

Disclosure of information on sanction imposed on legal person and responsible person

Misdemeanour decision against legal person and responsible person

Information on perpetrator	
Business name and registered office of legal person	Hranilnica Lon d.d., Kranj, Žanova ulica 3, 4000 Kranj (hereinafter: the savings bank)
Name of natural person	Imre Endre Balogh and Igo Gruden
Information on breach	
Description of circumstances and conduct constituting breach of ZBan-3	Breaches in the area of credit risk management, owing to which Banka Slovenije imposed a fine on the savings bank and the two responsible persons for a misdemeanour under point 19 of the first paragraph of Article 396 of the ZBan-3 via misdemeanour decision.
Nature of the identified breaches	Inadequate measurement and management of credit risk.
Operative part of the decision by which the relevant proceedings are completed:	
<p>As the misdemeanour authority pursuant to Article 403 of the Banking Act¹, Banka Slovenije through authorised person Jurij Žitko, ex officio, pursuant to Article 46 of the Minor Offences Act² and the second paragraph of Article 51 of the ZP-1, in the misdemeanour proceedings against the legal person Hranilnica LON d. d., Kranj and the responsible persons Imre Endre Balogh and Igo Gruden, owing to a breach under point 19 of the first paragraph of Article 396 of the ZBan-3 and under point 19 of the first paragraph in connection with the fourth paragraph of Article 396 of the ZBan-3:</p> <p style="text-align: center;">r u l e s t h a t :</p> <p>1. The legal person Hranilnica Lon d.d., Kranj, of Žanova ulica 3, 4000 Kranj, registration number: 5624908000 (hereinafter: the savings bank or perpetrator):</p> <p style="text-align: center;">bears liability for the following:</p> <p>the responsible persons of the bank, Imre Endre Balogh as chairman of the management board and Igo Gruden as a member of the management board of the savings bank, jointly representing the savings bank, authorised to establish stable arrangements for the internal governance of the savings bank, in the name of, for the account of and with assets of the savings bank, in carrying out the activities of the savings bank, as co-perpetrators, in Kranj,</p> <p>(a) from 1 January 2021 on did not act with the requisite professional diligence, as they failed to put in place and implement appropriate policy and procedures for managing credit risk in accordance with the first paragraph of Article 171 of the ZBan-3 (in force as of 23 June 2021, the equivalent having been stipulated by the first paragraph of Article 151 of the Banking Act³ previously in force [the ZBan-2]), and thus failed to put in place and implement stable internal governance arrangements referred to in Article 148 of the ZBan-3 (previously Article 128 of the ZBan-2) that inter alia should encompass effective risk management processes for identifying, measuring or assessing, managing and monitoring risks, including recovery plans and the reporting of the risks to which the bank is or could be exposed in its operations, in that:</p> <ul style="list-style-type: none">- in accordance with the third paragraph of Article 18 in connection with the first, third and fourth paragraphs of Article 20 of the Regulation on credit risk management at banks and savings banks (Official Gazette of the Republic of Slovenia, No 115/2021 (hereinafter:	

¹ Banking Act (Official Gazette of the Republic of Slovenia, Nos. 92/21 and 123/21 [ZBNIP]; hereinafter: the ZBan-3)

² Minor Offences Act (Official Gazette of the Republic of Slovenia, Nos 29/11 [official consolidated version], 21/13, 111/13, 74/14 [constitutional court decision], 92/14 [constitutional court decision], 32/16, 15/17 [constitutional court decision], 73/19 [constitutional court decision], 175/20 [ZIUOPDVE], 5/21 [constitutional court decision] and 38/24; hereinafter: the ZP-1)

³ Banking Act (Official Gazette of the Republic of Slovenia, Nos. 25/15, 44/16 [ZRPPB], 77/16 [ZCKR], 41/17, 77/18 [ZTFI-1], 22/19 [ZIUDSOL], 44/19 [constitutional court decision] and 92/21 [ZBan-3] in force until 22 June 2021; hereinafter: the ZBan-2)

