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# Glossary Annual Report

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## BNG Bank 2016

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This glossary is intended to clarify specific terms used in the Annual Report.

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## **DISCLAIMER**

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This is an unofficial translation of the Glossary Annual Report BNG Bank 2016 (Dutch Begrippenlijst jaarverslag BNG Bank 2016.pdf), which is provided for convenience purposes only. In the event of any ambiguity, the Dutch text will prevail.

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## BNG Bank 2016

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#### **BASEL III**

A global regulatory agreement developed by the Bank for International Settlements (BIS), setting out specific provisions concerning risk, capital and liquidity management within the banking sector. Basel III follows on from Basel II after banks were found to run risks that could not be covered due to the capital requirements imposed in that agreement. Basel III is to enter into full force effective 2019.

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#### **CAPITAL REQUIREMENTS DIRECTIVE (CRD)**

The CRD, in conjunction with the Capital Requirements Regulations (CRR), forms the capital implementation framework for the Basel Accord for credit and investment institutions in the European Union. The difference between the CRR and the CRD is that the CRR is fully applicable to each member state, while the CRD offers institutions some room to implement the provisions at their own discretion.

**CAPITALIZATION POLICY**

The parameters set by BNG Bank for the growth and size of its equity in relation to the bank's activities and the applicable regulations.

**COMMON EQUITY TIER 1 (CET1) RATIO (IN ACCORDANCE WITH BASEL III)**

The CET1 ratio is the ratio of a bank's core equity capital (share capital plus reserves) to its total risk-weighted assets. It indicates the degree of a bank's loss absorption capacity. Assets are assessed in proportion to the risk. Loans granted to or guaranteed by the Dutch government authorities are therefore regarded as (virtually) free of credit risk.

**COMPANY CODE**

The company code describes the conduct BNG Bank requires from its employees and describes the manner in which BNG Bank desires to address integrity. The Company Code provides that BNG Bank staff must exercise due care and respect in collaborating with internal and external stakeholders and look after their interests in a responsible manner.

**COMPANY FINANCIAL STATEMENTS**

Company financial statements are separate financial statements presented by the parent company, containing the parent company's annual figures in which investments in associates are valued for accounting purposes on the basis of the direct shareholding.

**COMPLIANCE**

Observance of laws and regulations, as well as working in accordance with the standards and rules drawn up by the institution itself.

**CONSOLIDATED FINANCIAL STATEMENTS**

The financial statements of a group of legal entities in which the annual figures of both the parent company and its subsidiaries included in the consolidation are aggregated into the accounting figure, and shown as belonging to a single reporting entity.

**CONSORTIUM (FINANCING)**

A group of banks that work together to provide financing. The collaboration only applies to the relevant financing arrangement.

**CORE ACTIVITIES**

BNG Bank's principal activities: lending to and payment services for government authorities and public sector institutions.

**CORE CLIENT SECTORS**

The sectors on which BNG Bank focuses in particular: local authorities, housing associations, healthcare institutions and education institutions.

**CORE VALUES**

The basic principles observed by BNG Bank in its operations: reliable, sustainable and professional.

**CORPORATE GOVERNANCE**

Corporate governance is the system of principles and best-practice provisions regulating relations between the Executive Board, the Supervisory Board and the (general meeting of) shareholders. The Dutch corporate governance model is characterized by the two-tier board structure, which provides for a Supervisory Board with supervisory duties and an Executive Board with executive management duties.

**CREDIT RISK BEARING LENDING**

Loans granted to private institutions without a government guarantee. Private institutions may be faced with payment difficulties or be declared bankrupt. Accordingly, there is a risk that the funds provided to these institutions will be paid back only in part, or not at all. A certain amount of equity must therefore be maintained as a financial buffer.

**CREDITWORTHINESS**

The degree of certainty that an institution is always capable of meeting its financial obligations.

**CSR**

Corporate social responsibility: BNG Bank currently applies the following definition to CSR: consciously focusing business activities on the longer term and on value creation in three dimensions: the Market, People and the Environment.

**CUSTOMER DUE DILIGENCE POLICY (CDD)**

A tool to ensure that financial institutions know their clients and do not enter into relationships with persons that may harm confidence in the financial institution.

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**DEBT ISSUANCE PROGRAMME (DIP)**

A program under which loans may continuously be taken out up to a maximum limit under standardized terms and conditions.

**DERIVATIVES**

Investment instruments that derive value from a so-called underlying value, such as oil, shares, interest levels or exchange rates. Examples are interest rate swaps and future rate agreements. Derivatives are used not only to reduce risks, but also to speculate.

**DUTCH BANKING CODE**

This code contains principles with regard to focus on the client, corporate governance (Supervisory Board, Executive Board), risk management, audit and remuneration policy. The Dutch Banking Code was adopted in 2009 by the Dutch Bankers' Association (Nederlandse Vereniging van Banken, NVB) and took effect on 1 January 2010. All banks in the Netherlands have endorsed this code. Banks set out in their annual reports how they applied the principles in the preceding year and, where applicable, explain why a principle may not have been observed, either in full or in part.

