



# **BNP Paribas**

## **The Strength of the Integrated Business Model of a Eurozone Leader**

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*Morgan Stanley Conference, London  
26 March 2015*



# Disclaimer

*Figures included in this presentation are unaudited. On 24 March 2015, BNP Paribas issued a restatement of its quarterly results for 2014 reflecting, in particular, the new organization of the Bank's operating divisions as well as the adoption of the accounting standards IFRIC 21. This presentation is based on the published or the restated 2014 data as appropriate.*

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# Overview



**Strong operating performance in 2014**



**Green shoots in the Eurozone economy**



**Cross-selling at the core of the model**



**Strong solvency and risk profile**



# Strong Operating Performance in 2014

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Green Shoots in the Eurozone Economy

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Cross-selling at the Core of the Integrated Model

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Strong Solvency and Risk Profile

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Appendix

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# 2014 Key Figures

- Revenue growth in all the operating divisions
- Very good performance of the specialised businesses

- Good growth of Gross Operating Income

- Better Cost of Risk

- Net Income, excluding exceptional items

- Return on Equity (underlying)
- Return on Tangible Equity (underlying)
- Earnings per share (underlying)
- Dividend per share

**Revenues: €39.2bn**  
(+3.2%\* vs. 2013)

**GOI: €12.6bn**  
(+5.6%\* vs. 2013)

**CoR: 57 bp**  
(-5.2%\* vs. 2013)

**€7.0bn**

**9.0%\***

**10.8%\***

**€5.48\***

**€1.50**

**Strong underlying operating performance in 2014**



# Gross Operating Income

2014 vs. 2013  
at constant scope and  
exchange rates  
Cost/Income

2014  
2013

> Retail Banking\*

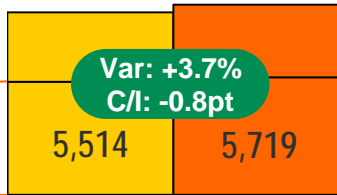
> Investment Solutions

> CIB\*\*

€m

Var: +3.3%  
C/I: -0.5pt

8,891 9,266



Var: +3.7%  
C/I: -0.8pt

o/w Domestic Markets\*

Var: +5.6%  
C/I: =

1,940 2,007



Var: +1.9%  
C/I: +0.3pt

2,725 2,751

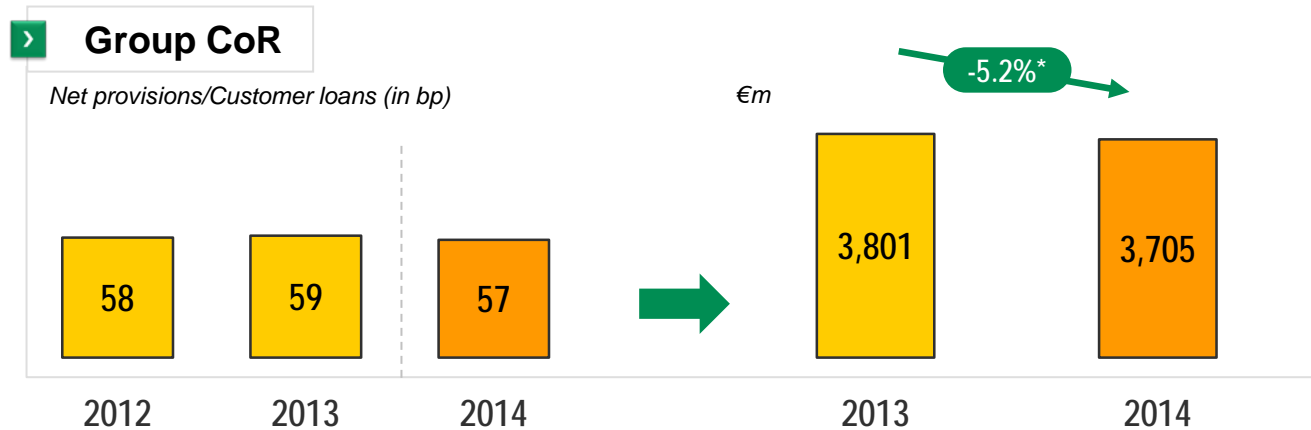


> **Gross Operating Income growth in all the operating divisions**

\* Including 100% of Private Banking in France (excluding PEL/CEL effects), Italy, Belgium, Luxembourg, at BancWest and TEB; \*\* Excluding exceptional items



# Stringent Group Risk Policy



- Better cost of risk vs. 2013

- Lower cost of risk in CIB and Personal Finance in 2014 more than compensating...
- ...increase of BNL's cost of risk in 2014 which tended to decline in 2H14 vs. 1H14
- Other businesses remaining at a low level (French and Belgian Retail, BancWest)



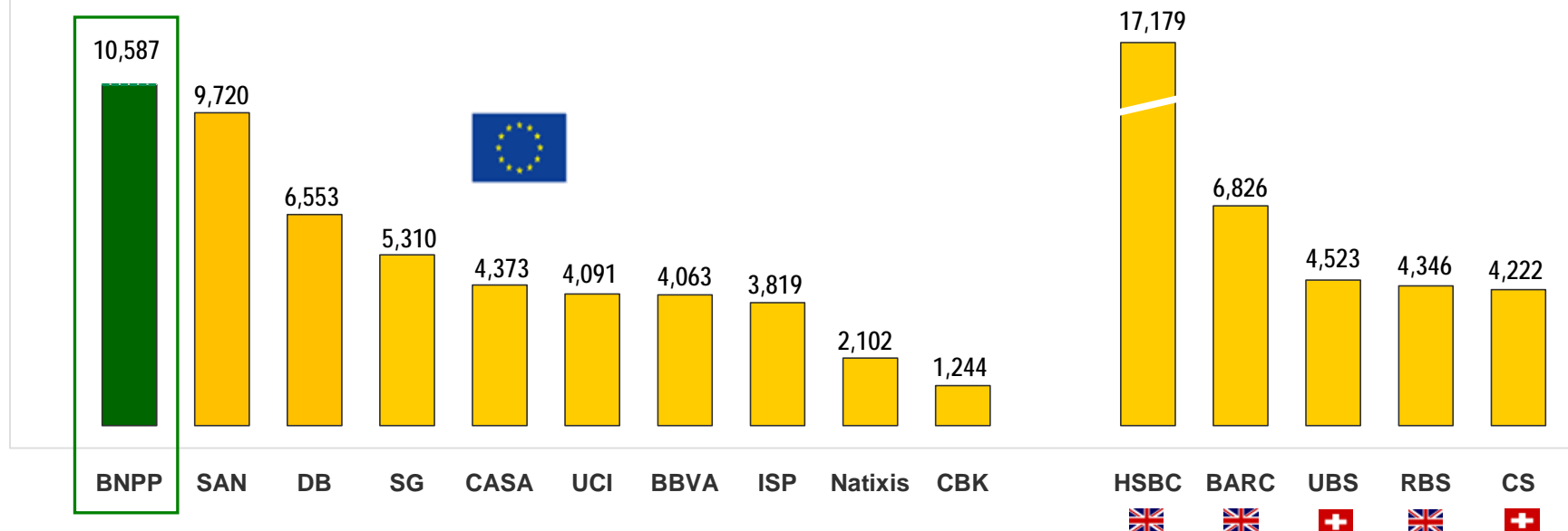
**Cost of risk lower in 2014**



# Strong Underlying Profitability

## > 2014 Pre-tax Income excluding exceptional items\*

€m\*\*



- Net Income excluding exceptional items: €7bn
  - Return on Equity (underlying): 9.0%\*\*\*
  - Return on Tangible Equity (underlying): 10.8%\*\*\*

## > Good profit-generation capacity and best-in class returns

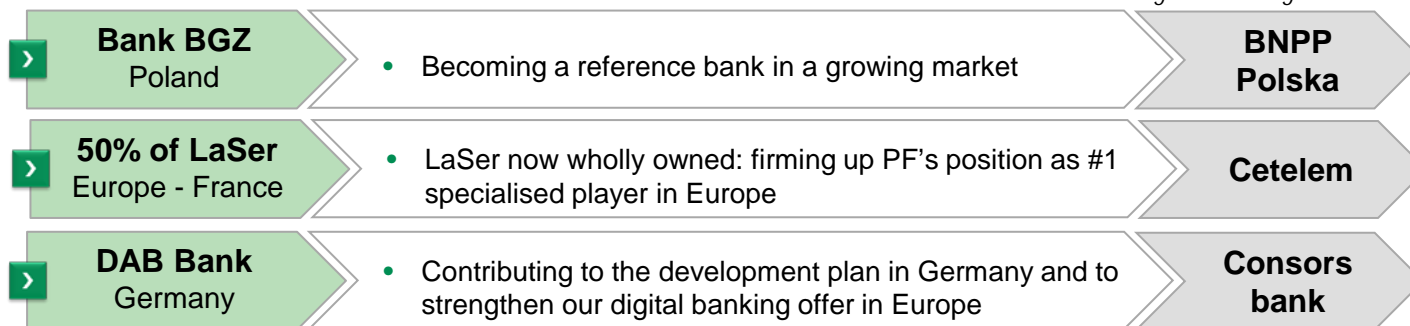
\* As disclosed by banks; \*\*Average quarterly exchange rates; \*\*\*Excluding exceptional items



