



## BNP Paribas

US\$ 400,000,000 Undated Deeply Subordinated Non-Cumulative Notes  
The Proceeds of Which Constitute Tier 1 Regulatory Capital  
Issue Price: 100%

The US\$ 400,000,000 Undated Deeply Subordinated Non-Cumulative Notes (the “Notes”) of BNP Paribas (the “Issuer” or the “Bank”) will be issued outside the French Republic and will bear interest at a fixed rate of 6.25% per annum from and including October 17, 2005 (the “Issue Date”), payable annually in arrears on October 17 of each year, commencing on October 17, 2006.

Payment of interest on the Notes will be mandatory if the Issuer pays dividends on its ordinary shares and in certain other circumstances described herein. Otherwise, the Issuer may elect, and in certain circumstances shall be required, not to pay interest falling due on the Notes. Any interest not paid shall be forfeited and shall no longer be due and payable by the Issuer. Interest accrual may also be reduced if the Issuer’s consolidated regulatory capital falls below required levels and in certain other circumstances.

The Notes are undated and have no final maturity. The Notes may, at the option of the Issuer but subject to the prior approval of the Secrétariat général de la Commission bancaire (“SGCB”) or its successor, be redeemed at par in whole or in part on October 17, 2011. In addition, the Notes may, in case of certain tax or regulatory events, be redeemed at par at any time (in whole but not in part), subject to the prior approval of the SGCB. The principal amount of the Notes may be written down to a minimum amount of one cent of one dollar if the Issuer incurs losses and certain regulatory capital events occur, subject to restoration in certain cases described herein. The Notes are subordinated to substantially all of the Issuer’s other obligations, including in respect of ordinarily subordinated debt instruments. (See “Terms and Conditions of the Notes—Status of the Notes and Subordination”.)

The Luxembourg Commission de Surveillance du Secteur Financier (the “CSSF”) is the competent authority in Luxembourg for the purpose of Directive n°2003/71/EC (the “Prospectus Directive”) and the Luxembourg law on prospectuses for securities of July 10, 2005, for the purpose of approving this Prospectus to give information with regard to the Issuer and the Notes. Application has been made in order for the Notes to be listed on the Luxembourg Stock Exchange and admitted to trading on the regulated market of the Luxembourg Stock Exchange, which is an EU-regulated market within the meaning of Directive 2004/39/EC (the “EU-regulated market of the Luxembourg Stock Exchange”). References in this Prospectus to Notes being listed (and all related references) shall mean that such Notes are intended to be admitted to trading on the EU-regulated market of the Luxembourg Stock Exchange and to the official list of the Luxembourg Stock Exchange.

The Notes are expected to be assigned a rating of “A1” by Moody’s Investors Service, Inc., “A+” by Standard & Poor’s Ratings Services and “AA-” by Fitch Ratings. A rating is not a recommendation to buy, sell or hold securities and may be subject to revision, suspension, reduction or withdrawal at any time by the relevant rating agency.

See “Risk Factors” below for certain information relevant to an investment in the Notes.

The Notes have been accepted for clearance through Euroclear France S.A. (“Euroclear France”), Clearstream Banking, société anonyme (“Clearstream, Luxembourg”) and Euroclear Bank S.A./N.V., as operator of the Euroclear System (“Euroclear”). The Notes will on the Issue Date be entered (inscription en compte) in the books of Euroclear France, which shall credit the accounts of the Account Holders (as defined in “Terms and Conditions of the Notes—Form, Denomination and Title” below), including the depositary banks for Euroclear and Clearstream, Luxembourg.

The Notes will be issued in bearer form in the denomination of US\$ 2,000 each. The Notes will at all times be represented in book-entry form (dématérialisé) in the books of the Account Holders in compliance with Article L.211-4 of the French Code monétaire et financier. No physical document of title will be issued in respect of the Notes.

This Prospectus has not been submitted to the approval of the Autorité des marchés financiers (“AMF”).

**THE NOTES ARE BEING OFFERED AND SOLD ONLY OUTSIDE THE UNITED STATES TO NON-U.S. PERSONS IN RELIANCE ON REGULATION S UNDER THE U.S. SECURITIES ACT OF 1933, AS AMENDED (THE “SECURITIES ACT”). SEE “SUBSCRIPTION AND SALE”.**

**BNP PARIBAS UK LIMITED**  
Lead Manager and Sole Bookrunner

**BNP PARIBAS**  
Structuring Advisor

**BARCLAYS CAPITAL**  
**CITIGROUP**  
**HSBC**  
**MERRILL LYNCH INTERNATIONAL**  
**THE ROYAL BANK OF SCOTLAND**  
Senior Co-Lead Managers

**BANKINTER**  
**CREDIT MUTUEL CIC**  
**DAIWA SECURITIES SMBC EUROPE**  
**HSH NORDBANK AG**  
**ING FINANCIAL MARKETS**  
**JPMORGAN**  
**KBC INTERNATIONAL GROUP**  
**LEHMAN BROTHERS**  
**MILLENNIUM BCP INVESTIMENTO**  
**MORGAN STANLEY**  
**RABOBANK INTERNATIONAL**  
**UBM-UNICREDIT BANCA MOBILIARE**  
**UBS INVESTMENT BANK**  
Co-Lead Managers

The date of this Prospectus is October 14, 2005.

The Issuer accepts responsibility for the information contained in this Prospectus. The Issuer declares that, having taken all reasonable care to ensure that such is the case, the information contained in this Prospectus is, to the best of its knowledge, in accordance with the facts and does not omit anything likely to affect the import of such information.

This Prospectus is to be read in conjunction with all documents which are incorporated herein by reference as described in “Documents Incorporated by Reference” below. This Prospectus shall be read and construed on the basis that such documents are so incorporated and form part of this Prospectus.

Information contained in this Prospectus which is sourced from a third party has been accurately reproduced and, as far as the Issuer is aware and is able to ascertain from information published by the relevant third party, no facts have been omitted which would render the reproduced information inaccurate or misleading. The Issuer has also identified the source(s) of such information.

The Managers (as defined in “Subscription and Sale” below) have not separately verified the information contained herein. Accordingly, no representation, warranty or undertaking, express or implied, is made and no responsibility is accepted by the Managers as to the accuracy or completeness of the information contained in this Prospectus or any other information provided by the Issuer in connection with the Notes. The Managers accept no liability in relation to the information contained in this Prospectus or any other information provided by the Issuer in connection with the Notes.

No person is authorized to give any information or to make any representation not contained in or not consistent with this Prospectus in connection with the issue and sale of the Notes and any information or representation not contained herein must not be relied upon as having been authorized by or on behalf of the Issuer. Neither the delivery of this Prospectus nor any sale made in connection herewith shall, under any circumstances, create any implication that the information herein is correct as at any time subsequent to the date hereof.

This Prospectus comprises a prospectus for the purposes of (i) Article 5.3 of the Prospectus Directive and (ii) the relevant implementing measures in the Grand Duchy of Luxembourg and, in each case, for the purpose of giving information with regard to the Issuer.

This Prospectus does not constitute an offer of, or an invitation or solicitation by or on behalf of the Issuer or the Managers or any affiliate of any of them to subscribe for or purchase, any Notes in any jurisdiction by any person to whom it is unlawful to make such an offer, invitation or solicitation in such jurisdiction. The distribution of this Prospectus and the offering or sale of the Notes in certain jurisdictions, including the United States, the United Kingdom and the French Republic, may be restricted by law. Persons into whose possession this Prospectus comes are required by the Issuer and the Managers to inform themselves about and to observe any such restrictions. For a description of certain restrictions on offers and sales of Notes and distribution of this Prospectus, see “Subscription and Sale” below. No person is authorized to give any information or to make any representation other than those contained in this Prospectus in connection with the issue or sale of the Notes and, if given or made, such information or representation must not be relied upon as having been authorized by or on behalf of the Issuer or the Managers. The delivery of this Prospectus at any time does not imply that the information contained in it is correct as at any time subsequent to its date. In making an investment decision regarding the Notes, prospective investors must rely on their own independent investigation and appraisal of the Issuer, its business and the terms of the offering, including the merits and risks involved. The contents of this Prospectus are not to be construed as legal, business or tax advice. Each prospective investor should consult its own advisers as to legal, tax, financial, credit and related aspects of an investment in the Notes. The Managers have not separately verified the information contained herein. Accordingly, no representation, warranty or undertaking, express or implied, is made and no responsibility or liability is accepted by the Managers as to the accuracy or completeness of the information contained or incorporated by reference in this Prospectus or any other information provided by the Issuer in connection with the Notes or their distribution. This Prospectus may only be used for the purposes for which it has been published.

The Notes have not been and will not be registered under the U.S. Securities Act of 1933, as amended (the “**Securities Act**”). Subject to certain exceptions, the Notes may not be offered or sold within the United States or to, or for the account or benefit of, U.S. persons (as defined in Regulation S under the Securities Act (“**Regulation S**”)).

**This Prospectus contains forward-looking statements. Statements that are not historical facts, including statements about the Issuer’s beliefs and expectations, are forward-looking statements. These statements are based on current plans, estimates and projections, and therefore undue reliance should not be placed on them. Forward-looking statements speak only as of the date they are made, and the Issuer undertakes no obligation to update publicly any of them in light of new information or future events.**

In connection with this issue, BNP Paribas UK Limited (the “**Stabilizing Manager**”) or any person acting for it may over-allot (provided that the aggregate principal amount of Notes allotted does not exceed 105% of the aggregate nominal amount of the Notes) or effect transactions with a view to supporting the market price of the Notes at a level higher than that which might otherwise prevail. However, there is no assurance that the Stabilizing Manager (or persons acting on behalf of a Stabilizing Manager) will undertake stabilization action. Any stabilization action may begin on or after the date on which adequate public disclosure of the terms of the offer of the Notes is made and, if begun, may be ended at any time, but it must end no later than the earlier of 30 days after the issue date of the Notes and 60 days after the date of the allotment of the Notes.

## PRESENTATION OF FINANCIAL INFORMATION

Any reference in this Prospectus to the “Financial Statements” is to the consolidated financial statements, including the notes thereto, of the Issuer and its consolidated subsidiaries (i) as of and for the years ended December 31, 2004, 2003 and 2002 (the “**Annual Financial Statements**”) and (ii) as of and for the six months ended June 30, 2005 (the “**Interim Financial Statements**”). The Annual Financial Statements are prepared in accordance with generally accepted accounting principles in France (“**French GAAP**”), and the Interim Financial Statements are prepared in accordance with international financial reporting standards (“**IFRS**”). The Issuer’s fiscal year ends on December 31, and references in the BNP Paribas disclosure to any specific fiscal year are to the twelve-month period ended December 31 of such year.

The Issuer, and its consolidated subsidiaries taken as a whole (the “**BNP Paribas Group**” or the “**Group**”), like all companies with securities listed on European securities exchanges, is required by European Union directives to adopt IFRS as of January 1, 2005, with retroactive effect to January 1, 2004. The Issuer has prepared and published financial statements with respect to the year ended December 31, 2004 in accordance with IFRS then in effect, and has published a simulation of the effect on its 2004 financial statements of the application of IFRS as endorsed by the European Union (which applies to financial statements for periods subsequent to January 1, 2005). The Interim Financial Statements are prepared in accordance with IFRS. For a discussion of the Issuer’s transition to IFRS, investors should refer to the document entitled “Reference Consolidated Financial Statements for Information to be Published in respect of the 2005 Financial Year”, which sets out in detail the effects of the transition to IFRS on the Group’s financial statements for the year ended December 31, 2004, that the Group filed with the AMF on September 16, 2005.

In this Prospectus, unless otherwise specified or the context requires, references to “euro”, “EUR” and “€” are to the single currency of the participating member states of the European Economic and Monetary Union, and references to “dollar”, “USD” and “US\$” are to the lawful currency of the United States of America.

In this Prospectus, all references to “billions” are references to one thousand million. Due to rounding, the numbers presented throughout the Prospectus may not add up precisely, and percentages may not reflect precisely absolute figures.

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## SUMMARY

*This summary must be read as an introduction to this Prospectus. Any decision by any investor to invest in the Notes should be based on a consideration of this Prospectus as a whole. The Issuer may have civil liability in respect of this summary, but only if it is misleading, inaccurate or inconsistent when read together with the other parts of this Prospectus. Where a claim relating to information contained in this Prospectus is brought before a court in a European Economic Area State (an “EEA State”), the plaintiff may, under the national legislation of the EEA State where the claim is brought, be required to bear the costs of translating this Prospectus before the legal proceedings are initiated.*

*Words and expressions defined in “Terms and Conditions of the Notes” herein shall have the same meanings in this summary.*

### Description of Issuer

The Group is one of the top global players in financial services, conducting retail, corporate and investment banking, private banking, asset management, insurance and specialized and other financial activities throughout the world. According to rankings published in July 2004 by “The Banker” (based on 2003 figures):

- based on total assets, the Group was the second largest banking group in France, the fifth largest in Europe, and the seventh largest in the world; and
- based on Tier 1 capital, the Group was the second, fourth and tenth largest banking group in France, Europe and the world, respectively.

The Group is a leading European provider of corporate and investment banking products and services and a leading provider of private banking and asset management products and services throughout the world. It provides retail banking and financial services to over 20 million individual customers throughout the world, in particular in Europe and the western United States.

The Group has offices in more than 85 countries. At December 31, 2004, the Group had consolidated assets of €905.9 billion (compared to €783.1 billion at December 31, 2003), consolidated gross total customer items of €266.9 billion (compared to €231.5 billion at December 31, 2003), consolidated customer deposits (including retail and negotiable certificates of deposit) of €328.3 billion (compared to €282.6 billion at December 31, 2003) and shareholders’ equity (Group share including income for the 2004 fiscal year) of €30.2 billion (compared to €28.3 billion at December 31, 2003). Net income, before taxes, non-recurring items and amortization of goodwill for the year ended December 31, 2004 was €7.6 billion (compared to €6.3 billion for the year ended December 31, 2003). Net income, Group share, for the year ended December 31, 2004 was €4.7 billion (compared to €3.8 billion for the year ended December 31, 2003).

The Group currently has long-term senior debt ratings of “Aa2” with stable outlook from Moody’s Investors Service, Inc. (“**Moody’s**”), “AA” with stable outlook from Standard and Poor’s Ratings Services, a division of The McGraw-Hill Companies, Inc. (“**Standard & Poor’s**”) and “AA” with stable outlook from Fitch Ratings. Moody’s has also assigned the Bank a Bank Financial Strength rating of “B+” and Fitch Ratings has assigned the Bank an individual rating of “A/B”.

The Group has three divisions: Retail Banking, Asset Management and Services and Corporate and Investment Banking. Operationally, these divisions are organized into five core businesses (French Retail Banking, International Retail Banking and Financial Services, Asset Management and Services, Corporate and Investment Banking and BNP Paribas Capital), as summarized below.

### The Notes

BNP Paribas is issuing US\$ 400,000,000 Undated Deeply Subordinated Non-Cumulative Notes outside the French Republic. The Notes will bear interest at a fixed rate of 6.25% per annum

from and including October 17, 2005 (the “Issue Date”), payable annually in arrears on October 17 of each year, commencing on October 17, 2006.

Payment of interest on the Notes will be mandatory if the Issuer pays dividends on its ordinary shares and in certain other circumstances described herein. Otherwise, the Issuer may elect, and in certain circumstances shall be required, not to pay interest falling due on the Notes. Any interest not paid shall be forfeited and shall no longer be due and payable by the Issuer. Interest accrual may also be reduced if the Issuer’s consolidated regulatory capital falls below required levels and in certain other circumstances.

The Notes are undated and have no final maturity. The Notes may, at the option of the Issuer but subject to the prior approval of the *Secrétariat général de la Commission bancaire* (“SGCB”) or its successor, be redeemed at par in whole or in part on October 17, 2011. In addition, the Notes may, in case of certain tax or regulatory events, be redeemed at par at any time (in whole but not in part), subject to the prior approval of the SGCB. The principal amount of the Notes may be written down to a minimum amount of one cent of one dollar if the Issuer incurs losses and certain regulatory capital events occur, subject to restoration in certain cases described herein. The Notes are subordinated to substantially all of the Issuer’s other obligations, including in respect of ordinarily subordinated debt instruments.

Application has been made for the Notes to be listed on the Luxembourg Stock Exchange and admitted to trading on the EU-regulated market of the Luxembourg Stock Exchange. The Notes are expected to be assigned a rating of “A1” by Moody’s Investors Service, Inc., “A+” by Standard & Poor’s Ratings Services and “AA-” by Fitch Ratings. A rating is not a recommendation to buy, sell or hold securities and may be subject to revision, suspension, reduction or withdrawal at any time by the relevant rating agency.

## **Risk Factors**

There are certain factors that may affect the Issuer’s ability to fulfill its obligations under the Notes. These are set out under “Risk Factors” herein, and include the following risk factors related to the Issuer, its operations and its industry:

- (i) Unforeseen events can interrupt the Bank’s operations and cause substantial losses and additional costs;
- (ii) Four main categories of risks are inherent to the Group’s activities:
  - *Credit Risk.* Credit risk is the risk of financial loss relating to the failure of an obligor to honor its contractual obligations;
  - *Market and Liquidity Risk.* Market risk is the risk related to earnings, which arises primarily from adverse movements of trading and non-trading market parameters; liquidity risk, which is also referred to as funding risk, is the inability of the Bank to meet its obligations at an acceptable cost in a given currency and location;
  - *Operational Risk.* Operational risk corresponds to the risk of losses due to inadequate or failed internal processes, or due to external events, whether deliberate, accidental or natural occurrences;
  - *Insurance Risk.* Insurance risk is the risk to earnings due to mismatches between expected and actual claims;
- (iii) An interruption in or a breach of the Bank’s information systems may result in lost business and other losses;
- (iv) The Bank is subject to extensive supervisory and regulatory regimes in France, elsewhere in Europe, the U.S., the Asia Pacific region and in the many countries around the world in which it operates; and



- (v) The Group's businesses and earnings can be affected by the fiscal or other policies and other actions of various regulatory authorities of France, other European Union or foreign governments and international agencies. The nature and impact of future changes in such policies and regulatory action are not predictable and are beyond the Group's control.

In addition, there are certain factors that are material for the purpose of assessing the risks related to the Notes, including the following:

- (i) The Notes are deeply subordinated obligations, which are the most junior debt instruments of the Issuer; in the event of liquidation, the Issuer's obligations under the Notes rank in priority only to any payments to holders of its equity securities;
- (ii) The principal amount of the Notes may be reduced to absorb the losses of the Issuer;
- (iii) For so long as the mandatory interest provisions of the Notes do not apply, the Issuer may elect, and in certain circumstances shall be required, not to pay interest falling due on the Notes on any Interest Payment Date, or to suspend interest payments, and this interest may be forfeited;
- (iv) There is no restriction on the amount of debt that the Issuer may issue or guarantee;
- (v) The Notes are undated securities in respect of which there is no fixed redemption or maturity date; with certain exceptions, the Issuer is under no obligation to redeem the Notes at any time;
- (vi) The Notes may be redeemed at the option of the Issuer under certain circumstances and there can be no assurance that, at the relevant time, Noteholders will be able to reinvest the amounts received upon redemption at a rate that will provide the same return as their investment in the Notes;
- (vii) There is currently no existing market for the Notes, and there can be no assurance that any market will develop for the Notes; and
- (viii) A Noteholder's effective yield on the Notes may be diminished by the tax impact on that Noteholder of its investment in the Notes.

## SUMMARY OF THE TERMS AND CONDITIONS OF THE NOTES

*The following summary is qualified in its entirety by the more detailed information included elsewhere in this Prospectus. Capitalized terms used but not defined in this summary shall bear the respective meanings ascribed to them under “Terms and Conditions of the Notes”. Prospective investors should also consider carefully, amongst other things, the factors set out under “Risk Factors”.*

<b>Issuer:</b>	BNP Paribas (the “ <b>Issuer</b> ” or the “ <b>Bank</b> ”)
<b>Description:</b>	US\$ 400,000,000 Undated Deeply Subordinated Non-Cumulative Notes (the “ <b>Notes</b> ”)
<b>Bookrunner:</b>	BNP Paribas UK Limited
<b>Structuring Advisor:</b>	BNP Paribas
<b>Fiscal Agent, Principal Paying Agent and Calculation Agent:</b>	BNP Paribas Securities Services
<b>Luxembourg Listing Agent:</b>	BNP Paribas Securities Services, Luxembourg Branch
<b>Method of Issue:</b>	The Notes will be issued on a syndicated basis.
<b>Denomination:</b>	US\$ 2,000 per Note.
<b>Original Principal Amount:</b>	US\$ 2,000 per Note, which amount may be permanently reduced in the event of a partial call as described below under “Call from the First Call Date”.
<b>Current Principal Amount:</b>	Equal to the principal amount of the Notes outstanding at any time, calculated on the basis of the Original Principal Amount of the Notes as such amount may be reduced pursuant to the application of the loss absorption mechanism and/or reinstated on one or more occasions, as described below under “Loss Absorption” and “Reinstatement”, respectively.
<b>Maturity:</b>	The Notes will be undated securities of the Issuer with no fixed redemption or maturity date.
<b>Form of the Notes:</b>	The Notes will be issued in dematerialized bearer form ( <i>au porteur</i> ). Title to the Notes will be evidenced in accordance with Article L.211-4 of the French <i>Code monétaire et financier</i> by book entries ( <i>inscription en compte</i> ) in the books of Euroclear France, which shall credit, upon issue, the accounts of account holders, including the depositary banks for Clearstream, Luxembourg and Euroclear. Transfer of Notes may only be effected through registration of the transfer in the books of account holders. No physical document of title will be issued in respect of the Notes.
<b>Status of the Notes:</b>	<p>The Notes are deeply subordinated notes issued pursuant to the provisions of Article L.228-97 of the French <i>Code de commerce</i>.</p> <p>The principal and interest on the Notes (which constitute <i>obligations</i> under French law) constitute direct, unconditional, unsecured, undated and deeply subordinated obligations (<i>titres subordonnés de dernier rang</i>) of the Issuer and rank and will rank <i>pari passu</i> among themselves and with all other present</p>



and future Parity Securities (as defined below), but shall be subordinated to the present and future *prêts participatifs* granted to the Issuer, *titres participatifs* issued by the Issuer, Ordinarily Subordinated Obligations (as defined below) and Unsubordinated Obligations (as defined below). In the event of liquidation, the Notes shall rank in priority to any payments to holders of Equity Securities (as defined below).

There will be no limitations on issuing debt at the level of the Issuer or of any consolidated subsidiaries.

**“Equity Securities”** means (a) the ordinary shares of the Issuer and (b) any other class of the Issuer’s share capital or other securities of the Issuer ranking junior to the Parity Securities.

**“Parity Securities”** means (x) any deeply subordinated obligations (*titres subordonnés de dernier rang*) or other instruments issued by the Issuer which (i) rank, or are expressed to rank, *pari passu* among themselves and with the Notes and behind the *prêts participatifs* granted to the Issuer, the *titres participatifs* issued by the Issuer, the Ordinarily Subordinated Obligations and Unsubordinated Obligations and (ii) meet the requirements to be eligible as Tier 1 Capital (as defined below) of the Issuer, or (y) any claim against the Issuer by any subsidiary of the Issuer under a support agreement, guarantee or other agreement or instrument issued by the Issuer in favor of any subsidiary of the Issuer that has issued or will issue preferred securities or preferred or preference shares, the proceeds of which issuance qualify as Tier 1 Capital of the Issuer (for the avoidance of doubt, “Parity Securities” include, without limitation, BNP Paribas’s Undated Deeply Subordinated Non-Cumulative Notes issued on June 29, 2005 and any claims under the support agreements relating to (i) BNP U.S. Funding L.L.C.’s 7.738% Noncumulative Preferred Securities, Series A, (ii) BNP Paribas Capital Preferred L.L.C.’s 9.003% Noncumulative Company Preferred Securities, (iii) BNP Paribas Capital Preferred II L.L.C.’s 7.00% Noncumulative Company Preferred Securities, (iv) BNP Paribas Capital Preferred III L.L.C.’s 6.625% Noncumulative Company Preferred Securities, (v) BNP Paribas Capital Preferred IV L.L.C.’s 6.342% Noncumulative Company Preferred Securities, (vi) BNP Paribas Capital Preferred V L.L.C.’s 7.20% Noncumulative Company Preferred Securities and (vii) BNP Paribas Capital Preferred VI L.L.C.’s 5.868% Noncumulative Company Preferred Securities).

**“Ordinarily Subordinated Obligations”** means any obligations (including any bonds or notes) of the Issuer which constitute direct, unconditional, unsecured and subordinated obligations of the Issuer and which at all times rank *pari passu* and without any preference among themselves and equally and ratably with any other existing or future Ordinarily Subordinated Obligations, behind Unsubordinated Obligations but in priority to Equity Securities, the Notes, Parity Securities, *prêts participatifs* granted to the Issuer and *titres participatifs* issued by the Issuer.

**“Unsubordinated Obligations”** means any obligations (including any bonds or notes) of the Issuer which constitute direct, unconditional, unsecured and unsubordinated obligations of the Issuer and which rank in priority to the Ordinarily Subordinated Obligations.

**Regulatory Treatment:**

The proceeds of the issue of the Notes will be treated, for regulatory purposes, as *fonds propres de base* of the Issuer (**“Tier 1 Capital”**). *Fonds propres de base* shall have the meaning given to it in Article 2 of *Règlement n° 90-02* dated February 23, 1990, as amended, of the *Comité de la Réglementation Bancaire et Financière* (the **“CRBF Regulation”**), or otherwise recognized as *fonds propres de base* by the *Secrétariat général de la Commission bancaire* (**“SGCB”**). The CRBF Regulation should be read in conjunction with the press release of the Bank for International Settlements dated October 27, 1998 concerning instruments eligible for inclusion in Tier 1 Capital (the **“BIS Press Release”**). The French language version of the BIS Press Release is attached to the report published annually by the SGCB entitled *“Modalités de calcul du ratio international de solvabilité”*.

**Negative Pledge:**

There will be no negative pledge in respect of the Notes.

**Events of Default:**

There will be no events of default in respect of the Notes. However, the Notes must be redeemed in the event of liquidation of the Issuer, in an amount calculated on the basis of the Original Principal Amount of the Notes.

**Interest:**

The Notes bear interest on their Current Principal Amount at a fixed rate of 6.25% per annum from, and including, October 17, 2005 (the **“Issue Date”**), payable annually in arrears on a non-cumulative basis on October 17 of each year (each an **“Interest Payment Date”**), commencing on October 17, 2006.

**“First Call Date”** means October 17, 2011.

**“Interest Period”** means the period beginning on (and including) the Issue Date and ending on (but excluding) the first Interest Payment Date and each successive period beginning on (and including) an Interest Payment Date and ending on (but excluding) the next succeeding Interest Payment Date.

Interest payments are subject to the provisions set forth below under **“Interest Payments”**, **“Loss Absorption”** and **“Reinstatement”**.

**Interest Payments:**

*Optional Non-Payment of Interest*

On each Interest Payment Date, the Issuer shall pay interest on the Notes accrued to that date in respect of the Interest Period ending immediately prior to such Interest Payment Date, subject to the provisions of the following paragraphs. The interest to be paid will be calculated on the basis of the Current Principal Amount of the Notes outstanding during any Interest Period.

For so long as the provisions set forth below under “Mandatory Interest Payment” do not apply, the Issuer may elect not to pay interest on any Interest Payment Date, in particular with a view to restoring its regulatory capital in order to ensure the continuity of its activities without weakening its financial structure.

Any amount of interest, excluding Broken Interest (as defined below), not so paid on an Interest Payment Date shall be forfeited and shall no longer be due and payable by the Issuer.

Furthermore, the Issuer shall be required *not* to pay interest on the Notes, subject to the provisions set forth below under “Mandatory Interest Payment”, if, on or at any time prior to the fifth Business Day prior to such Interest Payment Date, a Capital Deficiency Event (as defined below) has occurred or would occur upon payment of the interest due on such Interest Payment Date.

Notice of non-payment of interest on the Notes on any Interest Payment Date in accordance with the above provisions (an “**Interest Non-Payment Notice**”) shall be given to the Noteholders no later than two Business Days prior to the relevant Interest Payment Date. Furthermore, payment of any Broken Interest (as defined below) will not be made on such Interest Payment Date.

For the avoidance of doubt, the occurrence of a Capital Deficiency Event and any resulting notice will be effective only with respect to the interest amount due on the immediately following Interest Payment Date. As appropriate, the Issuer will make a new determination and deliver other notice(s) with respect to any subsequent Interest Payment Date in relation to which a Capital Deficiency Event is continuing or occurs again.

The amount of Broken Interest may be reduced pursuant to the provisions set forth below under “Loss Absorption”. At the option of the Issuer, any Broken Interest, to the extent not reduced to absorb losses, may be paid on the first Interest Payment Date after the end of a Capital Deficiency Event. Any Broken Interest not paid by the Issuer on such Interest Payment Date shall be forfeited.

“**Broken Interest**” means, with respect to the period from (and including) the immediately preceding Interest Payment Date (or in the case of the first Interest Payment Date, the Issue Date) to (but excluding) the date of the occurrence of a Capital Deficiency Event, the amount of interest accrued on the Notes during such period as calculated by the Calculation Agent.

“**Capital Deficiency Event**” means the first date on which either of the following events occurs:

- (a) the total risk-based consolidated capital ratio of the Issuer, calculated in accordance with Applicable Banking Regulations, falls below the minimum percentage required by Applicable Banking Regulations; or

- (b) the Issuer is notified by the SGCB, or its successor or any other relevant regulatory authority by which the Issuer is then-supervised (the “**Relevant Banking Regulator**”), that it has determined, in its sole discretion, in the view of the deteriorating financial condition of the Issuer, that the foregoing paragraph (a) of this definition would apply in the near term.

“**Applicable Banking Regulations**” means, at any time, the capital adequacy regulations then in effect of the regulatory authority in the French Republic (or if the Issuer becomes domiciled in a jurisdiction other than the French Republic, such other jurisdiction) that are applicable to the Issuer.

*Mandatory Interest Payment*

In the event that during the one-year period prior to any Interest Payment Date any of the following events occurs:

- (i) a declaration or payment of a dividend, or a payment of any nature by the Issuer on any Equity Securities (other than (x) a dividend or other distribution paid on the ordinary shares of the Issuer consisting solely of newly issued ordinary shares, or (y) a redemption, repurchase or acquisition of any Equity Securities); or
- (ii) a payment of any nature by the Issuer on any Parity Securities (other than (x) a Reinstatement (as defined under “Reinstatement” below), or (y) any payment on any Parity Securities that was required to be made as a result of a dividend or other payment having been made on any Equity Securities or Parity Securities, or (z) a redemption, repurchase or acquisition of any Parity Securities);

then irrespective of whether an Interest Non-Payment Notice has been delivered and is outstanding, the Issuer shall be required to pay interest on the Notes accrued in respect of the Interest Period ending immediately prior to such Interest Payment Date (such payment, a “**Mandatory Interest Payment**” and such date a “**Mandatory Interest Payment Date**”); *provided, however*, that if a Capital Deficiency Event occurred during the Interest Period immediately preceding such Interest Payment Date, such Interest Payment Date shall only be a Mandatory Interest Payment Date if such Capital Deficiency Event occurred prior to the relevant event described in sub-paragraph (i) or (ii) of this section.

The interest amount payable on each Note in relation to a Mandatory Interest Payment will be calculated as follows:

- (x) If the Mandatory Interest Payment results from an event described in sub-paragraph (i) of this section, it will be calculated on the basis of the Current Principal Amount of such Note, and
- (y) if the Mandatory Interest Payment results from an event described in sub-paragraph (ii) of this section, it shall be equal to the Notional Interest Amount.

**“Notional Interest Amount”** means, in respect of any Note, the amount of interest which would have been payable, absent a voluntary or automatic non-payment of interest pursuant to “Optional Non-Payment of Interest” above, for the one-year period prior to, and including, such Interest Payment Date, calculated on the basis of the Current Principal Amount of such Note, multiplied by the Underlying Security Payment Percentage, as calculated by the Issuer prior to the relevant Interest Payment Date.

**“Underlying Security”** means the class of Parity Securities in respect of which the payments made represent the highest proportion of the payment which would have been payable during the one-year period prior to, and including, the relevant Interest Payment Date.

**“Underlying Security Payment Percentage”** means the ratio, calculated as a percentage, equal to (i) the payments effectively made on the Underlying Security during the one-year period prior to, and including, the relevant Interest Payment Date, divided by (ii) the payment which would have been payable during such period on the Underlying Security.

#### **Loss Absorption:**

In the event that at any time a Capital Deficiency Event has occurred, the board of directors of the Issuer will convene an extraordinary shareholders’ meeting to be held during the three months following the occurrence of such event in order to propose a share capital increase or any other measure regarded as necessary or useful to remedy such event. If a share capital increase or any such other proposed measure is not adopted by the Issuer’s extraordinary shareholders’ meeting or if the share capital increase is not sufficiently subscribed to remedy such event in full, or if such event remains in effect on the last day of the fiscal half-year during which the said event has occurred, the board of directors of the Issuer will implement, within ten days following the last day of such fiscal half-year, a reduction of the amount of Broken Interest, if any, and thereafter the Current Principal Amount of the Notes (a **“Loss Absorption”**) necessary in order to remedy such event to the fullest extent possible. Notwithstanding anything to the contrary, the nominal value of the Notes shall never be reduced to an amount lower than one cent of one dollar (US\$ 0.01).

The amounts by which Broken Interest and, as the case may be, the Current Principal Amount of the Notes are reduced to enable the Issuer to absorb losses in order to ensure the continuity of its activities, will be the lower of (i) the amount of consolidated losses of the Issuer which, following a Capital Deficiency Event, have not been allocated to its shareholders’ funds (*capitaux propres*) as set out in its consolidated financial statements and (ii) the sum of the amounts of Broken Interest, if any, and the Current Principal Amount of the Notes before such reduction.

For the avoidance of doubt, the first remedy to the Capital Deficiency Event will be the share capital increase or the implementation of any other measures adopted by the

extraordinary shareholders' meeting of the Issuer to remedy such Capital Deficiency Event. To the extent such increase of share capital or other measures are not sufficient, the Loss Absorption will be applied first against the amount of Broken Interest, if any, and thereafter, if necessary, against the Current Principal Amount of the Notes as herein described.

**Reinstatement:**

If, following a Loss Absorption, the Issuer has recorded positive Consolidated Net Income for at least two consecutive fiscal years (a “**Return to Profitability**”) following the end of the most recent fiscal year in which there was a Loss Absorption (the “**Absorption Year End**”), the Issuer shall increase the Current Principal Amount of the Notes (a “**Reinstatement**”) on any date and in an amount that it determines (either up to the Original Principal Amount or up to any other amount lower than the Original Principal Amount), to the extent any such Reinstatement complies with Applicable Banking Regulations.

Irrespective of whether a Return to Profitability has occurred, the Issuer shall increase the Current Principal Amount of the Notes in an amount equal to the Mandatory Reinstatement Amount (as defined below) on any date that it determines if (i) a Mandatory Reinstatement Event (as defined below) has occurred since the Absorption Year End, and (ii) the Issuer has not since such Mandatory Reinstatement Event occurred made a Reinstatement up to the Original Principal Amount pursuant to the provisions of the immediately preceding paragraph.

For the avoidance of doubt, following a Reinstatement the Current Principal Amount of the Notes may never be greater than the Original Principal Amount of the Notes.

“**Consolidated Net Income**” means the consolidated net income (excluding minority interests) of the Issuer, as calculated and set out in the audited annual consolidated financial statements of the Issuer.

“**Mandatory Reinstatement Event**” means (i) a Restricted Payment, or (ii) the increase by the Issuer of the principal amount of any Parity Securities other than the Notes, the terms of which contain a provision for the reinstatement of their principal amount similar to that of the Notes.

“**Mandatory Reinstatement Amount**” means the lesser of (i) the difference between the Original Principal Amount of the Notes and the Current Principal Amount of the Notes, and (ii) the positive Consolidated Net Income of the Issuer as set out in its latest audited annual consolidated financial statements. Additionally, for the purpose of a Reinstatement pursuant to clause (ii) of the definition of “Mandatory Reinstatement Event”, the Mandatory Reinstatement Amount will be computed so that the Notes will be reinstated by a principal amount which is the same in percentage terms as the largest increase in principal amount of such Parity Securities.



**“Restricted Payment”** means an Equity Securities Payment or a Parity Securities Payment.

**“Equity Securities Payment”** means any declaration or payment of a dividend on any Equity Securities (other than, for the avoidance of doubt, (x) a dividend or other distribution on the ordinary shares of the Issuer consisting solely of newly-issued ordinary shares, or (y) any redemption, purchase or acquisition of Equity Securities by any means).

