



Internal Governance

**BNG Bank**

## **Compliance Charter**

Vastgesteld door de Raad van Bestuur op 29 januari 2019 en door de Raad van Commissarissen op 15 maart 2019

Koninginnegracht 2  
2514 AA Den Haag  
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[www.bngbank.nl](http://www.bngbank.nl)

**Datum**

18 januari 2019

**Onze referentie**

2432264

BNG Bank is een  
handelsnaam van  
BNG Bank N.V., statutair  
gevestigd te Den Haag,  
KvK-nummer 27008387

## 1 Purpose of the Compliance Charter

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### Purpose

The purpose of the Compliance Charter is to define the objective of the 2<sup>nd</sup> line compliance function and to explain the nature, stature, authority, roles and responsibilities of the compliance function with BNG Bank.

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### Ownership and maintenance

The owner of this charter is the Head of Compliance. The charter is part of the internal governance framework of BNG Bank. As consistency and alignment with other internal governance elements is important, the maintenance of this charter will be initiated by Risk Management/Strategy & Governance. Updates if and when required will be done jointly with the Head of Compliance and vice versa.

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### Approval

The Compliance Charter has been approved by the Executive Board in the meeting of the Management Board of 29 January 2019 and by the Supervisory Board in its meeting of 15 March 2019.

## 2 Objective of the function

### Mission and objective of the 2<sup>nd</sup> line compliance function

BNG Bank needs to be reliable and solid in order to contribute to a stable financial system. Therefore BNG Bank has to ensure compliance with laws and regulations. The compliance function's mission is to contribute to the bank's compliance and integrity risk control. At BNG Bank the 2<sup>nd</sup> line compliance function is performed by the Compliance department.

The compliance function has set up a company-wide Compliance Management Framework to ensure compliance and integrity risk control. This framework must provide a sufficient level of insight to enable adequate compliance and integrity risk management in order to achieve:

- The strategic objectives and the business plan of the bank
- Compliance to laws and regulations
- In Control Statements that enable the bank and its stakeholders to determine that BNG Bank is in control.

Within the Compliance Management Framework the compliance function has the following objective:

- To advise the Management Board and first line departments on compliance and integrity risks including integrity risk appetite and new products.
- To facilitate and support the development and maintenance of the Compliance Management Framework.
- To facilitate and support first line departments with their compliance and integrity risk management.
- To challenge and monitor compliance and integrity risks and to report to the Executive Board and Supervisory Board.

The 2<sup>nd</sup> line compliance function is an element of BNG Bank's 'internal control function' as described in the EBA guidelines on internal governance (EBA/GL/2017/11).

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### 3 Position of the compliance function

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#### Organisation

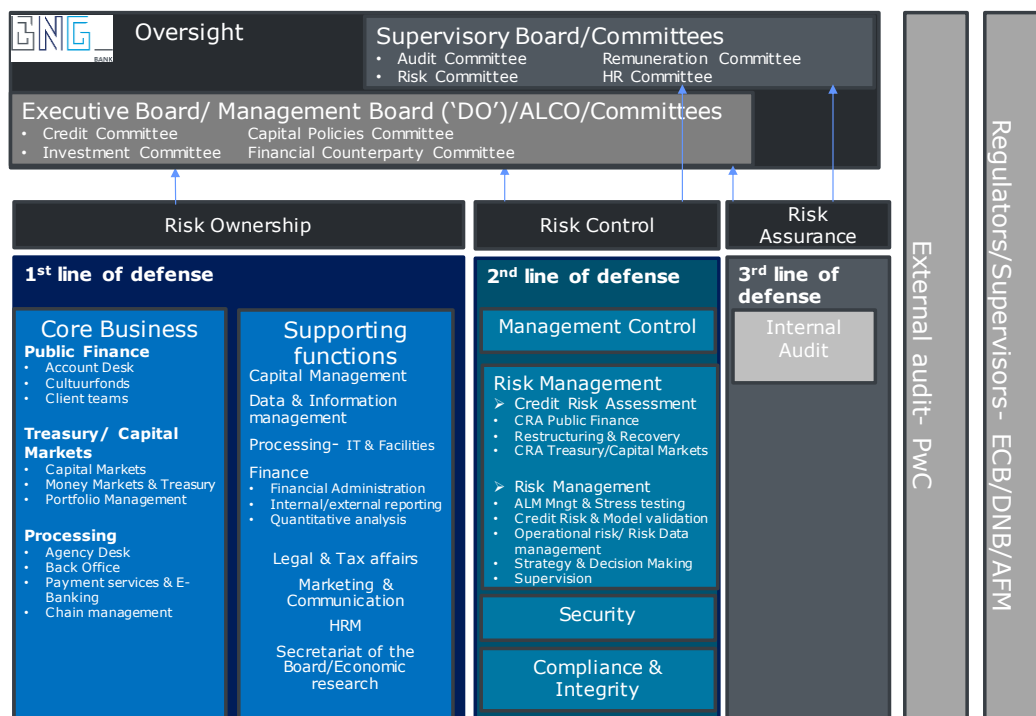
The compliance function is fulfilled by a separate department which has been hierarchically positioned directly under the CRO.

