

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

| Information on person responsible for breach | |
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| 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-24.60-005/22-003 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: 5349907 (hereinafter: the bank), has breached the first paragraph of Article 171 of the ZBan-3 by failing to put in place and implement appropriate policies and procedures for managing credit risk because:</p> <ul style="list-style-type: none"> - the risk management function organised within the Risk Management Department (RMD) fails to provide for adequate controls of the credit risk taking, because the opinions of the RMD do not include comprehensive and sufficient information, analysis and findings on the acceptability of credit proposals (including assessment of the borrower's creditworthiness and risk profile) that in the process of approving credits form the basis for the decision of the bank's highest decision-making body as required by the second paragraph of Article 4 of the Regulation on credit risk management at banks and savings banks (Official Gazette of the Republic of Slovenia, No. 115/21; hereinafter: Regulation on the credit risk management) and point (i) of paragraph 38 and paragraph 73 of the Guidelines on loan origination and monitoring (EBA/GL/2020/06 of 29 May 2020; hereinafter: Guidelines EBA/GL/2020/06¹); - it fails to set out appropriate and accurate criteria for deciding on the approval of credit, in particular credit-granting criteria, requirements for the handling of information and data needed for the creditworthiness assessment, and requirements for the creditworthiness assessment, including sensitivity analysis, as set out by the second paragraph of Article 5 of the Regulation on credit risk management in connection with points (b), (c) and (d) of paragraph 38 of Guidelines EBA/GL/2020/06. <p>The bank must ensure that the credit risk management policies and procedures put in place comply with the requirements of Articles 4 and 5 of the Regulation on credit risk management and paragraphs 38 and 73 of Guidelines EBA/GL/2020/06, and must implement them.</p> <p>To rectify the identified breaches, the bank must strengthen the role of the RMD in the credit process to put in place adequate controls of the credit risk taking, and to ensure that in the credit</p> | |

¹ Guidelines EBA/GL/2020/06 are binding on banks and savings banks pursuant to the second paragraph of Article 2 of the Regulation on the application of the Guidelines on loan origination and monitoring (Official Gazette of the Republic of Slovenia, No. 104/20).

approval process the opinions of the RMD provide comprehensive and sufficient information (including assessment of the borrower's creditworthiness and risk profile) that form the basis for deciding on a credit proposal at the level of the bank's credit committee, and must define appropriate and accurate criteria for deciding on the approval of credits. .

2. The bank has breached the first and second paragraphs of Article 172 of the ZBan-3 in connection with Section 5.2 and Annex 2 of Guidelines EBA/GL/2020/06, by:
 - failing in the assessment of creditworthiness to apply appropriate and precisely defined criteria for deciding on the approval of credit, particularly in the corporate banking segment, in project financing and in certain retail subsegments;
 - failing in the credit approval process to adequately assess the borrower's creditworthiness, because it has not got a methodology for assessment of creditworthiness in the aforementioned segments;
 - failing within the framework of credit documentation to provide for all the necessary information and analysis for deciding on a credit operation as required by Article 194 of Guidelines EBA/GL/2020/06;
 - failing in the analysis of the financial position of corporates to apply realistic and reasonable financial projections as required by paragraphs 129 and 151 of Guidelines EBA/GL/2020/06.

The bank must ensure compliance with the requirements of Section 5.2 and Annex 2 of Guidelines EBA/GL/2020/06, and to rectify the identified breaches in decision-making on credit approval by applying clear and precisely defined requirements and criteria for credit assessment and approval, having regard for the specifics and risk level of individual products. The bank must formulate a methodology for the comprehensive assessment of creditworthiness of borrowers of the cited types, and must ensure that the borrower's creditworthiness assessment is a key criterion in the approval of credit. For the creditworthiness assessment, the bank must put in place and implement appropriate procedures in accordance with the requirements of paragraphs 129, 151 and 194 of Guidelines EBA/GL/2020/06.

3. The bank has breached the third paragraph of Article 173 of the ZBan-3 in connection with Section 7.2.1 of Guidelines EBA/GL/2020/06 by failing to put in place appropriate policies and procedures for the monitoring and revaluation of immovable property collateral value.

To rectify the identified breach, the bank must ensure compliance with paragraphs 221, 223, 224, 225 and 226 of Guidelines EBA/GL/2020/06, by putting in place and implementing appropriate policies and procedures for the revaluation and monitoring of the value of immovable property collateral. The policies and procedures for monitoring immovable property collateral value need to set out the approach with regard to elements such as the type of real estate, the credit quality of the loan secured by real estate, the development status of the real estate, the value of the real estate, assumptions made in the appraisal, and changes in market conditions. For the revaluation of immovable property collateral, it is necessary to set out when revaluation is undertaken by desktop valuation, when it is by drive-by valuation, when it is by full visit with internal and external assessment of the property, and when statistical models may be used.

4. The bank has breached Article 107 in connection with Articles 124, 125, 126, 208 and 229(1) of Regulation (EU) No 575/2013 of the European Parliament and of the Council of 26 June 2013 on

prudential requirements for credit institutions and investment firms and amending Regulation (EU) No 648/2012 (OJ L 176 of 27 June 2013, p. 1; hereinafter: Regulation (EU) No 575/2013), by using, for the purposes of calculating capital requirements for credit risk, ineligible collateral that fails to meet the conditions prescribed by Articles 208 and 229(1) of Regulation (EU) No 575/2013 and Section 7.2.1 of Guidelines EBA/GL/2020/06.

The bank must ensure that only collateral that meets the prescribed conditions of Regulation (EU) No 575/2013 and Section 7.2.1 of Guidelines EBA/GL/2020/06 is used as eligible collateral for the purposes of calculating capital requirements.

To rectify the identified breach, for the purposes of calculating capital requirements for credit risk the bank must exclude real estate whose value is not documented in accordance with Articles 208 and 229(1) of Regulation (EU) No 575/2013.

For the calculation of capital requirements for credit risk as at 30 September 2022, the bank must apply the lower risk weights for exposures secured by immovable property solely to that collateral that fully satisfies Articles 125 and 126 of Regulation (EU) No 575/2013, and in respect of which the requirements referred to in Section 7.2.1 of Guidelines EBA/GL/2020/06 are met in the monitoring and revaluation of collateral value. The bank must submit a report to Banka Slovenije by 10 November 2022 with evidence of the rectification of this part of the identified breach.

5. The bank's management board must submit a detailed action plan stating the measures selected to rectify the breaches referred to in points 1, 2, 3 and 4 of this order to Banka Slovenije by 31 October 2022. By the same date the bank 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 bank's internal organisational structure, or the names of the bank's external contractors, who will be responsible for implementing individual activities to rectify breaches and for preparing and implementing the action plan referred to in this order.

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.

The bank must rectify the breach referred to in point 1 of this order by 31 December 2023, and must deliver a report to Banka Slovenije by 15 January 2024, enclosing documents and other evidence from which it is evident that the breaches have been rectified.

The bank must rectify the breaches referred to in points 2 and 3 of this order by 31 March 2023, and must deliver a report to Banka Slovenije by 15 April 2023, enclosing documents and other evidence from which it is evident that the breaches have been rectified.

The bank must rectify the breach referred to in point 4 of this order relating to the calculation of capital requirements for credit risk by 30 September 2022 and must report on its rectification by 10 November 2022.

6. 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;
 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.