

# Bank of England

## Prudential Regulation Authority

### Annex II

#### CAP 16.00 Operational Risk Reporting – Instructions

Institutions are requested to report information on Pillar 1 capital charges for operational risk in accordance with the Operational Risk (CRR) Part of the PRA Rulebook.

#### C16.01 Cover Sheet

Table reference	Column	Description
Business Indicator and subcomponents	Date of PRA approval - To excluded divested activities	To provide a date for when the PRA have approved the excluded divested activities.
Business Indicator and subcomponents	Completed (Y/N)	To confirm this has been completed.
Historical losses	Completed (Y/N)	To confirm this has been completed.

#### c 16.02 - Minimum Required Capital

Instructions for the Minimum Required Capital template are contained in the tables below:

##### Column Table

Columns	Heading	Description
0010	Internal Loss Multiplier (ILM) = 1	Firms should calculate each row assuming the ILM is set to 1.
0020	ILM (losses greater than £20,000)	Firms should calculate each row assuming a variable ILM and a minimum threshold for including a loss event in the calculation of average losses set at £20,000 as reported in row 0110 from the Historical Losses table.
0030	ILM (losses greater than £90,000)	Firms should calculate each row assuming a variable ILM and a minimum threshold for including a loss event in the calculation of average losses set at £90,000 as reported in row 0120 from the Historical Losses table.

# Bank of England

## Prudential Regulation Authority

### Row table

Rows	Heading	Description
0010	Minimum required operational risk capital (ORC)	The own fund requirement shall be calculated in accordance with the Operational Risk (CRR) Part of the PRA Rulebook. The amount shall be calculated by multiplying the Business Indicator Component (BIC- from row 0010 from the Business Indicator Component table) and the ILM.
0020	Operational risk risk-weighted assets (RWAs)	Article 92(4) of the 'Required Level of Own Funds (CRR) Part of the PRA Rulebook. Own funds requirements in row 0010 multiplied by 12.5.

### **c 16.03 - Business Indicator Component**

Instructions for the Business Indicator Component template are contained in the tables below:

### Row and Column Table

Rows	Columns	Heading	Description
0010	0010	Business Indicator Component (BIC)	Operational Risk (CRR) Part of the PRA Rulebook, paragraphs 5.7 and 5.8.  The BIC is calculated by multiplying the Business Indicator (BI) by the firm's corresponding regulatory determined marginal coefficient ( $\alpha_i$ ).  This should equal to the sum of columns 0020 to 0040 of row 0020.
0020	0020	Bucket 1 Amount	The amount of BI to be multiplied by the Bucket 1 marginal coefficient of 12%. This amount should not exceed £880 million.
0020	0030	Bucket 2 Amount	Where applicable, the amount of BI to be multiplied by the Bucket 2 marginal coefficient of 15%. This amount should not exceed £25.12 billion.
0020	0040	Bucket 3 Amount	Where applicable, the amount of BI to be multiplied by the Bucket 3 marginal coefficient of 18%.

# Bank of England

## Prudential Regulation Authority

### c 16.04 - Business Indicator and subcomponents

Instructions for the Business Indicator and subcomponents template are contained in the tables below:

#### Column Table

Columns	Heading	Description
0010	T-2	T-2 the previous two year-end of the annual reporting period.
0020	T-1	T-1 the previous year-end of the annual reporting period.
0030	T	T denotes the end of the annual reporting period.
0040	Average amount	All the terms are calculated as the average over three years (T, T-1 and T-2) as reported in column 0040 for each corresponding item.
0050	Component value	The absolute value is reported, for the corresponding items.

#### Row Table

Rows	Heading	Description
0010	Business Indicator (BI)	Operational Risk (CRR) Part of the PRA Rulebook, paragraphs 5.5 and 5.6.  The BI is the sum of the three components: Interest, Lease and Dividend Component (ILDC), Services Component (SC) and Financial Component (FC).  This should equal to the sum of rows 0040, 0220 and 0350.
0020	Business Indicator gross of excluded divested activities	The BI reported in this row includes divested activities as reported on row 0030.
0030	Excluded divested activities	Divested activities where supervisory approval has been given to exclude from the calculation of the BI.

