

## INTERNAL AUDIT CHARTER

March 2019

The present Charter states the fundamental principles governing the internal audit function in the Dexia Group, describing its objectives, its role, responsibilities and functioning. In addition, this Charter allows each employee to appreciate the importance of the internal audit function in the Dexia Group's internal control framework.

The Internal Audit Charter refers to the principles stated in banking regulations concerning internal control<sup>1</sup>, to the recommendations of the Basel Committee (*"The Audit Function in Banks"*, June 2012) and to the International Professional Practices Framework (IPPF) issued by The Institute of Internal Auditors (IIA).

### 1. The Dexia Group Internal Audit Mission

Internal Audit is an independent and objective activity providing the Board of Directors and the Management Board of the Dexia Group with assurance over the quality and effectiveness of its internal control, risk management and governance systems and procedures, and therefore contributing to the protection of the Group's interests and reputation.

Internal Audit apprehends the overall objectives of the organization, analyses the risks threatening those objectives and periodically evaluates the robustness of the controls in place to manage those risks. Internal Audit reports to management with regard to its assessment of the residual risks so that management can validate their consistency with the overall risk profile desired for the Dexia Group. If necessary, Internal Audit proposes remediation actions to management in order to strengthen the effectiveness of controls.

In addition, Internal Audit assists, via the Audit Committee, the Boards of Directors of the Group in their oversight role.

### 2. The role of Internal Audit within the Dexia Group internal control mechanism

The Dexia Group's internal control mechanism aims at ensuring the adequacy of the risk management and the accuracy of accounting and financial information, as well as the effectiveness, security and efficiency of the operations, while maintaining compliance with applicable laws and regulations.

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<sup>1</sup> In particular « Arrêté du 3 novembre 2014 (France) » and « Circulaire NBB 13 juillet 2015 (Belgique) »

The general architecture of the internal control mechanism is based on an organisation split into three levels:

- the first level of control performed by each staff member and his/her direct hierarchy, based on his/her level of delegated responsibilities, the applicable procedures and the instructions given by his/her management;
- the second level of control performed by specialist functions, or executed by team members operating independently from the controlled activities;
- the third level of control performed by Dexia Group Internal Audit, which is responsible for constantly ensuring the effectiveness of the two control levels defined above.

Based on this architecture, the Dexia Group has established the following internal control functions:

- The Group Permanent Control department, which coordinates the overall permanent control framework (except Compliance) and carries out certain controls directly;
- Some specialised independent control departments whose members exclusively carry out controls, notably:
  - ✓ Accounting Control
  - ✓ Compliance,
  - ✓ CIRS (Credit Internal Rating System),
  - ✓ Internal Validation (credit, market, and transversal models).
- Some specialised risk functions which perform independent controls among other risk identification, measurement and monitoring duties, notably:
  - ✓ Financial Market Risk,
  - ✓ Information System Security.
- The Internal Audit function, which apprehends the overall objectives of the organization, analyzes the risks threatening those objectives and periodically evaluates the robustness of the controls in place to manage those risks.

Besides, an additional level of assurance is provided by third parties, namely the external auditors, who provide an independent opinion over the accounting and financial information, and the various actors of the banking supervisory framework, through their oversight over financial activities.

### 3. Scope of intervention

All the activities, processes, systems and entities of the Dexia Group are within the scope of Internal Audit's intervention, without reservation or exception. The scope of intervention includes all operational, support and management processes as well as corporate governance, risk management and control processes.

Outsourced essential activities also fall within the scope of Internal Audit, being understood that operating departments are responsible for the inclusion of proper audit clauses in the service contract. In addition, along with other Internal Control functions, and as per Dexia Group outsourcing

policy, Dexia Group Internal Audit participates, as needed, to the committees in charge of supervising the internal control framework implemented by those outsourcers.

With the exception of possible regulatory requests, the audit scope does not cover the activities of companies in which Dexia Group only has a minority holding. However, the Dexia representative to the Board of Directors is responsible for verifying the state of the internal control mechanism and if necessary to alert the Management Board and the Audit Department of the entity.

