



Procedure relating to the appointment and audit fees of the external auditors



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Evidence for consultation	NIL



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1. PURPOSE

This procedure lays out the rules to be followed-up regarding the appointment of the external auditors of the entities, the evolution of their fees and the work to be performed by them during their mandate.

This procedure is applicable to all consolidated entities that are controlled by the Group (fully consolidated and consolidated by equity method for thresholds), including entities that are sub-consolidated. For the entities controlled but non-consolidated (for thresholds), please refer to paragraph 2.3.

2. RULES REGARDING THE DETERMINING OF THE FEES AND THE ALLOCATION OF THE MANDATES

2.1. Entities consolidated (or sub consolidated) as at January 1st, 2018

The nomination of the external auditors of BNP Paribas Group is decided by the Board of Directors and approved by the annual BNP Paribas SA Shareholders General Meeting following an appointment process organised under the supervision of the Group Financial Statements Committee of BNP Paribas Group. This appointment process led to the renewal of Deloitte, Mazars and PricewaterhouseCoopers for the period from January 1st, 2018 to December 31st, 2023. Their mandate will end at the BNP Paribas SA Shareholders General Meeting reviewing the financial statements for the year 2023.

The scope of the renewal included:

- All entities within the consolidation scope of the BNP Paribas Group as at January 1st 2018, including sub consolidated entities controlled by the Group at (or above) 50 %. Thus, the entities controlled exclusively by the Group (fully consolidated or with a simplified approach by equity method) or jointly controlled (consolidated by equity method) when an agreement is in place with the partner, are included in the scope;
- Entities included in a sub consolidation for local purposes (both in France and abroad) even if they are not consolidated for the Group purposes.

The amount of fees remains unchanged. The ones reported as recurring in 2017 are the reference to which is added each year the impact of inflation, on the basis of rates published by the IMF. The rates are communicated every year by FINANCE & STRATEGY – Finance Steering & Controls – Standards & Controls – Group Financial Controls to the entities included in the scope of this procedure.

As a reminder, the entities report their budget to FINANCE & STRATEGY – Finance Steering & Controls – Standards & Controls – Group Financial Controls using the Matisse consolidation tool (L3 packages):

- *in May, to confirm the amount of the audit fees of the current year after addition of the inflation rate;*
- *in November, to confirm the actual audit fees for the current year as well as the ones for services other than those required for their statutory audit engagement provided by firms part of the Group auditors (for the latter, refer to the Group procedure regarding BNP Paribas external auditors independence policy – GF0026).*



2.2. Entries in the consolidation scope and other changes from January 1st, 2018 onwards

Reminder: external auditors for BNP Paribas Group entities must be part of the network of the Group auditors, namely Deloitte, Mazars and PricewaterhouseCoopers firms, except in cases duly and formally justified and validated by FINANCE & STRATEGY – Finance Steering & Controls – Standards & Controls – Group Financial Controls (ex: no possibility to find an agreement with the partner in case of joint control; requirement for rotation due to local regulatory constraints that prevents the reappointment of a member of the Group auditor).

Entries in the consolidation scope

For all entities entering the consolidation scope after December 31st 2017, FINANCE & STRATEGY – Finance Steering & Controls – Standards & Controls – Group Financial Controls validates the appointment of the external auditor(s), based upon the proposal of the Business line / Territory. The auditors must be chosen among the Group auditors in accordance with the allocation rules of the Business line / Territory used for the repartition defined at 2018 renewal of the mandates between the Group external auditors. If the use of these allocation rules leads to the possibility to appoint several firms, the entity will organise a selection process.

Other changes

In the case where mandates expire during the 2018-2023 period (ex: annual mandates), firms in charge of the 2018 mandate must be renewed (except if they were not part of the Group auditors: in this case, a Group auditor should be designated according to the criteria mentioned in the above paragraph).

