



Internal Governance

**BNG Bank**  
**Compliance Charter**

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**Datum**

05 april 2022

**Onze referentie**

3041429

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 and scope of the second line compliance function and to explain the nature, stature, authority, roles and responsibilities of the compliance function within BNG Bank.

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### Ownership and maintenance

The charter is part of the internal governance framework of BNG Bank. Owner and facilitator of this charter is the Head of Compliance. The charter will be reviewed at least once every two years by the owner, and updated if and when required. Any updates in mandate and other material changes will be approved by the Executive Committee and discussed in the Supervisory Board, any other updates will be approved by the Head of Compliance in consultation with the CRO. As consistency and alignment with other internal governance elements is important, Risk Management is consulted in case of updates and periodic review of this charter can also be initiated by Risk Management.

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### Approval

The Compliance Charter has been approved by the Executive Committee in its meeting of 05-04-2022.

## 2 Objective of the function

The compliance function promotes the integrity of the organization, its clients, its employees and the markets in which BNG Bank operates and monitors compliance with rules, regulations and internal standards.

In this function, it supports management and staff in fulfilling their responsibility to comply with the integrity standards, and with applicable laws, regulations (including codes and covenants) and supervisory requirements, aiming to achieve the strategic objectives and the business plan of the bank and meeting legitimate expectations from stake holders.

By setting up and performing an adequate compliance risk management process, the compliance function aims to ensure that BNG Bank effectively manages its integrity and regulatory compliance risks, in order to act in line with the respective risk appetites.

The second line compliance function is performed by the Compliance department.

## 3 Position of the compliance function

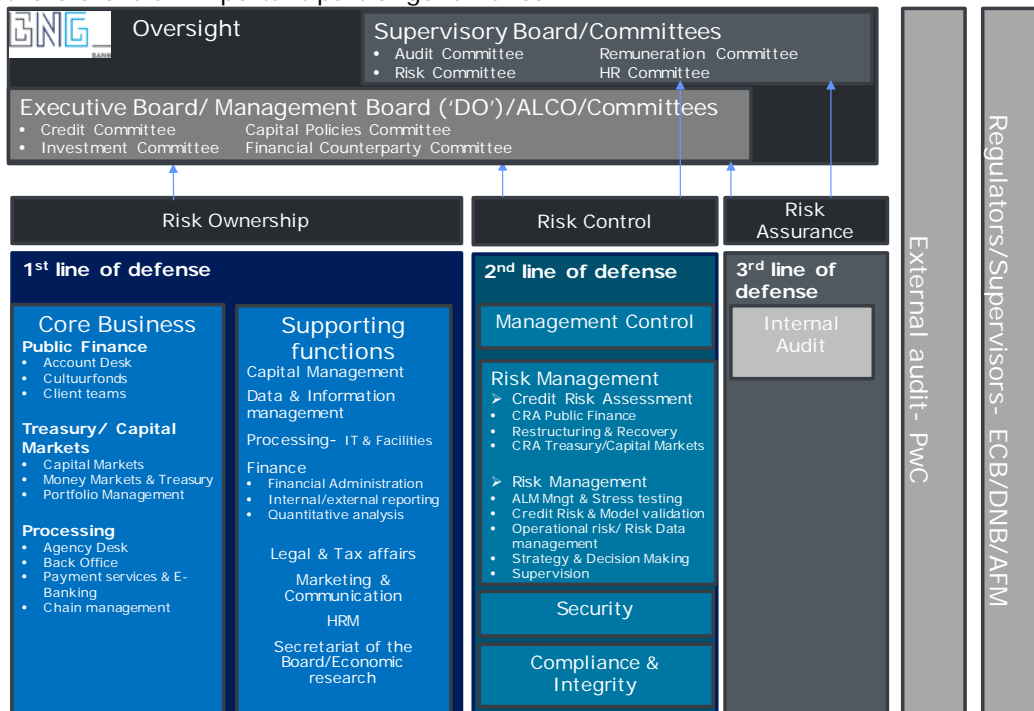
### Organization

In order to safeguard its independence, the compliance function is fulfilled by a separate department. It is hierarchically positioned directly under the CRO.

### Three lines of defense

The 3LoD (Three Lines of Defense) model is considered as authoritative and an effective organization model for managing risks within financial institutions and

therefore is an important part of governance.