#### 4. Guiding principles

The strategy, the level of requirement and the operating rules of Dexia Group Internal Audit are defined by the Management Board of Dexia S.A., within a framework approved by the Audit Committee of the Board of Directors of Dexia S.A. This framework takes into account of local legislation, regulations and regulatory requirements.

The independence and effectiveness of the audit function are guaranteed by the following principles:

- The reporting line of the Dexia General Auditor to the CEO and the chairperson the Dexia's Audit Committee, which guarantees direct access;
- the reporting line of each Audit Department to the highest hierarchical level of the entity it is responsible for;
- the absence of involvement in the organisation and operational management of Group entities, although the Group's Management Boards may request Internal Audit's opinion, advice or assistance. The rules relating to such intervention are defined in § 9 of the present Charter;
- the unconditional and immediate access to information: within its scope, Internal Audit has access to all information, documents, premises, systems or people of the entity it is responsible for, including management information, minutes and files of advisory and decision-making bodies. The Dexia Group Internal Audit Department has access to all information in all Group entities. Any breach of these principles is susceptible to be reported to the Management Board and, if necessary, to the Audit Committee;
- the availability of necessary resources for the performance of its duties: Internal Audit receives from Group Management Boards the necessary resources for the performance of its duties, in order to be able to constantly respond to the evolution of Group structures and its environment.

Each auditor must show the utmost professionalism and follow continuing education to demonstrate proficiency in audit, banking, financial, IT and fraud techniques. Training requirements are assessed at minimum annually during individual evaluation. Dexia internal auditors are encouraged to pass the CIA certification ("Certified Internal Auditor") to increase and maintain their auditing skills at the highest level.

Internal Auditors must comply with the rules of ethics established by Dexia Group and with the code of conduct applicable to their profession, as defined by the IIA, and, as such, are expected to apply and uphold the following principles:

- Integrity: the integrity of internal auditors establishes trust and thus provides the basis for reliance on their judgment;

- **Objectivity:** internal auditors exhibit the highest level of professional objectivity in gathering, evaluating and communicating information about the activity or process being examined. Internal auditors make a balanced assessment of all the relevant circumstances and are not unduly influenced by their own interests or by others in forming judgments.
- **Confidentiality:** internal auditors respect the value and ownership of information they receive and do not disclose information without appropriate authority unless there is a legal or professional obligation to do so.
- **Competence:** internal auditors apply the knowledge, skills, and experience needed in the performance of internal audit services.

## 5. Organisation of the audit function within the Dexia Group

### 5.1. Principles

The Dexia Group Internal Audit function is an integrated support line composed of the Audit Department of Dexia S.A. and audit departments of subsidiaries and branches.

The support line is conducted by the General Auditor of Dexia S.A., who is also the General Auditor of Dexia Credit Local, and reports to the Chief Executive Officer of Dexia S.A. and Dexia Credit Local, as well as the chairperson of the Audit Committee of the Dexia S.A. Board of Directors. The General Auditor reports periodically to the General Management and the Audit Committee, on the duties, powers and responsibilities of Internal Audit, the implementation of the audit plan, the follow up of recommendations and, more generally, the evaluation of the internal control framework.

The audit departments of subsidiaries/branches are under the responsibility of an entity General Auditor or Head of Internal Audit. The General Auditors of Group subsidiaries report to the General Auditor of Dexia S.A./DCL. In liaison with the entity Chief Executive Officer, the General Auditor of Dexia S.A./DCL is responsible for their appointment, setting their objectives and their annual assessment. Auditor recruitment plans and the establishment of budgets for the audit departments of the main entities are also examined jointly.

Each audit department reports to the Management Board and to the Board of Directors of that entity, possibly assisted by an Audit Committee.

Each General Auditor attends meetings of the Management Board of the entity he/she is responsible for (i) when the committee in question requests so, (ii) when he/she presents an audit report or (iii) upon request when he/she brings to management's attention a particular point relating to his/her attributions and responsibilities. He/she receives the agenda and information packages prepared for such meetings, and the minutes.

Each General Auditor has direct access to the Chairman of the Board of Directors, the members of the Audit Committee and external auditors of the entity. The General Auditor of any Group entity also has direct access to the General Auditor of Dexia S.A./DCL.

