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Operational Risk Disclosures in Jordanian Commercials Banks: It's Enough

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Abstract

Transparency and disclosure is important ingredient of banking sector stability and this study focuses on assessing the current operational risk disclosure in Jordanian banks. So we focuses on the operational risk items that Jordanian banks disclose and if comply with the central bank of Jordan requirement's.

The survey methodology was adopted by testing the annual financial reports for Jordanian commercial banks. 12 banks were as a whole society. The study found evidence that, Jordanian banks primarily meet the requirement of central bank of Jordan relating to operational risk disclosure, but there are many discrepancies between Jordanian banks relating to formalize the financial report to present the operational risk disclosure in the same format and content, in additon the requirements of central bank of Jordan dose not enough when we compare it with the international bank of settlement. Our study advice to enhance current operational risk disclosure practices in Jordanian banks.

Keywords: Operational risk, Disclosure, Basel II, Bank of International Settlement (BIS).
JEL Classification Code: M41

1. Introduction and Motivation to this Study

The economy is the mainstay of any country, and became the strength of the countries which measured by the efficiency of its economy. Since the banks are the cornerstone of any economy, and the annual reports are available indicator and scale of the work of these banks, it was necessary that these reports reflect the work of those banks clearly, inclusive and transparent, which is the concept of disclosure.

The principle of information disclosure in the financial statements play an important and central in the preparation of accounting data published and this principle is considerable interest by both the Councils professional accounting or regulatory authorities on the profession, in addition to the bodies of the international exchange (Mikhail, 2006) and therefore it is for the preparation of the data that achieve adequate and proper disclosure was necessary to determine the information that should be disclosed and how disclosure by these entities (Lewis and Pendrill, 2000).

The International Accounting Standards Committee issued Standard No. (7) of financial reporting standards and the disclosure of financial instruments, which contains, in part, the disclosure of operational risk, and also has been the adoption of these standards by the Central Bank of Jordan under the last universal him on 5 / 9 / 2007, which defined, in part, the disclosure of operational risk, which stipulates that banks disclose information to help users of financial statements in assessing the nature and degree of risk to the bank, including disclosures and descriptive, including exposure to risk and how they arise, as well as policies and procedures of the bank to accept, measure and control risks.

In addition to the above, there is growing interest by the Bank of International Settlements and practices to expand the concept of disclosure of operational risk to enhance the transparency and clarity in the work of the banking sector and its activities are beyond those existing in the legislation of accounting and local legislation and of the Central Bank and Securities Commission in each state (Institute of International Finance, 2003).

And here we know that a disclosure about operational risk is necessary as part inherent in the nature of banking activity basis, hence the need arises to disclose the nature of this important part in the annual financial reports of banks through disclosed and the nature and characteristics.

1.2. The Problem of the Study

In their annual reports, banking institutions provide stakeholders with relevant financial, operational and strategic information. As a major task of banks is to measure and manage the risks that arise from their business activities and as stakeholders are generally concerned with the levels of risks that a financial institution has taken to achieve a particular outcome, the reporting and discussion of these risks are an integral part in banks' annual reports(Alhaija, 2009).

Under Pillar 3 financial institutions are required to provide detailed information on their capital structure and adequacy, as well as information on the size and assessment of risk exposures. The aim is to provide stakeholders and market participant with an opportunity to better being able to assess the riskiness of the institution.

In this paper we examine the quantity and quality of operational risk measurement and management information that is currently provided by jordanian commercial banks annual reports and assess the results in light of the disclosure requirements for operational risks as put forward by the BCBS(Basel Committee on Banking Supervision).

1.3. The Importance of the Study

The importance of the study are to detect the concept and the adequacy of the operational risk disclosure and the nature of the contiguity of the banking activity and imposed by this nature. And through the preparation of financial statements contain a high level of disclosure to operational risk in order to enhance the transparency of banks and to strengthen the market system by encouraging banks to provide the public (public) and participants in the market (market participant) the information they need in order to assess the financial position of banks and the performance and activities and exposure to economic risk. The importance of this issue because of the weak practices in operational risk management, which was the part from many reasons for the failure of banks and banking crises in the world (BIS, 1999).

1.4. Purpose of the Study

The purpose of this study is to measure the current level of disclosure for the Jordanian banks in operational risk, through the examination of annual financial reports for Jordanian commercial banks and if the current practices comply with BIS and international practices.