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#### Three lines of defense

The 3LoD (Three Lines of Defense) model is considered as the organisation model for managing risks within financial institutions and therefore is an important part of governance. Next figure shows the implementation of the 3LoD model within BNG Bank.



**Figure 1: 3LoD model for BNG Bank**

The principles of the 3LoD model thus also apply to compliance and integrity risk management including the design of the compliance function. The 1<sup>st</sup> line is risk owner and responsible for:

- Identification and assessment of compliance and integrity risks and determination of the risk response (accept, mitigate, avoid or hedge/insure the risks);
- Implementation, execution, monitoring and reporting on controls including compliance with laws and regulations;
- Day-to-day management of compliance and integrity risks generated by its activities implying ownership of risks and responsibility for effective controls.

## Role in Committees

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### *Executive Board*

- The Head of Compliance attends the meetings of the Management Board on ad hoc basis to explain Compliance reports, policy proposals and other compliance related topics.
- The Head of Compliance receives the agenda and minutes of the meetings of the Management Board and the Executive Board.

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### *Supervisory Board*

- The Risk Committee of the Supervisory Board invites the Head of Compliance on ad hoc basis to explain Compliance documents. The Head of Compliance is present, in any case, when the annual compliance plan, the Systematic Integrity Risk Analysis (SIRA) and the semi-annual compliance reports are discussed.
- The Risk Committee members can decide to have a private session with the Head of Compliance. Once a year the chair of the Risk Committee and the Head of Compliance have a private session.
- The Compliance department reviews the incentives- and performance elements of identified staff as supervised by the Risk Committee.

## Reporting line, access to board and escalation

The Head of Compliance has a direct reporting line to the Management Board, Executive Board and Supervisory Board. The following reports are drawn:

- Twice a year a compliance report;
- Annual report on (follow-up) systematic integrity risk analysis (SIRA);
- Reports on request and at Compliance's own initiative.

Also, serious issues relating to compliance and integrity risk are included in the quarterly risk report of Risk Management, which is addressed to the Executive Board and the Supervisory Board (Risk Committee and entire Board).

The Compliance department is involved in the evaluation of the impact of material changes and exceptional transactions on compliance and integrity risk profile and reports its findings to the Management Board.

The Head of Compliance can escalate to the Management Board or the Executive Board in case of insufficient follow-up of an Compliance advice, instruction or finding in order to keep identified compliance & integrity risks within the risk appetite of the bank.

The Head of Compliance has unlimited access to the chairs of the Risk Committee, the Remuneration Committee and the Supervisory Board.

## **4 General principles**

The following general principles apply to all 2<sup>nd</sup> line functions:

<b>General principles for 2<sup>nd</sup> line functions and explanation</b>		<b>Datum</b>
Assignment & withdrawal procedure	The appointment and withdrawal of the head of the 2 <sup>nd</sup> line function is approved by the Executive Board. *	18 januari 2019
Authority	The 2 <sup>nd</sup> line function derives its authority from the Executive Board. The head of the 2 <sup>nd</sup> line function is appointed to be responsible for the 2 <sup>nd</sup> line function and is empowered to execute this role in an appropriate manner. This includes having full access to all necessary information required and having appropriate IT systems and support at its disposal.	<b>Onze referentie</b> 2432264
Independency	The 2 <sup>nd</sup> line function forms an expert judgement independent from the business (the 1 <sup>st</sup> line of defense). This independence is safeguarded by the condition that the 2 <sup>nd</sup> line function will have no operational involvement in day to day business operations and individual business decisions. Indirectly the 2 <sup>nd</sup> line function can be involved by means of the advising and supporting role.	<b>Pagina</b> 5 van 8
Objectivity	The 2 <sup>nd</sup> line function will execute its activities in an objective manner, having an unbiased mental attitude and avoiding possible conflicts of interest.	
Resources	The head of the 2 <sup>nd</sup> line function ensures to have sufficient resources to perform the function. This includes requests for additional capacity if the number of qualified staff should become inadequate to fulfill the roles and responsibilities as set out in this charter.	
Expertise & quality	The head of the 2 <sup>nd</sup> line function ensures adequate expertise and quality of the resources including regular training (and on occasions hiring external expertise) to remain sufficiently qualified. This includes complying with relevant external standards/market practices up to the ambition level of BNG Bank.	