**DUTCH CORPORATE GOVERNANCE CODE**

Code documenting the principles of good corporate governance. The Code contains both principles and specific provisions which the relevant persons in a company (such as directors and supervisory board members) and third parties (such as institutional investors) must observe towards each other.

**DUTY OF CARE**

The relationship between a bank and its clients often involves a difference in levels of expertise. The average client will have less knowledge about certain products offered by a bank than the bank itself. The bank has a duty of care when entering into a relationship with a client and when subsequently providing services. Clients have a responsibility of their own in using those services.

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**EMPLOYMENT/PRE-EMPLOYMENT SCREENING POLICY**

Establishing a person's identity in the context of ethical business practices and making an assessment of a person's reliability and susceptibility to fraudulent acts.

**EXPOSURE**

A certain sum of money lent for a fixed interest rate and period.

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### **FINANCIAL SUPERVISION ACT (WET OP HET FINANCIËEL TOEZICHT)**

The Act (abbreviated to Wft in Dutch) incorporating virtually all the rules and regulations for the financial sector in the Netherlands and the supervision of this sector. The purpose of the Act is to set out the legislation for the financial sector in a targeted, market-oriented, simple and clear manner.

### **FOCUS ON THE CLIENT AND THE CLIENT'S INTERESTS**

BNG Bank defines this as follows: 'I place my client first when offering them added value with my products and services.' The bank's management takes account of the interests of all parties involved in the bank, such as its clients, shareholders and employees. The client will always be treated with due care. The bank's management has embedded the statutory duty of care towards the client in the bank's work practices. Pursuant to the Dutch Banking Code, every bank has to set up a product approval process. This means that banking products will only be marketed after due consideration of the risks and assessment against the duty of care towards the client.

### **FSC HALLMARK**

The FSC (Forest Stewardship Council) is an international organization that promotes responsible forestry management. The FSC draws up worldwide forestry management standards and awards a hallmark. If forest owners observe the FSC standards, their forest can be certified. Independent inspectors monitor compliance with the rules.

### **FTE**

The abbreviation for full-time equivalent, a unit to measure employed persons or the workforce in a way that makes them comparable although they may work a different number of hours per week. One FTE represents one employee with a full-time working week.

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### **GRI**

Global Reporting Initiative, an international organization that draws up guidelines for reporting on a company's economic, social and environmental performance.

### **GRI CORE INDICATORS**

Indicators which are given particular emphasis and which, in BNG Bank's opinion, are a good reflection of the extent to which the bank's policy is successful.

### **GRI FOCUS AREAS**

Strategy analysis, reporting parameters, governance, economic and social indicators, human rights, society, product responsibility and the environment.

### **GRI G4 CORE APPROACH / COMPREHENSIVE APPROACH**

The degree of extensiveness on which relevant aspects about the organisation are reported in the GRI Index.

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### **ICMA**

International Capital Markets Association, which develops standards and rules to promote the functioning of the international capital market.

**ICAAP/ILAAP**

The Internal Capital Adequacy Assessment Process (ICAAP) and the Internal Liquidity Adequacy Assessment Process (ILAAP) are key risk management instruments comprising a comprehensive risk assessment by the credit institution of all the risks to which it is or could be exposed. These processes provide insight into the degree to which the risks are mitigated and the amount of capital or liquidity required to cover the residual risk.

**IIRC**

International Integrated Reporting Council: a global coalition of regulators, investors, companies, standard setters, the accounting profession and NGOs that has developed a reporting model in which organisations report on how they operate sustainably and how strategy, governance, performance and prospects deliver social value in the short, medium and long term.

**INSTITUTION'S RISK PROFILE**

The overall picture of the level of risk existing on the part of external parties to which their institution is exposed. The ratings awarded by the external rating agencies are an important indicator for the risk profile.

**INTEGRITY**

Acting with due care towards others while observing responsibilities and applicable rules, in a morally responsible manner and on the basis of generally accepted social and ethical norms.

**INTEGRITY RISKS**

The (intentional or unintentional) risk of violating the basic principles underlying ethical behavior.

**INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRS)**

The accounting standards for the annual reports of companies. All listed companies in the European Union were required to comply with these standards effective 1 October 2005.

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**LOANS NOT SUBJECT TO SOLVENCY REQUIREMENTS**

Loans for which the bank is not required to maintain own capital, because the regulator (the Dutch Central Bank) regards them as (virtually) free of credit risk.

**LOANS SUBJECT TO SOLVENCY REQUIREMENTS**

Loans for which the bank must maintain a certain quantity of own capital pursuant to regulations, as a buffer for the risk that the loan is not repaid.

**LOCAL AND REGIONAL AUTHORITIES FINANCING ACT (WET FIDO)**

This Act (Wet Fido is the Dutch acronym) and the associated regulations set the parameters for the way in which municipal and provincial authorities can attract the financing they require and invest their surplus liquidity.