2. Literature Review

In this chapter we will discuss the operational risk framework, Operational Risk in Basel II, in accounting standards, in Corporate Governance, and finally we will assess the current operational risk reporting in Jordanian banks.

2.1. Operational Risks: Framework for Definitions and Dimensions

The following sample of the major Operational Risk definitions by the industry and regulators:

__"Op.Risk is the risk of everything other than credit and market risk"

__"Op.Risk is the risk associated with the Operations department" (narrowest definition)

__"Op.Risk is the risk that deficiencies in information systems or internal controls will result in unexpected loss. The risk is associated with human error, systems failure and inadequate procedures or controls" (BIS)

__"OpRisk is the risk of direct or indirect losses resulting from inadequate or failed processes, people, and system or from external events.

Operational Risk may tangibly manifest itself in the likes of business disruption, control failures, errors, misdeeds or external events, and can be captured in five major categories:

1. Organization
2. Policy/Process
3. Technology
4. Human
5. External

The five suggested categories are major and they present a valid base for solving problems for management. The crucial issue is the intellectual framework and discipline for present and future problem-solving approaches under new paradigms:

6. Organization: risks arising from such issues as change management, project management, corporate culture and communication, responsibilities, allocation and business continuity planning.
7. Policy and Process: risks arising from weaknesses in processes such as settlement and payment, non-compliance with internal policies or external regulation or failures in products or client dealings.
8. Technology: risks arising from defective hard- or software, failures in other technology such as networks or telecommunications, as well as breaches in IT security.
9. Human: risks arising from failure of employees, employer, conflict of interest or from other internal fraudulent behavior.
10. External: risks arising from fraud or litigation by parties external to the firm, as well as lack of physical security for the institution and its representatives.

2.2. Operational Risk in Basel II

The BCBS defines operational risk is "…the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events" (BCBS 2004, p.137).This definition includes, for instance, losses due to internal and external fraud, damage to physical assets, or system failures (BCBS 2003, p.2). In Basel II the BCBS suggests the calculation of a regulatory operational risk capital charge along a spectrum of three increasingly sophisticated measurement methodologies, the Basic Indicator Approach (BIA), the Standardized Approaches (TSA) and the Advanced Management Approaches (AMA).

An addition, the final version of the Basel capital framework, which is commonly known as Basel II, was published in June 2004. An updated version was published in November 2005. One of the aspects discussed in the first pillar is the calculation of an operational risk capital charge.

The Basel Committee on Banking Supervision (BCBS) proposes three increasingly sophisticated methodologies, namely the Basic Indicator Approach (BIA), the Standardised Approach, and the Advanced Measurement Approach (AMA). Financial institutions that seek to use a higher approach than the BIA need to fulfill a set of qualifying criteria. For the BIA and the Standardized Approach the capital charge mainly depends on the amount of gross income generated by the financial institution, while in case of the AMA financial institutions are able rely on internally developed models to calculate operational risk capital. This means that this approach provides financial institutions with an opportunity to tailor operational risk measurement systems to their specific institutional needs. A resulting problem is the difficulty for external parties to fully comprehend the workings of the applied models, the underlying assumptions or the potential limitations. Basel II's Pillar 3 recommendations on market discipline seek to address these deficiencies.

Under Pillar 3, financial institutions need to comply with a set of general and specific disclosure requirements. The aim is to increase transparency and thereby to improve market discipline. There are two major parts: the first deals with general considerations for appropriate disclosure, including questions around the nature, frequency, materiality and means of disclosure, and the second part outlines specific disclosure requirements regarding financial institutions' capital position and their exposures to credit, market, interest rate and operational risks. For the purposes of this paper we limit our discussion to those disclosure requirements that relate to operational risk.

At this stage the disclosure requirements for operational risk are merely of qualitative nature. In their annual reports, financial institutions need to provide a general description of their risk management objectives and policies, such as information on strategies and processes, the structure and organization of the risk management function, the scope and nature of risk reporting and/or measurement system as well as information on the use of risk mitigants and/or hedging techniques (BCBS, 2005, p. 190). Further, institutions need to state the measurement approach for which they qualify. Besides this, only institutions that seek to use the AMA are required to disclose further information. This additional disclosure requirement is, however, limited to a description of the institution's measurement methodology, including a discussion of any relevant internal or external factors, as well as details on the use of insurance if used for operational risk mitigation (BCBS, 2005, p. 199).

