



BNP PARIBAS

A POWERFUL

Birth of a European leader...

The BNP Paribas merger represents a milestone in the history of European banking. Thanks to its critical mass and extensive portfolio of businesses, BNP Paribas is taking part in the consolidation of Europe's banking industry from a position of strength.

BNP Paribas is the leading banking Group quoted in France. It is ranked number 1 in France in terms of earnings and number 4 in Europe in terms of stockholders' equity. It represents the second largest market capitalization in Euroland.

... with global reach

BNP Paribas has one of the world's largest international networks, extending across 83 countries, with hubs in seven leading financial centers. Thanks to the excellent strategic fit represented by its commercial and financial businesses, BNP Paribas is a major player in retail banking, investment banking, international private banking and asset management. Eighty of the world's top 100 groups have chosen BNP Paribas as their banker.

A unique product and service offering in France

BNP Paribas' unrivalled Domestic Retail Banking offering for corporate and private clients extends from asset management services to consumer loans, and from lease financing to real estate. BNP Paribas' share of the French personal banking market stands at 10%.



INTERNATIONAL BANK

The Bank has proven innovation capabilities and genuine expertise in new technologies and new distribution channels. BNP Net, Cortal and Banque Directe are at the forefront of the French *e-banking* market, with over 250,000 on-line clients.

A powerful platform to drive growth and create value

With stockholders' equity of EUR 20 billion, the new Group has the resources to take up all opportunities arising from the launch of the euro and the emergence of a European financial services market. BNP Paribas intends to actively pursue its development, in order to become European leader in all of its business lines, while holding firm to its strategic commitment to building earnings and creating stockholder value.



KEY FIGURES

(in millions of euros)

BUSINESS	1999	1998 ⁽³⁾
Total assets	698,625	611,997
Customer deposits	149,003	139,240
Customer loans (gross)	223,268	205,724
Common stockholders' equity⁽¹⁾	19,789	na
Combined tier 1 and 2 capital ratio⁽²⁾	10.1%	na
Tier 1 capital ratio ⁽²⁾	7.1%	na

BNP long-term debt ratings

(as of 31 December 1999)

Moody's	Aa3
Standard & Poor's	A+
FITCH IBCA	AA-

These ratings were confirmed after the monitoring period decided at the time of the public tender offers.

(1) Before income appropriation.

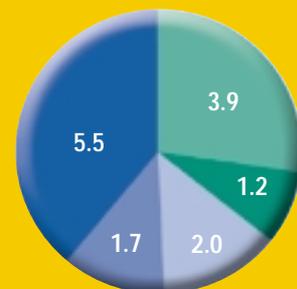
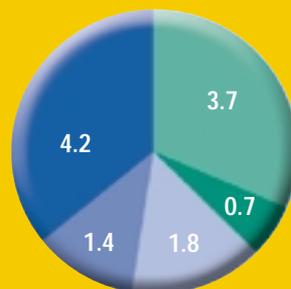
(2) Before deduction from stockholders' equity of the maximum amount potentially payable on the CVRs in 2002. After deducting this potential amount, the combined ratio is 9.6% and the Tier 1 ratio is 6.6%.

(3) BNP Paribas pro forma figures.

Net banking income

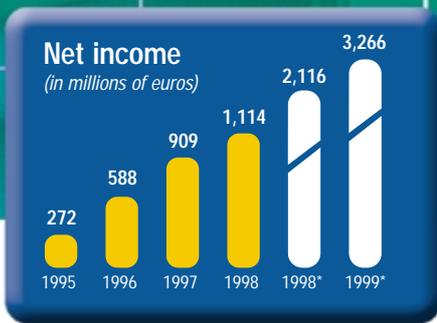
(in billions of euros)

- Domestic Retail Banking
- International Retail Banking
- Specialized Financial Services
- Private Banking, Asset Management, Insurance
- Corporate and Investment Banking



Number of employees 77,000

	1999
France	49,000
International	28,000



(*) BNP Paribas Group pro forma net income before restructuring provisions.



(*) Before restructuring provisions.



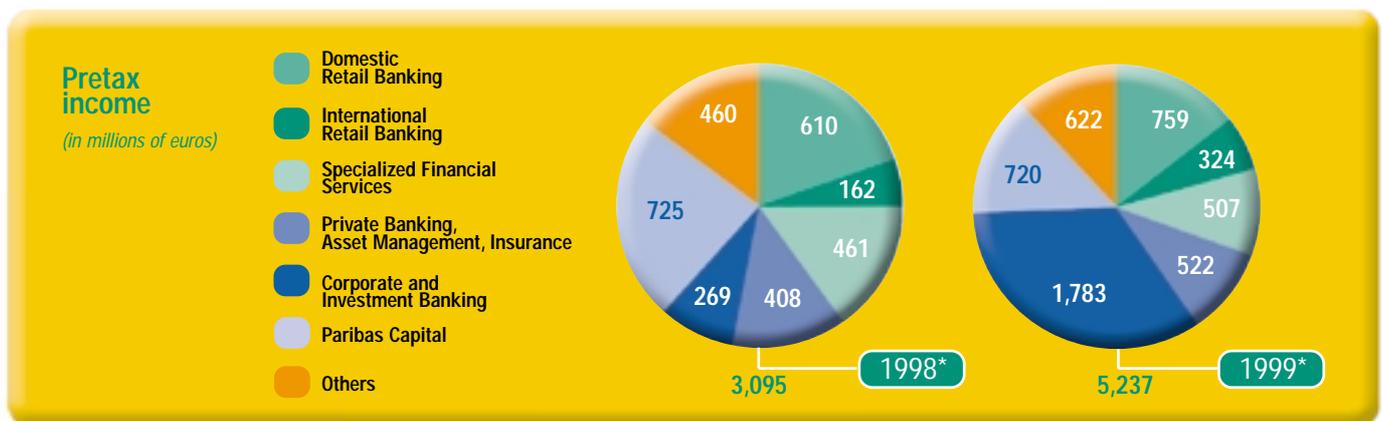
(*) Before restructuring provisions.

