

Audit Charter

Audit enhances and protects the shared values by providing risk-based and objective assurance, advice and insight leading to an in control bank

Version: 1.0
Date: 01-12-2022

Colophon

Risk domain	Audit
Document owner	Dirk Willem Huizinga
Author	Dirk Willem Huizinga
Document status	Final
Term of validity	Valid until a new version has been adopted. Review interval 12 months.
Classification	Public
Implementation date	Not applicable (already implemented).

Version and changes

Version	Changes
0.1	Initial version [based on Audit Charter in previous format dated 27 December 2021]
0.2	Review from MT Audit and Risk ERM
0.3	Agreed with CEO, ExCo and Audit Committee
1.0	Agreed by Supervisory Board

Consultation (* = mandatory review)

Version	Review by	Role	Eligible for approval
0.1	Enterprise Risk & Policy Management (ERMP)	QA IP Risicobeleid*	Workflow SN

Approval

Version	Body	Date approval	Conditions
0.3	Executive Committee	15 November 2022	N
0.3	Audit Committee	30 November 2022	N
1.0	Supervisory Board	1 December 2022	N

TABLE OF CONTENTS

MANAGEMENT SUMMARY	4
1 INTRODUCTION	5
Purpose and scope.....	5
Policy related documents	5
New in this version	5
Accepted (residual) risks – Future improvements.....	5
Communication & implementation plan.....	5
2 REGULATORY FRAMEWORK	5
3 MISSION STATEMENT AND SCOPE	6
Mission statement.....	6
Scope.....	6
Field of action.....	7
Activities.....	7
4 POSITIONING & INDEPENDENCE.....	8
5 PROFESSIONAL SKILLS AND EXPERTISE.....	8
6 AUTHORITIES.....	9
7 RESPONSIBILITIES.....	9
8 RELATIONSHIP WITH OTHER DEPARTMENTS	11
9 STANDING INVITATIONS.....	11
10 RELATIONSHIPS WITH EXTERNAL PARTIES	12
External auditor(s) for the annual audit of the financial statements	12
External auditor(s) for advisory assignments	12
Regulators.....	12
Audit opinions outside de Volksbank	12
11 EVALUATION	12

Management Summary

Our mission and what we do

Audit enhances and protects the shared values by providing risk-based and objective assurance, advice and insight leading to an in control bank.

Our internal stakeholders

Most important internal stakeholders for Audit are the Executive Committee (ExCo), the Audit Committee of the Supervisory Board (AC) and de Volksbank Leadership Team (VLT).

Our scope

The scope of Audit includes the evaluation of the adequacy and effectiveness of the organisation's governance, risk management, compliance and internal controls as well as the quality of performance in carrying out the organisation's goals and objectives and the link thereof with the strategy. Audit performs audits on all activities of de Volksbank, including subsidiaries and outsourced activities to service providers.

Our product range

Audit primarily performs operational and IT audits, next to audit activities that relate to compliance, programmes, projects, soft controls (culture and behaviour), fraud and advisory assignments.

Our key competence

It is fundamental that Audit is independent and impartial, both in its organisational positioning and in the mindset of its employees. Therefore, the Director of Audit reports to the CEO and has an open communication line with the Chair of the Audit Committee of the Supervisory Board.

Requirements

In order to perform her work, Audit needs unconditional access to all functions, people/staff, files and systems, including minutes of the Executive Committee and Supervisory Board.

Realising effectiveness

In order to realise an effective role in de Volksbank, Audit follows a structured approach:

- Based on a yearly risk analysis, leading to a multi-year audit plan, Audit receives adequate budget to perform the audits deemed necessary;
- Audit reports on her findings in writing and discusses these in draft with responsible management, including, action items agreed with management. Action items are followed up. The Executive Committee creates an atmosphere in which risk owners can solve issues (by allocating budget and setting priorities) and encourages resolution;
- The outcome of the audit work is reported quarterly to the Executive Committee, Audit Committee of the Supervisory Board, senior management, the external auditor and regulators;
- From an efficiency perspective, Audit takes notice of the planning and reports of the second line Risk and Compliance departments and the external auditor, and plans her activities accordingly.