\*: The Head of Compliance must not be removed without the prior approval of the Supervisory Board and the competent authorities shall be informed promptly about the approval and the main reasons for the removal.

## **5 Scope of the compliance function**

### Main activities

The main activities of the compliance function refer to the management of compliance risk and integrity risks whereby:

- Compliance risk is part of 'legal risk' which is a sub risk of 'operational risk';
- Integrity risk is a sub risk of 'operational risk' and includes the sub risk 'conduct risk'

See document 'Risk Definitions' for further explanation.

Furthermore the Compliance department performs the role of Data Protection Officer as referred to in the General Data Protection Regulation.

### Legal entities/organisation

The scope of the activities of the compliance function covers both BNG Bank (including outsourced activities) and its 100% subsidiaries BNG Gebiedsontwikkeling BV and Hypotheekfonds voor Overheidspersoneel BV.

## 6 Roles & responsibilities and authority

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### 6.1 Roles & responsibilities

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#### General explanation for 2<sup>nd</sup> line functions

As explained in the 3 LoD policy document, the 2<sup>nd</sup> line functions help to ensure that risks are appropriately being identified and managed, thus enabling the organisation to be 'In Control'. The overall roles and responsibilities of 2<sup>nd</sup> line functions generally consist of three fundamental roles: 1) Advise, 2) Facilitate & Support and 3) Challenge & Monitor. Within these fundamental roles, a (large) number of accompanying responsibilities and activities can be identified. The rationale and general considerations for each fundamental role are explained extensively in the 3LoD policy document.

#### Specific explanation for the compliance function

Based on these three fundamental roles, and aligned to the summary of the roles and responsibilities of the compliance function that is included in the 3LoD policy document, the following figure provides an overview of the roles and responsibilities:

Topics	Advise	Facilitate & Support	Challenge & Monitor
<b>Compliance strategy</b>	<ul style="list-style-type: none"> <li>▶ Advise MB and 1st line on identified and analysed new laws &amp; regulations</li> <li>▶ Advise MB on compliance and integrity risks new business initiatives, material changes and exceptional transactions</li> <li>▶ Advise MB on compliance- and integrity risk appetite</li> </ul>	<ul style="list-style-type: none"> <li>▶ Perform/coordinate impact assessment of new laws &amp; regulations and inform MB and 1st line</li> <li>▶ Draw up annual compliance (monitoring) program in accordance with market practice covering all activities and entities of BNG Bank</li> </ul>	<ul style="list-style-type: none"> <li>▶ Challenge 1st line on compliance- and integrity risks new business initiatives</li> <li>▶ Monitor delegated identification and analysis of laws &amp; regulations</li> <li>▶ Monitor compliance- and integrity risk profile against risk appetite and report to MB and SB</li> </ul>
<b>Compliance governance &amp; framework</b>	<ul style="list-style-type: none"> <li>▶ Advise MB on compliance governance design and Compliance Management Framework design (including methodologies and policies)</li> <li>▶ Advise MB and 1st line on existing laws &amp; regulations and compliance measures</li> </ul>	<ul style="list-style-type: none"> <li>▶ Develop and maintain the Compliance Management Framework (impact assessment methodology, regulatory overview, compliance policies)</li> <li>▶ Support 1st line with implementing and embedding the Compliance Management Framework</li> <li>▶ Initiate and coordinate Systematic Integrity Risk Analysis (SIRA) and Privacy Impact Assessments (PIA)</li> <li>▶ Train staff on continuous compliance with laws &amp; regulations</li> </ul>	<ul style="list-style-type: none"> <li>▶ Challenge quality of compliance in daily operations and consistent use of Compliance Management Framework</li> <li>▶ Monitor compliance and integrity risks through execution of compliance monitoring program</li> <li>▶ Monitor delegated compliance monitoring activities</li> <li>▶ Monitor client complaints</li> <li>▶ Report serious compliance and integrity incidents to MB and SB</li> </ul>
<b>Integrity profile, company culture &amp; values</b>	<ul style="list-style-type: none"> <li>▶ Advise MB on sound company culture &amp; values</li> <li>▶ Advise MB and 1st line on integrity profile and on follow-up of integrity incidents</li> </ul>	<ul style="list-style-type: none"> <li>▶ Promote sound company culture &amp; values</li> <li>▶ Perform activities awareness 1st line</li> <li>▶ Act as notification point for integrity incidents</li> </ul>	<ul style="list-style-type: none"> <li>▶ Monitor and investigate compliance and integrity incidents</li> <li>▶ Challenge observed company culture &amp; behavior</li> <li>▶ Challenge and monitor personal targets 'identified staff' and sales staff</li> </ul>
<b>Relation with supervisors</b>	<ul style="list-style-type: none"> <li>▶ Advise MB on compliance with regulatory requirements and on follow-up on relevant recommendations supervisors</li> </ul>	<ul style="list-style-type: none"> <li>▶ Support MB with pro-active and effective coordination and communication with supervisors</li> <li>▶ Perform notifications to supervisors and report compliance &amp; integrity incidents to supervisors</li> <li>▶ Answer inquiries from supervisors</li> </ul>	<ul style="list-style-type: none"> <li>▶ Challenge MB and 1st line attitude towards expectations supervisors</li> <li>▶ Ensure relevant (prudential) compliance &amp; integrity incidents are reported to the relevant supervisor</li> </ul>

