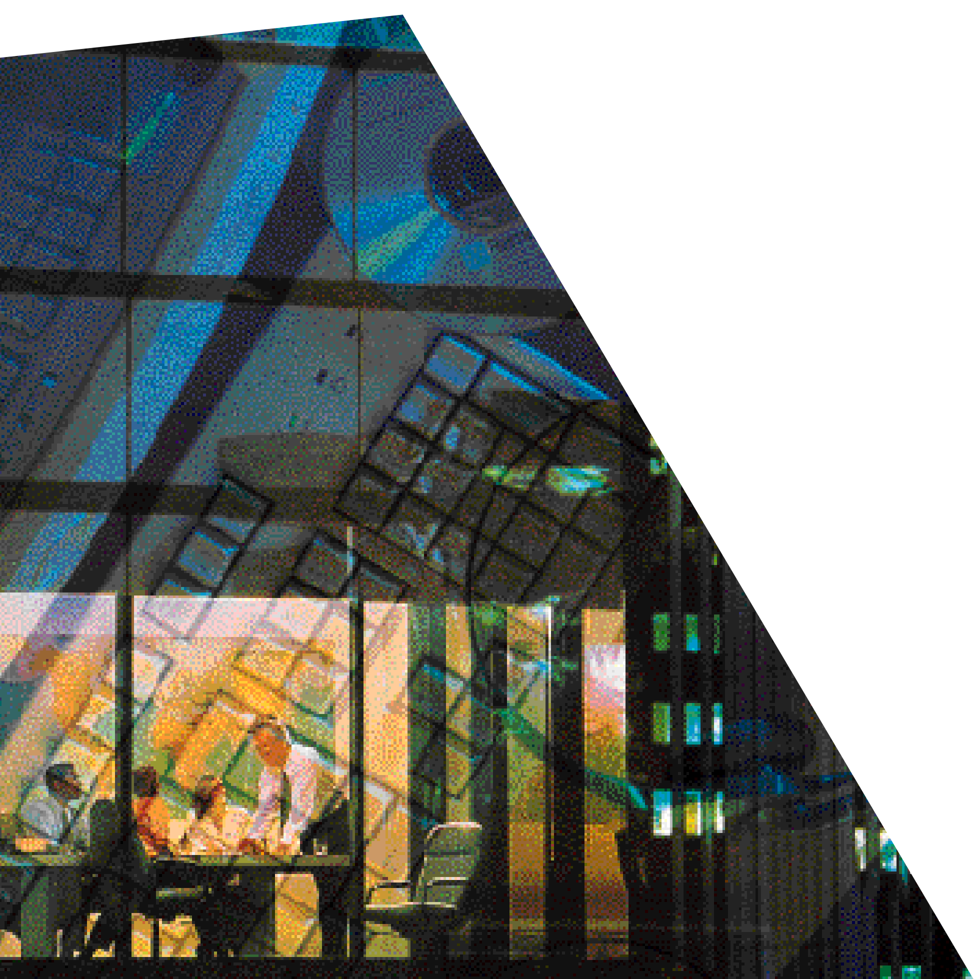
annual report BNP 1998



Contents

Profile of Banque Nationale de Paris

A benchmark Bank in France

A network of over 2,000 branches
34,000 employees
5.3 million individual customers
450,000 corporate customers
N₀.1 bank for small- and medium-sized companies in France; one out of three is a client
A leader in the areas of innovation and technology
Significant developments in bank-related services

Development of retail banking outside euro countries

BANCWEST:

213 branches in the US (West Coast and Hawaii)

BNPI:

Strong presence through more than 300 offices in Africa, the Middle-East and French overseas territories

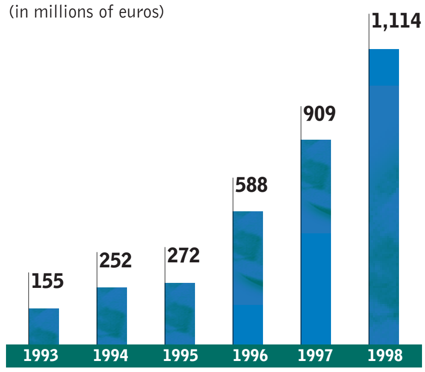
A major international Bank

Operations in more than 80 countries
Relationships with 89 of the 100 largest corporations worldwide

BNP's long-term debt ratings as of 31 December 1998:

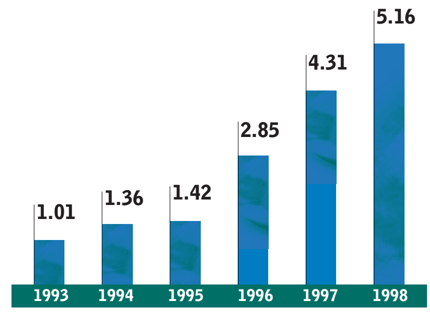
Moody's	:	**Aa3**
Standard and Poor's	:	**A+**
Fitch IBCA	:	**AA-**

Net income
(in millions of euros)



Net income attributable to the Group has increased sevenfold since privatization in 1993.

Earnings per share
(in euros)



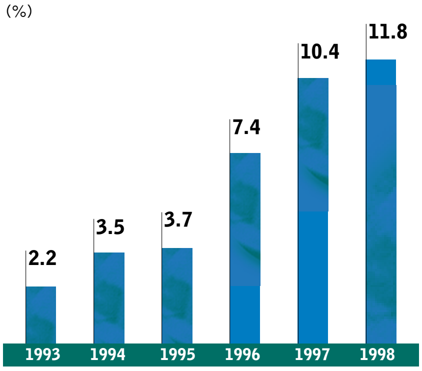
Earnings per share has increased fivefold since privatization.

BNP GROUP: Key figures in euros

	(in millions of French francs)					(in millions of euros)				
	1998	1997	1996	1995	1994	1998	1997	1996	1995	1994
Business										
Total assets	2,130,758	2,034,871	1,861,053	1,593,723	1,452,162	324,832	310,213	283,715	242,962	221,381
Customer deposits	773,799	717,741	683,049	578,062	523,238	117,965	109,419	97,270	88,125	79,767
Customer loans (gross)	1,013,563	929,522	834,067	786,215	771,106	154,516	141,705	127,153	119,858	117,554
Common stockholders' equity	65,115	59,040	55,552	48,642	48,160	9,926	9,001	8,469	7,415	7,342
Combined tier 1 and 2 capital ratio (1)	10.4%	9.9%	9.1%	9.1%	9.8%	10.4%	9.9%	9.1%	9.1%	9.8%
Tier 1 capital ratio	6.4%	5.9%	5.4%	5.5%	5.7%	6.4%	5.9%	5.4%	5.5%	5.7%
Earnings										
Net Banking income	48,315	44,066	39,502	37,708	39,311	7,366	6,718	6,022	5,749	5,993
Gross operating income	15,398	13,435	10,844	9,500	10,391	2,347	2,048	1,653	1,448	1,584
Efficiency ratio	68.1%	69.5%	72.5%	74.8%	73.6%	68.1%	69.5%	72.5%	74.8%	73.6%
Consolidated net income	7,657	6,219	4,129	1,925	1,761	1,167	948	630	293	268
Net income attributable to the Group	7,309	5,962	3,856	1,784	1,656	1,114	909	588	272	252
Employment	56,286 (2)	52,420	52,762	53,600	54,469					
Number of offices	2,725	2,645	2,585	2,575	2,511					
Stock market information	(in French francs)					(in euros)				
Earnings per share	33.86	28.26	18.69	9.31	8.95	5.16	4.31	2.85	1.42	1.36
Dividend per share	9.84	7.00	5.40	3.60	3.20	1.50	1.07	0.82	0.55	0.49
Share price at 31 December	460.20	319.9	200.8	220.9	245.5	70.16	48.77	30.61	33.68	37.43

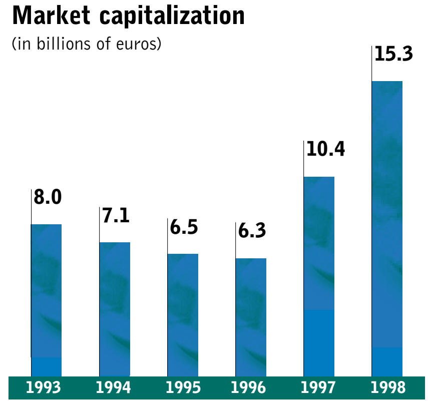
(1) New Cooke in 1998.
(2) The increase in 1998 is due principally to the integration of First Hawaiian Bank (3,170 employees).

Return on equity
(%)



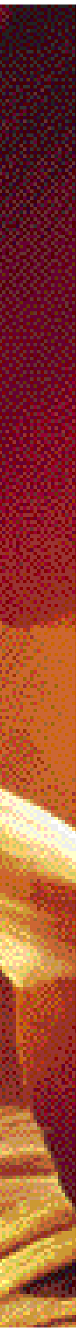
Return on equity has increased fivefold since privatization

Market capitalization
(in billions of euros)



Market capitalization has doubled since privatization.

interview



The 1998 profit figure you have just published is the highest ever achieved by a listed French Bank, and ahead of the target you set at the time of privatization. To what do you attribute this record figure?
Nineteen ninety-eight was indeed a very good year for BNP. The Company again outstripped its targets, both in terms of profit and return on equity, which was 11.8%. Our staff can be proud of these results, especially because the environment was very tough for some of our activities.

Net banking income was up 9.6% at EUR 7.37 billion. After a 7.5% increase in operating expense, gross operating income was EUR 2.35 billion, a rise of 14.6%. The cost/income ratio was 68.1%, against 69.5% in 1997.

Net additions to allowances for credit risks and country risks were EUR 1,203 million, 16% higher than in 1997. Net gains on disposals of long-term investments were up 31.8% at EUR 478 million. Consolidated income before taxes was EUR 1,598 million, up 27.6%, and consolidated net income was EUR 1,167 million, up 23%.

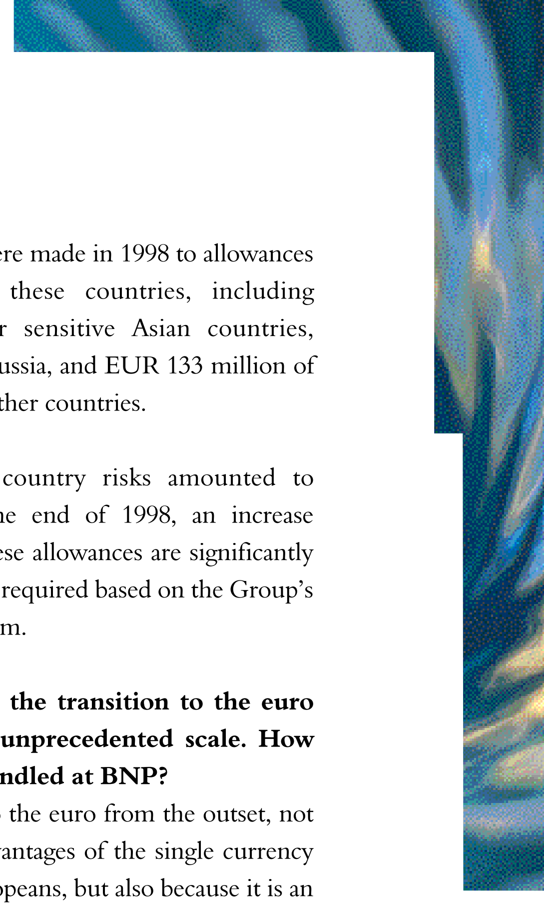
Net income attributable to the Group was EUR 1,114 million, a rise of 23% on 1997. Since the privatization in 1993, BNP has increased net income sevenfold, and earnings per share (EUR 5.16) fivefold.

These results reflect a marked acceleration in growth:

- In retail banking outside euro countries, BNP merged its US subsidiary Bank of the West with First Hawaiian Bank to create BANCWEST, which has 213 branches serving the Western United States; BNP is the reference shareholder with a 45% stake. BNP also increased to over 97% its stake in BNPI, which operates in the Mediterranean region, the Indian Ocean and the French Overseas Areas. Banque du Caire et de Paris, in which BNP raised its interest from 49% to 76% in 1997, became fully consolidated in 1998.

- In the global customers and markets division, brokerage and equities origination were boosted by the acquisition of Pasfin (Italy), Ekachart (Thailand), Alliance (Singapore) and teams from Peregrine (Greater China and India) and Prudential Bache (Australia). In international private banking and asset management, the acquisition of exclusive control over UEB will strengthen and optimize BNP's Swiss operations; new asset management units were set up in Argentina, Brazil and Japan.

Growth continued in 1999 with the acquisition from Banque Bruxelles Lambert of its interest in Société Financière pour l'Outre-Mer, which has holdings in



eleven African banks, including BICI, raising BNP's stake to 74%. In California, BANCWEST has just acquired Sierra West Bancorp.

These results reflect the fundamental and continuing improvement in the Bank's performances in its various activities. Though BNP has benefited from the recovery in the French economy and the strength of the equities markets, this improvement has been achieved despite the turbulence in the financial markets and the deterioration in several emerging markets, which has required a high level of provisions.

You have just mentioned the turbulence in the financial markets and the deterioration in several emerging markets. Can you be more specific about how your exposure in these sensitive markets evolved in 1998, and the provisioning policies you adopted?

BNP's exposures in countries affected by financial crisis were scaled down throughout the year. Excluding short-term trade related transactions, which, by definition, carry lower risks, our commitments were EUR 0.5 billion for Russia, EUR 0.5 billion for Brazil, and EUR 2.8 billion for sensitive Asian countries, where the Bank's total commitments have been cut significantly since the crisis broke out.

Substantial additions were made in 1998 to allowances for credit losses in these countries, including EUR 290 million for sensitive Asian countries, EUR 219 million for Russia, and EUR 133 million of general provisions for other countries.

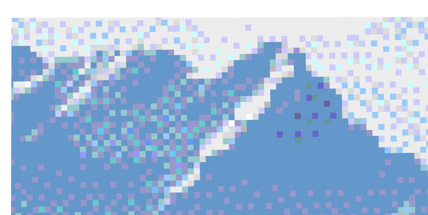
Total allowances for country risks amounted to EUR 2.3 billion at the end of 1998, an increase on the 1997 figure. These allowances are significantly in excess of the amount required based on the Group’s internal risk rating system.

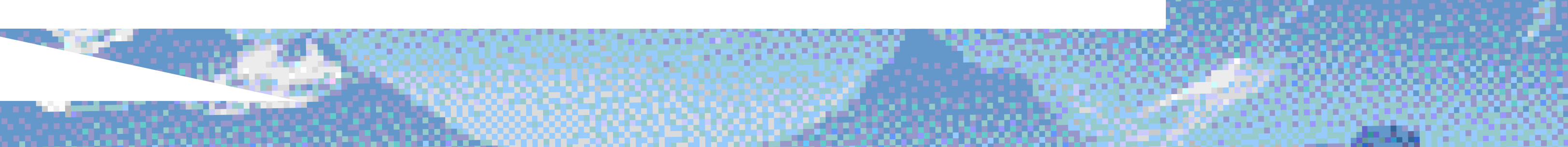
For the banks, the transition to the euro was an event on an unprecedented scale. How was this transition handled at BNP?

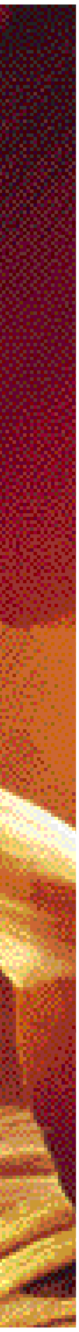
BNP was committed to the euro from the outset, not only because of the advantages of the single currency for Europe and for Europeans, but also because it is an opportunity to step up technological progress and cultural change at BNP. For BNP, the euro is much more than a technical challenge: it is a key component of our business plan, enabling us to rethink all our ranges of products and services from the perspective of customers and their euro needs.

BNP completed its preparations for the switch to the euro on the evening of 1 January 1999. On Monday 4 January 1999, BNP's business and retail customers were able to enjoy the full range of BNP products and

with
Michel Pébereau







services in euros–from a simple card or check payment to new personal and business loans, accounts or savings products. All orders and consultations were able to be made in euros, both at BNP branches and via direct banking channels such as the Internet, automatic teller machines and the telephone.

During the transitional period, business and retail customers will be able to make their own decisions about the euro; they can choose whether to convert to euros fully, partially or not at all.

The transition to the euro demonstrated BNP's ability to deploy its technical infrastructure to achieve its commercial objectives. The awarding of ISO 9002 certification illustrates the quality of BNP's information systems.

Are you ready for the year 2000?

The Bank's IT staff is currently preparing for the transition to the year 2000. Satisfactory progress had been made as at 31 December 1998. We are on schedule; the qualification processes have started and will continue this year. In my view, the change of millennium is a serious challenge for all businesses in general, and the banks in particular. Our staff have been mobilized to face this challenge on the best possible terms.

You have just launched an initiative that has surprised the market, involving the merger of BNP, Société Générale and Paribas. Could you explain the thinking behind this initiative and its strategic benefits?

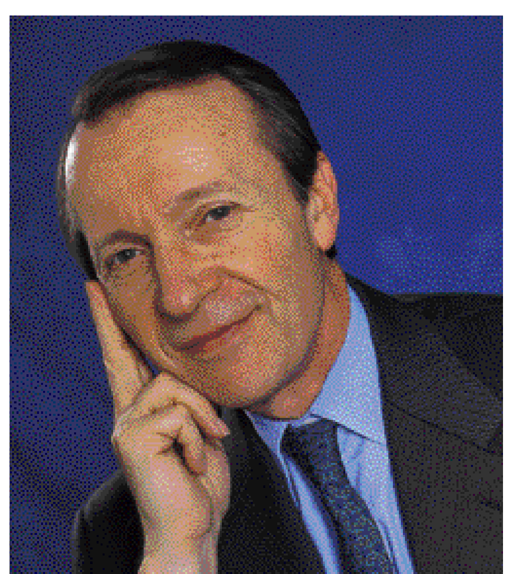
With the birth of the euro, consolidation in the European banking industry has accelerated. In most major European countries–except France–large-scale mergers between commercial banks and branch networks have given rise to powerful multi-brand banking groups.

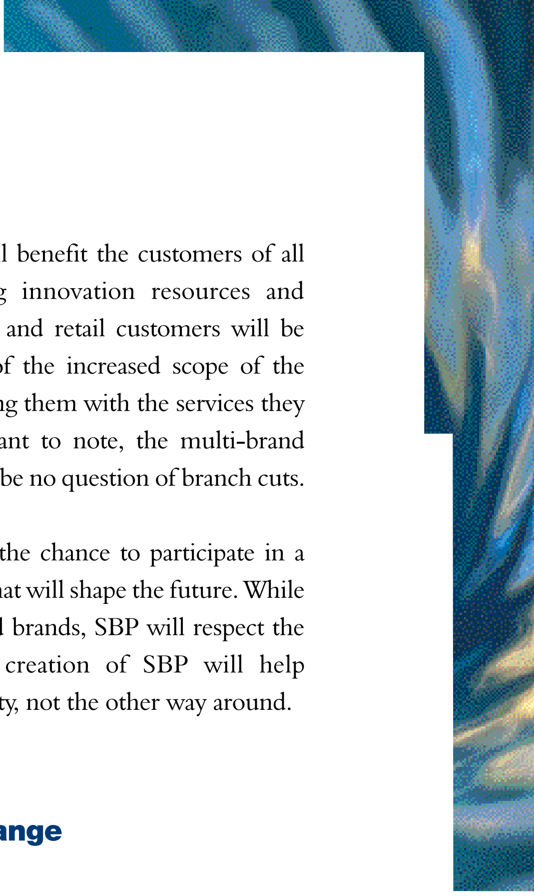
The merger plan that BNP is proposing to Société Générale and Paribas shareholders involves giving France a world-scale bank with a solid domestic base.

SBP–formed from the initials of Société Générale, BNP and Paribas–is the provisional name of this new world-scale group.

SBP incorporates several big names in retail banking, and has a balanced business mix. It will not be a monolithic group, but a combination of brands and businesses sharing logistical resources and investment, and meeting common standards of management rigor, service quality and risk control. It will create value

interview





from the outset, and represents the best response of the French banking industry to similar mergers completed or planned in neighboring euro-zone countries. This is the deal the market has been waiting for. SBP will combine the best of each team in a wide range of businesses. It has a business mix offering increased solidity and natural resilience to uncertainty and risk.

SBP has higher earning capacity than BNP, Société Générale or Paribas alone. SBP will be a blue-chips stock, giving investors access to one of the largest stock market capitalizations in Europe.

The creation of SBP will benefit the customers of all three banks, improving innovation resources and service quality. Business and retail customers will be able to take advantage of the increased scope of the branch network, providing them with the services they want. Also, it is important to note, the multi-brand strategy means there will be no question of branch cuts.

Finally, SBP offers staff the chance to participate in a bold, ambitious project that will shape the future. While federating businesses and brands, SBP will respect the identity of each. The creation of SBP will help safeguard jobs and stability, not the other way around.

March 1999: BNP launches two public exchange offers for Société Générale and Paribas
Key dates

1 February: Announcement of Société Générale's public exchange offer for Paribas.

9 March: BNP public exchange offers for Société Générale and Paribas filed with the Stock Exchange authorities (Conseil des Marchés Financiers–CMF–and Commission des Opérations de Bourse–COB).

16 March: BNP offers given the go-ahead by the CMF.

29 March: Offers authorized by the banking authorities (Comité des Etablissements de Crédit et des Entreprises d'Investissement–CECEI), prospectuses approved by the COB.

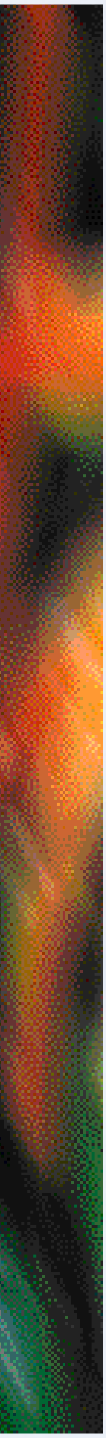
31 March: Prospectuses published and offers declared open.

6 April: Offers rejected by the Board of Directors of Société Générale and the Paribas Supervisory Board.

14 April: Information memoranda prepared in response to the BNP offer by Société Générale and Paribas aproved by the COB.

19 April: Publication of the Société Générale and Paribas information memoranda.

with
Michel Pébereau



Board of Directors
at 1 March 1999

Michel Pébereau
Chairman and Chief Executive Officer

Patrick Auguste
Executive, BNP

Jean-Louis Beffa
Chairman and CEO, Saint-Gobain

Jacques Friedmann
Chairman of the Supervisory Board, AXA

Jean Gandois
Chairman of the Board, Cockerill-Sambre (Belgium)

Jean-Marie Gianno
Employee, BNP

Philippe Jaffré
Chairman and CEO, Elf Aquitaine

Alain Joly
Chairman and CEO, L'Air Liquide

Philippe Mussot
Employee, BNP

Lindsay Owen-Jones
Chairman and CEO, L'Oréal

David Peake
Former Chairman of Kleinwort Benson Group plc.

Louis Schweitzer
Chairman and CEO, Renault

René Thomas
Honorary Chairman

Jacques Henri Wahl
Advisor to the Chairman

Bernhard Walter
Chairman of the Board, Dresdner Bank

Statutory Auditors

BARBIER, FRINAULT & AUTRES
ARTHUR ANDERSEN
represented by
Christian Chiarasini
and Radwan Hoteit

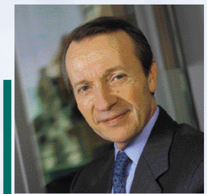
BEFEC–PRICE WATERHOUSE
Member of PricewaterhouseCoopers
represented by Etienne Boris

SALUSTRO REYDEL
represented by
Edouard Salustro
and Michel Savioz

Honorary Chairmen

Pierre Ledoux
René Thomas
Jacques Calvet

Executive Committee
as at 31 January 1999

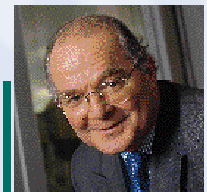

Michel Pébereau
Chairman of the Board and CEO


Baudouin Prot
President and Chief Operating Officer


Georges Chodron de Courcel
Group Executive Vice-President

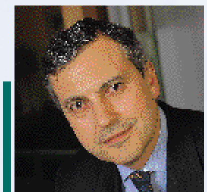

Vivien Lévy-Garboua
Group Executive Vice-President

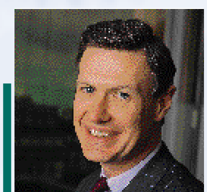

Jacques Henri Wahl
Advisor to the Chairman

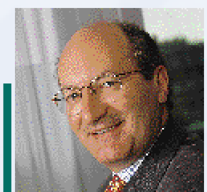

Christian Aubin
Advisor to the Chairman


Jean-François Lepetit
Advisor to the Chairman, Executive Vice-President, Asset/Liability Management

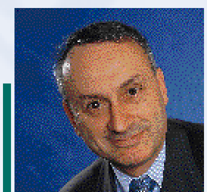

Bernard Lemée
Senior Executive Vice-President, Human Resources

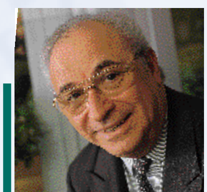

Alain Moynot
Senior Executive Vice-President, Domestic Network


Philippe Bordenave
Chief Financial Officer


Jacques Desponts
Executive Vice-President, International Trade Finance

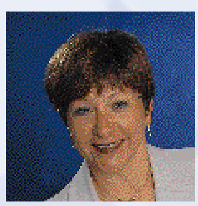

Hervé Gouezel
Executive Vice-President, Organization and Information Systems


Michel Konczaty
Executive Vice-President, Structured Finance

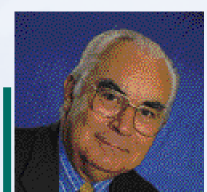

Marc Lavergne
Executive Vice-President, Management Audit and Inspection

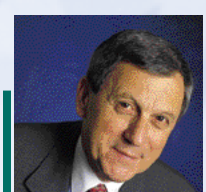

Pierre Mariani
Chairman of the Management Board of Banexi

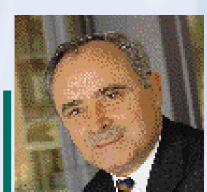

Yves Martrenchar
Executive Vice-President, Products and Markets


Chantal Mazzacurati
Executive Vice-President, Equities


Michel Passant
Executive Vice-President, Operational and Technical Support


Claude Porcherot
Executive Vice-President, Domestic Subsidiaries and Real Estate


Ervin Rosenberg
Executive Vice-President, Large Corporations and Institutions


Edouard 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: **Antoine Sire**, Head of Corporate Communications

Group organization chart

The Americas

- BANC WEST CORPORATION USA — 44,00 (FABC 1,00)
- FABC USA (SFA 100)
- BNP URUGUAY — 100
- BNP SECURITIES INC. — 100
- BNP GUADELOUPE — 100
- BNP US FUNDING LLC USA — 51,51
- BANCO BNP BRASIL SA BRASIL — 99 (SFA 1)
- BNP COOPER NEFF — 9,09 (FABC 90,91)
- BNP CANADA — 88,90 (BNPI 11,10)
- BNP MEXICO MEXICO (BNP MEXICO HOLDING 100)
- BNP PANAMA — 52,93 (BNPI 38,87)
- BNP GUYANE FRENCH GUYANA — 94 (3, 3)
- BNP MARTINIQUE — 100
- DRESDNER BNP INVERSIONES LTDA CHILI — 50
- BNP PRIVATE BANK AND TRUST CIE BAHAMAS LTD. — 100

Europe

- BNP BANK NV THE NETHERLANDS — 100
- BNP LEASING SPA ITALY — 100
- BNP ESPANA SPAIN — 99,12
- BNP FACTOR PORTUGAL — 95
- BNP FINANC AS NORGE NORWAY — 100
- BNP SWITZERLAND — 71,17 (SFA 4,51; BNPI 19,19; NATIO INFORMATIQUE 5,06)
- BNP DRESDNER BANK Z.A.O. RUSSIA — 33 (SFA 17)
- BNP DRESDNER BANK Rt HONGRIE — 50
- BNP DRESDNER BANK CR. a.s. (CZECH REPUBLIC) — 50
- BNP DRESDNER BANK (POLAND) SA — 50
- BNP DRESDNER BANK (BULGARIA) AD — 40
- BNP PASFIN SIM (ITALY) — 70

- BNP INTERCONTINENTALE — 97,85

France

- BANQUE DE BRETAGNE — 100
- COMPAGNIE IMMOBILIERE DE FRANCE CIF — 99,97 (0,03)
- CIP — 100
- BNP FINANCE — 100
- DU BOUZET SA — 99,54
- SFA — 100
- BANEXI — 100
- BNP IMMOBILIER — 100
- FINANCIERE BNP — 100
- SAPEG (100)
- BNP EMERGIS (SFA 0,17; 99,83)
- BNP GESTIONS — 100

Asia - Oceania

- BNP FUTURES HONG KONG (100)
- BNP SECURITIES HONG KONG — 100
- BNP EQUITIES ASIA — 100
- BNP PRIME PEREGRINE LTD. GREATER CHINA (90)
- BNP PRIME PEREGRINE SOUTH EAST ASIA — 70
- BNP FINANCE HONG KONG LTD. — 100
- BNP ARBITRAGE HONG KONG (100)
- BNP IFS HONG KONG LTD. — 100
- BNP IFS SINGAPOUR LTD. — 100
- INTERNATIONAL BANK OF PARIS & SHANGAI — 50
- BNP PACIFIC LTD AUSTRALIA — 100
- BNP EQUITIES AUSTRALIA LTD. — 80
- BNP NEW CALEDONIA — 99,98 (BNPI 0,02)
- PT BNP LIPPO INDONESIA — 70
- PT BNP LIPPO UTAMA LEASING INDONESIA (80)

