

## **DEXIA AUDIT CHARTER**

In accordance with internationally accepted standards, this Charter sets out the fundamental principles that govern the Internal Audit function within the Dexia Group by describing its objectives, its role, its responsibilities and its *modus operandi*. In addition to that, the Charter enables each and every employee to appreciate the important place occupied by the Internal Audit function in the range of supervisory tools used by the Dexia Group.

This document has been approved by the Management Board of Dexia SA and the Management Board of the leading companies of the Group in Brussels, Paris and Luxembourg (“Leading Entities”) and by the Audit Committee of the Board of Directors of Dexia SA, the Board of Directors of Dexia SA and the Boards of Directors of the leading entities.

In this Charter, the term “Audit Committee” is used for all companies, even though its name and remit may vary according to specific local conditions and the prudential requirements that the various entities, subsidiaries and branches of the Group have to meet. Each Audit Committee has its own specific internal rules of procedure that lay down the ways in which it intervenes. Only the overall guidelines are described in this Charter.

### **1. Mission of the Internal Audit Department within the Dexia Group**

In order to ensure the proper functioning and development of the Dexia Group, the Management Board of Dexia SA and the Management Boards of all its constituent entities bear the ultimate responsibility for setting up and maintaining an appropriate system of internal controls and risk management, as well as for setting up and maintaining an Internal Audit department of high quality. The Audit Committee of the Board of Directors of Dexia SA and the other Audit Committees set up within the Dexia Group assist the various boards in their task of monitoring the extent to which the Boards of Management of Dexia SA and the other entities meet their obligations.

Internal Audit is an independent and objective activity that provides management with the assurance that its operations are properly run, offers management advice on how to improve said operations and contributes to the creation of added value.

To that end, Internal Audit covers all the objectives of the organisation, analyses the risks associated with those objectives and, at regular intervals, evaluates the robustness of the controls set in place to manage those risks. The Internal Audit Department then submits to management an assessment of the residual risks so that management can verify that the risks match the desired global risk profile of the Dexia Group; if necessary, Internal Audit can suggest to management actions to enhance the efficacy of those controls.

Furthermore, through the Audit Committees, the Internal Audit Department assists the Boards of Directors throughout the Group in their supervisory role.

### **2. Guiding principles**

The strategy, the level of requirements and the rules by which Internal Audit should operate within the Dexia Group are laid down in a framework set up by the Management Board of Dexia SA and approved by the Audit Committee of the Board of Directors of Dexia SA. Such framework takes into account the requirements laid down in local by-laws, rules & regulations and instructions issued by the local prudential authorities.

The following general principles, which meet all professional and ethical standards of auditing, underlies the achievement of audit missions and must be applied by all auditors:

- ◆ Objectivity: audit objectivity is guaranteed in several ways: the appointment of auditors, objectivity of the audit findings by means of a methodical and well-documented approach, supervision of the assignments, and consideration of the auditees' views through a process of open discussion;
- ◆ Independence: independence is guaranteed by making each Internal Audit Department report directly to the highest level of management in the entity for which it is responsible;
- ◆ Impartiality: internal Audit is not involved in the operational organisation of the various Group entities. The Management Boards within the Group may, however, call on the department to give its opinion, advice or help. This type of intervention by the Internal Audit Department must remain exceptional, particularly when it comes to drawing up and adopting internal control procedures;
- ◆ Access to information: when carrying out its assignments, Internal Audit has access to all information, documents, premises, systems and people within the business for which it is responsible, including information on management and the minutes and papers of all advisory and decision-making bodies. The Internal Audit Departments have access to all information in all of the Group entities;
- ◆ Confidentiality: each auditor is bound by a strict duty of secrecy and discretion, paying particular heed to the obligations of professional secrecy as laid down in the rules and regulations;
- ◆ Competence: each auditor must maintain the highest standards of professionalism and benefit from ongoing training in order to overcome the rapid advances in auditing, banking & finance, data processing and fraud techniques. Training needs are assessed within the framework of annual appraisals;
- ◆ Application of a common methodology : the auditors use the same methodology and document their work in an identical manner so as to ensure a uniform quality of intervention and the traceability of internal audit investigations throughout the Group, and to encourage a consolidated awareness of risks and their control / risk management.