Quality assurance

Audit has documented its approach in the Audit Manual that incorporates structured internal review. The manual is based on the professional practices as prescribed by the IIA and is compliant with regulations and guidelines from NBA, NOREA, ISACA, Basel Committee and EBA. Every 4 years Audit is evaluated externally on her ongoing compliance with these professional practices.

1. Introduction

Purpose and scope

The objective of this Charter is to mandate the Internal Audit Function of de Volksbank N.V. (Audit).

Policy related documents

Type	Title	Version
Regulations	Rules of Procedure Executive Board and Executive Committee of de Volksbank N.V.	16-05-2022
Regulations	Rules of Procedure Audit Committee of de Volksbank N.V.	16-05-2022
Regulations	Rules of Procedure Supervisory Board of de Volksbank N.V.	16-05-2022

New in this version

- The NOCLAR regulation from NBA requires actions by individual auditors and the Director of Audit in case of material noncompliances. This regulation is now elaborated;
- The changes in 2022 to the regulations of the ExCo, Supervisory Board and AC committee have been taken into account;
- Broader definition of required qualifications of auditors;
- Textual changes: sharper wording of specific area's, deduplication where possible; the former annex on the quality program is summarised and incorporated in the body text .

Accepted (residual) risks – Future improvements

There are no open items for future improvements.

Communication & implementation plan

The Charter is disclosed to all employees by publishing the document on the IRM House of Policies, the Audit intranet (iD), intranet (iD site on governance) and on de Volksbank N.V.'s public website.

2. Regulatory framework

In drafting the audit plan and the performance of audits, specifically the requirements from the following practices, regulations and guidelines are taken into account:

International / EU regulations:

- EU directive law CRD - Capital Requirements Directive;
- EU regulation CRR - Capital Requirements Regulation;
- Bank Recovery and Resolution Directive;
- EBA Guidelines on internal governance (EBA/GL/2021/05) effective 31 December 2021;
- Other applicable EBA guidelines e.g. on outsourcing;
- Applicable BCBS guidelines (a.o. #223 Internal audit, #239 PERDARR, #328 Corporate Governance).

National regulations:

- Financial Supervision Act (Wft) and underlying regulations, such as Bgfo and Bpr;
- The Act for the prevention of money laundering and financing of terrorism (Wwft);
- Dutch Corporate Governance Code;
- Dutch Banking Code.

Professional and best practices

- IIA: International Professional Practices Framework and the Internal Audit Ambition Model;
- NBA (e.g. Practice guidance 1145);
- NOREA;
- ISACA (e.g. COBIT 5 framework).

Per audit several specific laws, practices and/or regulations can be applicable, e.g. EU Deposit Guarantee Schemes Directive (in line with the DNB Policy Guide Individual Client Profile); Sanctions regulations, WBFO and General Data Protection Regulation (GDPR), EBA Guidelines on Outsourcing.

3. Mission statement and scope

Mission statement

To support realising de Volksbank's mission, it is Audit's mission to enhance and protect the shared values by providing risk-based and objective assurance, advice and insight leading to an in control bank. Audit evaluates, through a systematic and disciplined approach, the effectiveness of the bank's internal control, processes, risk management, compliance and governance systems, and provides recommendations to optimise these. Audit reinforces (by providing assurance) "the Bank with the human touch" to create an excellent customer and employee experience and excellent operations in a simple, responsible, sustainable and transparent manner. Audit acts as the conscience of the organisation in realising our strategic goals of a people-oriented, social and sustainable bank. Therefore, it is Audit's task to provide independent and objective assurance and suggest improvements to the Executive Committee, VLT (senior management) and the Audit Committee regarding:

- Governance of de Volksbank and its subsidiaries;
- Adequacy and efficiency of the internal control framework of the business processes which support the realisation of de Volksbank's strategic objectives (From Promise to Impact!);
- Reliability and adequacy of management information to support and test the realisation of de Volksbank's objectives;
- Reliability of the (financial) information and data management;
- Compliance with relevant laws and regulations;
- Facts and circumstances when fraud is suspected;
- Safeguarding of tangible and intangible (such as reputation of de Volksbank and her brands) assets;
- Follow-up on agreed action items.

