

EESTI PANK
Governor's Decree No. 1
26 January 2010

Amendment of Eesti Pank Governor's Decree No. 4 of 27 March 2007, "Reports on prudential ratios of credit institutions and consolidation groups of credit institutions"

The Decree is established under subsection 71 (7) of the Credit Institutions Act.

§ 1. The following amendments shall be introduced in the Eesti Pank Governor's Decree No. 4 of 27 March 2007, "Reports on prudential ratios of credit institutions and consolidation groups of credit institutions" (RTL 2007, 28, 510; 2007, 93, 1547):

1) section 2 is replaced as follows:

"Credit institutions shall prepare and submit the reports specified in clauses 17-19 of subsection 3 (1) of the Decree only on consolidated basis. Credit institutions not incorporated in the consolidation group of a credit institution shall prepare and submit the reports specified in clauses 17-19 of subsection 3 (1) of the Decree only on solo basis.";

2) clauses 17-19 are introduced to subsection 3 (1) as follows:

"17) "Report on operational risk loss events and incidents" in accordance with Appendix 17;

18) "Report on key indicators of operational risk" in accordance with Appendix 18;

19) "Report on legal actions" in accordance with Appendix 19." (Appendixes 1-3 of this Decree);

3) the first sentence of subsection 5 (3) is replaced as follows:

"The data included in the reports shall be presented as at the end of the reporting period, unless otherwise stipulated in this Decree.";

4) subsections 3¹ and 6 are introduced to section 7 as follows:

"(3¹) The reporting period of the reports specified in clauses 17-19 of subsection 3 (1) of this Decree shall be one quarter.

(6) The reports specified in clauses 17-19 of subsection 3 (1) of this Decree shall be submitted during the month following the reporting period.";

5) clauses 17-19 are introduced to subsection 8 (2) as follows:

"17) "Report on operational risk loss events": 672;

18) "Report on key indicators of operational risk": 673;

19) "Report on legal actions": 674."

§ 2. The Decree enters into force on 1 April 2010.

Andres Lipstok
Governor

Eesti Pank Governor's Decree No. 1,
26 January 2010,
"Amendment of Eesti Pank Governor's Decree No. 4 of 27 March 2007
"Reports on prudential ratios of credit institutions
and consolidation groups of credit institutions""
Appendix 1
Eesti Pank Governor's Decree No. 4,
27 March 2007,
"Reports on prudential ratios of credit institutions
and consolidation groups of credit institutions"
Appendix 17

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 collect data, by business lines, on the loss events and incidents registered in the reporting period.

2. Area of report

The report shall indicate:

- 1) operational risk loss events – operational risk events which have an effect on the profit or capital of the credit institution and the consolidation group of the credit institution;
- 2) operational risk incidents – operational risk events as a result of which the credit institution or consolidation group of the credit institution does not suffer financial losses which would effect its profit or capital, even though financial losses were expected, or as a result of which extraordinary gains were generated.

The report shall indicate operational risk loss events and incidents, which result in gross losses, potential losses, or extraordinary gains equalling to or exceeding the minimum amount of notification, i.e. an amount equalling to 2,500 euros. The report shall also indicate loss events and incidents of the same category, where the gross losses, potential losses or extraordinary gains from single events are smaller than the minimum amount of notification, but where the aggregated gross losses, potential losses or extraordinary gains from events of the same category (same business line, event category or sub-category) exceed the minimum amount of notification.

The report may indicate loss events and incidents with gross losses, potential losses or extraordinary gains below the minimum amount of notification.

In case of operational risk incidents, the report shall also indicate incidents the potential financial consequences of which are difficult to determine, but the effect of which is material to the credit institution of the consolidation group of the credit institution.

If the operational risk loss event generates both losses and gains, the corresponding gains may be deducted from the losses to be indicated in the report.

The report shall be presented in integer units.