The Internal Audit Department receives from the Boards of Management of the Group the necessary means to carry out its assignments so as to be able to respond at any time to the changes in the structures of the Group and its environment.

### **3. Areas of intervention**

All activities, processes, systems and entities within the Dexia Group are subject to internal auditing unreservedly and without exception. The scope of intervention thus covers not only all processes relating to operations, support and management, but also to corporate governance, risk management and internal control?.

In principle, it does not cover the activities of companies in which the Dexia Group holds only a minority interest, save for those exceptional cases following requests from the prudential authorities. However, it is up to the representative of Dexia on the Board of Directors to acquaint himself with the situation of the internal control system and, to alert - if necessary - the Management Board and the Internal Audit Department of the entity that holds that minority interest.

### **4. Organisation of the Internal Audit function**

#### *4.1. Principles*

The internal audit function of the Dexia Group operates in the form of an integrated support line.

That support line is made up of:

- ◆ The Internal Audit Department of Dexia SA and
- ◆ The Internal Audit Departments of the leading companies and of their subsidiaries and branches.

The Internal Audit Departments of the leading entities are each headed by a General Auditor .

Each Internal Audit Department reports to the Chairman of the Management Board on the implementation of its assignments insofar as local rules and regulations permit, and to the Board of Directors of that entity or subsidiary and may be assisted by an Audit Committee.

Each General Auditor attends the meetings of the Management Board of the entity for which he/she is responsible (i) when the Management Board in question asks him/her to do so, (ii) when he/dhe is to present an audit report or (iii) at his/her own request, when he/she wishes to raise a particular point that falls within his/her remit and responsibilities. He/she receives the agendas and documents prepared for those meetings as well as the minutes.

Each General Auditor has direct access to the Chairman of the Board of Directors, to the members of the Audit Committee and to the external auditors of the company for which he/she is responsible. The General Auditor of any entity within the Group also has direct access to the General Auditor of his/her parent company.

The Chairman of the Board of Directors of each entity may entrust certain tasks to the General Auditor of his/her entity or request information from him/her. Assignments carried out on that basis form the subject of a minute to the Audit Committee in the same way as other assignments carried out by the Internal Audit Department.

#### *4.2. Organization of an internal audit function*

As soon as an entity within the Dexia Group takes control of a subsidiary or, in the absence of such control, where the prudential authorities expressly request it to do so, an internal audit function is set up within that subsidiary. If the creation of an internal audit function is not considered relevant, the parent company will itself operate the local internal audit function, and if need be, a service level agreement (SLA) is concluded with the mother company.

#### *4.3. Role of the Internal Audit Department of Dexia SA*

The Internal Audit Department of Dexia SA is in charge of making sure that an adequate internal audit organization is set up throughout the Dexia Group and for ensuring the quality of the way it is run.

The Internal Audit Department of Dexia SA is responsible for:

- ◆ the audit strategy and its proper implementation in all Internal Audit departments of the Dexia Group;
- ◆ defining and applying common methods of risk analysis;
- ◆ defining and applying a common audit methodology;
- ◆ defining and applying a common methodology for the follow-up of the implementation of audit recommendations;
- ◆ seeing to it that skills are used throughout the organization in the best possible manner;
- ◆ determining the level of training required by auditors throughout the Group;
- ◆ coordinating and evaluating training programmes;
- ◆ disseminating the required information within the audit organization;
- ◆ establishing a system of quality control;
- ◆ managing central projects and providing auditing tools;
- ◆ granting and monitoring of the operating budget of each local internal audit department.

The General Auditors of the leading entities in the Group report to the General Auditor of Dexia SA. The General Auditor of Dexia SA is responsible, in particular, and in association with the CEO of the entity concerned, for their appointment, the fixing of their objectives and for their annual appraisal. They also collaborate in examining the auditor recruitment plans and drawing up the budgets for the audit departments of the leading entities.

The heads of the internal audit teams of the branches report hierarchically to the General Auditor of the parent company, while the heads of the internal audit teams of the subsidiaries report

operationally / *functionally* ? to the Auditors General of their parent companies, notably with respect to assent regarding their appointments, objectives and annual appraisal.