**Figure 2: overview of roles & responsibilities compliance function**

A number of topics are further explained as follows:

- The compliance function has to manage compliance risks (from its second line perspective) of all laws and regulations applicable to BNG Bank (whereas first line departments manage compliance risks from their first line perspective). In order to fulfill this task the compliance function needs to rely on the expertise of other departments for non-integrity laws and regulations. The execution of these delegated compliance management activities will be monitored by the compliance function.
- Assessments of compliance risks and compliance advice may include reference to existing laws and regulations, upcoming changes in laws and regulations, case law, prevailing legal and social views, best practices, expectations of regulators and signed corporate social responsibility codes, sustainability covenants and BNG Bank's integrity profile, company culture, values and policies
- The scope of the monitoring role is limited to ensuring that all identified compliance and integrity risks are effectively monitored by the 1<sup>st</sup> line. This implies that Compliance will monitor if 1<sup>st</sup> line management takes responsibility of their risk ownership, by verifying if (key) controls are executed. In doing so, Compliance may rely on information received from 1<sup>st</sup> line, without performing systematic, in depth checks and testing procedures to determine the reliability of the information received. In addition Compliance may rely on monitoring information of other 2<sup>nd</sup> line control functions.
- In developing and maintaining the Compliance Management Framework the Head of Compliance seeks alignment with the general risk management framework as developed and maintained by the 2<sup>nd</sup> line risk management function. .
- Compliance and integrity risk appetite are included in BNG Bank's risk appetite documents which is maintained by Risk Management. The compliance function is consulted by Risk Management when renewing the bank's Risk Appetite Statement and Cascading Risk Appetite. The compliance function gives input to Risk Management's annual risk analysis on remuneration policy and practices.
- The compliance function performs the tasks of the Data Protection Officer as referred to in the General Data Protection Regulation. In that regard the compliance function initiates and coordinates the execution of Privacy Impact Assessments (PIA).
- The compliance function monitors client complaints from a duty of care perspective (this task relates to a MiFID requirement, however, in practice its execution is not limited to investment services only but extended to all services to clients).
- The compliance function acts as notification point for integrity incidents. In case of a violation of the bankers' oath the Head of Compliance examines the incident and advises MB on follow-up. With regard to the bank's Regulation on the Internal Reporting of Malpractice (whistleblower regulation) the Head of

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Compliance acts as back-up notification point.

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The compliance function is reviewed by the Internal Audit Department on a yearly basis.

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## **6.2 Authority**

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### General competencies for 2<sup>nd</sup> line functions

In order to safeguard adequate 'stature' of the 2<sup>nd</sup> line functions, a number of general competencies are at their disposal. They underpin the authority of the function.

- Access to all data, information, people; necessary to adequately fulfill the function. This can include hard copy documents, digital data, e-mail, physical and logical access- registration, camera recordings, recorded phone calls;
- Hire external experts; autonomously decide to make use of external expertise if necessary;
- Obtain support from other functions/departments/people for responding to requests from supervisors; this includes delivery of needed input on a timely basis;
- Have adequate data quality, data definitions and sufficient ICT-systems for support.

### Specific competencies, related to the 2<sup>nd</sup> line compliance function

- Giving solicited and unsolicited advice and support on compliance and integrity risks;
- Giving binding advice and instructions on compliance with laws and regulations;
- Monitoring the processing of personal data and the coordination of follow-up on personal data breaches and other competences attributed to the Data Protection Officer of the General Data Protection Regulation;
- The Head of Compliance can investigate integrity incidents among which violations of the ethical code of conduct for the Dutch banking industry;
- Under specific conditions Compliance has access to recorded telephone and chat conversations and recorded e-mails.