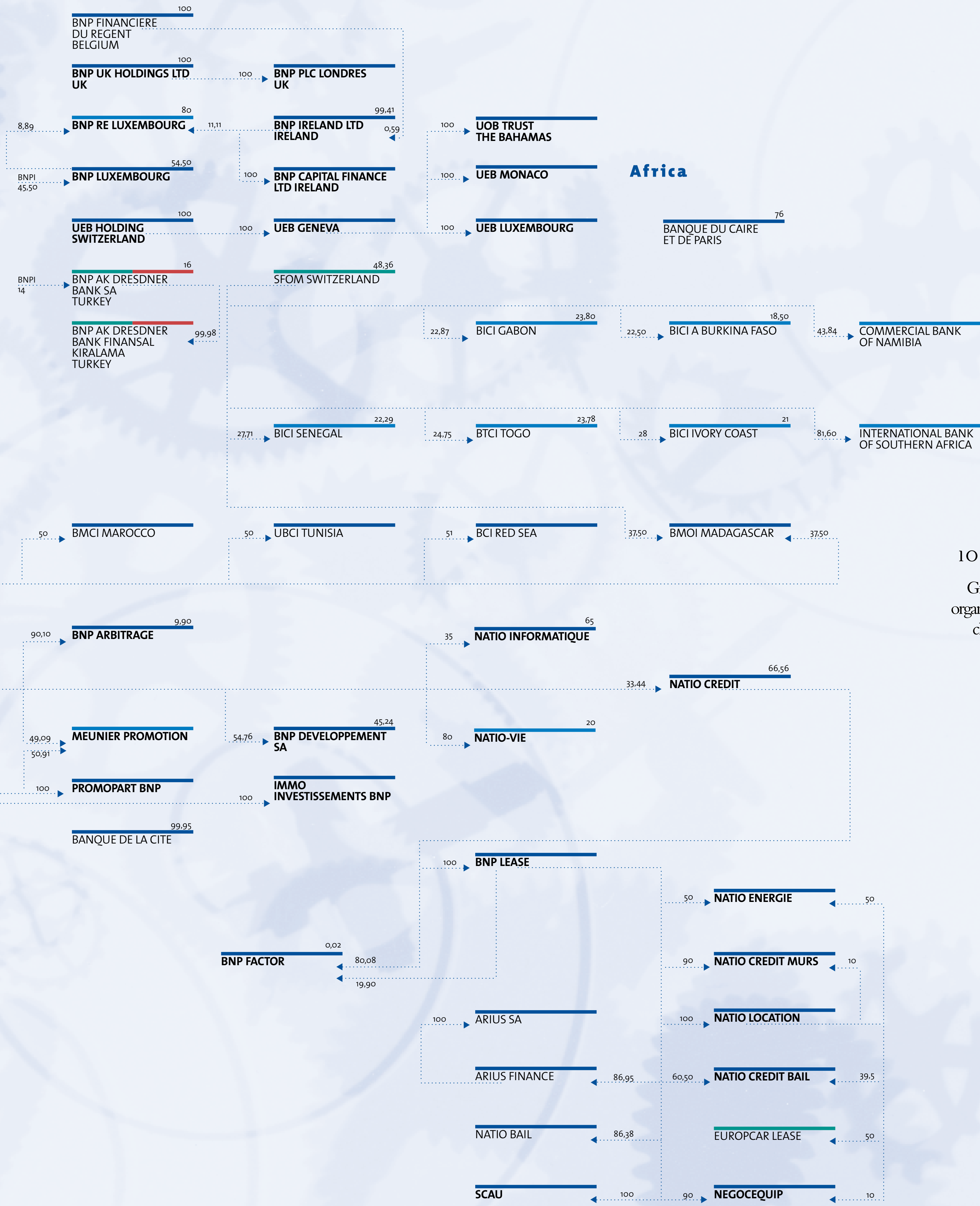
WHOLLY-OWNED SUBSIDIARY

MAJORITY CONTROLLED SUBSIDIARY

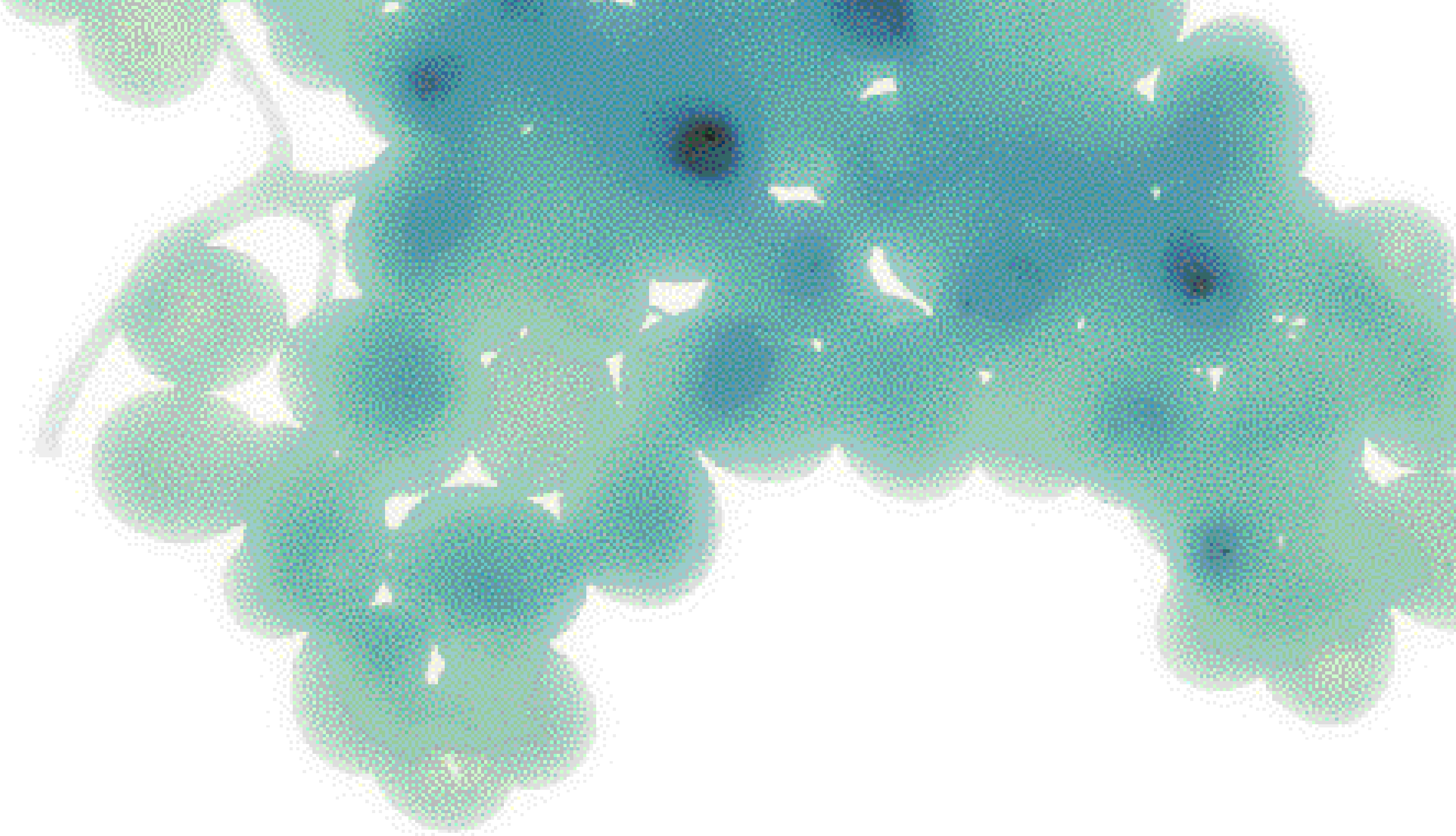
PARTIALLY-OWNED SUBSIDIARY

SUBSIDIARY PARTNERSHIP WITH DRESDNER BANK

COMPANIES HOLD WHOLLY BY THE BNP GROUP, DIRECTLY OR INDIRECTLY


Africa
100
BNP FINANCIERE DU REGENT BELGIUM
100
BNP UK HOLDINGS LTD UK
100
BNP PLC LONDRES UK
80
BNP RE LUXEMBOURG
8,89
11,11
99,41
BNP IRELAND LTD IRELAND
0,59
100
UOB TRUST THE BAHAMAS
54,50
BNP LUXEMBOURG
BNPI 45,50
100
BNP CAPITAL FINANCE LTD IRELAND
100
UEB MONACO
100
UEB HOLDING SWITZERLAND
100
UEB GENEVA
100
UEB LUXEMBOURG
76
BANQUE DU CAIRE ET DE PARIS
16
BNP AK DRESDNER BANK SA TURKEY
BNPI 14
48,36
SFOM SWITZERLAND
BNP AK DRESDNER BANK FINANSAL KIRALAMA TURKEY
99,98
23,80
22,87
BICI GABON
18,50
22,50
BICI A BURKINA FASO
43,84
COMMERCIAL BANK OF NAMIBIA
22,29
27,71
BICI SENEGAL
23,78
24,75
BTCI TOGO
21
28
BICI IVORY COAST
81,60
INTERNATIONAL BANK OF SOUTHERN AFRICA
50
BMCI MAROCCO
50
UBCI TUNISIA
51
BCI RED SEA
37,50
BMOI MADAGASCAR
37,50
9,90
90,10
BNP ARBITRAGE
65
35
NATIO INFORMATIQUE
66,56
33,44
NATIO CREDIT
49,09
50,91
MEUNIER PROMOTION
45,24
54,76
BNP DEVELOPPEMENT SA
20
80
NATIO-VIE
100
PROMOPART BNP
100
IMMO INVESTISSEMENTS BNP
99,95
BANQUE DE LA CITE
100
BNP LEASE
50
NATIO ENERGIE
50
0,02
BNP FACTOR
80,08
19,90
90
NATIO CREDIT MURS
10
100
NATIO LOCATION
100
ARIUS SA
ARIUS FINANCE
86,95
60,50
NATIO CREDIT BAIL
39,5
NATIO BAIL
86,38
EUROPCAR LEASE
50
SCAU
100
90
NEGOCEQUIP
10

domestic banking



	Net banking income		Operating expense		Gross operating income	
	EUR bn	Change	EUR bn	Change	EUR bn	Change
French branch network	3.4	+ 2.2%	2.8	- 0.3%	0.6	+ 14.8%
French subsidiaries	0.4	+ 2.7%	0.2	+ 1.6%	0.2	+ 3.7%
Total domestic banking	3.8	+ 2.3%	3.0	- 0.2%	0.8	+ 12.0%

The French economy

The recovery which began in 1997 was confirmed in 1998, with full-year economic growth reaching around 3%. A marked improvement in household purchasing power led to increased consumer spending, while the savings ratio remained stable. Annual inflation hit an all-time post-war low of 0.3%. Both short and long-term interest rates fell by more than 1%. State-regulated interest rates were cut in June, though to a lesser extent.

In such context, the demand for credit rose by 4.5%. In particular, lower interest rates stimulated demand for home loans. Investment in banking products and contractual savings products (*Livret A*–passbook accounts–Home Savings Plans, Popular Savings Plans and *Codevi*–industrial development savings schemes) declined, as depositors switched to financial investments. Despite increased volatility in share prices, stock market trading volumes were exceptionally high.

Strong earnings growth

Banque Nationale de Paris recorded substantial revenue and earnings growth in France. The branch network loan book averaged EUR 62 billion, representing market share of 10.7%. Customer funds–deposits, assets under management and life/endowment products–averaged EUR 105 billion, giving market share of 7.3%.

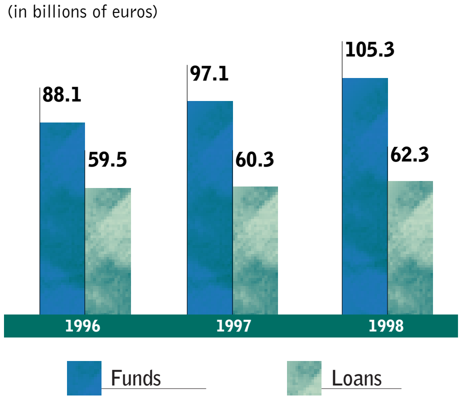
In spite of the decrease in interest rates that continued to have a negative impact on the margin earned on demand deposits, the lending margin improved slightly. However, net banking income advanced 2.3% to EUR 3.8 billion. This performance was due to strong growth in commissions of 7.1%, reflecting the commercial success of the Bank's new products, innovative value-added services and the development of new distribution channels. Ongoing productivity and cost containment measures once again curbed operating expense, reducing the efficiency ratio (74.3%). Credit risk allowances also fell, thanks to the bank's risk management policy and improved economic conditions in France.

Lending

New lending by the BNP branch network to both business and private customers increased in 1998. The recovery in corporate capital spending had a particularly marked effect in equipment leasing, with the branch network attracting new business worth EUR 0.5 billion for BNP Lease, over 30% up on the previous year. There was also a slight upturn in investment loans.

BNP stepped up targeted marketing efforts aimed at two specific sectors: healthcare and agriculture. In healthcare, the Bank has developed a full-service solution focusing on the computerization of medical practices. In agriculture, BNP has developed a range of products and services aimed at the heads of agricultural enterprises, and a policy of partnership with quality agricultural suppliers.

Customer funds and loans
(in billions of euros)



Growth in loans, in %	Non-specific	Specific	Total
1997	+ 11.8	- 0.3	+ 1.3
1998	+ 9.8	+ 4.5	+ 5.2

On the consumer credit side, the revolving credit loan book increased by more than 30%. At the end of 1998, the collaboration between Banque Nationale de Paris and Cofinoga led to the launch of a new formula for the *Provisio* card. This should help to continue the favorable trend in 1999.

New real estate lending recorded a sharp rise of 11%, stimulated by increased volumes of sales of both new and existing residential property.

Deposits

Total deposits increased 4.4% during the year to EUR 54.3 billion. Much of this was attributable to demand deposits, which reached an average of EUR 21.8 billion, giving BNP market share of 8.4%. The number of current accounts with private customers rose by 36,000 during 1998. On top of the Bank's ongoing efforts to enhance customer service and information systems, specific initiatives were targeted at young people and professionals. Another factor lifting the volume of customer funds collected was the launch of new mutual funds for short-term investment by SMCs and large investors.

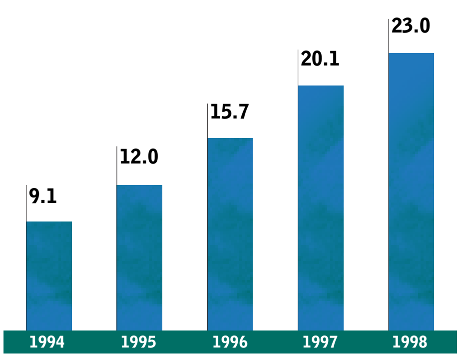
There was also a significant increase (18.5%) in the average amount invested in mutual funds. The total amount collected by medium- and long-term funds alone topped EUR 3 billion. This showed the bank's responsiveness to customer needs, especially with *Stratégis*, which offers a distinctive combination of delegated management and individual investment decision-making.

The *Situation* statement service, launched in April 1998, offers private customers real-time tracking of checking and savings accounts and an overview of their investments and loans. This innovative product was a hit with private customers, of whom 635,000 had subscribed to the service by 31 December 1998. The branch network was also mobilized for major campaigns, notably the second phase of the France Télécom offering. BNP collected over 600,000 orders worth a total of EUR 0.8 billion, equivalent to 21% of total orders placed.

Life/endowment products

After an exceptional 1997, funds collected on life and endowment policies declined slightly in 1998. However, Natio-Vie recorded further growth in assets under management, which rose 20% to EUR 23 billion as at 31 December 1998. Sales of unit-linked contracts showed the strongest advance (44%), allowing even more policyholders to benefit from the buoyant stock markets. Natio-Vie responded to changes in financial market regulation with the launch of *MultiPEP*; the *Floréal* range, which takes advantage of the possibilities offered by the "Strauss-Kahn law" on equities-based policies; and the *Europhonie* range, backed by euro-zone financial markets.

Life/endowment policies
Assets under management at year-end
(in billions of euros)



Innovation and new distribution channels

The *BNP en ligne* telesales center is seeing rapid growth as a support for the branch network. With an average of 23,000 incoming and outgoing calls a month, this new method of distribution is proving a success. Outgoing sales calls have an average success rate of 26%, a clear indication of the efficiency of the center as a marketing tool.

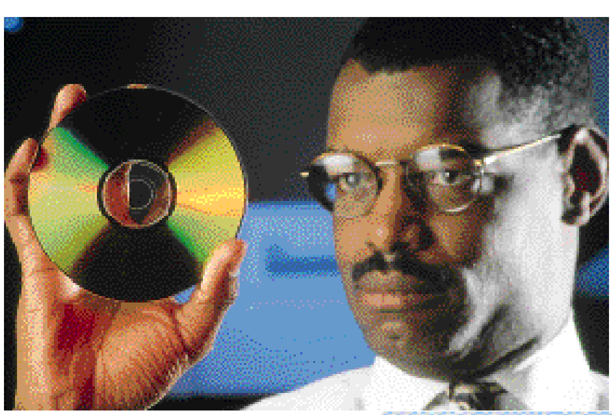
Within the branch network, further efforts have been made to enhance responsiveness to customers by reviewing the allocation of staff between sales and loan processing teams. Each group within the branch network has set up its own call-center in order to ensure our customers receive a quality response to calls without tying up sales staff.

Throughout 1998, new options were added to *BNP Net*, the home Internet banking service launched in April 1997. This is now a full-service offer. Customers can monitor and manage their accounts, place stock market orders and buy mutual trust units on line via the Internet. BNP, one of the leading banks in Internet banking, passed the 30,000 subscribers mark in December 1998.

In corporate banking, the branch network continued its highly effective drive to market its business Visa card. By 31 December 1998, there were nearly 55,000 cardholders. BNP is the clear leader in this field, with over 55% of the business Visa card market. Sales of *Poste Banque*, a software package allowing SMCs to manage their bank accounts on-line, posted strong growth in 1998. 9,000 customers now have *Poste Banque* installed. Given that only 40,000 packages of this type have so far been installed in France, BNP is clearly in the forefront of this market.

BNP has confirmed its position in e-commerce and electronic money systems. In association with other French banks, BNP has helped to develop an Internet payment security standard, using the “Cyber-Comm” smartcard. The Bank is also partnering France Télécom in the deployment of Télécommerce, a service platform aimed at helping SMCs create a commercial website and manage Internet orders/payments.

In the international cash management market, BNP proposes efficient packages such as *Geolink*. At the end of 1998, 370 customers in the world had signed up for the *Geolink* cash module. The alliance with Dresdner Bank has enhanced BNP's responsiveness in this field: a treasury pooling solution, available from January 1999, enables movements on all of an euro zone company's accounts to be centralized, whichever of the two banks the accounts are held with.



The introduction of the euro has provided BNP with an opportunity to offer new services designed to help customers to take advantage of the broadening of their domestic market. During 1998, over 2,500 SMCs responded to a targeted marketing campaign by buying the *Itinéraire Euro CD-Rom* information package, accompanied by a customized euro action plan.

Banking-related services

The big event in this field during 1998 was the merger of BNP Bail and Crédit Universel to form BNP Lease, the new leader in financing and specialized services for business. The merger also consolidated the consumer credit activities, especially car loans, of the Group's two subsidiaries. Pooling their strengths will rapidly unlock major synergies in terms of markets, distribution channels and products. The merged entity originated new financing of over EUR 3 billion in 1998, ahead of the 1997 figure.

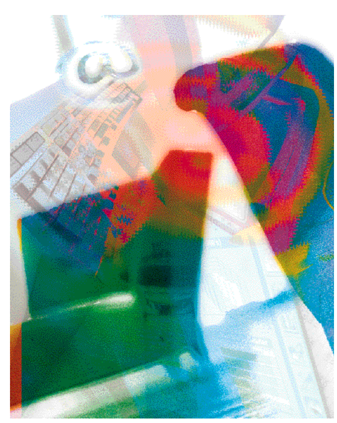
BNP Factor recorded further strong growth, with the volume of trade receivables purchased from French SMCs up nearly 35%. There was also confirmation that the launch of the international factoring business had been a success.

With the arrival of the euro and the single market, BNP now has scope to extend its banking-related activities to the rest of Europe. The first step will involve mobilizing all BNP entities in the euro zone, with BNP Lease and BNP Factor tasked with developing and organizing product lines in their respective fields. The aim is to promote a coherent, structured and genuinely pan-European offering. The process will also involve agreements with local partners, like those already in place with Griffin and Deutsche Factoring.

Real estate subsidiaries

The Bank's real estate subsidiaries recorded favorable trends in revenues and profitability during 1998.

Financing and service activities for real estate professionals and Meunier Promotion confirmed the end of the real estate slump and their ability to exploit favorable market conditions while maintaining a selective approach. Meunier Promotion became one of the top players in the market, both in residential property (over 2,000 units sold in 1998, with revenues up 62% at EUR 244 million) and in office properties (nearly 110,000 m^2 sold, generating revenues of EUR 396 million, versus EUR 152 million in 1997), where synergies with BNP's banking activities led to major successes with large foreign investors.



human resources

The aim of BNP's human resources policy in 1998 was to step up the developments in remuneration and career management policies implemented in recent years. At the same time, new initiatives were taken to build commitment to corporate goals among employees, and to give them a greater incentive to achieve them. The measures taken to adapt the size of the workforce made an effective contribution to keeping operating expense under control and to laying the foundations for the future.

Remuneration and career management policy geared to motivation

Guided by principles of selectivity and fairness, the Bank's pay policy in 1998 was characterized by further refinement of remuneration methods aimed at reflecting individual employee performance and the overall profitability of the business. This development was particularly marked in the area of variable remuneration for management grade employees and sales staff.

Career management at BNP is now founded on professional appraisal methods tailored to employees' responsibilities. These methods have been spelt out in detail, placing the emphasis on good conduct, personal accountability and individual initiative. The values expressed in the “Management Mission Statement” adopted by the executive committee are now the core criteria for the Group's human resources management policy. The worldwide succession planning system for key posts is now up and running. This facilitates the development of the next generation of top-flight managers, and helps to place young managers in expanding business lines.

The training program undertaken in 1998 to prepare all BNP staff for the introduction of the euro is a clear illustration of the importance we attach to improving the skills and abilities of our people. At the end of the year, all bank employees had received an appropriate level of euro training. The pace of change in the banking sector and the globalization of our business means that our training programs become more international every year. More sophisticated methods are being used, involving the latest technology and the full range of distance learning possibilities. The Louveciennes training center, a byword for quality throughout our organization, has all the resources needed to constantly push forward the boundaries of professional training.

Building employee commitment to corporate goals

A new incentive scheme agreement, intended to allow all staff to benefit from any new genuine improvement in the Group's earnings, was signed at the end of the first half of 1998. This coincided with the highly successful issue of shares reserved for BNP employees, confirming the interest taken by staff in their Bank's profitability and market valuation. An innovative funded pension plan was introduced in addition to the new remuneration methods designed to benefit employees and link pay to the Bank's profitability.

The new suggestions scheme, initiated in 1998 to allow employees to propose improvements in operational efficiency and customer service, met with the expected success. By the end of the year, nearly 3,500 suggestions had been received, a positive trend that shows no signs of weakening.

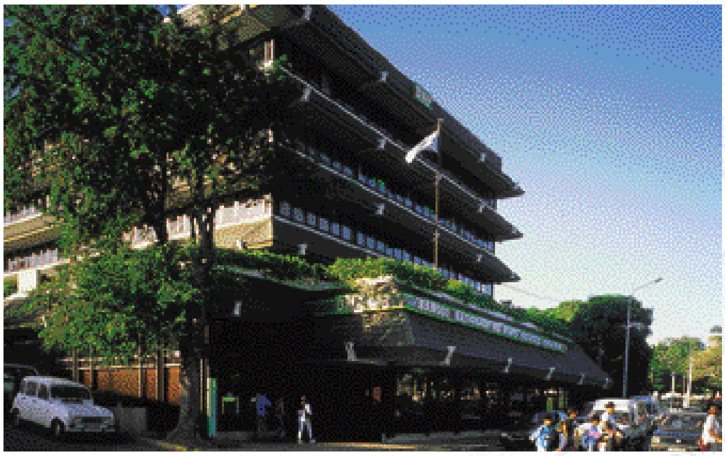
Forward-looking employment policy

The implementation of a new Employment Adaptation Program covering 1998 and 1999 triggered a sharp increase in staff turnover, reducing the payroll by over 850 employees, in line with the reduction in the number of jobs caused by the development of information systems and organizational improvements.

This development was accompanied by considerable management efforts to arrange for the retraining of large numbers of employees, and helped to keep operating expense under control. It forms part of a firm-wide employment agreement that illustrates, in this key field, the quality of the dialogue between management and staff and the shared commitment to improve it further.

With the recruitment of over 1,000 young people in France, most of them graduates, the Bank's 1998 employment policy also helped to provide the successors to the generation due to retire in the next five years. By recruiting young people, we are bringing new blood into our sales teams and strengthening the resources devoted to innovation and development. This is being complemented by two initiatives that will be stepped up in 1999. The first is a sandwich training program that will enable over 250 young people to gain hands-on experience in preparation for a career in sales. The second aims to attract young managers with degrees from the major foreign universities and business schools who are keen to work in the Group's financial activities.

Modernization of human resources management will continue in 1999, a key development being the negotiation of a new collective agreement. This will also help to prepare the introduction of the law reducing working time, under the conditions laid down in an industry-wide agreement for promoting employment without damaging banks' competitiveness.



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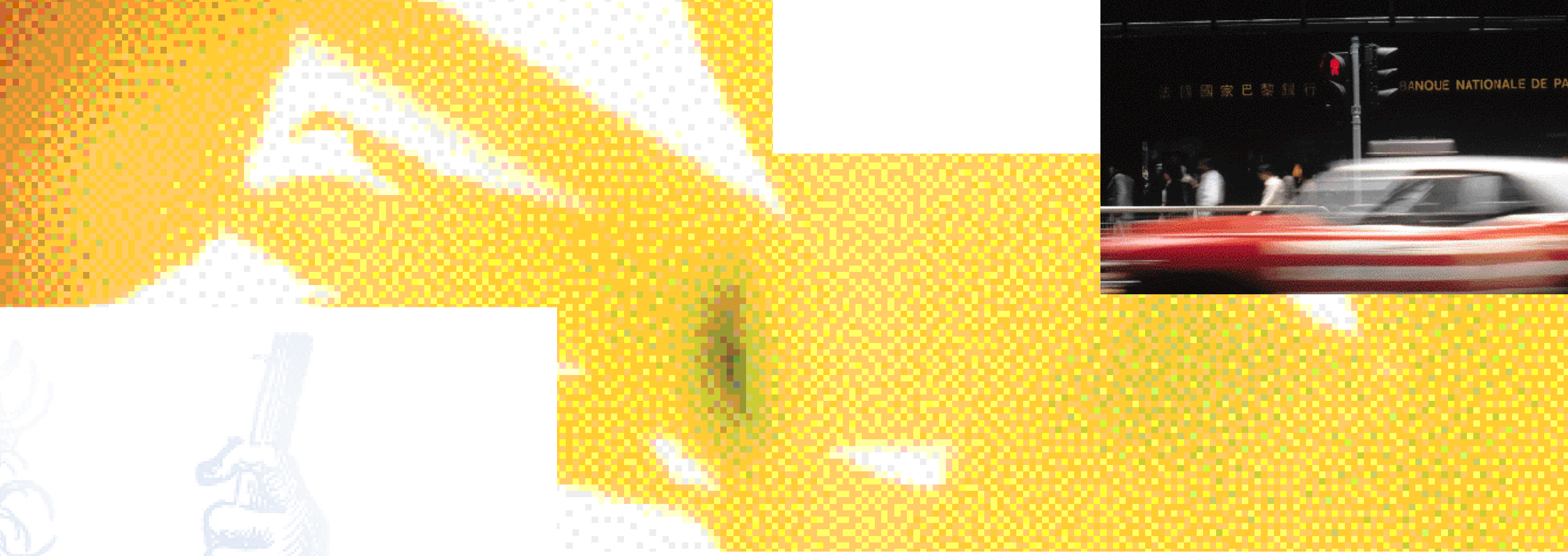

retail banking

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	Net banking income Millions of euros	Change	Operating expense Millions of euros	Change	Gross operating income Millions of euros	Change
BANCWEST (1)	359	+ 40.1%	216	+ 49.1%	143	+ 28.2%
BNPI (Africa, French Overseas Areas)	374	+ 8.5%	236	+ 4.6%	138	+ 16.0%
Total retail banking outside euro countries	733	+ 22.0%	452	+ 22.0%	281	+ 22.0%

(1) First Hawaiian Bank was consolidated for only 2 months in 1998.

BANCWEST

In 1998, BNP demonstrated its strategic interest in retail banking by extending its coverage of the United States. On 1 November, BNP's Californian subsidiary Bank of the West merged with First Hawaiian Bank. One of the two leading banks in Hawaii, First Hawaiian Bank also has operations in the three north-western states of the USA. The two banks became wholly-owned subsidiaries of BANCWEST CORP., which is listed on the NYSE in New York.

Both banks will continue to trade under their existing names. They are a very good fit geographically and in terms of products. The merger will be strongly value-creating thanks to substantial economies of scale in operating expense through the pooling of administrative functions. BNP, the lead shareholder with 45% of the capital, consolidates BANCWEST in its financial statements using the full consolidation method.

The new Group is one of the biggest regional banks in the Western United States, with total assets of USD 15 billion and a network of over 200 branches serving 800,000 customers. With First Hawaiian Bank, it has 40% of the retail banking market in Hawaii, Guam and Saipan, while through Bank of the West it has 142 branches in Northern California, Oregon, Washington and Idaho. From this base, the new Group will be able to develop across a wider market in its core businesses: retail banking, some specialized financial services, and consumer credit.

BNPI (Africa, French Overseas Areas)

In 1998, BNP made a public tender offer for the minority interests in BNPI. The offer was a success, and BNP now controls just over 97% of the capital of this subsidiary. At the same time, BNPI's equity investments have been rationalized in order to focus its resources and staff in its retail banking and consumer credit activities.

BNPI once again performed well in 1998, as strong growth in commissions more than offset the often severe pressure on interest margins caused by intense competition. Another key factor in maintaining growth was expansion of the range of products, especially those targeted at private customers.

