



Internal Governance

**BNG Bank**  
**Internal Audit Charter**

Established by the Executive Committee on 16 August 2022

Approved by the Supervisory Board on 2 September 2022

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**Datum**

2 september 2022

**Onze referentie**

IAD.C.22.03/3143370

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

## 1 Purpose of the Internal Audit Charter

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### Purpose

The purpose of the Internal Audit Charter is to define the objective of the 3<sup>rd</sup> line Internal Audit function and to define the nature, stature, authority and roles, authorizations & responsibilities of the Internal Audit 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 Internal Audit. The charter will be reviewed at least once every two years by the owner, and updated if and when required. As consistency and alignment with other internal governance elements is important, Risk Management is consulted in case of updates.

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### Approval

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

## 2 Objective of the function

The purpose of the internal audit function is to provide independent, objective assurance and consulting services designed to add value and improve BNG Bank's operations. The mission of internal audit is to enhance and protect organizational value by providing risk-based and objective assurance, advice and insight. The internal audit function helps BNG Bank accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of governance, risk management, and control processes.

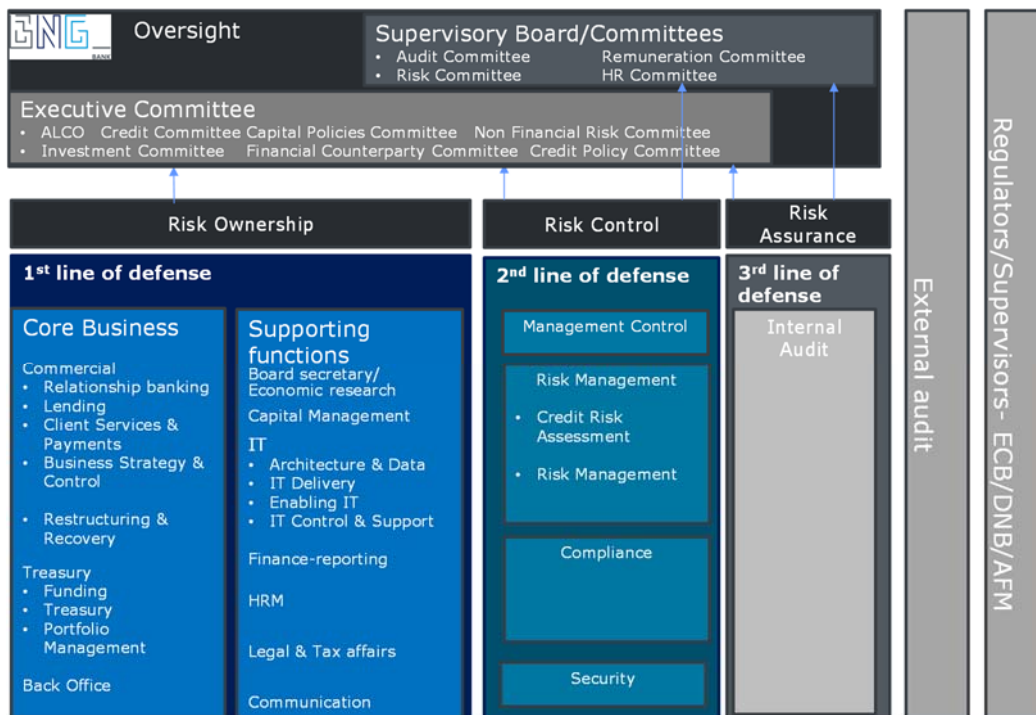
## 3 Positioning of the Internal Audit function

### Organisation

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

### 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.



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**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 independent, objective assurance and consulting services on the adequacy and effectiveness of the internal control & risk management system including corporate governance and compliance.

### Role in Committees

#### *Executive Committee*

- The Head of Internal Audit attends the meetings of the Executive Committee when necessary on ad hoc basis to explain the management letter, the quarterly reports of IAD and, when deemed necessary by either the Head of Internal Audit or the Executive Committee, individual final internal audit reports and other topics;
- The Head of Internal Audit receives the agenda and underlying documentation ahead of the meetings and receives the minutes of the meetings of the Executive Committee;
- The Head of Internal Audit has periodic bilateral meetings with the individual members of the Executive Committee.

#### *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 members of the Executive Committee;
- 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 Committee;

- The Audit Committee specifically reviews the Internal Audit Charter and prepares advise to the Supervisory Board for formal approval;
- 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 and the quarterly reports of IAD 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 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 members of the Executive Committee;
- 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.

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*Non Financial Risk Committee*

- The Head of Internal Audit attends the meetings of the Non Financial Risk Committee when necessary on ad hoc basis to explain the management letter, the quarterly reports of IAD;
- The Head of Internal Audit has a standing invitation to attend the Non Financial Risk Committee as an observer and receives the full agenda and underlying documentation ahead of the meetings.

Reporting line, access to Board and escalation

The Head of Internal Audit has a direct reporting line to the Executive Committee, the Audit Committee of the Supervisory Board and the Supervisory Board. In addition, the Head of Internal Audit has unlimited access to the chairman of the Supervisory Board at all times.

The escalation includes:

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

#### 4 General principles

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

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Assignment & withdrawal procedure	The appointment and withdrawal of the head of the 3 <sup>rd</sup> line function is done by the Executive Committee. *
Authority	The 3 <sup>rd</sup> line function derives its authority from the Executive Committee. The head of the 3 <sup>rd</sup> line function is appointed to be responsible for the 3 <sup>rd</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.
Independence	The 3 <sup>rd</sup> 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 <sup>rd</sup> 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 <sup>rd</sup> 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 <sup>rd</sup> 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 <sup>rd</sup> line function will execute its audits taking into account the professional standards of the Dutch professional organisations NBA and NOREA as well as the International Professional Practices Framework including the Core Principles for the Professional Practice of Internal Auditing and the Code of Ethics (integrity, objectivity, confidentiality and professionalism)..
Confidentiality	The 3 <sup>rd</sup> line function will execute its audits taking into account the confidentiality standards that apply to the internal audit profession.
Quality	The 3 <sup>rd</sup> line function will implement adequate control measures in order to safeguard compliance to the professional standards of the Dutch professional organisations NBA and NOREA as well as the International Professional Practices Framework. 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 3 <sup>rd</sup> line function are, based on their individual qualification and membership, subject to various forms of disciplinary laws such as NBA and NOREA.

