



Internal Governance

BNG Bank
Internal Audit Charter

Established by the Executive Board on February 12, 2019

Approved by the Supervisory Board on March 15, 2019

Koninginnegracht 2
2514 AA The Hague
The Netherlands
T +31 70 3750 750
www.bngbank.nl

Date

7 February 2019

Our reference

2445656

BNG Bank is a trade name
of BNG Bank N.V.
with registered office in
The Hague, Trade Register
no 27008387

1 Purpose of the Internal Audit Charter

Date

7 February 2019

Purpose

The purpose of the Internal Audit Charter is to define the objective of the 3rd line Internal Audit function and to define the nature, stature, authority and roles, authorizations & responsibilities of the Internal Audit function within BNG Bank.

Our reference

2445656

Ownership and maintenance

The owner of this charter is the Head of Internal Audit who can initiate updates. 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 can also be initiated in cooperation with Risk Management/ Strategy & Governance.

Page

2 of 10

Approval

The Internal Audit Charter is established by the Executive Board and approved by the Supervisory Board.

2 Objective of the function

Mission, definition and objective of the 3rd line Internal Audit function

The mission of the Internal Audit function is to enhance and protect organisational value by providing risk-based and objective assurance, advice and insight.

The Internal Auditing function is defined as: Internal auditing is an independent, objective assurance and consulting activity designed to add value and improve an organization's operations. It helps an organization accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes.

For this purpose, the 3rd line Internal Audit function:

- Provides objective and independent assurance (based on audits¹) on;
 - o The quality and effectiveness of the corporate governance, internal control & risk management system (in processes and (IT) systems, including methods & techniques), by providing an opinion on the design, existence and effectiveness of internal controls);
 - o Compliance with laws and regulations.
- Executes audit testing - testing (afterwards) the effectiveness of key controls as performed in the various business processes of the bank;
- Gives solicited and unsolicited advice related to (external and internal) developments;
- Executes specific audits on request of the Executive Board.

The Internal Audit function within BNG Bank is the third line element of the 'internal control function' as described in the EBA guidelines on internal governance (EBA/GL/2017/11).

¹ Operational audits, IT-audits, Compliance audits, Project audits and Governance audits.

3 Positioning of the Internal Audit function

Date

7 February 2019

Organisation

The Internal Audit function is hierarchically positioned in a separate department (Internal Audit Department – IAD), which is positioned directly under the Chairman of the Executive Board (the CEO).

Our reference

2445656

Page

3 of 10

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 a very important part of governance. Figure 1 below shows the implementation of the 3LoD model within BNG Bank (we refer to # 2294280 for further explanation).