BNP's subsidiaries in the French Overseas Areas had a tough year. BNP Guyane implemented an industrial and employment program aimed at securing its viability.

Overall, the Bank's performances in Africa and the Middle East were satisfactory. During 1998, BNP sold its minority stake in UBA (Nigeria).

global Custo & markets

	Net banking income		Operating expense		Gross operating income	
	Millions of euros	Change	Millions of euros	Change	Millions of euros	Change
Global customers	884	+ 10.7%	- 546	+ 13.6%	338	+ 6.3%
Specialized financing	281	+ 10.1%	- 137	+ 11.3%	144	+ 9.1%
Financial activities	1,095	+ 28.0%	- 863	+ 24.1%	232	+ 45.0%
Asset management	194	+ 33.4%	- 109	+ 52.4%	85	+ 14.9%
Equity portfolio income	100	+ 2.3%	- 2	- 8.3%	98	+ 2.5%
Total global customers and markets	2,554	+ 18.7%	- 1,657	+ 20.7%	897	+ 15.1%

Global customers

Large corporations and institutions

Intermediation activities showed an improvement in most major world markets, especially in Asia. Generally, the Bank's global customers were relatively unaffected by the economic crises of 1998, and the loan book remained of very high quality. Overall, 1998 was a good year in terms of both revenues and profitability, largely thanks to transactions with high technical content and to wider margins. BNP continued to expand its leading role in treasury management, winning high-profile accounts such as BP/Mobil, Air Liquide and Procter & Gamble.

The Bank also played a major role in ensuring a successful changeover to the euro in France, setting up a euro support Group to co-ordinate complex euro transition projects for large French and foreign corporations. These include close collaboration between BNP and the Finance and Treasury function of Elf Aquitaine, as a result of which the French oil group had its central treasury function–which covers 150 subsidiaries –up and running by the 4 January 1999 deadline.

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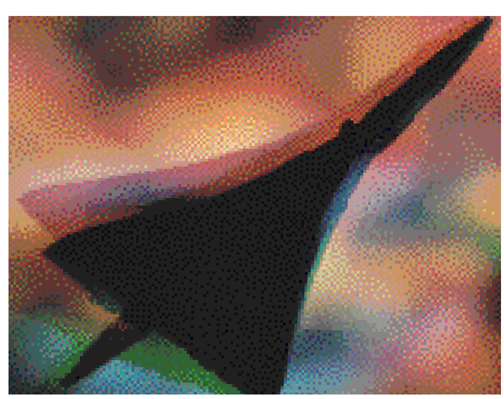


As a result, Elf was one of the very first European groups able to process and account for all its cash movements in euros.

Financial institutions: banks and institutional investors

BNP responded to the fragility of the banking systems of some emerging nations by retaining a selective approach to risk, though not without remaining flexible and preserving ties–many going back a long way–with correspondent banks.

Preparation for the introduction of the euro on 1 January 1999, an issue of particular importance to Bank customers, involved the mobilization of extensive human resources both in computerized payment systems and on the commercial side. BNP, which is linked to all Europe's interbank systems, can now offer customers an extensive range or euro-compliant products and services.

Institutional investors are a key development priority for BNP. The dedicated institutional sales team was built up substantially in both Europe and the United States, where BNP achieved significant penetration in 1998.

However, the Bank's policy towards highly leveraged institutions was highly restrictive in 1998, as it always has been. BNP does not lend to hedge funds, and does not enter into market transactions with them without collateral.

International private banking

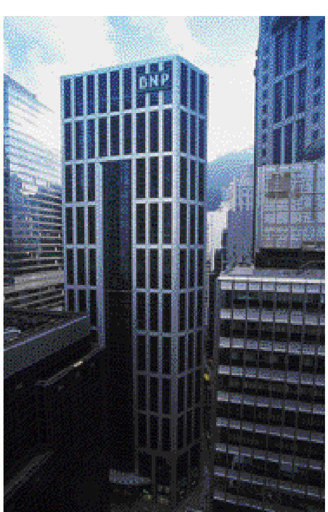
1998 saw a substantial increase in assets under management for BNP's international private banking activities to EUR 24.2 billion. The Group broadened its range of products and services and extended its activities, affirming its ambitions and dynamism in this sector. On 1 July 1998, BNP upped its stake in the Swiss subsidiary United European Bank to 100% from the 50% held at the start of the year. The Bank also acquired Pasfin Securities SIM, an Italian investment and portfolio management company, and strengthened its network serving wealthy private clients in Argentina. Committed to becoming one of the world's leading providers of banking services to wealthy individuals, BNP has decided that in the future this activity will be housed in a separate structure with substantial dedicated resources.

Major business lines

International trade finance

BNP is one of the world's leading providers of international trade finance. In 1998, the Bank retained its position in France as number one in medium- and long-term export finance with 21% of the market, thanks to highly experienced staff operating in the main countries of the world.

The export finance business recorded further growth in 1998, even after an exceptionally good 1997. BNP enjoyed particularly robust growth in multi-source credits, and a record year in the aeronautics sector with 15 mandates as arranger.



BNP reinforced its position among the world leaders in international commodity financing. A quality loan book and the emphasis on expansion in North America in some products made 1998 a good year, despite tough conditions caused by falling commodity prices and the crisis in emerging markets.

Project finance and structured finance

In structured financing, BNP clinched 120 contracts as arranger or advisor. Extra staff were hired, so the bank now has over 200 specialists worldwide. BNP reaffirmed its status as a major player in this field, ranking seventh in the world as arranger of syndicated euro-issues.

BNP was also ranked sixth in *Euroweek*'s "Most Impressive Arranger" listings for syndicated loans. This is an area in which the Bank has made great strides in Europe and the United States (GEC: EUR 6 billion, *Euroweek* "Deal of the Year"; Delphi: USD 5 billion).

The project finance business held up well in the face of lower volumes and higher risk. BNP was awarded 17 arranger/advisor contracts, against 16 in 1997. BNP broadened its expertise and positioning in Europe and North America in telecommunications project finance (Microcel: USD 1 billion, Wind: USD 400 million, Telenet: USD 400 million), and clinched 16 mandates as arranger on complex finance deals, many for substantial amounts (Usinor TSAR: USD 1.7 billion).

The Bank also launched a credit derivatives activity in 1998. With 200 deals transacted already, this business proved profitable from year one.

Fixed income and foreign exchange

Volatility was high during 1998 in both the fixed income and the currency markets. BNP responded by keeping market risk at a moderate level and closely monitoring its position, in line with the bank's risk policy. This meant BNP generally rode out the crisis that hit the markets in the second half of the year.

In Europe, BNP enhanced its range of options, structured products and spreads products in anticipation of developments associated with the euro. At the same time, the Bank optimized the configuration of its European dealing rooms, strengthening the sales function and rationalizing back offices to cut costs.

In the United States, BNP established an investment bank as defined in section 20 of Securities and Exchange Commission regulations and can now offer investment services to all US investors in the area of high yield bonds. This development will enable BNP to extend its product range and reach a broader customer base.

In Asia, BNP continued its policy of expanding in the main domestic interest rate markets. Already well established in Hong Kong,

Singapore and Taipei, the Bank extended this business to Seoul, Bangkok and Beijing.

Equities

Pursuing the expansion policy implemented in 1996 and 1997, BNP hired extra staff and made a number of acquisitions. At the end of 1998, the worldwide equities business line employed 1,550 people, operating under the BNP Equities name.

In Europe, the dedicated corporate finance, research and distribution teams were enlarged. BNP took a 75% controlling interest in Italian broker Pasfin. In London, the Bank developed its equities brokerage and origination business. BNP also continued to expand its equities derivatives business.

In Asia-Oceania, BNP employed over 700 people in its equities business at the end of 1998. Here too, BNP expanded the scale of its operations, recruiting staff (in Hong Kong and Tokyo, for example) and taking advantage of acquisition opportunities thrown up by the crisis. These included the takeover of the equities team of the investment bank Peregrine in the Greater China zone, the purchase of Thai broker Ekachart, and the takeover of some staff from Australian broker Prudential Bache. BNP brought its Australian entities together in a single operation, BNP Equities Australia, now a major player in this country.

Activity levels were very high, reflecting exceptional volumes in Europe and the United States and strong volatility. The maturity, competence and expertise of our people helped BNP to resist the upheavals in the markets and to be very active in both the cash and derivatives markets.

BNP also maintained its position as a leading player in the French market. The Bank conducted 43 origination deals (privatizations, issues and flotations), including 40 syndications, worth nearly EUR 21.5 billion. This compares with 36 deals in 1997. BNP was once again retained as advisor and global co-ordinator for the second tranche of the France Télécom offering.

Merchant banking

In France, Banexi confirmed its leading role in M&A, retaining its number one slot in terms of number of deals and jumping from 6th to 4th place in terms of volume. Among other deals, Banexi acted as advisor to Vivendi-Havas,

France Télécom, and Comptoirs Modernes in the Carrefour-Comptoirs Modernes deal.

Outside France, the arrival of the team from Peregrine gave a strong boost to the Bank's presence in Asia, especially in China and Korea, where BNP was retained as advisor in connection with the EUR 6.1 billion sale of Kia Motors. In Europe, extra staff were taken on–especially in London, Frankfurt and Italy–as part of the implementation of a strategy focused on origination.

Investment portfolio and equity holdings

1998 was a year of major change for the investment portfolio. Development capital and the management of unlisted equity holdings were organized as a separate subsidiary, BNP Private Equity, paving the way for the creation of venture capital funds open to external investors. The first such fund was the EUR 61 million Banexi Ventures II fund, oriented towards high-tech companies, that was set up in July 1998.

Turning to listed equity investments, the Bank took advantage of a favorable stock market during 1998 to continue its active portfolio management policy. Market opportunities again enabled substantial capital gains to be realized, while keeping the portfolio at a level that gives scope for significant contributions to the Bank's future profits.

In sovereign debt, after the large-scale disposals of 1997, there was little change overall in the bank's portfolio of Brady bonds. BNP also supervised and implemented sovereign debt restructuring operations for Côte d'Ivoire and Kenya, and successfully organized a debt buy-back transaction by Guinea.

Asset management

The asset management business that was organized in 1997 as a separate subsidiary under the name BNP Gestions posted fine results in 1998. Once again, BNP won the *Corbeille Long Terme* awarded by *Mieux Vivre Votre Argent*, a tribute to the quality and consistency of the Bank's asset management performance.

The 25% advance in assets under management during the year, to over EUR 85 billion, was achieved entirely through organic growth. All client segments contributed, including private investors, businesses (directly or via employee savings schemes), and French and international institutional investors. BNP was the leading distributor of mutual funds in France, raising its market share from 7.7% to 8.5% in the year.

Europe

The regional reorganization program begun in 1997 produced tangible results in 1998:

- reinforcement of business lines, leading to greater integration within a co-ordinated sales effort;
- training and mobilization of all sales staff via pan-European seminars;
- corporate finance action centers in the main European sites, to further enhance the development of specialized, high added-value financial activities such as project finance, debt/equity deals and advisory business.

In the run up to the introduction of the euro, BNP tailored its approach in Europe by co-ordinating domestic and European banking, especially in the areas of international global customers, major European exporters and importers within the euro zone, and wealthy private clients.

The range of products and services was also enhanced:

- treasury management, already operational in France, was extended to the euro zone, with a highly integrated service covering domestic payment zones within each member country;
- a comprehensive euro package was introduced, including euro account management, conversion of accounts into euros with no change of account number, transaction records enabling each transaction to be traced to the original currency, dual currency information (in euros and the domestic currency), treasury management and cash pooling, quotation in euros and asset management in euros.

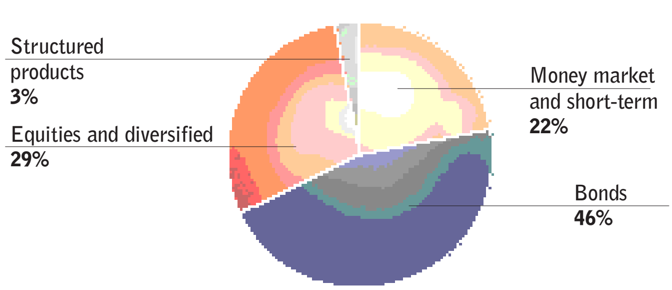
BNP also embarked on a vigorous program to standardize information systems, rationalize systems platforms and centralize capital markets back offices across Europe.

Risk exposures

With the rise in country risk over the past eighteen months and the extreme volatility in the markets, international and market risk management has become more than ever a key factor in profitability. After a year marked by widespread default both by governments and foreign counterparties (Asia, Russia, hedge funds, etc.), the cautious and rigorous policy applied by BNP in recent years meant that the bank was one of the least affected of large international creditors.

Assets under management

86 billions of euros as at 31 December 1998

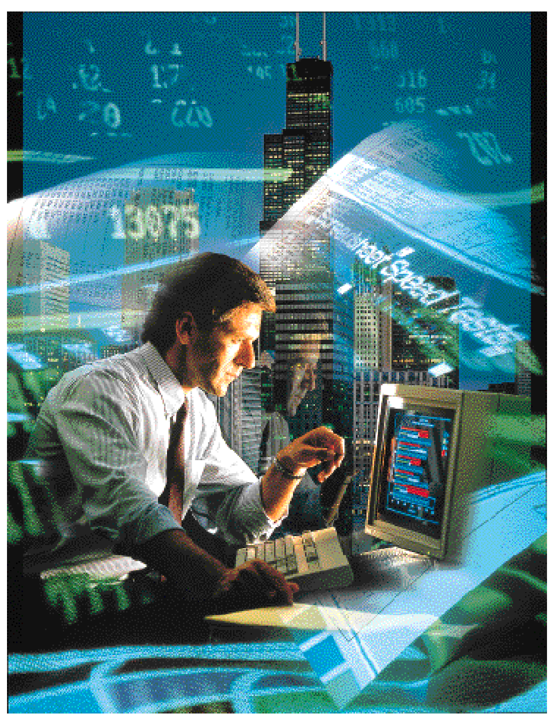


In particular, BNP had only ever entered into market transactions with the LTCM fund, which ran into difficulties in 1998. Even then, the Bank had insisted that all such transactions be secured either by investment-grade debt issued by Western Governments, or by cash backed by a netting agreement and daily margin calls. BNP had no stake in the capital of LTCM, had not extended any credit to it, and did not take part in the recapitalization plan. More generally, BNP had no material credit exposure to highly leveraged institutions as at 31 December 1998.

When the financial crisis on GKOs broke in Russia, BNP held GKOs with an equivalent value of only EUR 27.4 million. Most of the Bank's Russian exposure consists of sovereign debt issued by the former Soviet Union, denominated in foreign currencies. Since the early 1990s, this debt has been provided for as part of the overall allowance for country risk.

Further progress was made during 1998. The segregation of sales and risk management functions was enhanced as a result of organizational changes. In the global customers and markets division, the credit and market risk management departments were brought together and strengthened. A new system for measuring the Bank's exposure was introduced, giving a faster and more accurate response, especially for at-risk countries. A restricted committee was set up at the highest management level to deal with financial crises and adapt the Bank's risk policy in response to sudden changes without harming profitability.

Hence at the end of 1998, the ratio of watch-list and at-risk loans to total customer loans for the international network remained at a reasonable level.



Corporate govern

BNP is one of France's precursors in the field of corporate governance, having made the necessary changes in its organization even before the CNPF/Afep recommendations were made public in July 1995. Since that time, the Bank has unceasingly endeavored to adapt and to improve its organization in order to take into account changes in international standards as appropriate.

At 31 December 1998, the Board of Directors was made up of fifteen members appointed for six-year terms. The Board met seven times in 1998. Membership reflects a wide range of complementary expertise in banking and business, in France and abroad:

- two directors, Michel Pébereau and Jacques Henri Wahl, who are members of BNP's General Management Committee
- ten outside directors: Jean-Louis Beffa, Jacques Friedmann, Jean Gandois, Philippe Jaffré, Alain Joly, Lindsay Owen-Jones, David Peake [1], Jürgen Sarrazin [2], Louis Schweitzer, and René Thomas, three of whom are directors of companies with no shareholding ties to BNP: Jean Gandois, Chairman of Cockerill-Sambre; Alain Joly, Chairman and CEO of L'Air Liquide; and Lindsay Owen-Jones, Chairman and CEO of L'Oréal, and one of whom, René Thomas, Honorary Chairman, is specifically in charge of representing the interests of small shareholders
- three directors representing BNP employees: Patrick Auguste, Jean-Marie Gianno, and Philippe Mussot.

In 1997 the Board adopted a **Set of by-laws** stipulating the directors' rights, responsibilities, and obligations, the system used to apportion directors' fees, and the number of BNP shares each director should hold.

(1) Mr David Peake is also President (non-executive) of BNP UK Holdings Ltd.;
(2) Until he resigned on 31 December 1998. The Board of Directors has subsequently co-opted Mr. Bernhard Walter, Chairman of the Board of Dresdner Bank.

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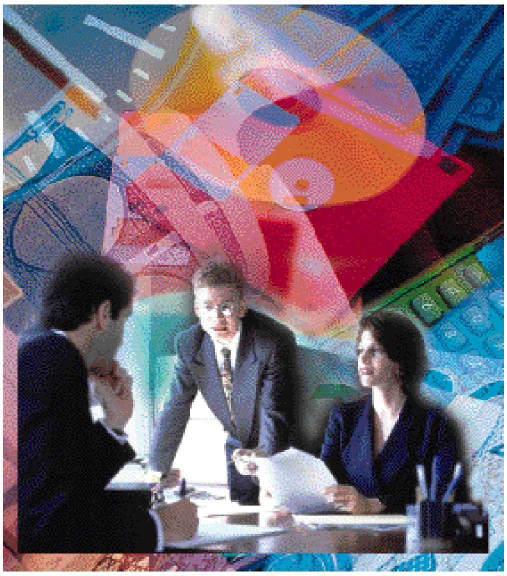


In 1994 BNP created special Board committees chaired by outside directors. As of 1997, senior managers are no longer members of these committees, but they and their direct reports attend meetings whenever necessary. This arrangement goes beyond the recommendations of CRB Regulation 97-02 on Internal Controls.

The **Financial Statements Committee** is chaired by Philippe Jaffré and its members are Patrick Auguste, Jean Gandois, Lindsay Owen-Jones, David Peake and René Thomas. It meets at least twice a year, with the joint Statutory Auditors present at the two meetings devoted to the annual and interim financial statements. Its purview extends to accounting methods and procedures, the financial statements, and the Group's accounting and financial information.

In 1998 this committee examined growth of banking income and gross operating income by division, extraordinary items, allowances set up for the domestic activities and adequacy of allowances set up to cover risks related to the Asian and Russian crisis.

The **Internal Control and Risk Management Committee**, with six members, Jacques Friedmann Chairman and Jean-Marie Gianno, Philippe Mussot, Jürgen Sarrazin(3), Louis Schweitzer and René Thomas, meets at least twice a year. 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 measurements it receives. In 1998 this committee analyzed the annual report on internal controls, which BNP prepared in accordance with regulations, profitability of loans originated in the domestic banking activities, improvements to monitoring procedures–especially regarding derivative products–and lending policy, particularly to sensitive business sectors and regions such as Asia and Russia, as well as the effect on results of the extraordinary volatility on financial markets experienced during the summer of 1998.

The **Compensation and Nominations Committee** prepares the decisions of the Board on matters concerning the personal status of the office of the Chairman, such as remuneration and stock options. It examines the conditions for replacing members of the office of the Chairman, and it prepares proposals for appointing new directors. It is chaired by Alain Joly, and its members are Jean-Louis Beffa, and Philippe Jaffré. It met in 1998 and reported its conclusions to the Board of Directors.

BNP is managed by a number of committees:

The **Executive Committee**, with twenty-three members as of 31 January 1999, meets once a

(3) Until he resigned, on 31 December 1998.

week and periodically holds seminars to prepare strategic decisions and to decide on the main management orientations. Its work is prepared in a special committee.

The **Credit Committee** is headed by the President and Chief Operating Officer and the main divisions are represented, including the Risk Policy and Industry Research, which has veto power. This committee makes decisions concerning proposed commitments exceeding thresholds determined according to category of credit.

A **Risk Policy Committee** was set up in the fourth quarter of 1998. Its members are the Chairman and CEO, executive officers of the International Banking & Finance department, the Executive Vice-President for Risk Policy and Industry Research, the Executive Vice-President for Risks, the Executive Vice-President for Asset & Liability Management. It meets in general when asked by the Executive Vice-President for Risk Policy and Industry Research to examine global situations but does not make decisions on individual commitments.

Other committees meet monthly to prepare recommendations for the General Management Committee, each in its area of expertise. They include the Market Risk Committee, the Asset & Liability Management Committee, and the Organization and Information Systems Committee.

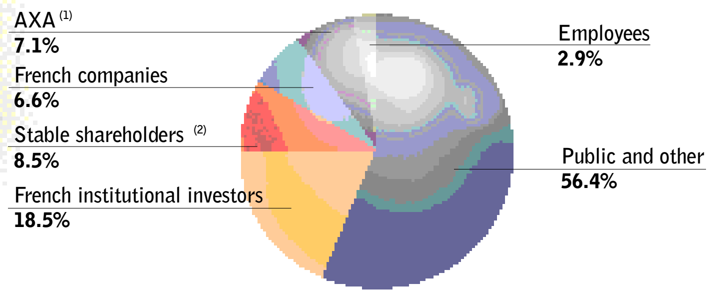
The Management Charter:
A new version of the document setting out BNP's management principles was distributed in 1997. It reiterates BNP's strategic aim of achieving profitable growth. It serves as a guideline to encourage executives to add personal value and exercise their collective responsibility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

Ethics:
BNP has reinforced its ethical organization to keep up with new developments in this area. Its goal is to be exemplary in France and in those countries where it operates, respecting the integrity of the markets and the precedence of its customers' interests. Jacques Henri Wahl, member of the Board of Directors and adviser to the Chairman and Chief Executive Officer, is responsible for the BNP Group's ethics.

Regulatory Compliance:
The growing number of markets, international exposure, and the introduction of EU directives have made it necessary for BNP to monitor its in-house procedures for compliance at all times. The International Banking and Finance division has appointed a **Compliance Officer** for this purpose.

BNP Stockholder information

at 31 December 1998



(1) At 31 December 1998, Axa direct holding in BNP was 7.1%, a 1.7% decrease since 31 December 1997.

(2) Elf Aquitaine (including its subsidiary Sogelfa), Compagnie de Saint-Gobain, Grande Armée Participation (PSA Group), Renault, Dresdner Bank, Kuwait Investment Authority, General Electric and BAT Industries.

During 1998, the Shareholder Agreement was renewed. On that occasion, The Public Institution for Social Security of Kuwait, Financière et Immobilière Marcel Dassault, Roche Finance SA, Pechiney and Vivendi left the Stable Shareholders Group.

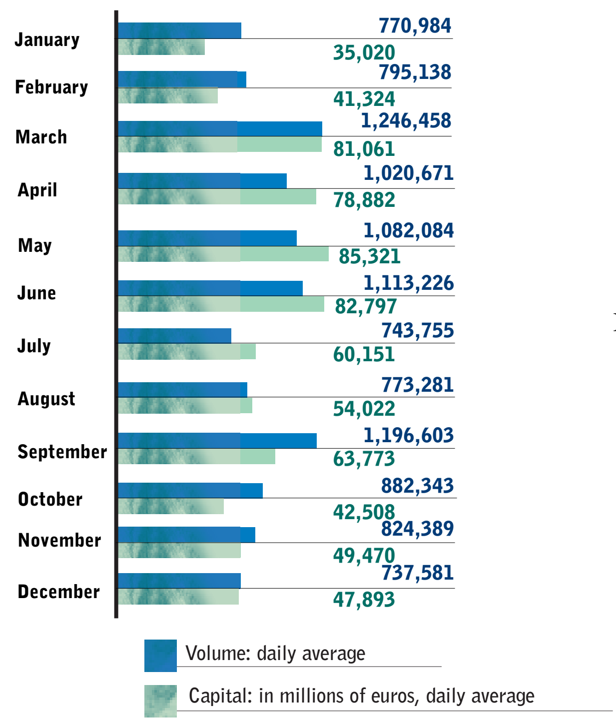
BNP Stockholder Information

Share Price

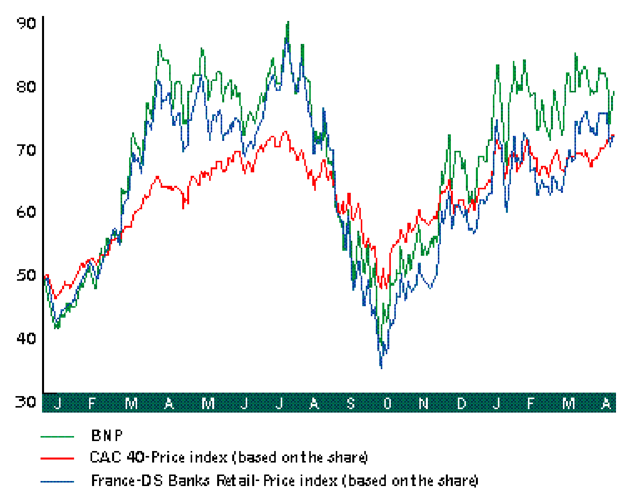
BNP shares were listed on the monthly settlement market of the Paris Stock Exchange on 18 October 1993. The shares are also traded on SEAQ International in London and on the Frankfurt Stock Exchange. A 144A ADR program has been active in the US since privatization, The Bank of New York being the depositary bank. BNP has been a component of the CAC 40 index since 17 November 1993. At the end of 1998, BNP shares were trading at EUR 70.16 (FRF 460.20), representing a 43.90% increase since the beginning of 1998. Over the same period, the CAC 40 index rose by 31.47% and the Datasteam French bank index rose by 16.51%.

At year end 1998, market capitalization was EUR 15.3 billion (FRF 100.5 billion), a year-over-year increase of 47.3%. Transaction volumes were substantially higher, with an average number of shares traded of 933,944, an increase of 7% over 1997.

Traded volumes in 1998



BNP-Stock price in 1998



Earnings and dividends per share

(in euros)

	1998	1997	1996	1995	1994
Number of shares outstanding at 31 December (1)	218,410,671	213,244,188	207,434,993	192,183,938	190,046,159
Earnings per share (2)	5.16	4.31	2.85	1.42	1.36
Net asset value per share	45.4	42.2	40.8	38.6	38.6
Gross dividend per share (3)	2.25 (4)	1.60 (5)	1.23	0.82 (6)	0.73
Payout ratio (%)	29.4 (4)	25.0	29.0	38.9	36.7

(1) Including non-voting shares until 1993.
(2) Based on the average number of shares over the year.
(3) Including the dividend tax credit.
(4) Subject to ratification by the Stockholders' Meeting of 4 May 1999. On the basis of 218,488,880 shares, taking into account the 78,129 new shares with rights from 1 January 1998, subscribed under the stock option plans 1994-2001 and 1995-2002.
(5) On the basis of 213,245,588 shares, taking into account the 1,400 new shares created on 29 January 1998 with rights from 1 January 1997, subscribed under the stock option plan.
(6) On the basis of 192,904,218 shares, taking into account the 720,280 new shares created on 27 February 1996 with rights from 1 January 1995, pursuant to the stock-for-stock public tender offer for the Spanish subsidiary BNP España.

Communicating with Stockholders

BNP endeavors to provide all its stockholders with clear, regular and equal information.

The **Investor Relations** department informs BNP's investors and financial analysts, in France and abroad, of the Group's strategy, results, and major events concerning the Bank's business. Informative briefings are organized twice a year, when the annual or half-year results are released, and members of the Bank's senior management present and discuss the Group's strategy.

The **BNP Shareholder Relations** department informs and listens to individual stockholders. A newsletters, mailed to members of the "Cercle BNP" twice yearly, informs them of important events concerning the Group. Meetings are organized during the course of the year with individual shareholders, at which a member of the Executive Committee presents the Bank's policy.

BNP website (http://www.bnp.fr, see "Investor Relations and Financial Information" page) provides information on the Group, including press releases and key figures. It is also possible to consult and download annual and interim reports, as well as presentations to financial analysts. Information on BNP is also available via Minitel (3614 BNPACTION). Stockholders may use this service to leave messages and to order any of the various documents available for distribution.

Dividends

The Board of Directors will recommend that the Stockholders' Meeting on 4 May 1999 declare a net dividend of EUR 1.50 per share (FRF 9.84). Gross dividend, including the dividend tax credit, is EUR 2.25 per share (FRF 14.76). The dividend will be declared and paid on 21 May 1999.

The proposed distribution amounts to EUR 327.7.million (FRF 2,150 million), up 44% from EUR 227.6 million (FRF 1,493 million) in 1997.

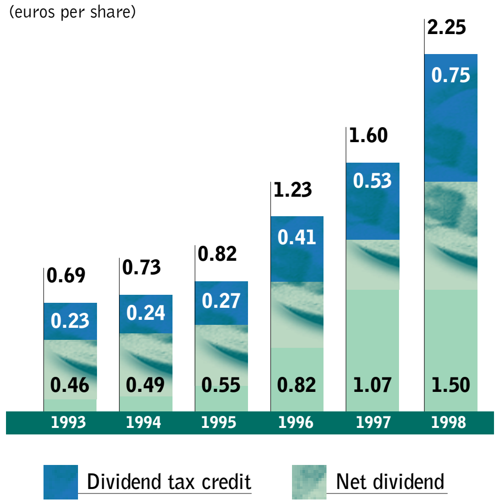
Annual Stockholders' Meeting

The Board of Directors convenes an Annual Stockholders' Meeting at least once a year to vote on the agenda it sets. Annual Meeting may be attended only by stockholders owning ten or more shares.

The Board convenes Special Meeting of Stockholders for the purposes of amending the Articles of Incorporation or increasing the capital stock. Resolutions are adopted by a two-thirds majority of stockholders present or represented. All stockholders may attend Special Meeting.

Annual and Special Stockholders' Meetings may be convened in a single notice of meeting and held on the same date. BNP will hold its Annual and Special Stockholders' Meetings on 4 May 1999, corresponding to the second notice of meeting.