#### 4.4. Organization of the support line

The Internal Audit organisational structure is aligned to the organisation of the Group's business lines and support functions. Each "segment" thus defined is directed by a Group Head of Audit (GHA) who is responsible for identifying and monitoring the risks to which the segment entrusted to him/her is exposed; he/she does this in collaboration with the operational managers concerned. He/she is also responsible for supervising all audit assignments relating to that segment.

The segments have been defined as follows and adapted to the structure of the Dexia business lines and support processes:

Public and Wholesale Banking
Retail and Commercial banking
Private Banking
TFM, BSM Risk and Finance
Ops, IT and other Support functions

That organisation, per transversal segment, is superposed to the organisation per business unit in such a way as to maintain an overall view of the risks. In that respect, the General Auditors of Dexia SA, Dexia Bank Belgium, Dexia Bank Luxembourg and Dexia Crédit Local and DenizBank act as the local interface with the local management and the local prudential authorities. They ensure that all the business risks of their respective entities, subsidiaries and branches are adequately covered. They are also involved in steering the audit support line of the group Dexia . It is to be noted that some General Auditors are also "Group Heads of Audit" for a particular segment, . This is the case for the General Auditors -of DCL, DBB and DBL, who are also GHA respectively for Public and Wholesale Banking, Retail & Commercial Banking and Private Banking.

Staff working in the audit support line are grouped into Shared Services Centres (IT, Belgium, France, Luxembourg, Turkey) whose scope of intervention is not limited to the borders of their respective countries.

Lastly, a single audit plan for the whole Group has been drawn up and the follow-up of audit missions is operated per segment in a transversal way for the entire Group. The central Assignment Planning unit is responsible for ensuring that staff are allocated in the best possible manner to their respective assignments.

The management and guidance of this integrated support line are governed by a support team known as the "Audit Management and Organisation Process" (APMO) and two guiding structures – the Audit Management Committee (AMC) and the Internal Audit Executive Committee (IAEC).

Comprising the General Auditor of Dexia SA, who chairs it, and the General Auditors of Dexia Bank Belgium, Dexia Crédit Local and Dexia Bank Luxembourg and DenizBank, the AMC manages the audit strategy as well as its financial and human resources.

The IAEC on its side is composed of the General Auditor of Dexia SA, who chairs it, the General Auditors of Dexia Bank Belgium, Dexia Crédit Local, Dexia Bank Luxembourg and DenizBank, and the Group Heads of Audit. Its discussions are led by the Head of the Audit Management and Organisation Process (APMO) Unit. This Committee defines the audit universe and regularly updates it, validates the risk cartography prepared by the heads of each segment, defines the Group's global audit plan, ensures that audit assignments are planned as effectively as possible, proposes the necessary changes in terms of support line resources, methodology and tools, defines the training policy for the audit teams, analyses the results of the support line performance monitoring exercises and validates the internal and external reports.

The purpose of the Audit Management and Organisation Process (APMO) Unit is to define and update the audit procedures and the audit methodology, to manage the planning of audits, to prepare

activity reports for management, to set in place and maintain the tools by which to ensure optimal audit support line performance, to coordinate the work with resp. the Operational Risk teams and the Compliance teams, to produce performance indicators regarding the realization of audit missions and to organise the auditor training programmes and quality reviews in order to ensure that the auditing processes are being properly applied.

## **5. Audit Committees and Internal Audit Committees**

In this Charter, the term “Audit Committee” is used for all entities even though its name and remit may vary according to specific local conditions and the prudential requirements that the various entities, subsidiaries and branches of the Group have to meet. Each Audit Committee has its own specific internal rules of procedure that lay down the ways in which it intervenes. Only the overall guidelines are described in this document.

At its meeting on 13 November 2008 the Board of Directors of Dexia SA decided to change the *modus operandi* of the Audit Committee in order, among other things, to strengthen the governance and monitoring of risks. The Committee was split into two specialised committees – the Accounts Committee and the Internal Audit, Risks and Compliance Committee – and the number of directors sitting on those two Committees was increased.

These two Committees, which, between them, form the Audit Committee pursuant to the Law of 17 December 2008 establishing in particular an audit committee in listed companies and financial institutions, meet at least four times a year. The Audit Committee is composed exclusively of non-executive directors including at least one independent director and one director proficient in accounting and auditing.