The Chairman of the Board of Directors of each entity may delegate certain duties. Duties performed within this context are reported to the Audit Committee like any other duties performed by Internal Audit.

### 5.2. Organisation of an audit function

When a Dexia Group entity exercises control over a subsidiary or, in the absence of such control when the prudential control authorities expressly request it, an audit function is established in that subsidiary. If the creation of an audit function is not considered relevant, the parent company audit department is responsible for the audit function in that entity and if necessary a service level agreement (SLA) is established with the parent company.

### 5.3. Role of the Audit Department of Dexia S.A./DCL

The Audit Department of Dexia S.A./DCL is responsible for ensuring the appropriateness of the organisation of the Internal Audit function put in place for the entire Dexia Group as well as the quality of its operation.

In particular, the Audit Department of Dexia S.A./DCL is responsible for:

- the Audit strategy and its appropriate implementation in all Group Audit Departments;
- the definition and application of a common methodology for the analysis of risks, the performance of audit missions and the monitoring of recommendations made;
- the optimal allocation of competences within the function and determination of the level of training required by auditors throughout the Group;
- the coordination and assessment of training programs;
- the adequacy of resources provided to each local Audit Department to perform their duties.

## 6. Audit Committees and internal control

Within the context of the present Charter, the term “Audit Committee” is used for all entities although its name and its attributes may vary depending on local specifics and the regulatory requirements of the different entities, subsidiaries and branches of the Group. Each Audit Committee established the terms of its interventions in a charter. Only global guidelines are described in the present document.

The Audit Committee is responsible for:

- examining the draft semi-annual and annual financial statements and, if necessary, the consolidated accounts, before presentation to the Board of Directors responsible for approving the accounts;
- ensuring the appropriateness of the external audit to the Group’s needs and, within that context, ensuring observance of the independence policy of the external auditors. The Committee is also responsible for following up on questions and recommendations made by the external auditors;
- ensuring compliance with the requirements of regulatory authorities;

- monitoring the Group's risk management system and ensuring the effectiveness of the internal control system put in place by the Management Board;
- ensuring the adequacy of the internal audit resources;
- ensuring the effectiveness and independence of the Internal Audit Departments and Compliance Departments of Dexia S.A. and the entire Group;
- Reviewing the annual audit plan of Internal Audit and monitoring its implementation through internal control reports, status reports and follow-up of recommendations.

## 7. Audit work and reporting

### *7.1. Planning of audits and resources*

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

This annual plan is driven by a yearly risk assessment performed independently by Internal Audit under a common methodology compliant with the standards issued by the Institute of Internal Auditors.

This risk based approach allows building an audit plan which focuses on possible issues in achieving the bank's strategic objectives and provides reasonable assurance to all Governance bodies that the controls implemented by the bank will be reviewed and assessed in agreement with the severity of the risks they are intended to mitigate.

The objective of the planning of the internal audit missions is to cover the whole Internal Audit universe within a 4 years time period, with more frequent periodicity for the areas where it is deemed necessary, in agreement with the yearly risk assessment.

### *7.2 Method of performing audit tasks*

Barring specific requirements by local regulations, the audit methodology is common to all Dexia Group entities. The different stages of the process are presented in a procedure which describes the various phases of an audit engagement (preparation, fieldwork, reporting, and follow-up of recommendations) and the format of the documents expected at each stage. The procedure also determines the roles and responsibilities as well as the terms of review, approval and archiving of documents.

The Dexia audit methodology revolves around four main phases:

- the preparation
- the fieldwork
- the reporting
- the follow-up of recommendations

**Preparation:**

After collecting and analysing information and documents pertaining to the audited area, the audit team prepares a work program. The work program includes the processes, risks and expected controls that cover the risks identified and the audit tests to be performed in order to give an opinion on the design and effectiveness of the controls. An announcement letter informs relevant staff and management about the scope, objective and planning of the audit.

**Fieldwork:**

Each audit must be performed on the basis of working documents established in accordance with Dexia audit methodology and organized in an audit file. They reflect the work performed by the auditors as well as the techniques and working methods used to arrive at a substantiated conclusion. The audit opinion is expressed on the adequate mitigation of identified risks. A causal analysis of the weaknesses is performed and the residual risk is assessed. Audit activities are supervised and the documents are reviewed by a Supervisor and/or General Auditor.

