

## Disclosure of information on supervisory measure of 4 April 2024 imposed on credit institution

Information on person responsible for breach	
<b>Business name and registered office of legal person</b>	Hranilnica Lon d.d. Žanova ulica 3, 4000 Kranj registration number: 5624908000
Information on breach	
<b>Description of circumstances and conduct entailing breach of ZBan-3 or Regulation (EU) No 575/2013</b>	Breaches of the ZBan-3 (cited in detail in the operative part of the order below) were identified on the basis of an inspection, as a result of which Banka Slovenije issued the savings bank with the Order on the rectification of breaches referenced PBH-24.60-009/23-003 of 4 April 2024
<b>Nature of identified breaches</b>	Breaches in the area of credit risk management
<ol style="list-style-type: none"> <li>1. Hranilnica Lon d.d., Žanova ulica 3, 4000 Kranj, registration number: 5624908000 (hereinafter: the savings bank) has breached the first paragraph of Article 171 of the Banking Act (hereinafter: the ZBan-3) in connection with the third paragraph of Article 18 and in connection with the first and third paragraphs of Article 20 of the Regulation on credit risk management at banks and savings banks (hereinafter: the credit risk management regulation), by failing to put in place and implement adequate policies and procedures for the management of credit risk, including counterparty risk, in that it does not have clearly defined rules and processes for regular validation and is failing to conduct annual validations of the ranking model, and consequently failed to demonstrate that the ranking model that it uses to classify exposures and to calculate expected credit losses has adequate predictive power and is fit for purpose.</li> <li>2. The savings bank has breached the second paragraph of Article 174 of the ZBan-3 in connection with the second paragraph of Article 15 of the credit risk management regulation and paragraph 27(c)(i) of the Guidelines on credit institutions' credit risk management practices and accounting for expected credit losses (hereinafter: Guidelines EBA/GL/2017/06), by failing to put in place a system of permanent monitoring and reporting with regard to the effectiveness of the techniques used to assess credit risk, in that the ranking model used by the savings bank is not linked to the basic rating system (classification into grades A to E) and is not linked to the system for identifying a significant increase in credit risk (SICR). Consequently, under a deterioration in the debtor's credit quality in the basic rating system (i.e. a change in the classification into grades A to E), the ranking fails to track this deterioration and remains unchanged, and the value of PD input into the calculation of ECL also remains unchanged, even though there has been a deterioration in the debtor's credit quality, which therefore means that the techniques used to assess credit risk are not effective.</li> <li>3. The savings bank has breached the first paragraph of Article 171 of the ZBan-3 in connection 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 (hereinafter: Guidelines EBA/GL/2016/07), by failing to put in place and failing to implement adequate policies and procedures to manage credit risk, including counterparty risk, in that the savings bank fails to define sufficient unlikelihood to pay (UTP) events and the approach to their assessment in the Rulebook on the management of non-</li> </ol>	

performing and forborne exposures (DUT/2023/03/6.0-16 of 31 August 2023).

4. The savings bank's management board must submit a detailed action plan to Banka Slovenije by 30 April 2024 stating the measures taken to rectify the breaches referred to in points 1, 2 and 3 of this order and setting deadlines for each. By the same date the savings 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 savings bank's internal organisational structure who will be responsible for implementing individual activities to rectify breaches and for preparing and implementing the action plan referred to in this order. The savings bank must rectify the breaches referred to in points 1 and 2 by 30 June 2025, and must deliver a final report to Banka Slovenije by 15 July 2025, enclosing documents and other evidence from which it is evident that the breaches have been rectified. The savings bank must rectify the breaches referred to in point 3 by 30 June 2024, and must submit evidence to Banka Slovenije by 15 July 2024 that the requirements referred to in this point have been met.
5. 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 (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 operative 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 savings bank has not initiated judicial review proceedings against the order on the rectification of breaches.