# Bank of England

## Prudential Regulation Authority

0040	Interest, Lease and Dividend Component (ILDC)	<p>Min [Abs (Interest income – Interest expense); 2.25%* Interest earning assets] + Dividend income.</p> <p>The absolute value of interest income is reported in row 0050.</p> <p>Interest earning assets are reported in row 0120.</p> <p>Dividend income is reported in row 0210.</p>
0050	Absolute value of interest income minus interest expense	Absolute value of interest income from row 0030 minus interest expense from row 0090.
0060	Interest income	<p>Interest income from all financial assets and other interest income (includes interest income from financial and operating leases and profits from leased assets).</p> <p>This should be the sum of rows 0070 and 0080 for each period.</p>
0070	Interest income	Interest income from all financial assets and other interest income, excluding profits from leased assets.
0080	Operating leases (income) other than investment property	Operating leases other than investment property shall include the returns obtained by the institution as lessor in their operating leasing activities other than those with assets classified as investment property.
0090	Interest expense	<p>Interest expenses from all financial liabilities and other interest expenses (includes interest expense from financial and operating leases, losses, depreciation and impairment of operating leased assets).</p> <p>This should be the sum of rows 0100 and 0110 for each period.</p>
0100	Interest expense	Interest expenses from all financial liabilities and other interest expenses (excludes losses from leased assets and depreciation and impairments of operating leased assets).

# Bank of England

## Prudential Regulation Authority

0110	Operating leases (expense) other than investment property	Operating leases other than investment property' shall include the costs incurred by the institution as lessor in their operating leasing activities other than those with assets classified as investment property. The costs for the institution as lessee shall not be included.
0120	Interest earning assets	The interest-earning assets (balance sheet item) are the total gross outstanding loans, advances, interest-bearing securities (including government bonds) and lease assets measured at the end of each financial year.  For columns 0010-0030, this should be the sum of rows 0130 to 0200 for each period.
0130	Cash, cash balances at central banks and other demand deposits	Cash, cash balances at central banks and other demand deposits.
0140	Financial assets held for trading	Financial assets held for trading shall include, where the clean price is used, the amounts related to those derivatives classified in the category 'held for trading' which are hedging instruments from an economic but not accounting point of view to present correct interest income from the financial instruments that are hedged. Where the clean price is used, financial assets held for trading shall also include time-apportioned fees and balancing payments in relation to credit derivatives measured at fair value and used to manage the credit risk of part or all of a financial instrument that is designated at fair value at that occasion.
0150	Non-trading financial assets mandatorily at fair value through profit or loss	Gains and losses on non-trading financial assets mandatorily at fair value through profit or loss shall be broken down by type of instrument; each item of the breakdown is the net realised and unrealised amount (gains minus losses) of the financial instrument.

# Bank of England

## Prudential Regulation Authority

0160	Financial assets designated at fair value through profit or loss	A financial asset is held as designated at fair value through profit or loss when it is not at fair value through other comprehensive income (FVOCI) or at amortised cost.
0170	Financial assets at fair value through other comprehensive income	Financial assets are classified and measured at fair value through other comprehensive income if they are held in a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets.
0180	Financial assets at amortised cost	Amortised cost—a financial asset is measured at amortised cost if both of the following conditions are met: the asset is held within a business model whose objective is to hold assets in order to collect contractual cash flows; and the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.
0190	Derivatives — hedge accounting	'Derivatives - Hedge accounting' shall include derivatives with a positive balance for the reporting institution held for hedge accounting under IFRS. Under national GAAP based on BAD (BAD refers to COUNCIL DIRECTIVE of 8 December 1986 on the annual accounts and consolidated accounts of banks and other financial institutions (86/635/EEC)), banking book derivatives shall be classified as derivatives held for hedge accounting only if there are special accounting rules for banking book derivatives under the relevant national GAAP based on BAD and the derivatives reduce risk of another position in the banking book.
0200	Tangible and intangible assets - assets subject to operating lease	Property plant and equipment; Investment property; and other intangible assets.
0210	Dividend income	Dividend income from investments in stocks and funds not consolidated in the bank's financial statements, including

