

# BNP PARIBAS

## CORPORATE GOVERNANCE

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SEPTEMBER 2017



**BNP PARIBAS**

The bank for a changing world

# Disclaimer

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*The figures included in this presentation are unaudited.*

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# Corporate Governance within BNP Paribas

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The Board of Directors and its Committees

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Corporate Officers' Compensation

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Appendix

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# A Corporate Governance Framework Deeply Embedded in the Bank's Culture

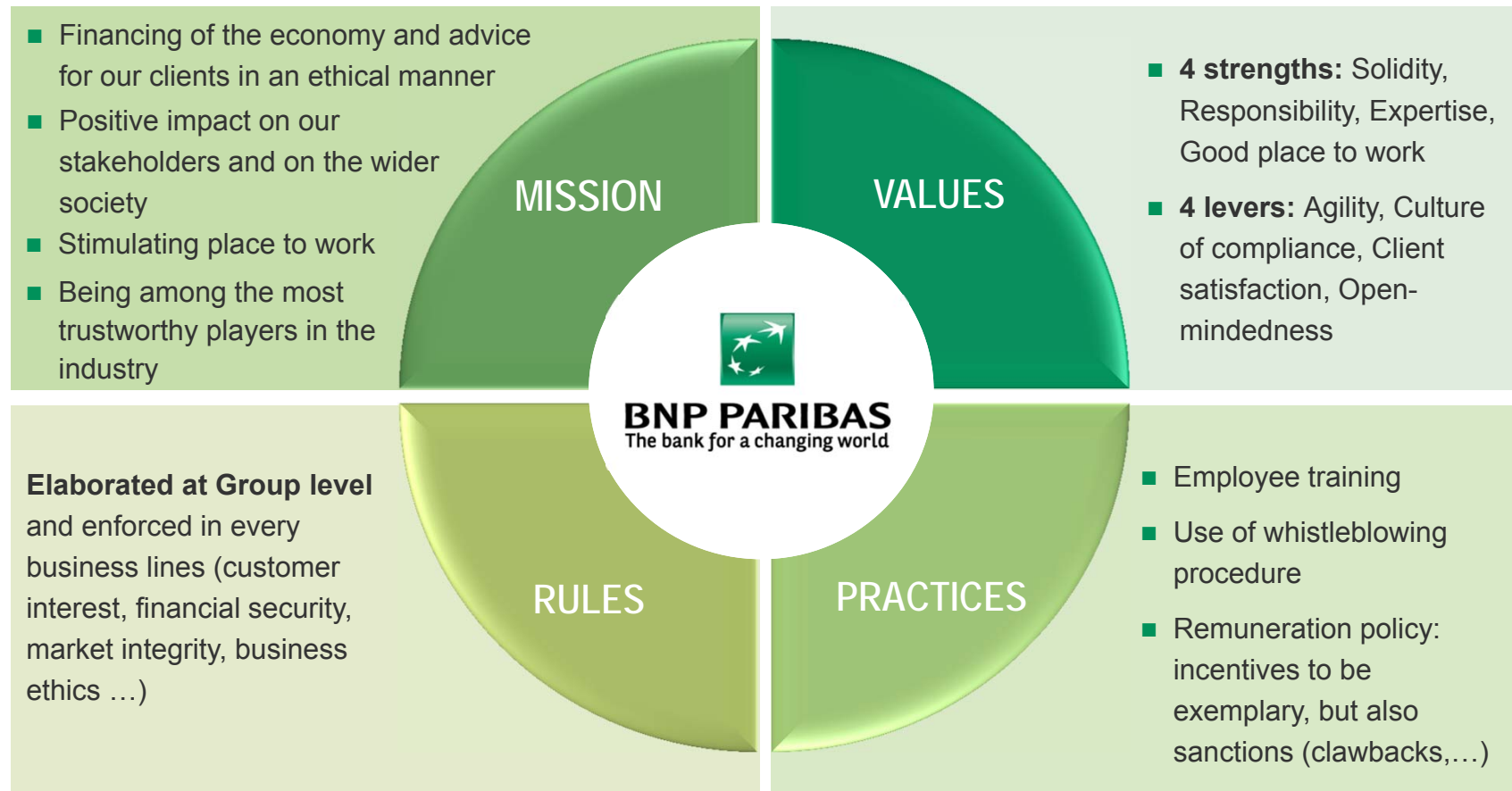
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- Business model is closely aligned with culture; within BNP Paribas, focus on:
  - Customers (vs sales)
  - Long term (vs short term) results
  - Sustainability (vs growth)
  - Efficiency (vs low cost)
  - ...
- A reputation based on rigorous rules of ethics, compliance and transparency and on a true social commitment: focus on
  - Values, compliance, behaviour
  - Consistency of message
  - Tone at the top.....echo from the bottom

 **A "triptic" culture / governance / business strategy**



# The BNP Paribas Group Code of Conduct: a Process Common to the Board and the Management



- > 182,000 employees trained online
- Additional programmes to support employees assimilate ethical rules (CIB Conduct Program, etc.)