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

The principles of the 3LoD model thus also apply to the compliance function:

- The first line is risk owner and responsible for:
  - Identification and assessment of compliance 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 risks generated by its activities implying ownership of risks and responsibility for effective controls.
- The compliance function is framework setting and responsible for second line compliance risk management, including advising and supporting the first line in its risk owner related responsibilities and including second line monitoring.
- The compliance function is reviewed by the Internal Audit Department on a yearly basis.

### Role in Committees

#### *Executive Committee*

- The Head of Compliance attends the meetings of the Executive Committee quarterly and when necessary 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 Executive Committee.
- Once a year the CEO and the Head of Compliance have a bilateral session. All Executive Committee members can have bilateral sessions with the Head of Compliance on ad hoc basis.

### *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 quarterly compliance reports are discussed.
- Once a year the chair of the Risk Committee and the Head of Compliance have a bilateral session. All Risk Committee members can have bilateral sessions with the Head of Compliance on ad hoc basis.
- The Compliance department reviews the incentives and performance elements of identified staff as supervised by the Risk Committee.

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### *Non-Financial Risk Committee*

The Head of Compliance is member of the Non-Financial Risk Committee (NFRC), therein acting with due regard to the independent second line position of the compliance function; further details are described in the committee's mandate in 'Reglementen ExCo Commissies'.

### Reporting, involvement, access to board and escalation

The Head of Compliance has a direct reporting line to the Executive Committee and Supervisory Board.

In order to provide appropriate knowledge about the outcome of the compliance risk management process, including material risks, the following reports are drawn:

- Quarterly compliance report;
- Annual report on (follow-up of) the SIRA;
- Reports on request and at Compliance's own initiative.

The essentials of the quarterly compliance report are part of the integrated risk report of the CRO column.

The Compliance department must be involved by business management:

- In the assessment of the impact of and prior to material changes and exceptional transactions on the integrity and regulatory compliance risk profile and documents its findings. This includes strategic decisions, new business models and material organizational changes;
- When developing policies in the policy areas of the compliance function, such as remuneration and PARP;
- Material topics and relevant communication with supervisors.

The Head of Compliance can escalate or report to the Executive Committee, respectively the Supervisory Board in case of insufficient follow-up of a compliance advice, instruction or finding in order to keep identified compliance 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 Executive Committee is responsible for the establishment of effective second line functions that meet the requirements set out in the internal governance framework,

risk framework and relevant charters. This implicates the following general principles applying to all second line functions:

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<b>General principles for second line functions and explanation</b>		<b>Onze referentie</b>
Assignment & withdrawal procedure	The appointment and withdrawal of the head of the second line function is approved by the Executive Committee*.	3041429
Authority	The second line function derives its authority from the Executive Committee. The head of the second line function is appointed to be responsible for the second 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>Pagina</b> 5 van 9
Independency	The second line function forms an expert judgement independent from the business (the firstline of defense). This independence is safeguarded by the condition that the second line function will have no operational involvement in day to day business operations and individual business decisions. Indirectly the second line function can be involved by means of its advising and supporting role.	
Objectivity	The secondline 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 second line function ensures to apply for sufficient esources 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. The Executive Committee ensures to provide sufficient resources for the second line to perform its function. Material budget reduction is explicitly explained by the Executive Committee.	
Expertise & quality	The head of the second line unction 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 and market practices up to the ambition level of BNG Bank.	

\* In addition: 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

### Risk area

The compliance function is covering the compliance risk area. This concerns the risk of insufficient compliance with or recognition of corporate values, codes of conduct, generally accepted social standards and values, laws, regulations and supervisory requirements. Compliance risk covers both Integrity risk (Conduct risk, Financial crime risk, Internal fraud risk, External fraud risk) and Regulatory compliance risk. The document 'Risk Definitions' gives for further explanation.

### Policy areas

The compliance function engages in the following policy areas, including the related rules and regulations:

- Client integrity: financial economic crime, external fraud;
- Market integrity: product approval and review, duty of care, customer interest, market abuse, competition;
- Employee integrity: conduct, conflict of interest, gifts & entertainment, pre and in employment screening, insider dealing, whistleblowing, internal fraud;
- Organizational integrity: governance, key functions, organizational conflict of interest, suitability and reliability remuneration, sustainability, regulatory compliance;
- Privacy: the Compliance department performs the role of Data Protection Officer as referred to in the General Data Protection Regulation.