Earnings (in millions of euros)	1999 ⁽²⁾	1998 ⁽²⁾
Net banking income	14,339	11,814
Gross operating income	4,790	3,311
Net income before tax ⁽¹⁾	5,237	3,095
Consolidated net income ⁽¹⁾	3,578	2,313
Net income attributable to the Group⁽¹⁾	3,266	2,116



(1) Before restructuring allowances of EUR 400 million in 1998 and EUR 651 million in 1999 (including the costs incurred by Paribas in connection with the SG-Paribas project and a EUR 6 million reversal corresponding to the adjustment made to the former SG-Paribas restructuring allowance to reflect the estimated costs associated with the BNP Paribas project).

(2) Groupe BNP Paribas pro forma.



(*) BNP Paribas Group pro forma results, before restructuring provisions.



INTERVIEW with Michel Pébereau



You are now six months into the marriage between BNP and Paribas. What are the benefits to date?

By joining forces, we have created one of the top ranking European banks, in terms of both net assets and earnings. The strategic fit between BNP and Paribas is even better than we expected. This is true not only of our respective businesses but also of our geographic presence.

What are your feelings when you look back on the tender offers launched on 9 March 1999?

The fact that we were able to make the offers and attract such a favorable response from investors testifies to the outstanding advances made by BNP since its privatization in 1993, thanks to the commitment of our teams to fulfilling our long-term goals. In the space of six years, we succeeded—alone—in raising our return on equity from 2.2% to 18.5%. We also spent this period extensively modernizing and reshaping our organization. These achievements meant that we could legitimately launch such a bold and pioneering initiative.

Admittedly, the authorities finally decided that we couldn't keep the Société Générale shares tendered to the offer and we were unable to carry through the planned three-way merger which would have offered the greatest scope for creating value. Even so, with BNP Paribas, we have embarked on the largest restructuring operation ever seen in the French banking industry. The expanded Group has substantial potential for growth that will benefit not only of our shareholders but also our clients and our staff.

In corporate and investment banking, the merger has created a European leader with global reach, present in over 80 countries and on all of the world's major capital markets. We have already started leveraging this position, which has allowed us to play a key role in a large number of mergers and acquisitions since the beginning of the year, including several that have hit the headlines, such as the Mannesmann-Vodafone, Lafarge-Blue Circle, and Pacific Century Cyberworks-Hong Kong Telecom deals.

BNP Paribas is a global leader in international private banking and a European leader in asset management. The combined strengths of BNP and Paribas make it a key player in the French retail banking segment, with market shares of over 10% in consumer lending, corporate lending and savings management. It is also one of the top ranking providers of specialist financial services in Europe.

The BNP and Paribas brands also represent a good strategic fit in terms of visibility. BNP is very well known in continental Europe and Asia, while Paribas has a very high profile in the United Kingdom and the United States. BNP has a strong image among the public as a modern bank that can be relied on, while Paribas' hallmark is service quality, especially among clients that require a personalized service. Surveys conducted among our clients have confirmed that in a banking industry seen as being slow to adapt to change, adoption of the BNP Paribas brand is viewed as a welcome sign of new things to come. The BNP Paribas logo, linking the two names, will be particularly effective in maximizing the benefits of the two banks' images in different client segments.

What are your current goals?

We have set profitability targets in our business plan and we also have ambitious development goals, backed by the resources needed to fulfil them in each of our businesses. In retail banking, we aim to become a major player not only in Europe, where we already hold a leading position in consumer lending, but also in those regions of the world that offer significant opportunities or where we are already firmly established, such as the West Coast of the United States, Africa and the Middle East. In the other business segments, we intend to become a European bank with global reach. We intend to build the business by seizing opportunities and leveraging our leadership positions in corporate and investment banking, international private banking and asset management.

We have the recurring income, the capital base, the technical expertise and the international presence needed to meet these goals. And our teams throughout the world are committed to fulfilling our ambitions. We have considerable potential to increase our return on equity and create value in the medium-term.

Do you have the financial resources needed to fulfil these ambitions?

Our pro forma net income before restructuring costs topped EUR 3 billion in 1999 and we had over EUR 7 billion worth of unrealized gains in our equity portfolios at the end of the year. We have one of the largest market capitalizations in the euro zone, making us a preferred partner in the ongoing restructuring of the banking industry. In our business plan, we have earmarked EUR 3 billion for external growth projects between 2000 and 2002, in addition to the several billions of euros that will be invested in organic growth.

Looking behind your bottom line, what were the headline figures for 1999?