**> The route to corporate longevity lies through responsible business practices**



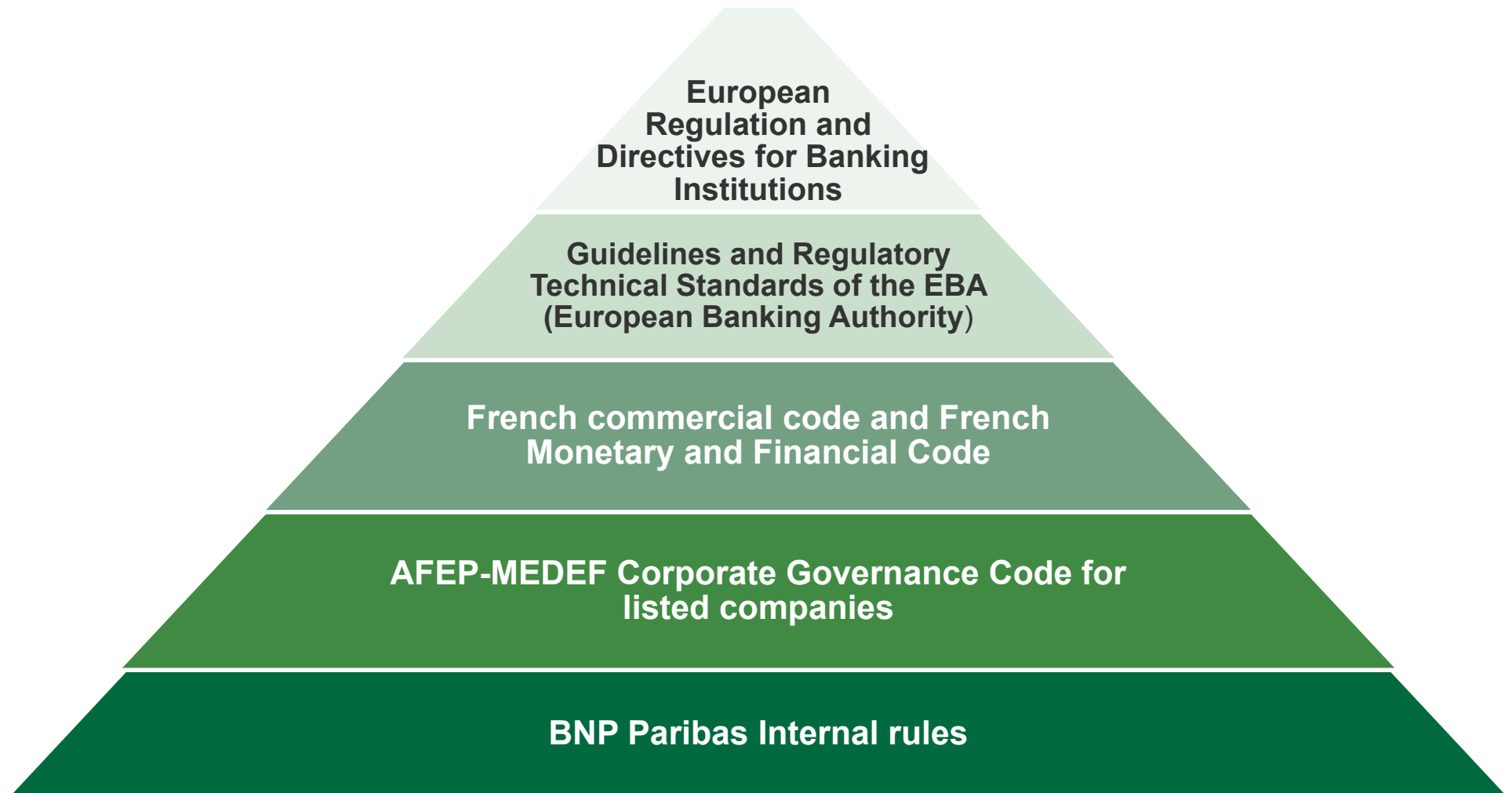
# A Corporate Governance that Supports the Long-Term Strategy of the BNP Paribas Group

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- Separation of the functions of Chairman and CEO since 2003
- No member of the Executive Committee sitting on any of the Board Committees since 1997
- Audit Committee set up as soon as 1994, whose competencies were split:
  - Financial Statements Committee, on the one hand
  - On the other hand, an Internal Control, Risk Management and Compliance Committee
- A Committee of the Board devoted to CSR matters
- Undertaking by the Directors to put their mandate at the Board's disposal in the event of any significant change in their duties or powers
- Shareholders' protection: 1 share = 1 vote = 1 dividend
  - No double voting rights
  - No voting caps
- No anti takeover or public exchange offer measures
- A compensation policy integrating the long-term interests of the Group and its stakeholders

