

**BNP PARIBAS CARDIF**

**Statutory Auditors' report on the consolidated financial statements**

**For the year ended 31 December 2018**

*This is a free translation into English of the Statutory Auditors' audit report issued in French and is provided solely for the convenience of English speaking readers. This report should be read in conjunction with, and construed in accordance with French law and professional auditing standards applicable in France.*

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## **Statutory Auditors' report on the consolidated financial statements**

**For the year ended 31 December 2018**

To the general meeting of  
**BNP PARIBAS CARDIF**  
1 Boulevard Haussmann  
75009 Paris

### **Opinion**

In compliance with the engagement entrusted to us by your general meetings, we have audited the accompanying consolidated financial statements of BNP PARIBAS CARDIF for the year ended 31 December 2018.

In our opinion, the consolidated financial statements give a true and fair view of the assets and liabilities and of the financial position of the Group at 31 December 2018 and of the results of its operations for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union.

The opinion formulated above is consistent with the content of our report to the Financial Statements and Audit Committee.

### **Basis for opinion**

#### ***Audit framework***

We conducted our audit in accordance with professional standards applicable in France. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Our responsibilities under these standards are further described in the "Responsibilities of the Statutory Auditors relating to the audit of the consolidated financial statements" section of our report.

#### ***Independence***

We conducted our audit engagement in compliance with the independence rules applicable to us for the period from 1 January 2018 to the date of our report and, in particular, we did not provide any non audit services prohibited by article 5(1) of Regulation (EU) No 537/2014 or the French Code of Ethics (*Code de déontologie*) for Statutory Auditors.

### **Justification of assessments – Key audit matters**

In accordance with the requirements of articles L. 823-9 and R. 823-7 of the French Commercial Code (*Code de commerce*) relating to the justification of our assessments, we inform you of the key audit matters relating to the risks of material misstatement that, in our professional judgement, were the most significant in our audit of the consolidated financial statements, as well as how we addressed those risks.

These matters were addressed as part of our audit of the consolidated financial statements as a whole, and therefore contributed to the opinion we formed as expressed above. We do not provide a separate opinion on specific items of the consolidated financial statements.

### ***Financial investments***

- ***Description of risk***

As part of its activities, the BNP Paribas Cardif Group holds investments on the asset side of its balance sheet. The "Investments" item, which amounts to EUR 226 billion, represents a significant item in the financial statements. It covers a wide variety of investments (amortizable securities, shares, financial instruments) and includes a significant volume of securities.

Financial investments are recognised in accordance with the rules laid out by IAS 39 in the BNP Paribas Cardif Group's consolidated financial statements. Given the weight of investments in the balance sheet of the BNP Paribas Cardif Group's consolidated financial statements, the reliability of the procedures implemented by the Group during the year and at the accounts closing, for the recognition of transactions related to investments, constitutes a key audit matter.

- ***Procedures implemented in response to the risk identified***

Our audit approach consisted of:

- updating our risk matrix on the basis of the conclusions of our previous audits and meetings with the BNP Paribas Cardif Group;
- identifying and assessing the quality of key controls (1st and 2nd level) implemented by the Group in response to the risks identified in relation to the management and accounting of investments;
- checking the reconciliation between the general and subledger accounting for transactions in the period and the closing positions;
- independently and comprehensively verifying the valuation of listed securities;
- for unlisted securities, examining the key controls put in place by the Group for the valuation models and independently verifying certain valuation parameters;
- checking the closing positions by requesting confirmation from custodians and banks;
- verifying the principles retained for impairment of financial investments, the methods used to identify the securities requiring analysis and justification of provisions made;
- verifying the documentation of hedging instruments with respect to the requirements in industry standards.

Lastly, we assessed the relevance of the information presented in the notes to the financial statements by comparing it to accounting and management data.

### ***Technical provisions for insurance contracts***

- ***Description of risk***

At the annual reporting date, a liability adequacy test is performed for insurance liabilities.

This test compares the insurance liabilities (or technical provisions) recorded in the balance sheet with an estimation of future net cash flows. If the test shows the liability is inadequate, an additional liability should be recognised.

The test performed as at 31 December 2018 concluded that technical provisions were adequate.

We considered that the liability adequacy test for the Savings branch is a key audit matter because it involves actuarial models and modelling of options and guarantees specific for BNP Paribas Cardif as well as management's estimates to determine certain key assumptions (e.g., return on assets, level of redemptions, costs).

- ***Procedures implemented in response to the risk identified***

On the basis of inquiries, we challenged the valuation of the future net flows used in the calculation with a focus on:

- assessing the validity of asset portfolios and contracts data used as a starting point for modelling;
- identifying the main changes in actuarial models, assessing the relevance of these evolutions and understanding their impact on the outcome of the test;
- analysing the variations in the results of the models between 2017 and 2018 on the basis of the analysis prepared by BNP Paribas Cardif. We have verified that the most important variations were supported by changes in the portfolios, assumptions or models.

We also reviewed the information published in the notes to insurance liabilities.

### ***General IT controls***

- ***Description of risk***

The reliability of IT systems is key for BNP Paribas Cardif, as it is for all financial institutions given the high volume of transactions processed every day. We pay particular attention to access controls for the main IT systems supporting the production of financial information, as well as to the management of changes to these systems.