On the other hand, if local constraints (maximum length of a mandate for example) lead to the need to change auditors during the 2018-2023 period, FINANCE & STRATEGY – Finance Steering & Controls – Standards & Controls – Group Financial Controls validates the appointment of the external auditor(s), based upon the proposal of the Business line / Territory. The auditors must be chosen among the Group auditors in accordance with the allocation rules of the Business line / Territory used for the initial repartition of the mandates between the Group external auditors, on the basis of the budget allocated previously. Meaning that if a Business line has two auditors, the preferred choice would be one of these two, avoiding choosing locally Group auditor not involved in the Business line centrally. Finally, financial transactions (ex: merger/ sales/acquisitions) can lead to review mandates and/or fees (see. § 4 on this topic).

In all cases, the amount of fees negotiated locally by the Business line/Territory must be validated by FINANCE & STRATEGY – Finance Steering & Controls – Standards & Controls – Group Financial Controls.

2.3. Entities not consolidated but controlled by the BNP Paribas Group

It is recommended that entities not consolidated but controlled by the BNP Paribas Group appoint external auditors that belong to Group external audit firms (Deloitte, Mazars and PricewaterhouseCoopers) or are affiliated with their networks.

At mandate renewal, the choice of auditors, the level of the fees and the audit work covered, determined locally for these entities, must be reviewed by the Divisions and Business lines, according to a process defined at their level with no requirement for a prior review by FINANCE & STRATEGY – Finance Steering & Controls – Standards & Controls – Group Financial Controls, that can be informed if requested. Subsequent changes in the entities fees, if any, will as well be approved by the Divisions and Business lines concerned.

3. COMPOSITION OF THE AUDIT FEES

This section specifies the work included in the audit fees, those that are excluded and those for which the auditors could bill additional fees. These rules have been agreed with the Group external auditors during the mandate renewal process for 2018-2023.

3.1. Services included in the audit fees

The selected audit firms have to complete the necessary audit work on the financial statements of the entities of the BNP Paribas Group. This audit work, which may cover (depending on the situation of each entity) the quarterly, half yearly, and / or yearly financial statements is structured as follows:

- Audit work for the purposes of the BNP Paribas Group and its sub groups

Their content is defined by the auditors of the BNP Paribas Group and its sub groups, in the BNP Paribas Group audit instructions sent to the auditors of the entities, which are circulated to the entities and published on the FINANCE & STRATEGY – Finance Steering & Controls – Standards & Controls – Group Financial Controls intranet¹. These instructions apply to the entities according to their category (“scope” graded from 1 to 5²), which is defined by the auditors of the BNP Paribas Group and its sub groups according to criteria linked to financial data and some characteristics or risk areas.

- Audit work for entity local purposes

The audit fees include as well all the audit requirements for the entity in view of local rules, in France as well as in other countries: audit / limited review of the consolidated financial statements, audit of statutory accounts, audit or review of regulatory reportings... The extent of the audit work depends on the local context, and is not covered by the Group audit instructions, which concern only the audit work on the entity’s reporting necessary for the consolidated financial statements and the statutory accounts of BNP Paribas SA, and of the sub groups (as well, categories used in the audit instructions do not apply in this case). Finally, materiality thresholds have to be assessed by the local auditors.

Further to the audit requirements for the local statutory or consolidated financial statements, the audit fees cover the audit work required to comply with other recurrent legal or regulatory requirements applicable as at January 1st, 2018. This includes for example the following elements:

- A report or a specific attestation (e.g.: in France : statutory auditors’ report on the report prepared by the Chairman of the Board of Directors, special report on regulated agreements and commitments, on the ten high executive wages, report on clients assets protection³...)
- Review related to the financial information required because of an existing listing on a financial market (audit work linked to a new listing / to a specific operation is not included in this category)

In some cases, the external auditors may be required to review, or even to certify, the tax declarations for some entities of the Group when such work is required by local regulations.