**“Parity Securities Payment”** means any payment of any nature on any Parity Securities (other than, for the avoidance of doubt, (x) any payment on any Parity Securities (other than the Notes) that was required to be made as a result of a dividend or other payment having been made on any Equity Securities or Parity Securities, or (y) any redemption, purchase or acquisition of Parity Securities by any means).

**Call from the First Call Date:**

The Issuer will have the right, subject to the prior consent of the Relevant Banking Regulator, to call the Notes in whole or in part on the Interest Payment Date falling on the First Call Date or upon any Interest Payment Date thereafter. Such call will be exercised at a price (the **“Base Call Price”**) equal to the Original Principal Amount of the Notes plus any accrued but unpaid interest thereon.

In the case of a partial call, this shall be performed by way of an equal reduction of the Current Principal Amount of each of the Notes. For the avoidance of doubt, such reduction of Current Principal Amount is distinct from the Loss Absorption mechanism and the resulting reduced Current Principal Amount. Unlike in the case of a Loss Absorption, following a partial call the Original Principal Amount of each Note shall be permanently reduced by the amount of principal called and paid for.

**Call before the First Call Date:**

The Issuer will have the right, and in certain circumstances the obligation, to redeem the Notes at the Base Call Price at any time (in whole but not in part) in case of imposition of withholding tax on interest payments on the Notes, in case of loss of deductibility of interest paid on the Notes for corporate income tax purposes and in case of loss of Tier 1 Capital status of the Notes due to a change in Applicable Banking Regulations, subject to the prior consent of the Relevant Banking Regulator.

**Taxation:**

The Notes will, upon issue, benefit from an exemption from deduction for withholding tax as provided under “Terms and Conditions of the Notes”. If French law shall require any such deduction, the Issuer shall, to the extent permitted by law and subject to certain exceptions, pay additional amounts.

**Representation of Noteholders:**

Noteholders will form a *masse* governed by the provisions of the *Code de commerce* (French Commercial Code) and by French decree No. 67-236 of March 23, 1967, as amended, subject to certain exceptions, in defense of their common interests.

<b>Use of proceeds:</b>	The net proceeds of the issue of the Notes amount to approximately US\$ 396,000,000 and will be used for general corporate purposes by the Issuer.
<b>Clearing Systems:</b>	The Notes will be accepted for clearance through Euroclear France, Clearstream, Luxembourg and Euroclear.
<b>Listing:</b>	Application has been made for the Notes to be listed on the Luxembourg Stock Exchange and admitted to trading on the EU-regulated market of the Luxembourg Stock Exchange.
<b>Selling Restrictions:</b>	The Notes have not been and will not be registered under the U.S. Securities Act and are being offered and sold only outside the United States in accordance with Regulation S thereunder. Moreover, the Notes have not been and will not be registered in any country or jurisdiction in order to permit a public offering and related selling restrictions therefore apply in various jurisdictions. See “Subscription and Sale”.
<b>Ratings:</b>	<p>The Notes are expected to be assigned a rating of “A1” by Moody’s Investors Service, Inc., “A+” by Standard &amp; Poor’s Ratings Services and “AA-” by Fitch Ratings. A rating is not a recommendation to buy, sell or hold securities and may be subject to revision, suspension, reduction or withdrawal at any time by the relevant rating agency. A revision, suspension, reduction or withdrawal of a rating may adversely affect the market price of the Notes.</p> <p>As defined by Standard &amp; Poors, an obligation rated ‘A’ is somewhat more susceptible to the adverse effects of changes in circumstances and economic conditions than obligations in higher rated categories. However, the obligor’s capacity to meet its financial commitment on the obligation is still strong. The ratings from ‘AA’ to ‘CCC’ may be modified by the addition of a plus or minus sign to show relative standing within the major rating categories.</p> <p>Obligations rated ‘A’ by Moody’s are considered upper-medium grade and are subject to low credit risk. Moody’s appends numerical modifiers 1, 2 and 3 to each generic rating classification from Aa through Caa. The modifier 1 indicates that the obligation ranks in the higher end of its generic rating category.</p> <p>As defined by Fitch an AA rating means very high credit quality and an expectation of very low credit risk. They indicate very strong capacity for payment of financial commitments. This capacity is not significantly vulnerable to foreseeable events. The modifiers “+” or “-” may be appended to a rating to denote relative status within major rating categories.</p>
<b>Governing Law:</b>	French law
<b>Note Codes:</b>	<p>ISIN: FR0010239368</p> <p>Common Code: 023216787</p>

## RISK FACTORS

*Prospective purchasers of the Notes offered hereby should consider carefully, among other things and in light of their financial circumstances and investment objectives, all of the information in this Prospectus and, in particular, the risk factors set forth below (which the Issuer, in its reasonable opinion, believes represents or may represent the risk factors known to it which may affect the Issuer's ability to fulfill its obligations under the Notes) in making an investment decision. Investors may lose the value of their entire investment in certain circumstances.*

### **Factors Relating to the Bank, its Operations and the Banking Industry**

***Unforeseen events can interrupt the Bank's operations and cause substantial losses and additional costs.***

Unforeseen events like severe natural catastrophes, terrorist attacks or other states of emergency can lead to an abrupt interruption of the Bank's operations, which can cause substantial losses. Such losses can relate to property, financial assets, trading positions and to key employees. Such unforeseen events can also lead to additional costs (such as relocation of employees affected) and increase the Bank's costs (such as insurance premiums). Such events may also make insurance coverage for certain risks unavailable and thus increase the Bank's risk.

### ***Four main categories of risks are inherent to the Bank's activities:***

- ***Credit Risk.*** Credit risk is the risk of financial loss relating to the failure of an obligor to honor its contractual obligations. Credit risk arises in lending activities and also in various other activities where the Bank is exposed to the risk of counterparty default, such as its trading, capital markets and settlement activities.
- ***Market and Liquidity Risk.*** Market risk is the risk related to earnings, which arises primarily from adverse movements of trading and non-trading market parameters. Trading market parameters include, but are not limited to, foreign exchange rates, bond prices, security and commodity prices, derivatives prices and prices of other marketable assets such as real estate or cars. Trading market parameters also include derivations of the items previously mentioned, such as interest rates, credit spreads, implied volatility or implied correlation. Non-trading market parameters include parameters based on assumptions or on statistical analysis, such as models and statistical correlation, respectively.

Liquidity is also an important component of market risk. In instances of little or no liquidity, a market instrument or transferable asset may not be negotiable at its estimated value. A lack of liquidity can arise due to a lack of volume, legal restrictions or a one-way market.

Market risk arises in trading portfolios and in non-trading portfolios. In non-trading portfolios, it encompasses:

- The risk associated with asset and liability management, which is the risk to earnings arising from asset and liability mismatches in the banking book or in the insurance business. This risk is driven primarily by interest rate risk.
- The risk associated with investment activities, which is directly connected to changes in the value of invested assets within equity portfolios.
- The risk associated with certain other activities, such as real estate or car leasing, which is indirectly affected by changes in the value of negotiable assets held during the normal course of business.

Liquidity risk, which is also referred to as funding risk, is the inability of the Bank to meet its obligations at an acceptable cost in a given currency and location.

- ***Operational Risk.*** Operational risk corresponds to the risk of losses due to inadequate or failed internal processes, or due to external events, whether deliberate, accidental or

natural occurrences. Internal processes include, but are not limited to, human resources and information systems. External events include floods, fires, earthquakes or terrorist attacks.

- *Insurance Risk.* Insurance risk is the risk to earnings due to mismatches between expected and actual claims. Depending on the insurance product, this risk is influenced by macroeconomic changes, changes in customer behavior, changes in public health, pandemics and catastrophic events (earthquake, industrial disaster, terrorism, etc.).

It is important to distinguish between the different categories of risk because each category requires specific measuring and monitoring systems. Nevertheless, the growing complexity of the Group's businesses and products means that the categories of risk increasingly overlap.

***An interruption in or a breach of the Bank's information systems may result in lost business and other losses.***

As with most other banks, the Bank relies heavily on communications and information systems to conduct its business. Any failure or interruption or breach in security of these systems could result in failures or interruptions in the Bank's customer relationship management, general ledger, deposit, servicing and/or loan organization systems. The Bank cannot provide assurances that such failures or interruptions will not occur or, if they do occur, that they will be adequately addressed. The occurrence of any failures or interruptions could have a material adverse effect on the Bank's financial condition and results of operations.

***The Bank is subject to extensive supervisory and regulatory regimes in France, elsewhere in Europe, the U.S., the Asia Pacific region and in the many countries around the world in which it operates.***

Regulatory compliance risk arises from a failure or inability to comply fully with the laws, regulations or codes applicable specifically to the financial services industry. Non-compliance could lead to fines, public reprimand, damage to reputation, enforced suspension of operations or, in extreme cases, withdrawal of authorization to operate.

The Group's businesses and earnings can be affected by the fiscal or other policies and other actions of various regulatory authorities of France, other European Union or foreign governments and international agencies. The nature and impact of future changes in such policies and regulatory action are not predictable and are beyond the Group's control.

***Other areas where changes could have an impact include, inter alia:***

- the monetary, interest rate and other policies of central banks and regulatory authorities;
- general changes in government or regulatory policy that may significantly influence investor decisions in particular markets in which the Group operates;
- general changes in regulatory requirements, for example, prudential rules relating to the capital adequacy framework;
- changes in the competition and pricing environment;
- changes in the financial reporting environment;
- expropriation, nationalization, confiscation of assets and changes in legislation relating to foreign ownership; and
- other unfavorable political, military or diplomatic developments producing social instability or legal uncertainty which in turn may affect demand for the Group's products and services.

Each of France's and the global financial services market remains highly competitive and innovative competition comes both from incumbent players and a steady stream of new market entrants. The landscape is expected to remain highly competitive in all the Group's businesses, which could adversely affect the Group's profitability.

## **Factors Relating to the Notes**

### ***The Notes are deeply subordinated obligations.***

The Issuer's obligations under the Notes are deeply subordinated obligations of the Issuer which are the most junior debt instruments of the Issuer, ranking *pari passu* among themselves and with all other present and future Parity Securities, and subordinated to and ranking behind the claims of all other unsubordinated and ordinarily subordinated creditors of the Issuer, lenders in relation to *prêts participatifs* granted to the Issuer and holders of *titres participatifs* issued by the Issuer. In the event of liquidation, the Issuer's obligations under the Notes rank in priority only to any payments to holders of Equity Securities.

### ***The principal amount of the Notes may be reduced to absorb losses of the Issuer.***

The Notes are being issued for capital adequacy regulatory purposes with the intention and purpose of being eligible as Tier 1 Capital of the Issuer. See "Terms and Conditions of the Notes—Status of the Notes and Subordination" and "Capital Adequacy of the BNP Paribas Group" below. Such eligibility depends upon a number of conditions being satisfied, which are reflected in the Terms and Conditions of the Notes. One of these relates to the ability of the Notes and the proceeds of their issue to be available to absorb any losses of the Issuer. Accordingly, in certain circumstances and/or upon the occurrence of certain events, payments of interest under the Notes may be restricted and, in certain cases, forfeited and the amount of Broken Interest and the Current Principal Amount of the Notes may be reduced, nearly to zero. See "Terms and Conditions of the Notes – Loss Absorption and Return to Profitability".

### ***There are certain restrictions on payments under the Notes.***

For so long as the mandatory interest provisions do not apply, the Issuer may elect, and in certain circumstances shall be required, not to pay interest falling due on the Notes on any Interest Payment Date. Any interest not so paid on any such Interest Payment Date shall be forfeited and shall no longer be due and payable by the Issuer, save as otherwise provided. See "Terms and Conditions of the Notes – Interest and Interest Suspension".

In addition, in certain circumstances, payment of interest will be suspended automatically upon the occurrence of a Capital Deficiency Event. See "Terms and Conditions of the Notes – Interest and Interest Suspension".

### ***There is no limitation on issuing debt.***

There is no restriction on the amount of debt that the Issuer may issue or guarantee. The Issuer and its subsidiaries and affiliates may incur additional indebtedness or grant guarantees in respect of indebtedness of third parties, including indebtedness or guarantees that rank senior in priority of payment to the Notes. If the Issuer's financial condition were to deteriorate, the Noteholders could suffer direct and materially adverse consequences, including suspension of interest and reduction of interest and principal and, if the Issuer were liquidated (whether voluntarily or involuntarily), the Noteholders could suffer loss of their entire investment.

### ***The Notes are undated securities.***

The Notes are undated securities in respect of which there is no fixed redemption or maturity date. The Issuer is under no obligation to redeem the Notes at any time (except as provided in "Terms and Conditions of the Notes—Redemption and Purchase").

The Noteholders have no right to require redemption of the Notes, except if a judgment is issued for the insolvent judicial liquidation (*liquidation judiciaire*) of the Issuer or if the Issuer is liquidated for any other reason. See “Terms and Conditions of the Notes—Mandatory Redemption” below.

***The Notes may be redeemed under certain circumstances.***

The Notes are undated securities in respect of which there is no fixed redemption or maturity date. Nevertheless, the Notes may be redeemed at the option of the Issuer (i) in whole or in part on the First Call Date and on any Interest Payment Date thereafter and (ii) in whole (but not in part) at any time for certain tax or regulatory reasons. See “Terms and Conditions of the Notes—Redemption and Purchase”.

In certain circumstances for tax reasons (see “Terms and Conditions of the Notes—Redemption and Purchase”), the Issuer will be required to redeem the Notes in whole (but not in part).

In each case, early redemption of the Notes is subject to the prior approval of the Relevant Banking Regulator.

There can be no assurance that, at the relevant time, Noteholders will be able to reinvest the amounts received upon redemption at a rate that will provide the same return as their investment in the Notes.

***There is no prior market for the Notes.***

There is currently no existing market for the Notes, and there can be no assurance that any market will develop for the Notes or that Noteholders will be able to sell their Notes in the secondary market. There is no obligation to make a market in the Notes. Application has been made for the Notes to be listed on the Luxembourg Stock Exchange and admitted to trading on the EU-regulated market of the Luxembourg Stock Exchange.

***A Noteholder’s effective yield on the Notes may be diminished by the tax impact on that Noteholder of its investment in the Notes.***

Payments of interest on the Notes, or profits realized by the Noteholder upon the sale or repayment of the Notes, may be subject to taxation in its home jurisdiction or in other jurisdictions in which it is required to pay taxes. The tax impact on Noteholders generally in France and as a result of the entry into force of the EU Directive 2003/48/EC on the taxation of savings income is described under “Taxation” below; however, the tax impact on an individual Noteholder may differ from the situation described for Noteholders generally. The Issuer advises all investors to contact their own tax advisors for advice on the tax impact of an investment in the Notes.



## DOCUMENTS INCORPORATED BY REFERENCE

This Prospectus should be read and construed in conjunction with the following documents which have been previously published or are published simultaneously with this Prospectus and that have been filed with the Luxembourg competent authority for the purpose of the Prospectus Directive and the relevant implementing measures in the Grand Duchy of Luxembourg, and shall be incorporated in, and form part of, this Prospectus:

- (a) the audited consolidated financial statements of BNP Paribas as at, and for the years ended, December 31, 2003 and 2004 (the “**2003 Financial Statements**” and the “**2004 Financial Statements**” respectively, including the statutory auditors’ reports thereon (together, the “**Auditors’ Reports**”)); and
- (b) the unaudited consolidated financial statements of BNP Paribas as of and for the six months ended June 30, 2004 and June 30, 2005, and the related notes and Auditors’ “limited review” report; and
- (c) the “*Document de Référence*” filed with the “*Autorité des marchés financiers*” (the “**AMF**”) under the number D.04-0263 dated March 16, 2004 (except section entitled “Attestation des Commissaires aux Comptes”, p.193-194) and further updated under the number D.04-0263-A01 dated May 7, 2004 (except section “III.2. Attestation des Responsables du Contrôle des Comptes”, p.30-31), under the number D.04-0263-A02 dated September 3, 2004 (except section “IX.2. Attestation des Responsables du Contrôle des Comptes”, p.106-107) and under the number D.04-0263-A03 dated November 16, 2004 (except section “III.2. Attestation des Responsables du Contrôle des Comptes”, p.28-29); and
- (d) the “*Document de Référence*” filed with the AMF under the number D.O5-0151 dated February 25, 2005 (except section entitled “Attestation des Commissaires aux Comptes”, p.202-203) and further updated under the number D.O5-0151-A01 dated March 24, 2005 (except section “III.2. Attestation des Responsables du Contrôle des Comptes”, p.40-41), under the number D.O5-0151-A02 dated May 23, 2005 (except section “V.2. Attestation des Responsables du Contrôle des Comptes”, p.30-31) and under the number D.O5-0151-A03 dated September 16, 2005 (except section entitled “Attestation du Responsable du document de référence et du complément d’information”, p.310),

save that any statement contained herein or in a document all or the relative portion of which is incorporated by reference herein shall be modified or superseded for the purpose of this Prospectus to the extent that a statement contained in any such subsequent document all or the relevant portion of which is incorporated by reference herein modifies or supersedes such earlier statement (whether expressly, by implication or otherwise).

The information incorporated by reference above is available as follows:

Information Incorporated by Reference	Reference
<i>2003 Financial Statements</i>	
Consolidated Balance Sheet	Pages 178 & 179 of the 2003 Annual Report
Consolidated Profit & Loss Account	Page 180 of the 2003 Annual Report
Consolidated Statement of Cashflows	Page 181 of the 2003 Annual Report
Appendices/Notes	Pages 182 to 252 of the 2003 Annual Report
Statutory Auditors’ Report on the Consolidated Financial Statements	Pages 253 & 254 of the 2003 Annual Report

Information Incorporated by Reference	Reference
<i>2004 Financial Statements</i>	
Consolidated Balance Sheet	Pages 194 & 195 of the 2004 Annual Report
Consolidated Profit & Loss Account	Page 196 of the 2004 Annual Report
Consolidated Statement of Cashflows	Page 197 of the 2004 Annual Report
Appendices/Notes	Pages 198 to 266 of the 2004 Annual Report
Statutory Auditors' Report on the Consolidated Financial Statements	Pages 267 & 268 of the 2004 Annual Report
Consolidated interim financial statements of BNP Paribas as at, and for the six months ended, June 30, 2004	" <i>Actualisation du Document de Référence</i> " filed with the AMF under the number D.04-0263-A02 dated September 3, 2004
<i>2005 Interim Financial Statements</i>	
Consolidated interim financial statements of BNP Paribas as at, and for the six months ended, June 30, 2005	" <i>Actualisation du Document de Référence</i> " filed with the AMF under the number D.O5-0151-A03 dated September 16, 2005 (the " <i>Actualisation</i> ")
Consolidated Balance Sheet	Page 39 of the <i>Actualisation</i>
Consolidated Profit & Loss Account	Page 38 of the <i>Actualisation</i>
Consolidated Statement of Cashflows	Page 42 of the <i>Actualisation</i>
Appendices/Notes	Page 43 of the <i>Actualisation</i>
Statutory Auditors' Review Report on the Interim Consolidated Financial Statements for the Six Months ended June 30, 2005 ( <i>Rapport d'examen limité sur les comptes consolidés au 30 juin 2005</i> )	Page 95 of the <i>Actualisation</i>
<i>Reference Consolidated Financial Statements</i>	
Reference Consolidated Financial Statements for Information to be Published in respect of the 2005 Financial Year – Effects of the Transition to IFRS on the Financial Statements for the year ended December 31, 2004	" <i>Actualisation du Document de Référence</i> " filed with the AMF under the number D.O5-0151-A03 dated September 16, 2005

The information contained in the documents incorporated by reference listed in the table above is required to be furnished under European law and regulation; the documents incorporated by reference also contain certain additional information for the information of investors. The Issuer will provide, without charge, to each person to whom a copy of this Prospectus has been delivered, upon the oral or written request of such person, a copy of any or all of the documents which or portions of which are incorporated herein by reference. Written or oral requests for such documents should be directed to the Issuer at its principal office set out at the end of this Prospectus. In addition, such documents will be available free of charge from the specified office in Luxembourg of BNP Paribas Securities Services, as well as on the website of the Luxembourg Stock Exchange ([www.bourse.lu](http://www.bourse.lu)).

## TERMS AND CONDITIONS OF THE NOTES

The issue outside the French Republic of the US\$ 400,000,000 Undated Deeply Subordinated Non-Cumulative Notes (the “**Notes**”) of BNP Paribas (the “**Issuer**”) was decided on October 4, 2005 by the Chief Executive Officer (*Directeur Général*) of the Issuer, acting pursuant to a resolution of the board of directors (*conseil d’administration*) of the Issuer dated May 18, 2005. The Notes are issued with the benefit of a fiscal agency agreement (the “**Fiscal Agency Agreement**”), expected to be dated on or about October 17, 2005 among the Issuer, BNP Paribas Securities Services as fiscal agent and principal paying agent (the “**Fiscal Agent**”, which expression shall, where the context so admits, include any successor for the time being of the Fiscal Agent), the other paying agents named therein (together, the “**Paying Agents**”, which expression shall, where the context so admits, include the Fiscal Agent and any successors for the time being of the Paying Agents or any additional paying agents appointed thereunder from time to time) and BNP Paribas Securities Services, as calculation agent (the “**Calculation Agent**”, which expression shall, where the context so admits, include any successor for the time being of the Calculation Agent). References below to the “**Agents**” shall be to the Fiscal Agent, the Paying Agents and/or the Calculation Agent, as the case may be. Copies of the Fiscal Agency Agreement are available for inspection at the specified offices of the Paying Agents. References below to “**Conditions**” are, unless the context otherwise requires, to the numbered paragraphs below.

### 1. DEFINITIONS

For the purposes of these Conditions:

“**Absorption Year End**” means the end of the most recent fiscal year in which there was a Loss Absorption.

“**Account Holders**” has the meaning set forth in Condition 2.

“**Agents**” has the meaning set forth in the preamble to these Conditions.

“**Alternate Representative**” has the meaning set forth in Condition 10.2.

“**Applicable Banking Regulations**” means, at any time, the capital adequacy regulations then in effect of the regulatory authority in the French Republic (or if the Issuer becomes domiciled in a jurisdiction other than the French Republic, such other jurisdiction) that are applicable to the Issuer.

“**Base Call Price**” has the meaning set forth in Condition 6.2.

“**BIS Press Release**” has the meaning set forth in Condition 3.

“**Broken Interest**” is only applicable with respect to an Interest Period whose Interest Payment Date is an Optional Interest Payment Date and means, with respect to the period from (and including) the immediately preceding Interest Payment Date (or in the case of the first Interest Payment Date, the Issue Date) to (but excluding) the date of the occurrence of a Capital Deficiency Event, the amount of interest accrued on the Notes during such period as calculated by the Calculation Agent.

“**Calculation Agent**” has the meaning set forth in the preamble to these Conditions.

“**Capital Deficiency Event**” means the first date on which either of the following events occurs:

- (a) the total risk-based consolidated capital ratio of the Issuer, calculated in accordance with Applicable Banking Regulations, falls below the minimum percentage required by Applicable Banking Regulations; or
- (b) the Issuer is notified by the Relevant Banking Regulator that it has determined, in its sole discretion, in view of the deteriorating financial condition of the Issuer, that the foregoing paragraph (a) of this definition would apply in the near term.

A Capital Deficiency Event shall be deemed to occur pursuant to paragraph (a) above on the date on which the Issuer publishes its annual or half-year results indicating that the total risk-based consolidated capital ratio has fallen below the relevant level, or on any such other date on which the Issuer determines that such ratio has fallen below such level.

“**Clearstream, Luxembourg**” has the meaning set forth in Condition 2.

“**Consolidated Net Income**” means the consolidated net income (excluding minority interests) of the Issuer, as calculated and set out in the audited annual consolidated financial statements of the Issuer.

“**CRBF Regulation**” has the meaning set forth in Condition 3.

“**Current Principal Amount**” means the principal amount of the Notes outstanding at any time, calculated on the basis of the Original Principal Amount of the Notes as such amount may be reduced pursuant to the application of the Loss Absorption mechanism and/or reinstated on one or more occasions, pursuant to Conditions 5.1 and 5.2, respectively.

“**End of Capital Deficiency Event**” means, following a Capital Deficiency Event, the first date on which either of the following events occurs:

- (a) if the Capital Deficiency Event occurred pursuant to paragraph (a) of the definition of Capital Deficiency Event, the total risk-based consolidated capital ratio of the Issuer, calculated in accordance with Applicable Banking Regulations, complies with the minimum percentage required in accordance with Applicable Banking Regulations; or
- (b) if the Capital Deficiency Event occurred pursuant to paragraph (b) of the definition of Capital Deficiency Event, the notification by the Relevant Banking Regulator to the Issuer that it has determined, in its sole discretion, in view of the financial condition of the Issuer, that the circumstances which resulted in the Capital Deficiency Event have ended.

An End of Capital Deficiency Event shall be deemed to occur pursuant to paragraph (a) above on the date on which the Issuer publishes its annual or half-year results indicating that the total risk-based consolidated capital ratio has been restored to the relevant level, or on any such other date on which the Issuer determines that such ratio has been so restored.

“**Equity Securities**” means (a) the ordinary shares of the Issuer and (b) any other class of the Issuer’s share capital or other securities of the Issuer ranking junior to the Parity Securities.

“**Equity Securities Payment**” means any declaration or payment of a dividend on any Equity Securities (other than, for the avoidance of doubt, (x) a dividend or other distribution on the ordinary shares of the Issuer consisting solely of newly-issued ordinary shares, or (y) any redemption, purchase or acquisition of Equity Securities by any means).

“**Euroclear**” has the meaning set forth in Condition 2.

“**Euroclear France**” has the meaning set forth in Condition 2.

“**Euro-zone**” means the region comprised of member states of the European Union which have adopted the Euro as their national currency in accordance with the Treaty establishing the European Community, as amended.

“**First Call Date**” means October 17, 2011.

“**Fiscal Agency Agreement**” has the meaning set forth in the preamble to these Conditions.

“**Fiscal Agent**” has the meaning set forth in the preamble to these Conditions.

**“Interest Amount”** has the meaning set forth in Condition 4.2.1.

**“Interest Payment Date”** has the meaning set forth in Condition 4.1.

**“Interest Non-Payment Notice”** has the meaning set forth in Condition 4.3.

**“Interest Period”** means the period beginning on (and including) the Issue Date and ending on (but excluding) the first Interest Payment Date and each successive period beginning on (and including) an Interest Payment Date and ending on (but excluding) the next succeeding Interest Payment Date.

**“Issue Date”** means October 17, 2005.

**“Issuer”** means BNP Paribas.

**“Loss Absorption”** has the meaning set forth in Condition 5.

**“Mandatory Interest Payment”** means the amount of interest due on any Mandatory Interest Payment Date, as calculated in accordance with Condition 4.3.1.

**“Mandatory Interest Payment Date”** means each Interest Payment Date as to which at any time during the one-year period prior to such Interest Payment Date any of the following events occurs:

- (i) a declaration or payment of a dividend, or a payment of any nature by the Issuer on any Equity Securities (other than (x) a dividend or other distribution paid on the ordinary shares of the Issuer consisting solely of newly-issued ordinary shares, or (y) a redemption, repurchase or acquisition of any Equity Securities); or
- (ii) a payment of any nature by the Issuer on any Parity Securities (other than (x) a Reinstatement, or (y) any payment on any Parity Securities that was required to be made as a result of a dividend or other payment having been made on any Equity Securities or Parity Securities, or (z) a redemption, repurchase or acquisition of any Parity Securities),

*provided, however*, that if a Capital Deficiency Event occurred during the Interest Period immediately preceding such Interest Payment Date, such Interest Payment Date shall only be a Mandatory Interest Payment Date if such Capital Deficiency Event occurred prior to the relevant event described in sub-paragraph (i) or (ii) above.

**“Mandatory Reinstatement Amount”** means the lesser of (i) the difference between the Original Principal Amount of the Notes and the Current Principal Amount of the Notes, and (ii) the positive Consolidated Net Income of the Issuer as set out in its latest audited annual consolidated financial statements. Additionally, for the purpose of a Reinstatement pursuant to clause (ii) of the definition of “Mandatory Reinstatement Event”, the Mandatory Reinstatement Amount will be computed so that the Notes will be reinstated by a principal amount which is the same in percentage terms as the largest increase in principal amount of such Parity Securities.

**“Mandatory Reinstatement Event”** means (i) a Restricted Payment, or (ii) the increase by the Issuer of the principal amount of any Parity Securities other than the Notes, the terms of which contain a provision for the reinstatement of their principal amount similar to that of the Notes.

**“Masse”** has the meaning set forth in Condition 10.

**“New York Business Day”** means any day, not being a Saturday or a Sunday, on which exchange markets and commercial banks are open for business in New York.

**“Noteholders”** means the holders of the Notes.

**“Notional Interest Amount”** has the meaning set forth in Condition 4.3.



**“Optional Interest Payment Date”** means any Interest Payment Date other than a Mandatory Interest Payment Date.

**“Ordinarily Subordinated Obligations”** means any obligations (including any bonds or notes) of the Issuer which constitute direct, unconditional, unsecured and subordinated obligations of the Issuer and which at all times rank *pari passu* and without any preference among themselves and equally and ratably with any other existing or future Ordinarily Subordinated Obligations, behind Unsubordinated Obligations but in priority to Equity Securities, the Notes, Parity Securities, *prêts participatifs* granted to the Issuer and *titres participatifs* issued by the Issuer.

**“Original Principal Amount”** means the nominal amount of each Note on the Issue Date (*i.e.*, US\$ 2,000), which amount may be permanently reduced in the event of a partial call as set forth in Condition 6.2.

**“Parity Securities”** means (x) any deeply subordinated obligations (*titres subordonnés de dernier rang*) or other instruments issued by the Issuer which (i) rank, or are expressed to rank, *pari passu* among themselves and with the Notes and behind the *prêts participatifs* granted to the Issuer, the *titres participatifs* issued by the Issuer, the Ordinarily Subordinated Obligations and Unsubordinated Obligations and (ii) meet the requirements to be eligible as Tier 1 Capital (as defined below) of the Issuer, or (y) any claim against the Issuer by any subsidiary of the Issuer under a support agreement, guarantee or other agreement or instrument issued by the Issuer in favor of any subsidiary of the Issuer that has issued or will issue preferred securities or preferred or preference shares, the proceeds of which issuance qualify as Tier 1 Capital of the Issuer (for the avoidance of doubt, “Parity Securities” include, without limitation, BNP Paribas’ Undated Deeply Subordinated Non-Cumulative Notes issued on June 29, 2005, and any claims under the support agreements relating to (i) BNP U.S. Funding L.L.C.’s 7.738% Noncumulative Preferred Securities, Series A, (ii) BNP Paribas Capital Preferred L.L.C.’s 9.003% Noncumulative Company Preferred Securities, (iii) BNP Paribas Capital Preferred II L.L.C.’s 7.00% Noncumulative Company Preferred Securities, (iv) BNP Paribas Capital Preferred III L.L.C.’s 6.625% Noncumulative Company Preferred Securities, (v) BNP Paribas Capital Preferred IV L.L.C.’s 6.342% Noncumulative Company Preferred Securities, (vi) BNP Paribas Capital Preferred V L.L.C.’s 7.20% Noncumulative Company Preferred Securities and (vii) BNP Paribas Capital Preferred VI L.L.C.’s 5.868% Noncumulative Company Preferred Securities).

**“Parity Securities Payment”** means any payment of any nature on any Parity Securities (other than, for the avoidance of doubt, (x) any payment on any Parity Securities (other than the Notes) that was required to be made as a result of a dividend or other payment having been made on any Equity Securities or Parity Securities, or (y) any redemption, purchase or acquisition of Parity Securities by any means).

**“Paying Agents”** has the meaning set forth in the preamble to these Conditions.

**“Reinstatement”** has the meaning set forth in Condition 5.

**“Relevant Banking Regulator”** means the SGCB or its successor or any other relevant regulatory authority by which the Issuer is then supervised.

**“Relevant Date”** has the meaning set forth in Condition 8.

**“Representative”** has the meaning set forth in Condition 10.1.

**“Restricted Payment”** means an Equity Securities Payment or a Parity Securities Payment.

**“Return to Profitability”** has the meaning set forth in Condition 5.

**“SGCB”** means the *Secrétariat général de la Commission bancaire*.

**“TARGET Business Day”** means a day on which the TARGET System is operating.



“**TARGET System**” means the Trans European Automated Real Time Gross Settlement Express Transfer System or any successor thereto.

“**Tier 1 Capital**” has the meaning set forth in Condition 3.

“**Underlying Security**” has the meaning set forth in Condition 4.3.

“**Underlying Security Payment Percentage**” has the meaning set forth in Condition 4.3.

“**Unsubordinated Obligations**” means any obligations (including any bonds or notes) of the Issuer which constitute direct, unconditional, unsecured and unsubordinated obligations of the Issuer and which rank in priority to the Ordinarily Subordinated Obligations.

“**30/360**” has the meaning set forth in Condition 4.2.3.

## 2. FORM, DENOMINATION AND TITLE

The Notes will be issued in dematerialized bearer form (*au porteur*) in the denomination of US\$ 2,000 each. Title to the Notes will be evidenced in accordance with Article L.211-4 of the French *Code monétaire et financier* by book-entries (*inscription en compte*). No physical document of title (including *certificats représentatifs* referred to in Article 7 of *décret* no. 83-359 dated May 2, 1983) will be issued in respect of the Notes.

The Notes will, upon issue, be entered in the books of Euroclear France S.A. (“**Euroclear France**”), which shall credit the accounts of the Account Holders. For the purpose of these Conditions, “**Account Holder**” shall mean any authorized financial intermediary institution entitled to hold, directly or indirectly, accounts on behalf of its customers with Euroclear France, and includes the depositary banks for Euroclear Bank S.A./N.V. as operator of the Euroclear System (“**Euroclear**”) and Clearstream Banking, *société anonyme* (“**Clearstream, Luxembourg**”).

Title to the Notes shall be evidenced by entries in the books of Account Holders and will pass upon, and transfer of Notes may only be effected through, registration of the transfer in such books.

## 3. STATUS OF THE NOTES AND SUBORDINATION

The Notes are deeply subordinated notes of the Issuer issued pursuant to the provisions of Article L. 228-97 of the French *Code de commerce*.

The proceeds of the issue of the Notes will be treated, for regulatory purposes, as *fonds propres de base* of the Issuer (“**Tier 1 Capital**”). *Fonds propres de base* shall have the meaning given to it in Article 2 of *Règlement* n° 90-02 dated February 23, 1990, as amended, of the *Comité de la Réglementation Bancaire et Financière* (the “**CRBF Regulation**”), or otherwise recognized as *fonds propres de base* by the SGCB. The CRBF Regulation should be read in conjunction with the press release of the Bank for International Settlements dated October 27, 1998 concerning instruments eligible for inclusion in Tier 1 Capital (the “**BIS Press Release**”). The French language version of the BIS Press Release is attached as an exhibit to the report published annually by the SGCB entitled “*Modalités de calcul du ratio international de solvabilité*”.

The principal and interest on the Notes (which constitute *obligations* under French law) constitute direct, unconditional, unsecured, undated and deeply subordinated obligations (*titres subordonnés de dernier rang*) of the Issuer and rank and will rank *pari passu* among themselves and with all other present and future Parity Securities, but shall be subordinated to the present and future *prêts participatifs* granted to the Issuer, *titres participatifs* issued by the Issuer, Ordinarily Subordinated Obligations and Unsubordinated Obligations of the Issuer.

In the event of liquidation of the Issuer, the Notes shall rank in priority to any payments to holders of Equity Securities.

There is no restriction on the amount of debt that the Issuer may issue or guarantee. The Issuer and its subsidiaries and affiliates may incur additional indebtedness or grant guarantees in respect of indebtedness of third parties, including indebtedness or guarantees that rank senior in priority of payment to the Notes.

#### **4. INTEREST AND INTEREST SUSPENSION**

##### **4.1 General**

The Notes bear interest on their Current Principal Amount at a fixed rate of 6.25% per annum (the “**Interest Rate**”) from (and including) the Issue Date, payable annually in arrears on a non-cumulative basis on October 17 of each year (each, an “**Interest Payment Date**”), commencing on October 17, 2006.

Interest will cease to accrue on the Notes on the due date for redemption thereof unless, upon such due date, payment of principal is improperly withheld or refused or if default otherwise occurs in respect of payment thereof. In such event, interest will continue to accrue at the relevant rate as specified in the preceding paragraph (before as well as after any judgment) on the Original Principal Amount of the Notes until the day on which all sums due in respect of the Notes up to that day are received by or on behalf of the relevant Noteholder.