Regulation on credit risk management), the savings bank does not have in place and is not implementing appropriate policy and procedures for managing credit risk, including counterparty risk, since it has no clearly defined rules and processes for regular validations and is not carrying out regular annual validations of the ranking model which it uses for ranking exposure to natural persons and for the requirements of assessing expected credit losses, and consequently has not demonstrated that the ranking model that it uses for ranking exposure and a calculation of expected credit losses, has adequate predictive power and is fit for purpose;

- in accordance with paragraphs 58, 64, 109 and 110 of the Guidelines on the application of the definition of default under Article 178 of Regulation (EU) No 575/2013 of 18 January 2013 (hereinafter: Guidelines EBA/GL/2016/07) and the Regulation on the application of the Guidelines on the application of the definition of default under Article 178 of Regulation (EU) No 575/2013 (Official Gazette of the Republic of Slovenia, Nos 75/17, 81/18), right up until 30 June 2024 it did not have in place and did not implement adequate policy and procedures for managing credit risk, including counterparty risk, since in the Rulebook on the management of non-performing and forborne exposures (DUT/2023/03/6.0-16, version 6.0 of 31 August 2023) the savings bank fails to define sufficient unlikelihood to pay (UTP) events and the approach to their assessment, as it had no clearly defined (additional) unlikelihood to pay events, nor did an unlikelihood to pay event generate an automatic reclassification among default exposures in the case of objective unlikelihood to pay events or trigger a case by case assessment using a standardised approach by analysts in their assessment, and the assessment depended on the subjective judgement of the analyst at the time;
- (b) in the period since 17 July 2021 they did not ensure a system for continuous monitoring and reporting regarding the effectiveness of techniques applied for assessing credit risk in accordance with the second paragraph of Article 174 of the ZBan-3 (valid since 23 June 2021, the equivalent having been stipulated by the second paragraph of Article 154 of the previously valid ZBan-2) in connection with the second paragraph of Article 15 of the Regulation on credit risk management, Article 27(c)(i) of the Guidelines on credit institutions' credit risk management practices and accounting for expected credit losses of 20 September 2017 (hereinafter: Guidelines EBA/GL/2017/06) and 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, 29/18 - corrig.) and thereby also no stable arrangements for internal governance under Article 148 of the ZBan-3 (previously Article 128 of the ZBan-2), which should cover effective processes of risk management for identifying, measuring or assessing, managing and monitoring risks, including recovery plans and reporting on risks to which the bank is or could be exposed in its operations, since the ranking model used by the savings bank is not linked to the basic credit rating system (classification into classes A to E) and is not linked to the system of significant increase in credit risk (SICR), and consequently a deterioration of the credit quality of a borrower in the basic credit rating system (change of classification in classes A to E) is not reflected in a deterioration in ranking (it remains unchanged), and there is no change in the probability of default (PD) parameter, which enters into the calculation of expected credit loss (ECL), although there was a deterioration in the credit quality of a borrower, for which reason the techniques used to assess credit risk are not effective,

whereby the savings bank breached point 2 of the first paragraph of Article 148 of the ZBan-3 (previously point 2 of the first paragraph of Article 128 of the ZBan-2) in connection with the first paragraph of Article 171 and second paragraph of Article 174 of the ZBan-3.

The savings bank thereby committed a misdemeanour under point 19 of the first paragraph of Article 396 of the ZBan-3.

2. **Responsible person IMRE ENDRE BALOGH**, born ■■■, ■■■ citizen, residing at ■■■ (hereinafter: Imre Endre Balogh or responsible person):

bears liability for the following:

since as the responsible person of the bank, at the time of the misdemeanour chairman of the management board, together with Igo Gruden authorised to establish stable arrangements for the internal governance of the savings bank, in the name of, for the account of and with assets of the savings bank, in carrying out the activities of the savings bank, with co-perpetrator Igo Gruden, in Kranj,