The following table recaps the audit work included in the audit fees of an entity:

	Works related to consolidated financial statements	Works related to statutory accounts	Works related to regulatory reporting
Audit work for entity local purposes			
Audit category 1,2,3 or 4	<u>If the entity has to publish consolidated accounts</u> (ex: BNP Paribas SA, parent company of sub group, ...): - Audit of annual consolidated financial statements - Limited review of half-yearly consolidated financial statements - Review of quarterly consolidated financial statements (if required)	Audit or review of statutory accounts in local GAAP (if local requirements)	Audit or review of regulatory reporting (if local requirements)
Audit category 5	N/A (no local statutory / regulatory requirement)		

¹ https://weshare.group.echonet/sites/GED-Group-Finance/GCC/_layouts/15/DocIdRedir.aspx?ID=IDGF-1006041819-28.

² Categories are defined in the audit instructions (category 1 corresponds to the most significant entities and/or subject to high level of inherent risk).

³ These recurrent works (ex: client assets protection) are in some cases included in separate engagement letters. It is recommended, whenever possible, to include them in the general engagement letter and in the global audit budget. For the annual disclosure of audit fees (L3 package), they should be added to the amount of fees related to audit work.

	<u>If the entity does not have to publish consolidated accounts: N/A</u>		
Audit work for the purposes of the Group and its sub groups:			
Audit category 1,2 or 3	<ul style="list-style-type: none"> - "Early warning memorandum"(if necessary) - Audit planning memorandum - Pre-closing memorandum - "Closing memorandum" and "Audit clearance" for audit of Matisse reporting package as at 31/12 - Internal control memorandum - Subsequent Event Review - Anticipation memorandum and specified procedures on key risks (March /June / September for category 1, June for category 2) 	For some Branches : specific procedures on the reporting package in local GAAP of parent company (BNP Paribas SA, sub groups)	N/A
Audit category 4	<ul style="list-style-type: none"> - No audit of Matisse reporting package (audit works on statutory accounts) - "Early warning memorandum" (if necessary) - Internal control memorandum 	N/A	
Audit category 5	<ul style="list-style-type: none"> - No audit of Matisse reporting package - Annual specific procedures 	N/A	

Finally, within the Group, some information systems and / or Back-Offices are centralized on one specific platform. The external auditors intervene directly on such platforms and are therefore required to perform the audit work necessary to issue a specific report to the local auditors in charge of the audit of entities concerned by these centralised platforms. This report needs to allow the local auditors to issue an opinion on the financial statements that they are auditing or, if required, to reply to the requests that regulators may formulate, especially with respect to the internal control framework in place.

The entities must ensure that the engagement letters issued by the local auditors take into consideration these elements.

3.2. One-off additional billing relating to the financial audit

By exception, beyond the application of the inflation rate, one-off additional billing linked to the audit mission may be requested (NB: for recurring increases, refer to §4). It can be justified, for example, if additional work was deemed necessary in case of:

- a significant change in the IT systems requiring specific audit work linked to the migration whose extent exceeds the IT review planned in the usual audit procedure;
- a major failure in the internal control that leads temporarily to an insufficient audit trail;
- the unavailability of the information within usual deadlines or other significant difficulties due to the entity;
- a specific regulatory request.

To anticipate budget changes, it is recommended that entities make sure, during the exchanges for preparation of the annual audit, that audit work will be performed within the budget. If additional work is anticipated for one of the reasons listed above, it is key to set up the amount in advance.

In all cases, the entities must, after discussions with their external auditors, send a request to FINANCE & STRATEGY – Finance Steering & Controls – Standards & Controls – Group Financial Controls (concurrently, the local office of the concerned external auditors will transmit the request to their central audit team). Indeed, all one-off additional billing⁴ requested by the external auditors must be approved by FINANCE & STRATEGY – Finance Steering & Controls – Standards & Controls – Group Financial Controls (except for the entities not consolidated but controlled by BNP Paribas Group which were not in the scope of the global review for 2018-2023, see §2.3) that will notify the entities of the decision following an agreement with the central audit team. These one-off additional billings must be formalised by means of an engagement letter separate from the engagement letter for the core audit work.