##### **4.2 Interest Rate**

4.2.1 The amount of interest (the “**Interest Amount**”) payable on the Notes on each Interest Payment Date will be the product of the Current Principal Amount of the Notes and the Interest Rate (and rounding the resulting figure, if necessary, to the nearest cent (half a cent being rounded upwards)).

4.2.2 If interest is required to be calculated in respect of an Interest Period where the Current Principal Amount of the Notes is less than their Original Principal Amount for a portion thereof, it shall be calculated by the Calculation Agent by applying the Interest Rate to the Current Principal Amount of the Notes as determined from time to time within the Interest Period, multiplying such product by the 30/360 day count fraction for each relevant portion of the Interest Period, adding the results for all such portions and rounding the resulting figure, if necessary, to the nearest cent (half a cent being rounded upwards).

4.2.3 The Calculation Agent will cause such Interest Amount to be notified to the Issuer, the Fiscal Agent and the Luxembourg Stock Exchange and will cause the publication thereof in accordance with Condition 11 as soon as possible after its determination but in no event later than the fourth TARGET Business Day thereafter.

For the purposes of this Condition:

“**30/360**” means, in respect of any period, the number of days in any portion of a Regular Period in respect of which payment is being made divided by 360 (the number of days to be calculated on the basis of a year of 360 days with 12 30-day months); and

“**Regular Period**” means each period from (and including) the Issue Date or any Interest Payment Date to (but excluding) the next Interest Payment Date.

##### **4.3 Mandatory Interest and Optional Interest**

###### **4.3.1 Mandatory Interest Payment**

The Issuer shall, on each Mandatory Interest Payment Date, for so long as the mandatory interest provisions apply (as set out in the definition of “Mandatory Interest Payment Date”), pay interest on the Notes accrued to that date in respect of the Interest Period ending immediately prior to such Mandatory Interest Payment Date.

In order to calculate the amount of interest required to be paid on the Notes on a Mandatory Interest Payment Date pursuant to this Condition 4.3.1 (the “**Mandatory Interest Payment**”):

- (x) if the Mandatory Interest Payment results from an event described in sub-paragraph (i) of the definition of Mandatory Interest Payment Date, it will be calculated on the basis of the Current Principal Amount of the Notes applying the Interest Rate for such Interest Period, as the case may be, and
- (y) if the Mandatory Interest Payment results from an event described in sub-paragraph (ii) of the definition of Mandatory Interest Payment Date, it shall be equal to the Notional Interest Amount.

“**Notional Interest Amount**” means, in respect of any Note, the amount of interest which would have been payable, absent a voluntary or automatic non-payment of interest pursuant to Conditions 4.3.2 and 4.4 below, for the one-year period prior to, and including, such Interest Payment Date, calculated by the Issuer on the basis of the Current Principal Amount of such Note, multiplied by the Underlying Security Payment Percentage, as calculated by the Issuer prior to the relevant Interest Payment Date.

“**Underlying Security**” means the class of Parity Securities in respect of which the payments made represent the highest proportion of the payment which would have been payable during the one-year period prior to, and including, the relevant Interest Payment Date.

“**Underlying Security Payment Percentage**” means the ratio, calculated by the Issuer as a percentage, equal to (i) the payments effectively made on the Underlying Security during the one-year period prior to, and including, the relevant Interest Payment Date, divided by (ii) the payment which would have been payable during such period on the Underlying Security.

Interest accrued and payable on any Mandatory Interest Payment Date is not subject to reduction in accordance with Condition 5.1.

#### 4.3.2 Optional Interest Payment

For so long as the mandatory interest provisions do not apply, the Issuer may elect not to pay interest on any Optional Interest Payment Date, in particular with a view to restoring its regulatory capital in order to ensure the continuity of its activities without weakening its financial structure.

On any Optional Interest Payment Date, the Issuer may, at its option, pay all or part of the interest in respect of the Notes accrued to that date in respect of the Interest Period ending immediately prior to such Optional Interest Payment Date, but the Issuer shall have, subject to such election and decision having been made as described above, no obligation to make such payment and any such failure to pay shall not constitute a default by the Issuer under the Notes or for any other purpose.

Notice of non-payment of all or any interest under the Notes on any Optional Interest Payment Date (an “**Interest Non-Payment Notice**”) shall be given to the Noteholders in accordance with Condition 11 and, for so long as the Notes are listed on the Luxembourg Stock Exchange and the rules of that exchange so require, to the Luxembourg Stock Exchange. The Interest Non-Payment Notice shall be given no later than two TARGET Business Days prior to the relevant Optional Interest Payment Date.

Save as otherwise provided, any interest not paid on an Optional Interest Payment Date will be forfeited and accordingly will no longer be due and payable by the Issuer.

The amount of Broken Interest in respect of the Interest Period ending immediately prior to any Optional Interest Payment Date may be reduced following a Capital Deficiency Event, as provided in Condition 5.1.

Payment of interest will automatically be suspended upon the occurrence of a Capital Deficiency Event (and until the occurrence of an End of Capital Deficiency Event), unless the relevant Interest Payment Date is a Mandatory Interest Payment Date.

#### 4.4 Optional Interest and Capital Deficiency Event

##### 4.4.1 Interest Payable on Optional Interest Payment Dates Following the Occurrence of a Capital Deficiency Event

In the event that during any Interest Period, on or at any time prior to the fifth Business Day prior to an Optional Interest Payment Date, a Capital Deficiency Event has occurred or would occur upon payment of the interest due on the next Optional Interest Payment Date:

- (x) the accrual of interest, if any, in respect of the Notes shall automatically be suspended. In addition, the amount of Broken Interest may be reduced to absorb losses in accordance with Condition 5.1; and
- (y) no interest on the Notes shall accrue nor be payable by the Issuer with respect to the remaining period in such Interest Period or any other Interest Period during the period starting on the date of the Capital Deficiency Event and ending on the date of the End of Capital Deficiency Event.

##### 4.4.2 Interest Payable on Optional Interest Payment Dates after End of Capital Deficiency Event

At the option of the Issuer, any Broken Interest, to the extent not reduced to absorb losses in accordance with Condition 5.1, may be paid on the first Optional Interest Payment Date falling on or after the date of the End of Capital Deficiency Event. Any Broken Interest not paid by the Issuer on such first Optional Interest Payment Date will be forfeited.

In respect of any Optional Interest Payment Date which occurs on or after the End of Capital Deficiency Event, interest on the Notes will recommence accruing on its Current Principal Amount, on the basis of the number of days elapsed during the period from (and including) the date of End of Capital Deficiency Event to (but excluding) the next succeeding Interest Payment Date as calculated by the Calculation Agent in accordance with Condition 4.2. At the option of the Issuer, such interest may be paid on the next succeeding Optional Interest Payment Date occurring as from the date of the End of Capital Deficiency Event (inclusive). Any such interest not paid by the Issuer on such first Optional Interest Payment Date will be forfeited.

## 5. LOSS ABSORPTION AND RETURN TO PROFITABILITY

### 5.1 Loss Absorption

In the event of the occurrence of a Capital Deficiency Event, the board of directors of the Issuer will convene an extraordinary shareholders' meeting to be held during the three months following the occurrence of the Capital Deficiency Event in order to propose a share capital increase or any other measure regarded as necessary or useful to remedy the Capital Deficiency Event. If a share capital increase or any such other proposed measure is not adopted by the Issuer's extraordinary shareholders' meeting or if the share capital increase is not sufficiently subscribed to remedy the Capital Deficiency Event in full, or if the Capital Deficiency Event remains in effect on the last day of

the fiscal half-year during which the Capital Deficiency Event has occurred, the board of directors of the Issuer will implement, within ten days following the last day of such fiscal half-year, a reduction of the amount of Broken Interest, if any, and thereafter the Current Principal Amount of the Notes (a “**Loss Absorption**”) necessary in order to remedy the Capital Deficiency Event to the fullest extent possible. A Loss Absorption will firstly be implemented by partially or fully reducing the amount of the Broken Interest, if any. If the total reduction of Broken Interest is not sufficient for the purpose of the Loss Absorption, a further Loss Absorption will be implemented by partially or fully reducing the Current Principal Amount of the Notes. Such reductions will be recorded as a profit in the Issuer’s consolidated financial statements (whether audited annual or unaudited semi-annual).

The amounts by which Broken Interest and, as the case may be, the Current Principal Amount of the Notes are reduced to enable the Issuer to absorb losses in order to ensure the continuity of its activities, will be the lower of (i) the amount of consolidated losses of the Issuer which, following a Capital Deficiency Event, have not been allocated to its shareholders’ funds (*capitaux propres*) as set out in its consolidated financial statements and (ii) the sum of the amounts of Broken Interest, if any, and the Current Principal Amount of the Notes before such reduction.

Notwithstanding any other provision, the Current Principal Amount of each Note shall never be reduced to an amount lower than one cent of one dollar (US\$ 0.01).

For the avoidance of doubt, the first remedy to the Capital Deficiency Event will be the share capital increase or the implementation of any other measures adopted by the extraordinary shareholders’ meeting of the Issuer to remedy such Capital Deficiency Event. To the extent such increase of share capital or other measures are not sufficient, the Loss Absorption will be applied first against the amount of Broken Interest, if any, and thereafter, if necessary, against the Current Principal Amount of the Notes as herein described.

Broken Interest and the Current Principal Amount of the Notes may be reduced on one or more occasions, as required.

In the event that other Parity Securities which would be subject to such reductions are outstanding, such reductions will be applied on a pro-rata basis among the Notes and such other Parity Securities.

Interest accrued and payable on any Mandatory Interest Payment Date is not subject to reduction.

Notice of any Capital Deficiency Event and of any End of Capital Deficiency Event shall be given to the Noteholders in accordance with Condition 11 and, for so long as the Notes are listed on the Luxembourg Stock Exchange and the rules of that exchange so require, the Luxembourg Stock Exchange. Such notice shall be given as soon as practicable following the occurrence of a Capital Deficiency Event and of any End of Capital Deficiency Event. Notice of any reduction of the Current Principal Amount of the Notes shall be given to the Noteholders in accordance with Condition 11 and, for so long as the Notes are listed on the Luxembourg Stock Exchange and the rules of that exchange so require, the Luxembourg Stock Exchange. Such notice shall be given at least seven days prior to the relevant reduction of the Current Principal Amount.

For the avoidance of doubt, the occurrence of a Capital Deficiency Event and any resulting notice will be effective only with respect to the interest amount due on the immediately following Interest Payment Date. As appropriate, the Issuer will make a new determination and deliver other notice(s) with respect to any subsequent Interest Payment Date in relation to which a Capital Deficiency Event is continuing or occurs again.

## 5.2 Return to Profitability

If, following a Loss Absorption, the Issuer has recorded positive Consolidated Net Income for at least two consecutive fiscal years (a “**Return to Profitability**”) following the end of the most recent fiscal year in which there was a Loss Absorption (the “**Absorption Year End**”), the Issuer shall



increase the Current Principal Amount of the Notes (a “**Reinstatement**”) on any date and in any amount that it determines (either up to the Original Principal Amount or up to any other amount lower than the Original Principal Amount), to the extent any such Reinstatement complies with Applicable Banking Regulations.

Irrespective of whether a Return to Profitability has occurred, the Issuer shall increase the Current Principal Amount of the Notes in an amount equal to the Mandatory Reinstatement Amount on any date that it determines if (i) a Mandatory Reinstatement Event has occurred since the Absorption Year End, and (ii) the Issuer has not since such Mandatory Reinstatement Event occurred made a Reinstatement up to the Original Principal Amount pursuant to the provisions of the immediately preceding paragraph.

Any Reinstatement shall be recorded by the Issuer in its consolidated financial statements as a loss in an amount corresponding to such Reinstatement. The amount of any Reinstatement will not exceed the amount of the latest positive Consolidated Net Income of the Issuer.

For the avoidance of doubt, any Reinstatement shall be made in a maximum amount that will ensure that such Reinstatement does not trigger the occurrence of a Capital Deficiency Event or, except with respect to any optional redemption by the Issuer of the Notes in accordance with their terms, a worsening of a Capital Deficiency Event.

No payments will be made to holders of Equity Securities, in each case to the extent categorized as Tier 1 Capital, before all amounts due, but unpaid, to all Noteholders under the Notes have been paid by the Issuer.

In the event that other Parity Securities are outstanding and may also benefit from a reinstatement or an increase of their current principal amount in accordance with their terms, any Reinstatement will be applied on a pro-rata basis with other reinstatements or increases of the principal amount made on such other Parity Securities.

Such Reinstatement or increase of the Current Principal Amount of the Notes shall be made on one or more occasions in the conditions described above until the Current Principal Amount of the Notes has been reinstated to the Original Principal Amount (save in the event of occurrence of another Capital Deficiency Event).

For the avoidance of doubt, any Broken Interest that has been reduced pursuant to Condition 5.1 shall not be reinstated pursuant to this Condition 5.2.

Notice of any Return to Profitability shall be given to the Noteholders in accordance with Condition 11 and, for so long as the Notes are listed on the Luxembourg Stock Exchange and the rules of that exchange so require, the Luxembourg Stock Exchange. Such notice shall be given as soon as practicable following the occurrence of a Return to Profitability. Notice of any Reinstatement and any increase of the Current Principal Amount of the Notes shall be given to the Noteholders in accordance with Condition 11 and, for so long as the Notes are listed on the Luxembourg Stock Exchange and the rules of that exchange so require, to the Luxembourg Stock Exchange. Such notice shall be given at least seven days prior to the relevant Reinstatement and increase of the Current Principal Amount of the Notes.

## **6. REDEMPTION AND PURCHASE**

The Notes may not be redeemed otherwise than in accordance with this Condition 6.

### **6.1 No Final Redemption**

The Notes are undated securities in respect of which there is no fixed redemption or maturity date.



## 6.2 Issuer's Call Options Subject to the Approval of the Relevant Banking Regulator

### (a) General Call Option

On the First Call Date and on any Interest Payment Date thereafter, the Issuer, subject to having given not less than 30, and not more than 60, days' prior notice to the Noteholders (which notice shall be irrevocable) in accordance with Condition 11, and subject to prior approval of the Relevant Banking Regulator, may, at its option, redeem the Notes in whole or in part at a price (the "**Base Call Price**") equal to the Original Principal Amount of the Notes, together with any amounts outstanding thereon, including accrued interest.

In the case of a partial call, this shall be performed by way of an equal reduction of the Current Principal Amount of each of the Notes. For the avoidance of doubt, such reduction of Current Principal Amount is distinct from a Loss Absorption. Unlike in the case of a Loss Absorption, following a partial call the Original Principal Amount of each Note shall be permanently reduced by the amount of principal called and paid for.

### (b) Redemption for Regulatory Reasons or Taxation Reasons

- (i) If by reason of any change in French law, any change in Applicable Banking Regulations, or any change in the official application or interpretation of such laws or regulations, becoming effective on or after the Issue Date, the proceeds of the Notes cease to be eligible as Tier 1 Capital for the Issuer, the Issuer may, at its option, at any time, subject to having given not more than 45 nor less than 30 days' notice to Noteholders (which notice shall be irrevocable) in accordance with Condition 11, and subject to the prior approval of the Relevant Banking Regulator, redeem the Notes (in whole but not in part) at the Base Call Price provided that the due date for redemption of which notice hereunder may be given shall be no earlier than the last day before the date on which the proceeds of the Notes cease to meet the requirements to be eligible as Tier 1 Capital.
- (ii) If by reason of any change in the laws or regulations of the French Republic, or any political subdivision therein or any authority thereof or therein having power to tax, any change in the application or official interpretation of such laws or regulations (including a holding by a court of competent jurisdiction), or any other change in the tax treatment of the Notes, becoming effective on or after the Issue Date, interest payment under the Notes is no longer tax-deductible by the Issuer for French corporate income tax (*impôts sur les bénéfices des sociétés*) purposes, the Issuer may, at its option, at any time, subject to having given not more than 45 nor less than 30 days' notice to Noteholders (which notice shall be irrevocable) in accordance with Condition 11, and subject to the prior approval of the Relevant Banking Regulator, redeem the Notes (in whole but not in part) at the Base Call Price provided that the due date for redemption of which notice hereunder may be given shall be no earlier than the latest practicable date on which the Issuer could make such payment with interest payable being tax deductible for French corporate income tax (*impôts sur les bénéfices des sociétés*) purposes.
- (iii) If by reason of a change in the laws or regulations of the French Republic, or any political subdivision therein or any authority thereof or therein having power to tax, or any change in the application or official interpretation of such laws or regulations (including a holding by a court of competent jurisdiction), becoming effective on or after the Issue Date, the Issuer would on the occasion of the next payment of principal or interest due in respect of the Notes, not be able to make such payment without having to pay additional amounts as specified under Condition 8.2, the Issuer may, at any time, subject to having given not more than

45 nor less than 30 days' prior notice to the Noteholders (which notice shall be irrevocable), in accordance with Condition 11, and subject to the prior approval of the Relevant Banking Regulator, redeem the Notes (in whole but not in part) at the Base Call Price provided that the due date for redemption of which notice hereunder may be given shall be no earlier than the latest practicable date on which the Issuer could make payment of principal and interest without withholding for French taxes or, if such date has passed, as soon as practicable thereafter.

- (iv) If the Issuer would on the next payment of principal or interest in respect of the Notes be prevented by French law from making payment to the Noteholders of the full amount then due and payable, notwithstanding the undertaking to pay additional amounts contained in Condition 8.2, then the Issuer shall forthwith give notice of such fact to the Fiscal Agent and the Issuer shall upon giving not less than seven days' prior notice to the Noteholders in accordance with Condition 11, and subject to the prior approval of the Relevant Banking Regulator, redeem the Notes (in whole but not in part) at the Base Call Price provided that the due date for redemption of which notice hereunder shall be given shall be no earlier than the latest practicable date on which the Issuer could make payment of the full amount of principal and interest payable without withholding for French taxes or, if such date has passed, as soon as practicable thereafter.

### 6.3 Purchases

The Issuer may at any time purchase Notes in the open market or otherwise at any price provided that it has obtained the prior approval of the Relevant Banking Regulator.

### 6.4 Cancellation

All Notes which are purchased or redeemed by the Issuer pursuant to Conditions 6.2 or 6.3 (other than in the event of a partial call, as set out in Condition 6.2(a)) will be cancelled and accordingly may not be reissued or sold.

## 7. PAYMENTS AND CALCULATIONS

### 7.1 Method of Payment

Payments in respect of principal and interest on the Notes will be made in U.S. dollars by credit or transfer to a U.S. dollar-denominated account (or any other account to which U.S. dollars may be credited or transferred) specified by the payee. Such payments shall be made to the Account Holders (including the depositary banks for Euroclear and Clearstream, Luxembourg) for the benefit of the Noteholders and all payments validly made to such Account Holders in favor of Noteholders will be an effective discharge of the Issuer and the Fiscal Agent, as the case may be, in respect of such payment.

Payments in respect of principal and interest on the Notes will, in all cases, be made subject to any fiscal or other laws and regulations or orders of courts of competent jurisdiction applicable in respect of such payments but without prejudice to the provisions of Condition 8. No commission or expenses shall be charged by the Issuer, the Fiscal Agent or any Paying Agent to the Noteholders in respect of such payments.

### 7.2 Payments on Business Days

If the due date for payment of any amount of principal or interest in respect of any Note is not a Business Day (as defined below), payment shall not be made of the amount due and credit or transfer instructions shall not be given in respect thereof until the next following Business Day and the Noteholder shall not be entitled to any interest or other sums in respect of such postponed payment.

For the purposes of this Condition, “**Business Day**” means any day, not being a Saturday or a Sunday on which Euroclear France, Euroclear and Clearstream, Luxembourg are operating and which is a New York Business Day.

### 7.3 Fiscal Agent, Paying Agents and Calculation Agent

The name and specified office of the initial Fiscal Agent, the name and specified office of the initial Paying Agents and the name and specified office of the initial Calculation Agent are as follows:

#### FISCAL AGENT, PRINCIPAL PAYING AGENT AND CALCULATION AGENT

BNP Paribas Securities Services  
Immeuble Tolbiac  
25 quai Panhard Levassor  
75450 Paris Cedex 09  
France

The Issuer reserves the right at any time to vary or terminate the appointment of the Fiscal Agent, Paying Agents or Calculation Agent and/or to appoint a substitute Fiscal Agent, Paying Agent, Calculation Agent and additional or other Paying Agents or approve any change in the office through which the Fiscal Agent, the Calculation Agent or any Paying Agent acts, provided that there will at all times be (i) a Fiscal Agent having a specified office in a European city, (ii) so long as the Notes are listed on the Luxembourg Stock Exchange and the rules of that Exchange so require, a Paying Agent having a specified office in Luxembourg, and (iii) a Calculation Agent having a specified office in a European city. If the Calculation Agent is unable or unwilling to continue to act as such or if the Calculation Agent fails to make any calculations in relation to the Notes, the Issuer shall appoint some other leading European bank engaged in the Euro interbank market (acting through its principal Paris or Luxembourg office) to act in its place, subject to having given notice to the Noteholders in accordance with Condition 11 not more than 45 nor less than 30 days prior to such appointment. The Calculation Agent may not resign its duties without a successor having been so appointed. Any notice of a change in Fiscal Agent, Paying Agent, Calculation Agent or their specified office shall be given to Noteholders as specified in Condition 11.

### 7.4 Certificates to be final

All certificates, communications, opinions, determinations, calculations, quotations and decisions given, expressed, made or obtained for the purpose of the provisions of these Conditions whether by the Calculation Agent or the relevant banks in the Euro-zone interbank market (or any of them) shall (in the absence of willful default or manifest error) be binding on the Issuer, the Calculation Agent, the Paying Agents, the Fiscal Agent, the relevant banks in the Euro-zone interbank market and the Noteholders. No Noteholder shall (in the absence of the aforesaid willful default or manifest error) be entitled to proceed against the Calculation Agent or any of the foregoing entities in connection with the exercise or non-exercise by them of their powers, duties and discretionary judgments.

## 8. TAXATION

### 8.1 Withholding Tax Exemption

Because the Notes constitute *obligations* under French law and are issued outside of France through an international syndicate, payments of interest and other revenues made by the Issuer in respect of the Notes to non-French tax residents who do not invest from a permanent establishment or a fixed base situated in France and who are not concurrently shareholders of the Issuer benefit under present law (as interpreted in the *Instruction* of the *Direction Générale des Impôts* 5 I-11-98 dated September 30, 1998) from the exemption provided for in Article 131 *quater* of the French *Code Général des Impôts* (General Tax Code) from deduction of tax at source. Accordingly, such payments do not give the right to any tax credit from any French source.

## 8.2 Additional Amounts

If French law or regulations should require that payments of principal or interest in respect of any Note be subject to deduction or withholding in respect of any present or future taxes, duties, assessments or other governmental charges of whatever nature imposed or levied by or on behalf of the French Republic or any authority therein or thereof having power to tax, the Issuer shall, to the fullest extent then permitted by law, pay such additional amounts as may be necessary so that the holder of each Note, after such deduction or withholding, will receive the full amount then due and payable thereon in the absence of such deduction or withholding; provided, however, that the Issuer shall not be liable to pay any such additional amounts in respect of any Note to a Noteholder (or beneficial owner (*ayant droit*)):

- (a) who is subject to such taxes, duties, assessments or other governmental charges in respect of such Note by reason of his having some present or former connection with the French Republic other than the mere holding of such Note; or
- (b) more than 30 days after the Relevant Date (as defined below), except to the extent that the holder thereof would have been entitled to such additional amounts on the last day of such period of 30 days; or
- (c) where such deduction or withholding is imposed on a payment to an individual and is required to be made pursuant to European Council Directive 2003/48/EC or any other European Union Directive implementing the conclusion of the ECOFIN Council meeting of November 26-27, 2000 on the taxation of savings income or any law implementing or complying with, or introduced in order to conform to, such Directive.

For this purpose, the “**Relevant Date**” in relation to any Note means whichever is the later of (A) the date on which the payment in respect of such Note first becomes due and payable, and (B) if the full amount of money payable on such date in respect of such Note has not been received by the Fiscal Agent on or prior to such date, the date on which notice is given in accordance with Condition 11 to Noteholders that such money has been so received.

References in these Conditions to principal and interest shall be deemed also to refer to any additional amounts that may be payable under the provisions of this Condition 8.

## 9. MANDATORY REDEMPTION

If any judgment is issued for the insolvent judicial liquidation (*liquidation judiciaire*) of the Issuer or if the Issuer has been liquidated for any other reason, then the Notes shall become immediately due and payable as described below.

The rights of the Noteholders in the event of a liquidation of the Issuer will be calculated on the basis of the Original Principal Amount of the Notes they hold together with interest accrued and due in accordance with the Conditions and any other outstanding payments under the Notes. No payments will be made to the Noteholders before all amounts due, but unpaid, to all other creditors of the Issuer (including holders of Unsubordinated Obligations, holders of Ordinarily Subordinated Obligations, lenders in relation to *prêts participatifs* granted to the Issuer and holders of *titres participatifs* issued by the Issuer, but excluding Parity Securities, which will be paid *pro rata* with the Notes) have been paid by the Issuer, as ascertained by the liquidator.

No payments will be made to holders of Equity Securities before all amounts due, but unpaid, to all Noteholders have been paid by the Issuer, as ascertained by the judicial liquidator.

## 10. REPRESENTATION OF THE NOTEHOLDERS

Noteholders will form a *masse* under French law in defense of their common interests (hereinafter referred to as the “*Masse*”).

The *Masse* will be governed by the provisions of the *Code de commerce* (French Commercial Code) (with the exception of the provisions of Articles L. 228-48, L. 228-59, L.228-65-II and L.228-71 thereof) and by French decree No. 67-236 of March 23, 1967, as amended (with the exception of the provisions of Articles 218, 222, 224 and 226 thereof), subject to the provisions below.

#### 10.1 A Legal Entity

The *Masse* will be treated as a separate legal entity and will act in part through its representative (hereinafter referred to as the “**Representative**”) and in part through general assemblies of Noteholders.

The *Masse*, acting alone and to the exclusion of all individual Noteholders, will exercise the collective rights of the Noteholders with respect to the Notes, both present and future.

#### 10.2 Representative

A person of any nationality may serve as the Representative of the *Masse*. However, the following persons may not be designated a Representative:

- (a) the Issuer, the members of the Issuer’s board of directors (*conseil d’administration*), the Issuer’s executive officers (*directeurs généraux*), the Issuer’s statutory auditors or the Issuer’s employees, as well as the ascendants, descendants or spouses of any such persons; or
- (b) companies guaranteeing all or part of the obligations of the Issuer, their respective managers (*gérants*), executive officers (*directeurs généraux*), members of their board of directors, executive board or supervisory board, their statutory auditors or their employees, as well as the ascendants, descendants or spouses of any such persons; or
- (c) companies holding 10% or more of the share capital of the Issuer, or companies in which the Issuer holds 10% or more of the share capital; or
- (d) persons who are restricted from the practice of banking or who have been deprived of the right to direct, administer or manage a company in any capacity whatsoever.

The initial Representative of the *Masse* has been designated as:

Delphine Dahan  
3, rue des Quatre Fourchettes  
95130 Franconville  
France

The alternate representative (the “**Alternate Representative**”) has been designated as:

Marc-Olivier Roos  
111, avenue de Verdun  
92130 Issy les Moulineaux  
France

In the event of the death, incapacity, resignation or revocation of the powers of the Representative, he or she will be replaced by the Alternate Representative, and all references to the “Representative” herein will be deemed to refer to the “Alternate Representative”. The Alternate Representative will then have the same powers as the Representative.

In the event of the death, incapacity, resignation or revocation of the powers of the Alternate Representative, he or she will be replaced by a person selected at a general assembly of Noteholders.

The Issuer shall pay to the Representative an amount of EUR 300 per year in connection with his or her services, payable on the anniversary of the Issue Date in each year, commencing on the first such anniversary in 2006. The Alternate Representative will be entitled to payment of the same amount



only if it begins to exercise the duties of Representative on a permanent basis; such compensation will begin to accrue on the date that the Alternate Representative assumes these duties.

Interested parties will at all times have the right to obtain the name and address of the Representative and the Alternate Representative at the head office of the Issuer and at the offices of any of the Paying Agents.

### 10.3 Powers of the Representative

The Representative shall, in the absence of any decision by the general assembly of Noteholders that provides otherwise, have the power to take undertake all actions that aim at defending the common interests of the Noteholders. All legal proceedings initiated against the Noteholders must be initiated against the Representative, and all legal proceedings initiated by the Noteholders must be initiated by the Representative.

The Representative may not interfere in the management of the affairs of the Issuer.

### 10.4 General Assemblies of Noteholders

General assemblies of Noteholders may be held at any time, at the request of either the Issuer or the Representative. One or more Noteholders, who individually or collectively hold at least one-thirtieth of the outstanding Notes, may demand that the Issuer and the Representative convene a general assembly. If a general assembly has not been convened within two months of the date of this demand, these Noteholders may designate one person among them to petition a court within the jurisdiction of the Paris Court of Appeals to appoint an agent (*mandataire*) on the Noteholders' behalf, who will then be responsible for convening a general assembly.

Notice of the date, time, place and agenda of any general assembly of Noteholders will be published as provided under Condition 11.

Each Noteholder has the right to participate in general assemblies in person or by proxy. Each Note carries the right to one vote.

### 10.5 Powers of General Assemblies

A general assembly is empowered to deliberate on the reduction of compensation for the Representative or the Alternate Representative, and may also decide to remove or replace the Representative or the Alternate Representative. A general assembly may also act on any other matter that affects the collective rights of the Noteholders with respect to the Notes, both present and future, including authorizing the Representative to act as plaintiff or defendant in any action.

A general assembly may further deliberate on any proposal relating to the modification of the Terms and Conditions of the Notes, including any proposal in connection with arbitration or settlement proceedings relating to disputed rights or rights that were the subject of judicial decisions; *provided, however*, that a general assembly may not increase amounts payable by Noteholders, nor establish any unequal treatment between the Noteholders, nor decide to convert the Notes into shares, and provided further that no amendment to the status of the Notes may be approved without the prior consent of the Relevant Banking Regulator.

A general assembly may validly deliberate on the first date on which it is convened only if the Noteholders present or otherwise represented at such assembly hold at least one-quarter of the Notes then outstanding. On the second date on which a general assembly is convened, if any, no such quorum shall be required. Decisions at assemblies shall be taken based on a simple majority of votes cast, either by Noteholders attending the assembly in person or who are otherwise represented at such assembly for voting purposes.

Decisions of general assemblies must be published in accordance with the provisions set forth in Condition 11.



## 10.6 Information to the Noteholders

Each Noteholder or his or her representative will have the right, during the 15-day period preceding the date of each general assembly, to consult or make a copy of the text of the resolutions to be proposed as well as any reports to be presented at the general assembly, which will be available for inspection at the principal office of the Issuer, at the specified offices of the Paying Agents and at any other place specified in the notice of the general assembly given in accordance with Condition 11.

## 10.7 Expenses

The Issuer will pay all expenses incurred in connection with the functioning of the *Masse*, including the expenses of calling and holding general assemblies and the Representative's compensation, and more generally will pay all administrative costs of the *Masse* as documented at a general assembly of Noteholders, it being expressly stipulated that no expenses may be offset against interest payable on the Notes.

## 11. NOTICES

Any notice to the Noteholders will be valid if delivered to the Noteholders through Euroclear France, Euroclear or Clearstream, Luxembourg, for so long as the Notes are cleared through such clearing systems. So long as the Notes are listed on the Luxembourg Stock Exchange and the rules of such exchange so require, any notice shall also be published (i) in a leading daily newspaper having general circulation in Luxembourg (which is expected to be the *d'Wort* or the *Tageblatt*), or (ii) on the website of the Luxembourg Stock Exchange ([www.bourse.lu](http://www.bourse.lu)). If any such publication is not practicable, notice shall be validly given if published in a leading English language daily newspaper having general circulation in Europe. Any such notice shall be deemed to have been given on the date of such publication or, if published more than once or on different dates, on the first date on which such publication is made.

## 12. PRESCRIPTION

Claims against the Issuer for the payment of principal and interest in respect of the Notes shall become prescribed 10 years (in the case of principal) and 5 years (in the case of interest) from the due date for payment thereof.

## 13. FURTHER ISSUES

The Issuer may from time to time, subject to the prior written approval of the Relevant Banking Regulator but without the consent of the Noteholders, issue further notes to be assimilated (*assimilables*) with the Notes as regards their financial service, provided that such further notes and the Notes shall carry rights identical in all respects (or in all respects except for the first payment of interest thereon) and that the terms of such further notes shall provide for such assimilation. In the event of such assimilation, the Noteholders and the holders of any assimilated (*assimilables*) notes will for the defense of their common interests be grouped in a single *Masse* having legal personality.

## 14. YIELD

The yield for the Notes will be 6.25% per annum. The yield is calculated at the Issue Date on the basis of the Issue Price.

## 15. GOVERNING LAW AND JURISDICTION

The Notes are governed by, and shall be construed in accordance with, the laws of the French Republic.

In relation to any legal action or proceeding arising out of or in connection with the Notes, the Issuer irrevocably submits to the jurisdiction of the competent courts in Paris.

## **USE OF PROCEEDS**

The net proceeds of the issue of the Notes, after deduction of underwriting and management commissions of US\$ 4,000,000, amount to approximately US\$396,000,000, and will be used for general corporate purposes by the Issuer.

## BNP PARIBAS GROUP

### Legal Status and Form of BNP Paribas

BNP Paribas is a French *société anonyme* registered with the *Registre du Commerce et des Sociétés* in Paris under number 662 042 449 (APE business identifier code: 651 C), licensed to conduct banking operations under the Monetary and Financial Code (*Code Monétaire et Financier, Livre V, Titre 1<sup>er</sup>*). The Bank was founded pursuant to a decree dated May 26, 1966. BNP Paribas is domiciled in France; its registered office is located at 16, boulevard des Italiens - 75009 Paris, France (telephone number: (+)33 1 40 14 45 46). BNP Paribas is governed by banking regulations, the provisions of the Commercial Code applicable to trading companies and by its Articles of Association. The Bank's purpose (Article 3 of the Articles of Association) is to provide and conduct the following services with any legal entity or individual, in France and abroad, subject to compliance with the laws and regulations applicable to credit institutions licensed by the *Comité des Établissements de Crédit et des Entreprises d'Investissement*: any investment services, any services related to investment activities, any banking activities, any transactions related to banking activities, any purchase of an ownership interest, within the meaning of Book III, Title 1 relating to bank transactions, and Title II relating to investments services and their ancillary services, of the Monetary and Finance Code. The Bank was incorporated on September 17, 1993 for a period of 99 years. Each financial year begins on January 1 and ends on December 31.

### Business Overview

The Group (of which BNP Paribas is the parent company) is one of the top global players in financial services, conducting retail, corporate and investment banking, private banking, asset management, insurance and specialized and other financial activities throughout the world. According to rankings published in July 2004 by *The Banker* (based on 2003 figures):

- based on total assets, the Group was the second largest banking group in France, the fifth largest in Europe, and the seventh largest in the world; and
- based on Tier 1 capital, the Group was the second, fourth and tenth largest banking group in France, Europe and the world, respectively.

The Group is a leading European provider of corporate and investment banking products and services and a leading provider of private banking and asset management products and services throughout the world. It provides retail banking and financial services to over 20 million individual customers throughout the world, in particular in Europe and the western United States.

The Group has offices in more than 85 countries. At December 31, 2004, the Group had consolidated assets of €905.9 billion (compared to €783.1 billion at December 31, 2003), consolidated gross total customer items of €266.9 billion (compared to €231.5 billion at December 31, 2003), consolidated customer deposits (including retail and negotiable certificates of deposit) of €328.3 billion (compared to €282.6 billion at December 31, 2003) and shareholders' equity (Group share including income for the 2004 fiscal year) of €30.2 billion (compared to €28.3 billion at December 31, 2003). Net income, before taxes, non-recurring items and amortization of goodwill for the year ended December 31, 2004 was €7.6 billion (compared to €6.3 billion for the year ended December 31, 2003). Net income, Group share, for the year ended December 31, 2004 was €4.7 billion (compared to €3.8 billion for the year ended December 31, 2003).

The Group currently has long-term senior debt ratings of "Aa2" with stable outlook from Moody's, "AA" with stable outlook from Standard & Poor's and "AA" with stable outlook from Fitch Ratings. Moody's has also assigned the Bank a Bank Financial Strength rating of "B+" and Fitch Ratings has assigned the Bank an individual rating of "A/B."

The Group has three divisions: Retail Banking, Asset Management and Services and Corporate and Investment Banking. Operationally, these divisions are organized into five core businesses (French

Retail Banking, International Retail Banking and Financial Services, Asset Management and Services, Corporate and Investment Banking and BNP Paribas Capital), as summarized below.

