



GROUPE BPCE

Coopératifs, banquiers et assureurs autrement.

March 27, 2017

BPCE SA

Report prepared in accordance with Article 266 of the Ministerial Order of November 3 on internal control of companies in the banking, payment services and investment services sector subject to supervision by the *Autorité de Contrôle Prudentiel et de Résolution* (ACPR - the French Prudential Supervisory Authority for the Banking and Insurance Sector) – 2016

Staff pay policy and practices pursuant to Article L. 511-71 of the French Monetary and Financial Code

1. Description of the pay policy in force at the company

This pay policy upholds the principles of the pay policy applied on the Group level.

The pay policy for Groupe BPCE employees is a key instrument in the implementation of the Group's strategy. It is intended to serve as an incentive and to be competitive in view of practices observed on the market (local and business line across various activities) in order to attract talent and to retain and motivate employees.

It also aims to be fair so that equitable pay within the company for collective and individual performance is ensured.

The policy complies with regulations governing the banking and financial sector.

Surveys on pay are carried out regularly by specialized firms to verify that the various components of pay are in line with market practices and to launch any required remedial actions.

To achieve this, each Group company conducts an annual analysis and revision of individual pay and its development in view of performance and the fulfillment of objectives. Budgets for reassessments and pay equity adjustments, intended to ensure adherence to the principle of gender equality in the workplace, are implemented if deemed necessary.

BPCE SA's salaried employees receive fixed pay based on their status as defined in the bank's collective agreement and their level of responsibility.

They receive a variable pay component, which is entirely based on individual objectives determined on the basis of their position or entity.

The variable component is capped at 8% of fixed pay, except for employees with a variable pay clause in their contracts. In such cases, variable pay is capped at 60%.

The target variable component for employee members of the Executive Management Committee is 80%, as is the target variable component for Management Board members.

Employees also benefit from a profit-sharing system, capped at 12% of payroll.

2. Decision-making procedure used to determine the pay policy

The Remuneration Committee is composed of the Chairmen of the Boards of Directors of Banque Populaire banks, the Chairmen of the Steering and Supervisory Boards of Caisses d'Épargne, a Chief Executive Officer of a Banque Populaire bank, a Chairman of the Management Board of a Caisse d'Épargne, an employee representative on the Supervisory Board and an independent director.

The Committee is chaired by an independent director in compliance with the recommendations of the Corporate Governance Code for listed companies amended in November 2015 by the French Private Companies Association (AFEP) and the French Business Confederation (MEDEF).

The members of the Committee cannot be corporate officers of BPCE.

Chaired by Maryse Aulagnon, Chairman and Chief Executive Officer of Affine and an independent director, the Committee is also composed of the following members (as of December 31, 2016):

- ✓ Catherine Amin Garde, Chairman of the Steering and Supervisory Board of Caisse d'Épargne Loire Drôme Ardèche
- ✓ Astrid Boos, Chairman of the Steering and Supervisory Board of Caisse d'Épargne Alsace
- ✓ Pierre Desvergues, Chairman of the Board of Directors of CASDEN Banque Populaire
- ✓ André Joffre, Chairman of the Board of Directors of Banque Populaire du Sud
- ✓ Didier Patault, Chairman of the Management Board of Caisse d'Épargne Ile-de-France
- ✓ Yves Gevin, Chief Executive Officer of Banque Populaire Rives de Paris
- ✓ Vincent Gontier, employee of NATIXIS

The Committee met four times in 2016.

It conducted a review of:

- the principles of the pay policies of the company and Group;
- pay, remuneration and benefits of any kind granted to the company's corporate officers;
- pay granted to the Head of Risk Management and Head of Compliance.

The Remuneration Committee expressed its view on the proposals of Executive Management concerning "risk takers" and on the principles of the pay policy for this group of employees.

3. Description of the pay policy

3.1 Composition of the regulated population ("risk takers")

In accordance with Delegated EU Regulation No. 604/2014, Groupe BPCE companies are required to identify the categories of personnel whose professional activities have a material impact on the institution's risk profile.

The delegated regulation establishes qualitative and quantitative criteria in this regard.

Articles 198 to 201 of the Decree of November 3, 2014 relating to the internal control of companies in the banking, payment services and investment services sector, which are subject to the supervision of the Autorité de Contrôle Prudentiel et de Résolution, establish the procedure for enforcing rules related to pay policy for entities according to their size and internal organization as well as the nature, scale and complexity of their activity.