3.3. Services not included in the amount of the audit fees

In general, BNP Paribas Group considers that the following audit work is supplementary to the financial audit work:

- Non recurring or new recurring requirements for work to be performed by the auditors:
 - on matters not related to core audit work or the financial internal control environment;

⁴ Increases under 1 K€ can be approved locally (information reported via the fees collection in May or November in the L3 package).



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- on matters related to core audit work or the financial internal control environment if it is not necessary for the purpose of issuing an opinion on the local statutory financial statements or the consolidated financial statements (e.g.: more detailed review at the request of the entity, specific regulatory request...).
 - Compliance and inspection work delegated to the statutory auditors by banking regulators on ethics or compliance issues (e.g.: missions regarding money laundering, fraud...), as well as on risk management processes (e.g.: credit risk, market risk...).
 - Reliance letters regarding financial operations, comfort letters. For example, such attestations may be issued when ALM initiates securities issuance. The number of securities issuances and the comfort letters to be issued can change from one year to another. For this reason, these services are excluded from the audit fees. However, a framework agreement should be set up to establish a fees grid according to the work performed.
 - Other legal reports performed for a specific operation based on intermediary financial information that is usually not subject to a regular audit.
 - All other work performed by the auditors of the entity.

As a reminder, **these additional audit engagements not included in the financial audit fees of the entity must be preapproved by FINANCE & STRATEGY – Finance Steering & Controls – Standards & Controls – Group Financial Controls** using Fact tool, as requested in the “Policy related to the independence of the external auditors of the BNP Paribas Group, including their respective network” – GF0026 (Group procedure that can be consulted on the FINANCE & STRATEGY – Finance Steering & Controls – Standards & Controls – Group Financial Controls intranet and on Group procedures intranet).



4. EVOLUTION OF THE FEES DURING THE MANDATE

In all cases, recurring fees changes during the mandate must have the **prior approval of FINANCE & STRATEGY – Finance Steering & Controls – Standards & Controls – Group Financial Controls** (except for the entities not consolidated but controlled by BNP Paribas Group which were not in the scope of the global review for 2018-2023, see §2.3). For this, the entities must, after discussions with their external auditors, send a request to FINANCE & STRATEGY – Finance Steering & Controls – Standards & Controls – Group Financial Controls (in parallel, the local office of the concerned external auditors will transmit the request to their central audit team), that will notify the entities of the decision following an agreement with the central audit team.

Besides the inflation impact (see §2.1), the following events may impact – with an increase or a decrease - the fees originally set for the period 2018/2023:

- **New regulatory requirements: specific work requested by the regulators:**

The agreement for the renewal of the auditors' mandate does not cover the audit requirements which could result from new laws or new regulations issued by the local authorities after the negotiation with the external auditors, i.e. issued from January 1st, 2018.

The work required in this context may be considered as supplementary to the agreed fees if the request is made during the year following the promulgation of the new law/regulation. In this case, a specific request for additional fees therefore needs to be sent by the entity to FINANCE & STRATEGY – Finance Steering & Controls – Standards & Controls – Group Financial Controls. It should however be highlighted that these new requirements can justify a possible increase in fees only if they lead to substantial additional procedures for the external auditor.

- **Sale of an entity:** the fees formerly allocated to this entity will be cancelled and therefore deducted from the global budget of the concerned audit firm.
- **Merger among entities of the Group:** the fees allocated to the new entity will take into account the synergies resulting from the merger.
- **Acquisition of a new entity:** a local review of the fees will lead to a proposal for a new budget.
- **Acquisition – Sale of an activity or significant financial operation:** the budget of the audit firm performing the work will be reviewed in the case where the operation represents an important increase or decrease to the risks or volumes of the activity (based on local criteria).
- **Significant variation in the activity:** if the change in activity is significant, the fees allocated to the entity will be reviewed, upward or downward.