- (a) from 1 January 2021 on, together with Igo Gruden did not act with the requisite professional diligence, as they failed to put in place and implement appropriate policy and procedures for managing credit risk in accordance with the first paragraph of Article 171 of the ZBan-3 (in force as of 23 June 2021, the equivalent having been stipulated by the first paragraph of Article 151 of the Banking Act previously in force [the ZBan-2]), and thus failed to put in place and implement stable internal governance arrangements referred to in Article 148 of the ZBan-3 (previously Article 128 of the ZBan-2) that inter alia should encompass effective risk management processes for identifying, measuring or assessing, managing and monitoring risks, including recovery plans and the reporting of the risks to which the bank is or could be exposed in its operations, in that:
- in accordance with the third paragraph of Article 18 in connection with the first, third and fourth paragraphs of Article 20 of the Regulation on credit risk management at banks and savings banks (Official Gazette of the Republic of Slovenia, No 115/2021, hereinafter: Regulation on credit risk management), the savings bank does not have in place and is not implementing appropriate policy and procedures for managing credit risk, including counterparty risk, since it has no clearly defined rules and processes for regular validations and is not carrying out regular annual validations of the ranking model which it uses for ranking exposure to natural persons and for the requirements of assessing expected credit losses, and consequently has not demonstrated that the ranking model that it uses for ranking exposure and a calculation of expected credit losses, has adequate predictive power and is fit for purpose;
 - in accordance with paragraphs 58, 64, 109 and 110 of the Guidelines on the application of the definition of default under Article 178 of Regulation (EU) No 575/2013 of 18 January 2017 (hereinafter: Guidelines EBA/GL/2016/07) and the Regulation on the application of the Guidelines on the application of the definition of default under Article 178 of Regulation (EU) No 575/2013 (Official Gazette of the Republic of Slovenia, Nos 75/17, 81/18), right up until 30 June 2024 it did not have in place and did not implement adequate policy and procedures for managing credit risk, including counterparty risk, since in the Rulebook on the management of non-performing and forborne exposures (DUT/2023/03/6.0-16, version 6.0 of 31 August 2023) the savings bank fails to define sufficient unlikeliness to pay (UTP) events and the approach to their assessment, as it had no clearly defined (additional) unlikeliness to pay events, nor did an unlikeliness to pay event generate an automatic reclassification among default exposures in the case of objective unlikeliness to pay events or trigger a case by case assessment using a standardised approach by analysts in their assessment, and the assessment depended on the subjective judgement of the analyst at the time;

(b) in the period from 17 July 2021, together with Igo Gruden, did not ensure a system for continuous monitoring and reporting regarding the effectiveness of techniques applied for assessing credit risk in accordance with the second paragraph of Article 174 of the ZBan-3 (valid since 23 June 2021, the equivalent having been stipulated by the second paragraph of Article 154 of the previously valid ZBan-2) in connection with the second paragraph of Article 15 of the Regulation on credit risk management, Article 27(c)(i) of the Guidelines on credit institutions' credit risk management practices and accounting for expected credit losses of 20 September 2017 (hereinafter: Guidelines EBA/GL/2017/06) and 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, 29/18 - corrig.) and thereby also no stable arrangements for internal governance under Article 148 of the ZBan-3 (previously Article 128 of the ZBan-2), which should cover effective processes of risk management for identifying, measuring or assessing, managing and monitoring risks, including recovery plans and reporting on risks to which the bank is or could be exposed in its operations, since the ranking model used by the savings bank is not linked to the basic credit rating system (classification into classes A to E) and is not linked to the system of significant increase in credit risk (SICR), and consequently a deterioration of the credit quality of a borrower in the basic credit rating system (change of classification in classes A to E) is not reflected in a deterioration in ranking (it remains unchanged), and there is no change in the probability of default (PD) parameter, which enters into the calculation of expected credit loss (ECL), although there was a deterioration in the credit quality of a borrower, for which reason the techniques used to assess credit risk are not effective,

the responsible person thereby breached point 2 of the first paragraph of Article 148 of the ZBan-3 (previously point 2 of the first paragraph of Article 128 of the ZBan-2) in connection with the first paragraph of Article 171 and second paragraph of Article 174 of the ZBan-3 and point 1 of the first paragraph of Article 47 of the ZBan-3, for which reason a misdemeanour is established under point 19 of the first paragraph of Article 396 of the ZBan-3 (as defined in point 1 of the operative part of this decision).

Imre Endre Balogh has thereby committed a misdemeanour under point 19 of the first paragraph in connection with the fourth paragraph of Article 396 of the ZBan-3.