**LENDING FREE OF CREDIT RISK**

Loans granted to or guaranteed by Dutch government authorities. As the latter are deemed to be capable of meeting their obligations at all times, the risk that the funds lent will not be paid back is considered to be zero.

**LEVERAGE RATIO**

The ratio between a bank's Tier 1 capital and the adjusted balance sheet total.

**LONG-TERM BUSINESS**

The activities carried out by a bank having a minimum duration of one year.

**LONG-TERM LENDING**

The provision of loans with a term of more than one year.

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### **MATERIALITY ANALYSIS**

Process in which is determined on which subjects the organisation reports. Elements are all relevant stakeholders' interests themes, social developments and strategical importance, assessed on relevance and effect on operations.

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### **OEKOM**

An international rating agency in the field of sustainable investment.

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### **PERSONAL DEVELOPMENT PLAN (PDP)**

Plan in which employees, in consultation with the line manager, set out their ambitions in terms of the training that will enable them to function and develop in the best possible way and to continue doing so.

### **PPP**

The abbreviation for public-private partnership: the development and completion of projects undertaken jointly by public authorities and private parties, whereby revenues and risks are shared.

### **PRINCIPAL BANKER**

The bank with which the greater part of the financial transactions is conducted, often including funds transfers.

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### **RESULT-ORIENTED AGREEMENTS (ROAS)**

Each year, employees and managers at BNG Bank make agreements about achieving certain targets. Depending on the degree to which those targets are achieved, a percentage of variable remuneration is paid.

### **RISK APPETITE**

The risk appetite indicates how much risk a bank accepts to create value and makes the bank's risk profile transparent. The principles and the associated key qualitative and quantitative policy aspects have been defined for each type of risk.

### **RISK MANAGEMENT**

Identifying and controlling the potential risks associated with the bank's business operations or with project development.

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### **SEPA**

The Single Euro Payments Area (SEPA) is a European Commission initiative enabling a uniform European payments system. This uniform system streamlines and increases the efficiency of payment transactions carried out by businesses and private individuals in the European Union.

**SERVICES OF GENERAL ECONOMIC INTEREST (SGEI)**

Services of general economic interest (SGEI) are economic activities that serve a public interest and cannot usually be performed in a cost-effective manner. For that reason, companies that are under an obligation to perform SGEI are entitled to compensation. The Housing Act identifies the SGEI for housing associations: these are activities concerning public-sector rented housing and certain types of property with a social function, and specific quality of life services. The activities concerned are among the housing associations' core tasks.

**SOLVENCY**

Solvency is the ability to perform financial obligations and absorb losses, measured against equity and liability capital respectively.

**STAKEHOLDERS**

The parties who are involved in or exert influence over the bank's activities in some way or other.

**STAKEHOLDER DIALOG**

BNG Bank values good relationships with all its stakeholders. Stakeholder confidence in BNG Bank and its services is crucial in order for the latter to achieve its mission and strategic objectives. This means that stakeholder dialog is essential.

**SUPPLY CHAIN RESPONSIBILITY**

Supply chain responsibility, also known as socially responsible procurement, means that companies voluntarily consider social and environmental aspects in their contacts with suppliers.

**SUSTAINABLE, CORPORATE SUSTAINABILITY**

Consuming as few raw materials as possible; using renewable sources. Pursuing a balance between ecological, economic and social interests. All developments which contribute in technological, economic, ecological, political or social terms to a healthy earth with prosperous inhabitants and well-functioning ecosystems are sustainable.

### **SUSTAINALYTICS**

An independent research agency specialized in analyzing the performance of companies in terms of the environment, social policy and corporate governance.

### **SWAP**

An agreement between two parties to exchange payments for a certain period. These payments are made against an agreed underlying value. The underlying value itself is non-negotiable. An interest rate swap and a currency swap are examples. See also: derivative.

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### **TIER 1 RATIO (IN ACCORDANCE WITH BASEL III)**

The Tier 1 ratio indicates the bank's solvency weighted according to risk. The ratio consists of Tier 1 capital divided by all risk-weighted assets. Tier 1 capital consists of Common Equity Tier 1 (CET1) capital plus the additional Tier 1 and Tier 2 capital. Tier 1 capital consists of the bank's equity excluding the profit for the current financial year and the cash flow hedge reserve, and is also adjusted for the phasing in of the revaluation reserve and other prudential filters. In addition, an adjustment is also made for securitisations with a risk weighting of 1250%. The additional Tier 1 capital consists of hybrid capital that is qualified as additional Tier 1 capital under Basel III.

### **TRANSPARENCY BENCHMARK**

This benchmark, created by the Ministry of Economic Affairs, Agriculture and Innovation, measures the degree of transparency which companies provide about CSR. In this context, specific consideration is given to authenticity, external awareness, being inspirational and being communicative and innovative.

### **TRIPLE A RATING**

The highest credit rating issued by recognized rating agencies, such as Moody's, Fitch and Standard & Poor's.

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**VOLATILITY**

The degree to which the price of a share or other financial instrument fluctuates.

## COLOPHON

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