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\*: 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.

## 5 Independence and Objectivity

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The Head of Internal Audit will ensure that the internal audit department remains free from all conditions that threaten the ability of internal auditors to carry out their responsibilities in an unbiased manner, including matters of audit selection, scope, procedures, frequency, timing, and report content. If the Head of Internal Audit determines that independence or objectivity may be impaired in fact or appearance, the details of impairment will be disclosed to appropriate parties.

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Internal auditors will maintain an unbiased mental attitude that allows them to perform engagements objectively and in such a manner that they believe in their work product, that no quality compromises are made, and that they do not subordinate their judgement on audit matters to others.

Internal auditors will have no direct operational responsibility or authority over any of the activities audited. Accordingly, internal auditors will not implement internal controls, develop procedures, install systems, prepare records, or engage in any other activity that may impair their judgment, including:

- Assessing specific operations for which they had responsibility within the previous year.
- Performing any operational duties for BNG Bank or its affiliates.
- Initiating or approving transactions external to the internal audit department.
- Directing the activities of any BNG Bank employee not employed by the internal audit department, except to the extent that such employees have been appropriately assigned to auditing teams or to otherwise assist internal auditors.

Where the Head of Internal Audit has or is expected to have roles and/or responsibilities that fall outside of internal auditing, safeguards will be established to limit impairments to independence or objectivity.

Internal Auditors will:

- Disclose any impairment of independence or objectivity, in fact or appearance, to appropriate parties.
- Exhibit professional objectivity in gathering, evaluating, and communicating information about the activity or process being examined.
- Make balanced assessments of all available and relevant facts and circumstances.
- Take necessary precautions to avoid being unduly influenced by their own interests or by others in forming judgements.

The Head of Internal Audit will confirm to the Executive Committee, Audit Committee and Supervisory Board, the organizational independence of the Internal Audit Department.

The Head of Internal Audit will disclose to the Executive Committee, Audit Committee and Supervisory Board any interference and related implications in determining the scope of internal auditing performing work, and/or communicating results.

## 6 Scope of the Internal Audit function

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### 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 is determined annually by the Head of Internal Audit, discussed with the Executive Committee and documented in the annual audit plan.

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### 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.

## 7 Roles & responsibilities and authority

### 7.1 Roles & responsibilities

#### General explanation for 3<sup>rd</sup> line functions

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

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**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 manual.
- 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 the responsible department head will provide a management action to reduce the risk. IAD will review the management action and include it in the audit report and will report whether the management actions are deemed sufficient to reduce 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 Committee;
- The Head of Internal Audit informs the Executive Committee 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 Committee, that addresses;
  - o Structural developments in corporate governance, internal control & risk management system and compliance with the processes and (automated) systems;



- o A summary of all reports, including a status-update on follow-up;
- o 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.

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*Relation with external audit*

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- 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 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 Internal Audit, 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 Internal Audit 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 Committee, the Head of Internal Audit 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:
  - o The possibility to notify that (proposed) decisions are not agreed upon;
  - o The non-voting membership implies not being responsible for decisions (and the relating consequences) made by the steering committee.
- On request of the Executive Committee, 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:
  - o 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.

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- Quick scans are non-assurance assignments, on request of the Executive Committee 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 EC 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 independence 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 Internal Audit.

- 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 Internal Audit has been appointed by the Executive Committee 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 Internal Audit 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)).

## 7.2 Authority

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The Head of Internal Audit reports to the Executive Committee, Audit Committee and Supervisory Board. To establish, maintain, and assure that BNG Bank's Internal Audit function has sufficient authority to fulfil its duties, based on preparations by the Audit Committee, the Supervisory Board will:

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- Approve the Internal Audit Charter
- Approve the annual internal audit plan
- Receive the management letter of internal audit
- Receive the quarterly reports from the Head of Internal Audit on internal audit's performance relative to its plan and other matters.
- Assess the role, the performance and the effectiveness of the Internal Audit function.
- Approve decisions of the Executive Committee regarding the appointment and removal of the Head of Internal Audit.
- Make appropriate inquiries of management and the Head of Internal Audit to determine whether there is inappropriate scope or resource limitations

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### General competencies for 3<sup>rd</sup> line function

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

- 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.

### Specific competencies, related to the 3<sup>rd</sup> line Internal Audit function

- Directors and other senior management members should be helpful to internal audit members, this includes discussing draft audit reports and findings 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 Committee or the chair of the Executive Committee).

## **8 Quality Assurance and Improvement Plan**

The Internal Audit Department will maintain a quality assurance and improvement program that covers all aspects of the internal audit department. The program will include an evaluation of the internal audit department's conformance with the standards and an evaluation of whether internal auditors apply The IIA's Code of Ethics. The program will also assess the efficiency and effectiveness of the Internal Audit Department and identify opportunities for improvement.

The Head of Internal Audit will communicate to the Executive Committee, The Audit Committee and The Supervisory Board on the Internal Audit Department's quality assurance and improvement program, including results of internal assessments (both ongoing and periodic) and external assessments conducted at least once every five years by a qualified, independent assessor or assessment team from outside BNG Bank.

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