



Internal Governance

BNG Bank Risk Management Charter

Established by the Executive Board on December 4, 2018

Approved by the Supervisory Board on March 15, 2019

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Datum

29 november 2018

Onze referentie

2411261

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

1 Purpose of the Risk Management Charter

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Purpose

The purpose of the Risk Management Charter is to define the objective of the 2nd line Risk Management function and to explain the nature, stature, authority and roles & responsibilities of the Risk Management function with BNG Bank.

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Ownership and maintenance

The owner of this charter is the Head of Risk Management. 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 executed jointly with the Head of Risk Management.

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Approval

The Risk Management Charter is established by the Management Board ('Directie Overleg, DO') in its meeting of 4th December 2018 and approved by the Supervisory Board on March 15, 2019.

2 Objective of the function

Mission and objective of the 2nd line Risk Management function

The ambition regarding the nature and level of risk management activities within BNG Bank is stated as follows:

The Risk Management Framework must provide a sufficient level of insight to enable adequate risk management to support decision making in order to achieve:

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

The objective of the 2nd line Risk Management function is:

- to advise the Management Board (MB), Executive Board (EB) and Supervisory Board (SB) on risk related matters including risk appetite, new products;
- to facilitate and support the development and maintenance of the risk management framework.

Risk Management periodically identifies and analyses (new) risks, develops reporting structures. Risk Management monitors the actual risk profile against the risk appetite, advises on steering-actions and reports to the Management Board, Executive Board and Supervisory Board.

The Risk Management function within BNG Bank is an element of the 'internal control function' as described in the EBA guidelines on internal governance (EBA/GL/2017/11).

3 Positioning of the Risk Management function

Organisation

The Risk Management function is hierarchically positioned in a separate department, which is positioned directly under the CRO. The Head of Risk Management is a member of the Management Board (MB).

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 risk management including the design of the 2nd line Risk Management function. The 1st line is risk owner and responsible for:

- Identification & assessment of the 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 risks generated by its activities implying ownership of risks and responsibility for effective controls.

Role in Committees

Executive Board

- The Head of Risk Management is a member of the Management Board and thus participates in the MB meetings. The MB is directly responsible for operational risk and credit risk on portfolio level.
- Risk Management is a member of the Asset & Liability Committee (ALCO) that is responsible for liquidity and market risk.
- Risk Management participates in the risk committee 'Commissie Financiële Tegenpartijen' (CFT) which is responsible for (credit risk) limit setting and monitoring on financial counterparties (and countries);
- Risk Management participates in the risk committee Investment Committee (IC) which is responsible for (credit risk) limit setting and monitoring on investment portfolios;
- Risk Management participates in the 'Commissie Kapitaalbeleid en Financiële Regelgeving' (CK&FR), which is responsible for capital limits per department.
- Risk Management participates in the Credit Committee ('Krediet Commissie', KC) on an ad hoc basis (only for policy related topics). The 'regular' participation of the 2nd line risk function is performed by Credit Risk Assessment (Krediet RisicoBeoordeling, KRB) with regard to the credit limits on individual clients.

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Supervisory Board

- The Head of Risk Management will attend the meetings of the Risk Committee of the Supervisory Board and receives full agenda and underlying documentation ahead of the meetings, unless the Risk Committee members decide otherwise. The meetings are also attended by the EB. The Risk Committee members can decide to have a private session with the Head of Risk Management. Once a year the Chair of the Risk Committee and the Head of Risk Management have a private session.
- The Head of Risk Management specifically reviews the incentives- and performance elements of senior management as supervised by the Remuneration Committee of the Supervisory Board.

Reporting line, access to Board and escalation

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

- Quarterly 'Risk Report' relating to monitoring the actual risk profile against the risk appetite and analyzing actual developments;
- Risk analysis report on remuneration in general to the Risk Committee of the Supervisory Board;
- Risk analysis report on incentives and performance-measurement to the Remuneration Committee of the Supervisory Board;
- Various reports on request and at Risk Management's own initiative.

The Head of Risk Management has unlimited access to the chairman of the SB. The Head of Risk Management is involved in the evaluation of the impact of material changes or exceptional transactions on the overall risk profile and reports its findings to the MB. For the approval of decisions on which the Head of Risk Management has expressed a negative opinion, a strengthened procedure is in place. The members of the EB have an additional discussion in a separate EB-meeting and, if unaltered, formally document the arguments for overruling the opinion of Risk Management, explicitly addressing the objections of RM.

The strengthened procedure applies to risk strategy and appetite, decisions on

material changes, exceptional transactions or other key risk issues that may be inconsistent with the risk appetite and strategy.