It should be noted that a change in the audit scope category for an entity, which is determined by the Group external auditors, does not have any automatic effect on the budget. When it is linked to the volume of activity and to financial stakes, it is indeed included in the criteria above.

During the mandate, changes that could occur in the external auditors professional standards cannot have any direct impact on the amount of audit fees. However, the impact in terms of new audit work related to the implementation of professional standards that would be imposed by an independent authority and that would have a legal impact will have to be discussed with FINANCE & STRATEGY – Finance Steering & Controls – Standards & Controls – Group Financial Controls if the impact is material.



5. OTHER PRATICAL INFORMATION REGARDING THE AUDITORS MANDATE

In addition to the presentation and coordination meetings organized centrally with FINANCE & STRATEGY – Finance Steering & Controls – Standards & Controls – Group Financial Controls and Divisions & Business Lines not detailed in this procedure, the following points have to be respected:

- *Coordination with the entity:*

Concerning the audit mission, each audit engagement must give rise to exchanges with the local management as well as, for the mutualized platforms, with the management of the related location or region. Notably, main interim works must be planned in advance to allow for an efficient organization with the departments concerned. Main conclusions have to be formalised in a summary discussed with local/regional Finance management.

In particular, the possible weaknesses in the internal control identified during the audit mission should be subject to recommendations to be listed in a specific internal control memorandum. This memorandum must be, prior to its issuance, discussed with the management of the concerned departments and with Finance, and published within the deadline. [High Risk recommendations must be subject to a validation by Group Financial Controls - Financial Control, Certification & Audit Affairs team and central audit team prior to their issuance.](#)

- *Deliverables:*

All the documents (reports, accounts certification...) issued by the external auditors within the Group audit instructions framework have to be written in English and in the official language of the country concerned. This requirement for English document does not cover the detailed documents (e.g.: statutory accounts appendix) issued for local requirements.

The deliverables have to be issued in compliance with the Group audit instructions, respecting the format and the agreed deadlines.

- *Engagement letter:*

It is the current practice to sign an engagement letter specifying the audit engagement terms. This engagement letter, whose format may differ according to local rules or professional practices, should include the following elements:

- nature and scope of the engagement;
- details regarding the signatories, stakeholders and schedule;
- reminder on information and documents that the entity has to communicate or make available to the external auditors, including if necessary a representation letter;
- information to the management of the conclusions and findings;
- the audit fees for the year as validated by FINANCE & STRATEGY – Finance Steering & Controls – Standards & Controls – Group Financial Controls (with, in case of joint audit, an indicative allocation of the audit work) and the invoicing terms.

These engagement letters should in no case include (except where there is a local requirement or if it corresponds to local practice) any limitation clause such as:

- limitation of compensation in case of litigation;
- limitation of responsibility over time.

According to the countries, the content of the engagement letter can be defined by a regulation. If it is not the case, the content of the engagement letter may require the intervention of the Legal department. In this case, the engagement letter signatory (generally the CFO) is in charge of the final decision on its content.

Finally, the presentation of the engagement letter to the Audit committee, if any, is a good practice.

- *Representation letter*

In France, according to professional standards, the external auditor obtains from the General Management the statements deemed necessary within the context of its engagement⁵.

Abroad, local professional standards tackle the issue. The entities should ensure that the content of the representation letter focus on the necessary statements without being extended to issues linked to reliability of the accounts for which auditors have the necessary objective elements to form their opinion.

⁵ The representation letter template is reviewed with FINANCE & STRATEGY – Finance Steering & Controls – Standards & Controls – Group Financial Controls. A template for the French subsidiaries is available with F&S-FS&C-S&C-GFC.



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