All in all, we had an excellent year. Our teams succeeded in reaping the full benefits of an extremely favorable environment. BNP Paribas' pro forma net banking income—determined by combining the results of the two banks—rose by 21.4% to EUR 14.3 billion and gross operating income surged by 44.7%, to EUR 4.8 billion. What pleases me the most is that all of our businesses contributed to the growth in gross operating income. In other words, both BNP and Paribas improved their fundamentals. With pro forma net income before restructuring costs of EUR 3.27 billion, we are the most profitable banking Group in France and one of the most profitable in Europe, ahead of our main Spanish, Italian and German competitors. Our return on capital employed, before restructuring costs, stands at 17.1%. After deducting restructuring costs, our net income amounts to a very healthy EUR 2.62 billion. And with nearly EUR 20 billion worth of shareholders' equity and a good level of allowances, we have strong foundations.

How is the integration process going?

We launched the integration process very quickly and it is going ahead on schedule, in line with the budgets and without any hiccups. We are ready to carry out the legal mergers in all areas, as soon as we receive the go-ahead from our shareholders at the Annual General Meeting in May. Management positions have been allocated, teams have been integrated, IT choices have been made and policies have been agreed in the areas of risk management and branding. The 450 workgroups that we set up to manage the integration process have carried out projects in each business segment, confirming the expected synergies in terms of both revenues (120 projects) and costs (830 projects). We now have a new goal—to exceed the targets set in the business plan drawn up in the fall of 1999.



with Michel Pébureau

There are nevertheless significant cultural differences between your two banks...

On the contrary, our basic values are the same. The culture at BNP like that at Paribas is based on strong traditions and innovation capabilities that are among the best in Europe. The men and women working at all levels in the BNP Paribas organization share the same love of business, the same dedication to excellence and the same steadfast commitment to enhancing our Group's profitability and creating value.

The differences that do exist tend to be between business lines rather than between the two legacy banks. There are more factors uniting traders from BNP with traders from Paribas than there are factors that separate them. And where there are real differences in approach, we view them as an opportunity to challenge traditional ways of working and adopt the best practice.

It would be foolish not to recognize that a merger needs to be handled carefully from a human standpoint, but I am pleased to say that the brain drain which has been a recurring feature of previous mergers between investment banks has been extremely limited in the case of BNP Paribas.

Looking ahead, we have established detailed natural attrition forecasts and have been able to confirm our commitment to carrying through the operational merger without having to lay off any employees in France. Around 2,500 employees are due to leave the Group in each of the next three years, representing roughly the same number as in 1999. Over the same period, we plan to eliminate 1,700 jobs per year. We will therefore be conducting an active recruitment policy, primarily targeting young persons.

The development of the Internet is having an impact in all sectors of the economy...

What are the consequences for the banking industry?

For the banking industry, more than any other business sector, the advent of the Internet represents a revolutionary development. For many businesses, the web represents a means of contacting potential clients and leads directly to an order which then has to be delivered. In the financial services sector, the entire process can happen on line, from the initial contact with clients, to ordering and delivery of the product or service. In other words, the Internet is transforming the way we do business, radically modifying our relations with online clients and reshaping the competitive environment.

For these reasons, we viewed the Internet from the outset as a fantastic opportunity. To seize it now, we need stepped-up reactivity. This has meant radically changing our management methods to implement fast-track structures and decision-making processes. We have adopted a whole new culture. And we have also needed to bring in new talent, with obvious implications for our recruitment and compensation policies.

We have redefined the strategies of all our business lines, giving priority to uses of the Internet that allow us to serve clients more effectively, and we are also moving up a gear in our investment and partnership policies. The Internet has a direct impact on Corporate and Investment Banking, Private Banking and Asset Management and Retail Banking and therefore forms an integral part of our entire strategy.

BNP and Paribas both correctly foresaw the huge impact that the web would have on our society and our lifestyles. They acted as forerunners in setting up intranets and in launching new business-to-business and business-to-consumer projects. Drawing on an innovative use of technology and powerful information





systems, the Group has become the leading French player in e-finance. We are committed to staying ahead of our competitors by constantly upgrading our offerings. Our research teams in Products and Markets, in the IT Workshop and at Paribas Capital are genuine Internet specialists who closely track developments in this area and analyze how they will affect our business.

In concrete terms, what are your policies and what do you have in the way of resources to implement them?

In Retail Banking and Specialized Financial Services, we already have several leading brands. BNP Net is the online bank for BNP clients. It is the ideal bank for families that decide to bank on line. As of 20 March, 200,000 clients had signed up for this service, representing a market share of 30% in France. With 60,000 clients, including 16,000 regular online users, Banque Directe is the only entirely virtual bank in France. It is targeted at those clients who are interested in conducting all of their banking transactions from the comfort of their home or office. We are also by far the leading player in the French online brokerage services market with e-Cortal, which had 56,000 online accounts as of March 2000, representing a market share of 40%. Lastly, Cetelem granted more than FRF 100 million worth of loans online last year and its web services are expanding at the rate of 1,500 new loans per month.

We also moved ahead of the online revolution in retail banking, by launching a EUR 230 million Multichannel Retail Banking project back in June 1998. To date, we have spent EUR 50 million on this project and plan to start rolling out multi-channel services as from the second half of 2001. By interconnecting all our distribution networks, we will allow clients to obtain up-to-date information in real time whatever the method they choose to access our services.