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The Compliance department is either policy owner of integrity related framework policies, or is consulted when the policy owner is another department. Overview and review calendar of the related policies is kept by the Compliance department.

Policy areas out of scope of the compliance function, are covered by other departments; the compliance functions assesses whether regulatory compliance risks in these domains are adequately managed by organizing the bank-wide Regulatory Change Framework and by her risk based monitoring activities.

### Scope of the activities: Compliance cycle

The main activities of the compliance function stem from its key tasks as defined in the Compliance cycle, further detailed in the manual of the compliance function. The Compliance cycle and manual define how the compliance function operates and secures an adequate compliance management process.



**Figure 2: Compliance cycle BNG Bank**

The compliance cycle consists of the following tasks and activities:

1. Governance & compliance universe:
  - Setting supporting governance for the compliance function;
  - Maintaining the regulatory framework by organizing the process of detection, allocating ownership and reporting on timely implementation of new

- regulations, by means of the Regulatory Change Framework (RCF);
- Defining the compliance annual plan and compliance monitoring program, ultimately approved by ExCo, respectively NFRC.
2. Risk-identification & assessment:
    - Setting the risk appetite for integrity and regulatory compliance risk, ultimately approved by the Executive Committee;
    - Organizing adequate processes of identification and assessment of integrity and regulatory compliance risks, in alignment with the bank-wide risk methodology;
    - Supporting and challenging the organization in performing its Systematic Integrity Risk Analysis (SIRA), including drawing up the aggregated SIRA-report and action tracking;
    - Identifying and monitoring regulatory compliance risks by the RCF process and monitoring program.
  3. Compliance policies & procedures:
    - Developing and maintaining integrity related framework policies, guidance and compliance procedures, including these related to privacy;
    - Executing compliance procedures owned by the compliance department.
  4. Training & awareness:
    - Supporting the organization with compliance related training & awareness activities;
    - Communication on regulatory developments and integrity related topics;
    - Stimulating sufficient management attention on sound compliance risk culture.
  5. Advise & support:
    - Advising on compliance related matters;
    - Supporting and facilitating the organization in implementing integrity policies, including the privacy policy and procedures.
  6. Monitoring:
    - Defining the annual compliance monitoring program, ultimately approved by the NFRC;
    - Risk based and mandatory monitoring of integrity and regulatory compliance risks, acting as challenging partner of the business;
    - Action tracking;
    - Monitoring includes client complaints from a duty of care perspective.
  7. Reporting:
    - Giving insight in regulatory developments, material integrity and regulatory compliance risks, incidents and investigations;
    - Incident management of integrity related incidents;
    - Reporting on the effectiveness of the function, including possible capacity issues.

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#### Legal entities/organization

The scope of the activities of the compliance function covers both BNG Bank (including outsourced activities) and its 100% subsidiaries BNG Gebiedsontwikkeling B.V. and Hypotheekfonds voor Overheidspersoneel B.V.. With regard to outsourced activities and subsidiaries separate agreements on scope of the activities are defined.

## 6 Roles & responsibilities and authority

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### 6.1 Roles & responsibilities

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#### General explanation for second line functions

Second line functions help to ensure that risks are appropriately identified and managed, thus enabling the organization to be 'in control'. The overall roles and responsibilities of second line functions generally consist of three fundamental roles:

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1) Advise, 2) Facilitate & Support and 3) Challenge & Monitor. Within these roles accompanying responsibilities and activities can be identified. The rationale and general considerations for each role are explained in the 3LoD policy document.

#### Specific explanation for the compliance function

The compliance function has the following main roles and responsibilities:

- To advise the Executive Committee and process owners on integrity and regulatory compliance risks; advising on integrity and regulatory compliance risk appetite;
- To facilitate and support first line departments with their integrity and regulatory compliance risk management, including to support with implementing compliance policies and facilitate compliance related training & awareness;
- To challenge and monitor integrity and regulatory compliance risks and to report to the Executive Committee, NFRC and Supervisory Board.