Thus, within the Group, the criteria for identifying risk takers:

- are applicable to credit institutions, financing companies and investment firms with a balance sheet total above €10 billion on an individual, consolidated and sub-consolidated basis;
- are applicable to credit institutions, financing companies and investment firms with a balance sheet total under €10 billion, but only on the Group level;
- are not applicable to asset management companies, portfolio management companies, insurance companies or reinsurance companies;
- are applicable to other Group companies whose balance sheet total is above €10 billion or whose activities incur risks to the Group's solvency or liquidity, but on a consolidated basis only.

For BPCE SA, a credit institution with a balance sheet total above €10 billion, the following were identified on the basis of the various criteria:

- the members of the Management Board;
- the members of the Supervisory Board;
- the members of the Executive Management Committee;
- the Heads of each of the three control functions, at the Group and BPCE SA levels, and their immediate subordinates;
- the Heads of the following support functions, at the Group and BPCE SA levels: legal, finance, budget, tax, human resources, pay policy, information technology and economic analysis;
- the permanent decision-making members, both sitting and alternate, of the following finance and risk management committees:
 - o Group Strategic ALM Committee,
 - o Group Management and Accounting Standards and Methods and Oversight Committee,
 - o BPCE Group Risk Management and Compliance Committee,
 - o Group Watchlist and Provisions Committee,
 - o Group Risk Management, Compliance and Permanent Control Standards and Methods Committee,
- o Group Non-Financial Risk Management Committee,

- o BPCE SA Risk Management and Compliance Committee,
- o Caisses d'Épargne Credit Risk Management Committee,
- o Banque Populaire banks Credit Risk Management Committee,
- o Group Credit and Counterparty Committee,
- o Group Market Risk Management Committee,
- o Review and Validation Committee for New Products (CEVANOP).

For all of these committees, members external to BPCE SA are identified according to their company;

- Employees who can commit at least 0.5% of BPCE SA's Common Equity Tier-1 capital, calculated on a consolidated basis;
- The managers of the above employees;
- The heads of BPCE SA's internal SRAB/Volcker units;
- Employees whose pay awarded in 2015 (fixed + variable) was equal to or higher than €500,000;
- Employees whose pay awarded in 2015 (fixed + variable) was among the top 0.3%. This figure was calculated on the basis of the headcount of BPCE SA;
- Except in duly justified cases, employees whose pay awarded in 2015 (fixed + variable) was in the same pay bracket as that of the employees identified under qualitative criteria 1), 3), 5), 6), 8), 11), 12), 13) or 14) of the delegated regulation.

In total, 19 members of the Supervisory Board and 63 positions at BPCE SA (corporate officers and employees) were identified. Employees pro-rated if the position was taken or given up during the year total 74.1¹.

This list was approved by the Group's Risk Management, Compliance and Permanent Control Division. It was submitted for approval to the Executive Management Committee and presented to the Remuneration Committee.

3.2 General principles of the pay policy

It is advisable to make a distinction between three categories of employees within the regulated population:

The members of the Supervisory Board

Their pay is composed exclusively of attendance fees and (for the Chairman) a duty allowance, both of predetermined value. They do not receive any variable pay as part of their mandate.

The Management Board and the members of the Executive Management Committee

On the advice of the Remuneration Committee, the Supervisory Board decided not to modify the fixed or variable components of the pay awarded to the Chairman and members of the Management Board for 2016, i.e.:

¹ Three salaried employees of NATIXIS who are heads of internal SRAB/Volcker units and temporarily assigned to BPCE SA are also identified as NATIXIS risk takers; they are counted, as is their pay, in the NATIXIS report.

- for the fixed component,
 - €550,000 for the Chairman of the Management Board (plus a maximum housing allowance of €60,000, which is currently not being paid to the Chairman of the Management Board),
 - €500,000 for the members of the Management Board, with the exception of Laurent Mignon, who receives no pay for his duties at BPCE SA.
- for the variable component,
 - for the Chairman of the Management Board, a target variable component of 150% (maximum 200% in the event of outperformance);
 - for the other members of the Management Board, a target variable component of 80% (maximum 100% in the event of outperformance).