We are also very active in the field of e-commerce. BNP already provides transaction processing and security services for 300 e-commerce sites. Our services range from the Mercanet secure payment service to full management of all e-commerce transactions through our Télécommerce partnership with France Télécom. We are also participating actively in Cyber-comm, the secure online payment solution using smart cards. The IT Workshop set up to monitor technological developments, has set up an e-commerce portal. We are also playing a pioneering role in e-procurement or Internet-based purchasing services. Lastly, in Investment Banking, we have set up web-based services for primary equity and bond issues.

This being said, the fact that we are keeping pace with the Internet revolution does not mean that we are sacrificing everything to the web. Only 11% of the French population and 25% of people in management positions say that they are ready for an all-Internet bank, meaning that nine French people out of ten and three in four managers prefer to conduct all or some of their banking transactions using more traditional methods. Our strategy consists of offering a range of banking and financial services that best meets the needs of different client Groups and evolves as their needs change.

Alongside these technological advances, we will keep up the necessarily unending quest to improve the way we treat and serve our clients. Despite the Internet revolution, nine French people out of ten want to continue to be able to call in at their local bank. At BNP Paribas, we are aware that direct human contact is irreplaceable at certain times in life and we are committed to offering our clients the service that they need. ■



BNP PARIBAS WORLDWIDE

The new Group owes its critical mass to the excellent strategic fit of the BNP and Paribas units in the leading financial centers.



North America

CANADA
UNITED STATES

South America

ARGENTINA	MEXICO
BAHAMAS	PANAMA
BRAZIL	PERU
CAYMAN ISLANDS	URUGUAY
CHILE	VENEZUELA
COLOMBIA	
COSTA RICA	



French Overseas Territories

GUADELOUPE	NEW CALEDONIA
GUYANA	REUNION
MARTINIQUE	WALLIS AND FUTUNA



 **Europe**

AUSTRIA
BELGIUM
BULGARIA
CROATIA
CYPRUS
CZECH REPUBLIC

GERMANY
GREECE
GUERNSEY
HUNGARY
IRELAND
ITALY
JERSEY
LUXEMBOURG
NETHERLANDS
NORWAY
OUZBEKISTAN
POLAND
PORTUGAL

ROMANIA
RUSSIA
SLOVAKIA
SPAIN
SWITZERLAND
TURKEY
UKRAINE
UNITED KINGDOM

 **Asia**

CHINA
HONG KONG
KOREA
INDIA
INDONESIA
JAPAN
MACAO
MALAYSIA
MYANMAR
PHILIPPINES
SINGAPORE
TAIWAN
THAILAND
VIETNAM

**Middle East**

BAHRAIN
EGYPT
IRAN
ISRAEL
LEBANON
OMAN
QATAR
UNITED ARAB EMIRATES

 **Oceania**

AUSTRALIA
NEW ZEALAND

**Africa**

ALGERIA
ANGOLA
BURKINA FASO
COMOROS
DJIBOUTI
GABON

GUINEA
IVORY COAST
MADAGASCAR
MALI
MAURITIUS
MOROCCO

NAMIBIA
SENEGAL
SOUTH AFRICA
TOGO
TUNISIA
ZIMBABWE

**Implemented in
83 countries**



BNP PARIBAS EXECUTIVE COMMITTEE



Michel PÉBEREAU
Chairman of the Board
and CEO



Baudouin PROT
Director and
Chief Operating
Officer



Dominique HOENN
Chief Operating Officer



Philippe BLAVIER
Corporate and Investment
Banking



**Georges CHODRON
de COURCEL**
Corporate and Investment
Banking



Vivien LÉVY-GARBOUA
Private Banking,
Asset Management,
Securities Services,
Insurance, and Real Estate



Jean CLAMON
Finance and Control



Bernard LEMÉE
Human Resources



Alain MOYNOT
Domestic Retail
Banking



Michel FRANÇOIS-PONCET
Chairman of the Supervisory Board,
Paribas, attends meetings
of the Committee



Bernard MÜLLER
Specialized Financial
Services



Laurent TRÉCA
Rapporteur of
the BNP Paribas
Committee



Amaury-Daniel de SEZE
Paribas Capital



BNP BOARD OF DIRECTORS

AS OF 7 MARCH 2000 (BANQUE NATIONALE DE PARIS)

Michel PÉBEREAU Chairman and Chief Executive Officer
58, re-elected for 6 years on 22 May 1997
Holder of 55,003 shares

DIRECTORS

Patrick AUGUSTE
Executive, BNP
48, elected for 6 years on 6 March 2000

Jean-Louis BEFFA
Chairman and CEO,
Saint-Gobain
57, elected for 6 years on 22 May 1997
Holder of 9,393 shares

Jacques DELAGE
BNP employee
54, elected for 6 years on 28 February 2000

Jacques FRIEDMANN
Chairman of the Supervisory
Board, AXA
67, re-elected for 6 years on 4 May 1999
Holder of 2,471 shares

François GRAPPOTTE
Chairman and CEO,
Legrand
63, elected for 6 years on 4 May 1999
Holder of 337 shares

Philippe JAFFRÉ
Company director
55, elected for 6 years on 22 May 1997
Holder of 400 shares

Alain JOLY
Chairman and CEO,
L'Air Liquide
61, elected for 6 years on 22 May 1997
Holder of 2,076 shares