Dividend
(euros per share)



Notice of Meetings

- Holders of registered shares for at least one month prior to the meeting date are ordinarily notified by letter. The notice of meeting contains the agenda, the draft resolutions, and a ballot for voting by mail.
- Holders of bearer shares are notified in the press; notices of meetings and information are given in the financial press.

Attendance at Meetings

Holders of ten or more bearer shares at least five days before the date of an Annual Stockholders' Meeting, or one share in the case of a Special Stockholders' Meeting or combined Annual and Special Stockholders' Meetings, may gain admittance to the meeting by presenting an entry card or certificate indicating that ownership of their shares has been temporarily frozen.

Voting

Stockholders who do not attend a stockholders' meeting may complete and return to BNP the ballot/proxy enclosed with the notice of meeting. This document enables them to do one of the following:

- vote by mail
- empower their spouse or another stockholder to represent them
- give proxy to the chairman of the meeting or indicate no representative.

Stockholders who attend a stockholders' meeting will receive a ballot at the meeting.

Statutory Declaration of Change in Ownership Interest

In addition to the legal thresholds, any stockholder, whether acting alone or in concert, who comes to hold directly or indirectly at least 0.5% of the capital stock or voting rights of the Company, or any multiple of that percentage up to 5%, is required to notify the Company by certified letter with return receipt.

Beyond a 5% ownership interest, as indicated in the preceding paragraph, the stockholder must notify the Company of any change in his ownership interest in multiples of 1% of the capital stock or voting rights of the Company.

The declarations mentioned in the preceding two paragraphs are also required in cases where ownership interests are lowered below the thresholds mentioned above.

Failure to comply with the requirement to declare such changes in ownership interest above or below legal or statutory thresholds causes the stockholder to lose his voting rights at the request of one or more stockholders who hold a combined interest of at least 5% of the capital stock or voting rights of the Company.

It will be proposed to the shareholders Annual Meeting to bring this threshold down to 2%.

financial statem

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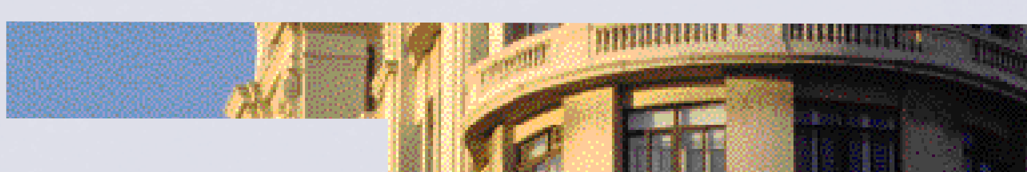

Contents

Report of the Board of Directors

Net income attributable to the Group up 22.6% to EUR 1,114 million.
Sevenfold increase in net income and fivefold growth in earnings per share since privatization in 1993.
Return on equity: 11.8% versus 10.4% in 1997.
Dividend per share: EUR 1.50 (EUR 2.25 including the tax credit).
Total dividend: EUR 327.7 million.
Payout rate: 29% versus 25% in 1997.

Nineteen ninety-eight was an excellent year for Banque Nationale de Paris. After rising 55% in 1997, net income attributable to the Group expanded by a further 23% to EUR 1,114 million, representing seven times the net income for 1993, the privatization year. Over the same period, earnings per share have expanded fivefold, to reach EUR 5.16 in 1998. These results reflect a deep-rooted improvement in the performance of all the Group's businesses. Income was boosted by more favorable economic conditions in France and the high level of activity on the equity markets, which helped to offset the impact of financial market turbulence and the substantial allowances set aside in response to worsening conditions in certain emerging markets.

Net banking income rose 9.6% to EUR 7,366 million, including organic growth of 7.8%. Fee income continued to expand, advancing 12.3% on 1997 to 34.1% of net banking income versus 33.5% the previous year, while value added to capital was 8.3% higher. Operating expenses increased 7.5%, reflecting the growth in retail banking business outside the euro countries and the development of the global customers and markets business, while the domestic banking division's operating expenses eased back 0.2%. Gross operating income reached EUR 2,347 million, up 14.6% on 1997 or 14.4% like-for-like. The operating efficiency ratio stood at 68.1% versus 69.5% the previous year. Additions to allowances amounted to EUR 1,203 million, an increase of 16%. The total includes EUR 290 million in new allowances concerning the "sensitive" countries of Asia, EUR 219 million related to Russia and a EUR 133 million(1) increase in general allowances for country risks. Disposals and write-downs of long-term investments, nonrecurring items, other income and expenses and the Group's share of earnings of companies carried under the equity method added EUR 454 million to earnings, raising net income before tax to EUR 1,598 million, an increase of 27.6% compared with 1997.

After deducting corporate income tax of EUR 431 million, up 41%, consolidated net income before minority interests came to EUR 1,167 million and net income attributable to the Group stood at EUR 1,114 million, in both cases 23% higher than the previous year.

Domestic Banking

The Domestic network posted strong revenue and earnings growth in 1998. With average outstanding loans of EUR 62.3 billion, the network's market share held firm compared with 1997 at 10.6%. Total sources of funds expanded 10.7% to EUR 105.3 billion.

One of the key developments of the year was the return to growth in outstanding loans, especially home loans, which rose 4.5% to EUR 17.4 billion. BNP's strategic focus on expanding the portfolio of consumer loans led to a strong rise in market share to 8.4%. Consumer loans outstanding at the end of 1998 totaled EUR 4.1 billion, up 9.8% on the year-earlier figure. In the area of savings products, the drive to promote sales of life insurance products and mutual funds yielded increases of 18% and 18.5% respectively in the value of customer funds invested in these products. In 1998, BNP was France's leading distributor of mutual funds, with sales in excess of EUR 4.4 billion. BNP's constant commitment to controlling risks, coupled with improved economic conditions, helped to limit additions to allowances to EUR 241 million.

Revenues generated by the Domestic network expanded 2.2% to EUR 3,435 million. Fee revenue accounted for 42.4% of the total, reflecting the successful launch of a number of innovative products. Efficiency gains drove a further 0.3% decline in operating expenses, contributing to a 14.8% rise in gross operating income to EUR 652 million. The French subsidiaries' gross operating income climbed 3.7% to EUR 203 million. Total gross operating income of

(1) Excluding the effect of divestments and securizations.

the Domestic Banking division came to EUR 855 million, up 12% on 1997.

BNP's policy of managing human resources actively and responsibly led to the recruitment of 1,000 school-leavers and graduates in 1998. In the years to come, this policy will support BNP's drive to expand its operations in France and other euroland countries, building on its ability to develop innovative products and its technological leadership in new distribution channels.

Retail Banking outside euro countries

BNP subsidiary Bank of the West has been merged with First Hawaiian Bank to create BANCWEST, a banking group serving the West of the United States with 213 branches and 800,000 customers. With 45% of the capital, BNP is BANCWEST's reference stockholder. BNPI, which is now over 97%-owned by BNP, is the other cornerstone of the Group's Retail Banking operations outside euro countries, with operations in the Mediterranean, the Indian Ocean and the French Overseas Areas.

The Retail Banking operation outside euro countries is building a position as a strategic business and key growth driver within the Group. In 1998, its net banking income grew 22% to EUR 733 million and gross operating income rose at the same rate to EUR 281 million.

The business will be developed in the years to come. Following the acquisition of BBL's interest in Société Financière pour l'Outre-Mer, BNP will hold 74% of the capital of this company, which holds stakes in eleven African banks including the BICIs.

Global Customers and Markets

Global Customers and Markets division net banking income rose 18.7% to EUR 2,554 million and gross operating income climbed 15.1% to EUR 897 million. These results reflected the strong performance of the division's high value-added businesses which are the key focus of its development effort:

- BNP confirmed its leadership of the French export financing market and its ranking among the world's ten largest providers of financing for international trade. In 1998, BNP was selected as arranger for 120 structured financing operations. Gross operating income from specialized finance activities rose 9.1%.

- The equities origination and brokerage business was strengthened by the acquisition of Pasfin (Italy), Ekachart (Thailand), Alliance (Singapore) and the teams of Peregrine (greater China and India) and Prudential Bache (Australia). Results from equity derivatives trading once again rose sharply in 1998 and the fixed income and currency trading businesses resisted well against market turbulence. Total gross operating income from financial activities surged 45.0% despite last year's crisis in the financial markets.

- The international private banking and asset management business continued to grow. The acquisition of exclusive control over UEB will expand and enhance BNP's presence in Switzerland, while asset management units have been created in Argentina, Brazil and Japan. In 1998, the business increased its gross operating income by 14.9%.

BNP's commitments in the countries hit by the financial crisis were further scaled down in 1998. Excluding trade-related finance which, by definition, carries lower risks, commitments came to EUR 558 million in Russia, EUR 471 million in Brazil and EUR 2,830 [(1)] million in the "sensitive" countries of Asia, where BNP's total commitments have been cut significantly since the crisis broke out. In 1998, substantial additions were made to allowances for credit losses in these countries, including EUR 290 million for the "sensitive" countries of Asia, EUR 219 million for Russia and EUR 133 million for country risks in other countries. Total allowances for country risks came to EUR 2,315 million at year-end 1998, above the year-earlier figure. These allowances are significantly in excess of the amount required based on the Group's internal risk rating system.

Efficient Information Systems

Modern and efficient information systems play a vital role in keeping costs down, supporting innovation and helping the Group to adapt to changes in the competitive environment. BNP's successful switch to the euro demonstrated the Group's ability to use its technical infrastructure to serve its business objectives. The ISO 9002 certification obtained in February 1999 testifies to the quality of the information systems that support its operations.

The Bank's IT teams are currently preparing for the Year 2000. As of 31 December 1998, the status of the Year 2000 project was considered satisfactory.

(1) including loans to private clients – EUR 198 million.

The BNP Group since 1993: far-reaching modernization to create value for stockholders, employees and customers

Since its privatization, BNP has undergone a massive transformation.

Average return on equity, after income appropriation, has risen from 2.2% to 11.8%, placing BNP at the forefront of French banks in terms of profitability. Stockholders who purchased BNP shares at the time of its privatization have doubled the value of their investment in the last five years.

In the five years since privatization, BNP's policy of managing human resources actively and responsibly has led to the recruitment of 3,600 new employees in France, while staff turnover has created 8,800 vacancies. Over 3,500 employees have received training to allow them to take up new customer-facing positions. BNP's human resources policy has enabled the Bank to cope effectively with the elimination of certain positions due to increasing computerization and organizational changes by reducing the total workforce in France from 39,600 persons to 34,400 without any forced layoffs.

Constant profitability gains have allowed BNP to apply motivating compensation policies. Between 1993 and 1998, total payments under incentive and profit-sharing plans increased sevenfold. The number of staff participating in employee share issues has steadily increased, from 28% of the workforce in 1996 to 38% in 1997 and 57% in 1998.

BNP has also extensively reorganized its operations to enhance customer service.

Domestic Banking sales teams have been expanded by 16% and are increasingly specialized in specific customer segments. A research and innovation department with over 200 staff has been created to offer new products and services. The branch network is adapting constantly to changing customer needs. A quality program has been launched and results are assessed regularly by means of performance indicators and satisfaction surveys.

BNP has also set up dedicated teams to serve global customers throughout the world. Teams responsible for relations with major international customers have been organized by industry and a similar organization has been set up for institutional customers and banks. The international private banking teams have been strengthened and structured to provide a global service. Lastly, lines of business have been set up to offer these customers international expertise in the various high value-added products and services offered by the Bank.

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Outlook

With a capital adequacy ratio of 10.4%, including a Tier 1 ratio of 6.4%, stockholders' equity of EUR 11 billion at year-end 1998, a reserve for general banking risks of EUR 1 billion and an allowance for sectoral risks –not allocated to any specific risks– of EUR 218 million, BNP's balance sheet is particularly healthy. The Group intends to meet the earnings growth objectives set in the BNP 2002 business plan through controlled development of the business. Priority will be given to achieving rapid organic growth, but BNP will remain open to external growth opportunities that are compatible with its core values.

At the Annual Stockholders' Meeting, the Board of Directors plans to recommend a 40% increase in the dividend to EUR 1.50 per share, representing a total payout of EUR 2.25 including the *avoir fiscal* tax credit of EUR 0.75. If approved, the total dividend will amount to EUR 327,733,200, up 44% on the previous year. The dividend will be paid as from 21 May 1999, in cash only.

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Twenty resolutions will be tabled at the combined Annual and Extraordinary Stockholders' Meeting of 4 May 1999.

The first twelve resolutions will be put to the vote at the Annual Stockholders' Meeting:

- The first resolution concerns approval of the balance sheet at 31 December 1998 and the statement of income for the year then ended. Before the resolution is put to the vote, the reports of the Board of Directors and the Auditors will be read out to the meeting.

- The second resolution concerns the appropriation of 1998 net income, including the payment of a dividend. BNP SA's net income for the year amounted to FRF 7,070,704 thousand (EUR 1,077,835 thousand). Including unappropriated retained earnings of FRF 1,327,025 thousand (EUR 202,304 thousand) brought forward from the prior year, total income to be appropriated comes to FRF 8,397,729 thousand (EUR 1,280,226 thousand). The recommended dividend amounts to EUR 327,733 thousand, representing EUR 1.50 (FRF 9.84) per share. Including the *avoir fiscal* tax credit of EUR 0.75 (FRF 4.92), the total payout per share will be EUR 2.25 (FRF 14.76). If approved, the dividend will be paid as from 21 May 1999.

An amount of FRF 12,916 thousand will be transferred to the legal reserve and FRF 3,425,338 thousand will be appropriated to the special long-term capital gains reserve and retained earnings, leaving FRF 2,809,685 thousand in unappropriated retained earnings to be carried forward to next year.

- In the third resolution, stockholders will be invited to approve the agreements governed by Sections 101 to 106 of the Companies Act. Before the resolution is put to the vote, the Auditors' special report will be read out to the meeting.

- In the fourth resolution, the Board of Directors is seeking a 5-year authorization to issue bonds, subordinated notes, perpetual or not, or other debt securities with a maximum aggregate face value of EUR 6 billion or the equivalent in foreign currency. The proceeds from the issues would be used to finance the Company's development.

- The fifth resolution concerns an authorization to be given to BNP to purchase up to 10% of its shares on the open market. The maximum purchase price would be set at EUR 120 per share and the minimum sale price would be EUR 50.

  The purchases would be carried out to stabilize the BNP share price. Alternatively, shares could be acquired for allocation or sale to employees, or in order to be cancelled at a later date, or for sale or transfer, or in connection with the Company's financial management and investment policies. The authorization would be given for a period of eighteen months.

- The sixth, seventh, eighth, ninth, tenth and eleventh resolutions concern the ratification of the appoint of Bernhard Walter as director, the re-election of Bernhard Walter, Jacques Friedmann, Jacques Henri Wahl and René Thomas and the election as directors of Jean-Marie Messier (to replace Jean Gandois, who is due to retire at the Annual Meeting) and François Grappotte.

- The twelfth resolution concerns the fees to be awarded to members of the Board of Directors.

The other eight resolutions are subject to the quorum and majority voting rules applicable to Extraordinary Stockholders' Meetings.

- In the thirteenth resolution, the Board of Directors is seeking an authorization to issue shares and share equivalents, with pre-emptive subscription rights. The aggregate par value of direct or secondary share issues would be limited to EUR 500 million (FRF 3.28 billion). The aggregate face value of the debt securities would be limited to EUR 7.5 billion (FRF 49.20 billion).

- In the fourteenth resolution, the Board of Directors is seeking an authorization to issue shares and share equivalents without pre-emptive subscription rights. The securities could be issued in payment for securities of one or several other companies quoted on a regulated market that are tendered to an exchange offer made by the Company. In particular, the authorization could be used to issue shares in the case where either or both of the public exchange offers made by BNP for Société Générale and Paribas are taken up by the two banks' stockholders.

  The aggregate par value of shares issued under this authorization would not exceed EUR 2.4 billion (FRF 15.74 billion). If BNP's offers for Société Générale and Paribas are not taken up by the two banks' stockholders, the above ceiling will be reduced to EUR 600 million (FRF 3.94 billion) and if either one of the two offers is not taken up by the stockholders of the bank concerned, the ceiling will be reduced to EUR 1,500 million (FRF 9.84 billion).

  The aggregate face value of debt securities issued under this authorization would be limited to EUR 7.5 billion (FRF 49.2 billion).

- In the fifteenth resolution, the Board of Directors is seeking an authorization to increase the capital to a maximum of EUR 600 million (FRF 3.94 billion) by capitalizing retained earnings.

- The sixteenth resolution concerns an authorization to be given to the Board of Directors to carry out any of the issues covered by the above three resolutions while the Company is the target of a takeover bid.

- The seventeenth resolution places a blanket ceiling of EUR 10 billion (FRF 65.59 billion) on issues of debt securities and EUR 2.4 billion (FRF 15.74 billion) on share issues carried out under the above authorizations.

The proceeds from the issues could be used to finance the Company's development or external growth operations. Alternatively, the securities could be issued in connection with a public exchange offer, as mentioned above.

- In the eighteenth resolution, the Board of Directors is seeking a 26-month authorization to cancel shares acquired under the fifth resolution. The maximum amount by which the capital could be reduced under this authorization in any given 24-month period would be 10%.

- The nineteenth resolution concerns the amendment of article 5 of the bylaws dealing with legal and statutory disclosure thresholds. Under the amended article, any group of stockholders owning at least 2% of the capital or voting rights–as opposed to 5% currently–would be entitled to apply for shares corresponding to undisclosed interests to be stripped of voting rights.

- The twentieth resolution concerns the granting of the necessary powers to carry out legal publication and other formalities.

Appendixes to the Report of the Board of Directors (2)

Consolidated income

The BNP Group's consolidated income statements for the years 1994 to 1998 are presented below:

						% Change in
(In millions of euros)	1998	1997	1996	1995	1994	98/97
Net banking income	**7,366**	**6,718**	**6,022**	**5,749**	**5,993**	**9.6**
Operating expense and depreciation	(5,019)	(4,670)	(4,369)	(4,300)	(4,409)	7.5
Gross operating income	**2,347**	**2,048**	**1,653**	**1,449**	**1,584**	**14.6**
Net addition to allowances for credit risks and country risks	(1,203)	(1,034)	(578)	(844)	(1,124)	16.3
Net operating income	**1,144**	**1,014**	**1,075**	**605**	**460**	**12.9**
Gains (losses) on disposals of long-term investments, net of provisions	478	363	(107)	1	(19)	31.6
Non-recurring non-operating expenses	(132)	(233)	(257)	(126)	(45)	n.a.
Share of earnings of companies carried under equity method	124	124	82	5	97	(0.1)
Amortization of goodwill	(16)	(16)	(13)	(13)	(19)	1.9
Pretax income	**1,598**	**1,252**	**780**	**472**	**474**	**27.6**
Income taxes	(431)	(304)	(150)	(179)	(205)	41.4
Consolidated net income	**1,167**	**948**	**630**	**293**	**268**	**23.1**
Net income attributable to Group	**1,114**	**909**	**588**	**272**	**253**	**22.6**

Consolidated net income for 1998 totaled EUR 1,167 million and net income attributable to the Group came to EUR 1,114 million, up 23.1% and 22.6% respectively compared with 1997. The year-on-year growth reflects the sustained, large-scale improvement in the earnings performances of the various Group businesses. Income was boosted by more favorable economic conditions in France and the high level of activity in the equity markets, which helped to offset the impact of financial market turbulence and the substantial allowances set aside in response to worsening conditions in certain emerging markets.

Net banking income

Net banking income climbed 9.6% in 1998 to EUR 7,366 million.

						% Change in
(In millions of euros)	1998	1997	1996	1995	1994	98/97
Value added to capital (1)	4,855	4,482	4,053	3,959	3,994	8.3
Commissions and other (1)	2,511	2,236	1,969	1,790	1,999	12.3
Net banking income	**7,366**	**6,718**	**6,022**	**5,749**	**5,993**	**9.6**

(1) economic definitions.

Domestic Banking revenues expanded 2.3% to EUR 3,829 million. Revenues of the domestic branch network rose 2.2% to EUR 3,435 million, helped by a EUR 97 million increase in commission revenue.

Retail Banking revenues outside euro countries totaled EUR 733 million, an increase of 22% including the contribution of First Hawaiian Bank consolidated over the last two months of the year. Based on a comparable structure and at constant exchange rates, the year-on-year increase came to 7.2%.

Global Customers and Markets revenues climbed 18.7% to EUR 2,554 million. Based on a comparable structure and at constant exchange rates, revenues rose 16.7%.

(2) The percent changes shown in this document have been calculated on the basis of data expressed in million French francs; as a result, they may be slightly different from the percent changes obtained using data expressed in million or billion euro.

rectors

Net banking income	In millions of euros	% Change (98/97)
Global customers	884	10.7
Specialized finance	281	10.1
Financial activities	1,095	28.0
Asset management	194	33.4
Equity portfolio income	100	2.3
Global Customers and Markets	**2,554**	**18.7**

All businesses improved on their prior-year performance and in the case of the Global Customers business, revenue growth was accompanied by strict control over risk-weighted assets.

Commissions

						% Change in
(In millions of euros)	1998	1997	1996	1995	1994	98/97
On securities transactions	735	590	515	423	618	24.6
On customer transactions and other	578	481	425	337	351	20.4
On payment systems	355	319	299	285	266	11.1
On life/endowment insurance	126	130	112	109	83	(3.7)
Commission income ("BAFI" definition)	**1,794**	**1,520**	**1,351**	**1,154**	**1,318**	**18.0**
Other [(1)]	717	716	618	636	681	n.a.
Total commissions and other	**2,511**	**2,236**	**1,969**	**1,790**	**1,999**	**12.3**

(1) These figures essentially correspond to income that is not recorded as commissions according to "BAFI" criteria but which is economically related to commissions (such as foreign exchange commissions, software sales and re-invoiced expenses), including net expenses (EUR 26 million in 1998) recorded under "other operating income and expenses".

Operating expense and depreciation

						% Change in
(In millions of euros)	1998	1997	1996	1995	1994	98/97
Salaries and employee benefits, including profit-sharing	3,085	2,895	2,732	2,689	2,717	6.6
Other operating expense	1,601	1,454	1,323	1,314	1,369	10.1
Depreciation, amortization and provisions	333	321	314	297	323	3.8
Operating expense and depreciation	**5,019**	**4,670**	**4,369**	**4,300**	**4,409**	**7.5**

Total operating expense and depreciation rose 7.5% between 1997 and 1998. Expense trends between the various divisions were uneven.

Domestic Banking operating expense and depreciation eased back 0.2%. Since 1993, these costs have been cut by 5% or 11% in real terms, excluding the effects of inflation. BNP is continuing to implement its policy of gradually scaling down employee numbers, based on natural wastage and voluntary departures. The number of employees was reduced by 1,035 persons between the beginning and the end of 1998. At 31 December 1998, the domestic branch network had 29,653 full-time equivalent employees. Adjustments reflected increasing computerization, organizational improvements and greater emphasis on expanding the sales force.

Number of Group employees

Full-time equivalent employees at 31 December	1998	1997	1996	1995	1994	% Change in 98/97
Domestic Banking	**31,882**	**32,917**	**34,092**	**35,203**	**36,049**	**(3.1)**
BNP France	29,653	30,754	31,984	33,094	33,961	(3.6)
French subsidiaries	2,229	2,163	2,108	2,109	2,088	3.0
Global Customers and Markets and Retail Banking outside euro countries	**21,443**	**16,671**	**15,913**	**15,693**	**15,505**	**28.6**
In France	1,748	1,618	1,623	1,620	1,579	8.0
French subsidiaries	1,215	1,069	816	790	757	13.7
French overseas areas	1,079	1,142	1,157	1,209	1,244	(5.5)
Outside France	17,401	12,842	12,317	12,074	11,925	35.8
Europe	4,334	3,636	3,507	3,527	3,565	19.2
The Americas	6,634 (1)	3,331	3,204	3,144	3,021	99.2
Asia/Pacific	3,031	3,288	2,554	2,338	2,267	(7.8)
Africa/Middle East	3,402	2,587	3,052	3,065	3,072	31.5
Other	**2,961**	**2,832**	**2,757**	**2,704**	**2,915**	**4.6**
Total	**56,286**	**52,420**	**52,762**	**53,600**	**54,469**	**7.4**

(1) including the 5,000 employees of BANCWEST.

Operating expense and depreciation of the Retail Banking business outside the euro countries rose 22.0% to EUR 451 million. The increase was partly due to the first-time consolidation of First Hawaiian Bank, which has 3,170 employees, and costs generated by First Hawaiian Bank's merger with Bank of the West.

Global Customers and Markets operating expense and depreciation climbed 20.7%, reflecting the first-time consolidation of UEB and the cost of strengthening teams and IT and other resources, mainly at BNP Arbitrage, BNP Gestions, BNP Cooper Neff and BNP PrimeEast.

Higher gross operating income in all three divisions

Gross operating income by division (In millions of euros)	1998	1997	% Change in 98/97
Domestic Banking division	855	764	12.0
Domestic network	652	568	14.8
Domestic subsidiaries	203	196	3.7
Retail Banking outside the euro countries	281	231	22.0
Global Customers and Markets	897	780	15.1
Global customers	338	318	6.3
Specialized finance	144	132	9.1
Financial activities	232	160	45.0
Asset management	85	74	14.9
Equity portfolio income	98	96	2.5
Other activities	314	273	14.5
Total BNP Group gross operating income	**2,347**	**2,048**	**14.6**

rectors

Gross operating income totaled EUR 2,347 million, an increase of 14.6% compared with 1997 and including organic growth of 13.2%. The contributions of the various divisions were as follows:

- 36.4% from Domestic Banking, which generated gross operating income of EUR 855 million, up 12.0% on 1997 (including 14.8% for the network and 3.7% for the subsidiaries);
- 12.0% from Retail Banking outside euro countries, with gross operating income 22% higher at EUR 281 million;
- 38.2% from the Global Customers and Markets division, with gross operating income of EUR 897 million, representing an increase of 15.1% attributable to 45% growth in income from financial activities and the sound performance of the international network;
- 13.4% from Other Activities, including EUR 126 million in interest arrears collected on loans to Kenya and Côte d'Ivoire, which were entirely offset by an addition to allowances for credit risks and country risks in the same amount. In 1997, similar operations were recorded for a total amount of EUR 0.2 billion.

Analysis of gross operating income of the international and French overseas areas network (all lines of business), according to geographic area

	1998	
	In millions of euros	In percent
Europe (excluding France)	196	22.7
The Americas	329	38.0
Asia/Pacific	195	22.6
Africa/Middle East	110	12.7
French Overseas Areas	35	4.0
Total	**865**	**100.0**

Gross operating income of the international network (all lines of business) totaled EUR 865 million in 1998, up 5.4% on the previous year. The breakdown between the various continents is relatively even. The larger contribution of the Americas reflects the operations of BANCWEST in the west of the United States, which is steadily expanding its retail banking network.

Net additions to allowances for credit risks and country risks

						% Change in
(In millions of euros)	1998	1997	1996	1995	1994	98/97
Allowances for specific risks	796	604	701	889	1,093	31.8
Domestic banking	241	366	521	728	715	(34.1)
Five Asian countries	299	90	—	—	—	x 3.3
Country risks and equivalents	407	430	(123)	(45)	31	(5.4)
Five Asian countries	(9)	370	—	—	—	n.a.
Additions to allowances for credit risks and country risks	**1,203**	**1,034**	**578**	**844**	**1,124**	**16.3**
Five Asian countries	290	460	—	—	—	(37.1)
Russia	219	—	—	—	—	—
Domestic banking	241	366	521	728	715	(34.1)

Net additions to allowances for credit risks and country risks totaled EUR 1,203 million in 1998 versus EUR 1,034 million the previous year, representing an increase of EUR 169 million or 16.3%.

During 1998, allowances to cover risks in five Asian countries –South Korea, Indonesia, Malaysia, the Philippines and Thailand– were raised by EUR 290 million. At 31 December 1998, total allowances for risks in these countries stood at EUR 743 million. Out of the total, 51% corresponds to allowances for specific risks and 49% to allowances recorded as a precautionary measure to cover a potential deepening of the crisis in this zone.

Consolidated net income

Consolidated net income amounted to EUR 1,167 million. Net income attributable to the BNP Group rose 22.6% to EUR 1,114 million, representing seven times net income for 1993, the year of the Bank's privatization. Return on equity, calculated by dividing average stockholders' equity after income appropriation by net income for the year (in both cases excluding minority interests), stood at 11.8% in 1998 versus 10.4% in 1997 and 2.2% in 1993.

Net income of BNP SA

(In millions of euros)	1998	1997	1996	1995	1994	% Change in 98/97
Net banking income	5,483	5,206	4,626	4,619	4,837	5.3
Operating expense and depreciation	(3,782)	(3,688)	(3,511)	(3,496)	(3,586)	2.6
Gross operating income	**1,701**	**1,518**	**1,115**	**1,123**	**1,251**	**12.1**
Net additions to allowances for credit risks and country risks	(973)	(839)	(306)	(481)	(793)	15.9
Non-recurring non-operating items and other	367	(409)	(496)	(346)	(208)	n.a.
Pretax income	**1,095**	**270**	**313**	**296**	**250**	**x 4**
Net income	**1,078**	**320**	**362**	**271**	**201**	**x 3**

The significant increase in BNP SA's net income in 1998 stems from the restructuring of its interest in Bank of the West, which was accounted for as a share-swap in the parent company's accounts.

Appropriation of income

The Board of Directors is recommending that the Annual Stockholders' Meeting to be called to approve the 1998 accounts appropriate net income for the year of EUR 1,077,921,835.15, plus unappropriated retained earnings brought forward from the prior year in an amount of EUR 202,303,677.68, representing total income available for appropriation of EUR 1,280,225,512.83, as follows:

- appropriation to the legal reserve: EUR 1,969,063.14;
- appropriation to other reserves and carryforward as unappropriated retained earnings: EUR 950,523,249.69;
- distribution of a total dividend of EUR 327,733,200.00.

