

# Corporate Governance



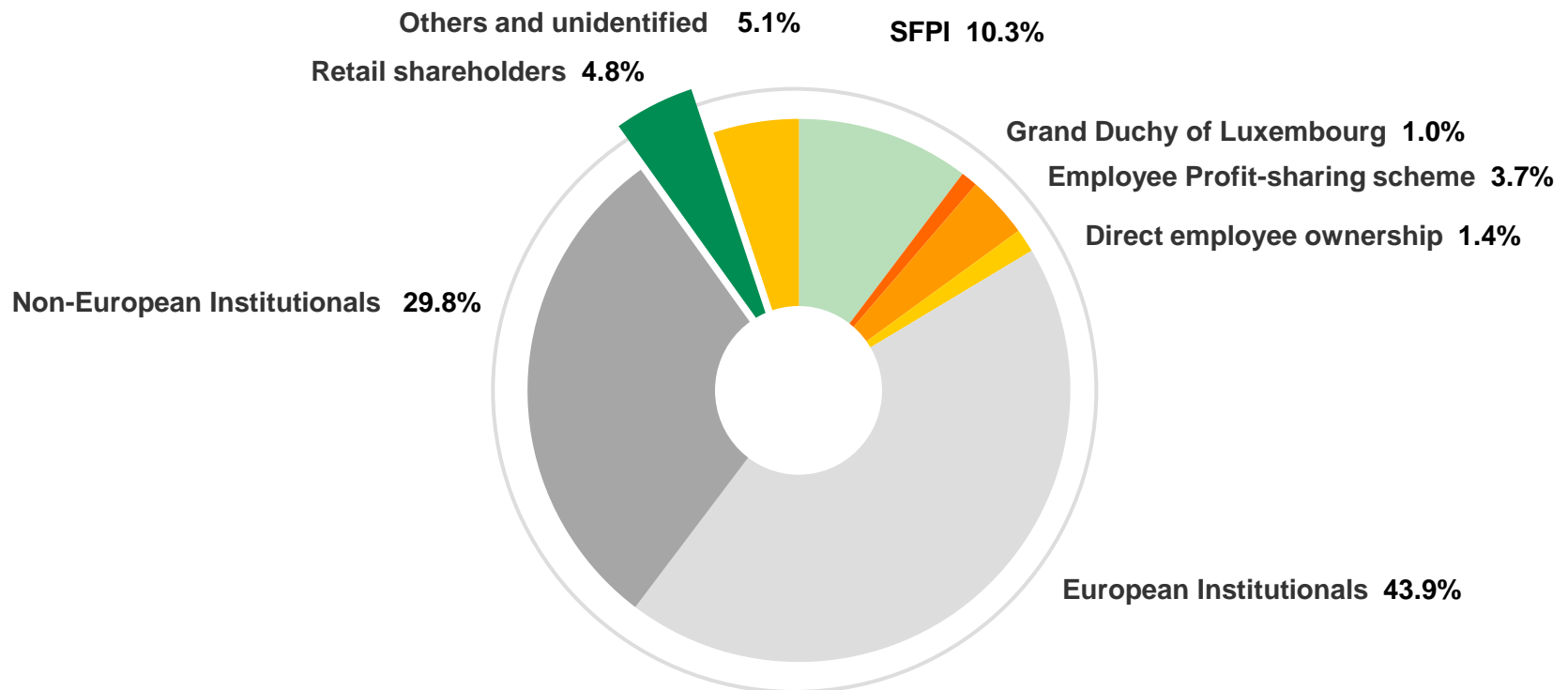
*Paris*

*September 2015*



# Share Ownership Structure

## Share ownership structure of BNP Paribas at 30 June 2015 (as % of capital)



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

# Corporate Governance - Best Practices

- Separation of the functions of Chairman and CEO since 2003
- No member of the Executive Committee has sat 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, a Compliance, Risks and Internal Control Committee
- Undertaking by the Directors to surrender their office to the Board 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



# Impact on Variable Compensation of the settlement with US Authorities (Corporate Officers as at 31.12.2014)

		Total	Reminder of Target Annual Compensation for 2014
J-L. BONNAFÉ	Impact on variable compensation awarded in respect of 2014 and on total deferred compensation cancelled in 2015	-1,868,192 €	1,875,000 €
P. BORDENAVE		-856,622 €	960,000 €
F. VILLEROY de GALHAU		-291,901 €	540,000 €