Except where otherwise specified, all financial information and operating statistics are presented as of December 31, 2004.

### ***Retail Banking***

For the year ended December 31, 2004, Retail Banking contributed €3,796 million, or 52%, of the Group's gross operating income (excluding BNP Paribas Capital and other miscellaneous business activities, which contributed €-26 million and €-47 million, respectively), compared to €3,625 million, or 53%, for the year ended December 31, 2003.

#### ***French Retail Banking***

In France, the Group distributes its banking products and services to more than six million customers through its network of 2,200 branches. The Group is a leading provider of banking products and services for high net worth individuals and has a leading position in the corporate market. The Group has significant market shares in consumer lending, corporate lending and savings management.

#### ***International Retail Banking and Financial Services***

This core business comprises the international retail banking business of the Group and a range of specialized financial services businesses. In specialized financial services, the Group is a leader in Europe in consumer loans, lease financing and vehicle fleet management. The core business is organized into six business lines as follows:

- Consumer Financing (Cetelem): includes a complete portfolio of consumer credit and related financial services;
- Property Financing for Private Individuals (UCB): provides financing for residential real estate purchases by individuals;
- Corporate Capital Equipment Financing (BNP Paribas Lease Group): provides financing for capital goods leased by businesses;
- Contract Hire and Fleet Management (Arval, Artegy and Arius): provides outsourcing solutions on behalf of corporate customers for the management and financing of vehicle fleets and other logistical equipment;
- Retail Banking in the United States (BancWest): includes retail operations in the western United States, with a network of approximately 530 branches and 3.4 million client accounts; and
- Retail Banking in Emerging Markets and Overseas: includes networks totaling approximately 500 branches and serving approximately 1.5 million customers in five geographical areas (Africa—Indian Ocean, French overseas departments and territories, North Africa—Mediterranean, the Middle East and Europe—Near East).

### ***Asset Management and Services***

For the year ended December 31, 2004, Asset Management and Services contributed €1,066 million, or 15%, of the Group's gross operating income (excluding BNP Paribas Capital and Other Activities), compared to €803 million, or 12%, for the year ended December 31, 2003.

#### ***Wealth & Asset Management***

BNP Paribas Private Banking is one of the leading private banking organizations worldwide, offering a full range of international private banking products and services designed to meet the needs of high net worth individuals.

BNP Paribas Asset Management offers discretionary asset management services to a prestigious international clientele of insurance companies, pension funds, central banks, international organizations and multinational corporations and distributes mutual funds through the Bank's branch network and Private Banking units, as well as through an external network of banks and other financial institutions.

The Group's subsidiary Cortal Consors specializes in direct sales of personal savings products and on-line brokerage services. With over one million clients, Cortal Consors is the European leader in its sector based on number of customers according to a *Reuters* report published in October 2003 and the Group's own internal estimates.

Finally, through BNP Paribas Immobilier, the Group provides its clients with real estate investment services. These services include property development, real estate investments, commercial real estate advisory services, asset management, property management and residential sales. Following the Group's acquisition of Atis Real International as of April 1, 2004, this business line is now a European leader in real estate services, especially in the corporate real estate market (accounting for 80% of its revenues), with a 2,300-strong workforce in seven countries.

### *Insurance*

The Group's insurance business is led by BNP Paribas Assurance, which manages all of BNP Paribas' insurance companies, including Cardif.

### *Securities Services*

BNP Paribas Securities Services provides securities services for financial and other institutions, including banks, brokerage houses, pension funds, mutual funds and insurance companies. In addition to clearing and custody services, it offers a wide range of related services, such as securities and cash position financing, collateral management, the outsourcing of middle- and back-office functions, fund administration and accounting, performance measurement and attribution, e-banking support services and transfer agent and issuer services. At December 31, 2004, assets under custody were €2,473 billion. BNP Paribas Securities Services handled 23.1 million transactions in 2004.

### ***Corporate & Investment Banking***

The Group is at the forefront of Europe's corporate and investment banking sector in key markets and is a major player in Asia and the Americas in selected businesses.

For the year ended December 31, 2004, Corporate & Investment Banking contributed €2,442 million, or 33% of the Group's gross operating income (excluding BNP Paribas Capital and Other Activities), compared to €2,434 million, or 35%, for the year ended December 31, 2003.

### *Advisory and Capital Markets*

Advisory and Capital Markets includes the Corporate Finance, Equities and Equity Derivatives and Fixed Income business lines.

Advisory and Capital Markets is a leader in France in several areas, in particular mergers and acquisitions advice. In 2004, BNP Paribas was ranked number one in France in mergers and acquisitions advice (source: *Fusions et acquisitions* magazine), and was among the leaders in Europe. The Group has also been one of the European leaders in equity derivatives for several years.

### *Financing businesses*

At the crossroads of lending and capital markets, the Group's financing businesses offer both traditional lending and innovative and multifaceted structured financing solutions, backed by a seasoned distribution network. Products include energy and commodities services, project financing,

export financing, syndicated loans, acquisition financing, leveraged buy-out financing, optimization and asset financing, media and telecommunications financing, marine and aircraft financing and structured leasing. The Group has a pre-eminent position in these areas of expertise and ranks among the world's top arranging banks.

In 2004, the financing businesses received numerous honors in recognition of their excellence. In particular, BNP Paribas ranked first globally in Project Finance (source: *Dealogic*), in part because of its role as lead arranger for Quatargas II, the "Project Finance Deal of the Year" conducted on behalf of Exxon. The Group was also named "Aircraft Finance House of the Year" (source: *Jane's Transport Finance*).

### ***BNP Paribas Capital***

The Group is a key player in the French and European private equity investment market. BNP Paribas Capital encompasses all of the Group's private equity activities.

For the year ended December 31, 2004, this core business contributed €-26 million to the Group's gross operating income (€-73 million for year ended December 31, 2003). However, gross operating income is not indicative of the earnings capacity of this core business, as it does not include capital gains. For the year ended December 31, 2004, pre-tax income amounted to €661 million, or 10%, of the Group's pre-tax income, compared to €496 million, or 9%, for the year ended December 31, 2003.

## **Strategy**

### ***"Vision 2007"*<sup>1</sup>**

The Group is focusing on pursuing its development during 2005, within the context of an ambitious development strategy referred to as "Vision 2007". Vision 2007 sets forth the Group's objectives for the medium-term. For each of its four core divisions, the objectives are the following:

- French Retail Banking: the Group's objective is to grow faster than the market, by fully capitalizing on the new commercial organization that it has implemented;
- International Retail Banking and Financial Services: the Group's objectives are to bolster its leadership position in financial services in Europe, implement an aggressive sales and marketing strategy in France, and continue its expansion in the U.S. and in emerging countries;
  - At BancWest, the Group will seek to optimize its existing business organization through selected branch openings. In addition, it intends to expand the geographic coverage of BancWest's specialty businesses. Moreover, the Group actively seeks opportunities for BancWest to expand its network through targeted acquisitions;
  - At Cetelem, the Group will focus in particular on capitalizing on the latest innovations in various segments of the consumer lending market, and to grow its business generated through the Internet;
  - At UCB, the Group will continue expanding its commercial network in France, Italy and Spain. It will work to integrate Abbey National France following its acquisition in 2004, by attempting to grow its debt consolidation business and its relationships with foreign clients;

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<sup>1</sup> The prospects and objectives discussed in this section were determined based on a core scenario that includes a number of assumptions regarding the business and the regulatory environment; these assumptions do not include the occurrence of an economic recession or financial crisis. Under these circumstances, such prospects and objectives may not be considered as performance forecasts.



- Regarding retail banking in Emerging Markets and Overseas, the Group will seek to capitalize on its recent acquisition of Turk Ekonomi Bankasi (TEB), which was finalized on February 11, 2005. It will also continue to implement its development plans in North Africa and the Middle East, in particular in Saudi Arabia and Kuwait;
- Asset Management and Services: the Group's objective is to grow its revenues faster than the market by strengthening its positions in France and throughout Europe and by pursuing selected business expansion in the rest of the world;
  - At BNP Paribas Private Banking, the Group's aim will be to strengthen its position as a global leader. It will seek to capitalize on its leading position in France, develop its services for ultra-high net worth clients and strengthen its position in developing markets, including Asia and continental Europe;
  - At BNP Paribas Asset Management, the Group will seek to grow total assets under management by €50 billion, capitalize on the trend toward open architecture (i.e., selling by the Group and its competitors of each others' products) to develop its external customer base and expand internationally;
  - At Cortal Consors, the Group will seek to strengthen its leading position in Europe and substantially increase assets under management. In addition, it will seek to develop its network of independent financial advisers in Europe;
  - At BNP Paribas Assurance, the Group will seek to grow its market share in savings in France, grow its offering of death and disability coverage and continue its international expansion;
  - At BNP Paribas Securities Services, the Group will seek to strengthen its leading position in Europe across the range of securities products, grow its market share among institutional clients in Europe and develop new client segments;
  - Regarding real estate investment services, the Group will aim to promote new real estate fund management services and develop its cross-selling efforts.
- Corporate and Investment Banking: the Group's objective is to achieve strong growth by expanding coverage in Europe, and by pursuing targeted business expansion in the U.S. and Asia. The Group will also seek to maintain a solid return on equity and a cost/income ratio that compares favorably with other market competitors.

In addition to the specific initiatives set forth above, the Group will continue to cross-sell its products and services so as to reinforce its efforts to outperform the market. The Group will also be rolling out a new visual branding program, which will be aimed at achieving a better balance between its strong Group brand name (according to *Fortune*, BNP Paribas already has the 6th strongest global banking brand name) and certain appealing local or specialty brand names.

### ***Continued Productivity Improvement***

The Group will seek to further improve its cost/income ratio while maintaining the competitive position of each of its core businesses. In order to do so, the Group will undertake efforts to achieve new productivity gains, including initiatives aimed at growing revenues and reducing costs. The Group will also continue its efforts to streamline and pool its operational platforms and information systems.

### ***Risk Management***

In preparation for the entry into force of the new Basle 2 regulatory requirements, the Group will seek to apply the advanced methods set forth under such regulatory requirements as soon as they are effective, in particular with respect to operational risks. The Group will also seek to implement progressively the general use of economic capital as a management tool.

The Group will also focus its efforts on ensuring compliance with the highest ethical standards and regulatory requirements in an increasingly complex and demanding regulatory environment. The Group's newly created global corporate compliance department, led by a member of the Group's executive committee and to which the Group will allocate all necessary resources, will spearhead this effort.

### ***Capital Management***

The Group will optimally manage its capital in the following four ways:

- through organic growth, which is the Group's priority and is expected to result from the business objectives mentioned above;
- through external growth, by seizing acquisition opportunities based on clearly defined commercial (in particular retail banking and one-off acquisition opportunities in other areas of business) and geographic (in particular Europe and the U.S., particularly via BancWest) priorities. Thanks to the diversity and high quality of its franchises, the Group enjoys an array of acquisition opportunities. At the same time, any acquisition must meet the Group's strict acquisition criteria. Accordingly, the Group will seek acquisition opportunities that present low execution risk and that meet defined financial criteria (return on investment higher than cost of capital and near-term accretive effect). Upon any acquisition, the Group will seek to apply its expertise in the integration of newly acquired companies;
- through an active dividend distribution policy, reflected in the 37.9% increase in the dividend paid with respect to the 2004 fiscal year (as compared with the 2003 fiscal year); and
- through share buybacks, at a minimum so as to neutralize the dilutive effect of share issuances to employees. In May 2005, the Board of Directors launched a new share buyback program to repurchase approximately €600 million worth of shares during 2005. This €600 million targeted repurchase price is in addition to the amount required to buy back shares so as to neutralize the effect of share issuances to employees.

BNP Paribas' overall objective is therefore to focus on growing its revenues further, while maintaining an annual return on equity that exceeds 15%.

## **Activities of the Group**

### ***History***

BNP was formed in 1966 through the merger of Comptoir National d'Escompte de Paris ("CNEP") and Banque Nationale pour le Commerce et l'Industrie ("BNCI"). CNEP, which was organized in 1848 and was initially involved primarily in business financing in Paris, grew its French network over the years and actively participated in the industrial development of France, financing such projects as railroad and industrial construction. BNCI, which succeeded Banque Nationale du Commerce in 1932, focused on a dual strategy of expansion within France by acquiring several regional banks and establishing operations abroad. At the time of their nationalization in 1945, BNCI and CNEP were, respectively, the third and fourth largest French banks in terms of assets.

The French government owned over 80% of the voting stock of BNP and its predecessor banks until 1982 and owned 100% of the voting stock of BNP from 1982 until 1993. In October 1993, BNP was privatized through the offering of shares to the public in France and internationally. During the 1990s, BNP launched new banking products and services and expanded its presence in France and internationally, while positioning itself to benefit fully from the introduction of the euro. Privatization also significantly boosted BNP's profitability – in 1998, it led the French banking industry in terms of return on equity.

Banque Paribas was founded in 1872 under the name of Banque de Paris et des Pays-Bas, as a result of a merger between a Dutch bank, Banque de Crédit et de Dépôts des Pays-Bas, and a French bank, Banque de Paris. In 1968, a holding company called Compagnie Financière de Paris et des Pays-Bas was created and all banking activities were transferred to a subsidiary also called Banque de Paris et des Pays-Bas. In June 1982, when it was nationalized, the name of the holding company was changed to Compagnie Financière de Paribas and the name of the bank was changed to Banque Paribas.

Compagnie Financière de Paribas was privatized in 1987, resulting in the effective privatization of Banque Paribas. In 1998, Banque Paribas was merged with the holding company and certain of the holding company's subsidiaries, and the surviving entity was renamed Paribas.

In 1999, following a public tender offer without precedent in the French banking industry and a six-month stock market battle, BNP and Paribas effected a merger of equals. 2000 was the first full year of operation of the BNP Paribas Group in its new configuration, following approval of the merger at the extraordinary general meeting on May 23, 2000.

### ***Organization***

The BNP Paribas Group has three divisions: Retail Banking, Asset Management and Services and Corporate and Investment Banking. Operationally, these divisions are organized into five core businesses: French Retail Banking, International Retail Banking and Financial Services, Asset Management and Services, Corporate and Investment Banking and BNP Paribas Capital. The Group also has additional activities, including those of its listed real estate subsidiary, Klépierre, that are conducted outside of its five core businesses.

### ***Retail Banking***

This division is composed of two core businesses: French Retail Banking and International Retail Banking and Financial Services.

#### ***French Retail Banking***

The French Retail Banking client base includes 5.7 million individual and private banking clients, 495,000 entrepreneurs and small business clients and 18,000 corporate and institutional clients. French Retail Banking offers a comprehensive line of products and services, ranging from current account services to the most complex financial engineering services in the areas of corporate financing and asset management.

French Retail Banking's network has been structured so as to enhance local coverage and client service. As of December 31, 2004, this network included 2,200 branches and 3,400 ATMs, in addition to a multi-channel banking structure. French Retail Banking focuses on servicing regions with high economic potential. For example, the Group estimates that it has a 15% share of the retail banking market in the greater Paris area. French Retail Banking also has a strong presence in the high net worth segments of the personal banking market—22% of French households with net annual revenues in excess of €82,000 have their primary bank account with BNP Paribas (source: *IPSOS*)—and a leading position in the corporate market.

French Retail Banking employs 30,000 people working in the BNP Paribas domestic branch network, Banque de Bretagne, BNP Paribas Factor (a factoring company) and BNP Paribas Développement, a provider of growth capital.

In order to effectively respond to client expectations, French Retail Banking has reorganized its sales structure by dividing its banking network into various segments. Accordingly, French Retail Banking is currently composed of branches (serving private individuals and small businesses), private banking centers and business centers, all of which are supported by client relationship centers and back-offices that are responsible for handling after-sales operations.

During 2004, French Retail Banking continued to actively expand its personal banking business, using its multi-channel banking system (branch, telephone and online banking) that was rolled out beginning in 2002. This system is designed to offer clients the highest standard of service and to enhance the role of client advisers in the branches. One of its cornerstones is the existence of client relationship centers to handle calls to the branches and client e-mails; a third client relationship center was opened in Lille during 2004, which will supplement those existing in Paris and Orléans. The new workstations being operated by client advisers are geared towards managing client relations within a multi-channel banking system. As such, they represent the very hub of the system, whose worth and effectiveness have been demonstrated through two full years of use. French Retail Banking also has the largest network of private banking centers, with 200 centers across France ensuring extensive local coverage.

At the end of 2004, French Retail Banking also implemented a new business organization specifically designed to serve the needs of corporate clients. This new organization, which is unique in the French retail banking landscape, is based on 24 business centers located throughout France, as well as two professional assistance services—Service Assistance Entreprise (SAE) and Cash Customer Services (CCS). Major corporate accounts are overseen by high-level key account managers who are based at the Bank's main regional offices and who work in close collaboration with the business centers, the international network and the Group's specialized businesses to create customized solutions for each client.

French Retail Banking also includes a cash management unit that forms part of BNP Paribas Cash Management, one of the leading cash management operators in Europe. This business provides an array of domestic and international solutions for payment, collection and cash management, which are suited to companies of all sizes.

Finally, French Retail Banking is reorganizing its back-offices into Production and Sales Support branches (PSSBs). Specialized by type of transaction, they span the whole of France and have fully integrated information systems. At the end of 2004, there were 57 PSSBs, which formed part of 12 different Production and Sales Support Groups.

#### *International Retail Banking and Financial Services*

The International Retail Banking and Financial Services core business consists of six business lines: Consumer Financing (Cetelem), Property Financing for Private Individuals (UCB), Corporate Capital Equipment Financing (BNP Paribas Lease Group), Contract Hire and Fleet Management, Retail Banking in the United States (BancWest) and Retail Banking in Emerging and Overseas Markets. The core business includes approximately 32,600 employees across 54 countries.

#### Cetelem

Cetelem is the leading supplier of consumer credit in continental Europe (source: the Group's calculation of the market share of market participants based on their outstanding loans as indicated in their published annual reports, compared with the entire European consumer credit market (source: *European Credit Research Institute*)), with €32.2 billion in outstanding loans as of December 31, 2004, of which 60% was in France and 40% was outside France. Cetelem has more than 10,000 staff throughout the world, and currently operates in 20 countries, including 13 in Europe. For the past fifty years, Cetelem has contributed to making consumer credit a modern and pragmatic solution to help consumers manage their household budgets.

The Group believes that Cetelem is the benchmark in the industry and that its Aurore card, held by 15 million consumers worldwide, demonstrates Cetelem's ability to innovate. Its high-quality service offerings – backed by strong technical expertise and tight risk control – meet most household financing needs, including personal loans, installment sales and revolving credits. Cetelem has entered into distribution partnerships throughout the retail industry and has a long tradition of helping large retailers such as Carrefour, Conforama, Ikea and Dell achieve their development goals across the globe. Cetelem is also a preferred partner for banks and insurance companies which value its credit

expertise – including AXA, Banques Populaires, Caisses d’Epargne, Dresdner and KBC – as well as for new providers of services to individual customers, such as Electricité de France (EDF). In 2004, Cetelem also assumed the management of the permanent credit card accounts offered by the Group’s French retail banking network.

### UCB

UCB specializes in financing residential real estate purchases by individuals, for both personal and investment purposes. UCB is active in France and, through its subsidiaries, in Spain, Italy, Portugal, Greece and the Netherlands. UCB has also developed and manages a portfolio of mortgage loans on behalf of BNP Paribas in Norway. At December 31, 2004, UCB’s managed outstanding loans totaled €20.2 billion.

UCB markets its products through a network of business referral partners in the real estate industry, such as estate agents, builders, and, in some countries, brokers, who refer prospective property buyers to UCB. Its strengths are specialization, a commitment to innovation, effective risk management and a high market share among French civil service employees, all of which make UCB a recognized force in residential property financing. Synergies with BNP Paribas’ retail network lend additional power to UCB’s existing resources.

Through its servicing business, UCB also makes its tools and expertise available to other industry partners. For instance, it provides Société Générale with information technology management services.

In November 2004, UCB acquired Abbey National France, which specializes in mortgage lending to private individuals. Abbey National France is also a major player in the debt consolidation market. In 2004, it generated €744 million in new business and had outstanding loans of €2.3 billion at December 31, 2004. This acquisition will allow the Group to bolster its mortgage loan assets and expand its capabilities.

### BNP Paribas Lease Group (BPLG)

BPLG specializes in providing investment financing for corporate clients and small businesses. With operations in 11 European countries, BPLG offers a full array of equipment and property financing solutions, through operating or finance leases – either with or without related services.

A European leader, and number one in France with a market share of nearly 21% (source: *Association Française des Sociétés Financières*), BPLG works in partnership with equipment manufacturers, importers and distributors, with a view to helping them optimize their sales performance by integrating financing into their sales contracts. BPLG also provides and manages equipment and property financing, marketed by the BNP Paribas banking network to its clients.

### Contract Hire and Fleet Management

The Contract Hire and Fleet Management business line consists of three groups of companies that offer customized solutions to corporate clients seeking to outsource the management and financing of their vehicle fleets and other logistical equipment, as well as the technical and market risks related to the use of this equipment:

- Cars and light trucks: Arval
- Heavy goods vehicles: Artegy
- Information technology related assets: Arius

The flexible products and services offered are designed to assist clients’ efforts to optimize the management of their vehicle fleets and logistical equipment. They rely on superior purchasing power, strong technical expertise of specialist teams and a set of interactive tools essential for effective dialogue with corporate clients.



Arval is the business line's main company. It has direct operations in 17 countries and a leading European position in the long-term leasing and fleet management market, with 602,000 vehicles under its management at the end of 2004.

### BancWest

In the United States, the International Retail Banking and Financial Services business is conducted through BancWest Corporation, a holding company formed out of the 1998 merger between Bank of the West and First Hawaiian Bank. BancWest's branch network operates under two brand names: Bank of the West on the mainland and First Hawaiian Bank in Hawaii.

In November 2004, BancWest acquired Community First Bankshares and Union Safe Deposit Bank. At the date of the acquisition, Community First Bankshares, headquartered in Fargo, North Dakota, operated 155 branches in twelve U.S. states (mainly in the western U.S.) and had total assets of US\$ 5.5 billion. Union Safe Deposit Bank, with 19 branches in California's Central Valley, had total assets of US\$ 1 billion.

Bank of the West offers retail banking services to individuals and companies in 16 western U.S. states. It is California's fifth leading retail bank (source: *FDIC* June 30, 2004). It also has strong national positions in certain niche lending markets, such as Marine, Recreational Vehicles, Church and Small Business Administration.

With a 40% market share based on deposits (source: *FDIC* June 30, 2004), First Hawaiian Bank is Hawaii's leading bank, offering a broad array of products to a local clientele of private individuals and companies.

In total, as of December 31, 2004, BancWest had approximately 10,000 employees, 530 branches and 3.4 million client accounts. At the same date, it had total assets of US\$ 50 billion, making it the seventh largest bank in the western U.S. (source: *SNL*).

### Emerging Markets and Overseas

Emerging Markets and Overseas retail banking operations are organized around five geographical areas: Africa-Indian Ocean, French overseas departments and territories, North Africa-Mediterranean, the Middle East and Europe-Near East. The Group is leveraging the expertise it has acquired in running the branch network in mainland France to drive the development of its subsidiaries in these regions, which represent approximately 500 branches and 1.5 million clients.

The Group's operations in Africa are organized around the network of Banque Internationale pour le Commerce et l'Industrie (BICI). With approximately 100 branches distributed over six countries (Burkina Faso, Côte d'Ivoire, Gabon, Guinea Conakry, Mali and Senegal), the Group manages one of the largest banking networks in French-speaking Africa. The Group has operations in Djibouti (BCIMR) and in the Indian Ocean region, including Madagascar (BMOI) and the Comoro Islands (BIC).

In the North Africa-Mediterranean region, the Group has approximately 200 branches across Morocco (BMCI), Tunisia (UBCI) and Algeria (BNP Paribas El Djazaïr).

In the French overseas departments and territories (Martinique, Guadeloupe, French Guyana, New Caledonia, Reunion Island, Wallis and Fortuna), the Group has solid local positions where it operates through 49 branches.

In the Middle East, the Gulf states are served by the regional headquarters in Bahrain, responsible for four territories (Bahrain, Abu Dhabi, Dubai and Qatar). Two entities are currently being opened in Saudi Arabia and Kuwait. The Group also has an expanding network in Egypt (BNP Paribas Cairo).

In the Europe-Near East region, the Group has operations in Cyprus, Israel and Lebanon (BNPI) and, since February 2005, in Turkey.



Lastly, importers and exporters who are clients of the Emerging Markets and Overseas retail banking business have access to the teams of international trade specialists working in the BNP Paribas international network of Trade Centers.

### ***Asset Management and Services (AMS)***

This core business and division comprises all of the Group's investor services businesses and leads the BNP Paribas asset gathering effort.

One of the foremost players in Europe, AMS offers fund management and discretionary asset management services, backed by a range of high value-added investor services. It is organized around three business lines:

- Wealth & Asset Management, comprising private banking services (BNP Paribas Private Banking), asset management services (BNP Paribas Asset Management) and Cortal Consors on-line brokerage and personal investment services. In 2004, the Group's real estate services provided through BNP Paribas Immobilier were also included in this business line;
- Insurance (BNP Paribas Assurance); and
- Securities Services for global financial institutions (BNP Paribas Securities Services).

Through all of these businesses, which include more than 15,000 employees across 40 countries, AMS offers a comprehensive range of products and services to a broad investor clientele, including institutional clients, corporations and private individuals. Each AMS business was among the leaders in its market in 2004. In 2004, AMS managed total assets of €292 billion and held €2,473 billion of assets in custody.

### ***Wealth & Asset Management***

#### **Private Banking**

Serving a demanding clientele of high net worth individuals, BNP Paribas Private Banking offers personalized portfolio engineering and diversification advice tailored to the specific needs of each client, which is backed by a range of carefully selected high-performance and innovative products.

BNP Paribas Private Banking is ranked number one in the French private banking market (source: 2005 *Euromoney* rankings), with €45 billion in assets under management and a network of more than 120 outlets nationwide. It ranks fourth in Western Europe, where it is fast broadening its reach in domestic markets, and seventh in Asia (source: 2005 *Euromoney* rankings). At year-end 2004, BNP Paribas Private Banking's overall client assets under management totaled more than €100 billion.

#### **Asset Management**

BNP Paribas Asset Management specializes in third party asset management services. With a view to combining solid performance with high service quality, teams have been organized into specialized units that cover separate asset classes. These dedicated and highly responsive teams offer investment solutions that combine advisory services, innovation and risk management, in the areas of traditional active management and alternative and structured management.

Operating in over 20 countries across five continents, BNP Paribas Asset Management partners with clients around the world, while pursuing its development and expansion in developing markets, such as China and South Korea. By building on its local presence, it can offer clients customized and follow-up services.

With a franchise of over 400 institutional clients, BNP Paribas Asset Management had more than €196 billion worth of assets under management at December 31, 2004. It is a major player in the European investment fund market; as of December 31, 2004, it was Europe's ninth leading fund sponsor (source: *FERI*). It is rated "AM2+" by Fitch Ratings.

### Cortal Consors

Cortal Consors is Europe's leading personal investment management company and online broker (source: *Reuters* report published in October 2003 and the Group's own internal estimates). Cortal Consors offers clients its expertise and investor advisory experience through several distribution channels. It boasts a broad range of products including short-term investment products, mutual funds and life insurance policies, backed by cutting-edge online brokerage technologies.

Cortal Consors has an operating presence in six European countries – Germany, France, Spain, Belgium, Luxembourg and Italy. At December 31, 2004, it had over one million clients and €18.6 billion worth of managed assets, comprised of 44% equity, 48% savings products or mutual funds and 8% cash.

### Real Estate Investment Services

BNP Paribas Immobilier offers a comprehensive range of real estate products and services. Through its acquisition in 2004 of Atis Real International—a company that specializes in commercial real estate advisory services—BNP Paribas Immobilier has become the leading real estate company among French banks (source: internal estimates). Its service offering now covers every stage of a real estate project.

BNP Paribas Immobilier groups together all of the Group's real estate subsidiaries, which operate in the following three key areas:

- property development (through Meunier, the third largest French property developer (source: *Classement des promoteurs* 2004));
- real estate investments and project financing (through BNP Paribas PFI); and
- real estate services, which include:
  - commercial real estate advisory services (including transactions, valuations and investments). BNP Paribas Immobilier holds a leading position in mainland Europe in this field through Atis Real, which has operations in seven countries;
  - asset management, through Antin Vendôme – the number two property fund manager in France (source: *IEIF – Institut de l'Epargne Immobilière et Foncière*);
  - property management: 11 million square meters of office space is managed in Europe, including 5.5 million square meters in France (through Comadim) and 16,500 French residential properties (through Gerer); and
  - sale of residential properties: through Espaces Immobiliers BNP Paribas, which managed 19 sites at the end of 2004.

### *Insurance*

BNP Paribas Assurance manages all of BNP Paribas' insurance companies, including Cardif, which sells products in 29 countries through a large number of partners. BNP Paribas Assurance is the fourth-leading life insurer in France (source: *FFSA*).

In 2004, BNP Paribas Assurance implemented a new organizational structure in order to help speed its expansion. It currently has two departments, one of which is dedicated to the sale of savings products and the other to sales of international personal insurance policies.

The department in charge of savings products offers life insurance policies to private individuals. In France, this department also offers group products to companies related to pensions, end-of-career bonuses and early retirement benefits. Through Cardif Asset Management, the department also offers a broad array of mutual funds to private individuals, institutional investors and major corporations.

The department in charge of personal insurance sells stand-alone policies as well as loan insurance. BNP Paribas Assurance also markets both standard and personalized group policies to all types of companies, large and small. In France, property and casualty insurance is offered through Natio Assurance, a company that is jointly owned with AXA. The products offered cover a wide range of risks and include comprehensive home insurance, automobile insurance, educational insurance, travel insurance and legal protection coverage.

### *Securities Services*

BNP Paribas Securities Services includes all securities services activities conducted by the Group through the following entities: BNP Paribas Securities Services, BNP Paribas Fund Services, BNP Paribas Asset Servicing and BNP Paribas SA. BNP Paribas Securities Services is a leading provider of securities services to corporate and financial institutions around the world.

BNP Paribas Securities Services provides a wide range of securities services and investment operations solutions to meet client needs at every stage of the investment cycle, including:

- clearing and custody for all asset classes,
- fund administration (accounting, middle-office outsourcing, depository bank, performance measurement and attribution analysis),
- issuer services, and
- cash and securities financing.

At December 31, 2004, assets under custody totaled €2,473 billion, and an estimated 23.1 million transactions were handled over the course of the year.

BNP Paribas Securities Services is ranked number one among European custodians and is the 5th-largest global custodian worldwide (source: *Institutional Investor Magazine*, ranking published in September 2004 based on assets under custody at the end of March 2004). For the fifth consecutive year, the division won two key industry awards during 2004: “Best Regional Custodian – Europe” from *Global Investor Magazine* and “Best Overall Network” from *GSCS Benchmarks*.

Over half of BNP Paribas Securities Services’ operations are outside of France. In addition to its head office in Paris, BNP Paribas Securities Services has branches, subsidiaries and offices in all of the main European financial centers – including Belgium, Germany, Greece, Ireland, Italy, Jersey, Luxembourg, the Netherlands, Portugal, Spain, Switzerland and the United Kingdom – as well as in Australia, New Zealand and the United States. The division also offers services in Turkey, where it operates through an agreement with Garanti Bank.

### ***Corporate & Investment Banking (CIB)***

In order to leverage its origination capabilities and thereby strengthen its position in Europe in the corporate and investment banking market, BNP Paribas is supported by an integrated group known as Coverage and Territories Europe (CTE). CTE is responsible for managing relationships with European companies, as well as for leading commercial operations in the European territories.

Outside of Europe, the Coverage and Territories International (CTI) group covers corporate relationships in the Americas, the Asia-Pacific region, Africa and the Middle East, and leads operations

in the corresponding Corporate and Investment Banking territories. The Financial Institutions Group (FIG), which is part of CTI, is the global group responsible for covering relationships with financial institutions (banks, insurers, supranational organizations, etc.) throughout the world.

These sales teams market all of the products offered by the Group. CTE and CTI banking advisers and client relationship managers have a keen understanding of their clients' financial and business strategies and day-to-day management concerns, making them the preferred partners of the Group's corporate and institutional clients. This understanding also enables them to effectively coordinate the activities of product specialists.

With a client base comprising some 11,000 corporations and institutions, the CTE and CTI groups have developed extensive knowledge of the specific features of the various markets and regions that they serve, which they deploy so as to promote revenue generation across all product lines.

Based in 20 countries worldwide, the 65-strong FIG team manages relationships with 600 institutional clients, including insurers, pension funds and asset managers, supranational organizations, banks and central banks.

By building long-term relationships with clients and maintaining up-to-the-minute knowledge of their businesses, BNP Paribas has come to be viewed as a leading bank by its institutional clients.

#### *Advisory and Capital Markets*

##### Corporate Finance

Corporate Finance offers advisory services for mergers and acquisitions and primary equity market transactions. The mergers and acquisitions teams advise both buyers and sellers and also offer advice on other strategic financial issues, such as privatizations. Primary market services include flotations, equity issues, secondary offerings and convertible/exchangeable bond issues.

Corporate Finance has adopted an inter-disciplinary organizational structure designed to give clients access to the best combination of specialists in each product, industry and geographical area, while optimizing resource management.

Corporate Finance employs approximately 330 professionals located throughout its worldwide network. Focused first and foremost on Europe, it is also present in North and South America and enjoys strong visibility in Asia through BNP Paribas Peregrine.

In 2004, Thomson Financial ranked BNP Paribas fifth in Europe in terms of transaction volumes, and *Dealogic Equityware* ranked it within the top ten in Europe for the primary equity business.

##### Equities and Equity Derivatives

The Equities and Equity Derivatives business encompasses research, trading, sales and brokerage services relating to European and Asian equities, as well as global derivatives linked to equities, indexes and funds. Equities and Equity Derivatives teams operate in primary as well as secondary markets and offer institutional, corporate and private clients a full range of products and services that cover the entire structured products and flow businesses, including global listed derivatives brokerage services and prime brokerage solutions.

In 2004, BNP Paribas confirmed its leading worldwide position in terms of volume of equities traded on all markets, and obtained high rankings in the large majority of equity derivatives markets and stock market indexes. BNP Paribas also won a number of prestigious awards in 2004, including:

- **“Equity Derivatives House of the Year”** (*Risk Magazine*),
- **“Best Equity Derivatives Provider in Europe”** (*Global Finance*),

- **“Mid Cap Equity House of The Year”** (*IFR Asia and Finance Asia*),
- **“Wealth Management Product House of the Year”** (*Asia Risk*), and
- **“Rising Star Equity House”** in Asia (*The Asset*).

### Fixed Income

Fixed Income’s product expertise and distribution capabilities have positioned BNP Paribas among the top three fixed income players in Europe (source: *IFR*), and have allowed it to build a strong client franchise in Asia, Japan and the United States. BNP Paribas Fixed Income employs close to 1,500 professionals around the world.

The Group’s comprehensive approach to developing solutions for its clients integrates global expertise in research, sales, trading, origination and distribution, comprising three product lines: Global Credit, Interest Rates Group and Foreign Exchange.

The Bank is a recognized leader in the interest rate, credit and foreign exchange markets. BNP Paribas’ broad range of Fixed Income products is provided through a strong sales and marketing platform. In addition, the Bank provides a full array of research products and services available for one-on-one client support and advice, as well as an extensive array of written reports through a variety of channels.

In 2004, BNP Paribas ranked second in Euro-denominated corporate bond issuances (source: *Thomson Financial* league tables). It was also designated “Euro Investment-Grade Corporate House of the Year” for the third consecutive year by *IFR*, as well as “Euro-MTN House of the Year” for the first time.

The Group conducted a review of Fixed Income’s organization in 2004 in order to improve its coverage and better serve its clients, involving:

- the structuring of European marketing into two groups, focusing on financial institutions and investors on the one hand, and corporate clients on the other hand;
- expansion into new markets such as asset-backed securities, as well as mortgage-backed securities in the U.S.;
- expansion into new locations such as China, with the opening of a trading floor in Shanghai.

### *Financing Businesses*

#### Energy, Commodities, Export and Project Finance (ECEP)

By grouping together within one structure all of the Group’s expertise relating to energy, commodities, infrastructures and capital goods, BNP Paribas has created an innovative structure that meets client needs and fully leverages synergies between the various businesses.

