

Appendix to Governor of Eesti Pank Decree
No 1 of 28 January 2015
“Amendment of Eesti Pank Governor’s
Decree No 2
of 2 January 2014 “Establishment of
reports on operational risk of credit
institutions and consolidation groups of
credit institutions””

Appendix 1 to Governor of Eesti Pank
Decree No 2 of 2 January 2014
“Establishment of reports on operational
risk of credit institutions and consolidation
groups of credit institutions”

Report on operational risk loss events and incidents

1. Purpose of report

The purpose of the report on operational risk loss events and incidents is to obtain data about loss events and incidents registered during the last reporting period per business lines.

2. Scope of report

The report covers:

- 1) operational risk loss events – operational risk events that cause a reduction in the profit or capital of the credit institution and the consolidation group of the credit institution;
- 2) operational risk incidents – operational risk events that do not cause the credit institution or consolidation group of the credit institution to suffer financial losses, which would affect its profit or capital, even though financial losses were expected, or events as a result of which, extraordinary gains were generated.

The report covers all operational risk incidents and loss events that occurred during the reporting period. For the purposes of this report, events which do not have an effect on the usual business activities of the credit institution or have no potential impact on the business volumes, business result, image or availability of services of the credit institution are not deemed to be an incident.

In the report, events whose potential consequences are difficult to measure in money and which have been caused by external events or inappropriate or defective internal processes, systems and/or human activity are also indicated as operational risk incidents.

Events of the same type whose single events have a gross loss, potential loss or extraordinary income of less than 500 euros are indicated as one row. In addition, operational risk incidents of the same type and with a small impact, whose consequences are difficult to measure in money, are indicated as one row.

Events whose reasons are the same and whose description can be presented as a single description are deemed to be of the same type. At least the following indicators shall coincide:

- 1) event identifier, 3) entity’s country of location code, 4) business line identifier, 7) type of

event, 8) sub-type of event, 12) loss event status, 15) relation of the event to other risks.

If both expenses and income incur with an operational risk loss event, the amount of expenses to be indicated in the report can be reduced by such income.

3. Report row structure

- 1) Event identifier
- 2) Internal code
- 3) Code of entity's country of location
- 4) Business line identifier
- 5) Date of occurrence of event
- 6) Date of detection of event
- 7) Type of event
- 8) Sub-type of event
- 9) Description of event
- 10) Loss or extraordinary income
- 11) Unrealised part of gross loss
- 12) Loss event status
- 13) Insurance indemnities
- 14) Other indemnities
- 15) Relation of event to other risks
- 16) Number of events
- 17) Number of clients affected

4. Explanation of report row structure

1) Event identifier

The operational risk event identifier is indicated here. Event identifiers are:

Operational risk loss event	1
Operational risk incident	2

2) Internal code

The code that the credit institution itself uses in its database for identifying a loss event or an incident presented in a report row is indicated here. When aggregating the events of the same type and presenting them as one row, 0 (zero) is indicated in this item.

3) Code of entity's country of location

The code of the country of location of such entity of the credit institution where the loss event or incident occurred is indicated here.

4) Business line identifier

Business lines are determined on the basis of Article 320 (4) of Regulation (EU) No 575/2013 of the European Parliament and of the Council and section 11 of the Insurance Activities Act.

Business line identifiers are:

Corporate finance	1
Trading and sales	2
Retail banking	3
Commercial banking	4
Payment and settlement	5
Agency services	6
Asset management	7
Retail brokerage	8
Life insurance	9
Non-life insurance	10
Reinsurance	11

5) Date of occurrence of event

The date of occurrence of the loss event or incident or the starting date of a loss event which lasted more than one day is indicated here. When aggregating events of the same type and presenting them as one row, the starting date of the reporting period is indicated in this item.

6) Date of detection of event

The date of detection of the loss event or incident is indicated here. When aggregating the events of the same type and presenting them as one row, the end date of the reporting period is indicated in this item.