2.3. Operational Risk in Accounting Standards

Accounting standards setters encourage incentives for improved risk management and its disclosure. Both International Accounting Standards (IAS)3 and the Statements of Financial Accounting Standards (FASB Statements) contain extensive standards on the treatment of credit risk (IAS 30; FASB Statements 5, 15, 114, and 118), while disclosure on operational risk is not explicitly regulated today. The increasing awareness of the relevance of other risks beside credit risk is reflected in IAS 30 paragraphs 50 to 52, dealing with general banking risks under which operational risk can be assumed. These rules demand banks to report the amount set aside for future losses and other unforeseeable contingencies due to general banking risks as well as to abstain from including credits or reductions in such amounts in the net profit or/loss.

2.4. Operational Risk in Corporate Governance

Corporate governance standards and recommendations which have emerged recently in most financial markets aim to increase disclosure in order to provide investors with a fuller picture of embedded risks and conflicts of interests within publicly quoted firms. In the United States, the Sarbanes-Oxley Act of 2002, United States (2002), establishes clear standards for management's accountability arising from disclosures and dictates consequences for non-compliance.

In the United Kingdom, the Combined Code set out by the Financial Services Authority, FSA (2003), as well as in Germany the Banking Act Section 25, Germany (1998), and the Law on Control and Transparency in Business, Germany (1998), emphasize that all staff members should be made aware of their risk management responsibilities and specially point to the senior management's overall responsibility for risk management and relevant disclosures.

Furthermore, rating agencies are starting to incorporate banks' operational risk management approaches into their rating decision being specifically interested in whether banks have collected a history of loss data. Operational risk is starting to influence rating decisions and thus a bank's cost of capital. An increasing influence of auditors on the disclosure of looming operational risks can be seen for example in the inclusion of disclosures of pending lawsuits in share issue prospectuses.

2.5. Why We Assess Bank Disclosure Practices

Enhanced accounting disclosure leads to better transparency and stronger market discipline in the banking sector. The third pillar of Basel II, Basel Core Principles No.21, and recently the Policy Brief released by the OECD “Corporate Governance of Banks” Task Force, have explicitly asked for better disclosures by banks to allow the market to have a better picture of the overall risk position of the banks and to allow the counterparties of the banks to price and deal appropriately. More disclosures should reduce information asymmetry between those with privileged information and outside small investors, and facilitate more efficient monitoring, because sufficient information is necessary for market participants to exert effective disciplinary roles. 1 According to a McKinsey “Global Investor and Emerging Market Policymaker Opinion Survey on Corporate Governance”, “accounting disclosure” was listed as the number one most important factor considered by 71% of investors surveyed, and “enhanced disclosure” was named as number one key progress area by 44% of policymakers.

Accounting disclosure is raised to a particularly high level of importance for banking organizations compared to non-financial firms, for banks are inherently more opaque. Accounting reports are almost the sole source of information for bank investors and other stakeholders. Banks own few physical and visible assets, and investors can acquire a sense of a bank’s performance and asset quality only from accounting numbers. Earnings numbers alone are not adequate for assessing the valuation of banks, the main business of which is to take risks and to provide liquidity (and thus earnings can be inflated through doing more of them). Thus profitability does not give investors the whole picture of the bank’s financial situation, until risk profile of the bank is holistically disclosed. Finally, aggregate accounting numbers (e.g., total profits, total loans) without reasonable level of breakdown is less informative for banks than it is for industrial firms, because the most important information usually lies in the details of the sources of income and expenses, or quality of assets. Investors need this information to make judgments on which incomes are sustainable and which expenses are recurring.

Transparency and disclosure is important ingredient of banking sector stability. Enhanced bank disclosures have been showed to be able to make banking crisis less likely to happen (Tadesse [2005], Hoggarth, Jackson, and Nier [2003]), because in high disclosure regime banks are less likely to take excessive risks (Nier and Baumann [2006]), and when they happen the losses less costly (Rosengren [2001]). The reason is that worse-run banks will see their funding base shrank as a result of market discipline, and thus situations would not have deteriorated to a disaster-level in the first place. The key for market discipline however is information disclosure. Cordella and Yeyati (1998) and Boot and Schmet is (2000) both show that, ex-ante, managers will choose lower risk when the risk profile is observable to outsiders; and ex-post, when a banking crisis does occurs; for example, Hoggarth et al. (2003) argue that disclosures reduce the likelihood of runs on fundamentally sound banks.