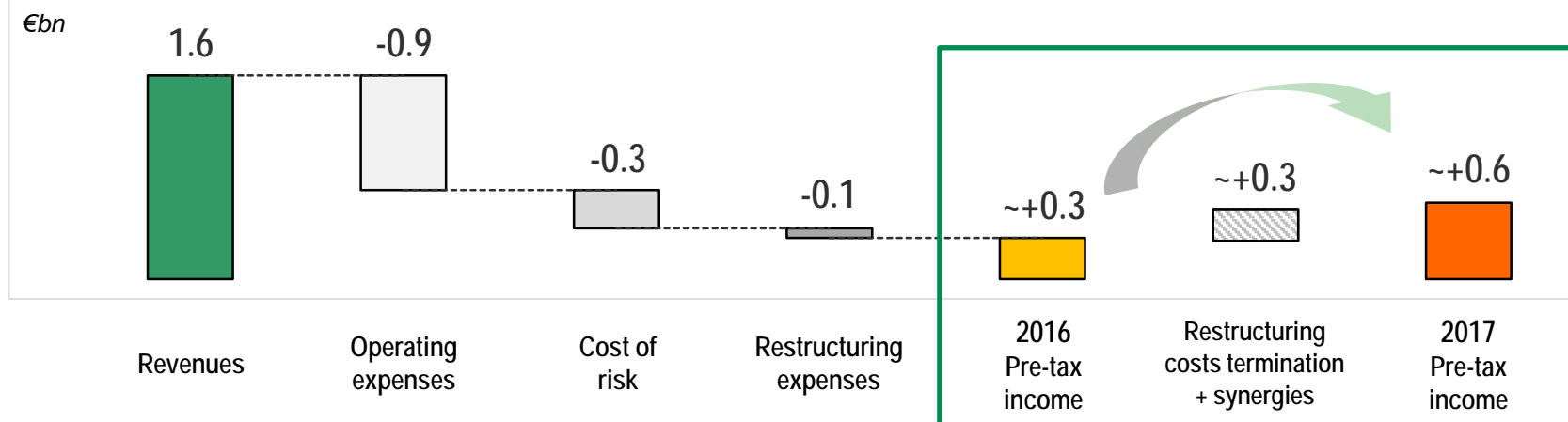


# ROE Accretive Bolt-on Acquisitions in 2014

*Bolting onto existing businesses*



## Contribution of acquisitions to pre-tax income in 2016-2017 (vs. €0.1bn contribution in 2014\*)



## Levers for additional profit generation going forward

\* Closing dates: Bank BGZ (17 Sept. 2014); 50% of LaSer (25 July 2014); DAB Bank (17 Dec. 2014)



Strong Operating Performance in 2014

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## **Green Shoots in the Eurozone Economy**

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Cross-selling at the Core of the Integrated Model

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Strong Solvency and Risk Profile

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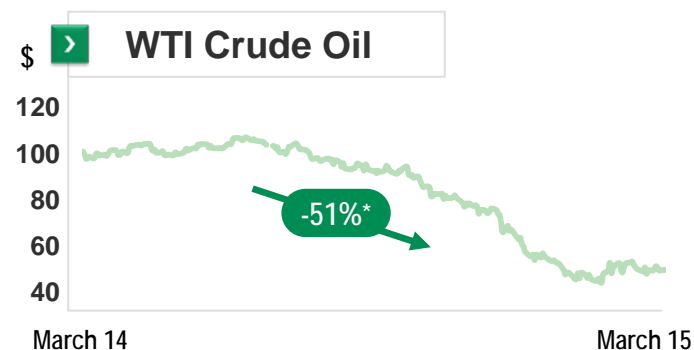
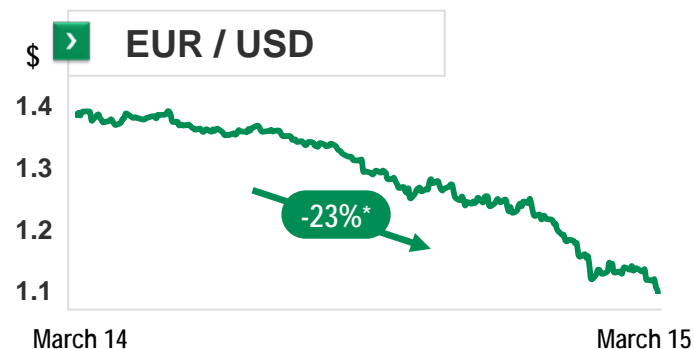
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# Eurozone Economic Outlook

- Positive macro factors for the EU economy in 2015
  - Depreciation of the Euro vs. USD will benefit exporting European corporates
  - Drop in oil price should translate into higher disposable income for households and lower charges for corporates (IMF estimated benefit: ~+0.5% GDP)
- Non-conventional measures by the ECB to re-launch economic growth
  - TLTRO: massive additional liquidity favouring credit development in the Eurozone
  - Quantitative Easing: just started (9 March 2015)
  - Resulting in prolonged very low interest rates which will be favourable for investments
- The “Juncker Plan”: a €315bn investment plan
  - Allocated to long-term investments & SMEs/Mid-caps



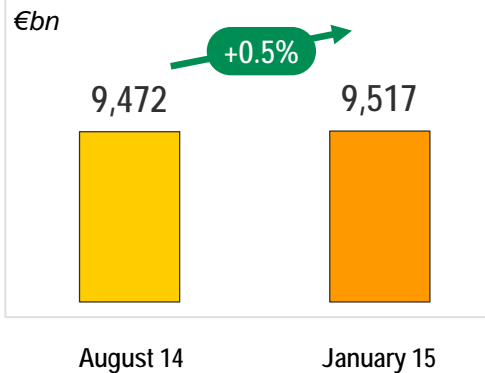
**A favourable combination of positive factors to support economic recovery in Europe**

\* As at 10 March 2015

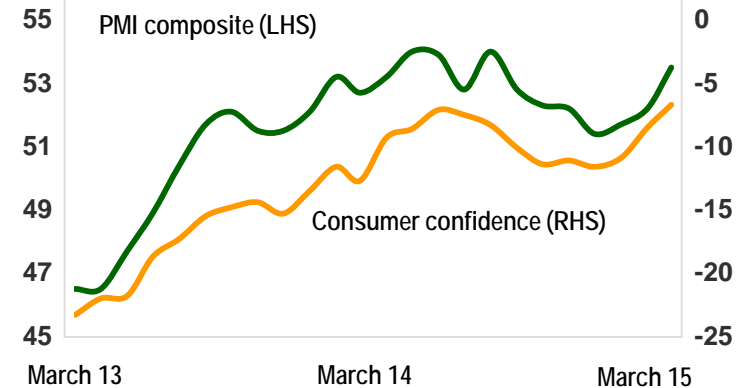


# Eurozone Macroeconomic Indicators

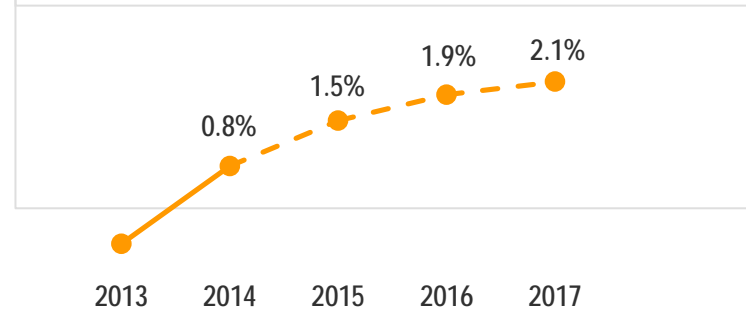
## > Eurozone lending\*



## Index > Confidence indicators\*\*



## > ECB growth forecast for Eurozone GDP



**Indicators pointing towards improving confidence**

\* Lending from banks to non-financial corporates and households, source: ECB;

\*\* PMI composite new orders Eurozone (Markit), European Commission Consumer Confidence survey EZ;



Strong Operating Performance in 2014

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Green Shoots in the Eurozone Economy

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Strong Solvency and Risk Profile

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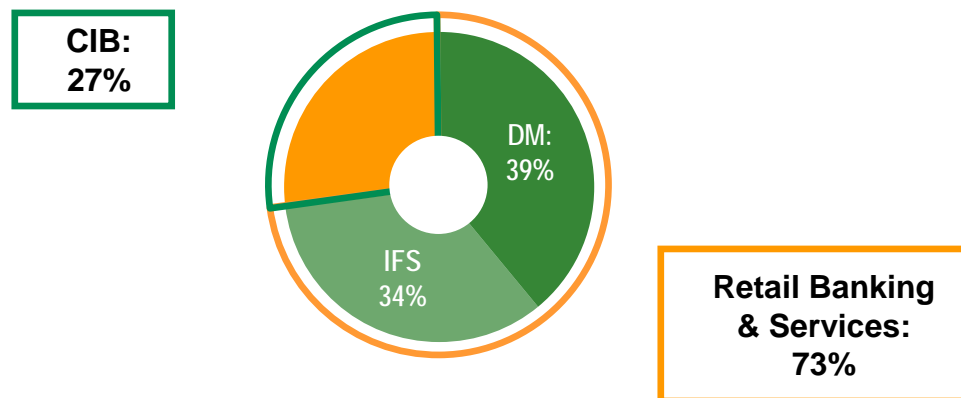
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# New Organisation of the Operating Divisions

