

# BNP PARIBAS

## CORPORATE GOVERNANCE

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Head of Company Engagement

JUNE 2018



**BNP PARIBAS**



The bank for a changing world

# Disclaimer

*The figures included in this presentation are unaudited. For 2018 they are based on the new accounting standard IFRS 9 Financial Instruments whereas the Group has opted not to restate the previous years, as envisaged under the new standard.*

*This presentation includes forward-looking statements based on current beliefs and expectations about future events. Forward-looking statements include financial projections and estimates and their underlying assumptions, statements regarding plans, objectives and expectations with respect to future events, operations, products and services, and statements regarding future performance and synergies. Forward-looking statements are not guarantees of future performance and are subject to inherent risks, uncertainties and assumptions about BNP Paribas and its subsidiaries and investments, developments of BNP Paribas and its subsidiaries, banking industry trends, future capital expenditures and acquisitions, changes in economic conditions globally or in BNP Paribas' principal local markets, the competitive market and regulatory factors. Those events are uncertain; their outcome may differ from current expectations which may in turn significantly affect expected results. Actual results may differ materially from those projected or implied in these forward looking statements. Any forward-looking statement contained in this presentation speaks as of the date of this presentation. BNP Paribas undertakes no obligation to publicly revise or update any forward-looking statements in light of new information or future events. It should be recalled in this regard that the Supervisory Review and Evaluation Process is carried out each year by the European Central Bank, which can modify each year its capital adequacy ratio requirements for BNP Paribas.*

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*The sum of values contained in the tables and analyses may differ slightly from the total reported due to rounding.*



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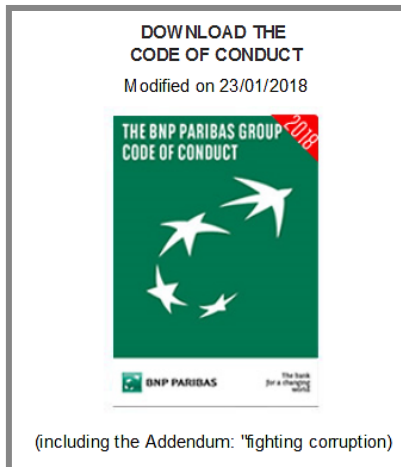
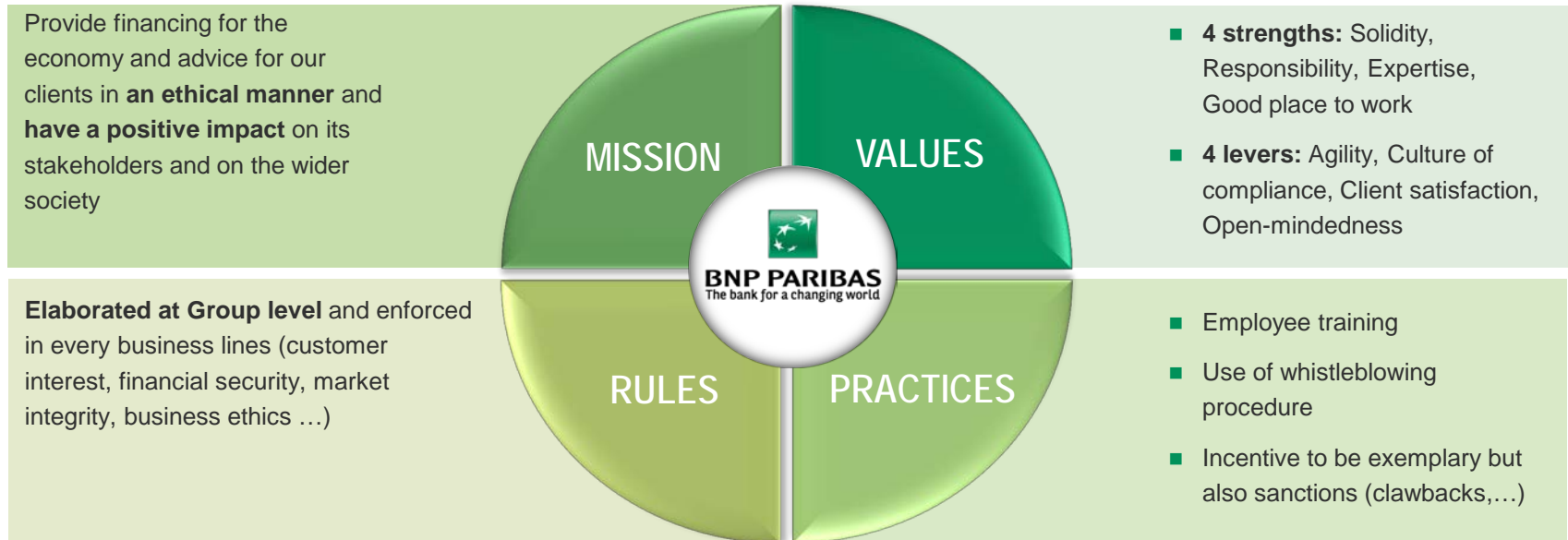
# A Corporate Governance Framework Deeply Embedded in the Bank's Culture