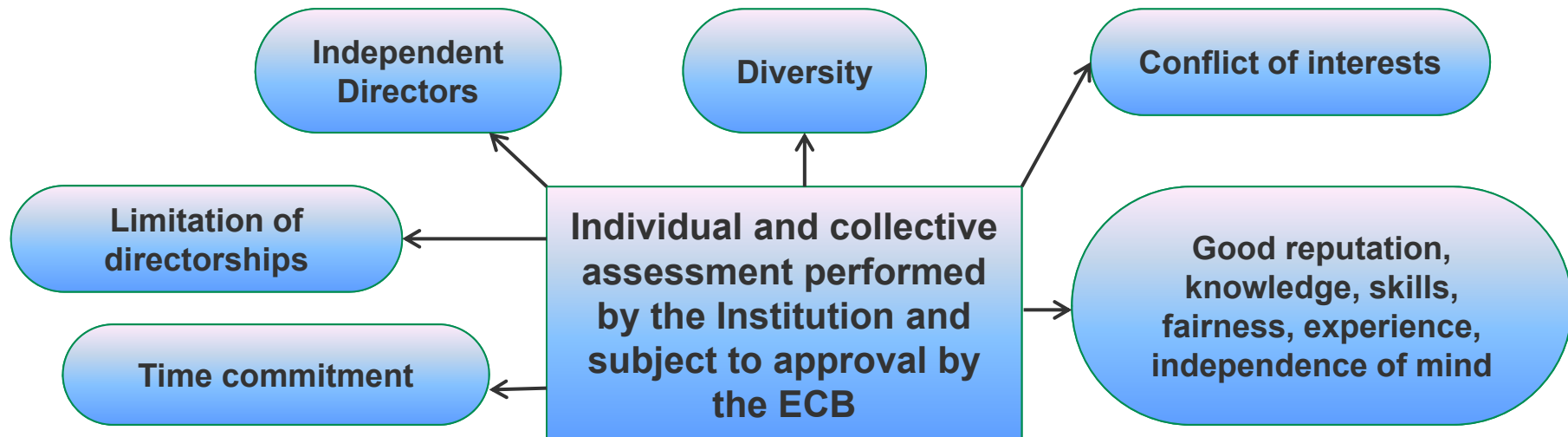


# A Specific Feature for Corporate Governance in the Banking Industry (1/3): a Pyramid of Regulations



# A Specific Feature for Corporate Governance in the Banking Industry (2/3): Regulators' and Supervisors' Oversight

- Composition of the Board of Directors: oversight by the ECB and the ACPR through the SSM



- Financial Institutions are subject to stricter regulations than other sectors' companies, for instance:
  - Fewer directorships allowed
  - Assessment of the suitability and competence of Directors





# A Specific Feature for Corporate Governance in the Banking Industry (3/3): Regulators' and Supervisors' Oversight

- Remuneration policy: mandatorily consistent with the Institution's risk profile

**Specific rules for banking institutions**



**For executive management and "Material Risk Takers":**

- Limitation of variable remuneration;
- $\leq$  fixed remuneration or  $\leq 2$  times fixed remuneration if prior approval of the shareholders General Meeting;
- obligation to apply deferral periods to variable remuneration;
- obligation to pay part of the variable remuneration in equity-linked instruments.



**Corporate Governance within BNP Paribas subject to EBA (European Banking Authority) guidelines and to the continuous oversight and assessment of the ECB (European Central Bank) through the SSM (Single Supervisory Mechanism)**



**A rich set of rules and guidelines forming an additional guarantee for stakeholders regarding the suitability of Corporate Governance and its alignment with shareholders' interests**



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Corporate Governance within BNP Paribas

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**The Board of Directors and its Committees**

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Corporate Officers' Compensation

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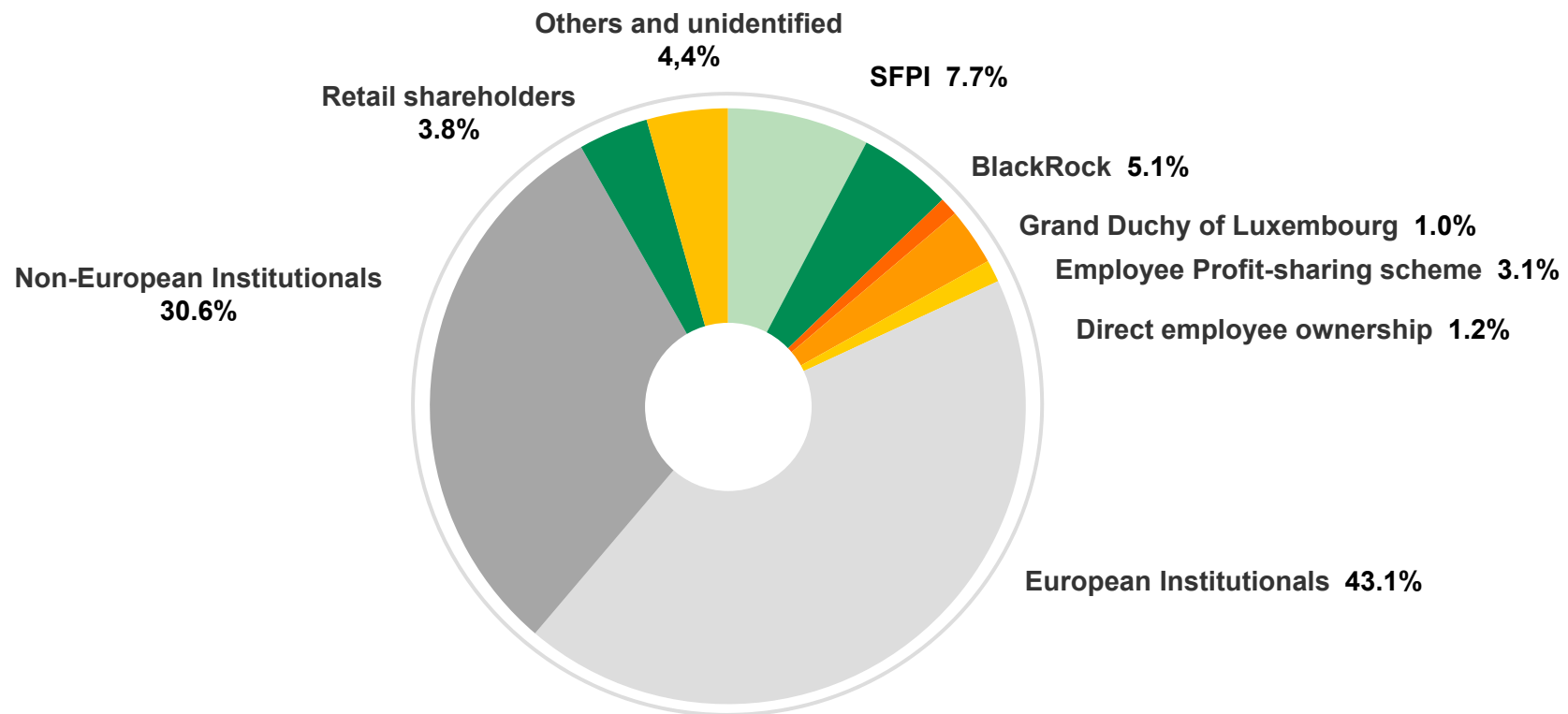
Appendix