Yves-Marie JOUBERT
BNP employee
55, elected for 6 years on 28 February 2000

Jean-Marie MESSIER
Chairman and CEO,
Vivendi
43, elected for 6 years on 4 May 1999
Holder of 200 shares

Lindsay OWEN-JONES
Chairman and CEO,
L'Oréal
54, elected for 6 years on 13 May 1998
Holder of 1,000 shares

David PEAKE
Chairman BNP-UK Holdings
Limited
65, elected for 6 years on 13 May 1998
Holder of 375 shares

Louis SCHWEITZER
Chairman and CEO,
Renault
57, elected for 6 years on 13 May 1998
Holder of 1,400 shares

René THOMAS
Honorary Chairman
71, re-elected for 6 years
on 4 May 1999
Holder of 3,264 shares

Jacques Henri WAHL *
Advisor to the Chairman
68, re-elected for 6 years on 4 May 1999
Holder of 4,141 shares

Bernhard WALTER
Member of the Board of Managing
Directors Dresdner Bank
58, re-elected for 6 years on 4 May 1999
Holder of 10 shares

*** Baudouin PROT,**
Chief Operating Officer
was appointed as director on 7 March 1999
to replace Jacques Henri Wahl.





MEMBERS OF THE BANQUE NATIONALE DE PARIS GENERAL MANAGEMENT COMMITTEE

Michel PÉBEREAU

Chairman of the Board and CEO

Baudouin PROT

President and Chief Operating Officer

Georges CHODRON

de COURCEL

Group Executive Vice-President

Vivien LÉVY-GARBOUA

Group Executive Vice-President

Christian AUBIN

Advisor to the Chairman

Jacques Henri WAHL

Advisor to the Chairman

Bernard LEMÉE

Senior Executive
Vice-President Domestic Network

Alain MOYNOT

Senior Executive
Vice-President Domestic Network

Philippe BORDENAVE

Chief Financial Officer

Jacques DESPONTS

Executive Vice-President,
International Trade Finance

Hervé GOUEZEL

Executive Vice President,
Organization and Information Systems

Michel KONCZATY

Executive Vice-President,
Structured Finance

Marc LAVERGNE

Executive Vice-President,
Management Audit and Inspection

Pierre MARIANI

Chairman of the Management Board
of Banexi

Yves MARTRENCHAR

Executive Vice-President,
Products and Markets

Chantal MAZZACURATI

Executive Vice-President, Equities

Michel PASSANT

Executive Vice-President,
Operational and Technical Support

Ervin ROSENBERG

Executive Vice-President,
Large Corporations and Institutions

Édouard SAUTTER

Executive Vice-President,
Risk Policy and Industry Research

Jean THOMAZEAU

Executive Vice-President, Risks
(International Banking and Finance)

Laurent TRÉCA

Executive Vice-President,
Business Development

Committee Secretary:
Head of Corporate Communications
Antoine SIRE



CORPORATE GOVERNANCE



BNP is one of France's precursors in the field of corporate governance:

Having made the necessary change in its organization and procedures even before the recommendations of the CNPF-AFEP and MEDEF-AFEP committees were made public in July 1995 and July 1999. Since that time, the Bank has unceasingly endeavored to adapt and to improve its organization in order to take into account the rapid changes in international standards as appropriate. These efforts earned BNP the Deminor award as the best CAC 40 company in terms of respecting stockholders' rights.

The **Board of Directors** is made up of sixteen members appointed for six-year terms. The Board met fourteen times in 1999. Membership reflects a wide range of complementary expertise in banking and non-banking business, in France and abroad*:

➤ two directors, Michel Pébereau and Jacques Henri Wahl, are members of BNP's General Management Committee;

➤ eleven are non-executive directors: *Jean-Louis Beffa, Jacques Friedmann, François Grappotte, Philippe Jaffré, Alain Joly, Jean-Marie Messier, Lindsay Owen-Jones, David Peake, Louis Schweitzer, René Thomas and Bernhard Walter*. René Thomas, Honorary Chairman, is specifically in charge of representing the interests of small shareholders;

➤ three directors represent BNP employees: *Patrick Auguste, Jean-Marie Gianno and Philippe Mussot*.

The French government has announced its intention to introduce corporate governance legislation. The Board of Directors of BNP Paribas will discuss the implications of this legislation and will submit any necessary amendments to the bylaws to stockholders for approval, once the final terms of the law are known.

(*) *David Peake is also non-executive Chairman of BNP UK Holdings Ltd. René Thomas has not held any executive position in the BNP Group since 1993. The names of independent directors-within the meaning of the Medef-Afep report-are shown in italics. BNP considers that directors elected to represent employees are independent due to the method by which they are elected and their status.*



In 1997, the Board adopted a **Directors' Charter** stipulating the directors' rights, responsibilities and obligations, the system used to apportion directors' fees, and the number of BNP shares each director should hold. The Board of Directors has reviewed the principles underlying its decision-making processes and the choice of candidates for election as directors. The Board has determined that its members have the skills and experience required to provide the necessary stewardship of a Group the size of BNP Paribas and has noted that the array of skills and experience has been further enhanced with the election of new members. The Board has further determined that its composition complies with Medef-Afep Committee recommendations concerning the proportion of independent directors. In addition, the Board's organization and decision-making processes, as well as the frequency of meetings, the quality and quantity of documents distributed to directors before and during meetings and the practice of inviting external experts and other qualified persons to attend meetings as and when required, ensure that the Board is in a position to efficiently and effectively service the interests of all of the Group's shareholders. This was the case, in particular, during the exceptional developments of 1999.