## > 2014 Revenues of the Operating divisions



- Following the tie-up of Securities Services and CIB, the organisation of the Group's operating divisions now centres on:
  - Retail Banking & Services, covering Domestic Markets (DM, unchanged) and a new entity, International Financial Services (IFS)
  - CIB, now Corporate & Institutional Banking including Securities Services



**Straightforward business structure  
with ~3/4 Retail activities**



# An Integrated Business Model based on Strong Client Franchises, Cross-selling and Risk Diversification



**Leveraging top ranking businesses  
on strong and diversified client franchises**



# Significant Cross-selling at the Core of the Model

	Main cross-selling revenues (2014)*	Contribution to revenues
<b>DM clients</b>	<ul style="list-style-type: none"> <li>✓ Insurance: ~€1.3bn</li> <li>✓ Wealth Management: ~€1.5bn**</li> <li>✓ Asset Management: ~€0.7bn</li> <li>✓ CIB &amp; Specialised businesses: ~€0.8bn</li> </ul>	<b>~€4.3bn</b>
<b>IFS clients</b>	<ul style="list-style-type: none"> <li>✓ Insurance: ~€0.7bn</li> <li>✓ CIB &amp; other businesses: ~€0.4bn</li> </ul>	<b>~€1.1bn</b>
<b>CIB clients</b>	<ul style="list-style-type: none"> <li>✓ Retail: ~€1.1bn</li> <li>✓ Securities Services &amp; Asset management: ~€1.1bn</li> </ul>	<b>~€2.2bn</b>



**>€7.5bn of cross-selling revenues generated at Group level**

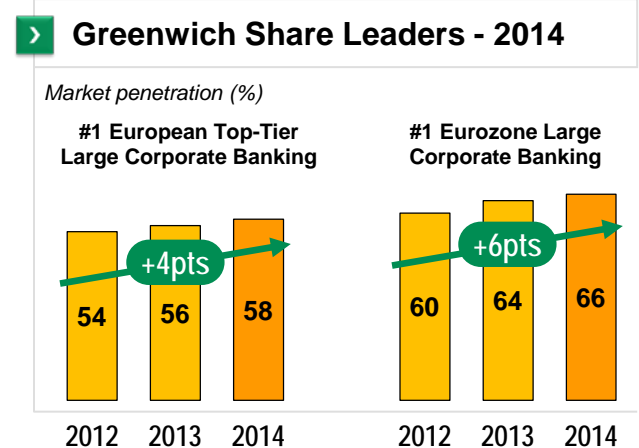




# Broad Product Offering Allowing Market Share Gains

- Cross-selling leading to improved market positions
  - Strong development following BNL's acquisition in 2006 and Fortis' in 2009
- Roll out of the model in International Retail Banking
  - BancWest's Wealth Management AuM: +68%\*\* vs. 2012
  - TEB's Wealth Management AuM: +72%\*\* vs. 2012
- One Bank for Corporates: success confirmed with improved market penetration in 2014
  - #1 European Corporate Banking and #1 Eurozone Corporate Banking\*\*\*
  - #1 European Cash Management and #1 European Trade Finance\*\*\*
  - Improvements also as a leader in several quality ratings

Italy		
Wealth Management (market share)	3% in 2008	x2 → 6% in 2014
Cash Management (ranking)	>#10 in 2006	→ #1 in 2014*
Belgium		
Wealth Management (market share)	#7 in 2009	→ #1 in 2014
Consumer Finance (outstandings)	FY2009	+84% → FY2014
Corporate Finance (ranking)	#10 in 2007	→ #1 in 2014



**Successful cross-selling leading to stronger market positions**

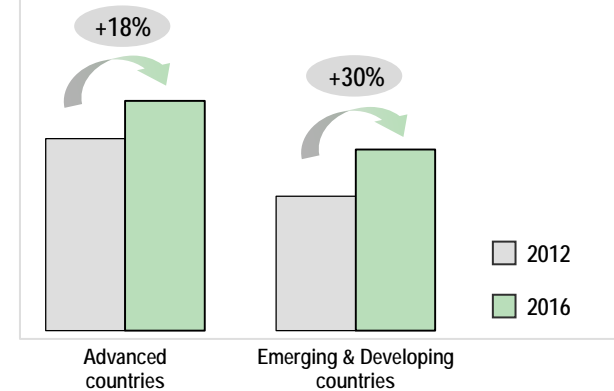


# Serving our Clients Globally

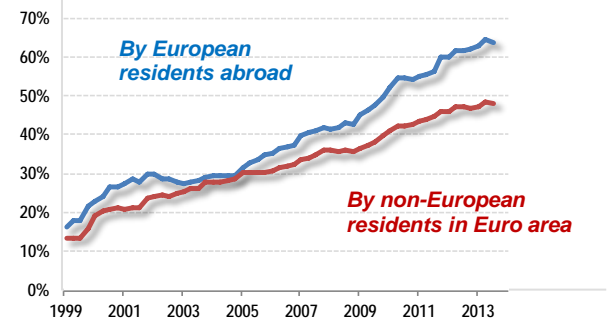
- Ongoing globalisation of the economy
- Serving our clients in their international activities
  - >80% of large European corporates have banking needs beyond their home country within Western Europe, 50% in the US, and 39% in Asia Pacific\*
  - Increasing share of corporate and institutional clients activity made abroad
- Ability to serve our clients in their global needs
  - Trade finance
  - Cash Management
  - Custody in several countries
  - FX hedging
  - Corporate Finance
  - ...

Strong advantage of being present in more than 70 countries with integrated IT systems

## Trade flows: export of goods\*\* (in \$bn)



## Direct investments\*\*\* (as % of GDP)



**Broad presence and full range of services increasingly needed by corporate and institutional clients**

\* Greenwich; \*\* IMF; \*\*\* ECB



# Economies of Scale at the Core of the Model

## Significant Contribution to the Simple & Efficient Plan

- Sharing of IT, operations, functions and procurement generating €0.7bn recurrent savings out of the targeted €3bn Simple & Efficient plan

	Representative examples	Contribution to 2016 S&E Savings
IT	<ul style="list-style-type: none"> <li>▪ Sourcing</li> <li>▪ Data Centre / IT productions Systems consolidation</li> <li>▪ Software optimisation ...</li> </ul>	~€320m
Operations/ Functions	<ul style="list-style-type: none"> <li>▪ Shared platforms and applications</li> <li>▪ Cross business premises policy</li> <li>▪ Regrouping of Functions for all businesses per country ...</li> </ul>	~€210m
Procurement	<ul style="list-style-type: none"> <li>▪ Massification, Group norms and standards</li> <li>▪ Bargaining power...</li> </ul>	~€170m
	<ul style="list-style-type: none"> <li>● Also leads to increased security for clients through IT high standards (private cloud, data secrecy, closed IT architecture)</li> </ul>	~€700m



**~25% of the total S&E plan linked to sharing**



Strong Operating Performance in 2014

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Green Shoots in the Eurozone Economy

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**Strong Solvency and Risk Profile**

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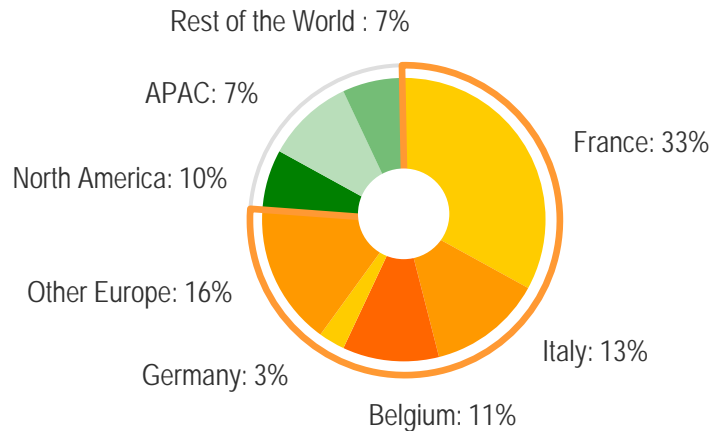
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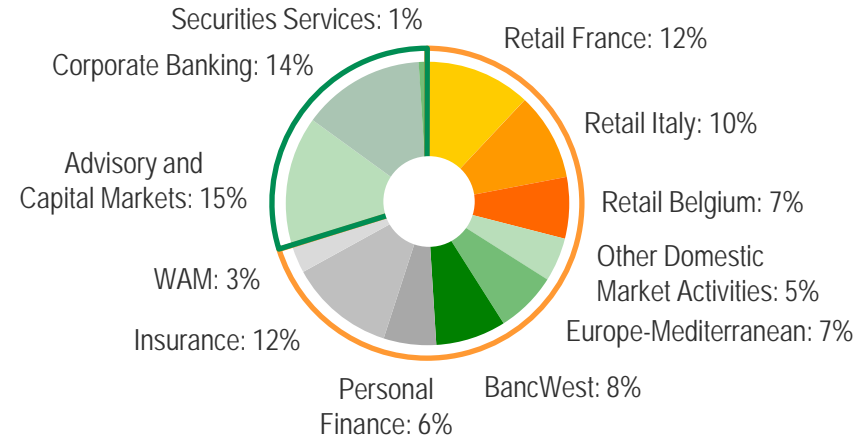