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# Share Ownership Structure

## Share ownership structure of BNP Paribas at 30 June 2017 (as % of capital)



- A very liquid security, included in all the leading indices



# Composition of the Board of Directors after the 2017 AGM - Independence

**A composition that fully complies with stock market recommendations: largely more than 50% of “independent” directors**

- **12 Directors appointed by the General Meeting**
  - For 3-year terms
  - Representing 4 nationalities
  - Including 10 “independent” directors, in accordance with the guidelines of the Board and of the French stock market (i.e. more than 80% of the Directors elected by shareholders)
  - Including 5 ladies (i.e. more than 40% of Directors elected by shareholders)
- **2 Directors elected by the staff**
  - For 3-year terms
  - 2 ladies
  - Not considered “independent” based on French stock market criteria, despite the method of their election
  - Of whom:
    - one sits at the Compensation Committee and at the Internal Control, Risk Management and Compliance Committee
    - and the other one at the Financial Statements Committee



**The independence of Directors is ultimately demonstrated through their decisions**



# Composition of the Board of Directors after the 2017 AGM - Competences

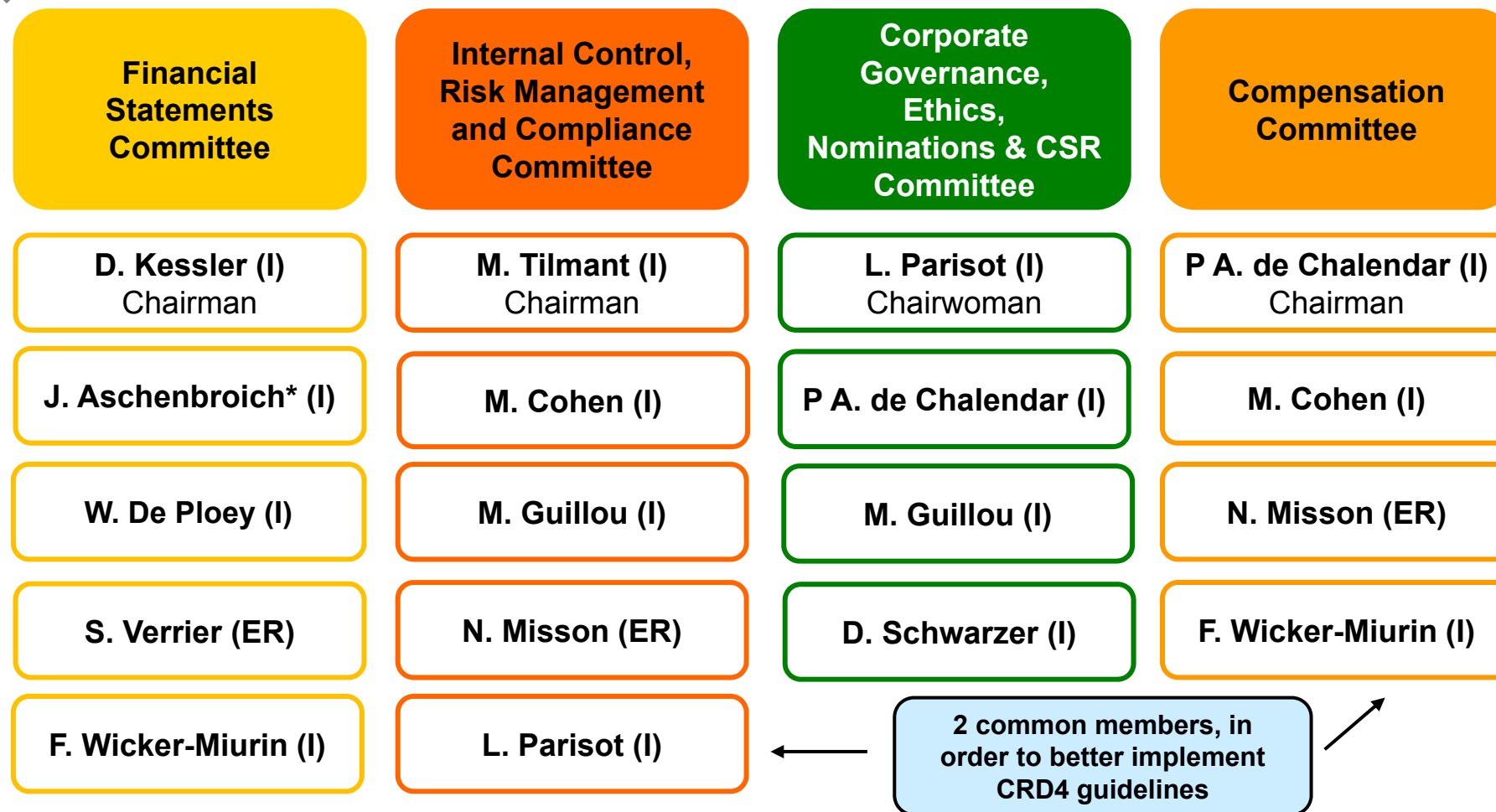
**Composition must ensure the necessary diversity within the Board, in terms of competences and experience**