3. Structure of report lines

- 1) Event identification code
- 2) Internal code
- 3) Host country code
- 4) Business line identification code
- 5) Date of occurrence of the event
- 6) Date of discovery of the event
- 7) Event category
- 8) Event sub-category
- 9) Description of the event
- 10) Losses or extraordinary gains
- 11) Unrealised losses
- 12) Event status
- 13) Insurance indemnities
- 14) Other indemnities
- 15) Other risk exposures

4. Explanation of the structure of report lines

- 1) Event identification code

This item shall indicate the operational risk event identification code. The following identification codes shall be used:

Operational risk loss event	1
Operational risk incident	2

- 2) Internal code

This item shall indicate the code used by the credit institution in its database for identification of the particular loss event or incident.

- 3) Host country code

This item shall indicate the code of the credit institution's host country where the loss event or incident occurred.

- 4) Business line identification code

Business lines shall be established on the basis of subsection 320 (4) of the decree on prudential ratios, as well as section 11 of the Insurance Activities Act. The following identification codes shall be used for business lines:

Financial advisory	1
Trade	2
Retail banking	3
Business banking	4
Payments and settlements	5
Custody services	6
Asset management	7
Retail customer brokerage	8
Life insurance	9
Non-life insurance	10
Reinsurance	11

5) Date of occurrence of the event

This item shall indicate the date of the loss event or incident, or the starting date of loss events lasting more than one day.

6) Date of discovery of the event

This item shall indicate the date of discovery of the loss event or incident.

7) Event categories

The categories of loss events and incidents shall be established based on section 329 of the decree on prudential ratios. The following identification codes shall be used for categories of loss events and incidents:

Internal fraud	1
External fraud	2
Employment practice and occupational safety	3
Customers, products and business practice	4
Proprietary damage	5
Suspension of business activities and system failures	6
Execution, supply and process management	7

8) Event sub-categories

8.1. The following identification codes shall be used for sub-categories of loss events and incidents:

Prohibited conduct	1
Internal theft and fraud	2
External theft and fraud	3
IT security	4
Labour relations	5
Working environment	6
Discrimination	7
Non-disclosure obligation, appropriateness and confidentiality	8
Inappropriate business methods	9
Deficient products or services	10
Poor customer evaluation	11
Advisory	12
Assault, disasters and accidents	13
Systems	14
Initiation, execution and management of transactions	15
Supervision and reporting	16
Information and documentation on the customer	17
Customer account management	18
Counterparty in financial instrument trading	19
Service and product suppliers	20

8.2. Contents of the sub-categories of loss events and incidents

8.2.1. The sub-category "Prohibited conduct" includes:

- non-reported transactions;

- unauthorised use of computer systems;
- performance of prohibited transactions;
- misrepresentation of positions;
- deliberate breach of risk limits;
- deliberate breach of damage compensation limits.

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

- fraud;
- credit fraud;
- organisation of an insurance fraud;
- staging an insurance event;
- theft;
- extortion;
- wastage;
- robbery;
- unlawful use of bank or customer resources;
- unauthorised use of the identity, account or depot of another person;
- tax offence and tax evasion;
- bribery;
- malicious destruction of property;
- personal transactions conducted on the basis of insider information.

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

- theft;
- robbery;
- forgery;
- submission of false information by policyholder.

8.2.4. The sub-category “IT security” includes unlawful entry of an IT system or computer, and stealing of information.

8.2.5. The sub-category “Labour relations” includes:

- problems related to the payment of compensation and benefits, as well as termination of employment relations;
- deliberate and un-coordinated work stoppages and other similar activities organised by employees.

8.2.6. The sub-category “Working environment” includes:

- general civil liability;
- cases related to staff health protection and general occupational safety rules;
- compensation.