# An Integrated Business Model Resulting in Strong Diversification (1/2)

## > 2014 Revenues by geography



## > 2014 Allocated equity\* by business



- A balanced business model: a clear competitive advantage in terms of revenues and risk diversification
  - Mostly in wealthy markets (>85%)
  - Revenues well spread among countries and businesses with different cycles
  - No single business line weighing more than 15% of allocated equity

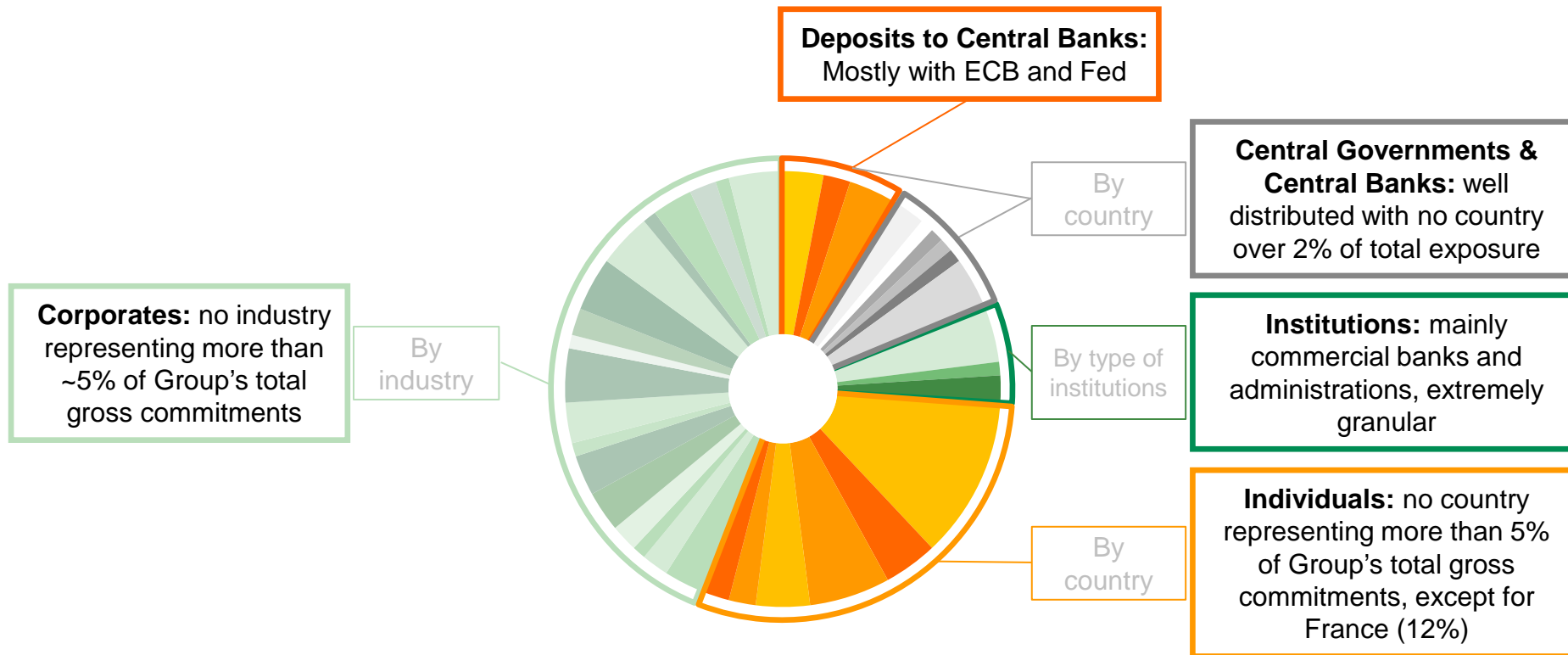
## > A well balanced business model

\* Operating divisions



# An Integrated Business Model Resulting in Strong Diversification (2/2)

➤ **Group's total Commitments on- and off-balance sheet by industry/country 2014\***



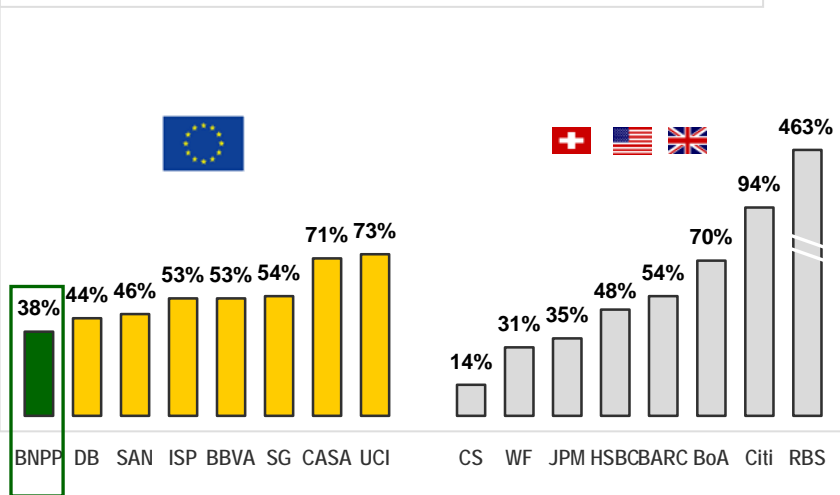
➤ **Strong risks diversification of our commitments**

\* Total Group commitments: €1,298bn as at 31.12.2014



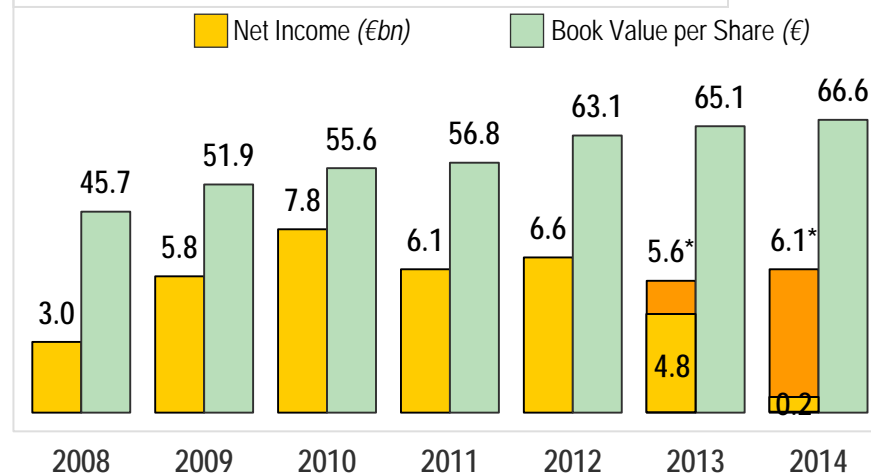
# Leading to Recurrent Profitability and Value Creation Through the Cycle

## Cost of Risk/Gross Operating Income 2008-2014



- Low risk appetite and strong diversification lead to low cost of risk
- One of the lowest CoR/GOI through the cycle

## Net Income & Book Value per Share 2008-2014



- Recurrent value creation and good resilience of net income through the cycle
  - Thanks to diversification
  - Capacity to withstand local crisis and external shocks

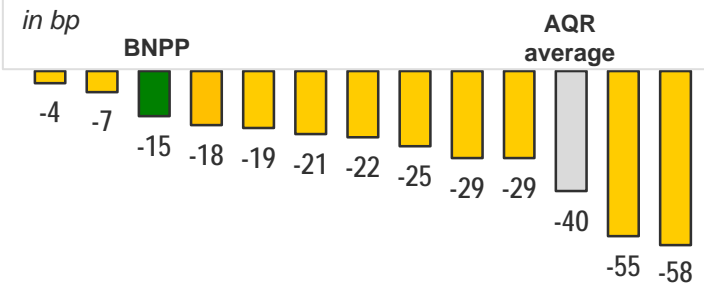
➤ **Low risk and limited volatility of earnings**  
**Diversification => lower risk profile**