### Accounts Committee

The Accounts Committee examines the drafts of the annual, half-yearly and quarterly consolidated and unconsolidated accounts of the Group, which must then be presented to, and adopted and published by, the Board of Directors.

It advises the Board of Directors on financial communications relating to the quarterly results and on the delicate and sensitive issues that can significantly impact the accounts.

When it comes to external audits, the Accounts Committee ensures that the external audit meets the Group needs and, within this context, ensures that the policy on auditor independence is upheld. It also ensures that the questions and recommendations by those auditors are properly acted upon.

### Internal Audit, Risks and Compliance Committee of Dexia SA

This committee was formed to supervise the system for managing the risks to which the Group as a whole is exposed by virtue of its business and to monitor the performance of the internal control system set up by the Management Board.

In particular, in the field of Internal Audit and Compliance, the Committee ensures that the Internal Audit and Compliance departments of both Dexia SA and the Group as a whole perform properly and retain their independence.

## **6. Audits**

### *6.1. Planning of audit missions and of audit resources*

Internal Audit operates on the basis of an annual audit plan approved by the Management Board and by the Audit Committee and the Board of Directors.

The plan is put together from an annual risk analysis carried out independently by the Internal Audit Department and in accordance with best practice as laid down by the Institute of Internal Auditors. The Audit Department draws up its audit plan in the following principal stages:

1. Identification of the potential critical (strategic, operational, reporting and compliance) risks that might prevent the business lines and support lines from achieving their objectives;
2. Evaluation of the degree of Dexia's exposure to such critical risks using a mechanism to measure the impact and probability of their occurrence and therefore to identify the greatest risks;
3. Identification of the audit units which are either the source of the risks or responsible for preventing them, resulting in a risk score per Audit Unit which can be used to determine the frequency of the audits to be carried out by the Audit Department;
4. Listing of the audit assignments carried out on the audit units over the past 3 years (known as "back testing");
5. Selection of assignments on high-risk Audit Units on the basis of the necessary frequency of cover.

The resulting multi-annual plan makes it possible to determine the possible need for human resources in terms of quantity and quality, as well as the trainings that are required.

There are several types of audit assignment:

- **Lateral Audit** : assignments carried out in several business units at the same time and supervised centrally by an Audit Manager. The same letter of assignment and programme of work are used in all units in which the lateral audit is carried out.
- **Local Audit**: assignments carried out in a single unit and supervised by a local Team Manager or a local supervisor.
- **Joint Audit** : these assignments are local audits carried out by the local audit teams with the help of auditors from one of the Shared Service Centres.

## 6.2. Method by which audit assignments are carried out

The method for carrying out audit assignments is common to all units within the Dexia Group. The different stages of the process are set out in a procedure that describes the different stages to be followed when carrying out an internal audit assignment (preparation, implementation, audit report, follow-up of recommendations,...) and lays down the formats in which the documents expected at each stage should be produced. The procedure also sets out the roles and responsibilities of those involved and the arrangements for reviewing, approving and archiving the documents.

The Dexia audit methodology is divided into four main phases:

- Preparation;
- Implementation;
- Findings;
- Follow-up of recommendations.

Preparation:

After getting to know the sector of the business to be audited, during which the aim is to collect and analyse all available information that might be useful to a proper understanding of the business, the audit team prepares a working programme that covers, among other things, the processes, risks and controls that are expected to cover the risks identified and the tests to be carried out in order to be able to judge the design and efficacy of the controls in place to cover the risks identified. To do that, use is made of the standard benchmarks that are applied by the various supervisory functions throughout the Group and relate to the Dexia processes, risks and controls. A letter of assignment provides the persons concerned with information on the scope, objectives and programme of the assignment.

Implementation:

Each assignment must be carried out on the basis of working documents drawn up in accordance with a particular layout and organised into an audit dossier. They set out clearly the work carried out and the techniques and working methods used to reach a considered opinion. The Audit Department expresses its opinion on the ability of the controls to provide adequate cover of the risks identified, presenting a causal analysis of the weaknesses revealed and evaluating the residual risk.

The auditing activities are supervised and the documents reviewed by those in charge of the assignment (Audit Manager, Group Head of Audit and/or Auditor General).