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4 General principles

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The following general principles apply to all 2nd line functions:

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General principles for 2nd line functions and explanation	
Assignment & withdrawal procedure	The appointment and withdrawal of the head of the 2 nd line function is approved by the Executive Board. *
Authority	The 2 nd line function derives its authority from the Executive Board. The head of the 2 nd line function is appointed to be responsible for the 2 nd 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 2 nd line function forms an expert judgement independent from the business (the 1 st line of defense). This independence is safeguarded by the condition that the 2 nd line function will have no operational involvement in day to day business operations and individual business decisions. Indirectly the 2 nd line function can be involved by means of the advising and supporting role.
Objectivity	The 2 nd 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 nd 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 nd 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 Risk Management 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 Risk Management function

Main activities

The main activities of the Risk Management function consist of the main risk areas as follows (see document 'Risk Definitions' for further explanation).

- Credit risk
- Market risk
- Liquidity risk
- Operational risk

- Strategic risk

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Legal entities/organisation

The scope for the activities related to the risk management areas covers both BNG Bank and her 100% subsidiaries BNG Gebiedsontwikkeling BV and Hypotheekfonds voor Overheidspersoneel BV.

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6 Roles & responsibilities and authority

6.1 Roles & responsibilities

General explanation for 2nd line functions

As explained in the 3 LoD document, the 2nd 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 2nd 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 document.

Specific explanation for the Risk Management function

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

Topics	Advise	Facilitate & Support	Challenge & Monitor
Risk strategy	<ul style="list-style-type: none"> ▶ Advise MB and 1st line on risk related matters, including risk appetite and new (changes in) products ▶ Advise on implementation of actual sound risk management practices and standards 	<ul style="list-style-type: none"> ▶ Bring business together, facilitate information exchange and sharing of good practices/best in class ▶ Draw up annual risk management plan covering all activities and entities of BNG Bank 	<ul style="list-style-type: none"> ▶ Challenge new business proposals and risk taking decisions with material impact on the risk profile ▶ Monitor actual risk profile against risk appetite and compliance with risk and capital related laws & regulations and report to MB and SB
Risk governance & framework	<ul style="list-style-type: none"> ▶ Advise MB and 1st line on risk governance design and Risk Management Framework design (including methodologies and policies) 	<ul style="list-style-type: none"> ▶ Develop and maintain the Risk Management Framework (risk cycle, risk definitions, risk appetite and cascading in risk limits, risk models, risk policies) ▶ Support business with implementing, communicating and embedding the Risk Management Framework ▶ Support MB in ensuring of effective framework operation ▶ Develop reporting structure for 1st line, management and governing bodies (risk committee in MB and SB) 	<ul style="list-style-type: none"> ▶ Challenge quality of risk management activities in daily operations and consistent use of Risk Management Framework ▶ Monitor compliance with risk governance requirements and risk policies including risk limits and detect and report (potential) violations ▶ Monitor effectiveness of remediation measures incl. action plan progress tracking ▶ Report serious risk related incidents to MB and SB
Risk culture	<ul style="list-style-type: none"> ▶ Advise MB and 1st line on sound risk culture and adequate awareness 	<ul style="list-style-type: none"> ▶ Promote a strong, sound risk culture ▶ Develop and maintain education material for 1st line 	<ul style="list-style-type: none"> ▶ Challenge effectiveness of management performance and remuneration processes ▶ Monitor actual embedding
Relation with supervisor	<ul style="list-style-type: none"> ▶ Advise MB on compliance with regulatory requirements and on follow-up on supervisory recommendations 	<ul style="list-style-type: none"> ▶ Support MB with pro-active and effective coordination and communication with supervisor 	<ul style="list-style-type: none"> ▶ Monitor compliance with regulatory requirements ▶ Ensure that relevant risk related incidents are reported by the CRO to the supervisor

Figure 2: Overview of roles & responsibilities Risk Management function

The scope of the monitoring role is limited to ensuring that all identified risks are effectively monitored by the 1st line. This implies that Risk Management will monitor if 1st line management takes responsibility of their risk ownership, by verifying if (key) controls are executed. In doing so, Risk Management may rely on information received from 1st line, without performing systematic, in depth checks and testing procedures to determine the reliability of the information received.

6.2 Authority

General competencies for 2nd line functions

In order to safeguard adequate 'stature' of the 2nd 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 2nd line Risk Management function

- Participation in the risk committees of the bank;
- Approval of new products and non standard transactions;
- Authorisation of changes in limits or temporarily breeches as far as delegated by the EB to the RM function.

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