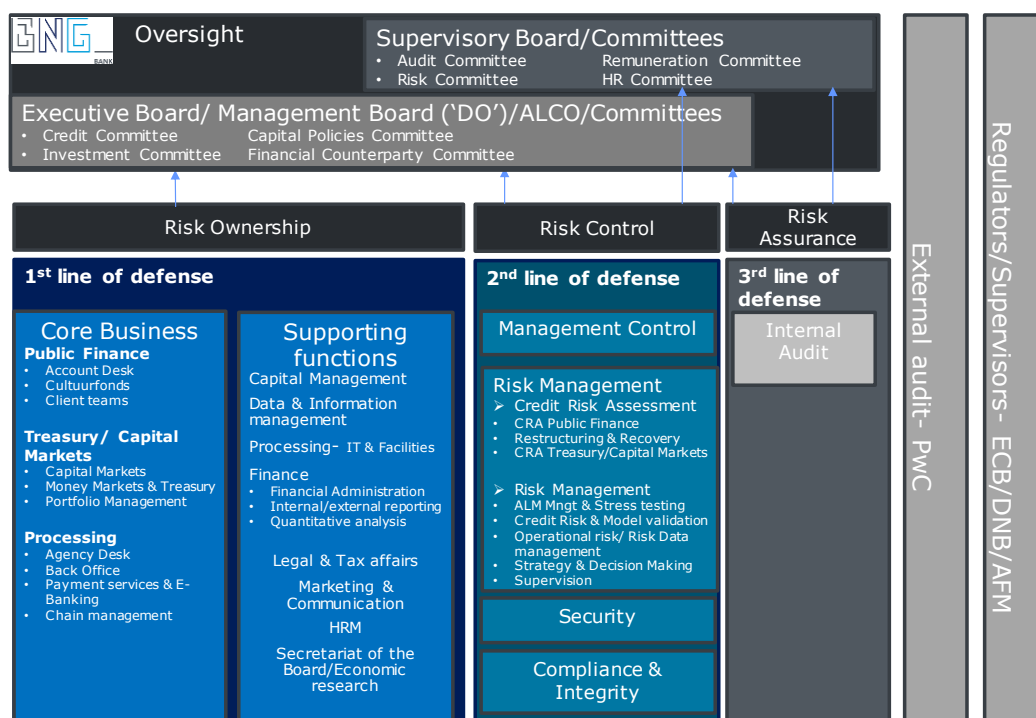


Figure 1: 3LoD model for BNG Bank based on activities

The principles of the 3 LoD model thus also apply to the internal audit function, who provides assurance on the adequacy and effectiveness of the internal control & risk management system including corporate governance and compliance.

Role in Committees

Executive Board

- Internal Audit functions under responsibility of the Executive Board;
- The Executive Board jointly assigns the audit activities to the Internal Audit function;
- The Head of Internal Audit has periodic consultations with the individual members of the Executive Board separately;
- Prior to final reporting of operational audits, the IAD is obliged to give directors and department heads the opportunity to be heard on the draft audit report with findings and recommendations.

Supervisory Board

- The Head of Internal Audit will attend the meetings of the Audit Committee of the Supervisory Board, unless the Audit Committee members decide otherwise. The Head of Internal Audit receives full agenda and underlying documentation ahead of the meetings. The meetings are also attended by the Executive Board;
- Prior to the formal start of each Audit Committee meeting, the Audit Committee members have a private session with the Head of Internal Audit and the external auditor, in absence of the Executive Board;
- The Audit Committee specifically reviews the annual audit plan of IAD (including audit objectives, frequency and risk analysis) and prepares advise to the Supervisory Board for formal approval;
- The Audit Committee specifically reviews the management-letter of IAD (as provided by the Executive Board) and prepares for further discussion in the Supervisory Board meeting;
- The head of Internal Audit will have a bilateral session with the chair of the Audit Committee, in principle twice a year. The session outcome is documented and reported to the Supervisory Board and the Executive Board;
- The Head of Internal Audit will attend the meetings of the Risk Committee of the Supervisory Board, unless the Risk Committee members decide otherwise. The Head of Internal Audit receives full agenda and underlying documentation ahead of the meetings. The meetings are also attended by the Executive Board.

Date

7 February 2019

Our reference

2445656

Page

4 of 10

Reporting line, access to Board and escalation

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

- Annual audit plan to the Executive Board, the Audit Committee and the Supervisory Board;
- Management letter to the Executive Board, the Audit Committee and the Supervisory Board;
- Audit reports to Executive Board (only final audit reports, with a copy to the respective directors and department heads);
- Report on incentives and remuneration to the Remuneration Committee of the Supervisory Board.

In addition, the Head of Internal Audit has unlimited access to the chairman of the Supervisory Board at all times.

The Audit reports are submitted to the Executive Board and discussed in the Management Board meeting. The Management Board includes the Executive Board. The Head of Internal Audit is present at the Management Board meetings in which internal audit reports are discussed.

The escalation includes:

- In case the objectivity or independency in performing a specific audit is endangered, the head of Internal Audit escalates to the chair of the Executive Board;
- In case of serious and continuing differences of opinion with the Executive Board, the Audit Committee is the point of contact for the Head of Internal Audit;
- In case of conflicts with the Executive Board on remuneration topics, the Head of Internal Audit escalates to the chair of the Supervisory Board.

The Supervisory Board annually assesses the role, performance and effectiveness of the Internal Audit function. The assessment is prepared by the Audit Committee and documented.