# Capital Adequacy

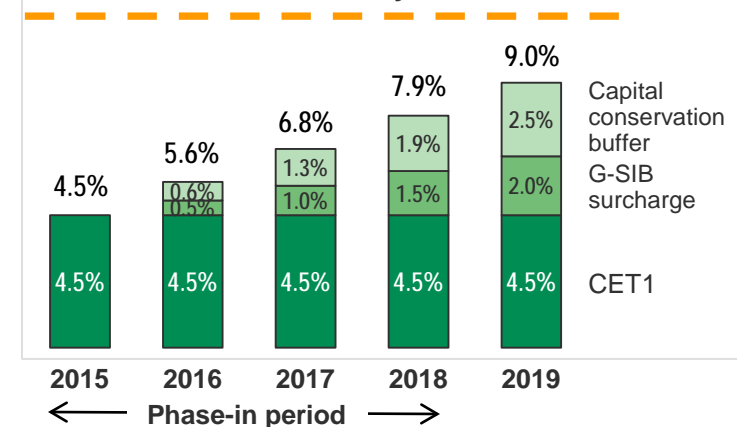
- A risk-based approach by ECB as witnessed by its public statements and Comprehensive Assessment
- AQR and Stress test confirmed Group's asset quality and its capacity to withstand a very adverse scenario
- Group CET1 largely above regulatory requirements
- Tier 1 and Tier 2 instruments' issuance programme to meet Total Capital ratio requirements in 2019
  - Tier 1: resume issuance (€2bn by 2019)
  - Tier 2: €2bn to €3bn per year
  - Depending on opportunities and market conditions

## > AQR impact on CET1 ratio\*



## > BNPP's CET 1 requirements

BNP Paribas YE 2014 fully loaded ratio: 10.3%



**CET1 well above applicable requirements**





# Banking Union Strengthens the Eurozone Banking Sector

## Banking Union 3 Pillars

### Single Supervisory Mechanism (SSM)

- ECB in charge of the supervision of 130 Eurozone banks since Nov 2014
- Comprehensive Assessment successfully completed

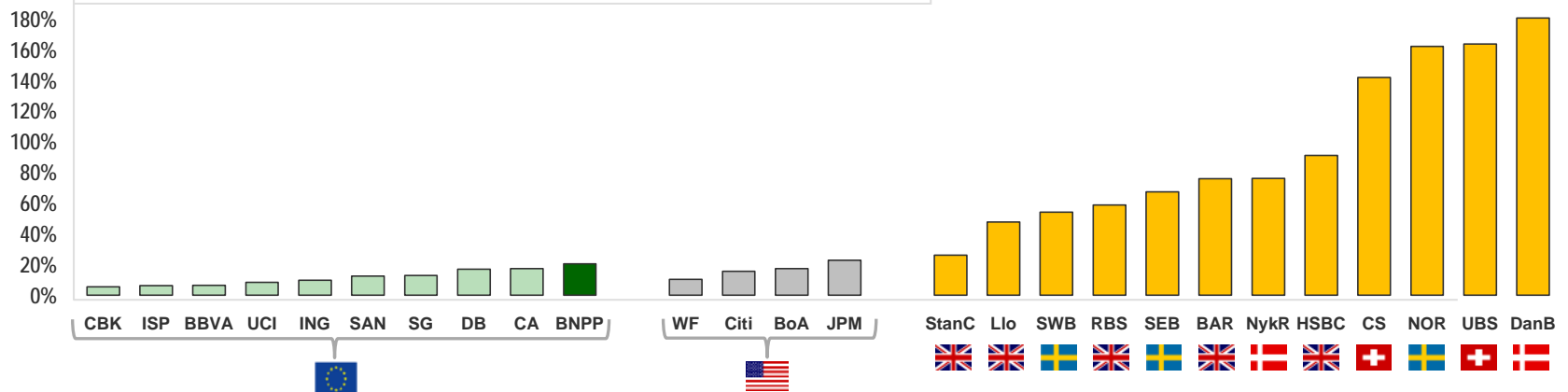
### Single Resolution Mechanism (SRM)

- Voted in April 2014
- Single Resolution Board operational
- Single Resolution Fund (banks' contributions starting in 2015)

### Deposit Guarantee Scheme (DGS)

- Voted in April 2014
- To be transposed by July 2015
- Harmonisation of rules governing national DGS

### > Banks' Balance Sheet as a % of relevant GDP\*

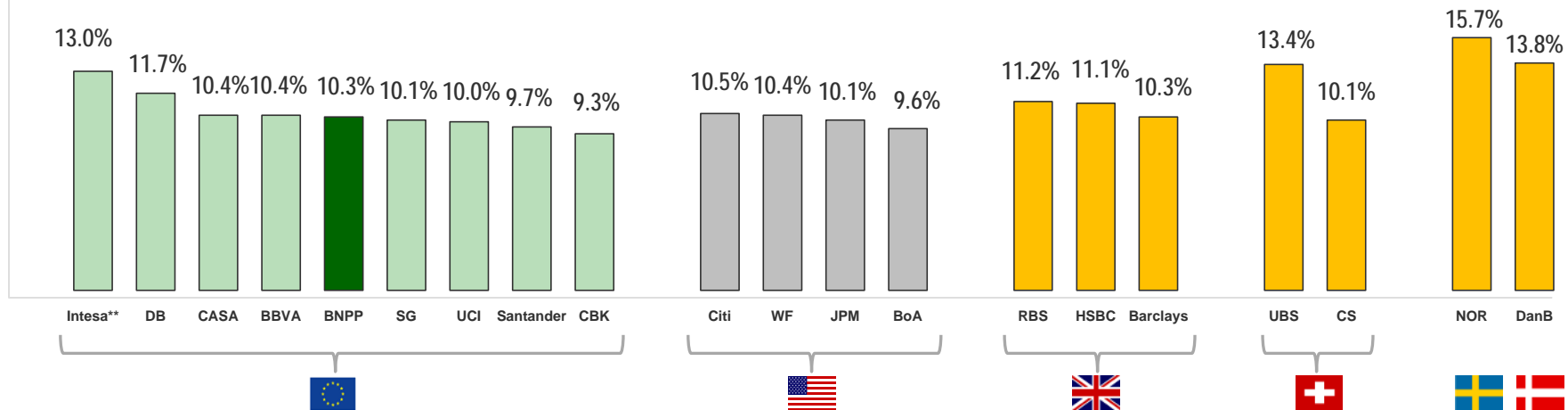


**Banking Union: relative size of BNPP to relevant GDP smaller than non-Eurozone peers**

\* As at 31.12.14, IFRS estimates for US banks; based on the economic area under the jurisdiction of the Banking Regulator, i.e. Eurozone GDP for banks supervised by the SSM

# Strong Solvency Management

## > CET1 ratio under Basel 3\* fully loaded (as at 31.12.14)



- CET1 ratio at 10.3% after expensing

- U.S. Settlement (~-100bp)
- Dividend payment (~-30bp)
- Acquisitions (~-30bp)
- AQR (~-15bp) and Prudent Valuation Adjustments\*\*\*

} ~-175bp

- Dividend maintained at previous year's level: 1.50€ per share (€1.9bn) despite €157m net income in 2014
- Strong capital generation capacity: organic generation only, no dilution for shareholders

## > CET 1 at 10.3% despite 175bp capital consumption in 2014

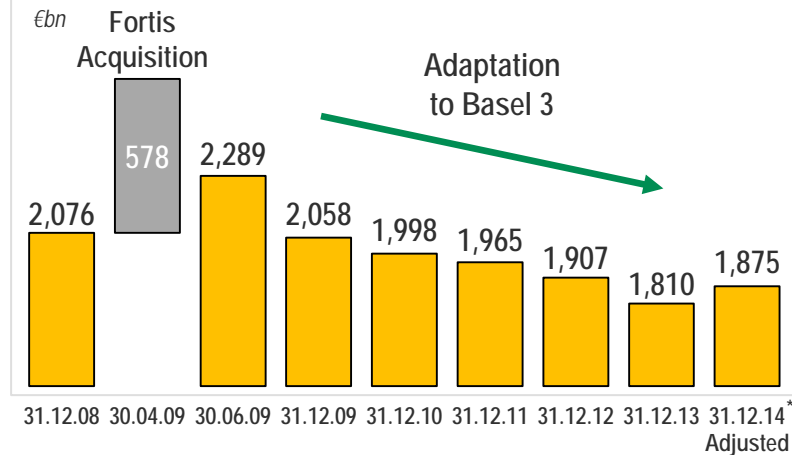
\* According to CRD4 or Fed FR; \*\* Excl. assumption on Tax Loss Carry Forward effects before 2019 (-24 bp); \*\*\* 0bp due to the reversal of RWA reserves for regulatory uncertainties



# Solid Track Record in Adjusting the Group

- Proactive non dilutive capital management policy
  - Early and proactive compliance with Basel 3 new ratios without capital increase
  
- Disciplined balance sheet management
  - Fortis acquisition: rapid adaptation of the new Group to the post crisis environment
  
- Proven capacity to adapt activities and assets
  - Deleveraging accelerated in 2011/2012 to swiftly adapt to Basel 3 fully loaded
  - Run-down of several activities as of 2011 (-€50bn of assets in CIB deleveraging, €8.5bn in non core leasing...)
  - Disposal of several subsidiaries or business units (>€2.5bn since 2011)
  - Opportunistic sale of equity stakes (>€4bn since 2011)

## > Total Assets IFRS



## > Main disposals 2011-2014

Subsidiary or business unit	Equity stake	Proceeds
Klepierre (29%), BNPP Egypt, Fauchier Partners, Fortis Reinsurance, Reserve-Based Lending, Arval Fuel Cards, Vostok Bank,...	Royal Park Investment, Erbe, Axa, Ageas, Shinhan, ...	>€2.5bn
		>€4bn