Appropriation of income for 1998 (in euros)

Debit		Credit	
Legal reserve	1,969,063.14	Unappropriated retained earnings brought forward from prior year	202,303,677.68
Balance available for distribution:		Net revenue for the year less operating expense, depreciation provisions for general risks and commitments and other expenses	1,077,921,835.15
Other reserves	522,189,463.48		
Dividends	327,733,200.00		
Unappropriated retained earnings	428,333,786.21		
Total	**1,280,225,512.83**	**Total**	**1,280,225,512.83**

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(In millions of euros)	1998	1997	1996	1995	1994	1993
Net income attributable to the Group	1,114	909	588	272	253	155
Total net dividend	328	228	171	106	93	84
Payout rate	29.4%	25.0%	29.0%	38.9%	36.7%	54.2%
Number of shares outstanding at 31 December (1)	218,410,671	213,244,188	207,434,993	192,183,938	190,046,159	184,008,556
Earnings per share (EUR)	5.16	4.31	2.85	1.42	1.36	1.01
Net dividend per share (EUR	1.50 (4)	1.07 (3)	0.82	0.55 (2)	0.49	0.46

(1) Including nonvoting shares in 1993.
(2) Paid on 192,904,218 shares, including the 720,280 new shares created on 27 February 1996 following the public tender offer for BNP España.
(3) Paid on 213,245,588 shares, including the 1,400 new shares with rights from 1 January 1997 subscribed under the 1995-2002 stock option plan.
(4) Paid on 218,488,800 shares, including the 78,129 new shares with rights from 1 January 1998 subscribed under the 1994-2001 and 1995-2002 stock option plans.

Subject to approval by the Annual Stockholders' Meeting, the net dividend per share (excluding the dividend tax credit) will amount to EUR 1.5, up 40% on the previous year's dividend.

Consolidated balance sheet analysis

The following table shows changes in the various balance sheet items over the last 5 years:

						% Change in
(In billions of euros, at 31 December)	**1998**	**1997**	**1996**	**1995**	**1994**	**98/97**
Interbank and money market items	115.3	114.7	108.7	86.6	74.3	0.6
Customer loans	148.7	135.4	121.0	114.0	111.5	9.8
Securities portfolios	27.6	26.4	28.4	20.6	17.8	4.8
Other assets	30.8	31.6	23.0	19.2	15.2	(2.7)
Tangible and intangible assets	2.4	2.1	2.6	2.6	2.6	13.2
Total assets	**324.8**	**310.2**	**283.7**	**243.0**	**221.4**	**4.7**
Interbank and money market items	108.1	101.9	95.0	77.9	68.0	6.1
Customer deposits	118.0	109.4	97.2	88.1	79.8	7.8
Bonds and negotiable debt instruments	36.7	36.6	38.9	41.3	42.2	0.3
Other liabilities	38.8	41.2	34.1	19.3	15.2	(6.1)
Allowances for liabilities and charges	2.9	2.2	1.9	1.8	1.8	34.7
Subordinated debt	8.3	8.2	6.8	5.6	5.5	0.6
Reserve for general banking risks	1.0	1.0	1.0	1.3	1.3	1.3
Stockholders' equity (after income appropriation)	11.0	9.7	8.8	7.7	7.7	12.8
Total liabilities and stockholders' equity	**324.8**	**310.2**	**283.7**	**243.0**	**221.5**	**4.7**

Total consolidated assets at 31 December 1998 came to EUR 324.8 billion, up 4.7% on the year-earlier figure. The main year-on-year changes in consolidated balance sheet items were as follows:

Assets

- Total customer items expanded by 9.8% to EUR 148.7 billion, representing 45.8% of total assets versus 43.6% at 31 December 1997. Growth was driven by an increase in the customer loan portfolios of BANCWEST CORP. and BNP France and it also reflected a higher volume of resale agreements. BNP's credit risks on highly-leveraged institutions are not material.
- Interbank and money market items held firm, the increase in resale agreements and the portfolio of Treasury bills and money market securities having offset a decline in interbank loans and other interbank items.

Liabilities

- Interbank items rose 6.1% to EUR 108.1 billion, reflecting growth in repurchase agreements.
- Customer deposits expanded 7.8% to EUR 118.0 billion. Year-on-year growth was attributable to the higher volume of deposits at BANCWEST CORP. (due to a change in group structure), BNP France, BNP New York and UEB Geneva.

Stockholders’ equity
Changes in capital stock

Changes in capital stock, 1992 to 1998	Number of shares	Capital stock (in FRF)
At 31 December 1992	**70,739,443**	**3,536,972,150**
1993		
Two-for-one stock-split and reduction in the par value of the shares from FRF 50 to FRF 25	141,478,886	3,536,972,150
Exercise of subscription warrants for nonvoting shares issued in 1990	12,048,924	301,223,100
Exercise of rights to subscribe to common and nonvoting shares issued in 1993	30,480,746	762,018,650
At 31 December 1993	**184,008,556**	**4,600,213,900**
1994 (1)		
Payment of the dividend in the form of shares of the company	1,685,603	42,140,075
Capital contribution of shares of Compagnie Financière Gamma	4,352,000	108,800,000
At 31 December 1994	**190,046,159**	**4,751,153,975**
1995		
Payment of the dividend in the form of shares of the company	2,137,779	53,444,475
At 31 December 1995	**192,183,938**	**4,804,598,450**
1996		
Stock-for-stock public tender offer for BNP España	720,280	18,007,000
Payment of the dividend in the form of shares of the company	1,675,995	41,899,875
Stock-for-stock public tender offer for CIP	12,202,336	305,058,400
Private placement reserved for staff members	652,444	16,311,100
At 31 December 1996	**207,434,993**	**5,185,874,825**
1997		
Stock-for-stock public tender offer for BNPI	1,315,122	32,878,050
Payment of the dividend in the form of shares of the company	3,574,073	89,351,825
Private placement reserved for staff members	920,000	23,000,000
At 31 December 1997	**213,244,188**	**5,331,104,700**
1998		
Issuance of shares on exercise of stock options	7,141	178,525
Stock-for-stock public tender offer for BNP “I”	1,702,410	42,560,250
Payment of the dividend in the form of shares of the company	2,176,932	54,423,300
Private placement reserved for staff members	1,280,000	32,000,000
At 31 December 1998	**218,410,671**	**5,460,266,775**
1999		(in euros)
Issuance of shares on exercise of stock options	78,129	
At 5 January 1999	**218,488,800**	**873,955,200**

(1) The Special Stockholders’ Meeting of 7 December 1994 voted to convert nonvoting shares into common shares.

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At 31 December 1998, BNP SA had capital stock of FRF 5,460,266,775 represented by 218,410,671 common shares with a par value of FRF 25. The shares are fully paid and are held in registered or bearer form, at the stockholders' discretion, subject to compliance with applicable laws and regulations. None of the shares carry double voting rights.

Increases in the number of shares in issue during 1998 were as follows:

- creation of 1,702,410 new shares in connection with the stock-for-stock public tender offer for BNPI (29 June 1998),
- payment of part of the 1997 dividend in shares, entailing the creation of 2,176,932 new shares (29 June 1998),
- private placement of 1,287,141 new shares, reserved for staff members (29 June 1998).

As of 5 January 1999, following the exercise of additional stock options, the conversion of the capital into euro and the rounding up of the par value of shares to EUR 4, BNP SA's capital stock stood at EUR 873,955,200 represented by 218,488,800 common shares.

Stockholders' equity

(In millions of euros, at 31 December after income appropriation)						% Change in
	1998	1997	1996	1995	1994	98/97
Consolidated stockholders' equity, BNP Group share	9,927	9,001	8,469	7,415	7,342	10.3
Minority interests	1,064	744	287	337	350	42.9
Consolidated stockholders' equity, including minority interests	10,991	9,745	8,756	7,752	7,692	12.8

Consolidated stockholders' equity, including minority interests, totaled EUR 11 billion at 31 December 1998, up EUR 1,246 million compared with the year-earlier figure. The Group's share of consolidated stockholders' equity came to EUR 9.9 billion, representing a year-on-year increase of EUR 926 million as follows:

- EUR 258 million corresponding to share issues carried out during the year and EUR 786 million in 1998 undistributed earnings appropriated to reserves, partially offset by
- the EUR 118 million negative impact of exchange rate fluctuations and other movements.

Minority interests in reserves increased by EUR 320 million, primarily reflecting the EUR 438 million impact of the restructuring of the Group's interest in the BANCWEST CORP. sub-group.

Capital adequacy ratios

Cooke ratio

At 31 December	New Cooke ratio		Former Cooke ratio				
In billions of euros and %	1998	1997	1997	1996	1995	1994	1993
Risk-weighted assets	180.23	181.87	177.56	172.16	155.82	147.83	157.54
Tier 1 and Tier 2 capital							
Tier 1	11.6	10.5	10.5	9.3	8.6	8.5	8.8
Tier 2	7.2	7.9	7.1	6.4	5.6	5.9	6.2
Total Tier 1 and Tier 2 capital	18.8	18.4	17.6	15.7	14.2	14.4	15.0
Tier 1 and Tier 2 ratio	10.4%	10.1%	9.9%	9.1%	9.1%	9.8%	9.5%
Tier 1 ratio	6.4%	5.8%	5.9%	5.4%	5.5%	5.7%	5.6%

The BNP Group's Cooke ratio (calculated on the revised basis taking into account market risks) stood at 10.4% at 31 December 1998 versus 10.1% at year-end 1997. The significant improvement is attributable to:

- the EUR 1.7 billion (1%) reduction in risk-weighted assets. Market risks remained broadly stable but credit risks declined. Changes in Group structure (Bank of the West / First Hawaiian, UEB, Banque du Caire et de Paris) resulted in an increase in credit risks, which was more than offset by the effect of currency translation and a significant decrease in credit risks (mainly corporate exposures) on a like-for-like basis.

- the EUR 0.4 billion (2.2%) growth in regulatory capital. Tier 1 capital expanded by EUR 1.1 billion, in line with the increase in book equity, while repayments of subordinated debt and other movements trimmed EUR 0.7 billion from Tier 2 capital.

Capital adequacy ratio

At 31 December 1998, the ratio of available regulatory capital to required regulatory capital for the BNP Group, calculated in accordance with the rules and instructions for the application in France of the European Council Directive on the capital adequacy of investment firms and credit institutions stood at 129% (123% in 1997) excluding Tier 3 capital (123% in 1997) and 136% (130% in 1997) including Tier 3 capital.

BNP also complies with the standards for the control of major risks, the liquidity ratios (102% at 31 December 1998) and the stockholders' equity and long-term capital ratios (99.7% at 31 December 1998). The Group entities that are registered as banking institutions comply with regulatory liquidity requirements.

Year 2000 project

The entire BNP Group organization in France and abroad is committed to ensuring that the change of millennium does not have an adverse impact on customers or stockholders. The Year 2000 project was launched over two years ago and progress is being monitored at the highest level of Group management. The organization structure set up to manage the changeover to the euro and the work performed on that project have considerably facilitated implementation of the Year 2000 project. The project is not confined to internal operations but also includes reviewing and validating interfaces with the main customers, suppliers and other external partners, as well as with all national and international interbank systems.

The BNP Year 2000 project is being implemented in four phases:

- the first phase–which has been completed–involved identifying all systems and operations potentially at risk from the millennium bug and planning corrective measures. During this phase, processes were classified as high, medium or low priority. All processes related to customer services, interbank transactions, risk management and internal financial and management information are considered of critical importance and were therefore classified as high priority.

- the second phase consists of adapting applications and hardware to make them Year 2000-compliant. In the last twenty years, BNP has used a coding system which is not affected by the change of millennium and this helped to limit the work involved. The Bank's IT production processes have been awarded ISO 9002 certification, testifying to its success in controlling Year 2000 risks.

- the third phase is the sign-off phase. Numerous series of tests are being performed, including aging tests performed by simulating the processing of transactions at sensitive dates beyond the Year 2000, to ensure that the millennium bug has been completely eliminated, as well as an overall validation.

- the fourth and final phase consists of reinstalling the Year 2000-compliant applications.

The Bank has deployed the necessary resources to successfully complete the project. Out of the total budget of EUR 335 million set aside for the Euro and Year 2000 projects, EUR 84 million are specifically earmarked for the Year 2000 project. Costs incurred up to 31 December 1998 represented nearly 55% of the total budget. During the year, a total of 1,000 people, including 500 IT experts, worked on the Euro and Year 2000 projects.

The project is currently running to schedule. As of 31 December 1998, 80% of critical applications were Year 2000-compliant. The first half of 1999 will be devoted to testing and signing off hardware, most of which had been adapted by year-end 1998. Between April and September 1999, BNP will participate in the testing of national market systems and a final test of global market systems is scheduled to take place in June 1999. During the second half of the year, the plans developed to deal with any residual Year 2000 problems will be validated. Within the BNP Group, a "dress rehearsal" is scheduled to take place in September 1999, along the same lines as for the changeover to the euro. This exercise will allow the Bank to assess its level of Year 2000 preparedness but will not provide absolute assurance that no problems will arise with the change of millennium, because much depends on the state of preparedness of external partners.

Alongside BNP's internal Year 2000 project, action is being taken to assess the level of preparedness of the main customers, correspondents and suppliers. Letters have been sent to all suppliers requesting confirmation that their products and services are Year 2000-compliant and proposing appropriate support. BNP is also taking steps to ensure that customers are aware of the risks arising from the millennium bug and are taking appropriate action to deal with them. Questionnaires have been sent to the main large corporate customers, banks and other institutions to determine the status of their Year 2000 projects. The situation of other businesses and members of the professions is also being assessed, based on their replies to the 10 questions contained in the "Year 2000 mission" checklist. In the network, account managers are contacting customers to discuss Year 2000 issues. Lastly, specific tests are being conducted with the main customers and suppliers, to test the compatibility of data received by the Bank.

The Year 2000 project represents a mammoth task of critical importance. The BNP Group started work on the project well ahead of the 31 December 1999 deadline, and while its success cannot be guaranteed, every effort has been made to ensure that the project was conducted as efficiently as possible. As was the case for the Euro project, staff throughout the organization are using this opportunity to establish methodologies and tools that will be of benefit for many years to come, via cross-functional projects, the testing process and the modernization and streamlining of hardware and software assets.

Internal control system and risk management

In 1998, the BNP Group took further action to enhance its system of internal controls in order to optimize the management of the risks inherent in its operations. The system is based on four main principles that underlie the Bank's organization:

- **Hierarchy** – The director of each head office division defines his internal control system in coordination with the Bank's other entities. He must ensure that it functions correctly and monitor effectively the activities for which he is responsible.

- **Separation of functions** – This principle applies primarily to departments that originate transactions and the administrative departments that settle the transactions. Separation of functions ensures ongoing, independent monitoring of business.

- **Delegation** – This is the fundamental concept on which the Bank's decision-making framework is based. Each delegator must monitor the implementation of his decisions.

- **Instructions** – Printed copies of the Bank's general policy, procedures, and controls are distributed throughout the entire BNP Group.

The BNP Group has created an internal control framework. It is organized according to eight risk families[3] and four monitoring levels, and takes existing supervisory and service relationships between BNP Group entities into account. It defines each individual's internal control responsibilities in the form of rules and regulations that state the scope and types of responsibilities delegated, the organization of monitoring procedures, and reporting requirements for each risk family.

The internal control system is run by a bank officer in charge of coordination and monitoring, and it is evaluated by the Management Audit and Inspection division, which reports directly to the Chairman and Chief Executive Officer. A specific unit has been set up to assist the bank officer responsible for internal control coordination and monitoring.

The key missions of this unit are to:

- regularly update the internal control framework;
- promote and facilitate consideration by the various divisions and departments of action to be taken to adapt

(3) Credit and counterparty risks, market risks, operational risks (accounting risks, administrative risks and IT risks), commercial risks (including the risk of damage to the Bank's reputation), legal and tax risks and human resources risks.

their internal control systems to take account of changes in the types of business conducted, regulatory changes and the use of new technologies and new financial instruments;
- verify that procedures consistently contribute to meeting the aims and objectives of the internal control system.

The various divisions and departments have significantly enhanced their systems of internal control by issuing more clearly-worded delegations of responsibilities, creating or updating procedure databases and progressively developing monitoring tools by risk family. This effort will be stepped up in 1999.

The BNP Group's internal control system, which is a major tool guiding all of the company's decision-makers, takes into account French Banking Commission (CRB) regulation 97-02, effective 1 October 1997.

Principles and Organization of Risk Management

Through its banking and trading activities, BNP is exposed to various types of risk: credit risk, counterparty risk, market risk, liquidity risk, transformation risk, and operational risk (accounting, administration, IT).

BNP has created, and continually improves upon, a set of standards and procedures intended to identify, measure, and manage its various risks. This system operates according to three demanding principles: strict separation between sales and risk analysis, individual responsibility for lending decisions, and attribution of the financial consequences of decisions to the operational entities that make them. All of the Bank's entities take part in control procedures and work together to ensure strict compliance, particularly of ceilings imposed on profit centers. New activities and major changes to existing activities are presented to Group senior management so that the most significant risks can be accurately identified and the appropriate standards and procedures implemented.

Strategic Direction

In 1998, BNP set up a Risk Policy Committee which works alongside the General Management Credit Committee and the Market Risks and Activities Committee.

The Risk Policy Committee is responsible for defining risk policies and determining crisis management strategies. It makes decisions, when necessary, concerning the strategies to be followed by the Committees and managers responsible for commitments and market risks in order to deal with situations potentially leading to an escalation of risks. To this end, the Committee reviews not only the risks involved and the business implications, but also the potential impact on the Bank's net banking income and financial communication.

The Committee is headed by the Chairman and Chief Executive Officer of BNP. Its members include the Chairman of the Market Risks and Activities Committee and the directors of the BFI-Risks and Risk Policy and Industry Research divisions.

Banking Activities

Responsibility for managing the Bank's commitments rests with its two core business divisions: Domestic Banking and International Banking and Finance.

Decision-Making Authority and Chain of Command

The Chairman and Chief Executive Officer delegates authority, with the faculty of subdelegating to the directors of the two core business divisions. Delegations are defined according to customer category, credit rating, and in some cases, business sector.

Subdelegations are organized in such a way that lending decisions rest solely with head office divisions for banks and sovereign borrowers, and with specialized units, which report to the two core business divisions, for certain operations requiring specific techniques or expertise (such as international commodity finance, specialized finance, and structured finance).

Any staff member vested with the authority to commit the Bank has the right and the obligation to reduce the amount of credit granted to a customer if he feels that the risk is deteriorating and warrants a reduction, even if the credit file does not fall within his powers

The General Management Credit Committee is the decision-making authority for commitments whose amount exceeds the delegation given to the directors of the two core business divisions. This Committee, headed by the Chief Operating Officer, has permanent members (including the director of the Risk Policy and Industry Research division, who holds veto power, as well as the directors of the two core business divisions), non-permanent members, representatives of the Management Audit and Inspection division, the Legal and Tax Affairs division, and credit application "sponsors". This Committee meets at least twice a week.

The General Management Impaired Credits Committee is the decision-making authority for impaired credits –allowances, waivers, write-offs–whose amount exceeds the delegation given to the directors of the two core business divisions, currently EUR 0.4 million. This Committee, headed by the Chairman and Chief Executive Officer of BNP, has permanent members (including the director of either the Legal and Tax Affairs unit or the Special Affairs and Collection unit, as well as the director of the Risk Policy and Industry Research division, or their representatives), non-permanent members (including representatives of the Management Audit and Inspection division), and application "sponsors". This Committee meets once a month.

In the specific area of country risks, the office of the Chairman delegates authority to officers of the International Banking and Finance division. This delegation is limited to a ceiling that is set as a function of a country's risk rating. Decisions concerning amounts above that ceiling are made by the General Management Credit Committee.

General Procedure for Granting Loans

Decisions pertaining to new originations must take into account all of the BNP Group's commitments to the borrower or its group, regardless of whether the commitments were made by one of BNP's divisions or subsidiaries. Under the principle of separation of powers, a relationship manager must always justify his position before a credit analyst or risk censor. In all cases, both parties may decide of a common accord to seek arbitrage at a higher hierarchical level.

The Bank conducts a comprehensive risk analysis for all lending decisions and rates borrowers according to probability of default. The complete rating system applies to corporations and banks. A simplified system is used for self-employed professionals, and credit scoring is used as a decision-making aid for individuals.

There are six distinct categories of healthy risks, two of which are considered "sensitive" or "préoccupant" (to be watched) under certain circumstances or special assessments. There are also two categories of impaired assets: the first includes doubtful loans (such as receivables in arrears, whether or not destined to be provisioned) and all receivables that warrant allowances; the second corresponds to receivables in the process of collection and applies to customers with which the Bank has broken off commercial relations, having reverted to the status of simple creditor.

Country-risk ratings come under the responsibility of the International Banking and Finance division, which cooperates closely with the Economic Research division. During bi-annual assessments the frequency of which may be altered as needed the Bank rates all countries with which it has relations.

The Risk Policy and Industry Research division, reporting to the office of the Chairman, designs the methods used to identify and measure the risks the Bank incurs in banking and trading activities. This same division participates in commitment decisions in three ways: its prior consent is mandatory for applications falling under the responsibility of the General Management Credit Committee and for applications coming from a certain number of business sectors, whether or not they are presented to the Credit Committee, and it may also be consulted by BNP's various units, to assist with specific decisions or help define the Bank's lending policies.

General Procedure for Monitoring Loans

BNP monitors its loans at different levels, as defined by its general internal control procedure.

The first level concerns the profit centers. They monitor operations carried in their books, conduct periodic checks, and watch for warning signals that determine the Bank's reaction to major events that affect the security of its commitments.

Domestic branches and international subsidiaries and branches follow exactly the same procedures. International units also take into account local practices and banking regulations applicable in the countries in which they operate.

Every day, branches receive a list of customers that have exceeded their limits. Every month the Bank prepares an operations summary of each customer account, containing such information as highest overdraft and frequency of credit limit overruns, which it forwards to the branches. Every quarter, all branches are required to prepare a list of commitments that may be downgraded and a list of impaired assets. Depending on the warning indications he receives, the director of the entity concerned, or his hierarchical superior, decides whether or not to change the customer's risk rating.

All commitments are reviewed by the qualified authority every eighteen months (for the best ratings) or every year (for other ratings). For example, the General Management Credit Committee periodically reviews all commitments for which it is responsible.

Once a customer is rated "préoccupant" or impaired, it is specifically monitored by a dedicated account manager, with or without the assistance of either the Legal and Tax Affairs or the Special Affairs and Collection unit depending on the size of the commitments.

The collection channel in France is run and monitored by the Special Affairs and Collection unit, which operates directly or delegates its authority to the domestic network and domestic subsidiaries or to outside service providers if needed.

Commitments classified as impaired assets are reviewed annually by the qualified authority. For example, once a year, the General Management Impaired Credits Committee examines all affairs involving commitments of more than EUR 15 million.

At the second level, the credit risk departments of the Domestic Banking and International Banking and Finance divisions perform periodic on-site or remote checks to ensure that any authority they have subdelegated is being used correctly.

The third level is ensured by the Risk Policy and Industry Research division, in order to identify excessive concentrations of risk.

The fourth level is handled by the Management Audit and Inspection division, which reports directly to the Chairman and Chief Executive Officer. The purpose of this monitoring level is to ensure that General Management directives are applied correctly, to evaluate the risks incurred on missions it undertakes and the coherence of the risk management system at the various BNP entities.

General Procedure for Reporting Risks

The management information reports submitted to Group General Management include a risk report analyzed by rating and by type of customer. These schedules are produced on a monthly basis by the Domestic Banking division and on a quarterly basis by the International Banking and Finance division. Risk monitoring statements covering corporate groups, banks, and specific economic sectors are prepared to enable General Management to monitor developments affecting them. Every half-year, the General Management "Préoccupant" Credits Committee, which is headed by the Chief Operating Officer of BNP and whose operation is analogous to that of the General Management Credit Committee, examines all commitments rated as "préoccupant". Every half-year, the General Management Impaired Credits Committee examines all commitments rated as "doubtful" as well as those in the process of collection.

Trading Activities

The main risks the Bank incurs and manages as part of trading activities are risk of counterparty default, risk of loss on balance-sheet and off-balance sheet instruments due to market price fluctuations, liquidity risk and operational risks.

BNP continues to implement Group of Thirty recommendations concerning the management of risks related to derivatives traded over the counter, valuing positions and reporting revenues related to these risks, measuring these risks (counterparty risks and price risks incurred on exposure to interest rates, exchange rates, equities, options, etc.), and the major operational aspects of managing these risks. The main recommendations apply to two aspects of trading activities:

Separation of Functions

BNP has made this an operating principle for all activities that incur risk. There is a complete separation of functions and responsibilities between sales staff and risk analysts, as well as between trading rooms, on the one hand, and the persons responsible for performing controls, the administrative departments that settle completed transactions, and the accounting departments that monitor the accounts, on the other hand. Risk control, which is carried out independently of the Capital Markets unit's worldwide lines of business, created several years ago, has developed into a system based on four basic levels of internal monitoring:

- **At the first level,** monitoring is carried out by the middle office (Business Monitoring), which is responsible for detailed reporting on utilizations and reports to the General Secretariat of the International Banking and Finance division.

- **At the second level,** monitoring is entrusted to the Market Risks Monitoring Unit, a specialized department of the International Banking and Finance division that centralizes market risks, conducts on-site inspections to ensure compliance with limits set by trading room managers and the dispatch of various reports to the appropriate hierarchical levels, centralized reporting (now weekly but soon daily, once the Bank has installed its internal model), auditing, and field support.

- **At the third level,** monitoring is ensured both by the Risk Policy and Industry Research division, which identifies, defines, and measures trading activity risks the same as it does for banking activity risks, and by the Market Risks and Activities Committee (the general authority supervising the BNP Group's market risks), which defines BNP Group policy concerning trading activities, validates market risk identification methods and measurement standards proposed by the Risk Policy and Industry Research division and market risk monitoring procedures, and sets limits for each main business category. Members of the Market Risks and Activities Committee are representative of all of the Bank's functional and operational expertise, so that its decisions apply to the entire BNP Group, and the Risk Policy and Industry Research division acts as secretary for its meetings.

  The Market Risks and Activities Committee, which is headed by an advisor to the Chairman and CEO meets twice a month.

- **At the fourth level,** monitoring is entrusted to the Management Audit and Inspection division, which ensures the coherence and performance of every type of monitoring procedure and regularly reports to the office of the Chairman.

This separation of functions, between departments that incur risks and those in charge of administration and risk monitoring, prevails at all entities and at all levels of the Bank's worldwide lines of business. Staff members in charge of monitoring market risks report locally to both their director and the Market Risks Monitoring Unit. Back offices and accounting departments report to the General Secretariat of the International Banking and Finance division, which acts as central coordinator. In this way, administrative and operational risks can be identified and handled in the appropriate manner. Since BNP organized its capital market activities into worldwide lines of business, managers have received real-time information on positions taken by the various profit centers.

The separation of functions, combined with the appropriate reporting systems, enables the Bank's General Management to stay abreast of risks incurred and all noteworthy events, on a regular and objective basis.

Risk Limits

In accordance with Group of Thirty recommendations, the Bank imposes aggregate and individual risk limits that correspond to measurements and that are clearly understood by management and traders alike.

- **Counterparty risk authorizations are monitored globally, by counterparty**. The Capital Markets unit, with its worldwide lines of business, has not been delegated authority concerning risk of loss on the Bank's counterparties, with the exception of specific authority concerning the most solvent equity and debt securities issuers. The head office divisions and profit centers in charge of relations with counterparties submit their requests at the appropriate decision-making level. Authorized credit lines are determined within the general framework of credit risk control.

  BNP's computer system, which can handle more than 180,000 operations in progress, nearly 31,000 authorizations, and roughly 28,000 counterparties, is capable of performing global centralization and continuous monitoring of authorized credit utilizations. It can centralize counterparty risk authorizations, monitor trading room and site operations and positions, calculate counterparty risk utilizations (including risks related to issuers and delivery), manage overruns and abnormalities, directly or indirectly mark trades to market, and generate reports on capital market operations from trading room and site back offices in order to satisfy regulatory requirements (regulation 95-02 and the EU Capital Adequacy Directive or "CAD").

  In order to ensure that its derivatives transactions are legally secure, BNP's policy is to sign legal agreements (using either the ISDA or AFB model), which allow it to use netting in the event of default by a counterparty, thereby significantly mitigating counterparty risk. The Group will only trade in long-term or highly volatile derivatives with the most creditworthy counterparties. As of 31 January 1999, BNP had signed multi-product agreements with 388 of its 500 most significant counterparties, which accounted for 92.5% and 96%, respectively, of outstanding off-balance sheet commitments at that date.

- **BNP places aggregate risk exposure and operational limits on market risks**. Once a year, the Market Risks and Activities Committee gives the office of the Chairman a recommended amount of general market risk limit authorizations for the Group's capital market activities for the year. That amount is also broken down according to type of business and risk class: exposure to interest rates, exchange rates, equities, options, and commodities. It also informs the office of the Chairman of the profitability targets allocated to the units engaged in capital market activities, to help them assess the level of risk implied by these targets.

The Market Risks and Activities Committee ensures that limit authorization requests correspond to a satisfactory balance and diversification of market risks, particularly among the largest financial markets and the regions in which the Bank's capital market units and sites operate. As part of the decision-making process, it weighs the Bank's expertise in the proposed risk areas, its monitoring and reporting logistics, and profitability statistics and forecasts for the risks proposed.

The office of the Chairman is responsible for making decisions concerning the raising of limits and their allocation, in excess of the discretionary authority delegated to the President of the Market Risks and Activities Committee.

Twice a year, the Market Risks and Activities Committee submits a report on the utilization of market risk authorizations to the office of the Chairman, who relays the information to the Board of Directors.

- **The Market Risks and Activities Committee exercises general supervision over market risks.** Every month it monitors the use and results of general market risk authorizations. It analyzes market risk authorization use by each site and worldwide line of business and it checks up on secondary monitoring performed in the trading rooms. Once a month, the Market Risks and Activities Committee also examines significant gains and losses declared by sites and worldwide line of business.

Among other things, the rules for reporting significant gains and losses contain thresholds above which gains and losses must be reported as soon as they are detected, the Bank entities to which reports must be submitted, the conditions under which these entities may issue instructions to the reporting site, if necessary, and the nature of supporting information needed to explain the gains or losses reported.