3. Responsible person IGO GRUDEN, born [REDACTED], [REDACTED] citizen, residing at [REDACTED] (hereinafter: Igo Gruden or responsible person):

bears liability for the following:

since as the responsible person of the bank, at the time of the misdemeanour a member of the management board, together with Imre Endre Balogh authorised to establish stable arrangements for the internal governance of the savings bank, in the name of, for the account of and with assets of the savings bank, in carrying out the activities of the savings bank, with co-perpetrator Imre Endre Balogh, in Kranj,

(b) from 1 January 2021 on, together with Imre Endre Balogh did not act with the requisite professional diligence, as they failed to put in place and implement appropriate policy and procedures for managing credit risk in accordance with the first paragraph of Article 171 of the ZBan-3 (in force as of 23 June 2021, the equivalent having been stipulated by the first paragraph of Article 151 of the Banking Act previously in force [the ZBan-2]), and thus failed to put in place and implement stable internal governance arrangements referred to in Article 148 of the ZBan-3 (previously Article 128 of the ZBan-2) that inter alia should encompass effective risk management processes for identifying, measuring or assessing, managing and

monitoring risks, including recovery plans and the reporting of the risks to which the bank is or could be exposed in its operations, in that:

- in accordance with the third paragraph of Article 18 in connection with the first, third and fourth paragraphs of Article 20 of the Regulation on credit risk management at banks and savings banks (Official Gazette of the Republic of Slovenia, No 115/2021, hereinafter: Regulation on credit risk management), the savings bank does not have in place and is not implementing appropriate policy and procedures for managing credit risk, including counterparty risk, since it has no clearly defined rules and processes for regular validations and is not carrying out regular annual validations of the ranking model which it uses for ranking exposure to natural persons and for the requirements of assessing expected credit losses, and consequently has not demonstrated that the ranking model that it uses for ranking exposure and a calculation of expected credit losses, has adequate predictive power and is fit for purpose;
 - in accordance with paragraphs 58, 64, 109 and 110 of the Guidelines on the application of the definition of default under Article 178 of Regulation (EU) No 575/2013 of 18 January 2013 (hereinafter: Guidelines EBA/GL/2016/07) and the Regulation on the application of the Guidelines on the application of the definition of default under Article 178 of Regulation (EU) No 575/2013 (Official Gazette of the Republic of Slovenia, Nos 75/17, 81/18), right up until 30 June 2024 it did not have in place and did not implement adequate policy and procedures for managing credit risk, including counterparty risk, since in the Rulebook on the management of non-performing and forborne exposures (DUT/2023/03/6.0-16, version 6.0 of 31 August 2023) the savings bank fails to define sufficient unlikelihood to pay (UTP) events and the approach to their assessment, as it had no clearly defined (additional) unlikelihood to pay events, nor did an unlikelihood to pay event generate an automatic reclassification among default exposures in the case of objective unlikelihood to pay events or trigger a case by case assessment using a standardised approach by analysts in their assessment, and the assessment depended on the subjective judgement of the analyst at the time;
- (c) in the period since 17 July 2021, together with Imre Endre Balogh he did not ensure a system for continuous monitoring and reporting regarding the effectiveness of techniques applied for assessing credit risk in accordance with the second paragraph of Article 174 of the ZBan-3 (valid since 23 June 2021, the equivalent having been stipulated by the second paragraph of Article 154 of the previously valid ZBan-2) in connection with the second paragraph of Article 15 of the Regulation on credit risk management, Article 27(c)(i) of the Guidelines on credit institutions' credit risk management practices and accounting for expected credit losses of 20 September 2017 (hereinafter: Guidelines EBA/GL/2017/06) and 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, 29/18 - corrig.) and thereby also no stable arrangements for internal governance under Article 148 of the ZBan-3 (previously Article 128 of the ZBan-2), which should cover effective processes of risk management for identifying, measuring or assessing, managing and monitoring risks, including recovery plans and reporting on risks to which the bank is or could be exposed in its operations, since the ranking model used by the savings bank is not linked to the basic credit rating system (classification into classes A to E) and is not linked to the system of significant increase in credit risk (SICR), and consequently a deterioration of the credit quality of a borrower in the basic credit rating system (change of classification in classes A to E) is not reflected in a deterioration in ranking (it remains unchanged), and there is no change in the probability of default (PD) parameter, which enters into the calculation of expected credit