# Bank of England

## Prudential Regulation Authority

		dividend income from non-consolidated subsidiaries, associates and joint ventures.
0220	Services Component (SC)	Max (Fee and commission income; Fee and commission expense) + Max (Other operating income; Other operating expense).
0230	Fee and commission income	Income received from providing advice and services. Includes income received by the bank as an outsourcer of financial services.
0240	Fee and commission expense	Expenses paid for receiving advice and services. Includes outsourcing fees paid by the bank for the supply of financial services, but not outsourcing fees paid for the supply of non-financial services (eg logistical, IT, human resources).
0250	Other operating income	<p>Income from ordinary banking operations not included in other BI items but of a similar nature (income from operating leases should be excluded).</p> <p>Other operating income shall be broken down according to the following items: fair value adjustments on tangible assets measured using the fair value model; rental income from investment property; income on operating leases other than investment property and the rest of operating income.</p> <p>Values in columns 0010 to 0030 should equal to the sum of the following rows: 0260 – 0270 + 0280.</p>
0260	Other operating income	Income from ordinary banking operations not included in other BI items but of a similar nature.
0270	Operating leases other than investment property	Operating leases other than investment property shall include the returns obtained by the institution as lessor in their operating leasing activities other than those with assets classified as investment property. The returns for the institution as lessee shall not be included in the calculation of the BI.

# Bank of England

## Prudential Regulation Authority

0280	Profits from non-current assets and disposal groups classified as held for sale not qualifying as discontinued operations	Profits from non-current assets and disposal groups classified as held for sale not qualifying as discontinued operations.
0290	Other operating expense	<p>Expenses and losses from ordinary banking operations not included in other BI items but of a similar nature and from operational loss events (expenses from operating leases should be excluded).</p> <p>Other operating expenses shall be broken down according to the following items: fair value adjustments on tangible assets measured using the fair value model; direct operating expenses from investment property; expenses on operating leases other than investment property and the rest of operating expenses.</p> <p>Values in column 0010 to 0030 should equal to following rows: 0300 – 0310 + 0320 - 0330 + 0340.</p>
0300	Other operating expense	Other operating expenses.
0310	Operating leases other than investment property	Operating leases other than investment property shall include the costs incurred by the institution as lessor in their operating leasing activities other than those with assets classified as investment property. The costs for the institution as lessee shall not be included in the calculation of the BI.
0320	Expenses related to establishing provisions/reserves for operational loss events: new additions including increases in existing provisions	Expenses related to establishing provisions/reserves for operational loss events: new additions including increases in existing provisions.
0330	Expenses related to establishing	Expenses related to establishing provisions/reserves for operational loss



# Bank of England

## Prudential Regulation Authority

	provisions/reserves for operational loss events: unused amounts reversed during the period	events: unused amounts reversed during the period.
0340	Losses from non-current assets and disposal groups classified as held for sale not qualifying as discontinued operations	Losses from non-current assets and disposal groups classified as held for sale not qualifying as discontinued operations.
0350	Financial Component (FC)	Abs (Net P&L Trading Book) + Abs (Net P&L Banking Book). In the formula, all the terms are calculated as the average over three years.
0360	Net profit (loss) on trading book	This comprises (i) net profit/loss on trading assets and trading liabilities (derivatives, debt securities, equity securities, loans and advances, short positions, other assets and liabilities); (ii) net profit/loss from hedge accounting; and (iii) net profit/loss from exchange differences.
0370	Net profit (loss) on banking book	This comprises (i) net profit/loss on financial assets and liabilities measured at fair value through profit and loss; (ii) realised gains/losses on financial assets and liabilities not measured at fair value through profit and loss (loans and advances, assets available for sale, assets held to maturity, financial liabilities measured at amortised cost); (iii) net profit/loss from hedge accounting; and (iv) net profit/loss from exchange differences.
0380	Gains or (-) losses on derecognition of financial assets and liabilities <b>not</b> measured at fair value through profit or loss, net	Gains and losses on derecognition of financial assets and financial liabilities not measured at fair value through profit or loss. For each item, the net realised gain or loss stemming from the derecognised transaction shall be reported. The net amount represents the difference between realised gains and realised losses.

# Bank of England

## Prudential Regulation Authority

0390	Gains or (-) losses on nontrading financial assets mandatorily <b>at</b> fair value through profit or loss, net	Gains and losses on derecognition of financial assets and financial liabilities mandatorily at fair value through profit or loss. For each item, the net realised gain or loss stemming from the derecognised transaction shall be reported. The net amount represents the difference between realised gains and realised losses.
0400	Gains or (-) losses on financial assets and liabilities designated <b>at</b> fair value through profit or loss, net	Gains and losses on derecognition of financial assets and financial liabilities designated at fair value through profit or loss. For each item, the net realised gain or loss stemming from the derecognised transaction shall be reported. The net amount represents the difference between realised gains and realised losses.
0410	Gains or (-) losses from hedge accounting, net	Gains or (-) losses from hedge accounting, net' shall include gains and losses on hedging instruments and on hedged items, including those on hedged items measured at fair value through other comprehensive income other than equity instruments, in a fair value hedge. It shall also include the ineffective part of the variation of the fair value of the hedging instruments in a cash flow hedge. 'Gains or (-) losses from hedge accounting, net' shall include also the gains and losses from hedges of net investment in foreign operations. This item shall also include gains on hedges of net positions.
0420	Exchange differences [gain or (-) loss], net	Exchange differences [gain or (-) loss], net.