During the public exchange offers, the Board was systematically kept up to date on the progress of the offers. It met ten times during this period. Appropriate measures were taken to ensure that any directors who were unable to attend a meeting were given full information and could express an opinion based on a full knowledge of the facts. In accordance with the recommendations published by the Medef-Afep Committee in July 1999, the Board has decided to recommend to stockholders at the next General Meeting that all new directors should be elected for a three-year term.

In 1994, BNP created **Special Board Committees** chaired by non-executive directors. As of 1977, executive directors are no longer members of these committees, but they and the leading members of their teams attend meetings whenever necessary. This arrangement goes beyond the recommendations of CRB Regulation 97-02 on Internal Controls and the Medef-Afep Committee recommendations published in July 1999.

The Board discussed the organization and operations of the three specialist committees—the Financial Statements Committee, the Internal Control and Risk Management Committee and the Compensation and Nominations Committee—based on reports submitted by the committees' chairmen. It noted that since 1997, no executive directors were members of these committees and that Medef-Afep recommendations concerning the minimum proportion of independent directors had been complied with prior to their publication.

Special Board Committees



The six-member **Financial Statements Committee** is chaired by Philippe Jaffré. In 1999, its members were Patrick Auguste, Jean-Marie Messier, Lindsay Owen-Jones, David Peake and René Thomas, all of whom are independent directors. The key role of the Committee is to verify that appropriate accounting methods are used to prepare the financial statements of the Bank and the Group, that these methods are applied consistently from one period to the next, and that adequate internal financial reporting and control procedures exist to ensure that accounting methods are properly applied. The Committee also examined the financial statements and the financial and accounting information produced by the Group. Now that quarterly results are published, the Committee meets more frequently. In 1999, five meetings were held. This Committee examined growth of banking income and gross operating income by division, the consequences of the BancWest Holding/First Hawaiian Bank merger, the accounting treatment of capital markets transactions, and risk management procedures and tools. It also reviewed accounting issues related to the merger between BNP and Paribas, including the restructuring provision and consolidation methods. The Committee was not required to make any recommendations concerning the adoption of a new accounting framework due to the current uncertainty surrounding the advancement of French and international accounting rules. In March 2000, the Committee launched a process to select the new Group's auditors from among the firms that audited the financial statements of the BNP and Paribas Groups. The appointment of the selected firms will be proposed at the Annual Stockholders' Meeting.

The **Internal Control and Risk Management Committee**, which meets at least twice a year, has six members. In 1999, the members were Jacques Friedmann, Chairman, Jean-Marie Gianni, François Grappotte, Philippe Mussot, Louis Schweitzer and René Thomas. The Committee's purview extends to all BNP-specific or regulatory internal control procedures, as well as the main orientations of the Group's lending policy based on risk and profitability indicators.

The Committee met four times in 1999, to review the annual report on internal controls, which BNP prepared in accordance with regulations, profitability of loans originated in the domestic banking activities and status reports on the year 2000-compliance project. The Committee also examined the Bank's lending policy, particularly to sensitive business sectors and regions, as well as the results of Commission Bancaire audits on the Bank's management of risks associated with loans to small and medium-sized businesses as well as country risks. It noted the importance for the quality of the Bank's internal controls of the recently-obtained ISO 9001 certification.



The **Compensation and Nominations Committee** prepares the decisions of the Board on matters concerning the personal status of the members of the office of the Chairman, such as remuneration and stock options. It examines succession planning issues concerning the members of the office of the Chairman, and prepares proposals for appointing new directors. It is chaired by Alain Joly, and its members are Jean-Louis Beffa, and Philippe Jaffré. It met twice in 1999 and reported its conclusions to the Board of Directors, which approved the committee's proposals.

BNP is managed by a number of committees:

● In 1999 and in the period to March 2000, the **BNP General Management Committee**, which had twenty-three members as of 31 December 1999, met once a week and periodically held seminars to prepare strategic decisions and to decide on the main management orientations. Its work was prepared in a select committee. In September 1999, a BNP Paribas Committee was set up to coordinate the operational merger and the activities of the two banks during the transition period.

● In March 2000, five new management bodies were set up, reporting directly to the BNP Paribas Executive Committee. They include the Corporate and Investment Banking Committee, the Retail Banking Committee, the Specialized Financial Services Committee, the Private Banking–Asset Management–Securities Services Committee and the Corporate Functions Committee. A separate committee is responsible for risk policies.

● **Determination of executive compensation**

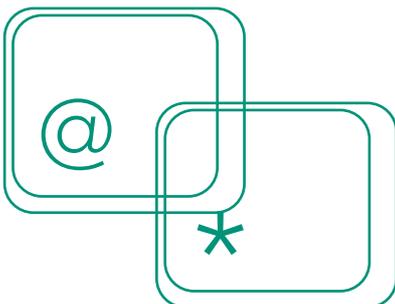
The compensation paid to members of the Group General Management Committee includes a fixed salary reflecting the nature and importance of their responsibilities and a variable performance-related bonus.

Their performance is assessed based on annual objectives related to their contribution to the fulfillment of the Group's business plan targets, using detailed and measurable profitability or productivity indicators. Account is also taken of an overall assessment of the individual's performance in applying Group management principles.