Combining these roles and the tasks deriving from the compliance cycle, the following figure provides overview:

Topics	Advise	Facilitate & Support	Challenge & Monitor
<b>Compliance strategy</b>	<ul style="list-style-type: none"> <li>▶ Advise ExCo and process owners on integrity laws &amp; regulations</li> <li>▶ Advise ExCo on compliance risk appetite</li> <li>▶ Advise ExCo on compliance risks of strategic decisions, new business models and material organizational changes</li> </ul>	<ul style="list-style-type: none"> <li>▶ Assign impact assessment and implementation of new laws and regulations to process owners</li> <li>▶ Draw up annual compliance plan and compliance monitoring program</li> <li>▶ Support business in performing SIRA; draw up integrated SIRA-report</li> <li>▶ Support process owners with implementing compliance policies</li> </ul>	<ul style="list-style-type: none"> <li>▶ Challenge impact assessment by process owners of new laws and regulations</li> <li>▶ Monitor timely implementation of new laws and regulations</li> <li>▶ Monitor compliance profile against risk appetite and report to ExCo, NFRC and SB</li> </ul>
<b>Compliance governance &amp; framework</b>	<ul style="list-style-type: none"> <li>▶ Advise ExCo on compliance governance and management design, including Regulatory Change Framework (RCF)</li> </ul>	<ul style="list-style-type: none"> <li>▶ Develop, perform and maintain compliance management by the compliance cycle</li> <li>▶ Develop, perform and maintain the RCF</li> <li>▶ Support process owners in creating regulatory overview</li> <li>▶ Develop and maintain compliance framework policies and procedures</li> <li>▶ Develop process and methodology for compliance risk identification and assessment, including SIRA</li> </ul>	<ul style="list-style-type: none"> <li>▶ Monitor compliance risks by execution of the compliance monitoring program, including action tracking and reporting on outcomes</li> <li>▶ Report on function effectiveness</li> </ul>
<b>Integrity profile, company culture &amp; values</b>	<ul style="list-style-type: none"> <li>▶ Advise ExCo on sound company and risk culture</li> <li>▶ Advise ExCo and process owners on sound integrity profile and on follow up of integrity incidents</li> </ul>	<ul style="list-style-type: none"> <li>▶ Promote sound company and risk culture</li> <li>▶ Communicate on integrity topics and regulatory developments</li> <li>▶ Organize training &amp; awareness activities at request of the organization and at own initiative</li> <li>▶ Act as notification point for and stimulate reporting of integrity incidents</li> </ul>	<ul style="list-style-type: none"> <li>▶ Monitor and challenge observed company and risk culture and behavior</li> <li>▶ Challenge ExCo on sufficient management attention on sound company and risk culture</li> <li>▶ Monitor and investigate integrity incidents</li> <li>▶ Report material compliance incidents to ExCo and SB</li> </ul>
<b>Relation with supervisors</b>	<ul style="list-style-type: none"> <li>▶ Advise ExCo on regulatory compliance and follow up of recommendations of supervisors</li> </ul>	<ul style="list-style-type: none"> <li>▶ Perform notifications and report material integrity incidents to supervisors</li> <li>▶ Answer inquiries from supervisors</li> </ul>	<ul style="list-style-type: none"> <li>▶ Challenge ExCo and process owners on expectations from supervisors</li> <li>▶ Challenge ExCo on disclosing relevant information regarding integrity and regulatory compliance</li> </ul>

Figure 2: overview of roles & responsibilities compliance function



In developing and maintaining the compliance cycle and underlying processes, the compliance function seeks alignment with the general risk management framework and risk methodologies as developed and maintained by the second line risk management function in cooperation with the other second line functions.

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Integrity and regulatory compliance 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.

## 6.2 Authority

### General competencies for second line functions

In order to safeguard adequate stature of the second 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 and/or 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 second line compliance function

- Giving solicited and unsolicited advice and support on integrity and regulatory compliance 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 compliance function acts as notification point for integrity incidents.
- The Head of Compliance can investigate integrity incidents among which violations of the ethical code of conduct for the Dutch banking industry;
- In case of a violation of the bankers' oath, the Head of Compliance examines the incident and advises the Executive Committee on follow-up. With regard to the bank's Regulation on the Internal Reporting of Malpractice (whistleblower regulation) the Head of Compliance acts as notification point;
- Under specific conditions Compliance has access to recorded telephone and chat conversations and recorded e-mails;
- Access to complaints information;
- Access to personal targets of identified staff and sales staff;
- Exchange of information with other second line functions and with the company accountant.