- Members with complementary backgrounds and experiences
  - Right balance between
    - “Wisdom” and judgment stemming from experience and tenure, on the one hand
    - On the other hand, the need for refreshment bringing renewed thinking and perspective
- Members with diverse skills:
  - Banking and financial matters
  - Risk assessment capabilities
  - High level management of large corporations
  - International vision
    - Stemming not only from nationality, but also from professional experience and assignments
  - Digital expertise
  - Expertise in the field of CSR

**▶ To ensure the Board’s ability to make informed and effective decisions**



# Composition of the Committees of the Board after the 2017 AGM



\* From 1st January 2018. (I): Independent Director, in accordance with the guidelines of the Board and of the Afep-Medef Code. (ER): Employee Representative.



# An Enhanced Role of the Board

- New Internal Rules effective as of 2 October 2015, taking into account
  - Provisions such as those of CRD4
    - which significantly increase the missions of the Board of a credit institution
  - Guidelines of the EBA
    - concerning Ethics, Compliance, Confidentiality for Directors
- Strengthening of the role of the ICRMCC\*
- Extension of Directors training in terms of risk governance
- Assessment of the Board of Directors
  - By an external firm every three years, “internally” every year in the meantime
- Outcome of the 2015 assessment
  - Keep at 14 the number of Directors, to be efficient
  - New missions devoted to the CGNC\*\*: Ethics, Conduct, CSR
  - Proposed nomination of a Director with skills in digital matters
- Results of the 2016 assessment
  - Set up a procedure for the selection of Directors and Committees' Chairpersons
  - Strengthen Directors' information regarding digital matters

➤ Enlarged duties of the Board in full cooperation with the Management

\* Internal Control, Risk Management and Compliance Committee; \*\* Corporate Governance and Nominations Committee.



# A New Paradigm for Corporate Governance

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- The era of “technical” reforms is now largely over:
  - Except for some specific items like “proxy access” in the US or “Sapin” rules in France
- Attention is now turning towards Board effectiveness and accountability, moreover:
  - Encompassing new domains like non financial risk factors (reputation, ...)
    - Among which CSR issues
  - Scrutinized by far more other stakeholders than shareholders:
    - Staff, customers, society as a whole,...
  - But whose opinion nevertheless impacts the Company’s value for shareholders.....
- These various stakeholders are increasingly assessing
  - Board composition, Director qualifications,
  - The effectiveness of the Board’s decisions and their links to financial performance
- New core duties and responsibilities of the Board are thus:
  - Oversight of business strategy but also long-term sustainability
  - Succession planning (both CEO and Directors) and more generally talent management
  - Risk oversight (including cyber security)
  - Maintaining proper tone-at-the-top, corporate culture, ethics and reputation
  - Reviewing policies on responsible social behavior (ESG)
    - Including the incentive structure





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Corporate Governance within BNP Paribas

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The Board of Directors and its Committees

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**Corporate Officers' Compensation**

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Appendix

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# New Regulations Impacting the Remuneration Structure of Corporate Officers

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- New Guidelines released by the European Banking Authority on 21<sup>st</sup> December 2015, applied by BNP Paribas from the remunerations for 2016 awarded in 2017 onwards
  - In particular concerning the assessment of the “2 for 1”
    - Nominal value now to be used instead of the fair value of the LTIP
  - Triggering the need to amend the remuneration structure of the Corporate Officers
    - Increase of the fixed component
    - Reduction of the annual variable part and of the LTIP, while the time span for payment is extended
- The time span for the payment of the differed part of the annual variable remuneration is postponed from 3 to 5 years, and
  - At least half of the variable remuneration must be paid in equity-linked instruments
  - The payment of the “equity” portion is now postponed to one year (instead of six months) as compared to the part paid in cash

# Adjustments to the Rules for Determining the Remuneration Structure of Corporate Officers

- The fixed remuneration increases by 25%, from
  - 1,250,000 euros to 1,562,000 euros for Jean-Laurent Bonnafé
  - 800,000 euros to 1,000,000 euros for Philippe Bordenave
- The Target Variable Annual Remuneration decreases from 150% to 100% of the fixed compensation
  - the amount of annual variable compensation is capped at 120% of the “new” fixed compensation (180% previously)
- The nominal value of the LTIP is no more equal to the annual variable compensation *awarded*, but to the *target* variable annual compensation



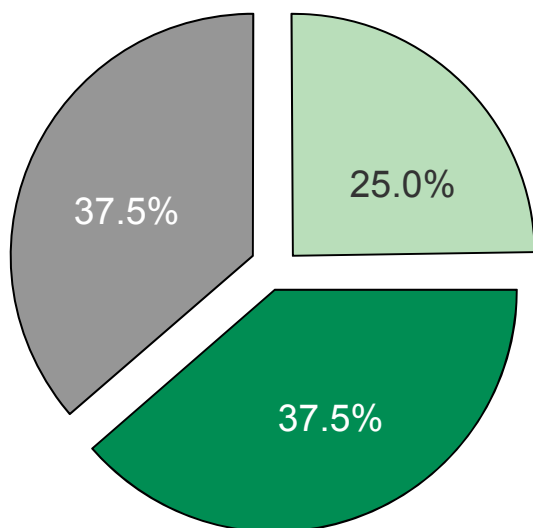
**A set up complying with the “2 for 1” rule without impairing the rationale of the Corporate Officers remuneration structure**