Variable bonuses awarded to members of the office of the Chairman are calculated using a multi-criteria formula based on the level of fulfillment of the Group's profitability targets.

● **General principles governing the determination of the fixed and variable components of compensation**

The fixed component of employees' compensation is determined by reference to market rates and each individual's responsibilities within the Group. The variable component is determined by applying rules that vary depending on the type of job performed:





🌟 The variable compensation of employees working in Corporate Functions or the Retail Banking division is determined based on their personal performance assessment, which in turn is based on criteria that differ depending on the type of job performed. Sales staff are paid variable compensation determined according to criteria defined each year, which are linked closely to the network development plan objectives.

🌟 In the Corporate and Investment Banking division, bonuses are determined by reference to the ultimate profitability of the businesses and trading desks, as well as each individual's performance, in order to retain the best talents in France and worldwide..

The **Management Charter**: a new version of the reference document setting out BNP's management principles was distributed in 1997. It reiterates BNP's strategic aim of achieving profitable growth. It serves as a guideline to encourage executives to add personal value and exercise their collective responsibility in such a manner as to make an effective contribution to the Bank's performance.

Ethics and compliance: BNP reinforced its ethical organization in 1999 and assigned additional staff to compliance monitoring, not only in France but also in foreign units. Headed by Jacques Henri Wahl, Advisor to the Chairman and Chief Executive Officer and the Group's Compliance Officer, the "ethics-compliance" team continued to monitor compliance with the rules and guidelines issued by the regulatory authorities.

In France, their work focused on:

- controls over investment services, as defined in the general rules of the Conseil des Marchés Financiers, including all third party asset management activities;
- defining and monitoring compliance with the ethical obligations of members of staff with access to sensitive and hyper-sensitive information and staff with regular access to inside information;

- actively participating in measures to prevent the laundering of profits from criminal transactions. Front-line responsibility for the prevention of money laundering lies with the head of Internal Control. Controls in this area will be extended to include the prevention of corruption, in accordance with the provisions of an international convention to which France is a party.

The formation of BNP Paribas will provide an opportunity to set up an integrated ethics-compliance function drawing on best practices in each of the two banks. The ethics-compliance function will continue to report to Jacques Henri Wahl. The central team will include a corporate compliance officer, the compliance officers in the various divisions and the head of the compliance administration unit.

This central structure will be rounded out by the appointment of compliance officers in each line of business and at each geographic site. The aim of BNP Paribas is to continue to achieve exemplary standards of performance in this area.



The BNP PARIBAS merger, PRINCIPLES AND METHODOLOGY

BNP Paribas was faced with a considerable challenge, that of combining two separate organizations in order to create a global player with operations in 83 countries, 77,000 employees and a diversified range of products and services. To meet this challenge, it was important to act quickly, applying a precise and structured methodology.

The methodology was developed with the assistance of the Boston Consulting Group, an independent firm of consultants which is experienced in helping major companies to implement mergers. It is based on five clearly-defined principles, detailed organization of the merger process and a set timetable.

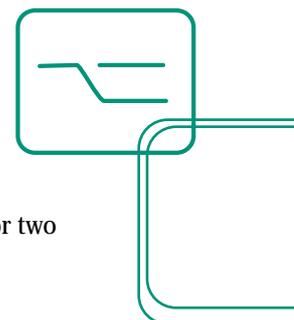
Five Key Principles

To promote the development of a new team spirit between BNP staff and those of Paribas, it was essential to treat the merger as an equal partnership.

This was achieved by establishing five basic principles: transparency, consultation, equity, balance and accountability.

Transparency was the guiding principle when it came to determining the methods to be used to appoint the various managers and informing each member of staff of the context in which he or she would be performing his or her work. The principle of **consultation** was applied primarily when determining the merger methodology, which was approved by the senior management of the two banks, and to secure the support of employee representatives for the creation of BNP Paribas from the outset. The principle of **equity** meant that the choices made in the area of human resources and in other areas were based on factual and impartial analyses. Overall **balance** was sought between the various Group entities, taking into account best practices and the complementary nature of the skills existing within the two organizations. Lastly, the senior executives chosen to head each division or staff function are **accountable** for the merger of activities in their specific area.

Six days, six weeks, six months...



Detailed Organization of the Merger Process

The merger process is being conducted under the direct supervision of the BNP Paribas Executive Committee, which has established the principles guiding its implementation.

Reporting to Baudoin Prot and Dominique Hoenn, who are acting on behalf of the Executive Committee, the merger project team is dedicated to managing the process, coordinating the various tasks and monitoring the achievement of financial and other objectives. It is responsible for ensuring that each phase in the project is completed on schedule. The lean central project team is backed by coordinators seconded to the divisions and staff departments, where they are responsible for helping staff and line management to successfully carry through the merger of their activities. This approach offers the advantage of securing the active involvement of management without taking up too much of their time, leaving them free to perform their normal management tasks and contribute to the success of the new Group.

Staff and line management are responsible for setting up task forces to define and steer the activities of several workgroups. A total of 35 task forces have been formed to supervise the activities of nearly 450 workgroups. These workgroups, most of which include both BNP and Paribas employees, are specialized in a specific business line or customer segment. They are organized by geographic location or function. To maximize synergistic benefits, certain joint

workgroups have been set up for two divisions or two staff departments.