The Energy, Commodities, Export and Project Finance business line (ECEP) conducts its business on a worldwide basis. It is organized around the following lines:

- financing of commodities trading, in all forms, an activity in which BNP Paribas is a global leader;
- structured commodities financing in emerging markets which, in addition to export pre-financing, includes reserves financing and structured inventory financing;
- corporate loans for energy, metals and mining activities in industrialized countries;

- commodities derivatives brokerage on organized exchanges and over-the-counter transactions in New York, London and Singapore;
- export financing, with 15 export desks covering 28 public credit insurers, and some thirty correspondent banks in importing countries;
- project finance – especially in the energy and infrastructure sectors – with loans structured on the basis of cash flows; and
- global trade services, which offers a range of products and services, including e-banking and international guarantees for import-export trading.

In 2004, BNP Paribas' ECEP business line was a leader in its market. During the year, it was ranked "Best Commodity Bank" by *Euromoney*, "Best Institution for Oil Finance" by the *Trade & Forfeiting Review*, number one project financier worldwide by *Dealogic*, and "Best Arranger for Project Financing" by *EuroWeek*.

### Structured Finance

BNP Paribas' Structured Finance team designs and structures, on a worldwide basis, a broad range of complex and innovative financing arrangements, including syndicated loans, acquisition financing, leveraged buy-out financing, optimization and asset financing, media and telecommunications financing, marine and aircraft financing and structured leasing. In 2004, BNP Paribas held sixth position as bookrunner and mandated lead arranger of syndicated loans worldwide and third position as bookrunner and mandated lead arranger of syndicated loans in the Europe – Middle East – Africa region (source: *International Financial Review*). Also in 2004, BNP Paribas ranked fifth as mandated arranger of leveraged loans in Europe (source: *International Financial Review*).

In addition, the Structured Finance business line oversees the structuring and monitoring of standard commercial banking transactions.

### ***BNP Paribas Capital***

BNP Paribas Capital encompasses all of the Group's private equity activities. The private equity business consists of investing in the capital of unlisted companies, with the objective of realizing a capital gain in the medium-term. As of December 31, 2004, BNP Paribas Capital managed a portfolio with a market value of €3.7 billion, including unrealized capital gains of €1.4 billion.

BNP Paribas Capital's specialized teams are organized into independent management companies, each with a dual role:

- advising the BNP Paribas Group on its proprietary portfolio; and
- managing or advising funds held partly by the Group and partly by outside investors.

BNP Paribas Capital is active in all segments of the private equity market. Large leveraged buy-outs in Europe are handled by PAI partners. Dedicated funds managed or advised by Banexi Capital Partenaires, Banexi Venture Partners and BNP Private Equity handle medium-sized leveraged buy-outs and venture capital transactions in France as well as investments in the media and telecommunications sectors.

BNP Paribas Capital aims to continue evolving towards a fund management model, with most invested capital deriving from external sources, while gradually reducing its proprietary portfolio.

### ***Klépierre***

Klépierre is continental Europe's second-leading listed property group specialized in shopping centers, with 850 employees and a market capitalization of €3 billion at December 31, 2004. One third



of its business is conducted outside of France. Klépierre's property assets totaled €5.9 billion at the end of 2004, 84% of which consisted of shopping centers located in nine continental European countries, and 16% of which consisted of Paris-based office properties. Klépierre has adopted a unique management approach structured around its 75% -owned subsidiary, Ségécé (also 15% -owned by BNP Paribas SA), which manages 344 shopping centers – of which 223 belong to Klépierre – through a network of seven subsidiaries operating in ten European countries.

### ***Listed Investment and Sovereign Loan Management***

The Listed Investment Management team manages BNP Paribas' portfolio of minority stakes in large listed groups.

Sovereign Loan Management's mission is to restructure sovereign loans through the London Club and to manage the portfolio of emerging market sovereign debt, such as Brady bonds, eurobonds and restructured credits.

The Listed Investment and Sovereign Loan Management unit has two functions. Its overall mission is to actively manage assets with a view to deriving the greatest possible value over the medium-term. The medium-term perspective clearly differentiates this business from a trading activity.

### **Litigation**

The Group is involved in a number of legal proceedings in the ordinary course of business, none of which is expected to have a material adverse effect on the Group's businesses, financial condition or results of operations.

### **Main Shareholders of BNP Paribas**

At December 31, 2004, AXA, a French *société anonyme* (corporation), held 5.7% of the shares of BNP Paribas. At that date, to the knowledge of the Board of Directors of BNP Paribas, no other shareholder held more than 5% of the shares.

## CAPITAL ADEQUACY OF THE BNP PARIBAS GROUP

### Overview

French bank regulatory authorities, like authorities in most countries, impose minimum required levels of capital that must be maintained by banks within their jurisdiction. Required levels of capital are determined by reference to the relative risk associated with specified categories of assets owned by the institutions. These requirements are generally referred to as risk-based capital requirements, and are regarded by bank regulatory authorities as an important supervisory tool in measuring the safety and soundness of banking institutions.

### Capital Adequacy under the BIS Standards

In 1988, the Basel Committee on Banking Supervision (the “**Basel Committee**”), a committee consisting of representatives of the central banks and supervisory authorities from the “Group of Ten” countries (Belgium, Canada, France, Germany, Italy, Japan, the Netherlands, Sweden, the United Kingdom and the United States) and Luxembourg that meet at the Bank for International Settlements (“**BIS**”), adopted a capital accord setting out standards for risk-weighting and minimum levels of regulatory capital for banks. The BIS standards contained in the accord have been widely adopted by bank regulatory authorities throughout the world, including regulatory authorities in France and the rest of the European Union. In 1996, the Basel Committee adopted a significant amendment to the BIS standards to provide a specific capital cushion for market risks in addition to a bank’s credit risks. Such amendment defines market risks as: (i) the risks pertaining to interest rate-related instruments and equities in a bank’s trading book and (ii) foreign exchange risks and commodities risks held generally on the bank’s books. As amended in 1996 and refined in September 1997 by the Basel Committee, the BIS standards continue to require a capital solvency ratio with respect to a bank’s credit risks and, in addition, require a bank to quantify its market risks in figures equivalent to credit risks and to maintain an overall capital ratio of 8% with respect to its credit and market risks. As adopted by the Banking Commission, these revised BIS standards have been applicable to French credit institutions since January 1, 1998.

Under the BIS standards, a credit institution’s capital is divided into three principal categories, or “tiers”. Tier 1 capital consists of “core” capital items such as common and qualifying perpetual preferred equity, Tier 2 capital includes “quasi-capital” items such as certain perpetual and long-term preferred equity and subordinated debt, and Tier 3 capital (counted in regulatory capital only for the market risk component of the BIS standards) consists of qualifying short-term subordinated debt. The composition of each tier of capital is described in more detail under “The CAD Ratio—Determination of the Level of Capital”. The aggregate amount of the credit institution’s regulatory capital is compared to the value of the credit institution’s assets, weighted to take into account the market and/or counterparty risk inherent in those assets. Under the BIS standards, credit institutions are required to maintain a total risk-based ratio (combined Tier 1 and Tier 2 capital to risk-weighted assets) of at least 8%, and the Tier 1 capital ratio (Tier 1 capital to risk-weighted assets) must be at least 4%.

### Capital Adequacy Directives

In 1989, the Council of the European Union adopted two directives that set the framework of capital adequacy within the European Union with respect to credit risks and, in 1993, adopted a capital adequacy directive for credit institutions and investment enterprises under which member states are required to adopt regulations to supplement the solvency rules so as to take into account risks associated with a bank’s trading activities in addition to credit risk. In France, these directives have been implemented through a series of regulations adopted by the Banking and Finance Regulatory Committee since 1996 (collectively, the “**CAD Regulation**”).

Effective as of January 1, 1996 pursuant to the CAD Regulation, French credit institutions became subject to capital adequacy requirements with respect to their trading activities that are supplemental to those in force in respect of banking activities. In addition to credit risk, the CAD Regulation specifies different standards for a credit institution’s trading activities designed to reflect interest rate risk, market risk and settlement risk. The CAD Regulation also requires credit institutions

to maintain additional capital measured by reference to the foreign exchange and commodities risks of all their activities, including banking and trading. Under the CAD Regulation, a credit institution's total capital is divided by the total amount of capital that the bank is required to maintain under the CAD Regulation, which is based on weightings designed to address the various risks intended to be covered. The resulting quotient (expressed as a percentage) is the credit institution's CAD ratio (the "**CAD Ratio**"), which must be at least 100%.

## **The CAD Ratio**

The CAD Ratio is calculated in a process that includes five principal steps. First, the overall level of the credit institution's capital is determined, with capital subdivided into three tiers, Tier 1, Tier 2 and Tier 3. Second, the credit institution's assets and off-balance sheet commitments are divided into a banking portfolio and a trading portfolio. Third, the components of the banking portfolio (including the relevant off-balance sheet items converted to balance sheet equivalents) are adjusted by multiplying the value of each asset by a percentage designed to reflect the level of associated credit risk, a process known as "risk-weighting". Fourth, the aggregate capital requirement of the credit institution is calculated, in an amount equal to 8% of the risk-weighted value of the assets and off-balance sheet items in the banking portfolio, plus specified percentages of the value of the assets and off-balance sheet items in the trading portfolio, plus capital requirements in respect of foreign exchange risk and commodities risk. Fifth, the level of the credit institution's capital (subject to certain limitations described herein) is divided by the aggregate capital requirement of the credit institution as described above.

## **Determination of the Level of Capital**

Tier 1 capital (referred to as "**own funds**") includes share capital, reserves (other than revaluation reserves, as described below), share premiums, retained earnings, unallocated profit from the most recent fiscal year (less the amount of any related dividend proposed for approval to the shareholders) or interim period and any reserves for general banking risks (i.e., any reserves established to cover risks that are not accounted for by specific or country risk provisions). Share capital and the related share premium (the equivalent of additional paid-in capital) include common equity and qualifying non-cumulative perpetual preferred stock. Because unallocated profit for the most recent year (less the amount of any proposed dividend for that year) or interim period is included in Tier 1 capital, fluctuations in net income may have a significant impact on the CAD Ratio of a credit institution. For an institution that prepares financial statements on a consolidated basis, such as BNP Paribas, Tier 1 capital is adjusted to reflect the result of the consolidation, most notably by the addition of minority interests in the equity accounts of consolidated companies. Goodwill and certain other non-qualifying intangible and other assets are deducted in calculating Tier 1 capital.

Tier 2 capital (referred to as "**supplementary capital**") includes certain items that must, if circumstances demand, be capable of becoming part of a bank's permanent capital and thus be available to absorb losses in the event of insolvency. It includes, among other items, revaluation and certain other reserves, certain types of perpetual preferred equity not qualifying for Tier 1 capital treatment, certain types of perpetual subordinated debt and certain types of subordinated debt with an original maturity of at least five years. Revaluation reserves are reserves arising from the revaluation of assets in accordance with French GAAP. Perpetual subordinated debt (including subordinated debt that can be redeemed only at the option of the issuer and with the prior approval of the Banking Commission) as to which the issuer has the right to defer interest payments and to use unpaid principal and interest to offset losses, is classified as Tier 2 capital. Subordinated debt that (i) has an original maturity of at least five years, (ii) is not subject to early redemption (other than in a liquidation of the issuer) and (iii) in a liquidation of the issuer is subordinated as regards repayment of principal to all other debts of the issuer, is classified as Tier 2 capital. In the last five years prior to maturity, the amount of any item of subordinated debt that may be taken into account as Tier 2 capital must be reduced in accordance with a schedule approved by the Banking Commission, typically on a pro rata basis.

Tier 3 capital (referred to as "**ancillary own funds**") consists of subordinated debt that like Tier 2 capital must, if circumstances demand, be capable of becoming part of a bank's permanent

capital and thus be available to absorb losses in the event of insolvency. It must therefore, at a minimum: (i) be unsecured, subordinated and fully paid-up; (ii) have an original maturity of at least two years; (iii) not be repayable before the agreed repayment date without the prior approval of the Banking Commission; and (iv) be subject to a “**lock-in**” clause that stipulates that neither interest nor principal may be paid (even upon maturity) if such payment means that the bank falls below or remains below its minimum global own funds requirements. Tier 3 capital is earmarked exclusively to support market risks. Accordingly, any capital requirement arising in respect of credit and counterparty risk, including counterparty credit risk in respect of derivatives in both trading and banking books, must be met by Tier 1 and Tier 2 capital. Tier 3 capital is limited to 250% of a bank’s residual Tier 1 capital (i.e., Tier 1 capital above that required to cover credit risks).

## Determination of the Banking Portfolio and the Trading Portfolio

Under the CAD Regulation, a credit institution’s banking portfolio includes all of its assets and off-balance sheet items, other than those included in its trading portfolio. The trading portfolio includes any items that the Bank intends to trade with a view to benefiting from favorable price trends or to finance or hedge such items, such as trading securities, securities held for sale (subject to certain exceptions) and derivative instruments (broadly defined), the purpose of which is either to maintain open positions to benefit from price variations or to manage the bank’s trading portfolio. Items in the banking portfolio are recorded at historical cost and most items in the trading portfolio are marked to market.

## Risk-Weighting

As discussed above, the nature of banking operations involves a variety of risks that depend upon credit quality and market conditions. To determine the risk-weighted value of the assets in the banking portfolio under the CAD Ratio, a specific weighting is assigned to each such asset, based on the credit risk of the relevant obligor, guarantor or other counterparty. The weighting is expressed as a percentage, which is multiplied by the value at which the relevant asset is carried on the credit institution’s balance sheet. For risk-weighting purposes, commercial loans are taken as a benchmark with a risk weighting of 100%. Certain other transactions qualify for reduced weightings. The following table sets forth the risk weightings applicable to various types of assets. If the relevant obligation is fully guaranteed, the risk weighting of the guarantor is applied (except as specified in the table below).

<u>Type of Asset or Counterparty</u>	<u>Risk Weighting</u>
Cash and equivalents; government or central bank obligations of OECD countries and certain other countries (“ <b>Zone A</b> ” countries) and obligations expressly guaranteed by such entities; government or central bank obligations of non-Zone A countries (“ <b>Zone B</b> ” countries) and obligations of a borrower of a Zone B country guaranteed by the government or central bank of such country, in each case that are payable and funded in local currency; obligations of the European Communities and of certain local governments of the European Economic Area; and assets secured by securities of a Zone A government or central bank or the European Communities, deposits lodged with the lending credit institution or certificates of deposit issued by, and deposited with, the lending credit institution . . . . .	0%
Securities issued by certain French and EU mortgage companies . . . . .	10%
Obligations of certain multilateral development banks and obligations expressly guaranteed by such entities; obligations of certain regional or local governments of Zone A countries and obligations expressly guaranteed by such entities (excluding entities authorized to apply a 0% ratio on these obligations); obligations of credit institutions in Zone A countries (unless classified as qualifying capital by those institutions); obligations of Zone B credit institutions with a residual maturity of one year or less (unless classified as qualifying capital by those institutions); assets secured by securities of certain multilateral development banks or regional or local governments of Zone A countries; and cash items in course of collection . . . . .	20%
Obligations secured by residential mortgages on owner-occupied or leased properties; real estate leasing operations; prepayments and accrued income when the counterparty cannot be determined . . . . .	50%
All other assets . . . . .	100%

Off-balance sheet items are converted to balance sheet equivalents by applying specified conversion factors, except in the case of off-balance sheet items relating to interest rates, currency exchange rates, securities, precious metals and commodities, which are discussed separately below. The converted balance sheet equivalent amounts are then multiplied by the applicable risk-weighting percentages described above, and the product is the risk-weighted equivalent value of the relevant item. For purposes of determining the applicable conversion factors, off-balance sheet items other than those relating to interest rates, currency exchange rates, securities, precious metals and commodities are first classified in four categories, with higher levels of capital required for the categories perceived as representing greater risk. Each off-balance sheet item is classified in the category that is deemed appropriate (according to instructions of the Banking Commission). The following table sets forth a summary description (which is not exhaustive) of the items in each category and the corresponding risk weighting.

<u>Type of Off-Balance Sheet Item</u>	<u>Conversion Factor</u>
<b>Limited Risk</b>	
Undrawn commitments that are for an initial maturity less than or equal to one year or that may be cancelled unconditionally at any time by the relevant entity of the credit institution member without notice and other items presenting a limited risk . . . . .	0%
<b>Moderate Risk</b>	
Documentary credits secured by underlying goods and other similar transactions and other items presenting a moderate risk . . . . .	20%
<b>Average Risk</b>	
Unsecured documentary credits, guarantees (including performance bonds and similar non-payment guarantees), agreements to repurchase assets when the transferee benefits from a resale option, irrevocable credit lines that do not constitute credit substitutes, standby facilities and undrawn credit lines with an initial maturity of more than one year, note issuance facilities and revolving underwriting facilities and other items presenting an average risk . . . . .	50%
<b>High Risk</b>	
Loan guarantees, acceptances (including endorsements with the character of acceptances), transfers with recourse, irrevocable credit lines or guarantees that are credit substitutes, forward purchase agreements, sale and repurchase agreements, forward deposits, and non-paid up share capital or other securities and other items presenting a high risk . . . . .	100%

Off-balance sheet items relating to interest rates, exchange rates, titles to property, commodities and similar items, such as forward exchange operations, interest rate or exchange rate futures and other similar items, are valued on a mark-to-market basis. Under this mark-to-market method, the initial step is to determine the net exposure of the credit institution to each counterparty, measured as if the arrangement were terminated on the date of measurement. An additional amount is then added to such net exposure, calculated by multiplying the notional principal amount of the relevant contract by a certain coefficient (ranging from 0% to 15%) depending on the type of item and its residual maturity. The resulting amounts are multiplied by the risk weighting for the applicable type of counterparty (as set forth above for balance sheet items). Interest rate and currency options sold (subject to certain exceptions), contracts traded on a regulated market that requires daily margin posting and exchange rate contracts with an initial maturity of 14 days or less are not converted to balance sheet equivalents.

### **Total capital requirements**

The capital requirement applicable to the banking portfolio is equal to 8% of the aggregate risk-weighted value of the assets and off-balance sheet items included in the banking portfolio, determined in the manner set forth above.

The capital requirement applicable to the trading portfolio is determined by multiplying the value of the assets and off-balance sheet items in the trading portfolio by specified percentages designed to take into account the market risks (which include the interest rate risk, the equity-position risk and certain option risks) and settlement risk associated with such assets. Interest rate risk is the



risk to the value of interest-bearing assets relating to future movements in interest rates, based either on factors specific to the asset or on general level of market interest rates. Equity-position risk is the risk to the value of equity securities relating to either future movements in prices of the relevant shares or stock market prices generally or factors specific to the security or issuer concerned. Settlement risk is the risk that a counterparty to a trade will not complete the trade and deliver the relevant asset or pay the relevant purchase price.

Capital is also required under the CAD Regulation for foreign exchange risk and commodities risk, whether located in the credit institution's banking portfolio or trading portfolio. In general, these requirements are calculated by (i) applying an 8% capital charge to net foreign exchange and gold positions that exceed 2% of the credit institution's total capital, and (ii) multiplying matched and unmatched positions in other commodities and related derivatives by certain specified percentages.

### **Calculation of the CAD Ratio**

The CAD Ratio of a credit institution is determined by comparing the aggregate amount of capital available to cover the institution's capital requirements, calculated in accordance with the CAD Regulation, with the aggregate capital requirement of the institution.

The amount of the institution's capital for purposes of calculating the CAD Ratio is equal to the sum of the amount of capital allocated to cover the capital requirements of the banking portfolio, plus the amount of capital available to cover the capital requirements of the trading portfolio (including foreign exchange and commodities risks). The amount of capital allocated to cover the banking portfolio is required to be equal to 8% of the risk-weighted value of the assets and off balance sheet items in the banking portfolio. As the amount of capital available to cover the trading portfolio and foreign exchange and commodities risks depends on the availability of capital to cover the banking portfolio in excess of the related capital requirements, no capital will be available to cover the trading portfolio and foreign exchange and commodities risks if the capital available to cover the banking portfolio is insufficient to cover such requirements.

The amount of capital available to cover the capital requirements of the banking portfolio is equal to the aggregate amount of Tier 1 and Tier 2 capital, except that (A) Tier 2 capital is included in the calculation only to the extent that it does not exceed Tier 1 capital and (B) Lower Tier 2 capital is included in the calculation only to the extent that it does not exceed 50% of Tier 1 capital (the limitations described in clauses (A) and (B) are referred to as the "**Tier 2 Caps**"). The resulting amount is reduced by deductions equal to the amount of equity (including certain hybrid instruments) owned by the institution in non-consolidated credit institutions in which the institution holds at least a 10% interest or exercises control, or as to which the institution's holdings represent more than 10% of its total capital before deductions, as well as the balance sheet equivalent of certain credit support obligations in respect of securitization transactions. These amounts are first deducted from Tier 2 capital (after application of the Tier 2 Caps), and then from Tier 1 capital.

The amount of capital available to cover the capital requirements of the trading portfolio is equal to the aggregate amount of Tier 1 capital and Tier 2 capital not used to cover the banking requirement, as described above, plus the aggregate amount of Tier 3 capital, except that the amount of Tier 2 capital and Tier 3 capital included in the calculation may not exceed 250% of the amount of Tier 1 capital included in the calculation.

The CAD Ratio of a credit institution is equal to the quotient (expressed as a percentage) obtained by dividing (i) the total amount of capital available to cover the credit institution's capital requirements, by (ii) the capital requirements of the banking portfolio, the trading portfolio and foreign exchange and commodities risks. If the CAD Ratio is equal to 100% or more, then the bank is in compliance with the CAD Regulation.



## Compliance by the BNP Paribas Group with the CAD Ratio

The following table sets forth the components used to calculate the CAD Ratio of the BNP Paribas Group at December 31, 2004 and at December 31, 2003.

	At December 31, 2004	At December 31, 2003
	(in billions of €, except percentages)	
<b>Total Capital:</b>		
Tier 1 .....	26.2	25.7
Tier 2 .....	10.4	11.3
Deductions .....	2.6	1.9
Tier 3 .....	1.2	1.2
	<b>35.2</b>	<b>36.3</b>
<b>Calculation of commercial banking portfolio capital requirement</b>		
Risk-weighted value .....	310.3	260.5
Capital requirement .....	24.8	20.8
<b>Calculation of trading portfolio capital requirement</b>		
Risk-weighted value .....	11.9	9.4
Capital requirement .....	0.9	0.7
<b>Total capital requirement</b> .....	<b>25.7</b>	<b>21.5</b>
<b>CAD Ratio</b> .....	<b>137%</b>	<b>168%</b>

## Proposed Changes to the BIS Capital Standards

On June 26, 2004, the Basel Committee issued a Revised Framework for risk-based capital standards for internationally active banks and bank holding companies (commonly referred to as the “**Basel II Accord**”), intended to replace the existing BIS standards effective at the beginning of 2007. Earlier versions of the proposed Basel II Accord were issued for comment by the Basel Committee in April 2003, January 2001 and June 1999. The Basel Committee has also released numerous discussion papers on various issues under the Basel II Accord and has conducted several quantitative impact studies. The Basel Committee has said it plans to continue calibrating and making refinements to the Basel II Accord prior to its implementation by participating countries.

The Basel II capital framework will consist of three “pillars”: minimum capital requirements, supervisory reviews, and required disclosures to enhance market discipline. Under the first pillar, minimum capital requirements will consist of capital charges for credit risk, market risk and operational risk.

With respect to credit risk capital charges, the existing risk weighting categories of the current BIS accord will be replaced with three alternative approaches, designed to be more risk sensitive: a “standardized” approach, and two “internal ratings based” (IRB) approaches (“foundation” and “advanced”). The standardized approach is an updated and expanded version of the existing risk weight categories, with risk weights based on credit ratings from external sources (such as credit rating agencies), with a greater range of risk weights available (some of the new risk weights would exceed 100% for low quality exposures), and with greater recognition of credit risk mitigation techniques such as the use of collateral, guarantees and credit derivatives. Under either of the two internal ratings based approaches, banks would input their own internal calculations of certain risk parameters (“probability of default”, “loss given default” and “exposure at default”) into risk weight formulas developed by the Basel Committee for each of several different types of assets or credit exposures. In order for a bank to be eligible to use the IRB approaches and internal data, its risk management, data collection and modeling systems must be reviewed and approved by its regulator.

Capital requirements for market risk will be calculated under essentially the same general approach as in the 1996 Market Risk Amendment to the existing BIS accord, with a number of technical modifications proposed in April 2005.

The Basel II Accord also will impose a new capital charge for operational risk (defined as the risk of direct or indirect loss resulting from inadequate or failed internal processes, people and systems

or from external events). The operational risk charge would be determined by one of three alternative approaches. The two simpler approaches apply multipliers to gross revenues by institution or business line. The more sophisticated third approach, known as the “Advanced Measurement Approach” (AMA), would allow a bank to determine an appropriate capital charge for operational risk using the institution’s own internal data and methodologies, subject to prior supervisory review and approval. The operational risk capital charge for any given institution may vary greatly depending on its operating environment, systems and other factors.

The second pillar of the Basel II capital framework emphasizes the importance of supervisory review to ensure that a bank’s capital position is consistent with its overall risk profile and strategy. Banking institutions will be expected to maintain capital at some level in excess of the Basel II mandatory minimums, taking into account their own particular circumstances and consideration of certain risks not explicitly addressed in pillar one (such as interest rate risk, liquidity and credit concentrations). Supervisors will review each bank’s own assessment of the required amount of capital and may adjust an individual bank’s capital requirements on a case-by-case basis. The second pillar also encourages early supervisory intervention when a bank’s capital position deteriorates.

The third pillar of Basel II emphasizes public disclosures to enhance market discipline. The new framework calls for disclosure of many details of each bank’s capital adequacy calculations, accounting policies, risk exposures and risk management strategies.

The Basel Committee has asked participating countries to adopt implementing measures, with a bifurcated implementation date: January 1, 2007 for banks opting for the standardized or the simplest IRB approaches, and January 1, 2008 for those opting for the advanced approaches. Accordingly, an appropriate European regulation is being reviewed by the European Parliament.

Banking institutions using the advanced methods under the new framework will be required to develop systems, compile data, and obtain supervisor approval before then. In addition, banks using the new approaches will be required to conduct parallel capital calculations under the old BIS accord and the new Basel II framework for a year before the final effective date (i.e., during 2006 or 2007). The Basel Committee is continuing to refine certain aspects of the Basel II Accord and has announced that it will conduct a fifth quantitative impact study (QI5) between October and December 2005 to further review and calibrate the Basel II capital requirements. The Bank cannot predict what additional changes may be adopted in the Basel II framework or in banking supervisors’ implementing measures, or what effect the Basel II Accord may have on the Bank’s regulatory capital ratios, financial condition or results of operations.

## RECENT DEVELOPMENTS

### Galeries Lafayette Group

On March 29, 2005, the Moulin family, one of the historical shareholders of the Galeries Lafayette Group with a 31.7% stake, and BNP Paribas reached an agreement on a new partnership between the two groups. This partnership is intended, on the one hand, to ensure the unity and durability of the Galeries Lafayette Group by stabilizing its shareholder base, and on the other hand, to strengthen the partnership between Galeries Lafayette and Cetelem in the consumer credit sector by bringing Cofinoga under their joint control through Lafayette Services –LaSer, the existing holding company of Cofinoga. The partnership will be accompanied by an ambitious industrial project.

Acting together, the founding Moulin and Meyer families were the controlling shareholders of the Galeries Lafayette Group until March 2005. When the Meyer family decided to dispose of its interest in the Galeries Lafayette Group, BNP Paribas, the group's historical partner, acquired the Meyer family's interest in order to support the Moulin family. Subsequently, the Moulin family sought to acquire control of the Galeries Lafayette Group. The agreement dated March 29, 2005 sets forth the terms and conditions of the partnership between the Moulin family and BNP Paribas, which includes:

- A contribution by the Moulin family and BNP Paribas of their Galeries Lafayette shares to SEMAD (subsequently renamed MOTIER), a holding company majority owned by the Moulin family;
- The launching of a public tender offer by SEMAD and BNP Paribas for the outstanding share capital of Galeries Lafayette;
- The entering into (i) a shareholders' agreement between BNP Paribas and Cetelem, on the one hand, and the Moulin family, MOTIER, Galeries Lafayette and LaSer, on the other hand, and in the presence of Cofinoga, governing the organization of the joint control of Cofinoga by Cetelem and Galeries Lafayette and (ii) a shareholders' agreement between BNP Paribas and MOTIER relating to Galeries Lafayette; and
- The amendment of the by-laws of MOTIER as a result of BNP Paribas' contribution to MOTIER and the entering into put and call options between the Moulin family and BNP Paribas relating to the MOTIER shares and reflecting the intention of BNP Paribas to gradually dispose of its interest in MOTIER and insure the liquidity of its investment in the Galeries Lafayette Group.

The public tender offer was launched on April 28 and closed on May 11, 2005 and was followed by a mandatory squeeze-out on July 21, 2005 resulting in MOTIER holding a 100% equity interest in Galeries Lafayette. The offer was financed by senior and subordinated MOTIER debt totaling 1.585 billion euros. As a result of the tender offer and BNP Paribas' contribution of its shares in Galeries Lafayette to MOTIER, BNP Paribas holds an equity stake in MOTIER worth 585 million euros.

Prior to such transactions, BNP Paribas held an economic interest of 49% in Cofinoga (a 44% shareholding through its subsidiary Cetelem and the remaining through LaSer). Cetelem and LaSer have entered into a contribution agreement dated September 7, 2005, under which Cetelem shall contribute its Cofinoga shares to LaSer and receive LaSer shares in exchange. This agreement is expected to be submitted for approval to the shareholders of LaSer. Cetelem will simultaneously purchase from Galeries Lafayette a number of LaSer shares so that, as a result of the share contribution and share purchase, Cetelem will hold a 50% interest in LaSer thus enabling Cetelem to control Cofinoga jointly with the Galeries Lafayette Group.

The number 3 consumer credit specialist in France with a net banking income (NBI) of 878 million euros in 2004 (an 8% increase over 2003) and 10 billion euros of managed receivables, Cofinoga has over the past 30 years developed a franchise and expertise in financial services (private label cards, traditional personal loans, direct and revolving credits) and non-financial services (loyalty

programs, CRM), and enjoys successful partnerships (Banque Casino, Petrofigaz). The Cofinoga card is accepted in 25,000 consumer outlets across more than 80 brands. More than 40% of Cofinoga's business is carried out abroad thanks to its European presence covering the Netherlands, Belgium, the UK, Poland and Southern Europe.

BNP Paribas' agreement with the Moulin family provides for the implementation of an industrial project based on three key principles:

1. Maintaining Cofinoga's commercial autonomy, given the complementary nature of the product offering. Cofinoga will be positioned separately from Cetelem, notably as the sole supplier to the Galeries Lafayette Group's brands. It will be the preferred vehicle for banking and insurance partnerships as well as for the development of Northern European operations.
2. Realizing cost synergies between platforms increasing the profitability of Cofinoga and Cetelem. Cost synergies relate to funding costs (application of BNP Paribas' refinancing margin), to certain operating costs in France and internationally and to the cost of risk (assessment and scoring tool sharing).
3. Realizing revenue synergies and developing new activities. These synergies will be derived from cross-selling of protection products on Cofinoga's receivables, and from the increase in sales of insurance products to its customers.

The DGCCRF (*Direction Générale de la Concurrence de la Consommation et de la répression des fraudes*, the French regulator for consumer competition and fraud responsible for French and EU competition regulations) and the CECEI (*Comité des Etablissements de Crédits et des Entreprises d'Investissement*, the French regulator for investment and financial institutions) issued their approvals of the transaction in France on July 1, 2005 and July 28, 2005, respectively. On September 20, 2005, the shareholders of LaSer and Cofinoga entered into an agreement that establishes joint control over Cofinoga by Cetelem and Galeries Lafayette effective as of October 1, 2005.

The transaction will be fully completed once the contribution agreement described above has been submitted to and approved by the shareholders of LaSer.

### **Acquisition of Commercial Federal Corporation**

BNP Paribas announced on June 14, 2005 that it took a further step in its expansion strategy in the Western US through BancWest, its wholly owned subsidiary.

BancWest announced on June 14, 2005 that its subsidiary, Bank of the West, has reached an agreement to acquire Commercial Federal Corporation ("**Commercial Federal**"), a NYSE listed company (CFB), headquartered in Omaha, Nebraska.

BancWest currently operates through 541 branches in 17 Western states, primarily California and Hawaii. It operates under the brands of First Hawaiian Bank in Hawaii, and Bank of the West on the Western US Mainland. Commercial Federal operates through 198 branches in 7 states.

This transaction underscores BNP Paribas' expansion strategy in US retail banking and its disciplined acquisition policy. Following the transaction, BancWest will have in excess of 4.2 million accounts and 739 branches, enhancing its presence in high growth markets. BancWest will operate in 20 states with 100 million inhabitants, and benefit from some of the strongest demographic growth trends in the US.

On June 13, 2005, the Board of Directors of Commercial Federal approved an agreement for the sale of 100% of the company to Bank of the West. The transaction was also approved by the boards of BNP Paribas, BancWest and Bank of the West. Commercial Federal shareholders will receive at closing U.S.\$34.5 per share, of which a cash payment of U.S.\$34.0 from BancWest and U.S.\$0.5 as a special one-time dividend. In total, this U.S.\$1.36 billion (1.12 billion Euros) purchase price represents a 27% premium to the average closing stock price of Commercial Federal over the past six months, and

is equivalent to 14.8 times 2006 consensus earnings and 1.8 times book value as at March 31, 2005. Subsequent to the transaction, all Commercial Federal activities will continue under the Bank of the West brand.

In 2004, Commercial Federal reported total revenues of US \$382 million, net income of U.S.\$76 million, and a RoE of 10.1%. The bank had U.S.\$10.4 billion of assets as of March 31, 2005. Bank of the West will accelerate the growth of the franchise, by enhancing product offering, increasing sales efficiency, generating pre-tax revenue synergies estimated at U.S.\$12 million in 2007, net of associated costs.

The merger will also generate significant pre-tax cost synergies estimated at U.S.\$54 million, decreasing the cost-income ratio of Commercial Federal towards Bank of the West standard, creating shareholder value from 2006 onwards. The transaction presents limited execution risk given BancWest's proven integration track record and the similarity between both banks' business models and operating systems.

The transaction, recommended by the Board of Directors of Commercial Federal, is currently subject to approval by Commercial Federal's shareholders and by various regulatory agencies in the US. The transaction is expected to close in the fourth quarter of 2005.

### **FundQuest Inc.**

On June 28, 2005, the Group announced that its subsidiary, BNP Paribas Asset Management, had reached an agreement to acquire FundQuest Inc., one of the leading Turnkey Asset Management Providers (TAMP) in the United States with US\$ 10 billion in assets under management and administration (EUR 8.3 bn).

FundQuest, founded in 1993 in Boston, Massachusetts, provides a wide range of wealth management solutions to more than 60 financial institutions, mainly banks and insurance broker-dealers. It has built a unique and highly customizable investment platform providing the entire range of financial services: asset allocation, analysis and selection of the top performing institutional investment "boutiques", portfolio management and superior reporting analytics.

This acquisition is a strategic opportunity for BNP Paribas to build a unique global manager selection platform in the US and in Europe and to become an integrated global market leader that uses open architecture to deliver wealth management solutions for institutions and advisors:

- In the United States, BNP Paribas will make a major move in managed accounts, a segment of the US investment industry with strong growth potential, capitalizing on the Group's strong position in banking services in the US.
- In Europe, FundQuest will join forces with Cortal Consors Fund Management, a fully-owned subsidiary of BNP Paribas and a European leader in open architecture and investment advisory services with US\$ 18 billion under management and advisory (EUR 15 bn). CFM's existing multi-management solutions will be combined with FundQuest's expertise in managed accounts to create a global leader with nearly US\$ 30 billion under management and administration (EUR 25 bn).

The transaction closed on August 16, 2005.

### **JPMorgan Asset Management**

On September 9, 2005, the Group announced that BNP Paribas Assurance and JPMorgan Asset Management had entered into an agreement for BNP Paribas Assurance to take over the retail activity of JPMorgan Asset Management in France. Under the agreement, two entities have been sold to BNP Paribas Assurance: J.P. Morgan Fleming Investissement and J.P. Morgan Fleming Sélection. Through an in-house network of 120 financial advisors and 300 partner IFAs, J.P. Morgan Fleming Investissement and J.P. Morgan Fleming Sélection offer French individual investors life insurance solutions, international investment securities and investment real estate. The two entities will become one of the largest clients of the French branch of JPMorgan Asset Management.

## **Leasing J.Van Breda & Co.**

On September 30, 2005, the Group announced that BNP Paribas Lease Group (BPLG) and Bank J.Van Breda & Co. had signed an agreement for BPLG to acquire Leasing J.Van Breda & Co., a Belgian company specialized in small ticket vendor leases. The acquisition is scheduled to occur in mid-October 2005.