Finally, in our study we examine the operational risk disclosure practices for Jordanian banks. We gather information from the 2010 annual reports of these institutions. We adopt a content-analysis approach, as information in risk management reports is predominantly of qualitative nature. The focus of our study is the disclosure of information on operational risk measurement and management practices and methodologies in light of approaching implementation of the Basel II framework.

3. Previous Study

1. GÄunther & Christian, (2006) "Determinants of Operational Risk Reporting in the Banking Industry"

The study investigates on operational risk disclosure practices in the banking industry for a sample period in which the concern about operational risk started to increase, by analyzing the 1998 to 2001 annual reports. The first aim of the study is to give a comprehensive overview of banks' practices related to operational risk reporting, also the study provide arguments that disclosure on operational risk might have the potential to reduce the cost of capital, agency costs, the expected cost of financial distress and political costs arising from regulatory actions.

The study found that the extent of disclosure, as measured by word count, and the information content of reports, as measured by a disclosure index, increased significantly over the survey period.

2. Stephen & William, (2009) "Mandatory Disclosure and Operational Risk: Evidence from Hedge Fund Registration"

The study indicates that mandatory disclosure is a regulatory tool intended to allow market participants to assess operational risk and based on this the study examine the value of disclosure through the controversial SEC requirement, since overturned, which required major hedge funds to register as investment advisors and file Form ADV disclosures. The study found that Leverage and ownership structures suggest that lenders and equity investors were already aware of operational risk. However, operational risk does not mediate flow-performance relationships. Investors either lack this information or regard it as immaterial.

3. Giuseppe &,Alessandro 2011 " WHAT HAS WORKED IN OPERATIONAL RISK?"

The study indicate that Financial institutions have always been exposed to operational risk – the risk of loss, resulting from inadequate or failed internal processes and information systems, from misconduct by people or from unforeseen external events. Both banking supervision authorities and banking institutions have recently showed their interest in operational risk measurement and management techniques. This newfound prominence is reflected in the Basel II capital accord, including a formal capital charge against operational risk, based on a spectrum of three increasingly sophisticated measurement approaches.

The objective of the study is to increase the level of understanding of operational risk within the financial system, by presenting a review of the literature on the modeling techniques proposed for approach such risk in financial institutions.

The study performs a comprehensive evaluation of commonly used methods, with a view to compare the performance of different estimators and quantitative estimation methods, for implementation of operational risk measurement. The study found that there is currently high variability in the quality and quantity of disclosure on operational risk so and there offers instructive and tractable recommendations for a more effective operational risk measurement.

4. Ojo, (2010) "The Impact of Capital and Disclosure Requirements on Risks and Risk Taking Incentives"

This study is primarily aimed at highlighting the role and significance of asymmetric information in contributing to financial contagion. Furthermore, in emphasizing the importance of greater disclosure requirements and the need for the disclosure of information relating to "close links", such disclosure being considered vital in assisting the regulator in identifying potential sources of material risks, it illustrates the fact that incentives (such as the reduction in the levels of capital to be retained by institutions), which have the potential to facilitate market based regulation (through non binding regulations), may not necessarily serve as suitable means in the realization of some of Basel II's objectives – namely the achievement of "prudentially sound, incentive-compatible and risk sensitive capital requirements".

The study also attempts to raise the awareness that the operation of risk mitigants does not justify a reduction in the capital levels to be retained by banks – since banks operating with risk mitigants could still be considered inefficient operators of their management information systems

(MIS), internal control systems, and risk management processes. The fact that banks possess risk mitigants does not necessarily imply that they are complying with Basel Core Principles for effective. The study conclude that information disclosure should be encouraged for several reasons, amongst which include the fact that imperfect information is considered to be a cause of market failure – which “reduces the maximization potential of regulatory competition”, and also because disclosure requirements would contribute to the reduction of risks which could be generated when granting reduced capital level rewards to banks who may have poor management systems.