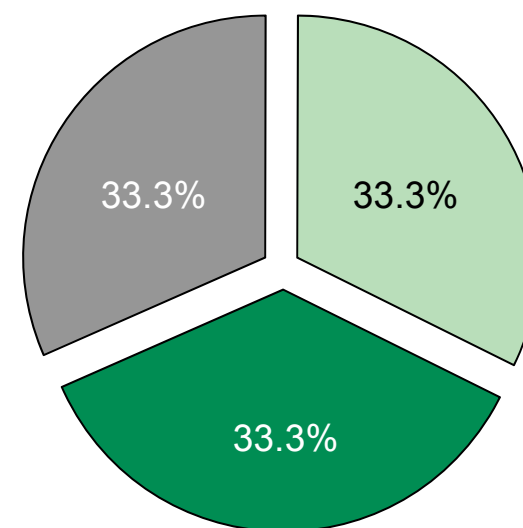
# Adjustments to the Rules for Determining the Remuneration Structure of the Corporate Officers

## Breakdown of Total Compensation

Before



After



# Fixed Compensation paid in 2016

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**J. LEMIERRE**

**950,000 €**

**J-L. BONNAFÉ**

**1,562,000 €**

**Ph. BORDENAVE**

**1,000,000 €**



# Rules for Determining Annual Variable Remuneration for 2016



- The target variable compensation (as a % of fixed remuneration) is set at:
  - 100% for Jean-Laurent Bonnafé and Philippe Bordenave
    - Reminder: Jean Lemierre, Chairman, receives neither annual nor multi-annual variable compensation, i.e. only a fixed remuneration
- Malus and clawback in case of inappropriate behaviour
- 60% of the variable compensation awarded is deferred over 5 years
- Half of the non-deferred portion is paid in March 2017, the other half being postponed for 1 year (until March 2018) and indexed to the share price
- The amounts thus deferred will be:
  - Spread in fifths, from 2018 to 2023
  - Indexed for half of their total to the share price since the date of the award
    - each payment will thus be made half in March every year, then half in March the following year, indexed to the performance of the BNP Paribas share
    - the last payment of the award for 2016 will be made in March 2023
  - Subject to a performance condition: pre-tax RoE of the Group for FY preceding the payment > 5%



**The Board makes sure that the amount of the variable remuneration is consistent with the Group's results evolution**  
**The annual variable compensation cannot exceed 120% of the fixed remuneration**



# Rules for Determining the Annual Variable Remuneration and Their Assessment for 2016

Criteria	% of TVR <sup>(1)</sup>		<b>Jean-Laurent BONNAFE</b> <b>Philippe BORDENAVE</b>
	Weight	Result	
<b>QUANTITATIVE:</b> Criteria related to the Group's performance  	37.5%	43.80%	Change in Earnings per Share during previous FY
	37.5%	36.95%	% of achievement of the Group's budgeted Gross Operating Income
<b>QUALITATIVE:</b> personal objective-based criteria  	25.0%	25.0%	Implementation of the strategic orientations, including the transformation plan, the Leadership For Change project and CSR, taking into account the background of the FY under review. <i>The exceeding of qualitative objectives does not result in an increase of the variable component linked to these criteria.</i>

<sup>(1)</sup> Target Variable Remuneration



# Qualitative Criteria and Their Assessment for 2016

- The Board of Directors considers essential to carry out a qualitative evaluation, in particular since the strengthening in 2014 of its duties regarding monitoring and oversight, following the transposition of CRD4
  - Beyond the strategy of the Bank that it has to approve, the Board must form an opinion on the performances of Corporate Officers in terms of foresight, decision-making, leadership skills and example setting
- Some criteria are common to both Corporate Officers
  - Successful implementation of the 2014 - 2016 Strategic Plan
  - Implementation of CSR initiatives
- Some criteria are specific
  - JLB: among others
    - Rolling out the Code of Conduct, dissemination of a culture of Compliance
  - PhB: among others
    - Strong personal commitment in the reviews by Regulators and Supervisors