The two parties also agreed to form a partnership in which J.Van Breda & Co. will call upon BPLG to respond to its customers' requests for leasing arrangements to finance the acquisition of capital goods.

Leasing J.Van Breda & Co. is a wholly-owned subsidiary of Bank J.Van Breda & Co., and specializes in small ticket vendor leases. It offers leasing solutions that can be accessed over the internet to vendors of IT, telecom and office equipment and medical devices. Leasing J.Van Breda & Co. is a leader in this segment of the Belgian market with an estimated 22% market share, and manages a portfolio of Euro 233 million relating to approximately 28,000 contracts.

The acquisition of Leasing J.Van Breda & Co. is an integral part of BPLG's external growth strategy, and follows last year's acquisition of Leaseco in the Netherlands. BPLG is reinforcing its presence in Belgium, where it has been operating since 1991.



## RISK MANAGEMENT

Managing risk is an inherent part of the banking business, which the Bank's operating methods and procedures are geared towards effectively addressing. The entire process is supervised by the Group Risk Management Department (GRM), which is responsible for measuring, approving and controlling risks at the Group level, as well as for drawing up, communicating and applying the corresponding risk management rules and procedures. GRM reports directly to Group executive management and is independent from the various divisions, business lines and territories.

### The Role and Organization of GRM

While primary responsibility for managing risks lies with the divisions and business lines that propose the underlying transactions, GRM is responsible for ensuring that the risks taken by the Bank are compatible with its risk policies and its profitability and credit rating objectives. GRM performs continuous and *ex ante* controls that are fundamentally different from the periodic, *ex-post* examinations of the internal auditors. GRM reports regularly to the Board of Directors' Internal Control and Risk Management Committee with respect to its main findings concerning risks, as well as with respect to the methods it uses to measure and consolidate these risks on a Group-wide basis.

The divisions and business lines are required to set up an organizational structure that clearly establishes the on-going responsibility of each employee to effectively manage risks and comply with the Bank's internal control system. Each business must develop a strong risk management culture among staff and closely monitor developments affecting its clients and the Bank's related commitments. Executive management and businesses are warned as early as possible of any escalation of risks and have access to full information about overall risk on a consolidated basis. All units throughout the Group are aware of and comply consistently with the highest standards of risk management. The development and upgrading of risk monitoring methods and procedures are entrusted to risk management specialists, to ensure that these methods and procedures comply with international best practices.

GRM operates broadly and is responsible for managing all risks arising in the course of the Group's business. It intervenes at all levels in the process of risk taking and risk monitoring. GRM's mission includes formulating recommendations concerning risk policies, analyzing the loan portfolio on a forward-looking basis, approving loans and trading limits, guaranteeing the quality and effectiveness of risk monitoring procedures and producing comprehensive and reliable risk reporting data for Group management. GRM is also responsible for ensuring that all of the consequences in terms of risks associated with proposed new businesses or products have been properly evaluated. These evaluations are performed jointly by the business line in question and all of the specific departments concerned (legal, ethics and compliance, tax, information systems, general and management accounting). GRM's role is to assess the quality of the evaluations by analyzing the list of identified risks and the proposed methods of minimizing them, and determining the essential prerequisites for the sound development of the business.

There are four main categories of risk:

- *Credit Risk.* Credit risk is the risk of financial loss relating to the failure of an obligor to honor its contractual obligations. Credit risk arises in lending activities and also in various other activities where the Bank is exposed to the risk of counterparty default, such as its trading, capital markets and settlement activities.
- *Market and Liquidity Risk.* Market risk is the risk related to earnings, which arises primarily from adverse movements of trading and non-trading market parameters. Trading market parameters include, but are not limited to, foreign exchange rates, bond prices, security and commodity prices, derivatives prices and prices of other marketable assets such as real estate or cars. Trading market parameters also include derivations of the items previously mentioned, such as interest rates, credit spreads, implied volatility or implied

correlation. Non-trading market parameters include parameters based on assumptions or on statistical analysis, such as models and statistical correlation, respectively.

Illiquidity is also an important component of market risk. In instances of little or no liquidity, a market instrument or transferable asset may not be negotiable at its estimated value. A lack of liquidity can arise due to a lack of volume, legal restrictions or a one-way market.

Market risk arises in trading portfolios and in non-trading portfolios. In non-trading portfolios, it encompasses:

- The risk associated with asset and liability management, which is the risk to earnings arising from asset and liability mismatches in the banking book or in the insurance business. This risk is driven primarily by interest rate risk.
- The risk associated with investment activities, which is directly connected to changes in the value of invested assets within equity portfolios.
- The risk associated with certain other activities, such as real estate or car leasing, which is indirectly affected by changes in the value of negotiable assets held during the normal course of business.

Liquidity risk, which is also referred to as funding risk, is the inability of the Bank to meet its obligations at an acceptable cost in a given currency and location.

- *Operational Risk.* Operational risk corresponds to the risk of losses due to inadequate or failed internal processes, or due to external events, whether deliberate, accidental or natural occurrences. Internal processes include, but are not limited to, human resources and information systems. External events include floods, fires, earthquakes or terrorist attacks.
- *Insurance Risk.* Insurance risk is the risk to earnings due to mismatches between expected and actual claims. Depending on the insurance product, this risk is influenced by macroeconomic changes, changes in customer behavior, changes in public health, pandemics and catastrophic events (earthquake, industrial disaster, terrorism, etc.).

It is important to distinguish between the different categories of risk because each category requires specific measuring and monitoring systems. Nevertheless, the growing complexity of the Group's businesses and products means that the categories of risk increasingly overlap. Coordination among the various specialists has therefore been enhanced, so that correlations are identified and action is taken on a timely basis to constantly reduce or optimize overall risk for the Group. The task of these specialists will be made easier by the introduction of tools, currently under development, to measure different types of risk on a consistent basis.

To define appropriate methods, policies, procedures and decision-making processes and deploy effective monitoring and control systems, GRM is required to have an in-depth understanding of the banking business, market imperatives and complex transactions, and to act rapidly in certain circumstances. In order to achieve the required level of responsiveness, GRM teams are based in various territories, wherever possible on the same sites as the operating units. Independence is maintained by placing these teams under the direct authority of GRM and by establishing strong central guidance. Where a direct reporting relationship would be inefficient but acceptable in terms of risk—as is the case, for example, in Retail Banking—the operating units concerned may establish their own risk management teams, with a clearly defined functional reporting relationship with GRM.

GRM's organizational structure is tailored to reflect the different types of risk. There are three departments within GRM: one manages credit and counterparty risks (comprised of three units, France,

International, Banks and Financial Institutions), one manages market and liquidity risks and one manages operational risks. GRM also has specialist departments that are involved in analyzing, summarizing and reporting various data.

- *Credit Risk France* monitors the credit risks of the French Retail Banking business and of the real estate financing business, which is under the supervision of the Asset Management and Services business.
- *International Credit Risk* monitors risks on corporate customers throughout the Corporate and Investment Banking and International Retail Banking divisions, as well as risks on large corporate customers in the Retail Financial Services division.
- *Counterparty Risk* and Financial Institutions monitors risks on banks and other financial institutions, as well as on private banking clients outside France. It also monitors the methods used to assess and report counterparty risks generated by the fixed-income, currency instruments, securities services and asset and liability management units.
- *Market and Liquidity Risk* is responsible for monitoring market and liquidity risks throughout the Group. The tasks assigned to the unit include ensuring that risks are properly valued in the Group's financial statements, verifying the effectiveness of risk monitoring systems and helping to enhance the quality of risk management. The unit makes recommendations concerning the definition and updating of risk acceptance policies. It also defines the methods and tools used to measure and monitor market and liquidity risks.
- *Operational Risk* defines the framework for monitoring operational risks and assists in rolling out the framework to all Group entities as part of a constant effort to reduce this type of risk.
- *Group Risk Portfolio* is the cross-departmental unit in GRM responsible for providing industry expertise and analyzing credit risks. Tasks assigned to this unit include drafting credit and rating policies, developing risk measurement methodologies and consolidating risk data for reporting purposes.
- The *Chief Operating Officer* is in charge of all GRM support functions, including information technology sponsorship teams for credit risk. He manages cross-departmental projects, such as the one designed to ensure the reliability of credit data and risk reporting known as "SQUAD+".

## **Credit Risk**

### ***Global Credit Policy***

The Bank's lending operations are subject to the Global Credit Policy approved by the Risk Policy Committee, headed by the Chief Executive Officer. The purpose of the committee is to determine the Group's risk management strategy. The principles governing the Global Credit Policy include compliance with the Group's ethical standards, a clear definition of responsibilities and strict application of risk analysis procedures. The Global Credit Policy is applied throughout the Group in the form of specific policies tailored to each type of business or counterparty.

### ***Procedures***

#### ***Decision-making procedures***

A system of discretionary lending limits has been established and all lending decisions must be approved by a formally designated member of the Risk Management Department. Approvals are systematically evidenced in writing, either by means of a signed approval form or in the minutes of formal meetings of a credit committee.

Lending limits correspond to aggregate commitments and vary according to internal credit ratings and the specific nature of the business concerned. The system of discretionary lending limits ensures that risk management principles are applied consistently and that loan applications representing large amounts, or which are unusually complex or sensitive, are submitted for approval at the appropriate level.

Certain types of lending commitments, such as loans to banks, sovereigns and customers operating in certain industries, are required to be referred to a higher level for approval. In addition, the loan application may require consultation of an industry expert or designated specialists, and some credit restrictions may apply. In Retail Banking, simplified procedures are applied, based on statistical decision-making tools.

Loan applications must comply with the Bank's Global Credit Policy and with any specific policies applicable to the business line or the type of facility requested. To be considered, all loan applications must comply with applicable laws and regulations.

The Group Credit Committee, chaired by one of the Chief Operating Officers or the Risk Director, has ultimate decision-making authority for all credit and counterparty risks.

#### *Monitoring procedures*

The Group maintains a comprehensive risk monitoring and reporting system, covering all Group entities. The system is organized around control and reporting units responsible for ensuring that lending commitments comply with the loan-approval decision, that credit risk reporting data are reliable, and that risks accepted by the Bank are effectively monitored. Daily exception reports are produced and various forecasting tools are used to provide early warnings of potential escalations of credit risks.

Monitoring is carried out at different levels, generally reflecting the organization of discretionary lending limits. Depending on the level, the monitoring teams report to GRM or to the Group Debtor Committee. The Group Debtor Committee meets at monthly intervals to examine all sensitive or problem loans in excess of a certain amount. Its responsibilities include deciding on any adjustments to provisions for problem loans, based on the recommendations of the business line and GRM. In Retail Banking, the Group employs a monitoring system more specifically tailored to the needs of this business line.

#### *Provisioning procedures*

Customer loans are recorded on the Group's consolidated balance sheet net of the provision for possible loan losses. The establishment of a provision, or an increase in its amount, is reflected in the Group's consolidated statement of income by a provision. The reversal of a provision is reflected by a credit to income. The amount of new provisions, less reversals of provisions and recoveries of loans written-off, is recorded under "Net additions to provisions for credit risks and country risks".

GRM reviews all customer loans in default at monthly intervals in order to determine the amount of any impairment loss to be recognized, either by reducing the carrying value or by recording a loan loss provision, depending on the applicable accounting standards. The amount of the impairment loss takes into account the present value of probable net recoveries, including the value of any collateral.

Where possible or desirable, due to the specific nature of the lending activities concerned (for example, consumer loans) case-by-case provisions are replaced by statistical provisions. In addition to these specific or statistical provisions, the Bank may also set aside general provisions to cover a probable increase in risks, relating, for example, to a specific industry, country or rating category.

In addition, a portfolio provision is established for each core business. A committee comprising the Core Business Director, the Group Chief Financial Officer and the Group Risk Director meets quarterly to determine the amount of this portfolio provision. The amount is based on

simulations of losses to maturity on portfolios of loans regarded as impaired in terms of credit quality, but with respect to which the customers in question have not been identified as in default (in which case, they would be covered by specific provisions). The simulations carried out by GRM rely on the parameters of the rating system described below.

### ***Internal Rating System***

The Bank has a comprehensive rating system that already complies with future requirements under consideration by regulatory authorities for the determination of risk-weighted assets used to compute capital adequacy ratios. For a summary of the new standards under consideration, see “Capital Adequacy of the BNP Paribas Group – Proposed Changes to the BIS Capital Standards”. This rating system has been implemented throughout most of the Group, except at BancWest, which is expected to implement the system beginning in 2007.

For corporate loans, the rating system is based on a default probability rating and an overall recovery rate that depends on the structure of the transaction. There are 12 counterparty ratings. Eight cover excellent, good and average clients, two cover customers in more difficult circumstances who are closely monitored by GRM, and two cover clients in “default”. A “default” is triggered by the occurrence of one of the following events:

- a payment default that is probable or certain, and likely to generate a partial or total non-recovery for the Group, irrespective of collateral or guarantees received (this category includes obligors that are likely to be forced to restructure all or part of their debt),
- the existence of any uncured, missed or delayed payment (principal, interest, fees) outstanding for more than 3, 6 or 9 months depending on the type of receivable, or
- the commencement of a litigation proceeding, such as a filing for bankruptcy protection.

Ratings are determined at least once a year, in connection with the loan approval process, drawing on the combined expertise of the business line staff and GRM credit risk managers, who make the final decision. High quality tools have been developed to support the rating process, including analytical aids and credit scoring systems. The decision to use these tools and the choice of technique depend on the nature of the risk.

Various quantitative and other methods are used to check rating consistency and the reliability of the rating system. Loans to private customers and very small businesses are rated based on statistical analyses of groups of risks with the same characteristics. GRM has overall responsibility for maintaining the quality of the rating system. It fulfils this responsibility by either defining certain aspects of the rating system itself, or by evaluating or verifying its performance.

### ***Portfolio Policy***

In addition to carefully selecting and evaluating individual risks, the Bank follows a portfolio-based policy designed to diversify risks among borrowers and industries. The results of this policy are regularly reviewed by the Risk Policy Committee, which may modify or fine-tune it as required, based on GRM’s analyses and guidelines. As part of this policy, BNP Paribas uses credit risk transfer instruments (such as securitization programs or credit derivatives) to hedge individual risks, reduce portfolio concentration or cap potential losses in crisis scenarios. BNP Paribas also purchases credit risks as part of its portfolio diversification and capital utilization strategy, based on strict risk/yield ratio guidelines.

### ***Diversification of counterparty risks***

A core feature of the Bank’s lending policy is the diversification of counterparty risk. The breadth and depth of its businesses and the rigidly structured system of lending limits contribute to this diversification. Concentration of counterparty risks is reviewed at regular intervals and corrective action is taken where necessary.



With respect to loan concentrations to borrowers, the Bank is bound by European Union prudential rules governing risk spread. Such rules require that loans to a single borrower (i.e., a company and its affiliates) may not exceed 25% of combined Tier 1 and Tier 2 capital and that all loans to single borrowers, each totaling more than 10% of combined Tier 1 and Tier 2 capital, may not, in the aggregate, exceed eight times combined Tier 1 and Tier 2 capital. See “Governmental Supervision and Regulation of BNP Paribas in France – Banking Regulations”.

#### *Diversification of industry risks*

The Bank also pays close attention to diversifying industry risks and performs projections to actively manage its exposures. Diversification of industry risks is based on the opinions of independent industry experts working within GRM about probable developments in the industries they track, supported by analyses of underlying trends and factors that explain the vulnerability of the main industry players. The depth of industry research varies according to the weighting of the industry concerned in the Bank’s total portfolio, the technical expertise necessary to assess industry risks, the cyclical nature of the industry and its level of globalization, and the possible existence of specific risk issues. Where appropriate, and for all substantial loans, the opinion of an industry expert may be mandatory in order to fully and independently assess the quality of the customer’s strategy and competitive positioning.

#### *Geographic diversification*

Country risk corresponds to the Bank’s aggregate exposure to debtors operating in a particular country, including circumstances in which the risk of default is heightened due to the imposition of exchange controls preventing or limiting currency outflows or reducing the availability of foreign currency. Country risk also extends to sovereign risk, which concerns exposure to national governments and agencies. Country risk reflects the Bank’s exposure to an economic and political environment, which needs to be factored into the assessment of counterparty risk.

The Bank operates in the majority of economically active regions. It has a policy of avoiding excessive concentrations of risk in countries with weak political and economic infrastructures. Country risk exposure limits are set by the Group Credit Committee. Lending commitments by the business lines and customer-centric units within these overall limits are monitored by GRM. Lending decisions are backed by rigorous risk monitoring systems and research reports produced by the Economic Research unit. The structure of country risks is reviewed annually by the Risk Policy Committee, which also examines the overall consistency of the Bank’s country risk policy.

#### ***Risk Reduction Techniques***

##### *Structuring of transactions*

The BNP Paribas Global Credit Policy sets forth guidelines for structuring transactions in order to reduce risk. BNP Paribas will not enter into a commitment unless it possesses in-depth knowledge of the borrower’s business plan and of all the structural issues related to the transaction, and is confident of its ability to monitor these issues going forward. Collateral and other security are taken into account at value in use, and only accepted as the main source of repayment in exceptional cases; cash generated by operations is regarded as the primary source of the borrower’s ability to repay. Guarantors are subject to the same rigorous upfront assessment as primary debtors.

##### *Netting agreements*

Netting is a technique used by the Bank to attenuate counterparty risks on derivatives transactions. The Bank primarily uses close-out netting, which enables it to close out all positions at current market value in the event of default by the counterparty. All amounts due to and from the counterparty are then netted, to arrive at the net close-out amount payable or receivable. The net close-out amount may be collateralized by requiring the counterparty to pledge cash, securities or deposits.



The Bank also uses bilateral payment flow netting to attenuate counterparty risk on foreign currency payments. Bilateral payment flow netting consists of replacing streams of payment orders in a given currency by a cumulative balance due to or from each party, representing a single sum in each currency remaining to be settled on a given day between the Bank and the counterparty.

The transactions concerned are executed according to the terms of bilateral or multilateral master agreements that comply with the general provisions of national or international master agreements. The main bilateral agreement models used are those of the *Fédération Bancaire Française* (FBF), or those of the International Swaps and Derivatives Association (ISDA) for international agreements. The BNP Paribas Group also participates in EchoNetting, enabling it to use multilateral netting for transactions involving the other participants within this organization.

### ***Credit Risk Exposure***

The table below shows the credit risk exposure of all financial assets held by the BNP Paribas Group. Credit risk exposure before the effect of unrecognized netting and collateral equates to the carrying amount of financial assets in the balance sheet net of impairment.

	<b>January 1, 2005</b>
<b>In millions of euros</b>	
Financial assets at fair value through profit or loss (excluding variable-income securities)	448,825
Derivatives used for hedging purposes	2,581
Available-for-sale financial assets (excluding variable-income securities)	64,173
Loans and receivables due from credit institutions	40,983
Loans and receivables due from customers	244,228
Held-to-maturity financial assets	26,650
<b>Balance sheet commitment exposure, net of impairment provisions</b>	<b>827,440</b>
Financing commitments given	166,898
Guarantee commitments given	55,190
Provisions for off balance sheet commitments	(111)
<b>Off balance sheet commitment exposure, net of provisions</b>	<b>221,977</b>
<b>Total net exposure</b>	<b>1,049,417</b>

The exposure above does not take into account the effect of master netting agreements in force at January 1, 2005 or collateral on over-the-counter forward financial instruments, which (based on calculations prepared using the prudential method) would reduce the Group's credit risk exposure at January 1, 2005 by approximately EUR 113 billion. Guarantees and collateral obtained by the Group in connection with its lending activities are also not taken into account.

Due to its size, the Group may have important exposure in absolute terms to certain counterparties, geographic areas or industries. However, the Group believes that its credit risk exposure to any one counterparty, geographic area or industry is not such as would threaten the Group's ability to continue operating as a going concern in the event of default by a counterparty or of an economic crisis affecting a specific geographic area or industry.

### **Market and Liquidity Risks**

BNP Paribas seeks to limit its exposure to market risk through the development and implementation of a system for measuring market and liquidity risks, backed by rigorous controls and procedures. Overall responsibility for managing market and liquidity risks lies with the Market Risk Committee, which is headed by one of the Chief Operating Officers or other adviser and supported by GRM. The Committee meets once a month to approve risk management methods and procedures, define exposure limits and check compliance with these limits.

### ***Market Risks Related to Financial Instruments***

These risks relate mainly to the risk of gains or losses due to changes in market parameters such as interest rates, exchange rates and equity or commodity prices. The main market risks faced by the Group with respect to its trading book are:

- **Interest rate risk**, which relates to potential fluctuations in the value of fixed-rate financial instruments due to changes in market interest rates, and in future cash flows on floating-rate financial instruments.
- **Currency risk**, which is the risk that the value of an instrument or of future cash flows from that instrument will fluctuate due to changes in foreign exchange rates.
- **Price risk**, which arises from changes in market prices, whether caused by factors specific to an individual instrument or issuer or by factors affecting all instruments traded in the market. This may relate to changes in the price or volatility of shares, commodities, baskets of shares or share indices. Variable-income securities, equity derivatives and commodity derivatives are exposed to this risk.
- **Credit spread risk on the trading book:** BNP Paribas trades actively in credit derivatives to meet the needs of its customers. Transactions include trades in ordinary instruments such as credit default swaps, and structured transactions with complex risk profiles tailored to targeted strategies. As part of this trading activity, BNP Paribas buys and sells protection; the net position is subject to strict limits. Market risks generated by these products are tracked by the Market and Liquidity Risk unit, in the same way as for other derivatives risks. The underlying counterparty risk is also covered by normal risk management processes. The Group also uses credit derivatives to hedge transactions exposed to credit or counterparty risk, or for position management purposes.

Market risks arise mainly on the trading activities carried out by the Fixed Income and Equities teams within Corporate and Investment Banking.

#### ***Controlling risk***

The market and liquidity risk control structure is based on:

- **General Exposure Limits.** These consist of GEaR or “nominal” limits and cover trading positions by country and by issuer as well as sensitivities, in order to specifically limit certain risks that are not fully captured by GEaR calculations and stress tests.
- **Rolled Down Exposure Limits.** The Chief Executive Officer has overall responsibility for setting market risk exposure limits, in the same way as for credit limits. The Market Risk Committee is responsible for rolling down these limits to the various levels in the organization. For secondary market trading, these are expressed in terms of GEaR or OYE (One Year Equivalent); for underwriting activities, limits are set according to counterparty credit strength.
- **Decision-Making Rules.** Risk-acceptance decisions are based on a two-dimensional process. The first dimension corresponds to the approval of new businesses or risks. The second concerns the approval of transactions proposed in the normal course of business. Transactions involving large amounts or which are unusually complex must be approved by the Executive Position Committee (EPC) – an offshoot of the Market Risk Committee – for market risk aspects. Responsibility for analyzing credit risk on trading activities lies with the Group Credit Committee.
- **Risk Monitoring.** This system is based on: daily calculation of the risk and value of the Group’s trading positions; daily monitoring of accidental or authorized temporary trading limit overruns logged in a central database; periodic review of market risk measurement

and management models, with the measurement process subject to regular audits by individuals from outside the business line who review and assess the economic validity of the models, check the prices and parameters used and check observability criteria; weekly reporting of the aggregate amount of significant positions by business line; monthly meetings of the Market Risk Committee to approve the main market risks incurred by the Group.

#### *Measurement of market risk on trading activities*

Market risk on trading activities is measured and assessed using a detailed sensitivity analysis of each type of position, as well as global analyses (such as GEaR and stress tests) that measure aggregate exposures.

#### Analysis of sensitivity to market parameters

In the first instance, market risk is analyzed by systematic measurement of portfolio sensitivity to the various market parameters. The information obtained is used to set tolerance ranges for maturities and for the strike price of options. These sensitivity indicators, compiled at various aggregate position levels, are compared with the market limits, and are reported to Executive Management and to management of the Group's trading activities by the Market and Liquidity Risk unit.

#### GeaR

BNP Paribas operates an internal Value at Risk (VaR) system approved by banking authorities to estimate the potential loss arising from an unfavorable change in market conditions – the key element in market risk measurement.

Potential losses are measured using “Gross Earnings at Risk” (GEaR). GEaR takes into account a large number of variables that could affect portfolio values, including interest rates, credit spreads, exchange rates, securities prices, commodity prices and the volatility of and correlation between these variables.

The system uses the latest simulation techniques and includes processing of non-linear (convex) positions, as well as the volatility risk generated by options. Daily movements in the different variables are simulated to estimate potential losses on market transactions under normal market conditions and normal market liquidity. GEaR calculation methods are regularly refined in order to better reflect the specific features of each business line, in particular with respect to unusual products. The accuracy of the model is continuously tested by comparing any daily losses with 1-day GEaR.

Banking authorities have approved this internal model and the underlying methodologies, which include:

- capture of the correlation between interest rate, currency, commodity and equity risks, to factor in the knock-on effects of risk diversification;
- capture of the specific interest rate risk arising from potential fluctuations in credit spread risks, giving accurate and dynamic measurement of the risk associated with trading in credit derivatives.

#### ***Market Risks Related to Banking Intermediation Activities and Investments***

These risks relate mainly to retail banking activities in France and abroad, the specialized financing subsidiaries and investments made by the Group. They are managed centrally by the Asset and Liability Management and Treasury Department (ALM Treasury). ALM Treasury, which is part of Corporate & Investment Banking, reports to two committees, each headed by the Group Senior Advisor or a Chief Operating Officer. The ALM Treasury/Commercial Banking Committee is

responsible for decisions concerning mismatch and match-funding principles applicable to the balance sheet of the commercial banking business and for managing the related interest rate risks. The ALM Treasury/Investment Banking Committee is responsible for establishing funding and liquidity management policies, managing solvency ratios and structural currency risks and monitoring market risks related to Treasury transactions.

### *Management of interest rate risk on the banking book*

#### Interest rate risk management structure

Interest rate risk on commercial transactions relating to the French and International Retail Banking businesses, the specialized financing subsidiaries, savings business (Asset Management) and Corporate Banking is managed centrally by ALM Treasury in the customer banking intermediation book, except for transactions initiated in the United States by BancWest Corp. Interest rate risk on the Bank's own equity and investments is also managed centrally by ALM Treasury, in the equity intermediation book.

Transactions initiated by the bank in France are transferred to ALM-managed positions via internal contracts booked in the management accounts. Interest rate and liquidity positions on commercial transactions initiated by Group subsidiaries (other than BancWest) are transferred in the form of lending/ borrowing transactions based on the net position of the entity.

Positions are measured and transfers to ALM Treasury are controlled at monthly or quarterly committee meetings for each business line. These meetings are attended by the management of the business line, ALM Treasury, and the business line ALM managers (who report operationally to ALM Treasury).

Interest rate risk on the commercial activities of the subsidiaries of BancWest Corp. is independently managed by the BancWest ALM function, which reports to BancWest executive management via quarterly committee meetings.

#### Measurement of interest rate risk

Banking book interest rate gaps are measured each month, with embedded behavioral options translated into delta equivalents. Maturities of outstanding assets are determined based on the contractual characteristics of the transactions and historical customer behavior. For retail banking products, behavioral models are based on historical data and econometric studies. The models take into account early repayments, regulated savings accounts and current accounts in credit and debit. Theoretical maturities of equity capital are determined according to internal assumptions. Internal assumptions and models, which are regularly updated and stress-tested, are presented to specialist committees for approval.

In the case of retail banking activities, BNP Paribas' structural interest rate risk is also measured on a going-concern basis, incorporating dynamic changes in balance sheet items. Due to the existence of partial or even zero correlations between customer interest rates and market rates, and the volume sensitivity caused by behavioral options, rotation of balance sheet items generates a structural sensitivity of revenues to interest rate changes.

A specific option risk indicator is used to fine-tune hedging strategies for French retail banking activities.

The banking book interest rate gap, structural interest rate risk and specific option risk indicators are systematically presented to specialist committees, and serve as the basis for hedging decisions taking into account the nature of the risks involved.

In 2004, the Market Risk Department continued to perform controls over risks arising from the use of behavioral and other models for Asset/Liability Management purposes. Its conclusions on these controls are presented on a quarterly basis to a specialist committee for review.

### Risk limits

The euro customer banking intermediation book is subject to two limits. Compliance with these limits is verified at monthly intervals and the limits are adjusted each year by the ALM/ Commercial Banking Committee.

The primary limit concerns the sensitivity of revenues to a gradual change in nominal and real interest rates and the inflation rate. The changes are defined by reference to historical volatility data and correlations among the various parameters. The limit is based on annual net banking income, in order to set limits on future fluctuations in net banking income caused by changes in interest rates. Throughout 2004, the sensitivity of revenues to interest rate changes was significantly below the limit set by the ALM Committee.

The second limit concerns the banking book interest rate gap and is expressed as a percentage of customer deposits. The percentage is a declining function of the management period. This limit is used to manage medium- and long-term interest rate risk.

The interest rate risk of BancWest Corp. subsidiaries is controlled by means of limits on the sensitivity of revenues to an immediate change in nominal rates. These limits, expressed as a function of annual revenues, are monitored quarterly by the BancWest ALM Committee.

Global interest rate risk on the other intermediation books is controlled by interest rate gap limits, which are monitored monthly and adjusted annually by the ALM Commercial Banking Committee.

The specialized financing subsidiaries are exposed to very low levels of interest rate risk, thanks to the centralization of risks at ALM Treasury level. The residual risk is controlled by technical interest rate gap limits, monitored by the ALM committee of the relevant business line.

### *Management of structural currency risk*

#### Currency risk and hedging of earnings generated in foreign currencies

The Group's exposure to currency risks relates in particular to the earnings of foreign subsidiaries and branches. The Asset/Liability Management department is responsible for hedging the variability of Group earnings due to currency movements, including positions arising from foreign-currency earnings generated by activities located in France. Local treasury managers at foreign sites manage currency risk arising in relation to their functional currency. Positions relating to portfolio provisions are managed centrally by the ALM department.

#### Currency risk and hedging of net investments in foreign operations

The Group's currency position on investments in foreign operations arises mainly on capital allocations and equity interests expressed in foreign currencies, financed by purchasing the currency in question.

Group policy is usually to borrow the currency in which the investment is made in order to protect the investment against currency risk. Such borrowings are documented as a net investment hedge.

However, for most soft currencies, the investment is financed by purchasing the currency in question.

### *Liquidity risk*

Transactions involving financial instruments generate liquidity risk, reflecting potential problems that the Group may have in discharging its obligations in respect of such instruments.

Liquidity risk is managed through a global liquidity policy approved by Group Executive Management. This policy consists of management principles designed to apply both in normal conditions and during a liquidity crisis. The Group's liquidity situation is assessed on the basis of internal standards, warning indicators and regulatory ratios.

#### *Objectives of the liquidity risk management policy*

The objectives of the liquidity management policy are to secure a balanced financing mix to support the Group's development strategy; to ensure the Group is always in a position to discharge its obligations to its customers; to ensure that it does not trigger a systemic crisis solely by its own actions; to comply with the standards set by local banking regulators; to keep the cost of refinancing as low as possible; and to cope with liquidity crises.

#### *Roles and responsibilities in liquidity risk management*

The ALM Central Committee, acting on recommendations from ALM Treasury, reviews and approves the general principles of the liquidity policy. The Committee is informed on a regular basis of the results of indicators and stress tests, and of the execution of financing programs. It is also informed of any crisis situation, deciding on the allocation of crisis management roles and approving emergency plans.

ALM Treasury draws up and recommends the general principles of the liquidity policy. Once these have been approved by the ALM Central Committee, ALM Treasury is responsible for implementing the policy at both central and individual entity level. It is also owner of the systems used to manage liquidity risk.

Local ALM committees implement at local level the strategy approved by the ALM Central Committee.

The Risk Department is involved in defining the principles of liquidity policy, approves the management systems and stress tests used, and monitors compliance with policies, limits and indicators.

#### *Core principle of the Group's liquidity policy: centralization of liquidity management, from intra-day to long-term, within ALM Treasury*

ALM Treasury has sole responsibility for obtaining finance on the money market and financial markets, from very short/short-term to medium/long-term financing. The Treasury department is responsible for financing and short-term issues (certificates of deposit, commercial paper, etc). The Asset/ Liability Management department is responsible for senior and subordinated debt issues (MTNs, bonds, medium/long-term deposits, etc), preferred share issues, and loan securitization programs for the retail banking business.

ALM Treasury is also tasked with providing finance to core businesses and business lines, and reinvesting their surplus cash.

The medium/long-term financing origination process helps the Group meet its regulatory capital targets via issues of financial instruments falling within the various categories of regulatory capital.

The policy of diversifying financing sources and instruments was stepped up in 2004.

Senior debt issuances by BNP Paribas SA and Group subsidiaries totaled €23.4 billion for the year ended December 31, 2004, an increase of 59% over 2003. Excluding issuances redeemable in advance by the issuer, long-term senior debt issuances totaled €12.3 billion, an increase of 90% over 2003. Issuances redeemable in advance by the issuer totaled €11.0 billion for the year ended December 31, 2004, an increase of 34% over 2003.



During 2004, €156 million in inflation-indexed subordinated bonds were issued and placed with clients of the French Retail Banking division. No new preferred stock issues were carried out during 2004, given that the Group had ample regulatory capital. At December 31, 2004, preferred stock totaled €3.5 billion, unchanged from the year-earlier figure.

Lastly, €775 million (BNP Paribas share) was raised through two securitization transactions, which were carried out by UCI, the Spanish subsidiary of UCB. As of December 31, 2004, loans totaling €5.5 billion (BNP Paribas share) had been refinanced through securitizations compared with €6.5 billion at December 31, 2003.

The Group's short- and medium-term liquidity position is regularly measured on a consolidated basis, by business line and by currency.

The Bank complies with the overnight limits set for capital markets transactions (fixed-income, equities and currency transactions) and the mismatch limits set for banking transactions with maturities of more than one year.

The consolidated liquidity mismatch for positions beyond one year is measured based on contractual maturities (for loans and deposits, including undrawn confirmed customer lines of credit weighted at 30%), and on observed customer behavior (for positions such as demand loans and deposits and passbook savings accounts). The mismatch for liability positions beyond one year amounted to 21.3% at December 31, 2004, compared with 16.5% one year earlier.

*Day-to-day liquidity management is based on a full range of internal standards and warning flags at various maturities*

An overnight cap is set for each Treasury function, limiting the amount raised on interbank overnight markets. This applies to all the currencies in which the Group does business.

The refinancing capacity needed to handle an unexpected surge in liquidity needs is regularly measured at Group level; it mainly comprises available securities eligible for central bank refinancing, available ineligible securities which generate same-day value date refinancing, and overnight loans not liable to be renewed.

BNP Paribas uses indicators to monitor the diversification of its sources of short-term funds on a worldwide basis to ensure that it is not over-dependent on a limited number of providers of capital.

Three internal ratios are used to manage medium/long-term liquidity at the Group level:

- the one-year ratio for outstandings with contractual maturities represents the gap, at one year plus, of outstanding loans as compared with applications of funds;
- the one-year internal liquidity ratio on total outstandings is defined as the gap, at one year plus, of all balance sheet and off balance sheet contractual commitments with no maturity, which is capped at 25%;
- the permanent funds coefficient measures the ratio of (i) equity less non-current assets plus net customer demand deposits and (ii) the one-year gap on commitments with contractual maturities, and is set at a minimum of 60%.

These three internal ratios are based on liquidity maturity schedules of balance sheet and off balance sheet items for all Group entities, whether contractual (including undrawn confirmed credit facilities contracted with banks – 100% weighted, and with customers – 30% weighted) or theoretical (i.e. based on customer behavior: prepayments in the case of loans, behavior modeling in the case of regulated savings accounts) or statistical rules (demand deposits, regulated savings deposits, trust deposits, doubtful loans and general accounts).

The Group's consolidated liquidity position by maturity (1 month, 3 months, 6 months, then annually to 10 years, then 15 years) is measured regularly by business line and currency.

### *Regulatory ratios: the final element of the liquidity risk management system*

The 1-month regulatory liquidity coefficient is calculated monthly (as are observation ratios). This ratio covers the parent company BNP Paribas SA (French operations and foreign branches). Other Group subsidiaries required to comply with this ratio calculate it independently of the parent company.

The equity capital and permanent funds coefficient is calculated annually. It consolidates data for all the Group's subsidiaries and branches, but only covers euro-denominated assets and liabilities with maturities of more than 5 years.

Foreign subsidiaries and branches may also be subject to local regulatory coefficient requirements.

## **Operational Risk**

The BNP Paribas operational risk management system is based on a quantitative and qualitative assessment of risk that complies with the requirements of the Basel II Capital Accord's Advanced Measurement Approach (AMA). The system is designed to contribute to reducing losses from operational risks, while optimizing the allocation of capital to cover these risks.