- Balance, stability and consistency of the strategy
- A culture of control and risk management, aiming at helping customers to implement their projects
- A risk-reward balance closely monitored throughout the cycle
- A commitment for a positive impact on society as a whole
- Business model is closely aligned with culture; 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**



# Upholding the Highest Standards of Conduct and Ethics



- BNP Paribas complies with the law relating to transparency, anti-corruption and the modernisation of the economy ("Sapin II"), with the **UK Bribery Act** and the **U.S. Foreign Corrupt Practices Act**
- All employees have the duty and the responsibility to support the Group in its commitment and to comply with the framework to prevent and fight corruption and influence peddling
- To that end, specific training sessions are provided. At end of 2017, **96.2%** of Group employees were trained on an ethics-related issue, including the Code of Conduct.
- A **Code of Conduct on Fighting Corruption**, integrated into the Group Code of Conduct, provides definitions as well as examples to illustrate prohibited behaviours. In case of violation of this Code, employees face disciplinary measures.

Source: <https://group.bnpparibas/en/group/governance-compliance/compliance>

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

- 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 in charge of dealing, among others, with 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

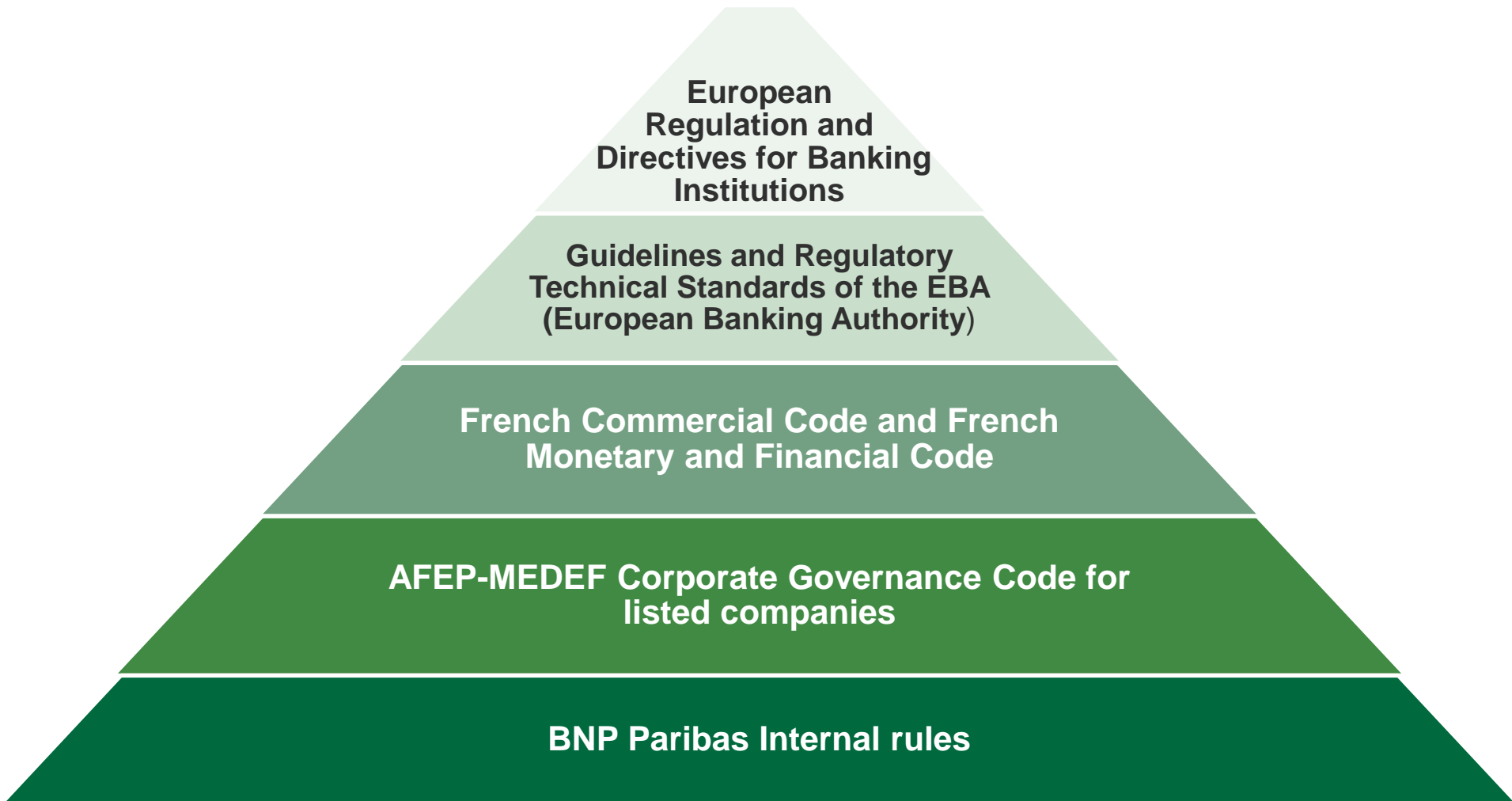


# A New Paradigm for Corporate Governance

- The era of “technical” reforms is now largely over:
  - Except for some specific items like “proxy access” in the US or “Sapin II” 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, Directors’ 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 (CSR)
    - Including the incentive structure



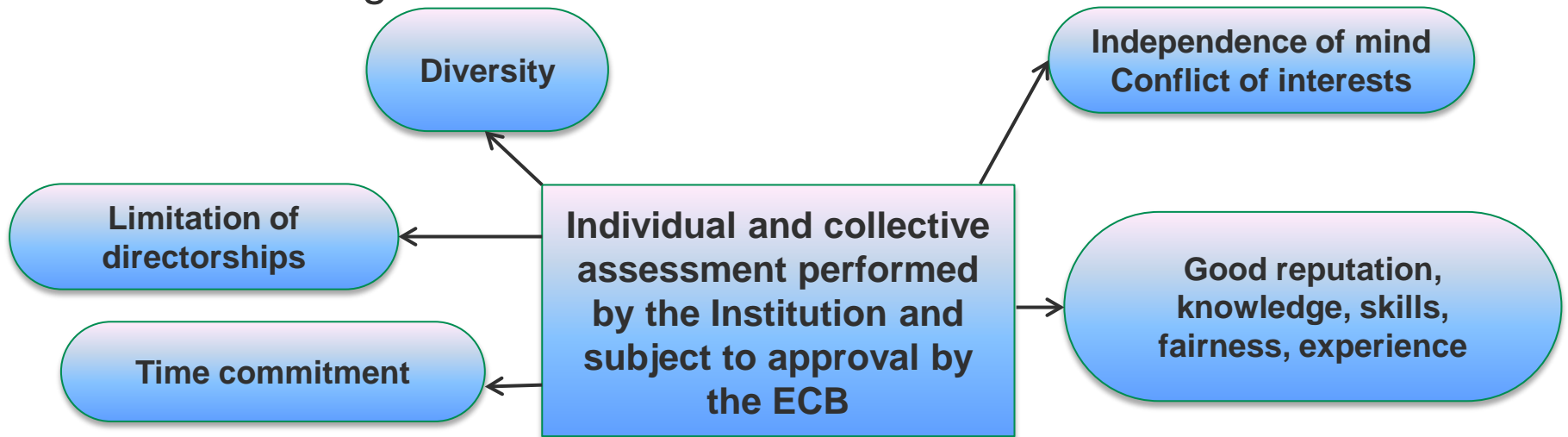
# A Specific Feature for Corporate Governance in the Banking Industry (1/3): a Pyramid of Regulations





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

- Suitability 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 of Directors
  - New guidelines by the EBA to be implemented from June 2018 on internal governance and the « *fit and proper* » 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 and retention periods to variable remuneration;**
- **obligation to pay part of the variable remuneration in equity-linked instruments;**
- **Claw-back and malus provisions**