### c 16.05 - Historical Losses

Instructions for the Historical Losses template are contained in the tables below

#### Column Table

Columns	Heading	Description
0010	T-9	T-9 the previous nine year-end of the annual reporting period.

# Bank of England

## Prudential Regulation Authority

0020	T-8	T-8 the previous eight year-end of the annual reporting period.
0030	T-7	T-7 the previous seven year-end of the annual reporting period.
0040	T-6	T-6 the previous six year-end of the annual reporting period.
0050	T-5	T-5 the previous five year-end of the annual reporting period.
0060	T-4	T-4 the previous four year-end of the annual reporting period.
0070	T-3	T-3 the previous three year-end of the annual reporting period.
0080	T-2	T-2 the previous two year-end of the annual reporting period.
0090	T-1	T-1 the previous year-end of the annual reporting period.
0100	T	T denotes the end of the annual reporting period.
0110	Ten year average	The average annual losses net of recoveries and excluded losses over 10 years.

### Row Table

Rows	Heading	Description
0010	Total amount of operational losses net of recoveries (no exclusions)	Based on a loss event threshold of £20,000, the total loss amount net of recoveries resulting from loss events above the loss event threshold for each of the last 10 reporting periods. Losses excluded from the operational risk capital calculation must still be included in this row.
0020	Total number of operational risk losses	Based on a loss event threshold of £20,000, the total number of operational risk losses, for each of the last 10 reporting periods.

# Bank of England

## Prudential Regulation Authority

0030	Total amount of excluded operational risk losses	Based on a loss event threshold of £20,000, the total net loss amounts above the loss threshold excluded (eg due to divestitures) for each of the last 10 reporting periods.
0040	Total number of exclusions	Based on a loss event threshold of £20,000, the total number of exclusions, for each of the last 10 reporting periods.
0050	Total amount of operational losses net of recoveries and net of excluded losses	Based on a loss event threshold of £20,000, the total amount or operational risk losses net of recoveries and excluded losses, for each of the last 10 reporting periods.
0060	Total amount of operational losses net of recoveries (no exclusions)	Based on a loss event threshold of £90,000, the total loss amount net of recoveries resulting from loss events above the loss event threshold for each of the last 10 reporting periods. Losses excluded from the operational risk capital calculation must still be included in this row.
0070	Total number of operational risk losses	Based on a loss event threshold of £90,000, the total number of operational risk losses, for each of the last 10 reporting periods.
0080	Total amount of excluded operational risk losses	Based on a loss event threshold of £90,000, the total net loss amounts above the loss threshold excluded (eg due to divestitures) for each of the last 10 reporting periods.
0090	Total number of exclusions	Based on a loss event threshold of £90,000, the total number of exclusions, for each of the last 10 reporting periods.
0100	Total amount of operational losses net of recoveries and net of excluded losses	Based on a loss event threshold of £90,000, the total amount or operational risk losses net of recoveries and excluded losses, for each of the last 10 reporting periods.

### c 16.06 – Internal Loss Multiplier (ILM)

Instructions for the Historical Losses template are contained in the tables below

# Bank of England

## Prudential Regulation Authority

### Column Table

Columns	Heading	Description
0010	Amount	Number of losses per each row.

### Row Table

Rows	Heading	Description
0010	ILM (losses greater than £20,000)	<p>ILM calculated as <math>\ln(\exp(1) - 1 + (LC/BIC)^{0.8})</math>.</p> <p>Where the Loss Component (LC) is equal to 15 times average annual operational risk losses greater than £20,000 incurred over the previous 10 years.</p> <p>The BIC is reported in row 0010 of the Business Indicator Component table.</p>
0020	ILM (losses greater than £90,000)	<p>ILM calculated as <math>\ln(\exp(1) - 1 + (LC/BIC)^{0.8})</math>.</p> <p>Where the LC is equal to 15 times average annual operational risk losses greater than £90,000 incurred over the previous 10 years.</p> <p>The BIC is reported in row 0010 of the Business Indicator Component table.</p>
0030	ILM (ILM=1)	Internal Loss Multiplier=1