Significant gains and losses declared to the Market Risks and Activities Committee must be classified under one of the following four categories: those related to ordinary trading activities which undergo more or less sizable variations caused by fluctuations in risk factors; those, related to model risk, resulting from a methodological error caused by a lack of applicable standard or the incompatibility between an existing standard and the prevailing situation in the markets; those related to personnel risks, caused by dysfunctions such as limit overruns and noncompliance with established procedures; and those, related to operational risks, such as those inherent in accounting, administrative, and computer systems.

Credit and Counterparty Risks

Credit Risks

Failure by a borrower to meet its obligations exposes the Bank to a risk of loss, referred to as credit risk. The loss is potential when default has not occurred; it materializes when the borrower defaults. The probability of default and subsequent variations may be measured in terms of factors that are specific to the borrower (e.g., financial condition, quality of management, competitive environment) and that are used to ascertain the actual risk of default.

BNP currently measures its credit risk on a transaction, company, portfolio of companies, or business sector on a conservative basis that only reflects its exposure to the transaction, company, portfolio of companies, or business sector, in other words, the total amount of credit utilizations (temporary bank overdrafts and financing commitments), off-balance sheet commitments and confirmed lines of credit given.

The "RECORD" program will be used as from the end of 1999 to assess credit risk more accurately. It will first be applied to business customers of the Domestic Banking division (SMEs and professionals), followed by major corporations and other customer categories. This program, which complies with internal control requirements, is a management aid for use in identifying yield/risk optimization

rectors

parameters and a management tool used to assess risk of concentration and measure business performance.

Credit risk coverage

By applying credit risk management principles and organization, BNP maintained the high quality of its assets in 1998.

Specific Risks

Provisioning of specific risks in France and abroad amounted to 53% of exposure at year-end 1993 (the privatization year). At year-end 1998 that figure stood at 63%.

Coverage of all(1) of the BNP Group's doubtful specific risks

In billions of euros, at 31 December	1998	1997	1996	1995	1994	1993
Doubtful loans outstanding	9.7	9.4	9.7	9.6	10.5	10.4
Allowances (2)	6.1	6.0	6.1	5.8	5.7	5.5
Total coverage	**63%**	**64%**	**63%**	**60%**	**54%**	**53%**

(1) Including credit risks (receivables, securities and off-balance sheet commitments) on customers (including real estate risks) and credit institutions.
(2) Excluding the reserve for unforeseeable sectoral risks.

Doubtful specific risks amounted to EUR 9.7 billion, or 6.3% of gross customer loans outstanding at year-end 1998, compared with 6.7% at year-end 1997 and 8.5% at year-end 1993. The ratio of allowances for specific risks to gross customer loans stood at 4.0% compared with 4.2% at year-end 1997.

Ratio of doubtful specific risks to consolidated gross customer loans

In billions of euros, at 31 December	1998	1997	1996	1995	1994	1993
Gross customer loans	154.5	141.7	127.2	119.9	117.6	121.9
Doubtful specific risks as a percentage of gross customer loans	6.3%	6.7%	7.6%	8.0%	8.9%	8.5%
Allowances for specific risks as a percentage of gross customer loans	4.0%	4.2%	4.8%	4.8%	4.8%	4.5%

Country Risks

In 1998, the Bank regularly reassessed its risk in several emerging countries, in light of the worsening economic conditions in the countries concerned.

At 31 December 1998, total allowances for country risks amounted to EUR 2.3 billion, compared with EUR 2.2 billion at year-end 1997, including EUR 361 million related to five Asian countries (Indonesia, Thailand, the Philippines, South Korea and Malaysia) versus EUR 370 million one year earlier.

Last year's debt restructuring operations in Côte-d'Ivoire and Kenya did not have any impact on 1998 net income.

Balance Sheet Strength

Reserve for general banking risks. The reserve for general banking risks set up in 1993 in compliance with French Banking Commission regulations, amounted to EUR 1,038 million at 31 December 1998. The EUR 13.6 million increase compared with year-end 1997 corresponds to additions to the reserve by subsidiaries of the international network.

Pensions and benefits. The various BNP Group units are committed to pay statutory or contractual benefits, such as pensions and seniority bonuses, to staff members. In addition, the Bank is encouraging voluntary departures or early retirement among eligible staff members in France. The allowances set up to cover these benefits amounted to EUR 643 million at 31 December 1998.

Allowance for unforeseeable sectoral risks. Since 1994, the BNP Group has maintained an allowance in its balance sheet to cover sectoral risks that might arise. At 31 December 1998, the allowance for unforeseeable sectoral risks totaled EUR 218 million. No portion of this allowance is allocated to cover any specific risks.

Counterparty Risk

In capital market business, counterparty risk is the risk of loss caused when a counterparty fails to honor an obligation. It is considered a credit risk when the counterparty's principal obligation is the repayment of a loan. Delivery-versus-payment risk occurs when the Bank has honored its side of an obligation without being able to determine whether the counterparty has done the same.

The Bank manages these two types of counterparty risk in the same way as credit risk, though it uses a specific procedure for monitoring delivery-versus-payment risk that entails breaking down transaction flows with each counterparty according to maturity.

By holding negotiable securities (mainly stocks and bonds), the Bank incurs another type of counterparty risk: issuer risk, which is the risk of loss caused by market price fluctuations reflecting factors specific to an issuer, such as its business sector and the markets' perception of its creditworthiness. BNP measures issuer risk continuously by marking to market the inventory of the issuer's securities and its forward positions in those securities. Once the internal market risk model is in use, for the purpose of measuring issuer risks BNP will also be able to take into account factors such as circumstantial considerations related to business sector or geographical location, liquidity of securities, or risk of credit rating downgrade or default, that could affect the issuer.

Capital market transactions with counterparties lead to funds flows that are either certain or conditional between the Bank and its counterparties. The amount and direction of those flows depend on the prices of the underlying instruments.

Contingent credit risk is the Bank's risk of loss when a counterparty defaults and market prices move in the Bank's favor in the interval between contract execution and default. The Bank is thus deprived of future funds flows which, when marked to market, give the instantaneous replacement value of the transaction. Contingent credit risk may be measured at any moment as the replacement value of the transaction plus add-ons reflecting market price movements between the time of valuation and the time of possible default. BNP currently values add-ons for each instrument and as a function of market price volatility over the time remaining until the contract matures or expires.

The widespread use of multi-product master-agreements for netting all of the Bank's positions, counterparty by counterparty, has raised the need for tools that are more effective than the measurement method based on add-ons, which have the advantage of being product-specific but also the drawback of being static and difficult to aggregate.

BNP has developed the "Valrisk" project to measure contingent credit risk. Valrisk generates a risk profile for the interval between the valuation date and the expiration of the longest transaction outstanding, in real time and for each counterparty.

The Valrisk model is currently undergoing live testing by the Interest Rate Derivative Group (IRDG) line of business for banking counterparties and will be rolled out in 1999 to the entire Fixed Income-Foreign Exchange line of business and then to the Equities line of business.

Market Risk

BNP measures its market risks in terms of a Value at Risk (VaR) known as "RNP" (notional risk of loss) which is defined as sensitivity (of a position, portfolio, book, etc.) to market volatility. It represents the maximum potential loss determined based on the type of position (currency, interest rate, equity) and high adverse volatility assumptions. BNP's current in-house RNP model uses five years of underlying data to estimate the impact of these extreme adverse market fluctuations on the Group's interest rate, foreign exchange, and equity positions over a five-day holding period, assuming a 95% confidence level. It also examines the underlying data of the previous twelve months to determine whether volatility, measured according to the same criteria, has not varied in even greater proportions during this shorter period.

A limited set of significant fluctuation coefficients is considered for each risk class, determined on a very broad basis (e.g., short- and long-term interest rates; euro-zone currencies, other freely floating currencies, and centrally administered currencies).

In order to ensure effective risk management during major crises, the Bank performs historical simulations on its notional risks of loss.

Under the "Internal Model" project for measuring market risks, BNP is pursuing the methodological shift from RNP to a new definition of Value at Risk (VaR) based on a one-day holding period and a 99% confidence level which, unlike RNP, can be used to compare and aggregate market risks. Market risk measurement will reflect both uncertainty in risk factors, over which the Bank's management has no control, and the Bank's exposure to that uncertainty, which management can control by applying limits and allocating total capital to specific trading activities. Thus, BNP will measure its market risks through a combination of two criteria: actual risk incurred through exposure to uncertainty in risk factors, and maximum authorized risk deriving from management decisions. The order of magnitude of uncertainty in risk factors makes the difference between actual risk and risk exposure. This difference of magnitude ensures that the internal model's measurement of exposure to risk is coherent with its measurement of the risk itself, in compliance with French Banking Commission (CRB) Regulation 97-02 concerning internal controls. On the one hand, management must authorize a maximum amount of uncertainty, and on the other, it must continuously measure actual uncertainty prevailing in the markets. VaR expresses an amount and the probability of losing that amount in an environment defined in terms of various parameters. In its in-house model, BNP defines three different sets of conditions to describe the environment:

- one for expected risk, which refers to all yields and correlations observed;

- another for risk exposure, which refers to yields and correlations defining a maximum authorized dispersion;

- a third for analyzing stress scenarios (unexpected risk), which refers only to yields observed under extreme market conditions and is used to define an extreme degree of dispersion beyond which the Bank may not commit itself.

RNP or VaR limits for interest rate, foreign exchange, and equity positions and for each currency are applied to each book and trader at each decision-making center. Each site is also given volume position limits, which are easier to monitor on a daily basis. Additional rules for second-order risks (such as decorrelation between two similar but not identical instruments) round out the limit framework. BNP uses a scenario-based method to perform specific checks on options due to the complexity of the non-linear risks they present. For reasons of conservatism, all authorizations for market risk limits, representing in the aggregate the general market risk limit, as imposed by the office of the Chairman based on a proposal by the Market Risks and Activities Committee and presented to the Board of Directors, are currently spread over the various books without taking any offsetting correlations into account.

At 31 December 1998, the general market risk limit was EUR 890 million. During the year, actual market risks averaged EUR 480 million, representing around 54% of the maximum allowed.

Asset/Liability Management

The Asset and Liability Management department's mission is to manage market risks in connection with the management of the BNP Group's structural financial risks. Its role includes identifying the transactions and market risks associated with banking operations, establishing an Internal Transfer Rates system and match-funding major balance sheet items accordingly. It is responsible for the Bank's funding and liquidity and for managing cash flows and residual market risks. Although its primary objective is not to maximise profits, it is organized in a way that allows its results to be measured.

Three high level ALM committees have been set up:

- The Domestic Banking ALM Committee, responsible for transformation and match-funding decisions concerning major balance sheet items related to the commercial banking business and for managing the related interest rate risks. The Committee monitors the results of its policy, as well as profits and losses arising from residual market risks (marginal mismatches and implicit options) managed directly by the ALM department.

- The International Banking and Finance ALM Committee, responsible for managing a proprietary portfolio. In accordance with its standard methods and procedures. This activity is carried out under the supervision and within the limits set by the Market Risks and Activities Committee, in accordance with its standard methods and procedures.

- The Control and Finance ALM Committee, responsible for making funding and liquidity decisions, verifying their implementation and monitoring all of BNP's regulatory ratios.

In 1998, demand for credit on the part of non-financial sector customers grew at roughly the same rate as customer deposits, resulting in a good match between these assets and liabilities. Asset/liability management therefore focused primarily on restructuring maturities to reduce the sensitivity of earnings and equity.

Management of Liquidity Exposure

The BNP Group's funding requirements were largely unchanged compared with 1997. The modest growth in funding needs in France was offset by a reduction in the needs of the international networks.

The proceeds from new medium- and long-term debt issues were used primarily to offset repayments of existing borrowings. Total funding raised by new issues came to EUR 1.1 billion, including just under EUR 0.46 billion worth of subordinated debt. Half of the total was denominated in French francs or other "in" currencies and half in US dollars. No preferred share issues were carried out during the year.

The Group held firm to its prudent mismatch policy, helped by the extreme stability of its sources of funding BNP France's demand, savings and time deposits come from more than 10 million accounts held by individuals and companies.

Liquidity is also provided by liquid assets such as demand deposits, Treasury bills, securities received under repurchase agreements, negotiable certificates of deposit, government securities, and stocks and bonds in various currencies. The Group's strong financial condition ensures it easy access to the capital markets on excellent terms.

Management of Interest Rate Exposure

BNP takes into account all balance sheet and off-balance sheet operations, including forwards and options, in its analysis of interest rate risk. The Asset/Liability Management division defines methodological rules applicable throughout the Group for the matching of assets and the related refinancing and also manages the "interest rate book" for BNP France banking and proprietary transactions.

Interest rate risk on French franc operations in the domestic network is a structural feature of universal banking, which consists in transforming part of customer deposits into medium- and long-term loans to individuals and corporations.

The balance sheet profile of customer items changed significantly in 1996 and 1997. By contrast, in 1998 the flow of customer funds into home savings and passbook deposit accounts slowed although there was further strong growth in demand deposits.

For the first time in three years, outstanding fixed rate loans increased significantly, despite the continued high volume of early repayments. Growth was driven primarily by home loans.

These developments fuelled a lengthening of the average maturity of customer loans while the average maturity of liabilities was only slightly longer. In order to reduce the sensitivity of stockholders' equity, the Asset/Liability Management division adjusted the maturity profile of interest rate hedges for transactions in French francs and the other "in" currencies.

Interest rate exposure on transactions denominated in "out" currencies is limited. Changes in interest rates have a similar impact on both assets and liabilities which are generally indexed to the same official rates. Fixed rate foreign currency debenture issues are generally swapped to eliminate interest rate risks.

Management of Net Foreign Exchange Position

Foreign exchange positions related to the results of foreign subsidiaries and branches that can be repatriated are now managed on a centralized basis by the Asset/Liability Management division which sets up monthly hedges.

In 1998, the BNP Group's net foreign exchange position was unchanged compared with the previous year.

Operational Risk

At BNP, operational risk covers administrative, accounting, and computer risks, as well as the risk of fraud, which the Bank's internal control framework classifies as staff-related.

Controls over operational risk are performed at four levels:

- **First level controls** are performed on an on-going basis either by the person responsible for data input or automatically by means of programmed controls.

- **Second level controls** are performed periodically either on-site or using remote supervision techniques, based on the Critical Supervision Points ("PSF") system. The PSF system comprises a limited number of compulsory controls covering major risks and evolve in terms of the areas of focus and the methodologies used, based on local management's assessment of needs.

- **Third level controls** consist of functional controls to verify compliance with the standards and procedures issued by the staff divisions.

- **Fourth level controls** are performed by the Management Audit and Inspection division as part of its standard internal audit program or at the time of specific audits carried out following customer complaints or where a fraud has been detected during second or third level controls.

Banking Activities

In 1997, the Domestic Banking-Domestic Network division validated qualitative procedures based on locating and implementing basic checkpoints, local audit plans based on the "KEOPS" (kit for assessing on-site operations) methodology used by both the Domestic Banking division and the Management Audit and Inspection division, and consolidated reporting per operating group and network division and by the Domestic Network division.

Controls over the activities of the International Banking and Finance division are performed by an internal audit department reporting to division management, which conducts audits both in Paris and at the foreign sites. BFI-Audit has produced methodological guidelines defining the information to be submitted by the foreign sites to division headquarters at periodic intervals. The reports contain information about the organization of the local internal audit department and the audits carried out during the reporting period. BFI-Audit also performs controls over the local internal auditors' controls, in order to ensure that the Critical Supervision Points have been covered, in particular by reviewing reports on incidents exceeding a certain potential loss threshold.

Trading Activities

Operational risk control is based on several principles: accountability of the hierarchy, written procedures describing monitoring channels and audit trails, continuous rationalization of processing software, a system for reporting and handling incidents, and inspection assignments by the specialized audit departments.

The monthly reports to the Market Risks and Activities Committee identify significant losses and gains resulting from an operational risk (see below).

All of BNP's banking and computer organization teams, from the Organization and Information Systems division (which plays a general role) to the Systems and Back Office Engineering departments of the International Banking and Finance division (in charge of organizing execution services), help ensure the security of procedures. These entities have undertaken a major quality certification program that is now in progress. As the foreseeable part of operational risk is to be considered as an operating expense, this program will enable BNP to look into the possibility of insurance coverage.

Due to rapid changes occurring in the markets, continuous adjustments must be made to control systems, report procedures, and computer applications in order to put these principles into operation. BNP develops new products and businesses taking operational risk into account.

Model Risk

BNP defines model risk as the risk of losses that results from incorrect use of price calculation, mark-to-market, position hedging or risk management tools, affecting the reliability of the models produced using these tools or the analyses performed based on the models.

In 1998, the Risk Policy and Industrial Research division was given the task of defining and implementing an in-house general model risk management methodology, representing a third level internal control, starting with the model risk associated with capital market activities.

During the year, the Risk Policy and Industrial Research division "model risk" team produced an overall quantitative estimate of the impact of model risks on capital market activities and performed a technical assessment of several models used by the Equity and Fixed Income lines of business.

The team's short-term goal is to use the above information to perform an estimate by line of business of the extent of the capital market activities' exposure to model risk based on highest exposure strategies.

Its medium-term objective is to set up maintenance and research programs to detect any erosion of quality and take into account the latest data. The team will also establish research and development management procedures for these models and, if necessary, modify the provisioning system for model risks.

Business and results of BNP'S main domestic subsidiaries

Banque de Bretagne

In millions of euros	1998	1997	1996	1995	1994	% Change 98/97	97/96	96/95	95/94
Customer loans (average outstandings)	941	881	817	775	656	6.8	7.9	5.4	18.1
Originations	257	276	211	222	233	(6.8)	30.7	(4.9)	(4.7)
Customer deposits (average balances)	838	790	743	742	659	6.0	6.3	0.2	12.5

Banque de Bretagne, which will celebrate its 90th anniversary in 1999, is the oldest-established regional bank in Brittany. The bank has 620 staff and 68 branches, 62 of them in Brittany. Following the takeover of CIC by the Crédit Mutuel group, it is the last remaining privately-owned non-mutual regional bank.

The bank has always remained loyal to its roots, and has made a significant contribution to the development of the region. According to a February 1998 Dun & Bradstreet survey, Banque de Bretagne was still the leading banker to the region's smaller businesses, in an over-banked market dominated by the mutuals.

As well as being a local retail bank on a human scale, Banque de Bretagne offers all the services of a large bank via its association with BNP subsidiaries such as BNP Lease, BNP Gestions, Natio-Vie and Médiforce.

In 1998, the bank pressed ahead with the modernization of its branch network. Some branches were refurbished or repositioned, while fifteen new ATMs were installed and two new branches opened.

Banque de Bretagne has stand-alone IT systems, which made a smooth transition to the euro. The bank's reputation for innovation was maintained with the introduction of a credit scoring system that enables branches to make immediate decisions on applications for consumer credit.

BNP Lease

In millions of euros	1998	1997	1996	1995	% Change 98/97	97/96	96/95
Credits outstanding at 31 December	8,308	8,043	7,819	7,464	3.3	2.9	4.8
Inc. equipment	3,724	3,396	3,241	3,125	9.7	4.8	3.7
Inc. real estate	3,233	3,265	3,257	3,178	(1.0)	0.2	2.5
Originations	3,081	3,030	2,816	2,629	1.7	7.6	7.1
Inc. equipment	1,947	1,693	1,564	1,387	15.0	8.2	12.7
Inc. real estate	316	398	315	523	(20.4)	26.4	(39.9)

Pro forma BNP Bail + Crédit Universel, excluding Arius and Europcar Lease.

rectors

The 28 May 1998 merger between BNP subsidiaries BNP Bail and Crédit Universel to form BNP Lease has given the Group a big advantage at a time of intense competition and restructuring in the leasing sector.

BNP Lease can now offer retail and corporate customers a complete range of financing solutions: loans; operating leases; finance leases for equipment, real estate and energy projects; long-term vehicle rental (via Europcar Lease), and flexible short-term and long-term management and financing of computer equipment (via Arius). BNP Lease is a powerful player, well positioned in highly competitive markets where a dynamic and thoroughly professional approach is the key to success.

1998 saw strong domestic demand and a 6%–7% rise in corporate productive investment.

Credits originated by BNP Lease during the year topped EUR 3 billion, up 1.7% on the previous year. Operating leases and equipment finance leases were 15% higher in a favorable market. Lending slipped by 13%, mainly in the extremely competitive car loans market. Real estate and energy project finance leases, which saw strong growth in 1997 (including two big leases worth EUR 86.9 million), were adversely affected as borrowers waited for the vote on the proposal in the Finance Act to lower capital transfer taxes in 1999. This business reported a 20.4% decline in 1998, with some large deals postponed until 1999.

Total credits outstanding (excluding doubtful loans) advanced by 3.3% to EUR 8.3 billion, with trends by sector mirroring the year-on-year change in origination volumes.

Meunier Promotion

							% Change				
In millions of euros	1998	1997	1996	1995	1994	1993	98/97	97/96	96/95	95/94	94/93
Commercial and industrial real estate	396	155	145	240	390	145	x 2.5	6.8	(39.4)	(38.5)	n.a.
including client representation contracts	*396*	*149*	*101*	*218*	*264*	*79*	*x 2.7*	*47.7*	*(53.7)*	*(17.2)*	*n.a.*
Residential real estate	251	155	79	79	154	162	61.7	97.3	(0.6)	(48.4)	(5.1)
Revenues of real estate partnerships	647	311	224	319	544	306	x 2.1	38.6	(29.8)	(41.3)	77.5

Results for 1998 confirmed Meunier's position as one of France's leading real estate developers, in both:
- residential real estate, with starts on 2,000 units and revenues of EUR 251 million;
- commercial and industrial real estate, launching 110,000 m^2 of office programs and generating revenues of EUR 396 million –at zero financial risk, because Meunier operates via client representation contracts, and hence bears only the technical risk.

The Meunier group continued to expand its property management business through specialized subsidiaries, which manage office and apartment buildings for owner-investors, as well as condominium owners' associations.

All the group's activities played a part in returning Meunier to a good level of profitability.

BNP Gestions

In millions of euros	1998	1997	1996	% Change
Fund management	33.8	27.0	26.7	25.2
Institutional management	35.2	28.8	25.5	22.6
Private asset management under management contract	16.6	12.8	10.4	30.7
	85.6	**68.6**	**62.6**	**25.0**

BNP's domestic institutional and fund management activities, carried on through the BNP Gestions subsidiary, employ 260 staff in France and reported satisfactory results in 1998.

The quality of our asset management skills was once again reflected in the performance of our products, and acknowledged by the *Corbeille Long Terme* award from *Mieux Vivre Votre Argent* magazine and the *Laurier d'Or* award from *Investir* magazine for 5-year global management. The globalization of the business continued, with eight new mandates obtained from central banks and major international investors.

Total assets under management by the BNP Group, including Natio-Vie and private asset management, amounted to nearly EUR 85.6 billion at end 1998, 25% higher than at the previous year-end.

Natio-Vie

						% Change			
In billions of euros	1998	1997	1996	1995	1994	98/97	97/96	96/95	95/94
Assets under management at 31 December	23,071	20,134	15,682	11,972	9,098	14.6	28.4	31.0	31.6
Premiums written (including ASSU-VIE)	2,970	4,468	3,627	3,177	2,450	(33.5)	15.3	14.1	29.7
Number of policies (thousands)	1,550	1,490	1,390	1,320	1,244	4.0	7.2	5.3	6.1
Market share:									
Global	4.3%	5.7%	5.1%	4.9%	4.0%				
Branch network	7.5%	9.3%	8.6%	8.6%	7.1%				

1998 was a year of consolidation for Natio-Vie, with the amount of savings collected dipping in the wake of tax changes. Nonetheless, Natio-Vie improved profits and strengthened its balance sheet.

There was strong growth of 44% in sales of individual unit-linked contracts, thanks to the launch of attractive new products (*MultiPEP*, *Floréal* and *Europhonie*), which enabled large numbers of investors to tap into the fine performance of the stock markets.

A low volume of withdrawals and a relatively high level of funds collected led to healthy growth of 15% in assets under management, which stood at EUR 23.1 billion at year-end.

Natio-Vie reported a sharp rise in net income of 17.3% to EUR 72.4 million, and further strengthened its balance sheet. The capitalization reserve and the reserve for policyholders' shares in profits together now represent two-thirds of total equity, more than double the 1995 level.

These reserves, together with substantial unrealized capital gains, provide assurance that policyholders will continue to enjoy satisfactory returns in the future.

Natio-Vie is to launch a top-up healthcare insurance scheme in 1999, a further diversification following the move into death benefit and group retirement policies.

Banexi

	1998	1997	1996	1995	1994
Number of companies in the equity portfolio at 31 December	293	362	380	362 (1)	566
Portfolio valuation (In millions of euros)	733	705	675	716	572
Excluding funds managed for clients	579	579	542	592	471
Investments during the year (In millions of euros)	112	110	58	357	100
Number of M&A deals	66	62	57	72	84

(1) After deconsolidation of BNP Développement and inclusion of CFJPE.

Banexi operates in both fields of merchant banking: equity investment and fund management on the one hand, and financial advisory/mergers and acquisitions on the other.

During 1998, Banexi completed a reorganization program aimed at ensuring the independence of third-party private equity management activities, now handled by its subsidiary BNP Private Equity.

In mid-1998, BNP Private Equity launched its first venture capital fund, Banexi Ventures 2, which raised EUR 61 million. This is to be followed in 1999 by the launch of a general development fund and two specialized funds: a telecoms fund, and a mezzanine fund. The aim is to treble the amount of assets under management.

As sponsor, Banexi supports each new fund by subscribing 20%-30% of the capital raised, and also by investing directly when justified by the size of the investee company.

Despite the attractiveness of new listing opportunities –in particular the *Nouveau Marché* of the *Paris Bourse*– Banexi managed to invest slightly more than in 1997. Of the total of EUR 112 million invested, EUR 90.5 million went into industrial sectors, with the emphasis mainly on the telecoms, agribusiness and automotive sectors. The remaining EUR 21.5 million was invested in a variety of unlisted investment funds.

Hands-on portfolio management resulted in a reduction in the number of holdings, and the realization of EUR 75.8 million of capital gains on the disposal of assets worth EUR 124.4 million.

The financial advisory and M&A business increased its market share, against a backdrop of strong growth in deal activity and tough competition from Anglo-Saxon banks.

With 66 done deals worth an estimated EUR 13.6 billion, Banexi reaffirmed its leading position in terms of number of deals and advanced from sixth to fourth place in the rankings based on volumes.

Notable assignments in 1998 included advising the shareholders of Comptoirs Modernes in connection with the takeover by Carrefour, preparing the valuations of France Télécom (for the second tranche of the privatization) and of Alstom (for the stock market flotation), and advising Vivendi on its merger with Havas.

BNP Factor

BNP Factor provides BNP's corporate customers with factoring expertise in France and abroad. The company handles commercial debt recovery for businesses, plus partial or total refinancing, and underwrites debts where customers' clients default. These services are enhanced by innovative computer and on-line services.

From this year, BNP Factor has been running the BNP Group's factoring worlwide business line. It has also signed a commercial co-operation agreement with a German factor and a UK factor.

In 1998, the highly concentrated and competitive French factoring market continued to expand rapidly, with similar growth to 1997 (20%).

Working closely with the branch network, which refers most of its business, BNP Factor once again posted a sharp increase in revenues, with accounts receivable purchased from small businesses up 34%. At the end of the year, there were nearly 1,200 active contracts.

Volume of accounts receivable in millions of euros and annual growth rate:

	1994	1995	1996	1997	1998
In millions of euros	931	1,505	1,664	2,125	2,373
% growth (1)	–	62	11	28	12

(1) BNP Factor was set up in 1994.

Financial statements in euros

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Assets

In millions of euros, at 31 December	1998	1997	1996
Interbank and money market items (note 3):			
Cash and due from central banks and post office banks	3,666	1,809	2,304
Treasury bills and money market instruments (note 5)	40,394	37,883	23,583
Due from credit institutions	71,283	74,990	82,819
Total interbank and money market items	**115,343**	**114,682**	**108,706**
Customer items (notes 4 and 7):			
Due from customers	139,415	126,903	113,043
Leasing receivables	9,258	8,484	7,999
Total customer items	**148,673**	**135,387**	**121,042**
Bonds and other fixed-income instruments (note 5)	**16,615**	**17,295**	**18,190**
Equities and other non-fixed-income instruments (note 5)	**6,569**	**4,976**	**5,560**
Equity securities held for investment and other stock investments (note 6):			
Equity securities held for investment	1,691	1,585	1,009
Other stock investments	1,779	1,723	2,945
Total equity securities held for investment and other stock investments	**3,470**	**3,308**	**3,954**
Investments in companies carried under the equity method (notes 8 and 9):			
Financial companies	144	140	125
Non-financial companies	846	676	569
Total investments in companies carried under the equity method	**990**	**816**	**694**
Tangible and intangible assets (note 10)	**2,397**	**2,117**	**2,617**
Accrued income and other assets (note 11)	**30,560**	**31,554**	**22,926**
Goodwill (note 12)	**215**	**79**	**27**
Total assets	**324,832**	**310,214**	**283,716**
COMMITMENTS GIVEN			
Financing commitments given (note 21)	67,682	60,529	49,474
Guarantees and endorsements given (note 21)	31,562	28,861	26,624
Commitments given on securities (note 21)	5,956	9,695	8,467
Commitments incurred on forward and options contracts (note 22)	2,572,897	2,209,008	1,755,662

Consolidated fin

Liabilities and stockholder's equity

In millions of euros, at 31 December	1998 [1]		1997	1996
	Before appropriation of income	After appropriation of income	After appropriation of income	
Interbank and money market items (note 13):				
Due to central banks and post office banks	3,399	3,399	3,648	1,939
Due to credit institutions	104,695	104,695	98,225	93,094
Total interbank and money market items	**108,094**	**108,094**	**101,873**	**95,033**
Customer deposits (note 14)	**117,965**	**117,965**	**109,419**	**97,270**
Bonds and negotiable debt instruments:				
Retail certificates of deposit (note 14)	4,863	4,863	2,690	2,617
Interbank market securities (note 13)	172	172	267	339
Negotiable certificates of deposit (note 14)	24,614	24,614	25,796	26,961
Bonds, including short term portion (note 15)	6,996	6,996	7,757	8,866
Other debt instruments	108	108	116	134
Total bonds and negotiable debt instruments	**36,753**	**36,753**	**36,626**	**38,917**
Accrued expenses and other liabilities (note 16)	**38,503**	**38,880**	**41,198**	**34,057**
Provisions for risks and charges (note 17)	**2,853**	**2,853**	**2,117**	**1,901**
Subordinated debt (note 18)	**8,258**	**8,258**	**8,212**	**6,779**
Reserve for general banking risks (note 19)	**1,038**	**1,038**	**1,024**	**1,003**
Stockholders' equity (note 20):				
Capital stock	833	833	813	791
Additional paid-in capital in excess of par and premium on acquisition	3,421	3,421	3,183	3,026
Consolidated retained earnings, revaluation surplus, translation adjustment, equity method adjustments:				
Group share	4,886	5,673	5,005	4,652
Minority interests in consolidated subsidiaries	1,061	1,064	744	287
Total stockholders' equity	**10,201**	**10,991**	**9,745**	**8,756**
Net income:				
Net income attributable to the Group	1,114	—	—	—
Minority interests	53	—	—	—
Consolidated net income	**1,167**	**—**	**—**	**—**
Total liabilities and stockholders' equity	**324,832**	**324,832**	**310,214**	**283,716**
COMMITMENTS RECEIVED				
Financing commitments received (note 21)	—	3,790	1,511	1,435
Guarantees and endorsements received (note 21)	—	23,340	24,203	18,032
Commitments received on securities (note 21)	—	8,604	7,954	8,515

(1) Appropriation of income was determined on the bais of the proposals submitted to the general meetings of BNP and its subsidiairies.