#### Audit Reports:

Each assignment is the subject of a written report intended for the auditees and management. The report contains an assessment of how effective the internal audit system is in covering the risks (strong points and weak points), together with recommendations on the measures to take to improve the level of risk control. This provisional report is of a contradictory nature. Action plans are actually drawn up by the auditees and the report is discussed with the Internal Audit Department. Responsibility for implementing each action plan is given to a manager in the audited unit and a completion date is set. If there is any disagreement over the action plan, a note will, if appropriate, be added to that effect by the Internal Audit Department. The Internal Audit Department allocates a criticality score to each of its recommendations. Finally, each audited process is given a rating expressing the degree to which it covers the risks, and is discussed in a "rating committee" comprising the team that has carried out the audit as well as the GHA, the auditor(s) and the General Auditors concerned. Once that review has been carried out in discussion between all those involved, the final report is drawn up.

During both the audit and the reporting phase, an ongoing constructive dialogue is held between those being directly audited and management. Each report is then submitted to the Management Board, which decides on the recommendations, action plans and deadline for completion.

#### Follow-up of recommendations:

Each assignment results in the drafting of recommendations, which are translated into action plans to be implemented by the managers of the departments that have been audited. The progress of each action plan is regularly reviewed by the Audit Department on the basis of a progress report containing supporting evidence that is communicated to it by the managers of the departments audited.

The Internal Audit Department maintains a database of all the recommendations made on the basis of audit reports and has laid down a formal procedure for following up and implementing those recommendations. That procedure provides for at least two quantitative and qualitative follow-up visits, the results of which are presented to the Management Board and the Audit Committee.

Exceptionally, advisory assignments may also be carried out by the internal audit departments at the behest of the Management Board. In such cases, the Internal Audit Department will seek to retain the fullest independence so as to be able to operate in the area concerned in the future.

## **7. Relations with the prudential authorities and the external auditors**

The audit departments of the leading business units keep the Audit Department of their parent company informed about (a) the meetings scheduled to discuss the work of the audit departments, (b) the audits conducted by the prudential authorities in their companies (throughout the duration of those audits) and (c) important issues that have arisen during their regular meetings with the external auditors and the prudential authorities, sending the Audit Department the minutes of those meetings. The Audit Department of Dexia SA may take part in those meetings if it so wishes.

## **Glossary**

Throughout this document the following definitions apply.

**Internal audit:** an independent function whose task is to examine and evaluate on an ongoing basis the general management of the risks inherent in the company's activities as well as the organisation and functioning of operational and support services with a view to improving their effectiveness and efficiency.

**Auditor General:** the head of the Internal Audit Department in each leading entity and in certain subsidiaries of the Dexia Group. The Auditor General reports to the Chairman of the Management Board.

**Prudential authority:** the authority responsible for ensuring that the banks and insurance or investment companies in the Dexia Group are managed in a sound and prudent manner and that they comply with the statutory and regulatory requirements which their status requires them to meet.

**Audit Committee:** the committee set up within the Boards of Directors of Dexia SA (in which case it is called the Audit Committee of the Dexia Board of Directors) and in certain operational units and subsidiaries of the Dexia Group.

**Internal Audit Committee:** the committee set up within certain operational units and subsidiaries of the Dexia Group.

**Management Board:** the Management Board or Executive Committee of each operational unit or subsidiary of the Dexia Group.

**Management Board of the Group:** the Management Board of the Group set up within Dexia SA.

**Corporate governance:** system of organising authority and control that attaches greater importance to the Board of Directors and shareholder information.

**Audit Department:** the department responsible for conducting internal audits in each unit or subsidiary of the Dexia Group. The Audit Department of Dexia SA is known as the Group Audit Department.

**Operational entities:** the operational companies within the Dexia Group, namely Dexia Bank, Dexia BIL and Dexia Crédit Local.

**Subsidiary:** the subsidiary of an operational entity.

**Interest:** an entity in which the Dexia Group has a shareholding of less than 50%.

**External auditor:** the company auditor or statutory auditor of each entity within the Dexia Group responsible for auditing and certifying that entity's accounts.

**Internal auditing system:** all the systems put in place by the Management Board, the management and staff of each company (covering the organisation, systems, procedures, first and second levels of supervision, internal audit, ...) to assess the extent to which the company meets its statutory and regulatory obligations, safeguards its own assets and those entrusted to it, and produces reliable financial and management information.