, control and monitoring of credit risk. The must regularly review the appropriateness of the information infrastructure. In must design procedures and processes that ensure data quality from the perspective of its accuracy, completeness and appropriateness in all credit risk management processes. The accuracy of the data relates to the level of confidence that the data is correct. It should be high enough to ensure that the avoids the significant distortion of the final data used in decision-making processes. The completeness of the data relates to the inclusion of all significant data required in individual credit risk management processes, whereby minimises the occurrence of data shortfalls. The appropriateness of the data means that the data may not be biased. For the purpose of reducing the impact of human error, must provide for the automation of all material processes. Information systems must be reliable, appropriately documented and regularly reviewed.

- e) Owing to the breaches cited in point 4 of the operational part of this order, in accordance with points 5 and 12 of the second paragraph of Article 250 of the ZBan-2 in connection with the first paragraph of Article 250 of the ZBan-2, the Bank of Slovenia hereby orders to:
  - limit its operations in the new consumer lending product to a maximum of EUR 1,500,000 in total gross on-balance-sheet exposure from operations in the new product, in order to mitigate the risks that it takes up in connection with the new consumer lending product that entail a material risk to risks to rinancial position;
  - regularly report to the Bank of Slovenia, i.e. within three business days, on each occasion that the total gross on-balance-sheet exposure from operations in the new product exceeds an additional EUR 200,000;
  - uphold the limitation and the obligation to report until the rectification of the breaches identified in this point of the order.
- 5. a) has breached the first paragraph of Article 148 of the ZBan-2 in connection with the second paragraph of Article 30 of the internal governance regulation, because it does not have an action plan for managing the risks of a new product for lending to real estate projects, and it failed to provide for comprehensive and impartial risk assessment based on relevant risk scenarios in respect of the new product for lending to real estate projects, having regard for any deficiencies in the risk management process and in internal controls for effective risk management, the impact of the introduction of the new product on the risk absorption capacity, etc.

To rectify the breaches, must produce a comprehensive and impartial risk assessment of the new product for lending to real estate projects, in which it must take a position with regard to all the identified risks and assess whether it is possible to ensure their adequate management.

Should determine that adequate risk management referred to in the first paragraph of Article of 23 of the internal governance regulation has not been ensured, it must defer the introduction of the new product until adequate risk management processes have been put in place.





Page 6 of 7

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 are completed;
   and
- information as to whether judicial review 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 published.

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

An order on the rectification of breaches with an additional measure referenced PBH-24.60-001/19-004 was issued on 3 September 2019, against which an objection was lodged by the stipulated deadline. The Bank of Slovenia issued a decision on an objection referenced PBH-24.60-001/19-005 on 19 November 2019, by virtue of which it partly found in favour of the objection. Judicial review proceedings have not been initiated against the decision on an objection.

## Information on any rectification of breaches or implementation of ordered measures

has eliminated the breaches within the set deadline. On 7 December 2021, Banka Slovenije issued a decision stating that the breaches have been remedied.