8.2.7. The sub-category “Discrimination” includes cases of discrimination.

8.2.8. The sub-category “Non-disclosure obligation, appropriateness and confidentiality” includes:

- breach of obligations or instructions as a trustee;
- disclosure of information subject to banking secrecy;
- breach of obligation to avoid disclosure of information subject to banking secrecy;
- aggressive sale;
- breach of privacy;
- misuse of confidential information;

- unauthorised trading on behalf of the customer with the aim of generating unjustifiable profit;
- creditor's liability;
- suspension of insurance contract.

8.2.9. The sub-category "Inappropriate business methods" includes:

- prohibited transactions;
- violation of the market practice;
- market manipulation;
- unauthorised conduct;
- money laundering;
- transactions conducted on behalf of the credit institution on the basis of insider information;
- unlicensed activities.

8.2.10. The sub-category "Deficient products or services" includes:

- deficiencies or errors in the description of the products or terms and conditions of the services;
- deficiencies or errors in internal models;
- complaints regarding the products or services.

8.2.11. The sub-category "Poor customer evaluation" includes:

- derogation from the customer evaluation instructions;
- exceeding of the customer limit;
- exceeding of the risk limits.

8.2.12. The sub-category "Advisory" includes disputes over the consultation provided.

8.2.13. The sub-category "Assault, disasters and accidents" includes:

- natural disasters;
- acts of terrorism;
- acts of vandalism;
- assault;
- other accidents.

8.2.14. The sub-category "Systems" includes:

- software malfunctions and failures;
- hardware malfunctions and failures;
- telecommunication device malfunctions and communication failures;
- other technical malfunctions and failures.

8.2.15. The sub-category "Initiation, execution and management of transactions" includes:

- deficient communication;
- errors in data procurement, data preservation and data exchange;
- exceeding of deadlines and failure to fulfil obligations;
- misuse of the internal model or system;
- accounting errors;
- delivery errors;
- mismanagement of collateral;
- comparative data management errors;
- other transaction-related deficiencies.

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

8.2.17. The sub-category “Information and documentation on the customer” includes:

- missing customer confirmation;
- missing documents;
- poor preparation of documents.

8.2.18. The sub-category “Customer account management” includes:

- unauthorised account access;
- faulty customer data;
- damage caused to customer assets due to negligence.

8.2.19. The sub-category “Counterparty in financial instrument trading” includes erroneous services provided by a counterparty who is not a customer.

8.2.20. The sub-category “Service and product suppliers” includes outsourcing problems and disputes with suppliers.

9) Description of the event

This item shall provide a description of the loss event or incident. The maximum length of the description of the event shall be 2,000 characters. It is forbidden to use the “&” and “<” characters, or the character series “]]>” in the description.

10) Losses or extraordinary gains

In case of operational risk loss event, this item shall indicate the gross losses incurred as a result of a loss event.

The total amount of gross losses includes:

- expenses on improvements or replacements ordered from outside the credit institution;
- expenses related to legal services ordered from outside the credit institution;
- compensation to third parties, if they cannot use their assets;
- bonuses and premiums paid to employees if the unjustifiable payment is directly related to the operational risk event;
- unjustifiable dividend payments if these are directly related to the misrepresentation of the organisation’s economic results due to the operational risk event;
- the effect of the operational risk event on the profit, and other write-offs.

Gross losses do not include:

- time effect and the related expenses;
- in-house improvement or replacement expenses of the credit institution, required for restoring activities to their pre-event level, including overtime fees, system failure-related internal expenses, risk evaluation and investment-related expenses;
- event-related insurance indemnities;
- expenses on regular service and maintenance, if the regular service is related to the operational risk event;
- legal service expenses which are related to the collection of problem loans and which are not related to the operational risk event;
- errors deriving from management reports, provided that the financial statements are accurate;
- legal service expenses related to claims filed by the credit institution.

In case of operational risk incident, the losses or extraordinary gains which could have been incurred as a result of the incident in the opinion of the credit institution. Extraordinary gains shall be presented with a “-” sign. If the credit institution is unable to estimate the financial value of the contingent losses, 0 (zero) shall be entered.