Consolidated income statement

In millions of euros	1998	1997	1996
INCOME (EXPENSE) FROM BANKING OPERATIONS			
Net interest and assimilated income:			
Net interest and assimilated income and interbank items (note 27)	(436)	(10)	(167)
Net interest and assimilated income on customer items (note 28)	4,233	3,983	4,357
Net interest and assimilated income on lease transactions	661	640	659
Interest expense on bonds and debt instruments (note 26)	(2,915)	(2,837)	(2,936)
Interest income on bonds and other fixed-income instruments (note 29)	2,067	1,769	1,717
Income on equities and other non-fixed income instruments (note 29)	128	137	157
Net interest and assimilated income	3,738	3,682	3,787
Net commissions (note 30)	1,794	1,520	1,351
Net gains on financial operations (note 26)	1,627	1,294	681
Other net income from banking operations	207	222	203
Net banking income (note 26)	**7,366**	**6,718**	**6,022**
Operating expense:			
Salaries and employee benefits, including profit sharing (note 31)	(3,085)	(2,895)	(2,732)
Other expense	(1,601)	(1,454)	(1,323)
Total operating expense	(4,686)	(4,349)	(4,055)
Depreciation, amortization, and provisions on tangible and intangible assets.	(333)	(321)	(314)
Gross operating income	**2,347**	**2,048**	**1,653**
Net addition to allowance for credit risks and country risks (note 7)	(1,203)	(1,034)	(578)
Net operating income	**1,144**	**1,014**	**1,075**
Gains (losses) on disposals of long-term investments, net of provisions (note 33)	478	363	(107)
Net movement in reserve for general banking risks and miscellaneous risks	(3)	(21)	264
Nonrecurring items (note 34)	(129)	(212)	(521)
Income before taxes, share of earnings of companies carried under equity method, and amortization of goodwill	**1,490**	**1,144**	**711**
Income taxes (note 36)	(431)	(304)	(150)
Share of earnings of companies carried under equity method	124	124	82
Amortization of goodwill	(16)	(16)	(13)
Consolidated net income	**1,167**	**948**	**630**
Net income attributable to Group	1,114	909	588
Minority interests	53	39	42
Earnings per share, in euros (1)	**5.16**	**4.31**	**2.85**

(1) Earnings per share was calculated in accordance with international standards based on a weighted average number of shares of 215,888,583 in 1998, 210,951,379 in 1997 and 206,264,600 in 1996.
Based on the number of shares outstanding as at 31 December of each year as previously calculated, earnings per share would have been EUR 5.10 for the year ended 31 December 1998 on 218,410,671 shares, compared with EUR 4.26 for the year ended 31 December 1997 on 213,244,188 shares and EUR 2.83 for the year ended 31 December 1996 on 207,434,993 shares.

Consolidated statement of changes in financial position

In millions of euros	1998	1997	1996
Funds provided from stockholders' equity and equivalents			
Funds provided from stockholders' equity from operations:			
Consolidated net income	1,167	948	630
Depreciation and amortization	333	320	314
Net additions to allowances	1,160	557	1,074
Share of earnings of companies carried under equity method	(124)	(124)	(82)
Total funds provided from operations	**2,536**	**1,701**	**1,936**
Cash dividend	(378)	(244)	(182)
Change related to operations involving capital stock and reserves:			
Share attributable to BNP Group	3	(201)	635
Minority interests	316	435	(80)
Increase in funds provided from stockholders' equity	**2,477**	**1,691**	**2,309**
Increase (decrease) in reserve for general banking risks	**14**	**21**	**(270)**
Increase in subordinated debt	**46**	**1,426**	**990**
Total funds provided from stockholders' equity and equivalents	**2,537**	**3,138**	**3,029**
Funds provided from other sources:			
Increase in interbank items	6,222	6,839	17,163
Increase in customer deposits	8,546	12,149	9,145
Increase (decrease) in bonds and negotiable debt instruments	127	(2,291)	(2,357)
(Decrease) increase in other financial items	(676)	(1,273)	11,104
Increase in funds provided from other sources	**14,219**	**15,424**	**35,055**
Total increase in funds provided	**16,756**	**18,562**	**38,084**
Funds used:			
(Decrease) increase in interbank loans	(1,817)	(7,977)	11,514
Increase in customer loans	14,044	15,172	7,876
Increase in securities transactions	2,321	1,687	15,439
Increase in long-term investments	1,595	9,860	2,975
Increase (decrease) in tangible and intangible assets	613	(180)	280
Total increase in funds used	**16,756**	**18,562**	**38,084**

Notes to the Consolidated financial statements
Note 1 – Accounting policies

The consolidated financial statements include the accounts of Banque Nationale de Paris and its main subsidiaries and affiliates. The consolidated balance sheet and income statement have been prepared in accordance with the accounting principles and chart of accounts applicable in the French banking industry. The financial statements of foreign subsidiaries and affiliates prepared according to the accounting policies applicable in their respective countries have been restated prior to consolidation to conform to Group accounting policies.

Principles and basis of consolidation

Basis of Consolidation

The consolidated financial statements include the accounts of BNP and its subsidiaries and affiliates with total assets in excess of 10 million euros or net income in excess of 3 million euros (positive and negative) in which BNP holds a direct or indirect interest of 20% or more.

The following methods are applied:

• Full Consolidation

Financial institutions, bank holding companies, and companies whose activities are a direct extension of the banking activity are fully consolidated when BNP has a direct or indirect ownership interest of at least 50%, when the BNP Group exercises exclusive control over their management on statutory or contractual grounds or through its power to appoint a majority of Board of Directors and Supervisory Boards, and when the total assets of these units exceed 15 million euros.

• Proportional Consolidation

Affiliates that the BNP Group controls jointly with other stockholders are proportionally consolidated. In the absence of exclusive control, joint control is deemed to exist when a small number of stockholders can jointly appoint the members of their Board of Directors and Supervisory Boards in order to define and apply a joint strategy.

• Equity Method

Affiliates in which the BNP Group holds less than 50% but in which it exercises significant influence over financial policy and management are carried under the equity method, unless the Group exercises dominant or joint influence (see above). Significant influence is deemed to exist when the Group holds at least 20% of the voting rights.

Majority-owned financial institutions with total assets of 10 to 15 million euros, as well as non-banking subsidiaries (insurance and bank-related service companies) are also carried under the equity method.

• Other Stock Investments

Whenever the BNP Group's ability to control the operations or assets of a subsidiary or affiliate is severely and durably impaired, the investment is neither consolidated nor carried under the equity method, but is posted to "Other stock investments".

• Change in Group Ownership Interest in Consolidated Subsidiaries or Equity Affiliates

In the event of a change in the BNP Group's ownership interest in a consolidated subsidiary or equity-method affiliate, the proportionate change in BNP's ownership interest is reflected in consolidated stockholders' equity.

Foreign Currency Translations

Foreign currency denominated assets, liabilities, and off-balance sheet commitments of foreign branches, subsidiaries, and affiliates are translated into French francs at official year-end exchange rates, except the non-monetary assets and liabilities of the entities in countries with high inflation, which are translated at historical rates. Income statements are translated at average exchange rates for the period for foreign branches, subsidiaries, and affiliates, except in countries with high inflation, where they are translated at year-end exchange rates.

Euro zone currencies are translated using the conversion rates announced on 31 December 1998 and irrevocably locked on the introduction of the euro on 1 January 1999.

Exchange differences calculated on the basis of year-end exchange rates for capital, reserves, retained earnings, net income and the equity base of foreign branches are posted to equity.

Main Adjustments on Consolidated Financial Statements

• Goodwill

Goodwill represents the excess of the book value of the parent company's shares in consolidated subsidiaries or equity-method companies over their net assets at the date of acquisition, for the portion of the purchase price not allocated to specific assets or liabilities. Goodwill is shown as such in the balance sheet and is amortized on a straightline basis over a maximum period of twenty years, the actual period being determined on a case by case basis depending on the specific conditions relating to each acquisition. The portion allocated to specific assets is recognized using the accounting policies that apply to the corresponding assets. The portion allocated to specific assets or liabilities of companies carried under the equity method is posted to the item "Investments in companies carried under equity method".

• Intercompany Balances and Transactions

Securities issued by a fully consolidated BNP Group company, purchased by the BNP Group, and held on a long-term basis are eliminated in consolidation, with the exception of those issued by BNP and held in accordance with French regulations concerning the BNP Group's employee stock option plan.

Intercompany balances, as well as income and expenses on material intercompany transactions between fully or proportionally consolidated companies, are eliminated in consolidation.

• Lease Financing

Income from finance leases is recorded as financial revenue. Assets leased to customers are carried in the balance sheet at cost less accumulated depreciation. Such depreciation is adjusted to reflect the financial amortization of the invested capital. The resulting amortization expense is included in "Lease transaction income". Deferred tax is recorded for only half of the tax liability attributable to book-versus-tax timing differences.

Other accounting policies

Income and Expense Recognition

Interest income and related commissions are recognized on an accrual basis. Fees for services (not interest-related) are recorded when the services are rendered.

Foreign Currency Transactions

Foreign exchange positions are generally valued at official year-end exchange rates. Currency gains and losses on ordinary transactions denominated in a foreign currency are recorded in income and expense.

Translation adjustments calculated on the basis of official year-end exchange rates for assets denominated in foreign currencies and held on a long-term basis, including equity securities held for investment, the equity base of BNP branches, and investments in foreign subsidiaries and affiliates, are not reflected in the income statement.

Bond Issues

Bond issue or redemption premiums are amortized using the actuarial method over the life of the bond. Bond issue costs are charged to income on a straightline basis over the same period.

Securities

The term "securities" covers interbank market securities (mainly promissory notes and mortgage notes); treasury and other negotiable debt instruments; bonds and other fixed-income instruments (whether fixed- or floating-rate); and equities and other non-fixed-income instruments.

Securities are classified as "Trading account assets", "Investment securities held for sale", "Debt securities held for investment", "Equity securities held for investment", and "Other stock investments". Investments in companies carried under the equity method are isolated as a separate asset class.

• Trading Account Assets

Securities held for up to six months are recorded under "Trading account assets" and valued individually at market value. Changes in market values are posted to income.

• Investment Securities Held for Sale

This category includes securities held for at least six months, but which are not intended to be held on a long-term basis.

Bonds and other fixed-income instruments are valued at the lower of cost (excluding accrued interest) or their probable market value, which is generally determined on the basis of market prices. Accrued interest is posted to income under "Interest income on bonds and other fixed-income instruments".

Stocks are valued at the lower of cost or their probable market value, which is generally determined on the basis of stock market prices, for listed stocks, or the BNP Group's share in net assets calculated on the basis of the most recent financial statements available, for unlisted stocks. Dividends received are posted to income under "Income on equities and other non-fixed-income instruments" at the time of their payment.

The cost of sale of investment securities held for sale is determined on a first in, first out (FIFO) basis. Capital gains or losses on disposal are reflected in the income statement under "Net gains (losses) on financial operations", as are provisions for market value write-downs or recoveries.

• Debt Securities Held for Investment

Fixed-income securities (mainly bonds, interbank market securities, treasury securities, and other negotiable debt securities) are recorded under "Debt securities held for investment" to reflect the BNP Group's intention of holding them on a long-term basis. Bonds classified under this heading are financed by matching funds or hedged against interest rate exposure to maturity.

The difference between cost and the redemption price of these securities is prorated over the life of the securities and posted to "Interest income on bonds and other fixed-income instruments" in the income statement. In the balance sheet, their carrying value is amortized to their redemption value.

Interest on debt securities held for investment is posted to income under "Interest income on bonds and other fixed-income instruments".

A provision is made when a decline in the credit standing of an issuer jeopardizes redemption at maturity.

• Equity Securities Held for Investment

This category includes shares and related instruments that the BNP Group intends to hold on a long-term basis, without taking an active part in the management of the issuing companies.

"Equity securities held for investment" are recorded individually at the lower of cost or fair market value. Fair market value of listed securities is primarily determined according to the average market price over the previous two fiscal years, or according to a more recent market price when a decrease in value of the underlying security is likely to endure. Fair market value of unlisted securities is determined according to net asset value per share (consolidated, if applicable).

Dividends received are posted to income under "Income on equities and other non-fixed-income instruments" at the time of their payment.

• Other Stock Investments

This category includes affiliates in which the Group exercises significant influence over management or investments considered strategic to the Group's business development. This influence is deemed to exist when the Group holds an ownership interest of at least 10%.

"Other stock investments" are recorded individually at the lower of cost or fair market value.

Fair market value of listed securities is primarily determined according to the average market price over the previous two fiscal years, or according to a more recent market price when a decrease in value of the underlying security is likely to endure. Fair market value of unlisted securities is determined according to net asset value per share (consolidated, if applicable).

Capital gains or losses on disposals are recorded as "Gains (losses) on disposals of long-term investments, net of provisions" in the income statement.

Dividends on other stock investments are posted to income when the stockholders of those companies have voted to distribute the dividends during the year or upon receipt when the stockholders' decision is not known. They are posted to "Income on equities and other non-fixed-income instruments".

• Investments in Companies Carried Under the Equity Method

Changes in net assets of companies carried under the equity method are posted to assets under "Investments in companies carried under equity method" and to consolidated reserves under "Retained earnings". The difference between the book value of the parent company's shares and its share of net assets at the date of acquisition is also posted to the item "Investments in companies carried under equity method" for the portion allocated to specific assets or liabilities.

Forward Financial Instruments

The BNP Group operates in interest rate and currency forward financial instruments, optional and non optional, both on organized exchanges and in over-the-counter transactions. It engages in interest rate and currency swaps to manage its interest rate and exchange rate risk exposure, as well as for the purposes of arbitrage and trading.

• Forward Interest Rate Instruments

Interest rate futures and options contracts traded on organized exchanges are valued at market at the balance sheet date. Realized and unrealized gains and losses are taken to income under "Net gains (losses) on financial operations".

Gains and losses on certain OTC contracts that are isolated open positions are taken to income either when the contracts are unwound or on a *pro rata temporis* basis, depending on the nature of the instruments. Provisions for risks are made to cover unrealized losses.

Gains and losses on interest rate contracts designated as hedging operations are recognized similarly to the underlying instrument.

• Forward Currency Instruments

Options contracts are marked to market and valuation differences are posted to income. A similar treatment is used for forward exchange contracts bought and sold for trading purposes. Hedging contracts are valued at the cash price prevailing at the end of the period. Premiums and discounts on contracts designated as hedges are recognized on an accrual basis and posted to the income statement over the life of the underlying transaction.

• Equity and Equity Index Derivatives

BNP buys and sells equity and equity index options for trading and hedging purposes. In the case of trading operations, unrealized gains and losses on contracts that have not been unwound by the balance sheet date are posted directly to income. Gains and losses on settled equity and equity index contracts designated as hedging operations are recognized similarly to the underlying instrument.

• Composite Instruments

Composite instruments (also known as structured products) are valued by aggregating the individual values of each basic instrument included in the composite.

However, they are recorded for accounting purposes as a single instrument, with a single notional value off balance sheet and a single net movement in the consolidated income statement.

• Market Value of Financial Instruments

Financial instruments for which market valuation parameters are not freely available are valued on the basis of recent transaction prices or prices obtained from brokers or counterparties supported by qualitative analyses.

Customer Loans

"Customer loans" cover credits to entities other than credit institutions and are broken down into commercial and industrial loans, customer overdrafts, and other credits. Customer loans are carried in the balance sheet at principal amount plus accrued interest.

Whenever management determines that borrowers may not be able to repay their loans, a provision for credit risk is charged to income.

In the case of real estate professionals, potential losses are computed on the basis of the fair market value of the assets financed, guarantees, and losses on unfinished developments (reflecting income and expenses pending). The fair market value of assets financed takes into account rental values, prices of recent transactions involving comparable operations, and any possible capital losses. Expenses pending take into account all interest expense that will be due until complete disposal of the building program, construction costs, fees for professional services pending, and operating expenses.

Allowances for credit risks on items carried under assets in the consolidated balance sheet are deducted from the corresponding asset items. Allowances reported under liabilities consist of allowances for guarantees and endorsements, allowances for losses on unfinished real estate developments in which equity investments have been made, allowances for legal proceedings pending, allowances for risks not specifically identified, and allowances for unforeseen sectoral risks.

Additions to and deductions from allowances, loan losses, and recoveries of loans written off are all carried under "Net addition to allowance for credit risks and country risks" in the income statement.

Country Risk Provisions

Provisions for country risk are based on the evaluation of non-transfer risk related to the future solvency of each of the countries at risk and on the systemic credit risk incurred by the debtors in the event of a constant and durable deterioration of the overall situation and the economies of these countries. Country risk provisions and write-backs are reflected in the consolidated income statement under "Net addition to allowance for credit risks and country risks".

Reserve for General Banking Risks

For conversatism reasons, the BNP Group has set up a reserve for general banking risks. Specific additions to, and deductions from, this reserve are reflected in the consolidated income statement under "Net (addition to) deduction from reserve for general banking risks and miscellaneous risks". This reserve was originally set up through transfers from other reserves in the circumstances described in note 19.

Provisions for Miscellanous Risks

The BNP Group makes provisions for miscellaneous risks to cover specific risks that are uncertain and not quantifiable. These provisions may be written back in the case of individual risks which become certain and quantifiable and which are covered by specific provisions.

Fixed Assets

In 1991 and 1992, as allowed by French regulations, BNP transferred its main operating real estate holdings to its subsidiary Compagnie Immobilière de France. This transaction covered wholly-owned buildings and buildings leased to BNP SA (the parent company) by one of its specialized subsidiaries. BNP intends to hold these buildings on a long-term basis. The revaluation arising from this transaction has been posted to consolidated stockholders' equity net of the related deferred tax effect. A deferred tax allowance has been provided for. The resulting capital gain has, since 1994, been posted to the consolidated income statement in proportion to the additional depreciation charge taken by Compagnie Immobilière de France.

In order to reflect what now appears to be a lasting decline in the real estate market, the BNP Group wrote down the book value of the above-mentioned real estate in 1997. The impact of this adjustment, net of the related deferred income tax effect, was posted to consolidated stockholders' equity, consistent with the initial adjustment. This adjustment therefore has no impact on consolidated net income.

Other buildings and equipment are stated at cost or valued in accordance with France's appropriation laws of 1977 and 1978 or, for certain foreign subsidiaries, in accordance with local rules (see below).

Assets leased by BNP from its specialized subsidiaries are recorded as buildings, equipment, and other under "Tangible and intangible assets".

The restructured real estate portfolio is depreciated over a fifty-year period starting from the date of transfer using the straight line method. Depreciation of other fixed assets is computed using the straightline method over their estimated useful lives.

BNP and its French subsidiaries have adopted an accelerated depreciation method for their individual company accounts. In the consolidated financial statements, depreciation is adjusted (in most cases using the straightline method) to allocate the cost of the depreciable assets over their estimated useful lives. Deferred taxes are calculated on the adjustment.

Amortization of assets leased by BNP from its leasing subsidiaries is reflected in the income statement under "Depreciation and amortization".

Statutory Revaluation

In 1978, in accordance with applicable tax laws, BNP and some of its French subsidiaries revalued land and buildings owned at 31 December 1976 and still carried in their balance sheets at the date of revaluation. The revalued amounts at 31 December 1976 were determined by independent appraisers.

At the same time, investments in affiliates and subsidiaries were also revalued either at 31 December 1976 market values for companies listed on the Paris Stock Exchange, or on the basis of their net asset value as taken from their 31 December 1976 balance sheet after appropriation of income.

BNP has included within stockholders' equity the portion of the revaluation surplus relating to nondepreciable assets arising from this operation.

Income Taxes

BNP Group companies are subject to income tax based on rules and rates prevailing in the countries in which they operate. In France, the standard income tax rate is 33.33%. Long-term capital gains have been taxed at a rate of 19%. Capital gains and losses on securities in the portfolios are taxed at the standard income tax rate of 33.33%, with the exception of "Other stock investments", which are subject to long-term capital gains taxation. Dividends received from companies in which the BNP Group has an ownership interest of more than 10% or more than FRF 150 million are nontaxable.

In 1995 the French Government imposed a 10% surtax on corporate income for an unspecified period of time. As of 1997, it imposed an additional 15% surtax on corporate income, which will be lowered to 10% for fiscal 1999. BNP has taken these surtaxes into account to determine income taxes for each subsequent period that are currently payable, and has used the liability method to adjust the amount of deferred taxes for cases where they would be subject to the surtax when the timing differences reverse themselves at any time in the future. This position is in accordance with the 15 September 1997 interpretation of the French National Accounting Council.

A charge for income taxes is taken in the year in which the respective taxable income and expense are booked, regardless of the time when the tax is actually paid. As a result, BNP Group companies book deferred taxes calculated on the basis of all timing differences between profit and loss items for accounting and tax purposes under the liability method.

However, the deferred income tax provision on reserves related to leasing operations is determined on the basis of the portion of the reserves that might be taxed in the foreseeable future; this amount may not be less than one-half of the existing related reserve.

In accordance with international accounting rules, the BNP Group records deferred tax benefits based on the probability of their utilization, without limiting them to the amount of deferred tax liabilities recorded.

Profit-Sharing Plan

As required by French law, BNP and its French subsidiaries provide for profit sharing in the year in which the profit arises, and report the provision under salaries in "Operating expense" in the consolidated income statement.

Retirement and Pensions for Former Employees

Upon retirement, BNP Group employees receive pensions according to the laws and customs prevailing in the countries where BNP Group companies operate.

Outside France, BNP Group companies and their employees contribute to mandatory pension plans managed by independent organizations.

Retired employees of the BNP Group's French subsidiaries and affiliates belonging to the banking industry are entitled to the following pension system starting 1 January 1994, pursuant to a new industry-wide agreement on pensions:

- Retirees receive pension benefits from the social security system and two nationwide organizations, which are financed by contributions received from employers and employees.

- Retirees receive additional benefits from the pension fund of BNP and its French subsidiaries relative to services rendered prior to 1 January 1994. Funding for these additional benefits is provided by transfers from the pension funds existing reserves and by employer contributions, which are limited to a percentage of payroll costs. The amount of such additional benefits is adjusted to reflect the funding level of the pension funds and may consequently be reduced in due proportion.

The working capital contributions made to the two nationwide pension organizations in 1994 are treated as prepaid expenses and amortized over the average number of years left to retirement of BNP's participating employees, which is currently twenty years.

Employee Benefits

Under various agreements, the BNP Group is committed to pay early retirement, retirement and seniority bonuses to its employees in France and in most of the countries in which the Group does business.

Each year, the Group estimates the net current value of these commitments and adjusts the related allowance.

Note 2 – Subsidiaries and affiliates of the BNP Group at 31 December 1998

Fully consolidated companies

Financial Institutions	Group voting interest (%)	Group ownership interest (%)
IN FRANCE		
Credit Institutions		
Banexi [1]	100.00	100.00
Banque de Bretagne [1]	100.00	100.00
Banque de la Cité [1]	99.95	99.95
Banque de Wallis et Futuna	51.00	51.00
BNPI	97.85	97.85
BNP Factor (France) [1]	100.00	100.00
BNP Finance [1]	100.00	100.00
BNP Guadeloupe [1]	100.00	100.00
BNP Guyane	100.00	100.00
BNP Lease [1]	100.00	100.00
BNP Martinique [1]	100.00	100.00
BNP Nouvelle-Calédonie	100.00	100.00
Natiobail	73.93	73.93
Natiocrédibail	100.00	100.00
Natiocrédimurs	100.00	100.00
Natioénergie	100.00	100.00
Natiolocation [1]	100.00	100.00
Other Financial Institutions		
Arius Finance	86.95	86.95
Banexi Communication SA [1]	100.00	100.00
Banexi Société de Capital Risque	100.00	100.00
BNP Arbitrage [1]	100.00	100.00
BNP Développement SA	100.00	100.00
BNP Gestions [1]	100.00	100.00
BNP Immobilier [1]	100.00	100.00
BNP Emergis [1]	100.00	100.00
Compagnie d’Investissement de Paris “CIP”	100.00	100.00
Codexi	99.91	99.91
Du Bouzet SA [1]	99.54	99.54
Financière BNP [1]	100.00	100.00
Immo Investissements BNP [1]	100.00	100.00
Natiocrédit [1]	100.00	100.00
Natioinformatique	100.00	100.00
Promopart BNP [1]	100.00	100.00
Société Auxiliaire de Participations et de Gestion “SAPEG” [1]	100.00	100.00
Société Bridoise de Participations	100.00	100.00
Société Cristolienne de Participations [1]	100.00	100.00
Société Française Auxiliaire “SFA” [1]	100.00	100.00
Other		
Arius S.A.	100.00	86.95
Compagnie Immobilière de France “CIF” [1]	100.00	100.00
Fleurantine de Participations [1]	100.00	100.00
Négocéquip	100.00	100.00
SNC Goya	100.00	100.00
SNC Immobilier Haussmann 1	100.00	100.00
SNC Meunier Barjac	100.00	100.00
Société de Courtage d’Assurance Universel	100.00	100.00
OUTSIDE FRANCE		
Credit Institutions		
Europe		
BNP Bank NV (Netherlands)	100.00	100.00
BNP Espana (Spain)	99.12	99.12
BNP Finans A/S Norge (Norway)	100.00	100.00
BNP Ireland Ltd (Group)	100.00	100.00
BNP Luxembourg	100.00	99.02
BNP Plc Londres (Great Britain)	100.00	100.00
BNP Suisse (Switzerland)	99.86	99.22
Groupe United European Bank UEB (Switzerland)	100.00	100.00

[1] Entities forming part of the BNP SA taxation group at 1 January 1998.

Financial Institutions	Group voting interest (%)	Group ownership interest (%)
The Americas		
Banco BNP Brasil SA	100.00	100.00
Group BANCWEST CORPORATION (USA)	45.00	45.00
BNP (Canada)	100.00	99.76
BNP (Mexico) SA	100.00	100.00
BNP (Panama) SA	91.80	90.96
BNP (Uruguay) SA	100.00	100.00
BNP Private Bank & Trust Cie Bahamas Ltd.	100.00	100.00
Asia		
BNP Arbitrage Hong Kong Ltd.	100.00	100.00
BNP PrimeEast Securities (Hong Kong)	100.00	90.00
Africa		
Banque Malgache de l'Océan Indien BMOI (Madagascar)	55.78	54.83
Banque pour l'Industrie et le Commerce (Comoros)	51.00	49.90
BCI Mer rouge (Djibouti)	51.00	49.90
BMCI (Morocco)	50.00	48.93
UBCI (Tunisia)	50.00	48.93
Banque du Caire et de Paris (Egypt)	76.00	76.00
Other Financial Institutions		
Europe		
BNP Capital Finance Ltd. (Ireland)	100.00	100.00
BNP Factor (Portugal)	95.00	95.00
BNP Financière du Régent (Belgium)	100.00	100.00
BNP Leasing Limited (Great Britain)	100.00	100.00
BNP Leasing Spa (Italy)	100.00	100.00
BNP SIM SA Milan (Italy)	100.00	100.00
BNP Pasfin SIM (Italy)	70.00	70.00
BNP UK Holdings Ltd. (Great Britain)	100.00	100.00
Cipango Ltd. (Great Britain)	100.00	100.00
Interconti-Finance (Ireland)	100.00	100.00
The Americas		
BNP Cooper Neff (USA)	100.00	100.00
BNP Cooper Neff Advisors (USA)	100.00	100.00
BNP Leasing Corporation Dallas (USA)	100.00	100.00
BNP Mexico Holding (Mexico)	100.00	100.00
BNP Securities INC (USA)	100.00	100.00
BNP US Funding LLC (USA)	100,00	100.00
French American Banking Corporation-FABC (USA)	100.00	100.00
Asia-Pacific		
BNP Equities Asia	100.00	100.00
BNP Equities Australia Ltd.	80.00	80.00
BNP Finance Hong Kong Ltd.	100.00	100.00
BNP Futures HKG	100.00	100.00
BNP IFS Hong Kong Ltd.	100.00	100.00
BNP IFS Singapour Ltd.	100.00	100.00
BNP Pacific Ltd. (Australia)	100.00	100.00
BNP Prime Peregrine (South East Asia)	70.00	70.00
BNP Prime Peregrine Ltd. (Greater China)	90.00	90.00
BNP Securities HKG	100.00	100.00
BNP Vila Ltd. (Vanuatu)	100.00	100.00
Pt BNP Lippo Indonésia (Indonesia)	70.00	70.00
Pt BNP Lippo Utama Leasing (Indonesia)	80.00	56.00
Africa		
BMCI Offshore (Morocco)	100.00	48.93
Interleasing Maroc	71.83	35.15
Union Tunisienne de Leasing (Tunisia)	56.64	37.05
Other		
Asia-Pacific		
90 William Street Pty Ltd. (Australia)	100.00	100.00

Proportionally consolidated companies

Financial Institutions	Group voting interest (%)	Group ownership interest (%)
IN FRANCE		
Other Financial Institutions		
CFJPE	50.00	50.00
Europcar Lease	50.00	50.00
OUTSIDE FRANCE		
Credit Institutions		
Europe		
BNP AK Dresdner Bank AS (Turkey)	30.00	29.70
BNP Dresdner Bank AD (Bulgaria)	40.00	40.00
BNP Dresdner Bank CR/AS (Czech Republic)	50.00	50.00
BNP Dresdner Bank Z A O (Russia)	50.00	50.00
BNP Dresdner Bank (Polska) SA	50.00	50.00
BNP Dresdner Bank RT (Hungary)	50.00	50.00
The Americas		
Dresdner Banque Nationale de Paris Chile (Chile)	44.15	44.15
Inversiones Dresdner BNP Chile (Chile)	50.00	50.00
Asia-Pacific		
International Bank of Paris and Shanghai (China)	50.00	50.00
Other Financial Institutions		
Europe		
BNP AK Dresdner Finansal Kiralama AS (Turkey)	30.00	29.70
Société Financière pour les Pays d'Outre-Mer - SFOM (Switzerland)	48.36	48.36
The Americas		
Dresdner BNP Chile Corredores de Bolsa (Chile)	27.50	27.50

Companies carried under the equity method

Financial Institutions	Group voting interest (%)	Group ownership interest (%)
IN FRANCE		
Other Financial Institutions		
Béarnaise de Participations	98.86	98.86
Chinonaise de Participations [(1)]	100.00	99.54
DGC Participations	100.00	100.00
Euromezzanine SCA	28.29	28.29
Euromezzanine SCA 2	27.83	27.83
OUTSIDE FRANCE		
Credit Institutions		
Africa		
BICI Côte-d'Ivoire (Group)	34.54	34.54
BICIA du Burkina Faso	29.38	29.38
BICI du Gabon	34.86	34.86
BICI du Sénégal	35.69	35.69
BTCI Togo	35.75	35.75
International Bank of Southern Africa-SFOM Ltd. (South Africa)	39.46	39.46
The Commercial Bank of Namibia Ltd. CBON (Namibia)	21.20	21.20
Union Africaine de Crédit UFAC (Morocco)	99.09	48.48
Asia		
BNP PrimeEast Indonesia	70.00	49.00

(1) Entities forming part of the BNP SA taxation Group at 1 January 1998.