**Impact of the magnitude of one year of target annual variable compensation**



# Fixed Compensation paid in 2014 (Corporate Officers as at 31.12.2014)

J. LEMIERRE	79,167 € <sup>(1)</sup>
J-L. BONNAFÉ	1,250,000 €
P. BORDENAVE	640,000 €
F. VILLEROY de GALHAU	450,000 €

<sup>(1)</sup> Prorata temporis ; 950,000 € on a full year basis

# Annual Variable Compensation Assessment of the Achievement of the Targets (Corporate Officers as at 31.12.2014)

In Respect of 2014	Variable Compensation set by the Board
J-L. BONNAFÉ	1,200,000 €
P. BORDENAVE	610,000 €
F. VILLEROY de GALHAU	440,000 €



# Long-Term Incentive Plan (LTIP) allocated to Corporate Officers (As at 31.12.2014)

In Respect of 2014	Valuation at Fair Value of the Amount Awarded <sup>(1)</sup>
J-L. BONNAFÉ	331,200 €
P. BORDENAVE	168,360 €
F. VILLEROY de GALHAU	121,440 €

- Performance-linked payment after a five-year period



**Determined on the basis of the annual variable compensation awarded in respect of FY2014**

<sup>(1)</sup> Fair Value of 27.60% of the amount awarded, as calculated by an independent expert



# Total Compensation in Respect of 2014 (Corporate Officers as at 31.12.2014)

	Fixed	Annual Variable	LTIP (at fair value)	Total
J. LEMIERRE	79,167 € <sup>(1)</sup>			79,167 € <sup>(1)</sup>
J-L. BONNAFÉ	1,250,000 €	1,200,000 €	331,200 €	2,781,200 €
P. BORDENAVE	640,000 €	610,000 €	168,360 €	1,418,360 €
F. VILLEROY de GALHAU	450,000 €	440,000 €	121,440 €	1,011,440 €

<sup>(1)</sup> Prorata temporis ; 950,000 € on a full year basis



# Rules for Determining Annual Variable Remuneration (Corporate Officers as at 31.12.2014)

Criteria	% of TVR <sup>(1)</sup>	Jean-Laurent BONNAFE Philippe BORDENAVE	% of TVR <sup>(1)</sup>	François VILLEROY de GALHAU
<b>QUANTITATIVE:</b> Criteria related to the Group's performance  75%	37.5%	- Change in Earnings per Share during previous FY	18.75%	- Change in Earnings per Share
			18.75%	- Change in net income before tax of businesses under responsibility
	37.5%	- % of achievement of the Group's budgeted Gross Operating Income (GOI)	18.75%	- % of achievement of the Group's budgeted GOI
			18.75%	- % of achievement of budgeted GOI of businesses under responsibility
<b>QUALITATIVE:</b> personal objective-based criteria  25%	25.0%	<b>Managerial Performance as assessed by the Board of Directors in terms of foresight, decision-making, leadership skills and example setting</b> <ul style="list-style-type: none"> <li>The exceeding of qualitative objectives does not result in an increase of the variable component linked to these criteria</li> </ul>		

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

# Rules for Determining Annual Variable Remuneration (Corporate Officers as at 31.12.2014)

Criteria	% of TVR <sup>(1)</sup>	Jean-Laurent BONNAFE Philippe BORDENAVE	% of TVR <sup>(1)</sup>	François VILLEROY de GALHAU
<b>QUANTITATIVE:</b> Criteria related to the Group's performance 75%	0.00%	- Change in Earnings per Share during previous FY	0.00%	- Change in Earnings per Share
	39.37%	- % of achievement of the Group's budgeted Gross Operating Income (GOI)	17.42%	- Change in net income before tax of businesses under responsibility
			19.70%	- % of achievement of the Group's budgeted GOI
<b>QUALITATIVE:</b> personal objective-based criteria 25%	25.00%	<b>Managerial Performance as assessed by the Board of Directors in terms of foresight, decision-making, leadership skills and example setting</b> • The exceeding of qualitative objectives does not result in an increase of the variable component linked to these criteria	19.47%	- % of achievement of budgeted GOI of businesses under responsibility