## Proven capacity to adapt the balance sheet

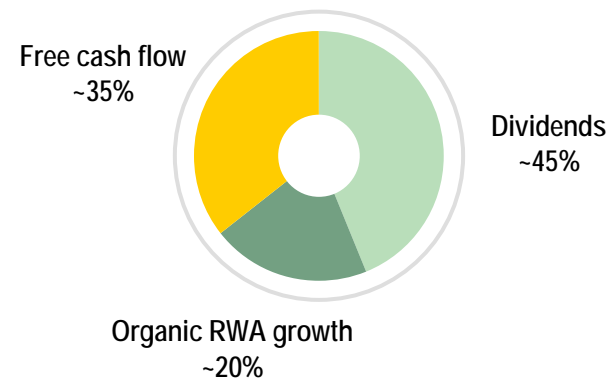
\* Adjusted for FX and impact of rates on derivatives, AFS and TLTRO



# Proactive and Flexible Capital Management

- Strong capital generation capacity in 2015-2016
  - ~100bp per annum (before dividend distribution)\*
- Pay-out ratio of 45%
  - Implied dividend yield based on current share price\*\*: 4.5% in 2015 and 5.1% in 2016
- Available free cash flow: ~35bp per annum
  - After devoting 20bp to organic growth
  - Provides capital flexibility (bolt-ons, buy backs,...)
- Dynamic management of the balance sheet
  - Strong track-record in swiftly executing disposals and adapting balance sheet if/when necessary

## Capital management as % of 2015-2016 cumulative net earnings



**Capital management: considerable room to manoeuvre**  
**Focus on delivering 45% dividend pay-out**

*\*Based on current analysts' consensus ; \*\*Based on current analysts' consensus and €51.6 share price as at 12 March 2015*



# Conclusion

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**A European leader well positioned  
to benefit from EU economic recovery**



**Crucial role of the integrated model**



**Proven organic capital generation capacity**



Strong Operating Performance in 2014

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Green Shoots in the Eurozone Economy

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Cross-selling at the Core of the Integrated Model

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Strong Solvency and Risk Profile

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**Appendix**

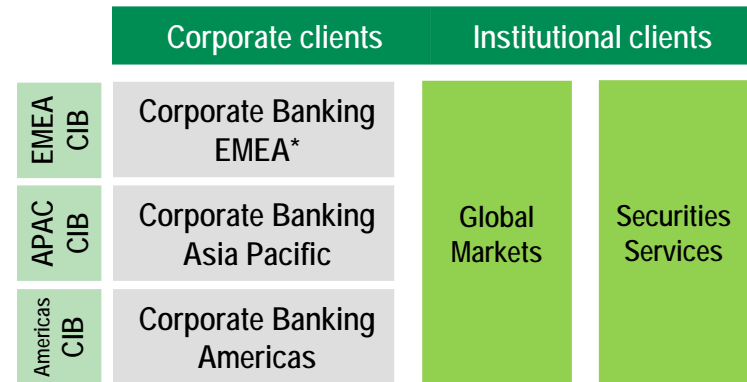
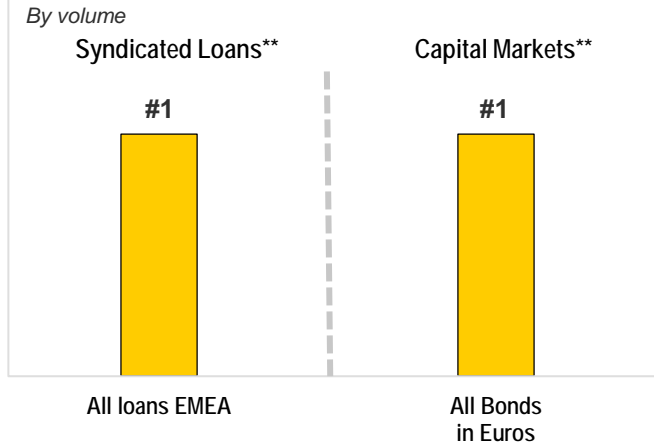
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# Corporate & Institutional Banking

- A European leader preparing for industry evolution
  - Very strong client and business franchises
  - Pre-tax income of €2.8bn (Return on Notional Equity\*: 17.7%)
- Implementation of a new organisation
  - Creation of Global Markets, grouping all market activities
  - Securities Services part of the new CIB
  - Simplified regional approach with 3 major regions (EMEA\*\*\*, Asia Pacific, the Americas)
- Better meet clients' expectations
  - Institutionals: reinforcing the Group's coverage and its global service offering
  - Corporates: strengthening the debt platforms and simplifying the commercial setup
- A commitment to improve operating efficiency and return
  - Structural reduction of costs
  - Industrialisation and sharing of platforms
  - Optimizing use of balance sheet resources

## > 2014 European rankings



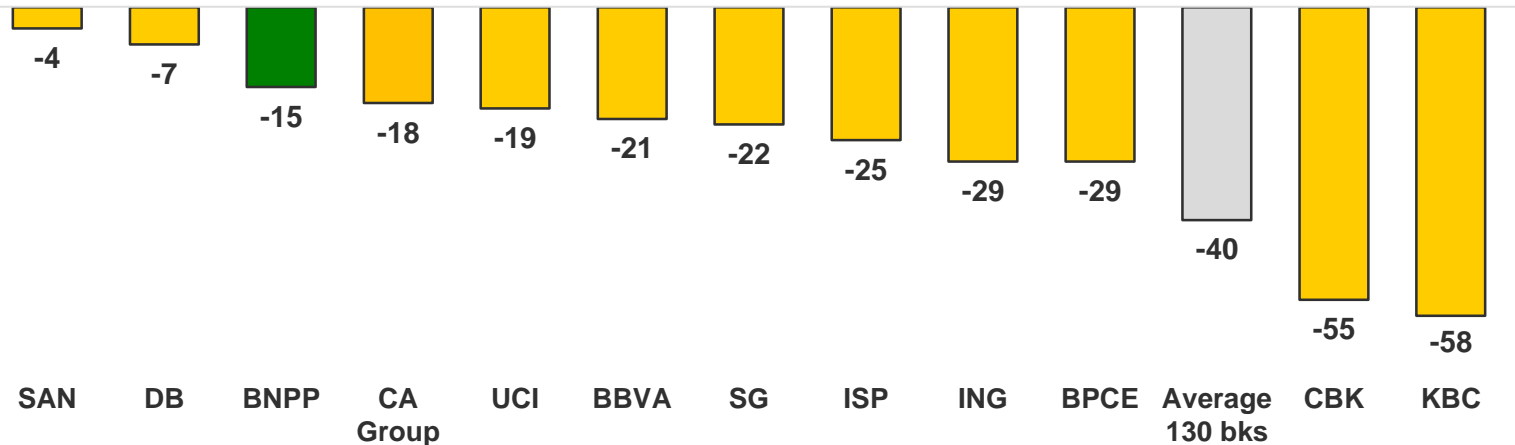
> **Speed up the evolution of the business model**



# Quality of Assets Confirmed by AQR results

## Impact of AQR on CET1 ratio - peer group (bp)\*

In bp



- An unprecedented exercise in terms of scope and duration (370 million data points provided, >50% of credit and market RWA reviewed,...)
- Minor overall impact of the AQR on BNP Paribas Group's CET1 ratio: -15 bp as at 31.12.2013
  - Amongst the best comparable European banks
  - Taken into account in 2014 CET1 ratio

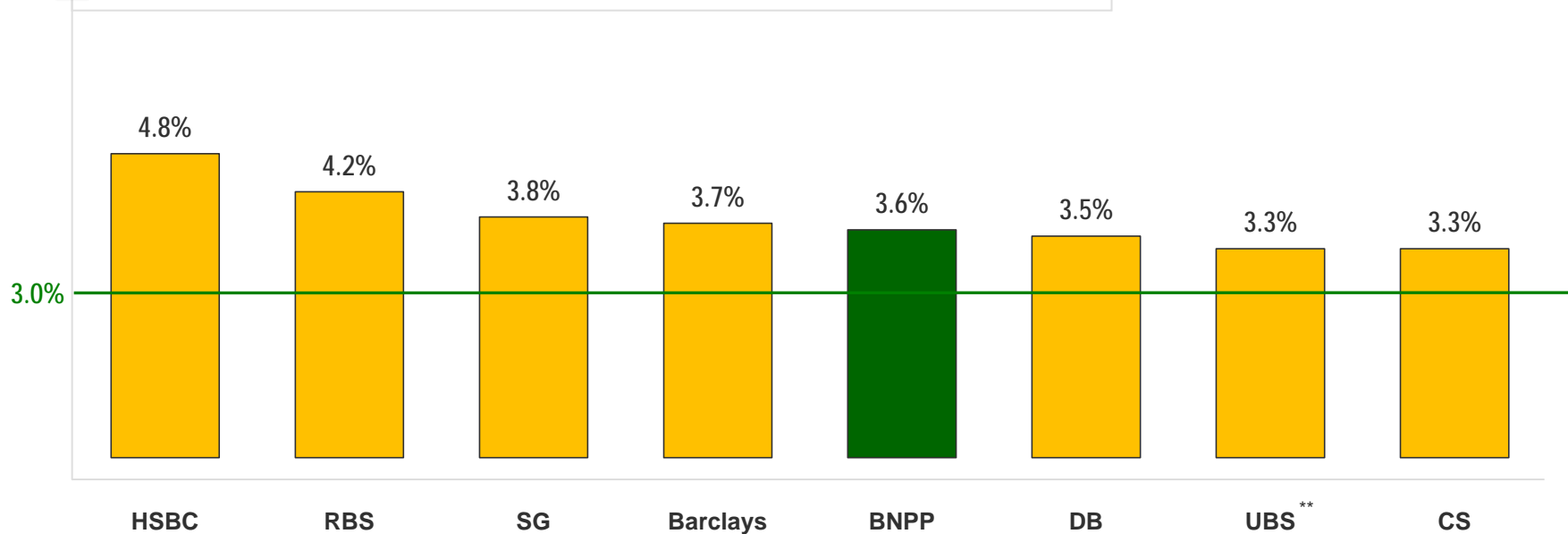
\* Based on the phased-in ratio as at 31.12.2013





