

**OPERATIONAL RISK**

The Banco de España defines operational risk as the risk of incurring losses due to the inadequacy or failure of internal processes, personnel and systems, or due to events outside the organisation. The Operational Risk Management System developed by the Bank following the guidelines set in the document entitled “International Convergence of Capital Measurement and Capital Standards” (Basel II, revised framework) sets out policies, functions and internationally accepted procedures for proper operational risk management.

This system takes as its starting point **an inventory of the functions, processes and activities** of each organisational area of the Bank, which make up the **Process Map**. This inventory is needed to subsequently identify the attendant risks, which together constitute the **Risk Map**. This identification is based on an analysis of possible contingencies which may affect the Bank’s functioning and of the specific measures taken to prevent them from occurring and to reduce damage if they do occur.

To determine the relative importance of the risks identified, these are assessed qualitatively according to: 1) the impact or damage they may cause, and 2) how often they may occur, bearing in mind the existing control environment. The risks thus assessed are placed in the Risk Matrix, classified into categories according to their impact and frequency. The business areas inform the Risk Management Committee of the most significant risks and of the possible mitigation measures to reduce the severity and frequency of the contingencies identified. This committee is responsible for approving them and accepting the residual risks. The results of the self-assessment conducted by the areas are compared with the information drawn from the systematic register of loss events in order to adjust their impact and/or frequency of occurrence in line with actual events.

The level of operational risk is estimated by VaR methodology with a 99.9% confidence level and a one-year time horizon.