LIST OF DEFINITIONS

INTERNAL GOVERNANCE

In these guidelines, the term ‘internal governance’ is used, as opposed to the term ‘corporate governance.’ While corporate governance has a wider scope and includes issues that concern the shareholders and other stakeholders of an institution, internal governance focuses on the responsibility of the Board of Directors and senior management. It is mainly concerned with setting the institution’s business objectives and its appetite for risk, how the business of the institution is organised, how responsibilities and authority are allocated, how reporting lines are set up and what information they convey, and how internal control (including risk control, compliance, and internal audit) is organised.

INSTITUTIONS

Credit institutions as defined in the CRD.

INTERNAL CONTROL

The Board of Directors is responsible for ensuring that the institution has in place the three independent functions that constitute an efficient system of internal control. These functions are risk control, compliance and internal audit. The risk control function ensures that risk policies are complied with. The compliance function identifies and assesses compliance risk. The internal audit function is an instrument for the Board of Directors to ensure that the quality of the risk control function and the compliance function is adequate. Internal control also includes, for example, accounting organisation, treatment of information, risk assessment and measurement systems.

RISKS

For the purposes of this Rule, the risks faced by institutions are defined as follows:

Business risks: consists amongst others of credit risk, market risk, interest rate risk, liquidity risk, operational risk, strategic risk and reputation risk.

Concentration risk: as part of credit risk, concentration risk includes (i) large (connected) individual exposures and (ii) significant exposures to groups of counterparts whose likelihood of default is driven by common underlying factors, e.g. sector, economy, geographical location, instrument type.

Credit risk: the current or prospective risk to earnings and capital arising from an obligor's failure to meet the terms of any contract with the institution or its failure to perform as agreed. This risk includes residual risk, the credit risk in securitisation and cross-border (or transfer) risk.

Interest rate risk: the current or prospective risk to earnings and capital arising from adverse movements in interest rates.

IT risk (subcategory of operational risk): the current or prospective risk to earnings and capital arising from inadequate information technology and processing in terms of manageability, exclusivity, integrity, controllability and continuity, or arising from an inadequate IT strategy and policy or from inadequate use of the institution's information technology.

Legal and compliance risk (subcategory of operational risk): the current or prospective risk to earnings and capital arising from violations or non-compliance with laws, rules, regulations, agreements, prescribed practices, or ethical standards.

Liquidity risk: the current or prospective risk to earnings and capital arising from an institution's inability to meet its liabilities when they become due.

Market risk: the current or prospective risk to earnings and capital arising from adverse movements in bond prices, security or commodity prices or foreign exchange rates in the trading book. This risk can arise from market making, dealing and position taking in bonds, securities, currencies, commodities, or derivatives (on bonds, securities, currencies, or commodities). This risk includes foreign exchange risk, defined as the current or prospective risk to earnings and capital arising from adverse movements in currency exchange rates.

Operational risk: the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events. This risk includes IT, legal and compliance risk.

Reputation risk: the current or prospective risk to earnings and capital arising from adverse perception of the image of the financial institution on the part of customers, counterparties, shareholders, investors or regulators.

Residual risk (subcategory of credit risk): the risk that recognized risk measurement and mitigation techniques used by the credit institution prove less effective than expected.

Settlement Risk: The risk that the credit institution will deliver the sold asset or cash to the counterparty and will not receive the purchased asset or cash as expected. As such, a settlement risk comprises credit risk and liquidity risk.

Strategic risk: the current or prospective risk to earnings and capital arising from changes in the business environment and from adverse business decisions, improper implementation of decisions, or lack of responsiveness to changes in the business environment.