Scope

The scope of Audit encompasses, but is not limited to, the examination and evaluation of the adequacy and effectiveness of the organisation's governance, risk management, compliance and internal controls as well as the quality of performance in carrying out assigned responsibilities to achieve the organisation's shared value goals and objectives for all stakeholders (customers, society, employees and shareholders). This includes:

- Assessing the appropriateness of de Volksbank governance framework and internal control systems, including whether existing policies and procedures remain adequate and comply with legal and regulatory requirements, with decisions of management and the risk appetite, and strategy of de Volksbank;
- Assessing whether risk exposures, policies, plans and procedures are correctly and effectively implemented (e.g. compliance with conduct requirements of transactions, the compliance of the level of risk effectively incurred with the risk appetite and limits, etc.);

- Assessing the adequacy, quality and effectiveness of the controls performed and the reporting done by the first line and the Risk Management Function and Compliance Function;
- Assessing the reliability and integrity of information and the means used to identify, measure, classify and report such information;
- Determining if the institution adheres to internal policies and relevant legislation and addresses any deviations;
- Assessing the means of safeguarding assets and, as appropriate, verifying the existence of assets;
- Assessing the effectiveness and efficiency of resource employment;
- Assessing operations, programmes or projects to ascertain whether results are consistent with de Volksbank's strategy, objectives and goals and are timely executed;
- Adequately covering all areas in a risk-based audit plan;
- Assessing the quality of performance of external auditors and the degree of coordination with Internal Audit;
- Performing consulting and advisory services related to governance, risk management, compliance and control as appropriate for the organisation;
- Assessing and reporting significant risk exposures, control issues or specific operations, including fraud risks, governance issues and other matters needed or requested by the Executive Committee, the Supervisory Board or management, as appropriate;
- Performing data analytics to create insight in data quality and effectiveness of controls;
- Reporting periodically (with a minimum of twice a year) on Audit's purpose, authority, responsibility, internal quality assurance and performance relative to its plan.

Field of action

The field of action of Audit is defined by the following areas:

- All activities, entities and joint ventures within de Volksbank, which are directly or indirectly at least 50%-owned by de Volksbank;
- Activities, entities and joint ventures which are directly or indirectly less than 50%-owned by de Volksbank, as far as audit coverage is agreed upon between parties;
- All service providers to which de Volksbank business are contractually outsourced (right to audit);
- Acquisitions or joint ventures: Audit may take part in the due-diligence processes before acquisitions of entities or before entering into joint ventures.

Activities

Audit performs the following activities:

- Operational audits to review the effectiveness and efficiency of risk control within business processes. This includes an assessment of the set-up and ongoing effectiveness of the internal control framework, in line with the strategy and policies of de Volksbank and with properly aligned execution, communication and management information. Audit evaluates both the design, implementation and operational effectiveness of relevant procedures. In this context the adequacy, quality and effectiveness of controls performed by first and second line are evaluated;
- IT audits on information management, systems, applications, related departments and processes;
- Financial audits:
 - The external auditor has primary responsibility for auditing the statutory financial statements;
 - Audit audits some parts of the financial statement closing processes;
- Audit has responsibility for auditing the integrity of (financial) management information by auditing the establishment process and related reporting on a cyclical basis;
- Audits of compliance with relevant laws and regulations including audits required by external stakeholders;

- Audits on change initiatives (such as programmes and projects), including reviews on governance and deliverables;
- Soft controls audits of behaviour and cultural aspects of organisational entities;
- Special investigations, such as investigations of operational losses (including fraud) with an amount bigger than € 100,000 and/or where Directors are (or seem to be) involved;
- Follow-up monitoring on action items;
- Data analysis as part of the overall risk assessment, as part of audits or as separate activity;
- Counselling and consulting, partly through joining working groups, but still working with an auditor's approach and avoiding the danger of collision;
- Activities necessary to support the AC of de Volksbank.

For outsourced activities, Audit can make use of ISAE3402 statements received from external auditors. If Audit identifies risks, independent of whether these risks were within or outside the scope of the specific audit, Audit provides recommendations to improve internal controls that are translated by management into action points.

