

Bank of England PRA

ANNEX XXXII

Operational Risk Disclosure – Instructions

UKB ORA - Qualitative Information

Row and Column Table

| Rows | Columns | Heading | Description |
|------|---------|---|---|
| 0010 | 0010 | Description of policies, frameworks and guidelines for the management of operational risk | Firms must provide a description of policies, frameworks and guidelines for the management of operational risk. |
| 0020 | 0010 | Description of the structure and organisation of the operational risk management and control function | Firms must provide a description of the structure and organisation of the operational risk management and control function. |
| 0030 | 0010 | Disclosure of the operational risk measurement system | Firms must provide disclosure of the operational risk measurement system. |
| 0040 | 0010 | Description of the scope and main context of the reporting framework on operational risk to executive management and board of directors | Firms must provide a description of the scope and main context of the reporting framework on operational risk to executive management and board of directors. |
| 0050 | 0010 | Description of the risk mitigation and risk transfer used in the management of operational risk | Firms must provide a description of the risk mitigation and risk transfer used in the management of operational risk. |

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UKB OR1 - Historical Losses

Column Table

| Columns | Heading | Description |
|---------|------------------|---|
| 0010 | T-9 | T-9 denotes the previous nine year-end of the financial year reporting period. |
| 0020 | T-8 | T-8 denotes the previous eight year-end of the financial year reporting period. |
| 0030 | T-7 | T-7 denotes the previous seven year-end of the financial year reporting period. |
| 0040 | T-6 | T-6 the previous six year-end of the financial year reporting period. |
| 0050 | T-5 | T-5 denotes the previous five year-end of the financial year reporting period. |
| 0060 | T-4 | T-4 denotes the previous four year-end of the financial year reporting period. |
| 0070 | T-3 | T-3 denotes the previous three year-end of the financial year reporting period. |
| 0080 | T-2 | T-2 denotes the previous two year-end of the financial year reporting period. |
| 0090 | T-1 | T-1 denotes the previous year-end of the financial year reporting period. |
| 0100 | T | T denotes the end of the financial year 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 (including insurance recoveries) resulting from loss events above the loss event threshold for each of the last 10 reporting periods. For a rapidly recovered loss event (within five working days), only the loss net of the partial rapid recovery should be included into the gross loss definition. Losses excluded from the |

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| | | 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. |
| 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. Exclusion of loss events should be rare and supported by strong justification. A loss event should only be excluded if the event is no longer relevant to the firm's risk profile, including in the case of divestitures. For example, the loss should not be excluded if the cause of the loss event could occur in other areas of the bank's operations. |
| 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 of operational risk losses net of recoveries (including insurance recoveries) and excluded losses, for each of the last 10 reporting periods. . For a rapidly recovered loss event (within five working days), only the loss net of the partial rapid recovery should be included into the gross loss definition. |
| 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 (including insurance recoveries) resulting from loss events above the loss event threshold for each of the last 10 reporting periods. For a rapidly recovered loss event (within five working days), only the loss net of the partial rapid recovery should be included into the gross loss definition. 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. |

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| 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. Exclusion of loss events should be rare and supported by strong justification. A loss event should only be excluded if the event is no longer relevant to the firm's risk profile, including in the case of divestitures. For example, the loss should not be excluded if the cause of the loss event could occur in other areas of the bank's operations. |
| 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 of operational risk losses net of recoveries (including insurance recoveries and excluded losses, for each of the last 10 reporting periods. For a rapidly recovered loss event (within five working days), only the loss net of the partial rapid recovery should be included into the gross loss definition. |
| 0110 | Accompanying narrative | Any accompanying narrative which the firm would like to provide. This includes explaining the rationale in aggregate, for new loss exclusions since the previous disclosure. Firms should disclose any other material information, in aggregate, that would help inform users as to its historical losses or its recoveries, with the exception of confidential and proprietary information, including information about legal reserves. |

UKB OR2 - Business Indicator and subcomponents

Column Table

| Columns | Heading | Description |
|---------|---------|---|
| 0010 | T-2 | T-2 denotes the previous two year-end of the financial year reporting period. |

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| 0020 | T-1 | T-1 denotes the previous year-end of the financial year reporting period. |
| 0030 | T | T denotes the end of the financial year 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) | As defined in 5.2 of the Operational Risk (CRR) Part of the PRA Rulebook 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, 0090 and 0140. |
| 0020 | Business Indicator gross of PRA-approved excluded divested activities | The BI reported in this row includes divested activities as reported in row 0030. |
| 0030 | PRA-approved excluded divested activities | Divested activities where supervisory approval has been given to exclude from the calculation of the BI. |
| 0040 | Interest, Lease and Dividend Component (ILDC) | Min [Abs (Interest income – Interest expense); 2.25%* Interest earning assets] + Dividend income. Interest earning assets are reported in row 0070. Dividend income is reported in row 0080. |
| 0050 | Interest income | Interest income from all financial assets and other interest income (includes interest income from financial and operating leases and profits from leased assets). |
| 0060 | Interest expense | Interest expenses from all financial liabilities and other interest expenses |

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| | | (includes interest expense from financial and operating leases, losses, depreciation and impairment of operating leased assets). |
| 0070 | 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. |
| 0080 | Dividend income | Dividend income from investments in stocks and funds not consolidated in the firms' financial statements, including dividend income from non-consolidated subsidiaries, associates and joint ventures. |
| 0090 | Services Component (SC) | Max (Fee and commission income; Fee and commission expense) + Max (Other operating income; Other operating expense). |
| 0100 | Fee and commission income | Income received from providing advice and services. Includes income received by the firms as an outsourcer of financial services. |
| 0110 | Fee and commission expense | Expenses paid for receiving advice and services. Includes outsourcing fees paid by the firm for the supply of financial services, but not outsourcing fees paid for the supply of non-financial services (eg logistical, IT, human resources). |
| 0120 | 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> |
| 0130 | Other operating expense | 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). |

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| | | 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. |
| 0140 | 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. |
| 0150 | 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. |
| 0160 | 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. |

UKB OR3 - Minimum Required Capital

Row and Column Table

| Rows | Columns | Heading | Description |
|------|---------|------------------------------------|--|
| 0010 | 0010 | Business Indicator Component (BIC) | As defined in 5.7 of Operational Risk (CRR) Part of the PRA Rulebook The BIC is calculated by multiplying the BI by the firm's corresponding regulatory determined marginal coefficient (α_i). |
| 0020 | 0010 | Internal loss multiplier (ILM) | The ILM used for calculating minimum regulatory capital requirements for |

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| | | | operational risk. The ILM is set equal to one. |
| 0030 | 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 BIC (from row 0010 column 0010) and the ILM (from row 0020 column 0010). |
| 0040 | 0010 | Operational risk RWAs | Own funds requirements found in row 0030 multiplied by 12.5 in accordance with article 92(4) of the Required Level of Own Funds (CRR) Part of the PRA Rulebook. |
| 0050 | 0010 | Accompanying narrative | Any accompanying narrative which the firm would like to provide. Additionally, firms are expected to supplement the quantitative information provided in both fixed and flexible templates with a narrative commentary to explain at least any significant changes between reporting periods and any other issues that management considers to be of interest to market participants. The form taken by this additional narrative is at the firm's discretion. |