7) Type of event

The types of loss events and incidents are determined on the basis of Article 324 of Regulation (EU) No 575/2013 of the European Parliament and of the Council. Identifiers of the types of loss events and incidents are:

Internal fraud	1
External fraud	2
Employment practices and workplace safety	3
Clients, products and business practices	4
Damage to physical assets	5
Business disruption and system failures	6
Execution, delivery and process management	7

8) Sub-type of event

8.1. Identifiers of the sub-types of loss events and incidents are:

Unauthorised activities	1
Internal theft and fraud	2
External theft and fraud	3
IT security	4
Employment relations	5
Work environment	6
Discrimination	7
Obligation to inform, suitability and confidence	8
Inappropriate business methods	9
Defective products or services	10
Insufficient client assessment	11
Advisory activities	12
Attacks, disasters and accidents	13
Systems	14
Initiation, performance and administration of transactions	15
Supervision and reporting	16
Client information and documentation	17
Administration of client account	18
Counterparty when trading with financial instruments	19
Suppliers of services and products	20

8.2. Content of the sub-types of loss events and incidents

8.2.1. The sub-type "Unauthorised activities" includes:

- unreported transactions;
- unauthorised use of computer systems;
- performance of unauthorised transactions;
- incorrect presentation of positions;
- intentional breach of risk limits;
- intentional breach of indemnity limits.

8.2.2. The sub-type “Internal theft and fraud” includes:

- fraud;
- credit fraud;
- organisation of insurance fraud;
- production of insurance event;
- theft;
- extortion;
- squandering;
- robbery;
- unauthorised use of the bank’s or client’s facilities;
- unauthorised use of another person’s identity, account or depot;
- tax crime and tax evasion;
- bribery;
- malicious destruction of property;
- transactions performed in one’s name on the basis of inside information.

8.2.3. The sub-type “External theft and fraud” includes:

- theft;
- robbery;
- counterfeiting;
- submission of false information by policy holder.

8.2.4. The sub-type “IT security” involves intrusion into an IT-system or computer and theft of information.

8.2.5. The sub-type “Employment relations” includes:

- problems related to payment of compensation and indemnity and termination of employment relationship;
- intentional and uncoordinated work stoppage and other similar activities organised by employees.

8.2.6. The sub-type “Work environment” includes:

- general civil liability;
- employees’ health protection and events related to general work safety rules;
- compensation.

8.2.7. The sub-type “Discrimination” includes incidents of discrimination.

8.2.8. The sub-type “Obligation to inform, suitability and confidence” includes:

- breach of obligations or instructions as a trustee;
- events of unjustified disclosure of information subject to banking secrecy;
- breach of obligation to keep banking secrecy;
- aggressive sales;
- violation of privacy;
- misuse of confidential information;
- unauthorised trading in the name of a client with the aim of receiving unjustified profit;
- lender’s liability;
- cancellation of insurance contract.

8.2.9. The sub-type “Inappropriate business methods” includes:

- prohibited transactions;
- violation of market practices;
- market manipulation;

- acting without permission;
- money laundry;
- transactions performed in the name of a credit institution on the basis of inside information;
- unlicensed activities.

8.2.10. The sub-type “Defective products or services” includes:

- defects or faults when describing the terms and conditions of products or services;
- defects or faults in internal models;
- complaints related to products or services.

8.2.11. The sub-type “Insufficient client assessment” includes:

- deviations from the guidelines on client assessments;
- exceeding the limit set for a client;
- exceeding of risk limits.

8.2.12. The sub-type “Advisory activities” involves any disputes over advisory activities.

8.2.13. The sub-type “Attacks, disasters and accidents” includes:

- natural disasters;
- terrorism;
- vandalism;
- attacks;
- other accidents.

8.2.14. The sub-type “Systems” includes:

- software failures and interruptions;
- hardware failures and interruptions;
- telecommunication equipment failures and communication interruptions;
- other technical failures and interruptions.

8.2.15. The sub-type “Initiation, performance and administration of transactions” includes:

- omissions in communication;
- errors of obtaining, storing and exchange of information;
- exceeding of deadlines or outstanding obligations;
- misuse of internal model or system;
- accounting errors;
- supply errors;
- misuse of collateral;
- mistakes at maintaining reference data;
- other defective activities related to transactions.

8.2.16. The sub-type “Supervision and reporting” includes failure to follow the reporting obligation and errors in public reports.