4. Positioning & independence

It is of fundamental importance that the organisational positioning and the reporting lines of the Audit department guarantee maximum independence, impartiality and stature of the audit department and the Director of Audit. The Director of Audit reports functionally to the Executive Committee and the AC of the Supervisory Board and administratively (i.e. day to day operations) to the CEO. Therefore the Director of Audit has frequent (at least monthly) bilateral open-minded meetings with the CEO. In these meetings both are free to discuss any matter which is considered relevant. The Director of Audit communicates and interacts directly with the AC, as appropriate. The Director of Audit participates in all meetings of the AC and Risk & Compliance Committee (R&CC) of the Supervisory Board and reports the results of performed audits to the AC quarterly. The AC discusses with the Director of Audit and the external auditor at least yearly the functioning and attitude of the Executive Committee (tone at the top), without the presence of the Executive Committee. Furthermore, the Director of Audit has several bilateral meetings a year (at least quarterly) with the Chairman of the AC.

The Director of Audit is free to communicate with the external auditor(s) and regulators, as far as he/she feels appropriate. To safeguard the independence of Audit as a department in terms of objectivity and impartiality, controlling procedures such as job rotation and employability of auditors (in certain areas due to their work history or advisory assignments), peer reviews and reviews by the external auditors and regulators are carried out.

Audit is not involved in designing, selecting, establishing and implementing specific internal control policies, mechanisms and procedures, and risk limits. However, this should not prevent the Executive Committee and management from requesting input from Audit on matters related to risk, internal controls and compliance with applicable rules.

5. Professional skills and expertise

The Director of Audit is responsible for the adequate and professional basis of the reported findings and conclusions as well as for the advice provided. Therefore the level of professional skills and expertise of the Audit employees is of a high standard. Hiring, training, coaching on the job as well as continual professional education, manual, job instructions and tooling are geared to this. The basis of the quality system lies within the audit teams. The Director of Audit or his/her substitute reviews all executive summaries of reports in advance. All formal documents specifically written for the Executive

Committee or Audit Committee are processed by the Director of Audit and a second member of Management Team Audit.

Audit staff from the role Lead Auditor upwards must have a minimum of one of the following professional audit qualifications: Chartered Accountant (RA), Registered Operational Auditor (RO) and Registered IT Auditor (RE). Preferably the MT of Audit contains the three professional audit qualifications RA, RE and RO; the Director of Audit must have one of these qualifications.

6. Authorities

Authority has been granted to the Director of Audit, by the Executive Committee and by the AC of the Supervisory Board, to initiate every audit that he/she deems appropriate.

Audit has the authority to:

- Have full and unconditional access to all functions, files, physical assets, personnel, buildings, systems and information (electronically and non-electronically) including access to management information systems and records and the minutes of all consultative and decision-making bodies (including all Executive Committee and Supervisory Board meetings), using good judgement with regard to privacy issues. The GDPR does not constrain this authority;
- Decide on the allocation of audit resources and audit frequency, select audit items, set audit scopes and execute every audit method necessary to reach the audit objectives;
- Demand sufficient support from the auditee's personnel;
- Hire additional and specialised resources from inside or outside de Volksbank, if necessary;
- Require timely and effective follow-up on agreed actions by senior management;
- Review in advance any assignments given to audit firms, not being the statutory audit.

Audit staff is not authorised to:

- Perform any operational duties for de Volksbank;
- Initiate or approve accounting transactions not related to Audit's own operations;
- Direct the activities of any employee of de Volksbank not employed by Audit.

7. Responsibilities

The AC of the Supervisory Board:

- Reviews the audit charter, the risk based audit plan, the audit budget and resource plan, prior to approval by the Supervisory Board;
- Receives communications from the Director of Audit on Audit's performance relative to its plan and other matters;
- Reviews and concurs in decisions regarding the appointment, (temporary) suspension and dismissal of the Director of Audit, prior to approval by the Supervisory Board. The Chair of the Audit Committee plays an important role in the periodic performance evaluation of the Director of Audit. When the Director of Audit leaves de Volksbank, the Chair of the AC will conduct an exit interview;
- Makes appropriate inquiries of management and the Director of Audit to determine whether there are inappropriate scope or resource limitations.