**> 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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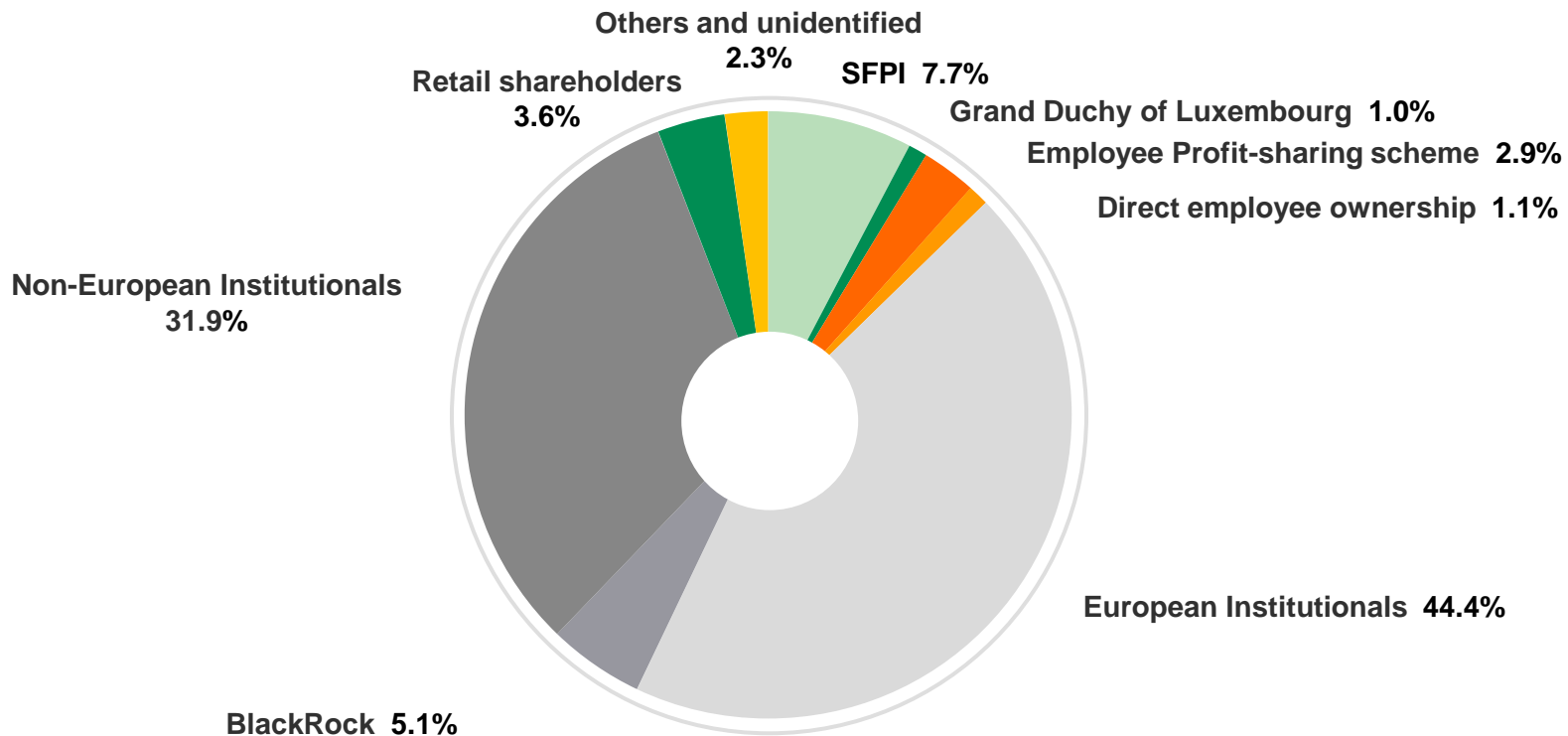
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# Share Ownership Structure

## Share ownership structure of BNP Paribas at 31 December 2017 (as % of capital)



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



# Composition of the Board of Directors after the 2018 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 9 “independent” directors, in accordance with the guidelines of the Board and of the French stock market (i.e. 75% 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
  - 1 lady
  - Not considered “independent” based on French stock market criteria, despite the method of their election
  - Of whom:
    - one sits at the Compensation Committee and attends Internal Control, Risk Management and Compliance Committee meetings
    - and the other one sits at the Financial Statements Committee



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



# Composition of the Board of Directors after the 2018 AGM - Competences

**Composition must ensure the necessary diversity within the Board, in terms of competences and experience, in accordance with the Bank's strategy**

- 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 2018 AGM



(\*): Attends the meetings. (I): Independent Director, in accordance with the guidelines of the Board and of the Afep-Medef Code. (ER): Employee Representative.