8.2.17. The sub-type “Client information and documentation” includes:

- absence of client’s confirmation;
- absence of relevant documents;
- faults at formalising documents.

8.2.18. The sub-type “Administration of client account” includes:

- unauthorised access to account;
- errors in client data;
- loss caused by negligence to client’s facilities.

8.2.19. The sub-type “Counterparty when trading with financial instruments” includes services provided incorrectly by a counterparty who is not a client.

8.2.20. The sub-type “Suppliers of services and products” includes any problems related to outsourcing and disputes with suppliers.

9) Description of event

The description of the content of the loss event or incident is indicated here. The description of event may include up to 3,000 symbols. It is not permitted to use the following symbols in the description: <, >, &, ', “.

10) Loss or extraordinary income

In the event of an operational risk loss event, the gross loss occurred due to the loss event is indicated here.

The total amount of a gross loss includes:

- costs incurred in relation to improvements or replacements ordered outside the credit institution;
- costs incurred in relation to legal servicing ordered outside the credit institution;
- indemnities to third parties in the event that they are not able to use their assets;
- bonuses and rewards paid to employees in the event that their unjustified payment is directly related to an operational risk event;
- unjustified dividend payments in the event that they are directly related to incorrect presentation of the organisation’s business results due to an operational risk event;
- impact of an operational risk event on the profit and other write-offs.

Gross loss does not include:

- time impact or costs incurred thereby;
- credit institution’s internal costs of correction or replacement, which are necessary for restoring the activities to the pre-event level, incl. remuneration for overtime work, internal costs incurred by interruptions in the work of the systems, costs related to risk assessment and investments;
- insurance indemnities related to the event;
- costs of regular servicing and maintenance even in the event that the regular maintenance is related to an operational risk event;
- costs of servicing a legal entity, which are related to the collection of non-performing loans and not to an operational risk event;
- errors arising from event reports where accounting reports are correct;
- costs related to legal servicing if the credit institution files an action.

In the case of an operational risk incident, the loss that would have been incurred after the incident according to the credit institution or the extraordinary income occurred as a result of the incident is indicated. Extraordinary income is indicated with a minus. If the credit institution is not able to measure in money the loss that may occur due to the incident, 0 (zero) is indicated in the item.

11) Unrealised part of gross loss

The estimated additional loss that may occur in future due to the operational risk loss event is indicated here. In the case of an operational risk incident, 0 (zero) is indicated in the item.

12) Loss event status

Here it is indicated whether the operational risk loss event has been terminated or not as of the end of the reporting period. The event status identifiers are:

Open	1
Closed	2

In the case of an operational risk incident, 0 (zero) is indicated in the item.

13) Insurance indemnities

The amount of indemnities received and due from insurance due to the operational risk loss event is indicated here. In the case of an operational risk incident, 0 (zero) is indicated in the item.

14) Other indemnities

The amount of indemnities received and due from other sources due to the operational event is indicated here. In the case of an operational risk incident, 0 (zero) is indicated in the item.

15) Link of event to other risks

Any other risks whereto the loss event was related are indicated here. When assessing the relations to credit and market risks, it must be proceeded from the regulation of the credit and market risk in Regulation (EU) No 575/2013 of the European Parliament and of the Council. When assessing the relations to insurance risk, it must be proceeded from the regulation of the insurance risk in the Insurance Activities Act. In the absence of any relations and in the case of incidents, the identifier 0 (zero) is used – no relation to other risks. Relation identifiers are:

Relation to credit risk	1
Relation to market risk	2
Relation to insurance risk	3
No relation to other risks	0

16) Number of events

The number of loss events or incidents indicated in the report row is indicated here.

17) Number of clients affected

The number of clients affected by the event is indicated here. If the number of clients cannot be accurately assessed, the estimated number of clients affected is indicated here. In the case of similar events, the number of clients must be assessed in the same way. The relevant assessment methodology must be established by the decision of a competent body in the credit institution.

If the credit institution is not able to assess the number of clients affected by the event, -1 (minus one) is indicated in the item.

When aggregating the events of the same type and presenting them as one row, the number of clients affected is indicated in this item. In the case of such events, where the credit institution is not able to assess the number of clients affected by the event, 0 (zero) is indicated in the item.