# Leverage Ratio Well Above 2018 Threshold

> Fully loaded Basel 3 Tier 1 leverage ratio (as at 31.12.14)\*

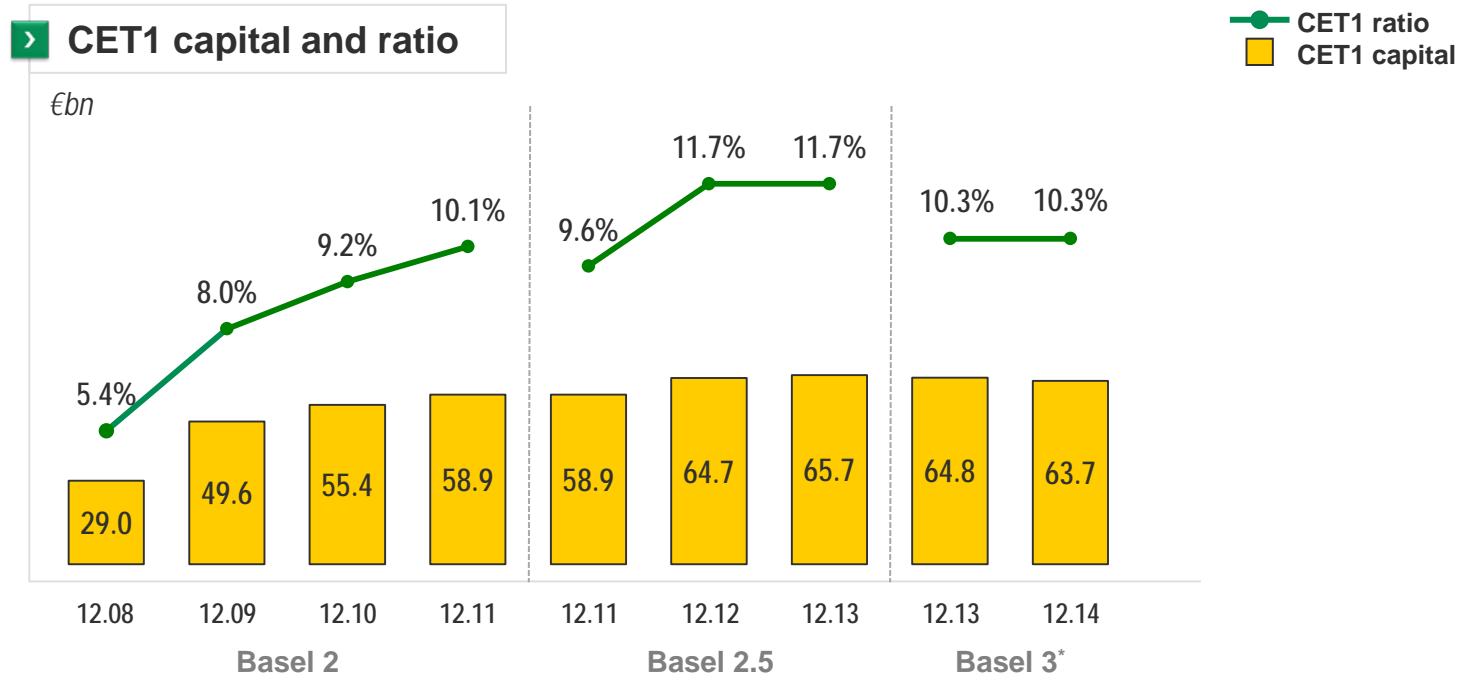


- A backstop ratio in the Eurozone

\* As disclosed by banks of the CIB peer group, according to CRD4, Swiss rules; \*\* Calculated on the basis of disclosed data



# Long Term Track-Record in Strengthening Financial Structure



**> CET1 capital more than doubled**



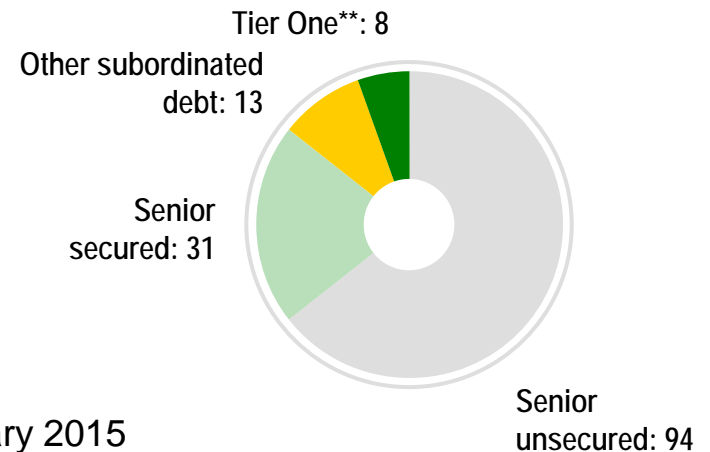
\* According to CRD4 (fully loaded)

# Medium/Long-Term Funding

- TLTRO taken for €14bn at end-December 2014
  - Very advantageous terms
- 2015 wholesale MLT funding programme reduced to €18bn
- Senior debt: €4.4bn already realised
  - Average maturity 4.7 years
  - Mid-swap +26bp on average
- Tier 2: €2 to €3bn per year\*\*\*
  - €1.5bn Tier 2 / 10Y bullet / issuance in February 2015 at Mid-swap +170bp
  - CNH1.5bn (cv. ~€200m) / 10NC5 / issuance in February 2015 at very attractive conditions
- Tier 1: opportunistic resumption of issuances

Wholesale MLT funding structure breakdown as at 31.12.14: €146bn\*

€bn



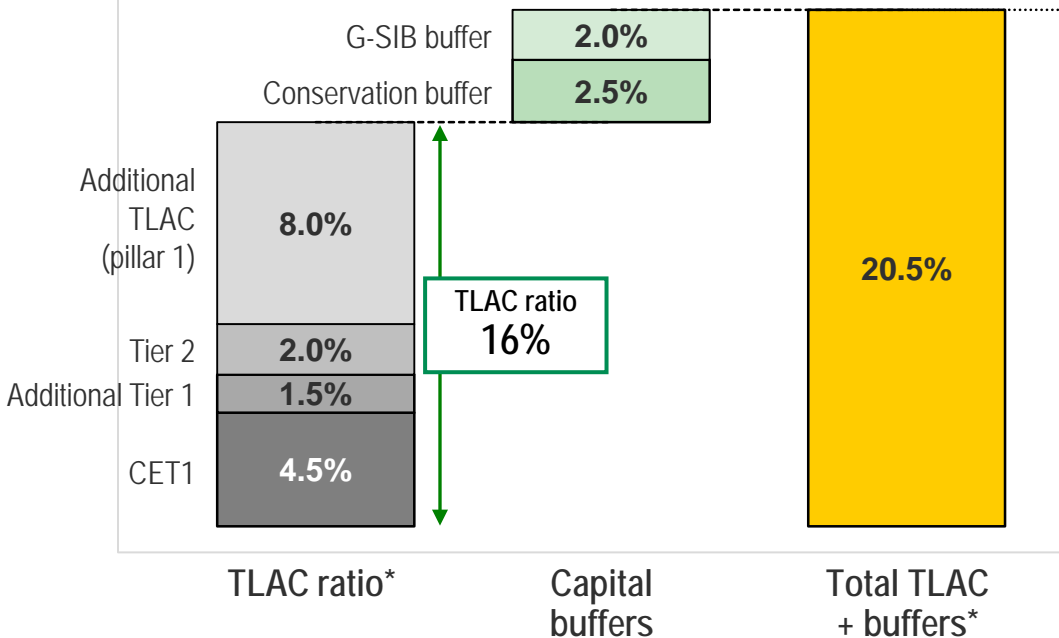
Diversified MLT funding at competitive conditions

\* Excluding TLTRO; \*\* Debt qualified prudentially as Tier 1 recorded as subordinated debt or as equity; \*\*\* Depending on opportunities and market conditions