11) Unrealised gross losses

This item shall indicate the estimated additional losses which could be incurred as a result of the operational risk loss event in the future. 0 (zero) shall be entered in case of an operational risk incident.

12) Loss event status

This item shall indicate whether or not the operational risk loss event has ended as of the end of the reporting period. The following identification codes shall be used for event status:

Open	1
Closed	2

0 (zero) shall be entered in case of an operational risk incident.

13) Insurance indemnities

This item shall indicate the indemnities received or yet to be received from insurance as a result of an operational risk loss event. 0 (zero) shall be entered in case of an operational risk incident.

14) Other indemnities

This item shall indicate the indemnities received and yet to be received from other sources as a result of an operational risk loss event. 0 (zero) shall be entered in case of an operational risk incident.

15) Other risk exposures

This item shall indicate other risks to which the loss event was exposed. If there is no other risk exposure and in case of incidents, the identification code 0 (zero) shall be used – no other risk exposure. The following identification codes shall be used for exposures:

Exposure to credit risk	1
Exposure to market risk	2
Exposure to insurance risk	3
No other risk exposure	0

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Appendix 2
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27 March 2007,
"Reports on prudential ratios of credit institutions
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Appendix 18

Report on key indicators of operational risk

5. Purpose of report

The purpose of the report on key indicators of operational risk is to collect data on the key risk indicators of the reporting period.

6. Area of report

The report shall specify the key risk indicators, the identification and monitoring of which may help prevent further losses.

The report shall be presented in integer units.

7. Structure of report lines

- 1) Country code of the unit
- 2) Risk indicator identification code
- 3) Risk indicator value

8. Explanation of the structure of report lines

- 1) Host country code

This item shall indicate the code of the credit institution's host country where the risk indicator is identified.

- 2) This item shall specify the risk indicators. Risk indicators shall have the following identification codes:

Number of customers

1

Number of Internet bank customers

2

Number of Internet bank corporate customers

3

Number of telephone bank customers

4

Number of telebank customers

5

Number of mobile telephone bank customers	6
Number of customer complaints	7
Total damages paid to customers	8
Number of notices submitted to the Financial Intelligence Unit	9
Number of employees	10
Number of penalties imposed on employees	11
Number of employment contracts terminated by agreement of the parties	12
Number of employment contracts terminated upon expiry of term	13
Number of employment contracts terminated on the initiative of the employee	14
Number of employment contracts terminated on the initiative of the employer	15
Number of employment contracts terminated for reasons beyond the parties' control	16

3) Risk indicator value

This item shall indicate the numeric value of the risk indicator in integers.

3.1. Number of customers

This item shall indicate the number of customers of the credit institution at the end of the reporting period.

3.2. Number of Internet bank customers

This item shall indicate the number of Internet bank customers of the credit institution at the end of the reporting period.

3.3. Number of Internet bank corporate customers

This item shall indicate the number of Internet bank corporate customers of the credit institution at the end of the reporting period.

3.4. Number of telephone bank customers

This item shall indicate the number of telephone bank customers of the credit institution at the end of the reporting period.

3.5. Number of telebank customers

This item shall indicate the number of telebank customers of the credit institution at the end of the reporting period.

3.6. Number of mobile telephone bank customers

This item shall indicate the number of mobile telephone bank customers of the credit institution at the end of the reporting period.

3.7. Number of customer complaints

This item shall indicate the number of customer complaints registered in the reporting period based on the internal rules of the credit institution.

3.8. Total damages paid to customers

This item shall indicate the amount compensated to customers in the reporting period. The amount shall be presented in integers.

3.9. Number of notices submitted to the Financial Intelligence Unit

This item shall indicate the number of notices submitted to the Financial Intelligence Unit in the reporting period.

3.10. Number of employees

This item shall indicate the number of employees at the end of the reporting period. The employee numbers shall be presented in full time equivalents.