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

# Composition of the Board

## Board of Directors after the 2015 AGM

- **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 (ie more than 80% of the directors elected by shareholders)
  - Including 5 ladies (ie 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

➤ **Composition fully complies with stock market recommendations:  
largely more than 50% are “independent” directors**



# Composition of the Committees after the 2015 AGM

Financial Statements Committee	Internal Control, Risk Management and Compliance Committee	Corporate Governance and Nominations Committee	Compensation Committee
D. Kessler Chairman	J-F. Lepetit Chairman	L. Parisot Chairman	P A. de Chalendar Chairman
M. Cohen	N. Misson	M. Guillou	M. Cohen
E. Van-Broekhoven	M. Tilmant	P A. de Chalendar	J-F. Lepetit
F. Wicker-Miurin	M. Guillou		N. Misson



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# Appendix

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# Long-Term Conditional Compensation of Corporate Officers

- For 2014 the Board of Directors renewed the long-term (five-year) compensation plan, fully conditional and dependent solely on the share price, which it had put in place as soon as 2011 with a view to encouraging corporate officers to identify with the bank's long-term success
- Main features of the plan:
  - No payment will be made in 2020 if the share price has not increased by at least 5% relative to 2015
  - Even if the share price increases by more than 5%, the payment of any such compensation, and its amount, would be conditional upon the achievement of a certain annual level of performance relative to the index of banks in the euro zone
  - The compensation finally paid would depend on the increase in the share price over the previous five years, but would
    - vary less than proportionally with this increase
    - be subject to a double cap in order to alleviate the consequences of a too strong rise of the share price
- The amounts granted are valued every year in accounting terms by an outside firm. In 2015, it was thus valued at 27.6% of the variable compensation granted to corporate officers in respect of 2014



# Holding and Retention of Shares

## Stock Options and Performance Shares

- 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 obliged to hold a minimum number of shares, set at
  - 10,000 shares for Jean Lemierre<sup>(1)</sup>
  - 80,000 shares for Jean-Laurent Bonnafé
  - 30,000 shares for Philippe Bordenave

<sup>(1)</sup> Not beyond 1 June 2016



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# Remediation plan after the US Settlement

## Major evolution of Compliance and Control

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# Key Elements

- The June 2014 comprehensive settlement with the US authorities included, among others:
  - Guilty pleas entered into by BNP Paribas SA in relation to violations of certain US laws and regulations regarding economic sanctions against certain countries
  - The payment of penalties totaling approximately USD 8.97 billion (Euros 6.6 billion)
  - A temporary suspension of one year starting 1<sup>st</sup> January 2015 of the USD direct clearing focused mainly on the Oil & Gas Energy & Commodity Finance business line in certain locations. USD clearing for these activities being done in 2015 through various banks depending on the platform
  - Remediation plan : new robust compliance and control procedures have been designed
- As a result of BNP Paribas' internal review, a number of managers and employees from relevant business areas have been sanctioned
  - More than 40 employees and managers have been sanctioned for different degrees of misconduct (of which 15 have left the Group, including some senior executives)
  - The management team of the Commodity Finance in Europe has been completely reshuffled, in Paris as well as in Geneva
- Beyond the remediation plan, major strengthening of the Group Compliance and Control
- The Group is actively implementing the remediation plan and is continuing to reinforce its internal control and compliance system



# Remediation Plan (1/2)

- The Bank designed new robust compliance and control procedures that involved important changes to the Group procedures
  - Creation of a Group Financial Security department in the US, as part of the Group Compliance function, headquartered in New York
  - All USD flows for the entire BNP Paribas Group will be ultimately processed and controlled via the New York branch
- More generally, as mentioned by the OFAC in the settlement, BNPP has taken global remedial actions regarding its Compliance and Control processes
- 43 projects underway of which 15 are already finalized
- Progress of the projects in line with the timetable defined
- A global investment of around 250 M€ in one-off costs for the overall remediation plan