**Audit reports:**

Each audit is subject to a written report distributed to the audited staff and management. The report includes an assessment of identified risks not fully covered by the controls in place and recommendations on the measures which might mitigate further those risks. Audit attributes a degree of importance for each of the recommendations made.

Recommendations made by Internal Audit are communicated to the operational departments, which may either accept the recommendation or require an arbitrage from the Management Board. Recommendations accepted by the operational departments are subject to a detailed action plan for which the foreseeable implementation date is also defined. Internal Audit may add comments for the attention of the Management Board on arbitrage requests, on the adequacy of action plans and on the proposed implementation dates.

Action plans and potential disagreements are included in the draft audit report which is presented to the Management Board. In case of disagreement between Internal Audit and the operational departments, the Management Board may decide to grant a risk acceptance or impose an action plan. The final report integrates the decisions of the Management Board. Once approved, recommendations are mandatory.

The Audit Committee is informed on the recommendations issued by the internal audit department for which the Management Board decided to accept the risk and is periodically provided with an executive summary of audit assignments rated “requires improvement or below”

**Follow-up of recommendations:**

The operational departments are responsible for the implementation of the recommendations and action plans approved by the Management Board. They are responsible to report progress made on the implementation of action plans based on status reports and documentary evidence submitted to Internal Audit through systems made available by Internal Audit. The departments subject to the recommendations issued may propose alternative action plans in case the initial action plan proves to be not applicable for whatever reason (e.g. change of procedure or system). The departments involved may also propose to cancel recommendations provided the risk is no longer relevant.

On that basis, Internal Audit performs a regular review of each action plan. Internal Audit maintains a database of all recommendations from audit reports and has defined a formal procedure for monitoring the implementation of those recommendations. This procedure provides for at least two quantitative and qualitative follow-ups; the results are presented to the Management Board and to the Audit Committee.

### *7.3 Reporting*

The General Auditor reports twice a year to the Management Board and to the Audit Committee on the implementation of the annual audit plan and the progress made on recommendations issued by Internal Audit, external auditors and the supervisory authorities.

## **8. Relations with the supervisory authorities and external auditors**

Internal Audit maintains a regular dialogue with the supervisory authorities and the external auditors on topics of common interest.

In particular, in order to avoid any duplication of tasks, Internal Audit maintains regular exchanges with the external auditors on matters of internal control. These exchanges are aimed at sharing observations and ensuring the complementary nature of work performed.

In addition, Internal Audit is entitled to require any information about the relationship with supervisory authorities from the team in charge of coordinating these relationships.

## **9. Opinion, advice or assistance from Internal Audit**

The DEXIA Management Board may ask for an opinion, advice or assistance from Internal Audit on matters concerning risk or internal control. Requests for opinion or advice should be restricted to general internal control or risk issues, as Internal Audit cannot be involved in the conception or implementation of internal control measures, which remain the responsibility of Group Management.

## **10. Outsourced tasks**

Internal Audit may use external service providers for the performance of its duties. The use of external service providers should comply with the Group rules as well as the following principles:

- the use of external service providers is restricted to specific situations, tasks requiring specific expertise, with the possibility of benefiting from transfers of knowledge (particularly on the state of the art on a particular subject), a temporary lack of resources as a result for instance of a prolonged absence of specialized auditors;
- prior to hiring an external service provider, Internal Audit pays particular attention to their selection and to the qualification of consultants presented;
- Internal Audit ensures the absence of conflicts of interest and, in case of doubts, informs the Compliance Department for decision. As part of those verifications, Internal Audit verifies that the prospective provider and / or consultants have not been involved in an advisory capacity in the audited area, unless a reasonable period of time assessed by Internal Audit and Compliance Department has passed;



- whenever possible, Internal Audit tries to involve an internal auditor with the work performed by external consultants to ensure adequate transfer of knowledge;
- the external providers' work is performed under the control of Internal Audit, which validates the deliverables;
- Recommendations made within the context of an outsourced audit follow the same course and, once approved by the General Management, have the same enforceability as recommendations made by Internal Audit.