Variable pay for 2016 will be paid only if the following condition is fulfilled in 2016:

Group Basel III Common Equity Tier 1 ratio (COREP regulatory view, i.e., using phase-in measures) at more than 9.75% at December 31, 2016. This percentage is equal to the ECB's Pillar 2 requirement as set out in its letter of December 4, 2015 (9.50%) plus the buffer set for systemically important banks with respect to 2016 (0.25%).

The objectives are assessed on quantitative criteria, representing 60% of variable pay, and on qualitative criteria, representing 40%.

- Quantitative criteria: Net income attributable to equity holders of the parent (30%), cost/income ratio (20%) and net banking income (10%). These criteria are restated to offset the impact of the revaluation of own debt.
- Qualitative criteria, representing 40%, with five criteria: Sales Development/ Coordination, Human Resources and Finance/ Operations/ Risk Management and Governance (each representing 7%); and Digital Transformation of the Banks (12%).

The target variable component for the other members of the Executive Management Committee (Deputy CEO - Risk Management, Compliance and Permanent Control; CEO - Digital; CEO - Transformation and Operational Excellence) is 80% (maximum 100% in the event of outperformance). With the exception of the Deputy CEO - Risk Management, Compliance and Permanent Control, who has specific targets, the targets of the other members of the Executive Management Committee are aligned at 60% with the quantitative criteria applicable to the variable component of the Management Board.

Other employees

Other employees receive fixed pay on the basis of their status ("K" or "HC" in the bank's collective agreement) and their level of responsibility.

Employees classified as "HC" are company directors and receive fixed pay of between €150,000 and €250,000, except for those who are members of the Executive Committee, for whom the pay range is from €200,000 to €300,000.

All receive a variable component under their contracts, with a maximum percentage of 20% to 30% for those classified as "K," 30% to 50% for company directors classified as "HC" (excluding members of the Executive Committee) and 40% to 60% for members of the Executive Committee.

In all cases, the variable component is based on individual objectives determined on the basis of their position or entity.

In addition, for all employees of BPCE SA, the variable component may not exceed 100% of fixed pay, with the exception of the Chairman of the Management Board.

3.3 Pay policy for risk takers

Group standard

Groupe BPCE has implemented a pay policy for risk takers that complies with Articles L. 511-71 to L. 511-85 of the French Monetary and Financial Code.

This policy and the procedure for enforcing the regulation within the Group are covered by a Group standard, which was adopted by the BPCE Supervisory Board at its meeting of June 22, 2016. The standard is updated on a regular basis after an internal and independent assessment is conducted by the Group's Inspection Générale division and internal audit.

Minimum capital threshold

The Group standard thus sets a minimum capital threshold that must be met for all Group risk takers to receive their variable components. For 2016, this threshold was the same as that applicable to the BPCE SA Management Board (see above).

Consideration of the company's financial position

Each year, before the awards are made, the BPCE SA Remuneration Committee considers whether the company's financial position and the actual performance of the risks takers in its sub-consolidation scope are consistent with the award of variable components. Following this review, it may propose a reduction in these variable components.

Reduction in variable pay in instances of bad behavior

Groupe BPCE also implemented a system of penalties for bad behavior that complies with the general framework set out in the standard. This general framework establishes three types of violations:

- Serious violation: impact above the serious incident threshold for the group (€300,000) – the percentage reduction may be as high as -10%;
- Material violation: impact above the material incident threshold for the Group (0.5% of the institution's capital) – the percentage reduction may be as high as -100%;
- Failure to participate in the mandatory regulatory training sessions: -5% per session.

No serious or material violations were identified for BPCE SA in 2016.

Consideration of SRAB and Volcker regulations

The systematic inclusion of the heads of the internal SRAB/Volcker units among risk takers also ensures that the pay policy for these employees complies with these specific regulations.

Lastly, the policy with regard to payment of variable pay has the following characteristics, when the amount of variable pay awarded is greater than or equal to the €100,000 threshold, as the following rules apply to all variable pay.

Deferred and conditional payment of a portion of variable pay

The payment of a portion of the variable pay awarded for a fiscal year is deferred over time and conditional.

This payment is staggered over the three years that follow the year in which the variable pay was awarded, paid in one-third installments.

Amount of deferred variable pay

The percentage of deferred variable pay corresponds to 50%, increased to 60% if the variable component is equal to or greater than €500,000 and 70% if it is equal to or greater than €1,000,000.

Payment in securities or equivalent instruments

As BPCE SA is not a listed company, the deferred component of the variable pay takes the form of cash indexed on the basis of an indicator representing the change in the value of Groupe BPCE shares.