# Focus on the Audit Committee: roles split between the Financial Statements and the Internal Control, Risk Management and Compliance Committees

- Both Committees composed of Directors with the required expertise
  - Financial Statements Committee: most members with qualifications and experience in financial management, accounting and financial information
    - Chairman's financial skills are reinforced by his position as CEO of SCOR, a major European reinsurance company
  - Internal Control, Risk Management and Compliance Committee: most members with specific expertise in financial matters and risk management, either through their training or experience
    - Chairman with international experience in banking management
    - Another member has been a member of the College of the French Financial Market Authority
- Frequent contacts with operational managers and Auditors:
  - Compliance, Legal, Risk and Internal Audit functions
    - report regularly to the ICRMCC\*
    - can be interviewed by this Committee if they wish to do so
  - The Group's Chief Financial Officer as well as the Statutory Auditors are interviewed every quarter by the FS\*\* Committee
- ICRMCC\* analyzed and proposed to the Board the *Risk Appetite Statement* of the Group, which addresses all the risks to which the Group is exposed and is used from now on as reference in the process of decision-making having an impact on the risk profile of the Group
- **The ECB as Supervisor periodically conducts thematic reviews on Risk Governance and Appetite, which are twofold assessments:**
  - **Of the functioning and effectiveness, among others, of the Board and its Committees**
  - **Of the Risk Appetite Framework**

\* Internal Control, Risk Management and Compliance Committee; \*\* FS: Financial Statements Committee.





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**Corporate Officers' Compensation**

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# Fixed Compensation paid in 2017

**J. LEMIERRE**

**950,000 €**

**J-L. BONNAFÉ**

**1,562,000 €**

**Ph. BORDENAVE**

**1,000,000 €**

# Rules for Determining the Annual Variable Remuneration for 2017

- 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 claw-back 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 May 2018, subject to the approval by the AGM
  - the other half being postponed for 1 year from the date of the award (until March 2019) and *indexed to the share price*
- The deferred amounts will be:
  - Spread in fifths, from 2019 to 2024
  - *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 2017 will be made in March 2024
  - 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 2017

**Jean-Laurent BONNAFE**  
**Philippe BORDENAVE**

Criteria	% of TVR <sup>(1)</sup>	
	Weight	Result
<b>QUANTITATIVE:</b> Criteria related to the Group's performance  75%	37.5%	37.81%
	37.5%	38.13%
<b>QUALITATIVE:</b> personal objective-based criteria  25%	25.0%	25.0%

Change in Earnings per Share during previous FY

% of achievement of the Group's budgeted Gross Operating Income

Implementation of the strategic orientations, including the transformation plan, in terms of human, organizational and technical aspects, as well as CSR, taking into account the general context of the FY under review.  
*The exceeding of qualitative objectives does not result in an increase of the variable component linked to these criteria.*

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

# Qualitative Criteria and Their Assessment for 2017

- 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
  - implementation of the Bank's strategy, the control of risks, particularly operational risks, and the effectiveness of the internal control system
  - professional behaviour with regard to the Code of Conduct, applicable internal rules and regulations, customer satisfaction, deployment of the Leadership and CSR programs
- Some criteria are specific
  - JLB: among others
    - Launching an ambitious strategic plan, keeping on rolling out the Code of Conduct, creation of the Engagement team
  - PhB: among others
    - Implementing the transformation plan and the CSR policy, the deployment of an adequate organization linked to the regulatory reforms, IT improvement



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



# Annual Variable Compensation Awarded in Respect of 2017

	Variable Compensation awarded	Target Variable Remuneration	Ratio attribué / cible	Cap to Variable Remuneration
J-L. BONNAFÉ	1,576,758 €	1,562,000 €	101%	1,874,400 €
Ph. BORDENAVE	1,009,448 €	1,000,000 €	101%	1,200,000 €