Group Executive Management has approved a general operational risk management system based on four broad principles, which focus on the understanding of internal processes. The system consists of performing cause-event-effect analyses, taking into account risk profiles and risk tolerance thresholds and establishing and monitoring responsibilities. It sets forth the principles relating to organization of the risk management process, which include initial decision-making by the Operational Risk Committees and management of the resources necessary to conduct the process.

The BNP Paribas operational risk analysis and measurement system is based on:

- Historical loss data derived from the Group-wide incident reporting system.
- External data supplied by the ORX consortium, of which BNP Paribas is a founding member.
- A prospective approach based on identifying mission-critical processes and scenario analyses.
- Environmental and internal control factors.

Implementation of this system, which is supported by an integrated suite of analysis and management applications, should enable the Bank to determine its future needs in terms of both regulatory and economic capital to cover operational risk.

The analyses of operational risks and the definition of exposure measures is being conducted in close cooperation with the divisions, business lines and territories and the various corporate departments involved (information systems, human resources, legal and tax and the various components of the Bank's internal control structure).

## **Legal Risk and Special Regulations**

BNP Paribas is subject to regulations applicable to financial institutions in all countries where it does business, including banking, insurance and financial services regulations. The Bank is required to respect the integrity of the markets and safeguard clients' interests.

Group Legal Affairs has established and regularly updates an internal control system designed to anticipate, detect, measure and manage legal risk. In 2004, new structures were established and various reorganization measures were implemented to improve coordination and avoid potential conflicts of interest amongst the control structures.

The system, as upgraded in 2004, is organized around:

- Specific committees, including:
  - The Group Legal Affairs Committee, which is responsible for overseeing the activities of the Legal Affairs department.
  - The Legislation Tracking Committee, which analyses and distributes to all relevant departments the texts of new laws and regulations, as well as developments in relevant French jurisprudence.
  - The Global Legal Committee, which coordinates the activities of the legal department throughout the Group and in all countries that have their own legal staff. In 2004, a Group Legal Coordination department was created in order to ensure that the Group's legal policies are internally consistent and to address cross-departmental issues.
- Internal procedures and databases, providing a framework for the activities of the Group's legal staff. At the end of 2004, a procedures database containing all internal procedures, written in both French and English, was posted on the Group intranet site.
- Legal audits, which are carried out in certain Group entities to confirm that procedures are properly applied and that various tools are correctly used. Regular visits are made, particularly to relatively high-risk countries, to check the effectiveness of systems developed by foreign units to manage legal risk.
- Internal reporting systems, model documents and analysis systems, which are upgraded on an ongoing basis by Group Legal Affairs.

The system helps the Group to actively track new legal developments, both in France and abroad.

As was the case in 2003, one of Group Legal Affairs' priorities in 2004 was to seek to combat money laundering. During 2004, Group Legal Affairs also took into account various changes in French and European law, and drafted various memoranda and procedures on issues such as the prevention of money laundering, the French "Financial Security" Act, the reform of French securities laws, long-distance sales and certain aspects of the retail banking business, such as consumer lending.

## **Tax Risk**

In the various countries where it does business, BNP Paribas is subject to local tax laws and regulations applicable to banking, insurance and financial services companies.

Group Tax Affairs is a global department, responsible for overseeing the consistency of the Group's tax solutions. It also works with Group Finance and Development to monitor overall tax risk. In addition, it performs back-up checks to ensure that tax risks remain at a manageable level and are consistent with the Group's reputation and profitability objectives.

As part of its effort to control and manage tax risks more effectively, Group Tax Affairs added new procedures and extended the tax reporting process to all divisions during 2004. The latter initiative provides an example of the coordination between the International Tax team and the Internal Control team with Group Finance and Development.

Group Tax Affairs resources include:

- A network of tax correspondents, covering all of the countries where the Group does business.
- A qualitative data reporting system, which contributes to managing tax risks and monitoring compliance with local tax laws.

- A tax coordination committee, composed of representatives of both Group Tax Affairs and Group Finance and Development, whose mission now extends to all divisions of the Group. The committee is responsible for analyzing key tax issues and making appropriate decisions. Group Tax Affairs is the sole adviser to Group Finance and Development on tax issues that affect financial and accounting information.
- A reporting system to Group Executive Management on the use made of delegations of authority and compliance with internal standards.

A clear framework has been defined for the assignment of responsibility for managing tax risks associated with customer transactions. This includes a tax risk charter used to draw up job descriptions for local tax managers and to specify the responsibilities of divisional heads with regard to entities that do not have their own tax manager. This charter will be revised in 2005, based on the new charter applicable to Territory Chief Executives. Group tax rules and standards have also been created and distributed throughout the organization. Lastly, Group Tax Affairs is responsible for approving all new products with significant tax implications, all new businesses, “specific” transactions put together in France and abroad, the use of outside tax advisors, framework agreements and standard banking industry agreements, and all internal circulars or documents giving rise to material tax issues.

### **Information Systems Security**

The internal control system established by Group Information Systems is organized around:

- A collection of procedures distributed throughout the Group, reflecting the Group’s overall information systems security policy. This policy describes IT-related assets (information, software, physical and service assets) and the criteria applied to define security requirements related to these assets (availability, integrity, confidentiality and auditability).
- A network of security coordinators based in the various divisions and Group departments, supported by security correspondents responsible for operational aspects.
- Committees with extended powers, such as the Group Information Systems Architecture Committee, which is responsible for ensuring that IT projects comply with Group standards on systems architecture, security, risks and operations.
- A project management approach which factors in systems security issues from the outset. This approach is an integral part of Group quality assurance standards.
- Periodic monitoring of systems security and systematic monitoring of mission critical systems.
- Technical intelligence gathering to take into account inherent systems weaknesses as and when they come to light.
- A joint Group Information Systems/Internal Audit information systems audit unit, established in the autumn of 2004. The team reports to the head of Internal Audit and receives all necessary technical support from Group Information Systems.

Avoiding any interruption of operations is a key concern of management, at the Group level and also at the level of the various business lines. Contingency and disaster recovery plans, covering resources, organization and standby facilities, are regularly updated and strengthened.

To maintain appropriate standards of information systems security, the Bank regularly reviews the processes established to protect systems against the increase in external threats, such as viruses and the illegal capture of authentication data in the online banking business. Electronic banking applications and the new applications used by BNP Paribas Securities Services, Corporate and Investment Banking, AMS Real Estate, Group Risk Management and Group Finance and Development

have been protected by installing firewalls and creating secure areas to host the most sensitive applications. In 2005, probes capable of swiftly detecting abnormal network activity will be deployed and additional firewalls will be installed to increase network protection.

### **Significant Events of the Year 2004 in the Area of Internal Control**

The Group continuously strives to attain the highest standards in ethics, risk control and internal auditing. In the face of changes in the banking environment and regulators' increasingly stringent requirements in these areas, the Group created a new corporate compliance department in 2004. This new department will have Group-wide responsibility for strengthening organizational procedures relating to risk management and internal control processes. In particular, it will be charged with:

- ensuring that the Group's measures for complying with the legal and regulatory requirements applicable to the banking and finance industry are consistent and effective; and
- organizing internal control procedures throughout the Group.

The Group will gradually define the structure and underlying principles of the newly created compliance department over the course of 2005. The head of the department will report directly to the Group's Chief Executive Officer, and will be responsible for:

- supervision of the consistency and effectiveness of actions undertaken with regard to ethical rules, and more broadly, with regard to the legislative and regulatory provisions specific to banking and finance activities. He will be directly in charge of the Ethics department and of actions designed to combat money laundering and corruption. He will also have functional authority over Group Legal Affairs for all matters related to control and compliance missions; and
- direction and coordination of internal control procedures established throughout the Group. He will chair a monthly committee meeting attended by the Inspector General and by Group managers in charge of Risk, Tax Affairs, Legal Affairs, Ethics and Finance and Development. He will produce the Group's report on internal control and compliance.

## **Risks**

### ***GRM—Exposures***

2004 saw a significant improvement in credit risk in all regions, confirming a trend that first emerged in 2003 in North America. In Europe, companies continued to strengthen their financial position by negotiating replacement medium-term financing. There were no major bankruptcies in the United States, and Europe's single large-scale corporate failure – in Italy – had no impact on the Group's accounts. The credit quality of BNP Paribas' loan portfolio improved throughout the year, leading to a substantial reduction in provision expense in the Corporate and Investment Banking division.

### ***Credit Risks***

Outstanding commercial loans at December 31, 2004 totaled €473 billion, compared to €384 billion at December 31, 2003. The 23% increase was attributable to favorable lending conditions and increased demand for credit generally, strong marketing initiatives in leading economic regions and the integration of new retail banking networks (mainly on the West Coast of the United States), and to higher prices for oil and other commodities, leading to increased trade financing needs.

The U.S. economy's return to growth and sound economic conditions in Europe enabled a substantial decrease in net additions to provisions for credit risks and country risks, as shown in the following table:

In millions of euros	French Retail Banking	International Retail Financial Services	Asset Management and Services	Corporate & Investment Banking	Group Total
Net additions to provisions for credit risks and country risks –2003	225	529	16	633	1,361
Net additions to provisions for credit risks and country risks –2004	223	439	5	58	678

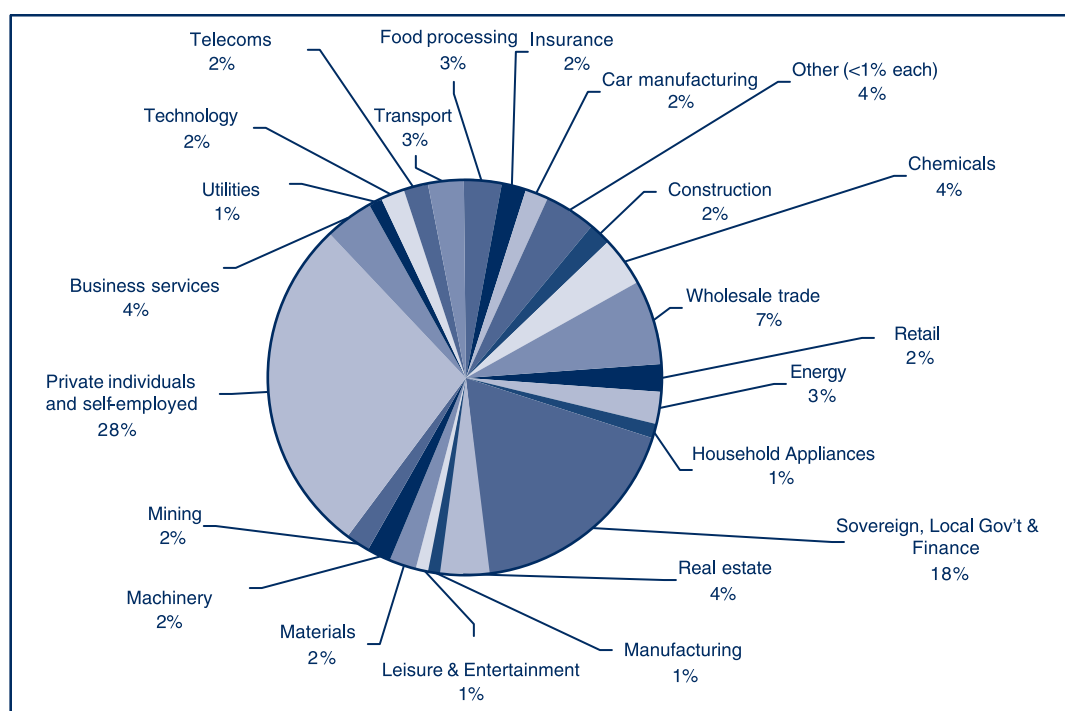
#### *Diversification by counterparty*

Diversification of commitments by counterparty is a matter of ongoing concern and is closely monitored by the Group. The Group's concentration of credit risks is well below the limits set forth in the European Directive on major banking risks.

The breakdown of the Group's commercial commitments by main customer category is set forth in Note 4 to the audited consolidated financial statements of the Group included herein. The top 10 client groups represented less than 4% of total commitments at December 31, 2004.

#### *Industry diversification*

Due to its disciplined approach to industry risks, the Group believes that it is not exposed to any material concentration of credit risks in any single industry. No single industry accounts for more than 5% of total commitments, with the exception of the "sovereign, local government and finance" sector and the "wholesale trade" sector, corresponding largely to commodity traders. The following chart presents a breakdown of the Group's commercial loans and commitments by industry at December 31, 2004 (consisting of unweighted on and off-balance sheet commercial commitments; based on data extracted from the risk management system):





The Bank's commercial loans and commitments remained well diversified in 2004, with no new industry concentrations. Cyclical and high-risk industries continued to be regularly monitored. The credit quality of telecommunications companies improved significantly, with the Bank's largest clients in this industry in considerably better financial condition. Moreover, the Bank's exposure was reduced by the overall decrease in these companies' outstanding debt.

Commitments in the aircraft industry, which was badly affected by external events (September 11, 2001 terrorist attacks, the SARS epidemic and spiraling oil prices), continued to consist mainly of asset financing. Moreover, many of the largest transactions recently carried out were covered by credit insurance.

The Bank's review of Asian clients following the tsunami disaster indicated that its exposure to the potentially most vulnerable local companies was very limited.

The difficulties experienced by the energy industry in the last two years, particularly in the United States, showed signs of coming to an end, and refinancing was arranged for many fundamentally sound companies that were faced with cash flow problems.

The automobile industry, which has traditionally been an important sector for the Bank, was closely monitored, and measures were taken to reduce the Bank's exposure to the most vulnerable companies.

The Bank's commitments in the extremely cyclical high-tech industries account for only a very small proportion of total commitments. Moreover, the high-tech client base consists essentially of major players that are rated investment grade.

#### *Geographic diversification*

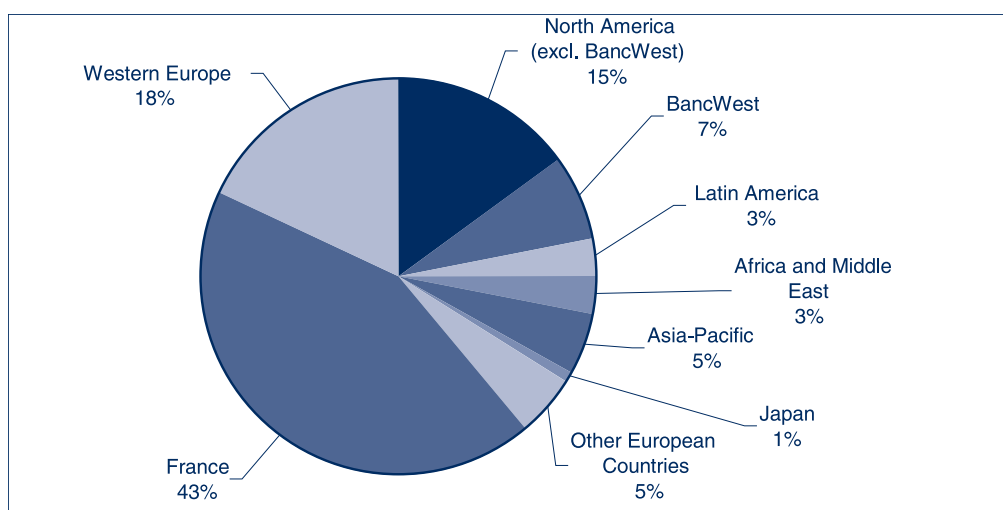
The Bank's commercial loan and commitment portfolio is fairly diversified geographically. The majority of commitments (2/3 of the portfolio as of December 31, 2004) are to borrowers in Europe, with France accounting for 43% of the total as of the same date.

North America is the second largest region, accounting for 22% of total commitments. In recent months, lending operations have increased both in Retail Banking, with the expansion of BancWest on the U.S. West Coast following the recent integration of Community First Bankshares and Union Safe Deposit Bank, and in Corporate and Investment Banking, with the implementation of an ambitious development plan.

Asia accounts for 5% of the total, and commitments in this region are growing at a slower rate than elsewhere. China is a major focus of growth plans in the region, albeit with a highly selective approach to new business.

The Group's exposure to countries under specific lending limits (country risk) represents 9% of its total commercial commitments, and is closely monitored. Commitments in these countries continue to be based on export credit and short-term commercial commitments. Longer-term financing is generally secured and, in most cases, highly structured.

The following chart presents a breakdown of the Group's commercial loans and commitments by geographical region at December 31, 2004 (consisting of unweighted on and off-balance sheet commercial commitments; based on data extracted from the risk management system):



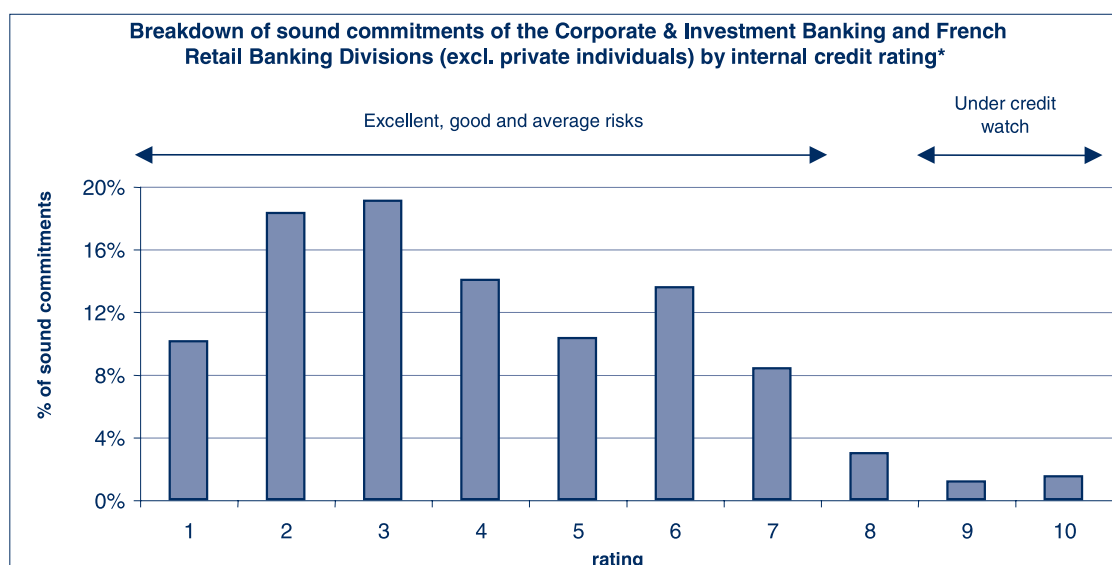
### *Portfolio quality*

The Corporate and Investment Banking and French Retail Banking “Corporate” portfolios include commitments to companies, government agencies, banks and other institutions, which together represent three-quarters of the Group's outstanding commitments (excluding commitments to individuals and very small companies). Based on the internal rating system that has been rolled out across the Corporate and Investment Banking and French Retail Banking businesses, the Group believes that its corporate portfolios are of high quality. The majority of commitments are to highly rated borrowers, reflecting the Bank's strong presence among large multinational groups and financial institutions.

A significant proportion of commitments towards borrowers with lower credit ratings are secured by high quality guarantees. They include export financing covered by export credit insurance provided by international agencies, as well as project, structured and transaction financing.

In 2004, over two-thirds of the portfolio consisted of commitments to borrowers rated “investment grade” under the Bank's internal rating system. The 5% increase in the “investment grade” share of the portfolio compared to 2003 was attributable to the upgrades experienced by numerous major international groups, whose credit quality improved in a more favorable economic environment.

The following chart presents a breakdown of sound commitments of the Corporate and Investment Banking and French Retail Banking businesses (excluding private individuals, and excluding doubtful commitments, which are adequately provisioned and therefore treated separately) by internal credit rating:



\* Corporate & Investment Banking at December 31, 2004 and French Retail Banking at September 30, 2004, excluding doubtful commitments (rated 11 and 12) and securities portfolios.

### *Country Risks*

Country risk provisions amounted to €1.5 billion at December 31, 2004, as compared with €1.8 billion at December 31, 2003. The decrease was partially attributable to foreign exchange effects, mostly due to the depreciation in the value of the U.S. dollar against the euro, and partially attributable to the generally improved economic environment during 2004.

### *Reserve for General Banking Risks*

The Group has a reserve for general, unforeseeable banking risks not covered by the other provisions for losses and risks. At December 31, 2004, the reserve for general banking risks amounted to €752 million.

### *Doubtful Commitments*

BNP Paribas' non-performing loans and other doubtful commitments presented below include on and off-balance sheet commitments to all categories of counterparties (customer transactions, interbank transactions, securities portfolio and long-term investments).

<i>in billions of euros</i>	<b>December 31, 2004</b>	<b>December 31, 2003</b>
Doubtful commitments .....	12.5	14.1
Specific provisions .....	8.6	9.4
Coverage ratio .....	69%	67%

### *Breakdown by geographic area and industry*

The following tables present doubtful loans by geographic area and by industry, as a percentage of the Bank's total doubtful loans (excluding securities and long-term investments, as well as off-balance sheet commitments), which amounted to €11.8 billion at December 31, 2004. Provisions deducted from the carrying value of these assets at December 31, 2004 amounted to €7.9 billion.

#### *Breakdown by geographic area*

	<b>Breakdown of doubtful loans</b>	<b>Breakdown of provisions</b>
France	60.7%	58.7%
European Economic Area	8.8%	9.8%
North America	7.0%	9.7%
Latin America	4.7%	3.4%
Africa and Middle East	7.6%	8.4%
Asia (excluding Japan) – Pacific	4.6%	3.0%
Japan	0.4%	0.0%
Other European countries	5.5%	6.1%
Not analyzed	0.7%	0.9%
<b>Total</b>	<b>100.0%</b>	<b>100.0%</b>

#### *Breakdown by industry*

	<b>Breakdown of doubtful loans</b>	<b>Breakdown of provisions</b>
Food	3.7%	4.7%
Insurance	1.7%	1.5%
Automotive	1.6%	1.8%
Other	4.5%	4.8%
Construction	1.8%	2.4%
Chemicals	0.5%	0.5%
Wholesalers	7.0%	7.7%
Retailers	1.7%	1.8%
Energy	2.9%	2.0%
Household appliances	1.4%	1.4%
Sovereign, local govt. and financial institution	5.8%	5.2%
Real estate	6.4%	5.9%
Manufacturing	2.1%	1.9%
Leisure	1.0%	0.5%
Materials	2.4%	2.3%
Capital goods	0.6%	0.7%
Mining	1.0%	0.6%
Private individuals and self-employed	38.9%	38.3%
Business services	4.6%	5.3%
Utilities	0.8%	0.6%
Technology	1.6%	1.2%
Telecoms	2.0%	1.6%
Transport	4.9%	4.2%
Not analyzed	1.1%	3.0%
<b>Total</b>	<b>100.0%</b>	<b>100.0%</b>

### *Breakdown by type of customer*

The breakdown of the Group's doubtful loans by main customer categories is set forth in Note 4 to the audited consolidated financial statements of the Group included herein.

### **Market Risks**

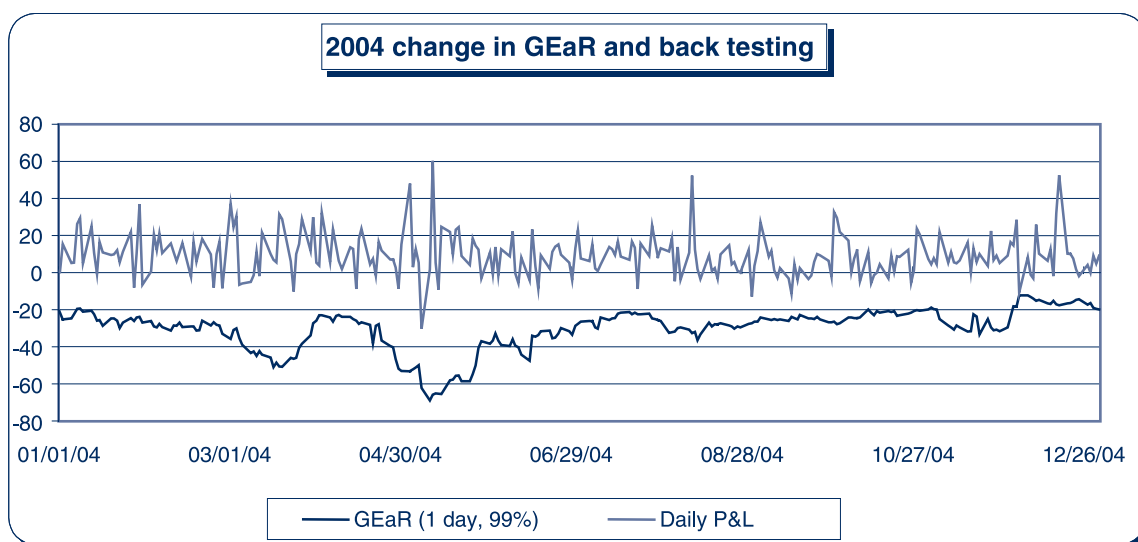
#### *Gross Earnings at Risk (GEaR)*

The Bank measures value at risk (VaR) for its capital markets businesses based on gross earnings at risk (GEaR). For the year ended December 31, 2004, the total average value at risk (ten-day holding period) amounted to €93 million (with a minimum of €37 million and a maximum of €215 million), taking into account the €57 million effect of netting different types of risk.<sup>2</sup>

GEaR calculation methods are regularly refined in order to better reflect the specific features of each business line, in particular with respect to unusual products. The model's quality is continuously tested by comparing actual daily losses, if any, with the 1-day GEaR.

The chart below (in millions of euros, for entities required to include market risks in their capital adequacy calculations) presents the changes in GEaR during 2004, compared with the actual daily revenues from capital markets transactions. It reflects:

- The Bank's conservative management approach, as well as the beneficial effects of diversifying positions and instruments, which led to aggregate GEaR that was 1.5 to 2.5 times below the sum of its components by risk factor.
- The model's strengths. A 99% confidence level in theory means that the Bank will not incur daily losses in excess of GEaR more than two or three times during the year, while in practice, the GEaR was never exceeded during 2004.



<sup>2</sup>For a breakdown of market risk by type of counterparty and of VaR by type of risk, see Notes 24 and 25 to the Group's consolidated financial statements as of and for the year ended December 31, 2004.

### *Stress Tests*

The regular simulations performed by GRM based on crisis scenarios confirm the Bank's strong resistance to market risks. None of the extreme risks simulated by GRM would have a serious adverse impact. The scenarios used, which are periodically reviewed, are as follows:

- emerging markets crisis triggering a flight to quality.
- Stock market crash following a sharp rise in long-term interest rates.
- Short-term interest rate hike leading to a flattening of the yield curve and a modest fall in equity prices.
- U.S. debacle, corresponding to a loss of confidence in the dollar and the U.S. economy in general, leading to a sharp fall in the dollar, a steep rise in long-term interest rates and a general widening of signature spreads.
- Melt-up, corresponding to the impact of a stock market rebound combined with a fall in long-term interest rates.
- September 11, corresponding to the impact of an abrupt market reversal similar to the one that followed the terrorist attack on the World Trade Center.

### **Asset Management Risk**

Asset management companies are subject to specific legislation and regulations relating to third-party portfolio management in the countries in which they are located, and are generally subject to oversight by regulatory authorities.

The creation and management of mutual funds is particularly well regulated. In most countries, funds must be approved by the regulatory authorities before they are launched, and their activities are subject to controls by a statutory auditor and, in some cases, a custodian.

Fund managers are required to respect the integrity of the markets and safeguard customers' interests.

### **Insurance**

BNP Paribas' risks are covered by major insurers, with the aim of effectively protecting both the Bank's balance sheet and its profit and loss account. The Group's insurance program involves contracting policies that enable significant risks to be covered, such as fraud, theft, claims for damages, business interruption and liability.

In order to optimize costs and ensure a satisfactory risk level, the Group self-insures against risks whose frequency and financial impact can be reasonably well anticipated. In addition, the Group also maintains insurance policies against certain risks, including the following:

- property damage, due to events such as fire or explosion, taking into account replacement cost (approved by the Group's insurers following risk assessment visits to key sites);
- fraud and misappropriation of assets;
- corporate liability, such as personal injury, property damage or consequential loss caused to a third party;
- business interruption, such as loss of revenues or earnings or additional costs;



- theft of valuables on company premises and from safes;
- liability of corporate officers in the event of errors or omissions, for example; and
- business liability, such as personal injury, property damage or consequential loss caused to a third party.

All of these insurance policies have been contracted for on the basis of the Bank's historical claims experience, market claims experience and global insurance market capacity.

Some business units can also contract excess insurance locally for specific coverage concerning certain operations, or if they cannot find adequate coverage on the French market. After two difficult years, insurance market conditions improved somewhat in 2004, allowing the Group to maintain high quality coverage contracted for under the best possible market conditions.

Finally, the Group focused in particular on limiting its exposure to the quality, rating and solvency of its insurers.

### **Pledged Assets**

Assets given as pledges do not represent material amounts at the Group level, and mainly comprise assets of Klépierre, the Group's listed real estate subsidiary.

### **Patents, Licenses and Contracts**

BNP Paribas is not dependent upon any patents or licenses or any industrial, commercial or financial services contracts for the conduct of its business.

## GOVERNMENTAL SUPERVISION AND REGULATION OF BNP PARIBAS IN FRANCE

### The French Banking System

The French banking system consists primarily of privately-owned banks and financial institutions, as well as a number of state-owned banks and financial institutions, all of which are subject to the same banking laws and regulations.

All French credit institutions are required to belong to a professional organization or central body affiliated with the French Credit Institutions and Investment Firms Association (*Association française des établissements de crédit et des entreprises d'investissement*), which represents the interests of credit institutions and investment firms in particular with the public authorities, provides consultative advice, disseminates information, studies questions relating to banking and financial services activities and makes recommendations in connection therewith. All registered banks, including BNP Paribas, are members of the French Banking Association (*Fédération Bancaire Française*).

### French Supervisory Bodies

The French Monetary and Financial Code (*Code monétaire et financier*) sets forth the conditions under which credit institutions, including banks, may operate. The French Monetary and Financial Code vests related supervisory and regulatory powers in certain administrative authorities.

The Financial Sector Consultative Committee (*Comité consultatif du secteur financier*) is made up of representatives of credit institutions, investment firms, insurance companies and insurance brokers and client representatives. The committee is a consultative organization that studies the relations between credit institutions, investment firms and insurance companies and their respective clientele and proposes appropriate measures in this area.

The Consultative Committee on Financial Legislation and Regulations (*Comité consultatif de la législation et de la réglementation financières*) reviews, at the request of the Minister of the Economy, any draft bill or regulations, as well as any draft EU regulations relating to the insurance, banking and investment service industry other than those draft regulations issued by the *Autorité des marchés financiers*.

The Credit Institutions and Investment Firms Committee (*Comité des établissements de crédit et des entreprises d'investissement*) is chaired by the Governor of the *Banque de France*. It makes individual decisions, grants banking and investment firm licenses, and grants specific exemptions as provided in applicable banking regulations.

The Banking Commission (*Commission bancaire*), which is chaired by the Governor of the *Banque de France*, is responsible for the supervision of credit institutions and investment firms. It supervises the enforcement of laws and regulations applicable to banks and other credit institutions and investment firms, and controls their financial standing. Banks are required to submit periodic (either monthly, quarterly or semi-annually) accounting reports to the *Commission bancaire* concerning the principal areas of their activity. The *Commission bancaire* may also request additional information that it deems necessary and may carry out on-site inspections. These reports and controls allow a close monitoring of the condition of each bank and also facilitate computation of the total deposits of all banks and their use. Where regulations have been violated, the *Commission bancaire* may act as an administrative court and impose sanctions, which may include deregistration of a bank, resulting in its winding-up. The *Commission bancaire* also has the power to appoint a temporary administrator to manage provisionally a bank that it deems to be mismanaged. These decisions of the *Commission bancaire* may be appealed to the French Administrative Supreme Court (*Conseil d'état*). Insolvency proceedings may be initiated against banks or other credit institutions, or investment firms only after formal consultation with the *Commission bancaire*.

### Banking Regulations

The BNP Paribas Group must comply with minimum capital ratio requirements. See “Capital Adequacy of the BNP Paribas Group”. In addition to these requirements, the principal regulations

applicable to deposit banks such as BNP Paribas concern risk diversification and liquidity, monetary policy, restrictions on equity investments and reporting requirements. In the various countries in which BNP Paribas operates, it complies with the specific regulatory ratio requirements in accordance with procedures established by the relevant supervisory authorities.

In France, the BNP Paribas Group must comply with the norms of financial management set by the Minister of the Economy, the purpose of which is to ensure the creditworthiness and liquidity of French credit institutions.

Each French credit institution is required to calculate, as of the end of each month, the ratio of the weighted total of certain short-term and liquid assets to the weighted total of short-term liabilities. This liquidity ratio (*coefficient de liquidité*) is required to exceed 100%.

French credit institutions must satisfy, on a consolidated basis, certain restrictions relating to concentration of risks (*ratio de contrôle des grands risques*). The aggregate of a French credit institution's loans and a portion of certain other exposure (*risques*) to a single customer may not exceed 25% of the credit institution's regulatory capital as defined by French capital ratio requirements. In addition, the aggregate amount of individual exposures exceeding 10% of the credit institution's regulatory capital may not exceed eight times such regulatory capital.

An equity and permanent resources ratio (*coefficient de fonds propres et de ressources permanentes*) requires French credit institutions to maintain, as of each year-end, a minimum ratio of 60% between amounts representing equity and related items and amounts representing certain long-term assets denominated in euros.

French credit institutions are required to maintain on deposit with the European Central Bank a certain percentage of various categories of demand and short-term deposits. Deposits with a maturity of more than two years are not included in calculating the amount required to be deposited. The required reserves are remunerated at a level corresponding to the average interest rate over the maintenance period of the main refinancing operations of the European System of Central Banks.

BNP Paribas' commercial banking operations in France are also significantly affected by monetary policies established from time to time by the European Central Bank in coordination with the *Banque de France*. Commercial banking operations, particularly in their fixing of short-term interest rates, are also affected in practice by the rates at which the *Banque de France* intervenes in the French domestic interbank market.

French credit institutions are subject to restrictions on equity investments and, subject to various specified exemptions for certain short-term investments and investments in financial institutions and insurance companies, "qualifying shareholdings" held by credit institutions must comply with the following requirements: (a) no qualifying shareholding may exceed 15% of the regulatory capital of the concerned credit institution and (b) the aggregate of such qualifying shareholdings may not exceed 60% of the regulatory capital of the concerned credit institution. An equity investment is a qualifying shareholding for the purposes of these provisions if (i) it represents more than 10% of the share capital or voting rights of the company in which the investment is made or (ii) it provides, or is acquired with a view to providing, a "significant influence" (*influence notable*, presumed when the credit institution controls at least 20% of the voting rights) in such company.

French regulations permit only licensed credit institutions to engage in banking activities on a regular basis. Similarly, institutions licensed as banks may not, on a regular basis, engage in activities other than banking, bank related activities and a limited number of non-banking activities determined pursuant to the regulations issued by the Minister of the Economy. A regulation issued in November 1986 and amended from time to time sets forth an exhaustive list of such non-banking activities and requires revenues from those activities to be limited in the aggregate to a maximum of 10% of total net revenues.

## **Examination**

The principal means used by the *Commission bancaire* to ensure compliance by large deposit banks with applicable regulations is the examination of the detailed periodic (monthly or quarterly)

financial statements and other documents that these banks are required to submit to the *Commission bancaire*. In the event that any examination were to reveal a material adverse change in the financial condition of a bank, an inquiry would be made, which could be followed by an inspection. The *Commission bancaire* may also inspect banks on an unannounced basis.

### **Reporting Requirements**

In addition to furnishing to the *Commission bancaire* the detailed monthly report mentioned above, credit institutions must also report monthly (and, with respect to lease financings, quarterly) to the *Banque de France* the names and related amounts of certain customers (only for companies and individuals engaged in commercial activities) having loan utilization exceeding approximately €76,000. The *Banque de France* then returns to each credit institution a list stating, as to that credit institution's customers, total loan utilizations from all reporting credit institutions.

Credit institutions must make periodic reports, collectively referred to as *états périodiques*, to the *Commission bancaire*. The *états périodiques* comprise principally (a) a statement of the activity of the concerned institution during the relevant period (*situation*), to which is attached exhibits that provide a more detailed breakdown of the amounts involved in each category, (b) a statement of income, together with exhibits and (c) certain additional data relating to operations (*indicateurs d'activité*) such as the number of employees, client accounts and branches.