loss (ECL), although there was a deterioration in the credit quality of a borrower, for which reason the techniques used to assess credit risk are not effective,

whereby the responsible person breached point 2 of the first paragraph of Article 148 of the ZBan-3 (previously point 2 of the first paragraph of Article 128 of the ZBan-2) in connection with the first paragraph of Article 171 and second paragraph of Article 174 of the ZBan-3 and point 1 of the first paragraph of Article 47 of the ZBan-3, as a result of which a misdemeanour under point 19 of the first paragraph of Article 396 of the ZBan-3 (as defined in point 1 of the operative part of this decision) was committed.

Igo Gruden thereby committed a misdemeanour under point 19 of the first paragraph in connection with the fourth paragraph of Article 396 of the ZBan-3.

4. In accordance with the second and fourth paragraphs of Article 396 of the ZBan-3 in connection with point 19 of the first paragraph of Article 396 of the ZBan-3 and in connection with Article 26 of the ZP-1 **the following penalties are imposed:**

- **on the savings bank for the misdemeanour referred to in point 1 of the operative part of this decision, a fine in the amount of EUR 80,000.00,**
- **on the responsible person Imre Endre Balogh for the misdemeanour referred to in point 2 of the operative part of this decision, a fine in the amount of EUR 2,700.00 and**
- **on the responsible person Igo Gruden for the misdemeanour referred to in point 3 of the operative part of this decision, a fine in the amount of EUR 2,500.00.**

The savings bank and the responsible persons shall pay the entire amount of the imposed fines within eight days of this decision becoming final.

The savings bank shall pay a court fee of EUR 8,000.00 within eight days of the decision becoming final.

The responsible person Imre Endre Balogh shall pay a court fee of EUR 270.00 within eight days of the decision becoming final.

The responsible person Igo Gruden shall pay a court fee of EUR 250.00 within eight days of the decision becoming final.

The savings bank and the responsible persons shall themselves bear any costs of their advocates' remuneration and expenses, and shall also pay other procedural costs referred to in the first paragraph of Article 143 of the ZP-1, should they be levied after the decision is issued.

Should a responsible person who would be entitled to ordinary free legal aid according to the material criterion under the law governing free legal aid be unable to pay the fine and the procedural costs in the amount of at least EUR 300.00 on the grounds of their financial status or their capacity to pay, they may propose by no later than the deadline for payment that the payment of the fine and the costs be replaced with community service (Article 19a of the ZP-1). The proposal shall be decided on by the local court according to the perpetrator's domicile or temporary residence.

After the deadline for paying the fine and costs, the savings bank and the responsible persons may request the authority responsible for forcible recovery (Financial Administration of the Republic of Slovenia) to permit them to pay the fine and the procedural costs in instalments.

Any unpaid fine and procedural costs shall be forcibly recovered. A fine that cannot be forcibly recovered may be enforced by means of custodial sentence (Article 20a of the ZP-1).

The fine and court fee shall be paid into Banka Slovenije account number SI56 0100 0000 0100 090, reference SI05 311200010.

5. In accordance with Article 310 of the ZBan-3, after issuance of the decision Banka Slovenije shall publish the **following information** on its website:
- information about the perpetrator:
 - the name and registered office of the legal person, or
 - the name of the natural person;
 - information about the breach:
 - a description of the circumstances and conduct that constitute a breach of the aforementioned law or the CRR,
 - the nature of the identified breaches;
 - the operative part of the decision by which the relevant proceedings are completed, **with the exception of:**
 - the personal data of the perpetrators (responsible persons): job title, personal identification number, address;
 - information as to whether judicial review proceedings have been initiated against the decision.

Information on initiation of judicial review and any rectification of breaches

~~The responsible persons have initiated judicial review proceedings against the misdemeanour decision under the Minor Offences Act.~~

~~As at the day of publication the breach had been partly rectified.~~

The court upheld the request for judicial protection submitted by the responsible persons and annulled the misdemeanor decision in relation to both the responsible person and the savings bank. The judgment is final.

The savings bank has remedied the identified breaches.