4. Research Design

In this chapter we will present the design of our research. First, the research factors which indicate for operational risk sufficiency will be discussed. Second, the sample selection and composition is presented. Then, the empirical model we use to test our factors will be explained and analysis:

4.1. Research Factors

Based on reviewing many literatures, Jordanian regulation, Basel II and best practices, we decided to measure the operational risk disclosure by defining the following three variables:

1. **Hierarchical issues**, which includes (Risk Management Framework; establishing operational risk committee; Operational Risk Management Department).
2. **Regulatory Issues** and this include (Operational risk capital charge as a % of minimum regulatory capital; Operational Risk exposure (by business line if available; Unexpected loss from operational risk)
3. **Definition issues**, which includes (Operational Risk Definition: Operational risk measurement system; Information on Key risk indicators; Technology and system risk; Risk of human error; Legal risk & other Op. risk)

4.2. Sample Selection

In our sample we include all Jordanian commerical banks, so the study population includes all Jordanian banks up to the year (2010)'s which is (12) Jordanian commerical banks. The study sample included all of these banks,'s that represent sampling units.

4.3. Data Analyses and Results

The following tables shows the disclosure items for all Jordanian banks and if comply with our research factors by match each factor with annual report for each bank.

Table 1:

<table>
<tr><th>Disclosure Item</th><th>Risk Manageme nt Framework</th><th>Operational Risk Definition</th><th>Establishin g operational risk committee</th><th>policies, processes and procedures to control or mitigate operational risk</th><th>Operational Risk Manageme nt Department</th><th>Operational risk capital charge as a % of minimum regulatory capital</th><th>Operational Risk exposure (by business line if available)</th><th>operational risk measureme nt systems</th></tr>
<tr><td>Arab Bank Group</td><td>√</td><td>√</td><td>√</td><td>√</td><td>√</td><td>|</td><td>|</td><td>|</td></tr>
<tr><td>Housing Bank for Trade and Finance</td><td>√</td><td>|</td><td>√</td><td>|</td><td>|</td><td>|</td><td>|</td><td>|</td></tr>
<tr><td>Ahli Bank</td><td>√</td><td>|</td><td>√</td><td>|</td><td>|</td><td>|</td><td>|</td><td>|</td></tr>
</table>

Table 1: - continued

Cairo Amman Bank	√	√	√	√	√	I	I	√
Union Bank	√	I	I	I	√	I	I	I
Jordan Kuwait Bank	√	I	√	√	I	I	I	√
Bank Of Jordan	√	√	√	√	√	I	I	√
Jordan Islamic bank	√	√	√	I	√	I	I	I
Capital Bank	√	√	√	√	√	I	I	√
Arab Jordan Investment Bank	I	I	I	I	I	I	I	I
Islamic Arab bank	√	√	√	√	√	I	I	√
Societe Generale de Banque	√	I	√	I	√	I	I	I

Table 2:

Disclosure Item	Information on the models used to manage and measure operational risks	Information on Key risk indicators (KRI)	Unexpected loss from operational risk	Technology and system risk	Risk of human error	Legal risk & other Op. risk
Arab Bank Group	I	I	I	√	√	I
Housing Bank for Trade and Finance	I	I	I	I	I	I
Ahli Bank	I	I	I	I	I	I
Cairo Amman Bank	√	√	I	I	√	I
Union Bank	√	I	I	I	I	I
Jordan Kuwait Bank	√	√	I	I	I	I
Bank Of Jordan	√	√	I	I	√	I
Jordan Islamic bank	I	I	I	I	I	I
Capital Bank	√	I	I	I	I	I
Arab Jordan Investment Bank (AJIB).	I	I	I	I	I	I
Islamic international Arab bank	√	I	I	I	I	I
Societe Generale de Banque / Jordanie	I	I	I	I	I	I

Table 3: Summery

Disclosure item	% percentage
Risk Management Framework	92%
Operational Risk Definition	50%
Establishing operational risk committee	83%
policies, processes and procedures to control or mitigate operational risk	50%
Operational Risk Management Department	67%
Operational risk capital charge as a % of minimum regulatory capital	0%

Table 3: Summery - continued

Operational Risk exposure (by business line if available)	0%
Operational risk measurement system	42%
Information on the model used to manage and measure operational risk	50%
Information on Key risk indicators (KRI)	25%
Unexpected loss from operational risk	0%
Technology and system risk	8%
Risk of human error	25%
Legal risk & other Op. risk	0%

% percentage: equal the existence of item in banks divided on total number of banks

From the above table we found evidence that Jordanian banks have overall operational risk disclosures, especially in disclosing risk management framework , establishing operational risk committee , operational risk management department. While we mention that there is a negative attitude for giving details about how operational risk included in capital charge calculation, quantitative figures on operational risk exposure, and disclosure for unexpected loss from operational risk.