### **Deposit Guarantees**

All credit institutions operating in France are required by law to be a member of the deposit guarantee fund (*Fonds de Garantie*), except branches of European Economic Area banks that are covered by their home country's guarantee system. Domestic customer deposits denominated in euro and currencies of the European Economic Area are covered up to an amount of €70,000 per customer and per credit institution. The contribution of each credit institution is calculated on the basis of the aggregate deposits and one-third of the gross customer loans held by such credit institution and of the risk exposure of such credit institution.

The Governor of the *Banque de France*, as chairman of the *Commission bancaire*, can request that the shareholders of a credit institution in financial difficulty fund the institution in an amount that may exceed their initial capital contribution. However, credit institution shareholders have no legal obligation in this respect and, as a practical matter, such a request would likely be made to holders of a significant portion of the institution's share capital.

### **Internal Control Procedures**

French credit institutions are required to establish appropriate internal control systems, including with respect to risk management and the creation of appropriate audit trails. With respect to credit risks, each credit institution must have a credit risk selection procedure and a system for measuring credit risk that permit centralization of the institution's on- and off-balance sheet exposure and for assessing different categories of risk using qualitative and quantitative data. With respect to market risks, each credit institution must have systems for monitoring, among other things, its proprietary transactions that permit the institution to record on at least a day-to-day basis foreign exchange transactions and transactions in the trading book, and to measure on at least a day-to-day basis the risks resulting from trading positions in accordance with the capital adequacy regulations. The institution must prepare an annual report for review by the institution's board of directors and the *Commission Bancaire* regarding the institution's internal procedures and the measurement and monitoring of the institution's exposure.

### **Money Laundering**

French credit institutions are required to report all amounts registered in their accounts that they suspect come from drug trafficking or organized crime, as well as unusual transactions in excess of certain amounts, to a special government agency (*TRACFIN*) placed under the authority of the Minister of the Economy.

## MANAGEMENT OF THE BANK

### Board of Directors

Pursuant to the by-laws of the Bank, the business affairs of the Bank are administered by the Board of Directors, which is composed of a total of not less than nine nor more than 18 directors (excluding directors elected by employees). The Board of Directors currently comprises 13 directors, plus three additional directors elected, in accordance with the terms of the by-laws, by employees of the Bank. In accordance with French law, the directors of the Bank may be removed at any time, with or without cause. Each director is elected or appointed for a term of three years. The Board of Directors elects a chairman from among its members and also establishes the term of the appointment of the Chairman that may not exceed the period or remaining period, as the case may be, of the Chairman's appointment as a member of the Board of Directors.

The aggregate compensation paid to members of the Board of Directors, in their capacity as such, during the year ended December 31, 2004 was €0.4 million.

The names, functions, business addresses and principal activities\* performed by them outside the Bank which are significant with respect to the Bank of the current members of the Board of Directors of the Bank are as follows (as at December 31, 2004, except where specified):

<u>NAME</u>	<u>FUNCTION</u>	<u>BUSINESS ADDRESS</u>	<u>PRINCIPAL OUTSIDE ACTIVITIES</u>
Michel Pébereau . . . . .	Chairman, BNP Paribas	3, rue d'Antin, 75002 Paris, France	<b>Director of:</b> <ul style="list-style-type: none"><li>• Lafarge</li><li>• Saint-Gobain</li><li>• Total</li><li>• <i>BNP Paribas UK Holdings Ltd, United Kingdom</i></li></ul> <b>Member of the Supervisory Board of:</b> <ul style="list-style-type: none"><li>• Axa</li><li>• <i>Banque Marocaine pour le Commerce et l'Industrie, Morocco</i></li></ul> <b>Non-voting director of:</b> <ul style="list-style-type: none"><li>• <i>Société Anonyme des Galeries Lafayette</i></li></ul> <b>Chairman of:</b> <ul style="list-style-type: none"><li>• <i>Fédération Bancaire Européenne</i></li><li>• <i>Commission Banque d'Investissement et de Marchés de la Fédération Bancaire Française</i></li><li>• <i>Conseil de Direction de l'Institut d'Études Politiques de Paris</i></li><li>• <i>Conseil d'Orientation de l'Institut Aspen France</i></li></ul>

\*The directorships shown in italics are not governed by the French Commercial Code (*Code de Commerce*) concerning multiple directorships.

<u>NAME</u>	<u>FUNCTION</u>	<u>BUSINESS ADDRESS</u>	<u>PRINCIPAL OUTSIDE ACTIVITIES</u>
			<b>Member of:</b> <ul style="list-style-type: none"> <li>• <i>International Advisory Panel of the Monetary Authority of Singapore</i></li> <li>• <i>International Capital Markets Advisory Committee of the Federal Reserve Bank of New York</i></li> <li>• <i>International Monetary Conference</i></li> <li>• <i>International Business Leaders' Advisory Council for the Mayor of Shanghai (IBLAC)</i></li> </ul>
Patrick Auguste . . . . .	Executive, BNP Paribas (elected by employees)	14, rue Bergère, 75009 Paris, France	
Claude Bébéar . . . . .		25, avenue Matignon, 75008 Paris, France	<b>Principal function:</b> Chairman of the Supervisory Board of Axa  <b>Chairman and Chief Executive Officer</b> of Finaxa  <b>Director of:</b> <ul style="list-style-type: none"> <li>• Vivendi Universal</li> <li>• <i>Axa Assurances Iard Mutuelle</i></li> <li>• <i>Axa Assurances Vie Mutuelle</i></li> <li>• <i>Axa Courtage Assurance Mutuelle</i></li> <li>• <i>Axa Financial Inc., United States</i></li> </ul> <b>Non-voting director of:</b> <ul style="list-style-type: none"> <li>• <i>Schneider Electric</i></li> </ul> <b>Chairman of:</b> <ul style="list-style-type: none"> <li>• <i>Institut du Mécénat de Solidarité</i></li> <li>• <i>Institut Montaigne</i></li> </ul>
Jean-Louis Beffa . . . . .	Vice-Chairman	“Les Miroirs” 18, avenue d’Alsace 92096 La Défense, France	<b>Principal function:</b> Chairman and Chief Executive Officer of Compagnie de Saint-Gobain  <b>Vice-Chairman of the Board of Directors</b> of BNP Paribas  <b>Chairman</b> of <i>Claude Bernard Participations</i>  <b>Director of:</b> <ul style="list-style-type: none"> <li>• Gaz de France</li> <li>• <i>Groupe Bruxelles Lambert, Belgium</i></li> <li>• <i>Saint-Gobain Cristaleria SA, Spain</i></li> </ul>



<u>NAME</u>	<u>FUNCTION</u>	<u>BUSINESS ADDRESS</u>	<u>PRINCIPAL OUTSIDE ACTIVITIES</u>
			<ul style="list-style-type: none"> <li>• <i>Saint-Gobain Corporation, United States</i></li> </ul> <p><b>Permanent representative of Saint-Gobain on the Board of</b></p> <ul style="list-style-type: none"> <li>• Saint-Gobain PAM</li> </ul> <p><b>Member of the Supervisory Board of:</b></p> <ul style="list-style-type: none"> <li>• Le Monde SA</li> <li>• <i>Le Monde Partenaire AS (SAS)</i></li> <li>• <i>Société Éditrice du Monde (SAS)</i></li> </ul>
Gerhard Cromme . . . . .		August-Thyssen-Strasse 1 Postfach 10 10 10 40001 DUSSELDORF, Germany	<p><b>Principal function:</b> Chairman of the Supervisory Board of <i>ThyssenKrupp AG</i></p> <p><b>Member of the Supervisory Board of:</b></p> <ul style="list-style-type: none"> <li>• <i>Allianz AG, Germany</i></li> <li>• <i>Axel Springer AG, Germany</i></li> <li>• <i>Deutsche Lufthansa AG, Germany</i></li> <li>• <i>E.ON AG, Germany</i></li> <li>• <i>E.ON Ruhrgas AG, Germany</i></li> <li>• <i>Hochtief AG, Germany</i></li> <li>• <i>Siemens AG, Germany</i></li> <li>• Suez</li> <li>• <i>Volkswagen AG, Germany</i></li> </ul> <p><b>Chairman of:</b></p> <ul style="list-style-type: none"> <li>• <i>German Governmental Commission on Corporate Governance</i></li> <li>• <i>European Round Table of Industrialists</i></li> </ul>
Jean-Marie Gianno . . . .	Employee, BNP Paribas (elected by employees)	21, avenue Jean Medecin, 06000 Nice, France	
François Grappotte . . . .		128, avenue de Lattre de Tassigny 87045 Limoges, France	<p><b>Principal function:</b> Chairman of the Board of Directors of Legrand</p> <p><b>Member of the Supervisory Board of:</b></p> <ul style="list-style-type: none"> <li>• Galeries Lafayette</li> <li>• Michelin</li> </ul> <p><b>Chairman of:</b></p> <ul style="list-style-type: none"> <li>• <i>Legrand SAS</i></li> <li>• <i>Lumina Management</i></li> </ul>

<u>NAME</u>	<u>FUNCTION</u>	<u>BUSINESS ADDRESS</u>	<u>PRINCIPAL OUTSIDE ACTIVITIES</u>
			<b>Director and Chief Executive Officer of Legrand Holding SA</b> <b>Director of:</b> <ul style="list-style-type: none"> <li>• Valeo</li> <li>• B. Ticino, Italy</li> <li>• Bufer Elektrik, Turkey</li> <li>• Eltas Elektrik, Turkey</li> <li>• Legrand Española, Spain</li> <li>• Lumina Parent, Luxembourg</li> <li>• Pass &amp; Seymour, United States</li> <li>• The Wiremold Company, United States</li> </ul> <b>Member of:</b> <ul style="list-style-type: none"> <li>• Conseil consultatif de la Banque de France</li> <li>• Conseil de Promotelec (Promotion de l'installation électrique dans les bâtiments neufs et anciens)</li> <li>• Bureau de la FIEEC (Fédération des Industries Électriques, Électroniques et de Communication)</li> <li>• Bureau du Gimélec (Groupement des Industries de l'équipement électrique, du contrôle-commande et des services associés)</li> </ul>
Alain Joly .....		75, quai d'Orsay 75007 Paris, France	<b>Principal function:</b> Chairman of the Supervisory Board of Air Liquide <b>Director of:</b> <ul style="list-style-type: none"> <li>• Lafarge</li> <li>• Société d'Oxygène et d'Acétylène d'Extrême-Orient</li> <li>• Air Liquide International Corporation, United States</li> <li>• American Air Liquide, United States</li> </ul>
Denis Kessler .....		1, av. du Général de Gaulle 92074 Paris La Défense, France	<b>Principal function:</b> Chairman and Chief Executive Officer of Scor <b>Chairman of:</b> <ul style="list-style-type: none"> <li>• Scor Vie</li> <li>• Commercial Risk Re-Insurance Company, United States</li> </ul>

<u>NAME</u>	<u>FUNCTION</u>	<u>BUSINESS ADDRESS</u>	<u>PRINCIPAL OUTSIDE ACTIVITIES</u>
			<ul style="list-style-type: none"> <li>• <i>Commercial Risk Re-Insurance Company Ltd, United States</i></li> <li>• <i>Commercial Risk Partners Ltd, Bermuda</i></li> <li>• <i>General Security National Insurance Company, United States</i></li> <li>• <i>General Security Indemnity of Arizona, United States</i></li> <li>• <i>Investors Insurance Corporation, United States</i></li> <li>• <i>Investors Marketing Group Inc., United States</i></li> <li>• <i>Scor Italia Riassicurazioni SPA, Italy</i></li> <li>• <i>Scor Life Insurance Company, United States</i></li> <li>• <i>Scor Life US Re Insurance, United States</i></li> <li>• <i>Scor Reinsurance Company, United States</i></li> <li>• <i>Scor US Corporation, United States</i></li> </ul> <p><b>Director of:</b></p> <ul style="list-style-type: none"> <li>• <i>Bolloré Investissement SA</i></li> <li>• <i>Dassault Aviation</i></li> <li>• <i>Amvescap Plc, United Kingdom</i></li> <li>• <i>Cogedim</i></li> <li>• <i>Dexia, Belgium</i></li> <li>• <i>Scor Canada Reinsurance Company, Canada</i></li> </ul> <p><b>Member of the Supervisory Board of:</b></p> <ul style="list-style-type: none"> <li>• <i>Scor Deutschland, Germany</i></li> </ul> <p><b>Permanent representative of:</b></p> <ul style="list-style-type: none"> <li>• <i>Fergascor on the Board of SA Communication &amp; Participation</i></li> </ul> <p><b>Non-voting director of:</b></p> <ul style="list-style-type: none"> <li>• <i>FDC SA</i></li> <li>• <i>Gimar Finance SCA</i></li> </ul> <p><b>Member of:</b></p> <ul style="list-style-type: none"> <li>• <i>Commission Économique de la Nation</i></li> <li>• <i>Conseil Économique et Social</i></li> </ul>

<u>NAME</u>	<u>FUNCTION</u>	<u>BUSINESS ADDRESS</u>	<u>PRINCIPAL OUTSIDE ACTIVITIES</u>
Jean-François Lepetit . .		24, rue St Nom 78112 – FOURQUEUX, France	Associate professor at Edhec
Lindsay Owen-Jones . . .		41, rue Martre 92117 CLICHY, France	<p><b>Principal function:</b> Chairman and Chief Executive Officer of L'Oréal</p> <p><b>Chairman of:</b></p> <ul style="list-style-type: none"> <li>Galderma Pharma SA, Switzerland (up to May 24, 2004)</li> </ul> <p><b>Vice-Chairman and member of the Supervisory Board of:</b></p> <ul style="list-style-type: none"> <li>Air Liquide</li> </ul> <p><b>Director of:</b></p> <ul style="list-style-type: none"> <li>Gesparal (up to April 29, 2004)</li> <li>Sanofi-Aventis</li> <li>Galderma Pharma SA, Switzerland (up to May 24, 2004)</li> <li>L'Oréal USA, Inc., United States</li> <li>L'Oréal UK Ltd, United Kingdom</li> </ul>
Loyola de Palacio del Valle-Lersundi		C/de la Cancela, 2 C.P. 28016 Madrid, Spain	Lecturer
(membership started as at May 18, 2005) . . . . . Hélène Ploix . . . . .		162, rue du Faubourg Saint Honoré 75008 – Paris, France	<p><b>Principal function:</b> Chairman of Pechel Industries SAS and Pechel Industries Partenaires SAS</p> <p><b>Director of:</b></p> <ul style="list-style-type: none"> <li>Lafarge</li> <li>Boots Group Plc, United Kingdom</li> <li>Ferring SA, Switzerland</li> </ul> <p><b>Member of the Supervisory Board of:</b></p> <ul style="list-style-type: none"> <li>Publicis</li> </ul> <p><b>Representative of Pechel Industries for:</b></p> <ul style="list-style-type: none"> <li>Aquarelle.com Group</li> <li>CAE International</li> <li>CVBG-Dourthe Kressman</li> <li>Pechel Service SAS</li> <li>Quinette Gallay</li> <li>Xiring</li> </ul> <p><b>Legal Manager of Hélène Ploix SARL</b></p>

<u>NAME</u>	<u>FUNCTION</u>	<u>BUSINESS ADDRESS</u>	<u>PRINCIPAL OUTSIDE ACTIVITIES</u>
			<b>Member of the Investment Committee for the United Nations Personnel Pension Fund</b> <b>Director of:</b> <ul style="list-style-type: none"> <li>• Veolia Environnement</li> <li>• <i>Erbé, Belgium</i></li> <li>• <i>Pargesa, Belgium</i></li> </ul> <b>Member of the Supervisory Board of:</b> <ul style="list-style-type: none"> <li>• Pinault-Printemps-Redoute</li> </ul> <b>Permanent representative of BNP Paribas on the Supervisory Board of:</b> <ul style="list-style-type: none"> <li>• Accor</li> </ul>
Baudouin Prot . . . . .	Chief Executive Officer, BNP Paribas	3, rue d'Antin 75002 Paris, France	
Louis Schweitzer . . . . .		860, quai de Stalingrad 92109 – BOULOGNE BILLANCOURT, France	<b>Principal function:</b> Chairman of the Board of Renault <b>President of the Management Board of:</b> <ul style="list-style-type: none"> <li>• <i>Renault-Nissan BV, Netherlands</i></li> </ul> <b>Director of:</b> <ul style="list-style-type: none"> <li>• Électricité de France</li> <li>• RCI Banque</li> <li>• Veolia Environnement</li> <li>• <i>AB VOLVO, Sweden</i></li> <li>• <i>AstraZeneca, United Kingdom</i></li> </ul> <b>Member of the Board of:</b> <ul style="list-style-type: none"> <li>• <i>Philips, Netherlands</i></li> </ul> <b>Member of the Board of:</b> <ul style="list-style-type: none"> <li>• <i>Fondation Nationale des Sciences Politiques</i></li> <li>• <i>Institut Français des Relations Internationales</i></li> <li>• <i>Musée du Louvre</i></li> </ul> <b>Member of the Consultative Committee of:</b> <ul style="list-style-type: none"> <li>• <i>Banque de France</i></li> <li>• <i>Allianz, Germany</i></li> </ul> <b>Member of the Executive Committee of Medef</b>
Jean-François Truffelli . . . . .	Employee, BNP Paribas (elected by employees)	212, Chemin des Femmes 91300 Massy, France	

To the knowledge of the Bank, the duties owed by the members of the Board of Directors of the Bank do not give rise to any potential conflicts of interest, material to the Notes, with such members' private interests or other duties.

The Board of Directors of the Bank has established three committees in order to facilitate its work: the Financial Statements Committee, the Internal Control and Risk Management Committee and the Compensation and Nominations Committee.

This Committee's duties involve, among other things, (i) reviewing and analyzing, in the presence of the auditors, the quarterly, semi-annual and annual financial statements to be published by the Bank, (ii) reviewing all matters related to the financial statements, including the choices of accounting principles and policies, provisions, management accounting data, accounting standards, capital adequacy requirements, profitability indicators, and all other accounting matters that raise methodological issues, and (iii) managing relations with the auditors. Its current members are Louis Schweitzer (Chairman), Patrick Auguste, Denis Kessler and H       Ploix.

This Committee's duties involve, among other things, (i) reviewing the reports on internal control and on risk measurement and monitoring systems, as well as reports prepared by the General Inspection department and their main findings, and correspondence with the French banking regulator (*Commission bancaire*), (ii) reviewing the Group's overall risk policy, based on risk and profitability indicators made available to the Committee in accordance with the applicable regulations, as well as any specific related issues, (iii) holding discussions, occasionally outside the presence of executive management, with the heads of the General Inspection and Internal Audit departments, Ethics and Group Risk Management, and (iv) presenting to the Board of Directors the Committee's assessment of the Group's methods and procedures. Its current members are François Grappotte (Chairman), Jean-François Lepetit and Jean-Marie Gianno.

Among its duties, this Committee proposes recommendations for the post of Chairman of the Board for consideration by the Board of Directors. Acting jointly with the Chairman of the Board, the Committee also proposes recommendations for the post of Chief Executive Officer for consideration by the Board of Directors, and acting on the recommendation of the Chief Executive Officer, it proposes candidates for Chief Operating Officer. It assists the Board of Directors in assessing the performance of the Board and of its Chairman; acting jointly with the Chairman of the Board, it assists in assessing the performances of the Chief Executive Officer and Chief Operating Officers. The Committee is also charged with addressing all issues related to the personal status of corporate officers, including compensation, pension benefits, and stock options; reviewing the terms and amount of stock option plans, and the list of grantees; and preparing employee stock option plans. The Committee, in conjunction with the Chairman, is also qualified to assist the Chief Executive Officer on any issue related to executive management compensation referred by him to the Committee. Acting jointly with the Chairman of the Board, the Committee advises the Board on resolutions to be submitted to the shareholders concerning the election of directors and non-voting directors. It makes recommendations to the Board on the appointment of Committee chairpersons when their terms of office are up for renewal. The Committee's current members are Alain Joly (Chairman), Claude Bébéar, Jean-Louis Beffa and Gerhard Cromme.



## Executive Committee

The Executive Committee of BNP Paribas currently consists of the following members:

Baudouin Prot	Chief Executive Officer
Georges Chodron de Courcel	Chief Operating Officer
Jean Clamon	Chief Operating Officer
Philippe Blavier	Head of Corporate and Investment Banking
Jean-Laurent Bonnafé	Head of French Retail Banking
Philippe Bordenave	Head of Group Development and Finance
Hervé Gouëzel	Head of Group Information Systems
Bernard Lemée	Head of Group Human Resources
Vivien Lévy-Garboua	Head of Compliance
Pierre Mariani	Head of International Retail Banking and Financial Services
Alain Papiasse	Head of Asset Management and Services

On January 3, 2005, Vivien Lévy-Garboua was appointed as head of the newly created corporate compliance department. See “Risk Management—Significant Events of the Year 2004 in the Area of Internal Control” for a description of this department. In this new capacity, Vivien Lévy-Garboua will continue to serve as a member of the Executive Committee of BNP Paribas. Following this appointment, Alain Papiasse has succeeded Vivien Lévy-Garboua as Head of the Asset Management and Services core business, and currently serves on the Executive Committee of BNP Paribas.

## TAXATION

This summary is based on laws, regulations and administrative circulars now in effect, all of which are subject to change, possibly with retroactive effect, or different interpretations. Investors should consult their own tax advisors in determining the tax consequences to them of purchasing, holding and disposing of Notes, including the application to their particular situation of the French tax considerations discussed below.

### EU Directive on the Taxation of Savings Income

On June 3, 2003, the European Council of Economics and Finance Ministers adopted a Directive (in this section “Taxation”, the “**Directive**”) on the taxation of savings income under which Member States are required from July 1, 2005, to provide to the tax authorities of another Member State details of payments of interest (or similar income) paid by a person within its jurisdiction to an individual resident in that other Member State, except that, for a transitional period, Belgium, Luxembourg and Austria are instead required (unless during that period they elect otherwise) to operate a withholding system in relation to such payments, provided however that the relevant beneficial owner of the payment may instead elect for the disclosure of information method). The ending of the transitional period is dependent upon the conclusion of certain other agreements relating to information exchange with certain other countries.

In relation to French taxation, the Directive has been implemented in French law under Article 242 *ter* of the *Code général des impôts* and Articles 49 I *ter* to 49 I *sexies* of the Schedule III to the *Code général des impôts* (General Tax Code). As regards Luxembourg taxation, on April 12, 2005, the Luxembourg Parliament adopted a law implementing the Directive.

### French Taxation

Because the Notes constitute *obligations* under French law and are issued outside of France through an international syndicate, payments of interest and other revenues made by the Issuer in respect of the Notes to non-French tax residents who do not invest from a permanent establishment or a fixed base situated in France and who are not concurrently shareholders of the Issuer benefit under present law (as interpreted in the *Instruction* of the *Direction Générale des Impôts* 5 I-11-98 dated September 30, 1998) from the exemption provided for in Article 131 *quater* of the French *Code Général des Impôts* (General Tax Code) from deduction of tax at source. Accordingly, such payments do not give the right to any tax credit from any French source.

### Luxembourg Taxation

BNP Paribas has been advised that, under Luxembourg tax law currently in effect, there is no withholding tax for Luxembourg resident and non-resident Noteholders on payments of interest (including accrued but unpaid interest). There is also no Luxembourg withholding tax payable on payments received upon repayment of the principal or upon redemption of the Notes.

Luxembourg withholding tax on payments to individual Noteholders (resident in another EU country than Luxembourg) will as from July 1, 2005 be required to be made by Luxembourg paying agents pursuant to European Council Directive 2003/48/EC or any other European Union Directive implementing the conclusions of the ECOFIN Council meeting of November 26-27, 2000 on the taxation of savings income or any law implementing or complying with, or introduced in order to conform to, such Directive.

Under the Directive, Member States are required from July 1, 2005 to provide to the tax authorities of other Member States details of payments of interest and other similar income paid by a paying agent (within the meaning of the Directive) to (or under certain circumstances, to the benefit of) an individual in another Member State, except that Austria, Belgium and Luxembourg will instead impose a withholding system for a transitional period unless the beneficiary of the interest payments elects for the exchange of information. The withholding tax rate will initially be 15%, increasing steadily to 20% and to 35%. The ending of such transitional period depends on the conclusion of certain other agreements relating to information exchange with certain other countries.

A Luxembourg withholding tax may also in the future be introduced for interest payments made to Luxembourg individual residents.

**All prospective investors should seek independent advice as to their tax positions.**

## SUBSCRIPTION AND SALE

BNP Paribas UK Limited (the “**Lead Manager and Sole Bookrunner**”), as well as Barclays Bank PLC, Citigroup Global Markets Limited, HSBC Bank plc, Merrill Lynch International and The Royal Bank of Scotland plc (the “**Senior Co-Lead Managers**”) and BANKINTER, SA, Banco Millennium bcp Investimento, SA, Crédit Industriel et Commercial, Daiwa Securities SMBC Europe Limited, HSH Nordbank AG, ING Belgium SA/NV, J.P. Morgan Securities Ltd, KBC Bank NV, Lehman Brothers International (Europe), Morgan Stanley & Co. International Limited, Coöperatieve Centrale Raiffeisen-Boerenleenbank B.A. (Rabobank International), UniCredit Banca Mobiliare S.p.A. and UBS Limited (the “**Co-Lead Managers**”, and together with the Lead Manager and Senior Co-Lead Managers, the “**Managers**”) have, pursuant to a subscription agreement dated October 14, 2005 (the “**Subscription Agreement**”), jointly and severally agreed with the Issuer, subject to the satisfaction of certain conditions, to subscribe and pay for the Notes at a price equal to 100% of their Original Principal Amount. The Issuer and the Managers have, in the Subscription Agreement, reached an agreement in relation to commissions and expenses, with the combined underwriting and management commission being 1% of the Original Principal Amount of the Notes. The Subscription Agreement entitles the Managers to terminate it in certain circumstances prior to payment being made to the Issuer. The Issuer has agreed to indemnify the Managers against certain liabilities in connection with the offer and sale of the Notes.

### General

No action has been, or will be, taken in any country or jurisdiction that would permit a public offering of the Notes, or the possession or distribution of this Prospectus or any other offering material relating to the Notes, in any country or jurisdiction where action for that purpose is required. Accordingly, the Notes may not be offered or sold, directly or indirectly, and neither this Prospectus nor any circular, prospectus, form of application, advertisement or other offering material relating to the Notes may be distributed in or from, or published in, any country or jurisdiction except under circumstances that will result in compliance with any applicable laws and regulations.

### European Economic Area

*Please note that, in relation to EEA States, additional selling restrictions may apply in respect of any specific EEA State, including those set out below in relation to the United Kingdom, Italy and France.*

In relation to each Member State of the European Economic Area which has implemented the Prospectus Directive (each, a “**Relevant Member State**”), each Manager has represented and agreed that with effect from and including the date on which Directive 2003/71/EC (including any relevant implementing measure in each Relevant Member State, the “**Prospectus Directive**”) is implemented in that Member State (the “**Relevant Implementation Date**”) it has not made and will not make an offer of Notes to the public in that Relevant Member State, except that it may, with effect from and including the Relevant Implementation Date, make an offer of Notes to the public in that Relevant Member State:

- (i) at any time to legal entities which are authorized or regulated to operate in the financial markets or, if not so authorized or regulated, whose corporate purpose is solely to invest in securities;
- (ii) at any time to any legal entity which has two or more of (1) an average of at least 250 employees during the last financial year; (2) a total balance sheet of more than €43,000,000 and (3) an annual net turnover of more than €50,000,000, as shown in its last annual or consolidated accounts; or
- (iii) at any time in any other circumstances which do not require the publication by the Issuer of a prospectus pursuant to Article 3 of the Prospectus Directive.

## France

No prospectus (including any amendment, supplement or replacement thereto) has been prepared in connection with the offering of the Notes that has been approved by the *Autorité des marchés financiers* or by the competent authority of another State that is a contracting party to the Agreement on the European Economic Area and notified to the *Autorité des marchés financiers*; no Notes have been offered or sold nor will be offered or sold, directly or indirectly, to the public in France except to permitted investors (“**Permitted Investors**”) consisting of qualified investors (*investisseurs qualifiés*) acting for their own account, as defined and in accordance with Articles L.411-2 and D.411-1 of the French *Code Monétaire et Financier*; none of this Prospectus or any other materials related to the offering or information contained therein relating to the Notes has been released, issued or distributed to the public in France except to Permitted Investors; and the direct or indirect resale to the public in France of any Notes acquired by any Permitted Investors may be made only as provided by articles L. 411-1, L. 411-2, L. 412-1 and L. 621-8 to L. 621-8-3 of the French *Code Monétaire et Financier* and applicable regulations thereunder.

## United States

The Notes have not been and will not be registered under the U.S. Securities Act of 1933, as amended (the “**Securities Act**”) or the securities law of any U.S. state, and may not be offered or sold, directly or indirectly, in the United States of America or to, or for the account or benefit of, U.S. persons except pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the Securities Act or such state securities laws.

Each Manager has represented and agreed that:

- (i) it has not offered or sold, and will not offer or sell, the Notes (a) as part of their distribution at any time or (b) otherwise until 40 days after the later of the commencement of the offering and the issue date of the Notes, within the United States or to, or for the account or benefit of, U.S. persons; and
- (ii) it will send to each distributor or dealer to which it sells the Notes during the distribution compliance period a confirmation or other notice setting forth the restrictions on offers and sales of the Notes within the United States or to, or for the account or benefit of, U.S. persons.

The Notes are being offered and sold only outside of the United States to non-U.S. persons in reliance on Regulation S.

In addition, until 40 days after the commencement of the offering of the Notes, an offer or sale of Notes within the United States by any dealer that is not participating in the offering may violate the registration requirements of the Securities Act.

Terms used in this section have the meanings given to them by Regulation S.

## United Kingdom

Each Manager has represented, warranted and agreed that:

- (i) it has only communicated or caused to be communicated and will only communicate or cause to be communicated any invitation or inducement to engage in investment activity (within the meaning of section 21 of the Financial Services and Markets Act 2000 (the “FSMA”)) received by it in connection with the issue or sale of any Notes in circumstances in which section 21(1) of the FSMA does not apply to the Issuer; and
- (ii) it has complied and will comply with all applicable provisions of the FSMA with respect to anything done by it in relation to the Notes in, from or otherwise involving the United Kingdom.

## Italy

The offer and issue of the Notes is not being made in the Republic of Italy and has not been submitted to the clearance procedure of the Italian Securities Exchange Commission (*Commissione Nazionale per le Società e la Borsa*, the “CONSOB”) or the Bank of Italy pursuant to Italian laws and regulations. Accordingly, Italian residents or persons located in the Republic of Italy may not subscribe or purchase, directly or indirectly, the Notes, nor may the Notes be offered, sold or delivered, directly or indirectly, in the Republic of Italy. Neither the Prospectus nor any other offering material relating to the offer and issue of the Notes may be distributed or made available in the Republic of Italy.

This Prospectus and the information contained herein are intended only for the use of its recipient and are not to be distributed to any party resident or located in Italy for any reason. No person resident or located in Italy other than the original recipients of this document may rely on it or its contents.

## GENERAL INFORMATION

### 1. Clearing Systems

The Notes have been accepted for clearance through Euroclear France, Clearstream, Luxembourg and Euroclear. The Common Code number for the Notes is 023216787. The International Securities Identification Number (ISIN) for the Notes is FR0010239368.

### 2. Listing on the EU-Regulated Market of the Luxembourg Stock Exchange

Application has been made for the Notes to be listed on the Luxembourg Stock Exchange and admitted to trading on the EU-regulated market of the Luxembourg Stock Exchange.

### 3. Authorization

The issuance of the Notes was authorized pursuant to a decision of the Chief Executive Officer (*Directeur Général*) of the Issuer dated October 4, 2005 and acting pursuant to a resolution of the board of directors (*conseil d'administration*) of the Issuer dated May 18, 2005.

### 4. Documents on Display

Copies of:

- (i) the *statuts* of BNP Paribas and the Fiscal Agency Agreement relating to the Notes; and
- (ii) the most recently published audited annual report in French (incorporating the audited accounts) of BNP Paribas, called the “*Document de Référence*”, which has been filed with the AMF under the number D.O5-0151 dated February 25, 2005 and further updated under the number D.O5-0151-A01 dated March 24, 2005, under the number D.O5-0151-A02 dated May 23, 2005 and under the number D.O5-0151-A03 dated September 16, 2005

will be available for inspection during the usual business hours on any week day (except Saturdays and public holidays) at the offices of BNP Paribas Securities Services Immeuble Tolbiac 25 quai Panhard Levassor 75450 Paris Cedex 09, France. In addition, such documents are available on the Issuer’s website: “[www.invest.bnpparibas.com](http://www.invest.bnpparibas.com)”. As long as any Notes remain outstanding, copies of the audited consolidated and unconsolidated annual financial statements and the semi-annual and quarterly interim financial statements (and related reports) of BNP Paribas for the most recent financial period will be available in the English language, free of charge, at the specified offices of the Paying Agents.

### 5. Trend Information

There has been no material adverse change in the prospects of the Issuer since the date of its last published audited financial statements.

### 6. Legal and Arbitration Proceedings

Save as disclosed in this Prospectus, there have been no governmental, legal or arbitration proceedings (including any such proceedings which are pending or threatened of which the Issuer is aware), during the period covering at least the 12 months prior to the date of this Prospectus which may have, or have had in the recent past, significant effects on the Issuer and/or the Group’s financial position or profitability.

### 7. Significant Change

Save as disclosed in “Recent Developments” above, no significant change has occurred in the financial position of the Group since June 30, 2005 (being the end of the last financial period for which interim financial information has been published).



## **8. Material Contracts**

The Issuer has not entered into contracts outside the ordinary course of the Issuer's business, which could result in the Issuer or any member of the Group being under an obligation or entitlement that is material to the Issuer's ability to meet its obligation to holders of Notes in respect of the Notes being issued.

## **9. Third Party Information**

Information contained in this Prospectus which is sourced from a third party has been accurately reproduced and, as far as the Issuer is aware and is able to ascertain from information published by the relevant third party, no facts have been omitted which would render the reproduced information inaccurate or misleading. The Issuer has also identified the source(s) of such information.

## **10. Auditors**

In accordance with French law, BNP Paribas is required to have a minimum of two statutory auditors (*commissaires aux comptes*) and two substitute statutory auditors. The statutory auditors are currently PricewaterhouseCoopers Audit (represented by Etienne Boris), Barbier Frinault & Autres (represented by Radwan Hoteit) and Mazars & Guérard (represented by Hervé Hélias), which have audited the consolidated financial statements of BNP Paribas as of and for the years ended December 31, 2004, 2003 and 2002 incorporated by reference herein. PricewaterhouseCoopers Audit, Barbier Frinault & Autres and Mazars & Guérard are registered as *Commissaires aux Comptes* (members of the *Compagnie Nationale des Commissaires aux Comptes*) and regulated by the *Haut Conseil du Commissariat aux Comptes*.

## **11. Interest of Persons involved in the Issue**

Save as disclosed in "Subscription and Sale" above, no person involved in the offer of the Notes has an interest material to the offer.

## **THE ISSUER**

**BNP Paribas**  
16, boulevard des Italiens  
75009 Paris  
France

## **LEAD MANAGER AND SOLE BOOKRUNNER**

**BNP Paribas UK Limited**  
10 Harewood Avenue  
London NW1 6AA  
United Kingdom

## **STRUCTURING ADVISOR**

**BNP Paribas**  
16, boulevard des Italiens  
75009 Paris  
France

## **LEGAL ADVISORS TO THE MANAGERS**

**Cleary Gottlieb Steen & Hamilton LLP**  
12, rue de Tilsitt  
75008 Paris  
France

## **FISCAL AGENT, PRINCIPAL PAYING AGENT AND CALCULATION AGENT**

**BNP Paribas Securities Services**  
Immeuble Tolbiac  
25 quai Panhard Levassor  
75450 Paris Cedex 09  
France

## **LUXEMBOURG PAYING AGENT**

**BNP Paribas Securities Services, Luxembourg Branch**  
23, avenue de la Porte-Neuve  
2085 Luxembourg  
Grand Duché de Luxembourg

## **LUXEMBOURG LISTING AGENT**

**BNP Paribas Securities Services, Luxembourg Branch**  
23, avenue de la Porte-Neuve  
2085 Luxembourg  
Grand Duché de Luxembourg

## **AUDITORS TO THE ISSUER**

**Barbier Frinault & Autres**  
Ernst & Young  
41, rue Ybry  
92576 Neuilly-sur-Seine  
France

**PricewaterhouseCoopers Audit**  
63, rue de Villiers  
92200 Neuilly-sur-Seine  
France

**Mazars & Guérard**  
Mazars  
Le Vinci – 4, allée de l'Arche  
92075 Paris la Défense  
France