Date

7 February 2019

Our reference

2445656

4 General principles

Page

5 of 10

The following general principles are essential for the effectiveness of the Internal Audit function:

Assignment & withdrawal procedure	The appointment and withdrawal of the head of the 3 rd line function is done by the Executive Board. The Head of Internal Audit cannot be appointed or removed without the prior approval of the Supervisory Board (advised by the Audit Committee). The competent authorities shall be informed promptly about the approval and the main reasons for the removal.
Authority	The 3 rd line function derives its authority from the Executive Board. The head of the 3 rd line function is appointed to be responsible for the 3 rd 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.
Independency	The 3 rd line function is independent of the operations it audits and has no responsibility or authority over any of the activities or operations audited.
Objectivity	The 3 rd line function will execute its audits and advise in an objective manner, having an unbiased mental attitude, avoiding possible conflicts of interest (in practice and appearance) and performing a non-judgmental evaluation.
Resources	The head of the 3 rd line function ensures to have sufficient resources to perform the function. This includes the assignment of a deputy Head of Internal Audit and 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	The head of the 3 rd line function ensures adequate expertise (knowledge and experience) of the resources to perform current and future audit work. This includes regular training (and on occasions hiring external expertise) to remain sufficiently qualified.
Professional conduct	The 3 rd line function will execute its audits with taking into account the professional standards of the Dutch professional organisations NBA and NOREA, in the 'Verordening Gedrags- en Beroepsregels Accountants' and the 'Reglement Gedragscode Register IT auditors' as well as the International Professional Practices Framework including the Code of Ethics (integrity, objectivity, confidentiality and professionalism) of the foreign professional organisations IIA and ISACA. The standards apply amongst other to: office-organisation, audit methodology, file formation, execution of the audit work, reporting, judgement, overall management of the IAD, permanent education and confidentiality.
Confidentiality	The 3 rd line function will execute its audits with taking into account the confidentiality standards that apply to the internal audit profession.

Quality	<p>The 3rd line function will implement adequate control measures in order to safeguard compliance to the International Professional Practices Framework including the Code of Ethics (integrity, objectivity, confidentiality and professionalism) and the professional standards as included in the 'Verordening Gedrags- en Beroepsregels Accountants' and the 'Reglement Gedragscode Register IT auditors'.</p> <p>The (Dutch/ international) professional organisations can periodically assess the internal audit function of BNG Bank against the before mentioned professional standards. All members of the 3rd line function are, based on their individual qualification and membership, subject to various forms of disciplinary laws such as NBA and NOREA.</p>	<p>Date 7 February 2019</p> <p>Our reference 2445656</p> <p>Page 6 of 10</p>
---------	--	---

5 Scope of the Internal Audit function

Main activities

The audit area of the Internal Audit function covers all activities of BNG Bank and is documented in the Audit Universe, which includes a listing of all audit objects. The frequency and priority of audits and audit testing activities is determined annually by the head of IAD, discussed with the Executive Board and documented in the annual audit plan.

Legal entities/organisation

The scope for the activities covers both BNG Bank (including outsourced activities) and her 100% subsidiaries BNG Gebiedsontwikkeling BV and Hypotheekfonds voor Overheidspersoneel BV.

6 Roles & responsibilities and authority

6.1 Roles & responsibilities

General explanation for 3rd line functions

As explained in the 3 LoD document, the 3rd line function provides independent and objective assurance of the organisation's corporate governance, internal controls, compliance and risk management systems. This means, amongst others, that the 2nd line functions are also in scope of the Internal Audit.

Given the expert knowledge and capabilities, the enterprise-wide view and independent positioning of the 3rd line of defense, the Internal Audit function also has a 'natural' advisory function relating to improvement opportunities regarding the internal control and risk management system.