5. Results

The previous sections of this chapter presented the results of our research. In this section, we will recap and analyze these results.

First, by analyzing Jordanian banks annual reports, we provide evidence that both extent and content of banks' disclosure on operational risk are substantially good, reflecting the intensified risk management efforts of banks, supervisors, and other agents.

Second, we found evidence that, Jordanian banks primarily meet the requirement of central bank of Jordan relating to operational risk disclosure and in some times enhance and exceed above the requirement.

Third, there are many discrepancies between Jordanian banks relating to formalize the financial report to present the operational risk disclosure in the same format, in another word we found many difficulties to track where Jordanian banks disclose on operational risk and in at what pages.

Fourth, the requirements of central bank of Jordan dose not enough when we compare it with the international bank of settlement.

Fifth, based on the Basel committee opinion that the area of operational risk disclosure is not yet well, because banks are still in the process of developing operational risk management techniques and the Committee believes that where a bank has a sound operational risk management framework that identifies, measures, monitors and controls operational risk in an effective manner, then disclosure of such a framework will prove beneficial to the bank in accessing the markets and will improve the effective allocation and pricing of capital.

Finally, under international accounting standards the disclosure on operational risk is not explicitly regulated until today and the standards focused on credit risk.

6. Recommendations

First, we advise central bank of Jordan to enhance the operational risk disclosure requirements by impose on Jordanian banks to give more details on managing operational risk.

Second, central bank of Jordan should require banks to have an effective system in place to identify measure, monitor and control operational risks as part of an overall approach to risk management.

Third, Jordanian banks should uniform or harmonize the annual reports by following a sequences in presenting the information especially those related to disclosure figures and this also can be impose by central bank of Jordan.

Fourth, a higher level of disclosure would allow for an evaluation using a more detailed index especially quantitative disclosures related to operational risk could provide a fruitful basis for future research.

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Appendix 1: Extracts of Operational Risk Disclosure from 2010 Annual Reports / Jordanian Banks

Bank **Disclosure Extract examples**

Cairo Amman Bank

Risk management :Risk is inherent in the Bank's activities, the process of risk management is critical to the Bank's continuing profitability through implementing a comprehensive strategy for risk management by addressing the risks and attempting to mitigate them through specialized risk management committees; mainly risk committee, assets and liabilities committee, investment committee, and procedures development committee. Specialized departments within the Bank such as Risk Management Department and Internal Audit Department also play a crucial role in the process. In addition, each individual and department within the Bank is responsible for the risk exposures relating to his or her responsibilities.

The risk management process include identification, measurement, and evaluation of risks whether financial or non-financial risks that could negatively affect the Bank's operations or reputation.

Operational risk is the risk of loss arising from systems failure, human error, fraud or external events. Maintaining adequate internal control structure is the key in managing operational risks, including effective segregation of duties, access, authorization and reconciliation procedures, staff education and assessment processes, as well as the use of internal audit. In addition, the Bank adopted an operational risk policy that covers all the Bank departments, branches and subsidiaries, and continues to monitor all type of operational risks and the related mitigating controls, as well as those related to new products. The Bank has built an internal loss date that captures all losses incurred or potential losses in order to measure the operational risk exposure.

Risk management committee : Reviewing stress tests on credit, liquidity, market and operational risks and approving contingency planning.

Operational Risk

Operational risk is the risk of loss arising from system failure, human error, fraud or external events. The general framework for the operational risk management is as follows:

- Managing operational risk is the responsibility of all employees in the bank through the proper application of policies and procedures that would curb these risks and exposures that arise during daily operations. A special department was established since 2005 to facilitate and support all departments of the bank to carry out their duties in managing those risks.
- Because of the constant change in the environment of work as a result of the willingness of the bank's management to keep pace with technology and new banking products and services, the bank has adopted and implemented several procedures to help the different departments identifying, measuring, following-up and controlling operating risks that arise from the introduction of new products and services.
- An Operational Risk Policy was developed to cover all the bank's departments, branches and subsidiaries which include risk appetite thresholds and risk limits.
- Defining the general operational risk management framework of risk management, including defining the roles and responsibilities of all: the Board of Directors, the Risk committee, senior management, directors of departments, Risk Management and Audit.

