
Disclosure of information on measure imposed on credit institution on 25 April 2019

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 Bank of Slovenia request for inspection PBH-24.60-018/18-001 of 7 October 2018 and Bank of Slovenia authorisation PBH-24.60-018/18-002 of 5 October 2018, between 22 October 2018 and 18 January 2019 Bank of Slovenia staff conducted an inspection of ■■■ in the area of credit risk in lending to legal and natural persons, and operational risk in the area of cyber security.</p> <p>On the basis of the findings of the inspection and the discussion at the 621st 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	Breaches in the area of credit risk management
Operational part of the decision by which the relevant proceedings are completed	
<p>1. ■■■ has breached Article 151 of the ZBan-2 in connection with Article 23 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), and Articles 208 and 229(1) of Regulation (EU) No 575/2013,¹ by failing to meet the general requirements with regard to credit protection in the valuation of real estate for the purposes of assessing credit risk losses and for the purposes of calculating capital requirements. In its portfolio, ■■■ holds residential and commercial real estate whose valuations are based <i>inter alia</i> on sale and purchase agreements, on gift agreements or on the generalised market value, which is determined by means of a mass valuation approach pursuant to the law governing mass valuation of real estate and is disclosed in records managed by the Surveying and Mapping Authority of the Republic of Slovenia (hereinafter: generalised market value).</p> <p>■■■ has breached Articles 124, 125 and 126 of Regulation (EU) No 575/2013, by applying risk weights of 35% to residential real estate and 50% to commercial real estate for the purposes of calculating capital requirements for credit risk under the standardised approach in individual exposures secured by mortgage on real estate, even though the conditions referred to in Articles 125 and 126 of Regulation (EU) No 575/2013 have not been met, and consequently calculating the capital requirements for credit risk incorrectly and reporting them erroneously.</p> <p>To rectify the identified breaches, for the purpose of assessing credit risk losses ■■■ must exclude real estate whose value has not been calculated in accordance with Article 23 of the credit risk regulation, and for the purposes of calculating capital requirements for credit risk it must exclude real estate whose value has not been calculated in accordance with Articles 208 and 229(1) of</p>	

¹ 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), as last amended by Commission Delegated Regulation (EU) 2018/405 of 21 November 2017 correcting certain language versions of Regulation (EU) No 575/2013 of the European Parliament and of the Council on prudential requirements for credit institutions and investment firms and amending Regulation (EU) No 648/2012 (OJ L 74 of 16 March 2018, p 3).

Regulation (EU) No 575/2013.

For the calculation of capital requirements for credit risk, ■ must apply lower risk weights to exposures secured by real estate solely in the case of collateral that fully meets the conditions referred to in Articles 125 and 126 of Regulation (EU) No 575/2013. This means that ■ may only assign lower risk weights to exposures secured by real estate whose value has been estimated by an independent appraiser at market value or at a value below market value. For exposures secured by real estate whose value is based on sale and purchase agreements, on gift agreements or on a generalised market value, in the calculation of capital requirements ■ must assign a risk weight in accordance with Articles 124, 125 and 126 of Regulation (EU) No 575/2013.

2. ■ has breached Article 151 of the ZBan-2 in connection with the second paragraph of Article 25 of the credit risk regulation, by failing to take account of the relevant haircuts on real estate collateral during the estimation of expected cash flows from the liquidation of real estate collateral. The assumptions applied to the estimation of the expected cash flows are not realistic, are not based on empirical data, and fail to take account of current and expected market conditions.

■ has breached Articles 151 and 153 of the ZBan-2 in connection with paragraph 21 of Section 4.1.2 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 EBA guidelines)² and point k) of paragraph 33 of Section 4.2.2 of the EBA guidelines, by failing to take account of a sufficiently wide range of information when using expected credit loss accounting models. This information should include information about past events, current conditions and forecasts of future economic conditions. Information that is included in the assessment of credit risk and measurement of expected losses should also be reasonable and supportable.

Sound methodologies in the area of expected credit losses should identify what factors are considered when establishing appropriate historical time periods over which to evaluate historical loss experience. ■ should maintain sufficient historical loss data to provide a meaningful analysis of its credit loss experience for use as a starting point when estimating the level of allowances on a collective or individual basis.

To rectify the identified breaches, in accordance with the EBA guidelines ■ must take account of all necessary information, including past events, current conditions and forecasts of future economic conditions when measuring expected credit losses. ■ must also undertake the calculation of an unbiased estimate of the haircut on the basis of historical data from repayments from real estate collateral and must apply it in the calculation of the requisite impairments and provisions, having regard for the Guidelines for calculating default rate and loss rate (in force since 27 October 2015).

3. ■ has breached Article 151 of the ZBan-2 in connection with the second and third paragraphs of Article 38 of the credit risk regulation, by failing to put in place procedures and processes that ensure data quality from the perspective of accuracy in the monitoring of values of movable property collateral. The accuracy of data relates to the degree of confidence in the correctness of the data, which must be high enough for ■ to avoid any material distortion of the final data used in decision-making processes. ■ fails to take account of deterioration or obsolescence in

² The EBA guidelines are applied on the basis 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 [revision])

movable property collateral, and fails to ensure realistic valuations in its records. ■■■ has failed to put in place an adequate system for monitoring values of movable property collateral during the lifetime of the loan. On the basis of a review of credit files and records of movable property accepted as collateral, the Bank of Slovenia found that ■■■ discloses overstated valuations of movable property collateral (valuations were taken into account as at ■■■ as they had been upon the approval of the loan), which is a consequence of an ineffective system for regularly monitoring movable property collateral.

To rectify the identified breaches, in accordance with the second and third paragraphs of Article 38 of the credit risk regulation ■■■ must put in place procedures and processes that ensure data quality from the perspective of accuracy and must put in place an adequate and reliable system for monitoring values of movable property collateral during the lifetime of the loan. The data on the actual values of movable property must be accurate, verifiable and up-to-date.

4. The management board of ■■■ must submit a detailed action plan stating the measures selected to rectify the breaches referred to in points 1 to 3 of this order to the Bank of Slovenia by 15 May 2019. By 15 May 2019 it 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 internal organisational structure of ■■■, or the names of the external contractors of ■■■, who will be responsible for implementing individual activities to rectify breaches and for preparing and implementing the action plan.

In the action plan the management board of ■■■ 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 internal organisational structure of ■■■.

■■■ must rectify the breaches by 31 December 2019, and must deliver a report to the Bank of Slovenia by 20 January 2020, enclosing documents and other evidence from which it is evident that the breaches have been rectified.

5. 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 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 ■■■, shall not be published.

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

Judicial review proceedings have not been initiated.