Specific explanation for the Internal Audit function

Based on the three fundamental roles, and aligned to the summary of the roles and responsibilities of the Internal Audit function that is included in the Three lines of defense document, the following figure provides an extensive overview of the roles and responsibilities:

Topics	Assurance	Advise
Overall strategy	<ul style="list-style-type: none"> ▶ Develop and maintain audit universe including identifying audit objectives, determining frequency and priority, based on risk-based approach and minimum professional standards ▶ Determine audit methodology including reporting format, risk-indications and audit-ratings 	<ul style="list-style-type: none"> ▶ Head of Internal Audit can participate in Steering committees on strategic projects as a non-voting member ▶ Head of Internal Audit or Internal Audit members can temporarily participate in strategic projects, under strict conditions
Corporate governance, Internal control & risk management system, Compliance	<ul style="list-style-type: none"> ▶ Draw up annual audit plan covering all activities and entities of BNG Bank, based on audit universe. ▶ Perform operational audits, based on annual audit plan, on request of EB or at own initiative and report results ▶ Perform audit testing focused on effectiveness key controls and report results ▶ Annual audit on execution compliance activities by 2nd line Compliance function ▶ Annual audit on execution risk management activities by 2nd line Risk Management ▶ Annual audit on execution security activities by 2nd line Security Officer ▶ Follow-up monitoring and reporting ▶ Report general opinion on internal control & risk management system in annual Management Letter 	<ul style="list-style-type: none"> ▶ Internal Audit members can temporarily participate in operational projects under strict conditions ▶ Perform quick scans on request and at own initiative relating to intended organisational changes ▶ Act as notification point for whistle blowers
Relation with external auditor/ supervisors/ professional audit and banking organisations	<ul style="list-style-type: none"> ▶ Independently maintain contact and communication with external audit ▶ Independently maintain contact and communication with supervisors in conformity with interbank procedures and Dutch Banking Code 	<ul style="list-style-type: none"> ▶ Represent BNG Bank from internal audit perspective in third-party meetings/ discussion groups, professional organisations

Figure 2: Overview of roles & responsibilities Internal Audit function

A number of topics are further explained as follows:

Assurance related roles & responsibilities

Audit methodology and reporting

- The formal requirements for the execution of assurance related activities are documented in a separate procedure ('procedure onderzoeken IAD' (1799093)).
- The scope of each assurance related activity including the nature and depth of the resulting audit-work is determined by the IAD;
- All findings identified will be assessed by means of a risk-indicator that will indicate the level of residual risk with all internal controls taken into account. For each finding a recommendation will be suggested to decrease the risks identified;
- Based on the audit work and related audit findings in a process, IAD assesses a conclusion on the quality of internal control and risk management of that process by means of risk-indicators and audit-ratings. The conclusion on the quality of internal control and risk management and the assessment of the risk-indicators and audit-ratings are the responsibility of the IAD;
- A formal follow-up procedure is in place regarding findings and recommendations. Periodically, a status-update is reported to the Executive Board;
- The head of IAD informs the Executive Board periodically on the progress of the execution of the annual audit plan;
- The IAD will report at least once a year by means of a Management Letter to the Executive Board, that addresses;

- Structural developments in corporate governance, internal control & risk management system and compliance with the processes and (automated) systems;
- A summary of all reports, including a status-update on follow-up;
- the progress of the realisation of the annual audit plan.

The Management letter will also be discussed in the Audit Committee of the Supervisory Board and, in case remuneration topics, also in the remunerations Committee of the Supervisory Board.

Date

7 February 2019

Our reference

2445656

Page

8 of 10

Relation with external audit

- The external auditor is responsible to give an independent audit opinion that aims to provide reasonable assurance about whether the financial statements are free of material misstatements and give a true and fair view of the financial position, results and cash flows. The external auditor has the responsibility to plan and perform the audit engagement in a manner that allows them to obtain sufficient and appropriate audit evidence to provide a basis for their opinion. As the financial statements are not only the reflection of the outcome of the financial processes of BNG Bank, but also of the business processes including their internal control & risk management system, these processes will also be taken into account in the external audit;
- The external auditor will use the activities of IAD as much as possible and will align his audit work to the internal audit work performed. This is enabled/managed by having structured, periodic meetings with the head of IAD, addressing the following topics:
 - aligning annual audit plans and risk analysis of external audit and IAD;
 - planning audit work by external auditor and IAD;
 - final audit reports including findings and recommendations by IAD;
 - progress on realisation of the audit plan of IAD.
- The head of IAD can communicate without any restrictions with the external auditor.