Implementing Operational Risk measurement techniques that aim at identifying risks to the Bank and evaluating them in terms of the magnitude of the impact and frequency of occurrence, in order to take appropriate action that would mitigate these risks through the implementation of the

Control and Self Assessment System (CRSA), as well as data collection and review of actual and potential losses resulting from operations.

Bank Disclosure Extract examples

Arab Bank

The Operational Risk Management Department, which also covers strategic and reputation risks, leads the implementation of a Bank-wide enterprise risk management framework, as part of the overall strengthening and continuous improvement of the controls within the Bank. The framework consists of policies and procedures supported by a formal methodology of risk-control and self-assessment for the identification, assessment, mitigation,control and reporting of operational risk in all business activities.

Operational Risk

Operational risk is defined as the loss incurred by the Group due to disorder in work policies or procedures, personnel, automated systems, technological infrastructure,in addition to external accidents. Such risk is measured through statistical methodologies compatible with the Group's operations.

The responsibilities of the Bank's Risk Management department include:(1) Analysis of all risks including credit risk, market risk, liquidity risk and operational risk; The functions of the Risk Management department are assisted by a network of properly constituted, authorized, and documented committees such as credit committees, assets and liabilities/treasury committees, and operational risk committees.

Bank Disclosure Extract examples

Capital Bank

Operational risk: Operational risk is defined as the risk of loss arising from inadequate or failure of internal processes, people and systems, or resulting from external events. From a management perspective, this definition also includes legal risk, strategic risk and reputational risk for the purposes of managing these types of risk. Each employee of the Bank, regardless of level and rank, is responsible for managing the operational risk through the proper implementation of internal procedures, which can mitigate the risks in the Bank's daily transactions. Due to the continuous change in the working environment and the management's desire to remain in-sync with all the technological advancements and introduce new banking services and products, several methodologies have been implemented to assist the different units in identifying, measuring, monitoring and controlling the operational risks that may arise. Among these procedures, an Operational Risk

Policy has been designed and developed to cover all of the Bank's departments, branches and its subsidiary, whereby the main principles are included and the policy's objectives are aligned with the bank's strategic objectives. In addition, the policy determines the level of risk appetite, including ceilings and upper acceptable limits for deviation from the acceptable risk levels.

The Bank is working on establishing a database on the actual and projected losses, in order to identify the true size of exposure to operational risks

The Bank maintains an appropriate paid in capital in order to meet its operational risk, and it regularly monitors its capital adequacy in accordance with BASEL to comply with the Central Bank of Jordan's regulations.

Operational Risk Unit adopted the Control and Risk Self Assessment methodology (CRSA) for evaluation of risks and controls, which is one of the tools suggested by the International Basel Committee, for evaluating and monitoring operational risk

Bank	Disclosure Extract examples

International Islamic Arab Bank

Risk Management Committee.

- The responsibilities of the Risk Management Division in the Bank include

Analyzing all risks including credit risks, market risks, liquidity risks, and operational risks.

Operational Risk Division assist the Risk Management Division in fulfilling its duties as per the authorities stated for them.

The Operational Risks Unit works according to a certain framework of operational risks management.

This framework includes policies and procedures explaining the mechanism through which risks are defined, assessed, processed in priority, and then reduced or brought under control through available reduction mechanisms and control activities, which can in turn work on reducing the possibility of occurrence of risks and control of any negative effects arising from any event classified as an operational risk.

Operational risks are measured, as stated in the Central Bank of Jordan's instructions as per BaselII, by basic indicator approach or standardized approach. The Bank seeks actually to carry out the standardized approach to measure its operational risks.

Operational risks are as well known as: "risks of loss arising from inadequacy or failure in internal operations, personnel or systems, from external events, or even from events caused by incompliance with the Islamic rules and regulations.

This definition of operational risks includes legal risks".

Operational Risks Management Unit includes (Business Continuity Management Department; Information Security Department)