We thus deemed the assessment of the general IT controls and the application controls specific to the information processing chains that contribute to the preparation of accounting and financial information to be a key audit matter.

In particular, a system for controlling access rights to IT systems and authorisation levels based on employee profiles represents a key control for limiting the risk of inappropriate changes to application settings or underlying data.

• ***Procedures implemented in response to the risk identified***

For the main systems used to prepare accounting and financial information, assisted by our IT specialists, our work consisted primarily in:

- obtaining an understanding of the systems, processes and controls which underpin accounting and financial data;
- assessing the general IT controls (application and data access management, application changes/developments management and IT operations management) on material systems (in particular accounting, consolidation and automatic reconciliation applications);
- examining the control for the authorisation of manual accounting entries.

We implemented additional diligences given that certain accounts have extended system rights and undertook additional procedures consisting mainly, depending on the situations and risks identified, of:

- examining compensatory controls put in place by BNP Paribas Cardif;
- increasing the size of the samples in our control and substantive tests (testing of accounting entries, reconciliation of the characteristics of transactions with external supporting materials such as contracts, transaction advice notices and third-party confirmations, etc.);
- data analysis work in order to identify and analyse atypical transactions on premiums.

**Specific verifications**

As required by legal and regulatory provisions and in accordance with professional standards applicable in France, we have also verified the information pertaining to the Group presented in the Board of Directors' management report.

We have no matters to report as to its fair presentation and its consistency with the consolidated financial statements.

***Appointment of the Statutory Auditors***

We were appointed as Statutory Auditors of BNP PARIBAS CARDIF by the Annual General Meeting of 14 May 2013 for PwC and 11 May 2012 for Deloitte & Associés.

At 31 December 2018, PwC was in its 6<sup>th</sup> consecutive year of assignment and Deloitte & Associés in its 7<sup>th</sup> year.

**Responsibilities of management and those charged with governance for the consolidated financial statements**

Management is responsible for preparing consolidated financial statements giving a true and fair view in accordance with International Financial Reporting Standards as adopted by the European Union and for implementing the internal control procedures it deems necessary for the preparation of consolidated financial statements that are free of material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern, and using the going concern basis of accounting, unless it expects to liquidate the Company or to cease operations.

The Financial Statements and Audit Committee is responsible for monitoring the process of preparation of financial information and the effectiveness of the internal control and risk management systems, as well as of internal audit, where appropriate, in terms of procedures relating to the preparation and processing of accounting and financial information.

The consolidated financial statements were approved by the Board of Directors.

**Responsibilities of the Statutory Auditors relating to the audit of the consolidated financial statements**

*Objective and audit approach*

Our role is to issue a report on the consolidated financial statements. Our objective is to obtain reasonable assurance about whether the consolidated financial statements as a whole are free of material misstatement. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with professional standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions taken by users on the basis of these financial statements.

As specified in article L.823-10-1 of the French Commercial Code, our audit does not include assurance on the viability or quality of the Company's management.

As part of an audit conducted in accordance with professional standards applicable in France, the Statutory Auditors exercise professional judgement throughout the audit.

They also:

- identify and assess the risks of material misstatement in the consolidated financial statements, whether due to fraud or error, design and perform audit procedures in response to those risks, and obtain audit evidence considered to be sufficient and appropriate to provide a basis for their opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control;

- obtain an understanding of the internal control procedures relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the internal control;
- evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management and the related disclosures in the notes to the consolidated financial statements;
- assess the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. This assessment is based on the audit evidence obtained up to the date of the audit report. However, future events or conditions may cause the Company to cease to continue as a going concern. If the Statutory Auditors conclude that a material uncertainty exists, they are required to draw attention in the audit report to the related disclosures in the consolidated financial statements or, if such disclosures are not provided or are inadequate, to issue a qualified opinion or a disclaimer of opinion;
- evaluate the overall presentation of the consolidated financial statements and assess whether these statements represent the underlying transactions and events in a manner that achieves fair presentation;
- obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. The Statutory Auditors are responsible for the management, supervision and performance of the audit of the consolidated financial statements and for the opinion expressed thereon.

Report to the Financial Statements and Audit Committee.

We submit a report to the Financial Statements and Audit Committee which includes, in particular, a description of the scope of the audit and the audit programme implemented, as well as the results of our audit. We also report any significant deficiencies in internal control that we have identified regarding the accounting and financial reporting procedures.

Our report to the Financial Statements and Audit Committee includes the risks of material misstatement that, in our professional judgement, were the most significant for the audit of the consolidated financial statements and which constitute the key audit matters that we are required to describe in this report.

**BNP PARIBAS CARDIF**

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We also provide the Financial Statements and Audit Committee with the statement provided for in article 6 of Regulation (EU) No 537/2014 confirming our independence, within the meaning of the rules applicable in France as set in particular by articles L.822-10 to L.822-14 of the French Commercial Code and the French Code of Ethics (*Code de déontologie*) for Statutory Auditors. Where appropriate, we discuss the risks to our independence and the safeguards applied with the Financial Statements and Audit Committee.

Neuilly-sur-Seine and Paris-La Défense, 6 May 2019

The Statutory Auditors

PricewaterhouseCoopers Audit

Deloitte & Associés

Frédéric Trouillard-Mignen

Laurence Dubois

Estelle Sellem