Relation with supervisors

The IAD will maintain contact and communicate with the supervisors in conformity with interbank guidelines (including the relevant section related to audit in the Dutch Banking Code) and internal procedures.

Advise-related roles & responsibilities

- On request of the Executive Board, the head of IAD can participate, as a non-voting member, in steering committees on strategic projects. This role is limited to (timely) addressing topics related to the internal control & risk management system. The special position of IAD is respected by the steering committee members and is also reflected in:
 - The possibility to notify that (proposed) decisions are not agreed upon;
 - The non-voting membership implies not being responsible for decisions (and the relating consequences) made by the steering committee.
- On request of the Executive Board, members of the IAD can temporarily be transferred, in order to be able to participate in projects or operational activities of strategic importance. The following conditions will apply:

- The activities resulting from the role as participant in a project or the operational activities are performed under the responsibility/on behalf of the project-lead and/or operational (senior) management;
- The loss of resources within the IAD-team will be duly compensated (internally or through external support) in order to be able to fulfill the planned audit work as documented in the audit universe and annual audit plan;
- When returning to the IAD-team, the specific team member will not be involved in audit work related to the audit topics for which the team member performed operational support, at least for a time period of one year.

Date

7 February 2019

Our reference

2445656

Page

9 of 10

- Quick scans are non-assurance assignments, on request of the Executive Board or at own initiative of IAD, at which the opinion of IAD is asked on a specific topic. By nature, these topics should relate to intended organisational changes, at which IAD will focus on the adequacy of the internal control and risk management system. The main characteristics of a quick scan are:
 - Executed within a relatively short time-period;
 - A specific, limited scope, clearly communicated with EB and auditees;
 - Executed by two auditors;
 - Based on information obtained from interviews (from an adequate mix of auditees), underlying documentation and direct information from relevant staff members;
 - Reporting includes observations and advise, but not audit findings (with risk-indicators) and recommendations. However, if findings are identified, they will be included in the report in a separate Annex, and follow-up will be monitored in the regular follow-up reporting cycle.

The quick scans are also subject to the usual quality standards. The increased risk for independency issues will be identified and assessed at the start of the quick scan assignment. All quick scan assignments are executed under the explicit responsibility of or with direct involvement of the head of IAD.

- BNG Bank has an arrangement to report (alleged) misconduct because the bank considers it important that employees can report adequately and safely any suspicions of (suspected) misconduct within BNG Bank and its subsidiaries. The careful handling of the rules and procedures described in this regulation (whistle blowing) is a precondition for this. The head of IAD has been appointed by the Executive Board as notification point to whom an (alleged) misconduct can be reported.
- If necessary for the adequate performance of the internal audit function, the head of IAD can represent BNG Bank in third party meetings. This includes attending meetings and discussion groups related to supervisors (such as Europese Centrale Bank (ECB), de Nederlandsche Bank (DNB), de Autoriteit Financiële Markten (AFM), banking organisations (such as Nederlandse Vereniging van Banken-NVB) and professional organisations (such as Nederlandse Beroepsorganisatie van Accountants (NBA), de Nederlandse Beroepsorganisatie van IT-Auditors (NOREA) and de Nederlands Instituut voor Internal Auditors (IIA)).

6.2 Authority

Date

7 February 2019

General competencies for 3rd line function

In order to safeguard adequate 'stature' of the 3rd line function, a number of general competencies are at their disposal. They underpin the authority of the function.

Our reference

2445656

- Access (directly, without any constraints) 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;
- Have adequate data quality, data definitions and sufficient ICT-systems for support.

Page

10 of 10

Specific competencies, related to the 3rd line Internal Audit function

- Directors and other senior management members should be helpful to internal audit members, this includes discussing draft audit reports and recommendations on their request within a reasonable timeframe;
- Obtain cooperation from all other functions/departments/people in order to be able to execute audit activities (without the need to motivate or explain the request for cooperation);
- Under specific conditions, IAD has access to individual personnel files (after consultation with the head of Human Resources or, if necessary, the responsible member of the Executive Board or the chair of the Executive Board).