# Remediation Plan (2/2)

## Reinforce Financial Security & Centralise USD Flows in New York

- Create a competence center for US regulations and best practices in New-York
  - Creation in New York of a Financial Security platform (“GFS NY”) specialized in US regulation related to international sanctions and embargoes, with around 50 staff
  - Escalation of all issues related to US sanctions and embargoes to GFS NY
  - Creation of a legal team specialized in sanctions and embargoes located in Paris and New-York with correspondents in main hubs
  
- Build a dedicated Financial Security network Group-wide
  - Creation of a strengthened global line (200 people) with an internal certification program, and a dedicated and independent budget
  - Broaden Financial Security responsibilities on controls: creation of two teams (Paris and New-York) to audit onsite the Financial Security setup and set up a whistleblowing line dedicated to embargoes issues directly connected to Group Financial Security specialists
  
- A new Business Line to supervise all USD Clearing and Payments with expert guidance from GFS
  - Centralization of all USD clearing in BNPP NY
  - BNPP’s entities originating USD transactions to be aligned worldwide with BNPP NY standards
  - Definition of the various projects to centralize the processing of USD flows in New York completed
  - Transfers of processing to the New York branch realized in accordance with the defined timetable (USD flows of 106 Group’s entities henceforth processed by the New York branch)



# Major Changes to the Group's Compliance and Control System

- Organisational alignment of all supervisory and control functions
  - With the model of the Risk function and the General Inspection
  - Vertical integration of the Compliance and Legal functions
  - To guarantee their independence and their own separate funding
- Creation of a Group Supervisory and Control Committee
  - Chaired by the CEO
  - Mission: provide cohesion and coordination of supervision and control actions
  - Bringing together bimonthly the Group managers from Compliance, Legal Affairs, Risks and the Inspector General
- Creation of a Group Ethics Committee
  - Contributes to the formulation of recommendations concerning the activities carried out in certain sensitive business sectors and countries
  - Contributes to the formulation of recommendations concerning the Group's Code of Conduct
  - Chaired by a person from outside the Group and composed of both independent persons and officers from the bank
- Assistance by an international consulting firm with the process



# Detail of the Group Global Remedial Actions: Governance and Control Processes (1/3)

- Prioritizing compliance from the top levels of the bank's senior management
  - Continue to increase resources earmarked for control and compliance
    - Increase the staffing of the Compliance organisation and of the General Inspection (target: +1,200 people vs. 2013)
    - New Financial Security organisation and leveraging on the competence center based in the US (see previous slide)
  - Full review of the Charter of Country Head (compliance now developed at the very beginning of the document, detailed description of the Control and Compliance duties,..)
  - Integration of several compliance criteria into managers' and staff's performance appraisals
    - Specific targets for people potentially aware or exposed to transactions and/or clients related to embargoes, money laundering or terrorism financing



# Detail of the Group Global Remedial Actions: Governance and Control Processes (2/3)

- Fostering a culture of responsible bank
- A charter of Responsibility stating the commitments the Bank must keep to earn the trust of its customers
  - Translated in 8 languages and widely distributed to the staff
  - « *We do not claim to be infallible. Where lapses are identified, immediate corrections are applied, together with sanctions where appropriate* »
- Increase the number and expand the content of the Group's employee training programmes:
  - Large circulation of Group procedures regarding international sanctions to a target of around 60,000 people (staff directly exposed, due to their activity, to the risks of money laundering, terrorism financing or violations of international sanctions)
  - A compulsory training policy on International Financial Sanctions with a group-wide scope, notably through e-learning (*My Development* Group website)



# Detail of the Group Global Remedial Actions: Governance and Control Processes (3/3)

- Compliance review of the client base
- Reinforce mandatory periodic procedures of customer portfolio reviews and Know Your Customer (KYC) process for all businesses (new procedure published in January 2014)
- Reinforcing the bank's existing internal controls
  - New software to filter financial flows: upgrade of transaction filtering tools, to readily identify transactions for which stripping and resubmission may have occurred (Fircosoft already rolled out at French Retail Banking, BNL, etc.)
- Strengthen controls performed by the General Inspection:
  - Creation of a team specialised in compliance and financial security issues
  - Increase the frequency of the review by internal audit of all the branches dealing with USD (around 110 every 18 months)
  - New team up and running: 16 inspectors by the end of June



# Corporate Governance



*Paris*

*September 2015*

