



Internal Governance

BNG Bank Risk Management Charter

Approved by the ExCo on November 28th, 2023

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Datum

17 november 2023

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 within 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. Risk Management will perform maintenance of this charter and will seek consistency and alignment with other internal governance elements through Risk Management ORM.

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Approval

The Risk Management Charter is approved by the Executive Committee ('ExCo') in its meeting of November 28th, 2023.

2 Objective and scope 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 explained in the Risk Management Framework (RMF):

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.
- that the bank is in control.

The related objective of the 2nd line Risk Management function are translated in roles and responsibilities reflecting the 3LoD model and summarized in section 5.

The Risk Management function within BNG Bank is an element of the 'internal control function' as described in EBA guidelines on internal governance (EBA/GL/2021/05).

Scope

The main activities of the Risk Management function relate to the main risk areas as defined in the banks 'Risk Definitions' and consist of Credit risk, Market risk, Liquidity risk, Operational risk and Strategic risk. Security risk and compliance risk are in scope of the compliance function and the security function and therefore not in scope of the risk management function. The sustainability risk (ESG risk) is included in the risks mentioned above, as a risk driver impacting the traditional risk types. The activities of the Risk Management function also include capital management.

Legal entities/organisation

The scope for the activities related to the risk management areas covers both BNG Bank and her 100% subsidiary BNG Gebiedsontwikkeling.

3 Positioning of the Risk Management function

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Organisation

The 3LoD (Three Lines of Defense) model is considered as the organisation model for managing risks within financial institutions (source: # 2294280, updated to actual status).

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The Risk Management function is a 2nd line function and hierarchically positioned in a separate department, which is positioned directly under the CRO.

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 Committees

- ALCO: Risk Management participates in the Asset & Liability Committee that is responsible for liquidity and market risk, including refinancing and solvability aspects;
- CCT: Risk Management participates in the Credit Committee Treasury which is responsible for credit risk on financial counterparties (and countries);
- CPC STMP: Risk Management participates in the Credit Policy Committee STMP which is responsible for policy setting and monitoring of credit risk for statutory market clients ('Statutaire Markt Partijen) on a portfolio level. The 2nd line function Krediet RisicoBeoordeling, KRB participates in the Credit Committee STMP with regard to the credit limits on individual clients;
- NFRC: Risk Management participates in the Non Financial Risk Committee which is responsible for managing non financial risks (excluding strategic risk)
- SBC: Risk Management participates in the Sustainable Banking Committee to manage the overall ESG risk. Where ESG drivers impact traditional risks these are however managed in the corresponding Executive Committee responsible for that risk.
- IPC: Risk Management also participates in the Integral Portfolio Committee as Chief Product Owner for the risk domain to safeguard proper focus and priority in the change portfolio on risk-related requirements.

The role in the committees can also include 1) approval of new products (in NFRC), 2) approval of non standard transactions (in the financial risk related committees) and 3) authorisation of changes in limits or temporarily breeches as far as delegated by the ExCo.

Supervisory Board

- The Head of Risk Management will participate in the meetings of the Risk Committee of the Supervisory Board and receives full agenda and underlying documentation ahead of the meetings. The meetings are also attended by the CEO and CRO. 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.

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Reporting line, access to Board and escalation

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

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- Quarterly 'Integrated 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 as well as reports with unsolicited opinions 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 ExCo. For the approval of decisions on which the Head of Risk Management has expressed a negative opinion, a strengthened procedure is in place, as follows:

- *The members of the ExCo have an additional discussion 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.

4 General principles

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

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. 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.
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. This includes delivery of needed input from other functions/departments/people on a timely basis to respond to supervisory requests.

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.

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5 Roles & responsibilities and authority

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.

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 in the 3 LoD document, the following figure provides an overview:

Topics	Advise	Facilitate & Support	Challenge & Monitor
Risk strategy	<ul style="list-style-type: none"> ▶ Advise ExCo and 1st line on risk related matters, including risk appetite, changes/new products and capital management ▶ Advise on implementation of 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 ExCo and SB
Risk governance & framework	<ul style="list-style-type: none"> ▶ Advise ExCo 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 ExCo in ensuring of effective framework operation ▶ Develop reporting structure for 1st line, management and governing bodies (risk committee in ExCo 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 ExCo and SB
Risk culture	<ul style="list-style-type: none"> ▶ Advise ExCo 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 ExCo on compliance with prudential regulatory requirements and on follow-up on supervisory recommendations 	<ul style="list-style-type: none"> ▶ Support ExCo with pro-active and effective coordination and communication with supervisor 	<ul style="list-style-type: none"> ▶ Monitor compliance with prudential regulatory requirements ▶ Ensure that relevant risk related incidents are reported by the CRO to the supervisor

Figure 1: 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.