3.11. Number of penalties imposed on employees

This item shall indicate the number of penalties imposed on employees for breach of obligations in the reporting period.

3.12. Number of employment contracts terminated by agreement of the parties

This item shall indicate the number of employment contracts terminated in the reporting period by agreement of the parties on the basis of section 79 of the Employment Contracts Act.

3.13. Number of employment contracts terminated upon expiry of term

This item shall indicate the number of employment contracts terminated in the reporting period upon expiry of term on the basis of section 80 of the Employment Contracts Act.

3.14. Number of employment contracts terminated on the initiative of the employee

This item shall indicate the number of employment contracts terminated in the reporting period on the initiative of the employee on the basis of sections 86 and 91 of the Employment Contracts Act.

3.15. Number of employment contracts terminated on the initiative of the employer

This item shall indicate the number of employment contracts terminated in the reporting period on the initiative of the employer on the basis of sections 86 and 88 of the Employment Contracts Act.

3.16. Number of employment contracts terminated on economic grounds and cancelled collectively on the initiative of the employer

This item shall indicate the number of employment contracts terminated in the reporting period on economic grounds and cancelled collectively on the initiative of the employer on the basis of sections 89 and 90 of the Employment Contracts Act.

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Appendix 19

Report on legal actions

9. Purpose of report

The purpose of the report on legal actions is to collect data on the actions filed against the object subject to supervision in the reporting period, as well as actions which have been subjected to judicial proceedings in all court instances and regarding which the judicial decision of the court of last instance has entered into force.

10. Area of report

The report shall indicate all registered actions where the credit institution or a member of the consolidation group of the credit institution serves as the defendant.

The report shall be presented in integer units.

11. Structure of report lines

- 1) Internal code
- 2) Host country code
- 3) Plaintiff
- 4) Brief description of the action
- 5) Name of the court
- 6) Amount of claim
- 7) Date of submission of the action
- 8) Estimated result for the object subject to supervision
- 9) Date of entry into force of the judicial decision
- 10) Description of the judicial decision
- 11) Damages to be paid under the judicial decision

12. Explanation of the structure of report lines

- 1) Internal code

This item shall indicate the code used by the credit institution in its database for identification of the particular action.

- 2) Host country code

This item shall indicate the host country code of the credit institution against whom the action was filed.

3) Plaintiff

This item shall indicate the name of the plaintiff.

4) Brief description of the action

This item shall provide a description of the action. The maximum length of the brief description of the action shall be 2,000 characters. It is forbidden to use the “&” and “<” characters, or the character series “]]>” in the description.

5) Name of the court

This item shall indicate the name of the court where the action is processed.

6) Amount of claim

This item shall indicate the amount of the plaintiff’s claim specified in the statement of claim.

7) Date of submission of the action

This item shall indicate the date of submission of the action.

8) Estimated result for the object subject to supervision

This item shall indicate the estimated result of the judicial decision for the credit institution. The following identification codes shall be used:

Positive result	1
Negative result	2
Result unknown	0

9) Date of entry into force of the judicial decision

This item shall indicate the date of entry into force of the judicial decision. The code XX shall be used for actions which have been filed against the credit institution in the reporting period but regarding which no judicial decision has entered into force.

10) Description of the judicial decision

This item shall provide a description of the judicial decision. The maximum length of the description of the judicial decision shall be 2,000 characters. It is forbidden to use the “&” and “<” characters, or the character series “]]>” in the description.

The code XX shall be used if no judicial decision has entered into force.

11) Damages to be paid under the judicial decision

This item shall indicate the amount to be paid in damages by the credit institution or a member of the consolidation group of the credit institution under the judicial decision. 0 (zero) shall be used in case of judicial decisions passed in favour of the credit institution, as well as in case of actions which have been filed against the credit institution in the reporting period but regarding which no judicial decision has entered into force.