**Compensation should not entirely be formula based**  
**Qualitative factors are essential to achieve sustainability**



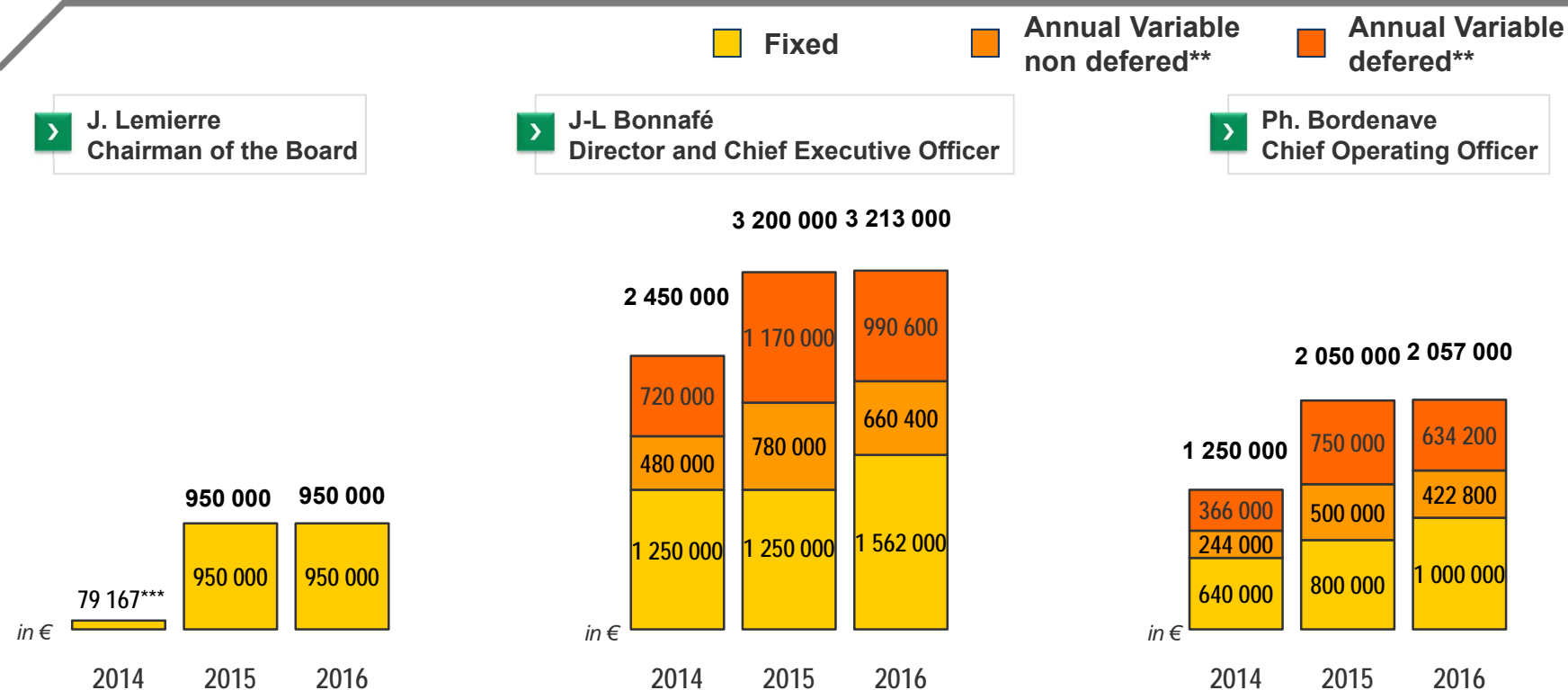


# Annual Variable Compensation Awarded in Respect of 2016

	Variable Compensation set by the Board	Reminder of Target Variable Remuneration	Reminder of Cap to Variable Remuneration
J-L. BONNAFÉ	1,651,000 €	1,562,000 €	1,874,400 €
Ph. BORDENAVE	1,057,000 €	1,000,000 €	1,200,000 €



# Remuneration Awarded to Corporate Officers\*



2003	2016	Gross remuneration	2007	2016
100	205	Group net income	100	98
100	108	Total remuneration	100	76
100	76	Variable remuneration	100	48

\* LTIP not included; \*\* o/w 50% indexed to the evolution of the BNP Paribas share price; \*\*\* 1 month pro-rata temporis



# Rules of the Conditional Five-Year Long-Term Incentive Plan (LTIP) for Corporate Officers in Respect of FY 2016

- *Reminder:* as soon as April 2011, the Board of Directors established a long-term (five-year) fully conditional compensation plan, in order to align the interests of executive Corporate Officers with the medium- to long-term performance of the BNP Paribas Group
  - Amended from the 2017 award on the account of 2016 onwards
- Initial amount equal to the target annual variable compensation in respect of 2016, split into 2 equal parts
- One assessed on the evolution of the share price in absolute terms
  - No payment would be made if the share price has not increased by at least 5% over the 5 year period
  - If this condition is met, a factor is applied to the initial amount, according to the same scale as in the previous scheme, i.e. varying less than proportionally with the share price increase
  - Full payment of the initial award only if the share price has increased by at least 20%
    - Maximum: 175%
- The other half in relative terms, measuring the over-performance of the share as compared to the EURO STOXX Banks index
  - No payment is made if the share just follows the evolution of the benchmark
  - Full payment of this 50% portion only if an over-performance of at least 10% is observed, according to a scale more stringent than in the previous program
    - Maximum: cap at the initial award
- The amounts granted are valued in accounting terms by an outside firm. In 2017, it was thus valued at 49.67% of the variable compensation granted in respect of 2016
- Payment conditional to the presence in the Group during the five years of the plan (except retirement)
- In case of inappropriate behaviour: malus, and clawback over the previous 5 years



**No payment linked to the LTIP can now exceed 137.5% of the initial awarded amount, vs 175% previously**



# Long-Term Conditional Compensation Awarded in Respect of 2016 to Corporate Officers

	LTIP awarded by the Board	Valuation at Fair Value of the Amount Awarded <sup>(1)</sup>
J-L. BONNAFÉ	1,562,000 €	775,767 €
Ph. BORDENAVE	1,000,000 €	496,650 €

- Performance-linked payment after a five-year period



**Determined on the basis of the target annual variable compensation in respect of FY2016**

<sup>(1)</sup> Fair Value of 49.67% of the amount awarded, as calculated by an independent expert