The Executive Committee has the following responsibilities:

- Appointment, remuneration and dismissal of the Director of Audit. The chairman of the Executive Committee actively involves the chairman of the AC with regard to the appointment, remuneration and removal of the Director of Audit. Dismissal of the Director of Audit is only possible after

consent of the Supervisory Board. Also a (temporary) suspension of the Director of Audit requires prior consent of the Supervisory Board. Prior to this consent, the Director of Audit should be heard by the Supervisory Board. The appointment of the Director of Audit requires the approval of regulators. If the Director of Audit is dismissed from his or her position, this is disclosed publicly. De Volksbank also discusses without delay the reasons for such dismissal or voluntary departure with its regulators;

- Ensure together with the Director of Audit that Audit has sufficient authority, standing, position, independence and direct access to the Executive Committee and the Supervisory Board;
- Proactively and fully inform Audit on topics that impact the governance, risk management, compliance and internal controls of de Volksbank. At the moment the Executive Committee is aware of (potential) incidents within de Volksbank, Audit is informed promptly and fully. The execution of an own investigation by the Executive Committee is no reason to not directly inform Audit;
- Set targets for follow-up on action points and manage this process proactively.

Audit has the following responsibilities:

- To annually perform or update an overall risk analysis for all auditable entities of de Volksbank, based on a thorough understanding of the organisation's strategies, key business objectives, associated risks and risk management processes;
- To share and discuss the updated risk analysis with the Risk Management Function and Compliance Function;
- To set up a multi-year audit plan based on the updated risk analysis which takes audit signals, trends and emerging issues that could impact the organisation and requests from the Supervisory Board, Executive Committee, management, regulators and the external auditor into account. The plan includes legally mandatory audits, reflects necessary follow-up monitoring and preserves adequate resources for ad hoc assignments;
- To have the annual audit plan approved by the Executive Committee and the AC and execute the plan accordingly. Ad hoc requests and assignments are taken into account as much as possible;
- To monitor progress of audit activities and report on deviations to the Executive Committee and the AC on a semi-annual basis;
- To organise and provide sufficient professional resources, highly skilled, well-trained employees with adequate audit and business experience and sufficient education to be able to fulfil the requirements of this charter, by drafting and implementing a yearly education plan for the Audit staff for knowledge development and to fulfil permanent educational needs;
- To make sure remuneration of Audit staff is not linked to the financial performance of the businesses that are being audited or in any other way affects the independence of Audit staff;
- To encourage Executive Committee and AC oversight in the quality assurance and improvement programme within the Audit department and the external assessment of the Audit department;
- To communicate with all relevant departments within de Volksbank on an optimal and transparent level and to organise and provide prompt audit reporting;
- To report at least quarterly to the Executive Committee and to the AC on audit results and more frequently when needed on major audit findings or even directly on material audit findings that could significantly harm the bank;
- To issue, in conjunction with the external auditor, an annual management letter;
- To ensure an optimal working relationship with the external auditor(s) and to fulfil a coordinating role in the appointment and monitoring of the external auditor(s), together with the Finance department;
- To ensure an optimal working relationship with the regulators;

- To inform the Executive Committee and the AC regarding new developments, trends and best practices in the areas of Internal Audit, governance, risk management, compliance and internal controls and to propose topics to be considered in the permanent education programme for the members of the Supervisory Board and especially the AC;
- To support (the Chairman of) the AC.

NOCLAR regulation of NBA requires action by all individual auditors that identify noncompliance with laws and regulation by de Volksbank with material consequences. It is the responsibility of the Director Audit to evaluate such findings and safeguard adequate action by management if such material noncompliance would occur and escalate to the Executive Committee and/or the Audit Committee. Under certain circumstances as prescribed in the NOCLAR-regulation, the Director Audit must inform external parties (e.g. supervisors, law enforcement agencies) of such material noncompliance.

8. Relationship with other departments

De Volksbank has set up its risk management function and compliance function based on the 'three lines of defence' (3LoD) model, which is described in-depth in the RMP ERM policy.

Audit takes notice of the work as performed by the compliance and risk management functions and prevents duplication of work. Where possible Audit builds further on the outcome of work by the risk management function and the compliance function. However the Director of Audit remains fully accountable and responsible for adequate substantiation of audit findings and opinions.