The indicator used is net income attributable to equity holders of the parent, assessed as a rolling average over the last three calendar years preceding the year pay is awarded and the years it is paid.

The indexing factor for the portions of the variable components awarded for 2013 and deferred to 2017 is 1.3283.

The indexing factor for the portions of the variable components awarded for 2014 and deferred to 2017 is 1.2409.

The indexing factor for the portions of the variable components awarded for 2015 and deferred to 2017 is 1.1158.

On account of the minimum additional retention period required by regulation, the conditional payment of the deferred portion of the variable component for year N is paid, at the earliest, on October 1 of years N+2, N+3 and N+4.

Application of penalties to deferred portions

Pursuant to Article L. 511-83 of the French Monetary and Financial Code, the Supervisory Board ruled, acting on a proposal by the Remuneration Committee, that the deferred pay portion would be paid only if normative ROE for the Group's core businesses was greater than or equal to 4%.

4. Aggregate quantitative information

Table 1

Aggregate quantitative information on pay, broken down by area of activity

Article 450 g) of EU Regulation No. 575/2013

	Management body executive function	Management body supervisory function	Investment banking	Retail Banking	Asset management	Support functions	Independent control function	Other	Total
Headcount	5.0	19.0	0.0	0.0	0.0	27.2	22.9	0.0	74.1
Fixed pay	€2,049,822	€947,625	€0	€0	€0	€5,881,080	€3,442,275	€0	€12,320,802
Variable pay	€1,711,125	€0	€0	€0	€0	€2,142,513	€1,001,304	€0	€4,854,942
Total pay	€3,760,947	€947,625	€0	€0	€0	€8,023,593	€4,443,579	€0	€17,175,744

(*) pro-rated data

Table 2**Aggregate quantitative information on pay, broken down by employee category (managers and staff members whose activities have a material impact on the institution's risk profile)**

Article 450 h) of EU Regulation No. 575/2013

	Management body	Other	Total
Headcount	24.0	50.1	74.1
Total pay	€4,708,572	€12,467,172	€17,175,744
- of which fixed pay	€2,997,447	€9,323,355	€12,320,802
- of which variable pay	€1,711,125	€3,143,817	€4,854,942
- of which non-deferred	€785,850	€2,669,771	€3,455,621
- of which cash	€785,850	€2,669,771	€3,455,621
- of which shares and equivalent instruments	€0	€0	€0
- of which other instruments	€0	€0	€0
- of which deferred	€925,275	€474,046	€1,399,321
- of which cash	€0	€0	€0
- of which shares and equivalent instruments	€925,275	€474,046	€1,399,321
- of which other instruments	€0	€0	€0
Amounts outstanding on variable pay awarded for previous years and not yet vested	€1,092,567	€499,229	€1,591,796
Amount of variable pay awarded for previous years and already vested (after reduction)	€1,128,924	€408,188	€1,537,112
- Value of reductions performed	€0	€0	€0
Severance pay awarded	€0	€1,399,267	€1,399,267
Number of recipients of severance pay	0	2	2
Highest severance pay awarded	€0	€845,767	€845,767
Signing bonuses	€0	€0	€0
Signing bonus recipients	0	0	0

(*) pro-rated data

Table 3 (pay in excess of €1 million)

For 2016, only one employee received total pay (fixed + variable) that exceeded €1 million. Furthermore, this pay was below €1,500,000.

5. Information on individuals

For 2016, total individual pay was as follows:

- Chairman of the Management Board: €1,247,125
- For Management Board Member, Chief Executive Officer - Finance, Risk and Operations (until May 1, 2016): €280,500
- For Management Board Member, Chief Executive Officer – Commercial Banking and Insurance (until May 16, 2016): €314,691
- For Management Board Member, Chief Executive Officer - Human Resources, Internal Communications, Corporate Secretariat of BPCE SA: €838,000
- For Management Board Member, Chief Executive Officer – Group Finance, Strategy, Legal Affairs and Secretariat to the Governing Bodies (as of May 2, 2016): €557,322
- For Management Board Member, Chief Executive Officer – Commercial Banking and Insurance (as of May 17, 2016): €523,509
- For Management Board Member, Chief Executive Officer of NATIXIS: €0
- For Deputy Chief Executive Officer, Risk Management, Compliance and Permanent Control: €756,000