# Total Compensation in Respect of 2016 and Comparison With 2015 (Corporate Officers as at 31.12.2015)

	2016	Fixed	Annual Variable	LTIP (at fair value)	Total
2015					
<b>J. LEMIERRE</b>	950,000 €	950,000 €			950,000 €
	950,000 €				950,000 €
<b>J-L. BONNAFÉ</b>	1,562,000 €	1,562,000 €	1,651,000 €	775,767 €	3,988,767 €
	1,250,000 €	1,250,000 €	1,950,000 €	339,885 €	3,539,885 €
<b>Ph. BORDENAVE</b>	1,000,000 €	1,000,000 €	1,057,000 €	496,650 €	2,553,650 €
	800,000 €	800,000 €	1,250,000 €	217,875 €	2,267,875 €



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**Appendix**

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# Post-Employment Benefits

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- End-of-career compensation
  - No commitment has been made in respect of Jean Lemierre
  - Jean-Laurent Bonnafé is not entitled to any retirement bonus
  - Philippe Bordenave should benefit upon his retirement and depending on his original contractual situation, from the provisions applicable to all employees of BNP Paribas SA
- Pension scheme: Corporate Officers
  - Are not entitled to any kind of defined-benefit top-up pension plan
  - Belong to the defined-contribution pension plan (article 83 of the French General Tax Code) set up for all BNP Paribas SA employees
- End-of-mandate compensation
  - Corporate Officers receive no contractual compensation for the termination of their term of office



# Non-Competition Clause for Jean-Laurent Bonnafé, CEO

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In order to protect BNP Paribas' and its shareholders' interests in the case of Jean-Laurent Bonnafé leaving the Company

- A 12-month non-competition agreement has been concluded
  - Preventing Jean-Laurent Bonnafé from cooperating with any listed financial institution or insurance company worldwide (or such non listed firm in France)
- For which a compensation would be awarded to Jean-Laurent Bonnafé, equal to 1.2 times the amount of the fixed plus annual variable remuneration he received during the year preceding his leaving
  - Paid in 12 monthly instalments





# Stock Options and Performance Shares Holding and Retention of Shares

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- Jean Lemierre, Corporate Officer since 1 December 2014, received no allocation from 2011 onwards
- Jean-Laurent Bonnafé hasn't received stock options or performance shares since 2008
- Philippe Bordenave, Corporate Officer since 1 December 2011, received no allocation since then
- Throughout their term of office, Corporate Officers are required to hold a minimum number of shares, set at:
  - 10,000 shares for Jean Lemierre: holding<sup>(\*)</sup> = 25,398<sup>(1)</sup>
  - 80,000 shares for Jean-Laurent Bonnafé: holding<sup>(\*)</sup> = 82,442<sup>(2)</sup>
  - 30,000 shares for Philippe Bordenave: holding<sup>(\*)</sup> = 51,674

*(\*) At 31/12/2016; <sup>(1)</sup> Including 1,072 and <sup>(2)</sup> 19,896 BNP Paribas shares held under the Company Savings Plan*



# Principles of Variable Remuneration of "Group MRT\*"

- These principles are established and proposed by Group Human Resources in cooperation with the relevant business units, presented for approval to the "Compliance, Risks, Finance" Group Committee, then decided upon by senior management after review by the Compensation Committee and approval by the Board of Directors
  - Procedures audited and checked *a posteriori* by the Inspectorate General, whose report is submitted to the Compensation Committee
- Since 2014, the Shareholders' Meeting is presented with some provisions on the MRT remuneration package
- The overall variable remuneration of market professionals takes into account, for each business unit concerned, all the components of profits and risk:
  - direct revenues, and direct and indirect costs allocated to the business unit;
  - internal cost of refinancing (including the real cost of liquidity);
  - risk provisioning;
  - return on notional capital employed.
- The variable remuneration awarded for a financial year may not exceed a multiple of the fixed remuneration paid the same year
  - Multiple set annually ex-ante
- No guaranteed bonus, except in a recruitment context
  - limited to one year, and paid in the same conditions as the "non-guaranteed" remuneration (in particular with a deferred part, subject to indexation and eventually performance criteria)
- No guarantee of compensation for premature termination
- Ban on hedging and insurance

\* Material Risk Takers



# Variable Remuneration paid to "Group MRT\*" in 2016

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- 903 M€ were paid to 1,445 persons\*\*
  - 462 M€ as fixed compensation
  - 441 M€ as variable compensation
    - in connection with variable remuneration awarded for FY 2012 to 2015
  
- In 2015, 844 M€ and 1,183 employees\*\*

*\* Material Risk Takers; \*\* Including people exclusively counted in because of their high level of remuneration*



# Total Remuneration awarded to "Group MRT\*" on the Account of 2016

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- 959 M€ were awarded to 1,445 persons on the account of 2016
  - for 2015, 821 M€ and 1,181 employees
- 477 M€ have been allocated as fixed compensation
- 482 M€ have been awarded as variable pay
  - 40% to 60% deferred\*\*
  - Half in cash and half in units indexed to the BNP Paribas share price, paid in cash following a 6 month lockup period\*\*
  - In 8 instalments from 2017 to 2020\*\*
  - Deferred part locked in by thirds over the three years following the year of the award, subject to financial performance and behavioural conditions to be met every year\*\*
  - If these conditions are not achieved for a FY, the corresponding deferred annual fraction is lost ("malus")
  - In case of an inappropriate behaviour leading to dismissal: malus and possibly clawback

*\* Material Risk Takers; \*\*Except for Corporate Officers*



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**Patrice Ménard**

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