Interaction with the Risk Management and Compliance Function relates to:

- The maintenance of a common risk taxonomy: including all relevant both financial and non-financial risks, as credit, market, liquidity, concentration, operational, IT, reputational, legal, conduct, compliance with AML/CTF and other financial crime, environmental, social, governance, and strategic risks;
- Collective risk analysis sessions and sharing knowledge on business and risk topics;
- On (large) fraud investigations Audit cooperates with Hub Risk/Compliance Financial Crime. Audit is responsible to investigate (potential) fraud with an amount bigger than € 100.000 and/or where members of the ExCo or VLT are (or might be) involved.

9. Standing invitations

Audit has, as part of its monitoring and account management activities, standing invitations for all de Volksbank's risk committees and can on demand participate in strategic programme and project steering group meetings. Audit participates as a non-voting member to prevent compromising its independent position. By use of these standing invitations, Audit can evaluate the effectiveness of governance, risk management and control processes in the first and second lines. Next to (un)solicited advice, Audit's role is limited to timely raise risk related topics on the agenda. It is assured that a committee or steering group respects this specific position. As a non-voting member, Audit is not responsible for decisions taken by a committee or steering group and the consequences thereof. The fact that Audit is present in a risk committee meeting does not imply that Audit will not report findings on the issues that were not raised in that meeting by Audit.

10. Relationships with external parties

External auditor(s) for the annual audit of the financial statements

Assignments for the annual audit of the financial statements are the responsibility of the AC. Communication on these assignments formally passes through the CFO as a member of the Executive Committee. Audit fulfils a coordinating role in the appointment and monitoring of the external auditor(s) together with Finance. All assignments performed by the external auditor should be approved by Finance and Audit beforehand. Audit has an optimal working relationship with the external auditor(s). This includes coordinating the audit plans, mutual sharing of information about audit findings, conclusions and action points and also exchanging audit reports. The external auditor receives all audit reports.

External auditor(s) for advisory assignments

When there is a certain need within de Volksbank to hire external auditors for advisory assignments, Audit is involved in this process and reviews the draft engagement proposal. Audit will then check whether this assignment is part of or can be included in the audit year plan or as part of the specifically reserved audit capacity for these kinds of assignments (based on the business case to reduce hiring external auditors). Alternative is that Audit participates in the external assignment to maintain knowledge and experience and reduce costs. For all assignments Audit will contribute if appropriate to the quality of the engagement proposal and the acceptability of the proposed fee.

Regulators

Audit maintains open relationships with the regulators ECB/DNB and AFM and aligns activities as much as possible. The Director of Audit meets at least yearly with the supervisory team of ECB/DNB. Audit's quarterly report is provided to ECB/DNB and AFM directly after clarification and discussion in the AC. The regulators can request detailed audit reports mentioned in the quarterly report and can request Q&A meetings with individual auditors. The Director of Audit must be informed on all contacts between regulators and individual auditors. Requested Audit reports are provided to the regulator through regular procedures of the Supervisory Office but only after approval thereon by an Audit Management Team member. When relevant, a representative of Audit participates in meetings which are part of on-site inspections, audits or reviews performed by regulators. The Supervisory Office makes sure Audit receives all draft and final versions of the supervisory letters and reports.

Reports from regulators can result in a remedial action plan; Audit should evaluate on a regular basis how committed remedial actions are progressing; thereto Audit has a seat in the Remedial Action Plan Coordinating Committee (RAP CoCo) – reference is made to the Mandate of the RAP CoCo.

Audit opinions outside de Volksbank

Other parties (outside de Volksbank), such as suppliers, the Tax authority, Service Organisations, make use of Audit's reports. In all these cases, it should be made clear for the receiver that the audit opinion originates from an internal audit function which is not fully independent from de Volksbank.

11. Evaluation

This Charter is evaluated on an annual basis and intermediate in case of material changes. All material changes to this Charter must be discussed with the Executive Committee and the Audit Committee and adopted by the Supervisory Board and will come into effect as from the date of adoption. The Charter document owner sees to adequate disclosure of updated versions to the relevant stakeholders.