The workgroups make recommendations concerning organizational issues or working methods designed to unleash synergies. A detailed methodology has been developed, whereby existing practices within each organization are systematically compared prior to any recommendations being made. These recommendations are translated into a concrete implementation plan which is validated by the management of the division or staff department, then by the BNP Paribas Executive Committee.

A Set Timetable

A set timetable has been drawn up for the merger based on the principle announced on 23 August 1999 of "six days, six weeks, six months". Six days to set up the management team, six weeks to launch the merger process at all levels of the organization and six months to launch the implementation phase. During this final phase, each workgroup was set hard and fast deadlines, which have been met:

- end January 2000: finalization of recommendations concerning organizational issues and synergies;
- end February 2000: determination of the impact of the merger on 2000 budgets;
- end March 2000: delivery of concrete implementation programs. The time required to implement the plans depends on the area and ranges from a few months for the simplest issues to 18 months to two years for the most technical issues, such as the merging of information systems.



HUMAN RESOURCES MANAGEMENT

Two major events in 1999 will have a profound impact on human resources management in the years to come:

- ▶ The introduction of the euro marked a decisive step in the assimilation of the European dimension in all of the Group's banking businesses. It has given powerful impetus to the new structure organized around worldwide business lines and functions. This type of structure was implemented from the beginning of the BNP Paribas merger and it should accelerate the pace of change in recruitment, training and career management.
- ▶ In France, a new collective bargaining agreement was signed that provides the banking industry with a modern framework that protects employees and is in line with business requirements, particularly where compensation is concerned.

Human resources management at BNP and at Paribas had been anticipating these changes for several years now and the specific events of 1999 did not result in any change in direction.

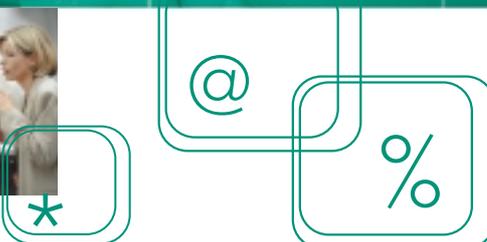
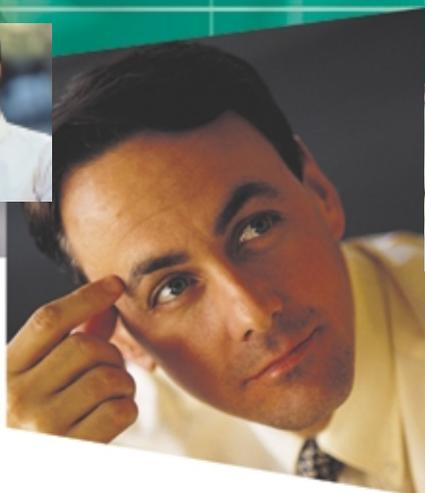
Thus, the BNP continued to reduce its support and back-office staff by the equivalent of 530 full-time employees. The reduction was purposely made slightly smaller than cuts made in prior years both to anticipate the impact of the shorter working week and to take account of business growth and the need to step up the renewal of the workforce age structure. More than 1,200 young people, most of whom hold university degrees, were recruited. In the same year, Paribas also recruited 410 young graduates.

In a similar fashion, BNP and Paribas continued their policy aimed at enhancing performance in 1999 by developing variable compensation packages and schemes to connect employees' pay to corporate performance.

Such changes will gather pace in 2000 and help BNP Paribas achieve its objectives in four key areas:

- ▶ *Staffing levels will be adjusted on an ongoing basis worldwide to adapt to technological developments and to the synergies arising from the merger.*





In France, the adjustment will be made in keeping with the commitment ruling out forced redundancies and in keeping with the provisions of the industry-wide agreement on the shorter working week concluded on 4 January 1999. In order to achieve this objective, all of the Group's entities in France will base their action on the methods that the BNP has used for the redeployment of more than 750 employees each year through forward workforce budgeting, training and job mobility measures.

In anticipation of a higher number of retirements starting in 2003 and 2004, BNP Paribas will continue to hire large numbers of highly qualified new recruits. All of the measures taken outside of France will comply with local regulations so that the reduction in staff keeps pace with the organizational reforms that the merger will bring.

 *Career and compensation management will be coherent.*

The international diversity of business lines and markets must be taken into account within the framework of a selective human resources policy in order to achieve this goal and enhance employee motivation. But the redeployment of resources must be organized within the Group and it will require the definition of management rules that are known, accepted and shared by all BNP Paribas entities.

 **A worldwide staff management**

 **A selective human resources policy**

 **More than 1,600 young people recruited in 1999**

 *New industrial relations rules will be adapted to the legal structures of BNP Paribas in France.*

The joint commission for consultation, information and oversight set up by an agreement between the companies at the start of the merger will be replaced in 2000 by new representative bodies that will become forums for timely and structured discussions. These bodies will deal with the issues relating to the gradual harmonization of the industrial relations rules currently in force.

 *The emergence of commonly shared values that can be turned into management principles will be promoted.*

This task will be facilitated by current discussions and planning work by the main operational managers in the Group. In addition to the 1,000 senior management employees designated as of February 1, 2000, all management personnel at BNP Paribas will be involved in this process in 2000 in order to mobilize employees around an ambitious business plan.