# Remuneration Awarded to Corporate Officers\*

Fixed

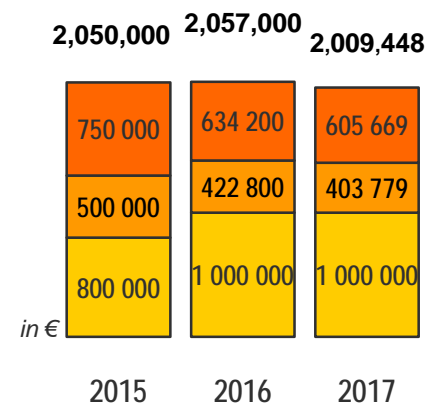
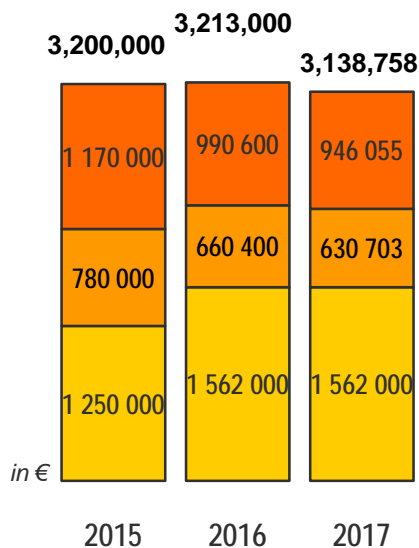
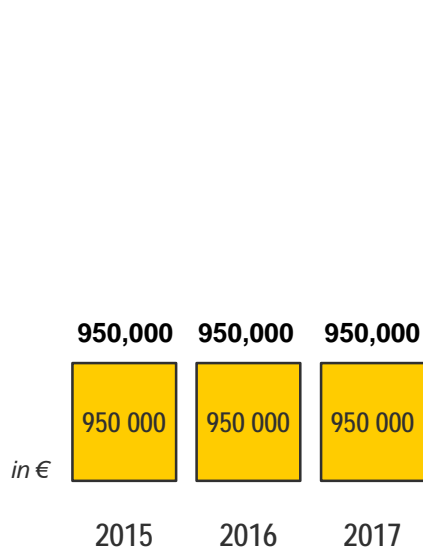
Annual Variable non deferred\*\*

Annual Variable deferred\*\*

J. Lemierre  
Chairman of the Board

J-L Bonnafé  
Director and Chief Executive Officer

Ph. Bordenave  
Chief Operating Officer



2003	2017	Gross remuneration	2007	2017
100	206	Group Net Income	100	99
100	106	Total remuneration	100	74
100	73	Variable remuneration	100	46

\* LTIP not included; \*\* o/w 50% indexed to the evolution of the BNP Paribas share price

# Rules of the Conditional Five-Year Long-Term Incentive Plan (LTIP) for Corporate Officers in Respect of FY 2017

- *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
- Initial amount equal to the target annual variable compensation in respect of 2017, 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, 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
    - Maximum: cap at the initial award
- The amounts granted are valued in accounting terms by an outside firm. In 2018, it was thus valued at 30.67% of the target annual variable compensation granted in respect of 2017
- 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 exceed 137.5% of the initial awarded amount**





# Long-Term Conditional Compensation Awarded in Respect of 2017 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 €	479,065 €
Ph. BORDENAVE	1,000,000 €	306,700 €

- Performance-linked payment after a five-year period



**Determined on the basis of the target annual variable compensation in respect of FY2017**

<sup>(1)</sup> Fair Value of 30.67% of the amount awarded, as calculated by an independent expert



# Total Compensation in Respect of 2017 and Comparison With 2016 (Corporate Officers as at 31.12.2016)

	2016	2017	Fixed	Annual Variable	LTIP (at fair value)	Total
<b>J. LEMIERRE</b>	950,000 €	950,000 €	950,000 €			950,000 €
<b>J-L. BONNAFÉ</b>	1,562,000 €	1,562,000 €	1,562,000 €	1,651,000 €	775,767 €	3,988,767 €
<b>Ph. BORDENAVE</b>	1,000,000 €	1,000,000 €	1,000,000 €	1,057,000 €	496,650 €	2,553,650 €
			1,000,000 €	1,009,448 €	306,700 €	2,316,148 €

**> More than 50% of the compensation one way or another indexed to the share price**

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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

- 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> = 25,443<sup>(1)</sup>
  - 80,000 shares for Jean-Laurent Bonnafé: holding<sup>(\*)</sup> = 83,275<sup>(2)</sup>
  - 30,000 shares for Philippe Bordenave: holding<sup>(\*)</sup> = 51,674

<sup>(\*)</sup> At 31/12/2017; <sup>(1)</sup> Including 1,117 and <sup>(2)</sup> 20,730 BNP Paribas shares held under the Company Savings Plan

# BNP PARIBAS

## CORPORATE GOVERNANCE

**Antoine SIRE**  
Head of Company Engagement

JUNE 2018



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The bank for a changing world