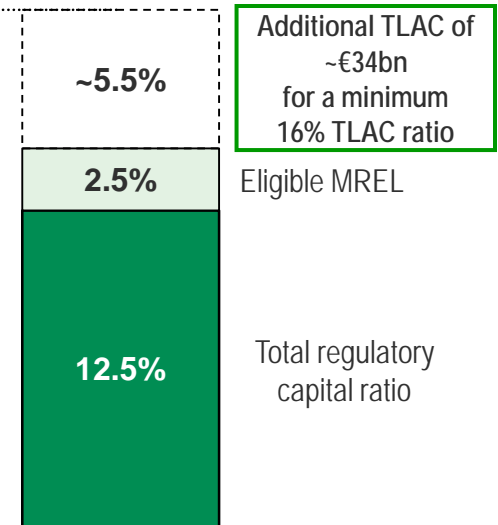


# Total Loss Absorbing Capacity (TLAC)

## Example of potential TLAC requirement calculation for BNP Paribas\*



## Potential TLAC impact for BNP Paribas\*



- Specific terms of the TLAC in the process of being evaluated: final position of the FSB\*\* expected by the end of 2015 for implementation at the earliest on 1<sup>st</sup> January 2019
- Requirement to hold equity and debt instruments that can be converted into equity in case of resolution (bail-inable debt) for a certain percentage of risk-weighted assets to be defined (16% to 20%)
- 2.5% of the MREL debt taken into account (or more if the TLAC ratio > 16%)
- TLAC instruments potentially different from Tier 1 and Tier 2 instruments (terms yet to be defined) that could partly replace senior debt issuances

\* Hypothesis of a TLAC ratio at 16%; \*\* Financial Stability Board



# Delivering on Simple & Efficient

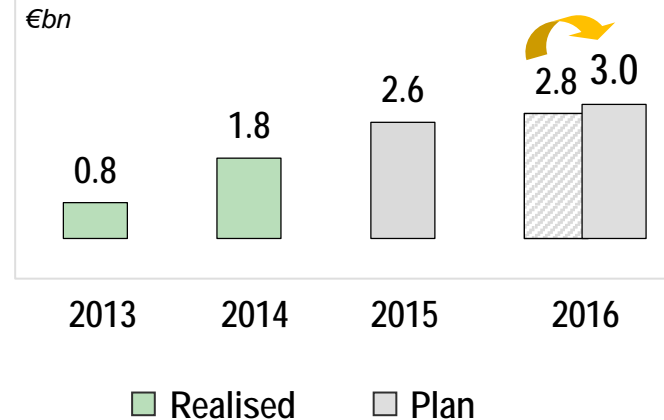
## > Simple: success of the ongoing initiatives

- Lightened structure and organisation
  - Reduction of the number of legal entities (-8.6% vs. 2012)
  - Rationalised number of double reporting lines (-50%)
- Streamlined and digitalized processes and reportings
  - 5 500 reportings suppressed or simplified
- Working modes improved and roll out of digital tools
  - Staff empowerment at the relevant level
- Focus on common corporate culture and values

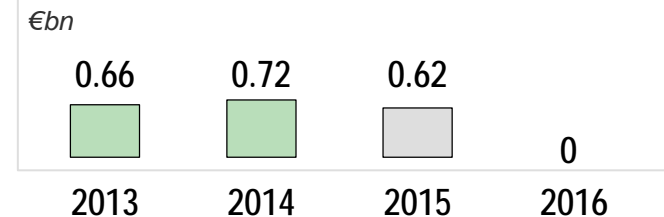
## > Efficient: above the plan

- Cost savings: target of €2.8bn raised to €3.0bn
  - €1,760m since 2013, beyond the initial €1.3bn target
  - 1,345 programmes identified including 2,597 projects
- Transformation costs: target unchanged
  - €717m in 2014
  - No more transformation costs in 2016

## > Cumulative recurring cost savings



## > One-off transformation costs



## Upward revision of the S&E plan

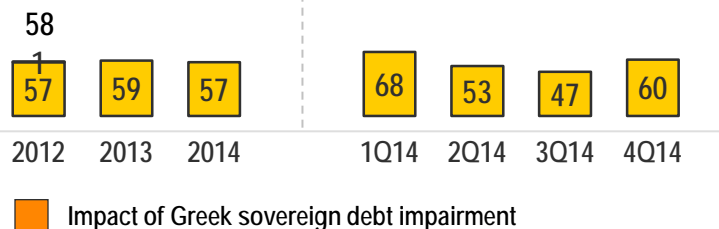
\* Estimated 2016 impact; \*\* European Automatic Information Exchange Mechanism and other additional costs



# Variation in the Cost of Risk by Business Unit (1/3)

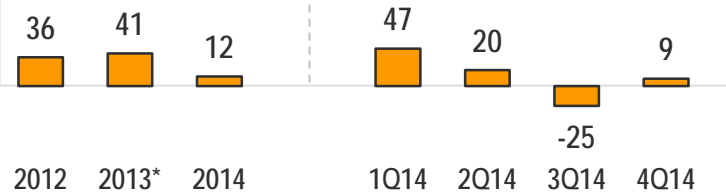
Net provisions/Customer loans (in annualised bp)

## > Group



- Cost of risk: €3,705m (-€96m vs. 2013)
- Cost of risk stable overall

## > CIB - Corporate Banking



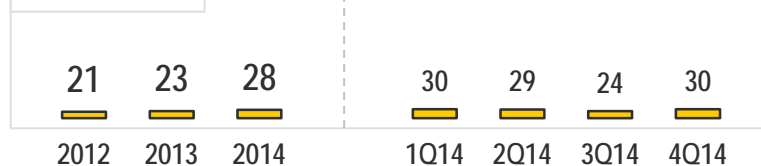
- €131m (-€306m vs. 2013)
- Cost of risk at a very low level



# Variation in the Cost of Risk by Business Unit (2/3)

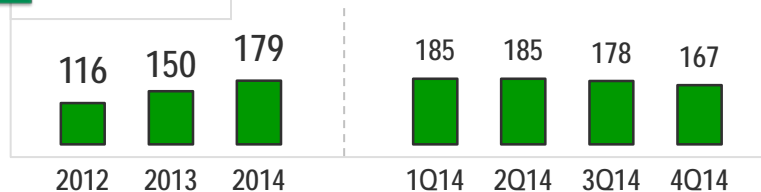
Net provisions/Customer loans (in annualised bp)

## > FRB



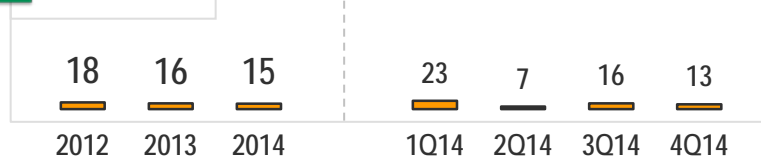
- €402m (+€59m vs. 2013)
- Cost of risk still low

## > BNL bc



- €1,398m (+€193m vs. 2013)
- Cost of risk up due to the protracted recession in Italy

## > BRB



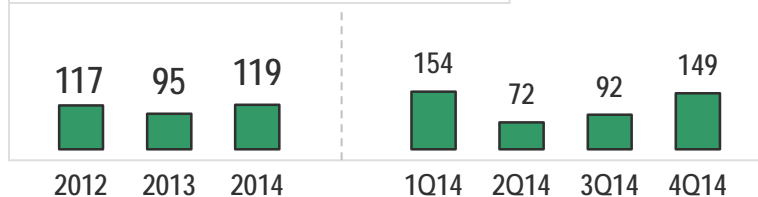
- €131m (-€11m vs. 2013)
- Cost of risk very low



# Variation in the Cost of Risk by Business Unit (3/3)

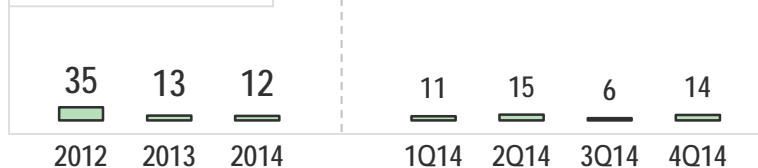
Net provisions/Customer loans (in annualised bp)

## > Europe-Mediterranean



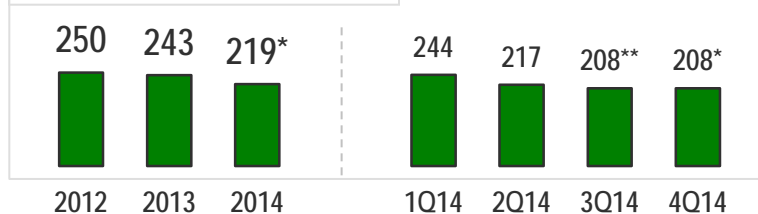
- €357m (+€85m vs. 2013)
- Rise in the cost of risk due to the situation in Eastern Europe

## > BancWest



- €50m (-€4m vs. 2013)
- Cost of risk at a very low level

## > Personal Finance



- €1,094m (-€4m vs. 2013)
- Scope effect related to the acquisition of LaSer: €67m
- Decline in the cost of risk

\* Including LaSer (taken into account in 2014 for a 5-month period); \*\* Excluding LaSer