Financial Institutions	Group voting interest (%)	Group ownership interest (%)
Other Financial Institutions		
The Americas		
BNP Canada-Valeurs mobilières	100.00	99.76

Non-Financial Institutions	Group voting interest (%)	Group ownership interest (%)
IN FRANCE		
Insurance		
Natio-Vie (Group) (1)	100.00	100.00
Real Estate		
Cimoxi (1)	100.00	100.00
Meunier Promotion (Group) (1)	100.00	100.00
Société Française de Développement Immobilier (1)	100.00	100.00
Services		
Société Française du Chèque de Voyage	21.00	21.00
OUTSIDE FRANCE		
Insurance		
BNP Ré Luxembourg	100.00	99.91

(1) Entities forming part of the BNP SA taxation group at 1 January 1998.

The following changes were made to the scope of consolidation:

In 1997

- The following companies are now fully consolidated: Banco BNP Brasil, BNP PrimeEast Labuan Holding, BNP US Funding LLC (USA), BNP Arbitrage Hong Kong and Arius Finance, all newly created entities; BNP PrimeEast Securities Hong Kong and BNP Private Bank Trust Bahamas, both acquired; and BNP Gestions, BNP Mexico Holding, BMCI Offshore (Morocco), Codexi and Arius SA, which now meet the criteria for full consolidation.

- The following companies are now carried under the equity method: Euromezzanine SCA 2, a newly created entity; BNP PrimeEast Indonesia, which was acquired; and BNP Canada Valeurs Mobilières, which now meets the criteria for being carried under the equity method.

- Two companies previously carried under the equity method (Dresdner BNP Chile and Europcarlease) are now proportionally consolidated, as are three companies (Inversiones Dresdner BNP Chile, Dresdner BNP Chile Corredores Bolsa and UEB Trust Bahamas) which now meet the criteria for proportional consolidation.

- Delloise de Participations, BNP Securities Hong Kong, BNP Securities Australia and BNP Capital Markets are no longer fully consolidated, because they no longer meet the criteria for full consolidation. BNP Asset Finance BV is no longer carried under the equity method.

- Compagnie Financière Jean-Paul Elkann was merged into Société Financière de Participations (renamed CFJPE), and Hautmontoise de Participations was merged into BNP Finance.

- Crédifimo and Mauritius Leasing Company, previously carried under the equity method, were sold.

In 1998

- Four newly created subsidiaries, BNP Emergis, BNP Equities Asia, BNP Prime Peregrine Holding (South East Asia) and BNP Prime Peregrine Ltd. (Greater China) were fully consolidated for the first time, as was the newly acquired BNP Pasfin SIM (Italy).

- The following companies now qualify for full consolidation: BNP Financière du Régent (Belgium) and Banque du Caire et de Paris (Egypt), both previously carried under the equity method; UEB Holding, UEB Genève, UEB Monaco, UEB Luxembourg and UEB Trust Bahamas, all previously proportionally consolidated; BNP Cooper Neff Advisors, BNP Futures HKG and BNP Securities HKG, which met the criteria for full consolidation for the first time, and Société de Courtages d'Assurance Universel, which was previously consolidated at the level of the Crédit Universel sub-group.

- BNP Bail and Crédit Universel have merged into an entity now known as BNP Lease, and Locafinance has been merged into Natiolocation. These entities continue to be fully consolidated.

- Following the exchange of the equity interest in BANCWEST CORP., a holding company owning the shares in Bank of the West, for a 45% equity interest in the vehicle owning the shares in First Hawaiian Bank and in Bank of the West, the Bank of the West and First Hawaiian Bank sub-groups are now fully consolidated under the name BANCWEST CORP. The effect of this change in scope of consolidation is discussed in note 34.

- BNP Dresdner Bank Bulgaria, previously carried under the equity method, is now proportionally consolidated.

- BAII SA and BAII Asset Management have discontinued their activities and are no longer consolidated, as is KB Norge which no longer meets the consolidation criteria.

Note 3 – Interbank and money market items

In millions of euros, at 31 December	1998			1997	1996
	Gross	Allowance	Net	Net	Net
Cash and due from central banks and post office banks:					
Cash and due from post office banks	894	—	894	602	438
Due from central banks	2,772	(3)	2,769	1,205	1,864
Related receivables	3	—	3	2	2
Total cash and due from central banks and post office banks	**3,669**	**(3)**	**3,666**	**1,809**	**2,304**
Treasury bills and money-market instruments (note 5)	**40,421**	**(27)**	**40,394**	**37,883**	**23,583**
Due from credit institutions					
Demand deposits	4,071	(35)	4,036	4,046	4,329
Terms loans and time deposits (1)					
Central banks	4,815	—	4,815	1,590	2,563
Other credit institutions	22,973	(697)	22,276	30,501	53,215
Related receivables	1,294	(20)	1,274	1,386	1 080
Total term loans and time deposits	**29,082**	**(717)** (2)	**28,365**	**33,477**	**56,858**
Securities and bills purchased firm or under resale agreements:					
Securities received under resale agreements	36,711	—	36,711	35,725	20,215
Bills purchased firm or under resale agreements:					
Central banks	—	—	—	—	12
Other credit institutions	2,058	—	2,058	1,664	1,345
Related receivables	3	—	3	6	6
Total securities and bills purchased firm or under resale agreements:	**38,772**	**—**	**38,772**	**37,395**	**21,578**
Subordinated loans	110	—	110	72	54
Total due from credit institutions	**72,035**	**(752)**	**71,283**	**74,990**	**82,819**
Total interbank and money market items	**116,125**	**(782)**	**115,343**	**114,682**	**108,706**
Including accrued interest	—	—	*1,737*	*1,755*	*1,222*

(1) The term "Term loans and time deposits" includes overnight and term loans which are not materialized in a bill or security, particularly financial credits. Commercial loans with an initial term of more than one year granted to credit institutions, where the ultimate borrowers are business entities other than financial sector companies, generally entities from developing countries on which cross-border exposure has been provisioned (note 7), are considered financial credits.

(2) General allowances for country risks.

Note 4 – Customer items

In millions of euros, at 31 December	1998			1997	1996
	Gross	Allowance	Net	Net	Net
Due from customers					
Commercial and industrial loans:					
Discounting and related	2,003	—	2,003	2,758	3,398
Acceptances	468	—	468	369	252
Other commercial and industrial loans	4,102	—	4,102	2,395	1,591
Total commercial and industrial loans	**6,573**	**—**	**6,573**	**5,522**	**5,241**
Overdrafts	11,098	—	11,098	10,759	9,579
Other credits:					
Short-term loans	22,944	—	22,944	22,899	22,081
Mortgage loans	21,344	—	21,344	20,468	19,529
Investment loans	15,878	—	15,878	15,768	14,534
Export loans	3,752	(225)	3,527	3,066	2,734
Other customer loans	42,961	(8)	42,953	37,132	32,800
Total other credits	**106,879**	**(233)** (1)	**106,646**	**99,333**	**91,678**
Doubful customer loans	8,250	(5,365)	2,885	2,509	2,966
Receivables related to customer loans	716	—	716	674	562
Securities and bills purchased firm or under resale agreements	11,299	—	11,299	7,983	2,852
Subordinated debts (2)	233	(35)	198	123	165
Total due from customers (3)	**145,048**	**(5,633)**	**139,415**	**126,903**	**113,043**
Leasing receivables	9,468	(210)	9,258	8,484	7,999
Total customer items	**154,516**	**(5,843)**	**148,673**	**135,387**	**121,042**
Including: accrued interest on customer items	*926*	—	*926*	*854*	*670*

(1) General allowances for country risks.

(2) Participating loans granted to BNP customers included under “Subordinated loans” amounted to EUR 168 million at 31 December 1998 against EUR 78 million at 31 December 1997 and EUR 104 million at 31 December 1996.

(3) Loans qualifying for refinancing by the French Central Bank amounted to EUR 10,296 million at 31 December 1998 compared with EUR 9,987 million at 31 December 1997 and EUR 12,519 million at 31 December 1996.

Note 5 – Trading account assets, investment securities held for sale, and debt securities held for investment

In millions of euros, at 31 December	1998				1997		1996	
	Gross value	Allowance	Net book value	Market value	Net book value	Market value	Net book value	Market value
Trading account assets:								
Treasury bills and money market instruments	20,220	—	20,220	20,220	18,169	18,169	14,264	14,264
Bonds and other fixed-income instruments	6,237	—	6,237	6,237	7,041	7,041	6,908	6,908
Equities and other non-fixed-income instruments	6,208	—	6,208	6,208	4,785	4,785	4,808	4,808
Own stock held within the Group	6	—	6	6	2	2	7	7
Total trading account assets	**32,671**	**—**	**32,671**	**32,671**	**29,997**	**29,997**	**25,987**	**25,987**
Including: unlisted equities and bonds	*300*	*—*	*300*	*300*	*594*	*594*	*15*	*15*
Investment securities held for sale:								
Treasury bills and money market instruments	1,219	(28)	1,191	1,186	1,349	1,361	1,893	1,903
Bonds and other fixed-income instruments:								
Public-sector issuers	900	(409)	491	568	518	665	627	737
Other issuers	3,536	(192)	3,344	3,365	3,896	3,960	4,854	4,917
Total bonds and other non-fixed-income instruments	**4,436**	**(601)**	**3,835**	**3,933**	**4,414**	**4,625**	**5,481**	**5,654**
Equities and other non-fixed-income instruments	363	(8)	355	407	189	234	698	754
Own stock held within the Group	—	—	—	—	—	—	47	52
Total investment securities held for sale	**6,018**	**(637)**	**5,381**	**5,526**	**5,952**	**6,220**	**8,119**	**8,363**
Including: unlisted equities and bonds	*1,720*	*(597)*	*1,123*	*1,195*	*612*	*630*	*806*	*814*
Debt securities held for investment:								
Treasury bills and money market instruments	18,983	—	18,983	19,478	18,365	18,595	7,426	7,668
Bonds and other fixed-income instruments:								
Public-sector issuers	1,825	—	1,825	1,711	1,674	1,671	1,277	1,137
Other issuers	4,725	(7)	4,718	4,793	4,166	4,264	4,524	4,553
	6,550	(7)	6,543	6,504	5,840	5,935	5,801	5,690
Total debt securities held for investment	**25,533**	**(7)**	**25,526**	**25,982**	**24,205**	**24,530**	**13,227**	**13,358**
Including: unlisted bonds	*708*	*(2)*	*706*	*706*	*303*	*303*	*296*	*297*
Trading account assets, investment securities held for sale, and debt securities held for investment (1)	**64,222**	**(644)**	**63,578**	**64,179**	**60,154**	**60,747**	**47,333**	**47,708**
Including:								
Treasury bills and money market instruments	*40,422*	*(28)*	*40,394*	*40,884*	*37,883*	*38,125*	*23,583*	*23,834*
Bonds and other fixed-income instruments	17,223	(608)	16,615	16,674	17,295	17,601	18,190	18,252
Including: unlisted bonds	*2,348*	*(595)*	*1,753*	*1,821*	*1,347*	*1,364*	*794*	*798*
Equities and other non-fixed-income instruments	6,577	(8)	6,569	6,621	4,976	5,021	5,560	5,622
Including: unlisted equities	*380*	*(4)*	*376*	*380*	*162*	*163*	*322*	*328*

(1) Mutual fund shares held by the BNP Group amounted to EUR 405 million at 31 December 1998, EUR 113 million at 31 December 1997 and EUR 241 million at 31 December 1996. This amount includes EUR 99 million in growth funds, of which EUR 23 million incorporated in France, compared with EUR 53 million at 31 December 1997, of which EUR 42 million incorporated in France, and EUR 151 million at 31 December 1996, of which EUR 139 million incorporated in France.

Over the past three years, securities were reclassified among the various portfolios as follows:

Former classification	New classification	Amount transferred during period (in millions of euros)		
		1998	1997	1996
Trading account assets	Investment securities held for sale	232	341	1 541
Investment securities held for sale	Debt securities held for investment	567	5	93
Debt securities held for investment	Investment securities held for sale	2	79	4
Trading account assets	Debt securities held for investment	12	291	763

Net premiums on debt securities held for investment reflecting an acquisition price higher than the redemption price amounted to EUR 153 million at 31 December 1998, compared with EUR 274 million at 31 December 1997 and EUR 71 million at 31 December 1996. These premiums are amortized over the remaining life of the securities.

Receivables corresponding to securities lent amounted to EUR 409 million at 31 December 1998, compared with EUR 363 million at 31 December 1997 and EUR 608 million at 31 December 1996.

Accrued interest on fixed-income securities was EUR 658 million at 31 December 1998 against EUR 649 million at 31 December 1997 and EUR 430 million at 31 December 1996.

A number of developing countries have obtained debt restructuring from their bankers. Since 1990, the Group has swapped a number of loans for 15- to 30-year fixed or floating-rate bonds. Some of these bonds, received in exchange for loans that were rescheduled with lower interest rates, are guaranteed to maturity by zero-coupon bonds issued by the French and the US Treasuries with a revolving guarantee of fourteen to eighteen months of interest payments.

The gross outstanding amount of such “Brady bonds” held by BNP was EUR 1,092 million at 31 December 1998, EUR 938 million at 31 December 1997 and EUR 1,167 million at 31 December 1996. At 31 December 1998, EUR 646 million of these bonds were recorded under “Investment securities held for sale” (EUR 488 million at 31 December 1997 and EUR 560 million at 31 December 1996), and EUR 447 million under “Debt securities held for investment” (EUR 450 million at 31 December 1997, EUR 608 million at 31 December 1996).

During 1998, the BNP Group used the stockholder authorization to trade in BNP shares in order stabilize the market price to sell 1,737,296 shares at an average price of EUR 47.64 and to purchase 1,733,808 shares at an average price of EUR 47.68. The three Group subsidiaries that exchanged Compagnie d’Investissement de Paris shares for BNP shares in connection with the 1996 CIP-BNP stock-for-stock public tender offer (note 20) sold their 1,572,905 BNP shares during the first half of 1997. These shares were recorded under “Investment securities held for sale” at 31 December 1996. In addition, one of the Group subsidiaries engaged in arbitraging on stock market indexes held 65,934 BNP shares at 31 December 1998, under trading account assets.

Note 6 – Equity securities held for investment and other stock investments

In millions of euros, at 31 December	1998			1997		1996	
	Gross book value	Net book value	Fair market value	Net book value	Fair market value	Net book value	Fair market value
Equity securities held for investment:							
Unlisted securities:							
Portfolio valued according to net assets	93	63	71	29	40	22	34
Portfolio valued according to fair market value	417	206	240	199	227	217	237
Portfolio valued at cost	61	58	62	68	69	71	81
Listed securities (1):							
Portfolio valued according to year-end market prices	160	157	185	30	44	43	65
Portfolio valued according to average market prices of previous two years	1,246	1,207	1,816	1,259	1,631	656	774
Total equity securities held for investment	**1,977**	**1,691**	**2,374**	**1,585**	**2,011**	**1,009**	**1,191**
Other stock investments:							
Securities issued by affiliates neither consolidated nor carried under equity method (2)	434	289	308	212	230	199	211
Other stock investments, other:							
Unlisted securities (2):	819	677	825	433	501	342	434
Listed securities (1):							
Portfolio valued according to year-end market prices	30	28	63	31	61	142	165
Portfolio valued according to average market prices of previous two years	126	122	225	133	180	801	877
Portfolio valued according to other methods	674	663	665	914	914	1,461	1,465
Total other stock investments, other	**1,649**	**1,490**	**1,778**	**1,511**	**1,656**	**2,746**	**2,941**
Total other stock investments	**2,083**	**1,779**	**2,086**	**1,723**	**1,886**	**2,945**	**3,152**
Total equity securities held for investment and other stock investments	**4,060**	**3,470**	**4,460**	**3,308**	**3,897**	**3,954**	**4,343**

(1) Fair market value is determined according to the average stock market price over the previous two fiscal years or according to a more recent market price when a decrease in the value of the underlying security is likely to endure.
(2) Fair market value is determined according to the BNP Group's share of the companies' net assets.

Interest in subsidiaries and affiliated credit institutions classified as "Other stock investments" amounted to EUR 276 million and EUR 59 million respectively, at 31 December 1998 against EUR 203 million and EUR 39 million at 31 December 1997, and EUR 163 million and EUR 48 million at 31 December 1996.

In 1997, the Group reclassified EUR 876 million of investments previously carried under "Other stock investments" as "Equity securities held for investment" in recognition of the fact that they are managed more actively.

The main companies carried under "Equity securities held for investment and other stock investments" with a net book value of more than EUR 38 million in the BNP Group's accounts are listed below:

In millions of euros	Head office	Consolidated (1) stockholders' equity in 1997	Consolidated net income (loss) in 1997	Net book value in BNP Group's accounts
Shareholding interests of less than 5% of the investee's capital stock				
Axa	Paris	11,993	1,207	663
Vivendi	Paris	6,847	822	239
Saint-Gobain	La Défense	8,414	858	212
Elf Aquitaine	Courbevoie	12,622 (1)	854	179
Pechiney	La Défense	2,488	277	122
Rhône-Poulenc	Courbevoie	6,403	(761)	92
Dresdner Bank	Frankfurt	9,668	847	84
Renault	Boulogne-Billancourt	6,695	800	78
Peugeot SA	Paris	8,080	(422)	47
Lafarge	Paris	3,982	371	44
Air France	Roissy-en-France	2,407 (2)	286 (2)	44
Lagardère	Paris	1,814	210	42
Bouygues	St Quentin-en-Yvelines	1,253	115	41
Shareholding interests of between 5% and 10% of the investee's capital stock				
Cofinoga	Paris	315	57	47
Cibc Inc.	USA	(3)	(3)	43

(1) Based on French accounting principles.
(2) Figure for the year ended 31 March 1998.
(3) New entity formed in 1998.

Net unrealized capital gains on equity securities held for investment and other stock investments, calculated by reference to period-end market prices for listed securities, amounted to EUR 1,830 million at 31 December 1998, compared with EUR 1,177 million at 31 December 1997 and EUR 434 million at 31 December 1996.

Net unrealized capital gains on the total portfolio summarized in notes 5 and 6 were EUR 2,431 million at 31 December 1998, including securitized receivables, against EUR 1,771 million at 31 December 1997 and EUR 810 million at 31 December 1996.

Note 7– Allowance for credit risks and country risks

In millions of euros	Allowance at 31 December 1997	Net additions (deductions) during period	Write-offs during period	Other changes during period [1]	Allowance at 31 December 1998
Allowances reflected under assets [2]:					
On interbank items [3]	1,024	(23)	(30)	(216)	755
On customer items (note 4)	6,317	579	(593)	(460)	5,843
On securities [3]	448	337	(148)	(30)	607
Total allowances reflected under assets	**7,789**	**893**	**(771)**	**(706)**	**7,205**
Allowances reflected under liabilities (note 18)					
On off-balance sheet commitments	389	173	(48)	39	553
For other credit risks	388	(38)	—	574	924
Total allowances reflected under liabilities	**777**	**135**	**(48)**	**613**	**1,477**
Total allowance for credit risks and country risks	**8,566**	**1,028**	**(819)**	**(93)**	**8,682**
Allowances reflected under assets [2]:					
Designated to cover country risks	2,041	347	(111)	(752)	1,525
Designated to cover specific risks	5,748	546	(660)	46	5,680
Total allowances reflected under assets	**7,789**	**893**	**(771)**	**(706)**	**7,205**
Allowances reflected under liabilities:					
Designated to cover country risks	175	—	—	615	790
Designated to cover specific risks and banking risks	602	135	(48)	(2)	687
Total allowances reflected under liabilities	**777**	**135**	**(48)**	**613**	**1,477**
Total allowance for credit risks and country risks	**8,566**	**1,028**	**(819)**	**(93)**	**8,682**

(1) The impact of variations in exchange rates amounted to negative EUR 125 million.
(2) As receivables purchased or swapped are carried at their face value, premiums and differences between purchase price and face value are recorded as allowances.
(3) Allowances on loans to credit institutions mainly concern financial credits (see note 3) exposed to country risk. Allowances on securities shown in this table cover the country risk affecting securities held by the BNP Group.

Credit-risk allowances are recorded under assets in the allowance for credit losses account. Allowances for off-balance sheet commitments are reflected under liabilities, as are allowances for legal proceedings pending, allowances for risks not specifically identified, and allowances for unforeseen sectoral risks.

Outstanding allowances on principal and interest, premiums and discounts in relation to sovereign loans totaled EUR 2,315 million at 31 December 1998 against EUR 2,216 million at 31 December 1997 and EUR 2,003 million at 31 December 1996.

In millions of euros	1998	1997	1996
Net additions to allowance for credit and country risks	**1,028**	**896**	**820**
Allowance for unforseeable sectoral risks charged as nonrecurring item (note 33)	—	—	(273)
Cancellation of net (addition to) deduction from allowance for interest arrears reflected under banking income	130	77	(29)
Loan losses	939	1,064	782
Utilization of allowances following losses on debt sales	(819)	(935)	(650)
Recoveries of amounts written off	(75)	(68)	(72)
Net credit risk and country risk provision charge for period	**1,203**	**1,034**	**578**
Incl:			
Provision charge for specific risks	796	604	701
Provision charge for country risks	407	430	(123)

Credit exposure to sensitive countries

In 1998, the economies of a number of countries were affected to varying degrees by the prospect of severe recession and very high interest rates, the depreciation of local currencies and slumps in regional stock markets.

Some or all of these phenomena were initially concentrated during 1997 in five Asian countries (South Korea, Indonesia, Thailand, Malaysia and the Philippines), where the crisis partially eased in the second half of 1998. In mid-1998, similar trends affected first Russia and then Brazil. Russia became technically insolvent. BNP responded to these developments by constantly reassessing its risks in these countries.

BNP's on and off balance sheet exposure in these countries is in both local and foreign currencies, and comprises lending of all maturities including short-term and trade financing, and securities portfolios including trading securities (except where the nominal value on maturity is backed by American or French zero-coupon treasury bonds). Included in BNP's exposure are all transactions of this type with governments, banks and corporate clients (except subsidiaries of multinationals based in non sensitive countries). Excluded is the portion of risks guaranteed by public institutions (such as Coface) or international institutions in non sensitive countries, or by formally pledged cash collateral. Short-term trade related financing with an initial term of less than eighteen months is included. Transactions where the only risk is of non delivery of the goods financed and on which payment is sourced from non sensitive countries are not included.

Asian countries

Direct exposure at 31 December	1998						1997
In millions of euros	Corporate	Banks	Government and public sector	Total (excl. short-term trade related)	Short-term trade related	Total	Total
South Korea	332	395	336	**1,063**	269	**1,332**	**1,568**
Indonesia	504	36	42	**582**	113	**695**	**941**
Thailand	359	11	101	**471**	108	**579**	**934**
Malaysia	199	50	71	**320**	65	**385**	**574**
Philippines	91	57	48	**196**	198	**394**	**545**
Total	**1,485**	**549**	**598**	**2,632**	**753**	**3,385**	**4,562**

Loans to private clients from these five countries amounted to EUR 198 million at 31 December 1998.

In 1998, the BNP Group recorded additional allowances of EUR 290 million to cover specific exposures in the five most sensitive Asian countries. Total specific and general allowances represented EUR 743 million at 31 December 1998 (EUR 460 million at 31 December 1997), as follows:

- Specific allowances of EUR 382 million (EUR 90 million at 31 December 1997) for individually identified impaired assets.
- An additional general precautionary allowance for country risks calculated using the multi-criteria approach applied by the BNP Group which is designed, in particular, to assess the impact of a further deterioration in the economic and financial situation in the five countries. This allowance amounted to EUR 361 million at 31 December 1998 (EUR 370 million at 31 December 1997).

Other countries

Direct exposure at 31 December	1998					
In millions of euros	Corporate	Banks	Government and public sector	Total (excl. short-term trade related)	Short-term trade related	Total
Russia	56	60	442	**558**	75	**633**

Outstandings on transactions with Russia where the only risk was of non-delivery of the goods financed amounted to EUR 203 million at 31 December 1998.

Direct exposure at 31 December			1998			
In millions of euros	Corporate	Banks	Government and public sector (1)	Total (excl. short-term trade related)	Short-term trade related	Total
Brazil	186	19	266	**471**	261	**732**

Brady bond debt with Brazil guaranteed by US zero-coupon treasury bonds amounted to EUR 169 million at 31 December 1998.

Note 8–Investments in companies carried under the equity method

In millions of euros	BNP Group's ownership interest	BNP Group's share of net income for most recent financial period (2)	Total investment of the Group	Net book value of shares in companies
Financial institutions:				
BICI (Ivory Coast)	17	—	17	7
BICI (Gabon)	15	1	16	3
Béarnaise de Participations	9	3	12	5
International Bank of Southern Africa (South Africa)	4	1	5	—
Union Africaine de Crédit	4	—	4	5
BICI (Senegal)	4	—	4	3
BICI A (Burkina Faso)	4	—	4	1
Euromezzanine SCA	3	—	3	3
Chinonaise de Participations	3	—	3	2
DGC Participations	3	(2)	1	1
Other	74	1	75	79
Total financial institutions	**140**	**4**	**144**	**109**
Non-financial companies:				
Insurance companies:				
Natio-Vie	512	73	585	358
BNP Ré Luxembourg	130	14	144	7
Total insurance companies	**642**	**87**	**729**	**365**
Real estate companies:				
Meunier Promotion	35	8	43	43
Cimoxi	12	—	12	3
Société Française de Développement Immobilier	8	(1)	7	7
Total real estate companies	**55**	**7**	**62**	**53**
Other non-financial companies:				
Société Française du Chèque de Voyage	3	1	4	3
Merone et Cita	16	2	18	21
Other	18	15	33	—
Total other non-financial companies	**37**	**18**	**55**	**24**
Total non-financial companies	**734**	**112**	**846**	**442**
Total investments in companies carried under equity method	**874**	**116**	**990**	**551**

(1) Not guaranteed.
(2) BNP Group's share in undistributed income.

Note 9 – Long-term investments

In millions of euros	Gross amount at 1 January 1998	Acquisitions	Redemptions and disposals	Transfers and other changes [1]
Debt securities held for investment (note 5)	24,216	6,704	(6,777)	1,390
Other stock investments (note 6)	2,029	390	(392)	56
Equity securities held for investment (note 6)	1,936	387	(460)	114
Investments in companies carried under equity method (note 8)	816	—	—	174
Total long-term investments	**28,997**	**7,481**	**(7,629)**	**1,734**

[1] *Transfers and other adjustments comprise accumulated translation differences and transfers among the various portfolio categories. Transfers between "Other stock investments" and "Equity securities held for investment" portfolios are discussed in Note 6.*

Note 10 – Tangible and intangible assets

In millions of euros	1998			1997	1996
	Gross	**Depreciation, amortization and provisions**	**Net**	**Net**	**Net**
Intangible assets:					
Computer software	373	258	115	107	101
Other intangible assets	205	89	116	114	118
Total intangible assets	**578**	**347**	**231**	**221**	**219**
Tangible assets:					
Land and buildings	2,137	861	1,276	1,131	1,621
Equipment, furniture and fixtures	2,308	1,518	790	685	710
Fixed assets in progress	100	—	100	80	67
Total tangible assets	**4,545**	**2,379**	**2,166**	**1,896**	**2,398**
Total tangible and intangible assets	**5,123**	**2,726**	**2,397**	**2,117**	**2,617**

Operating Assets

In 1991 and 1992, as allowed by French regulations, BNP transferred its main operating real estate holdings to its subsidiary Compagnie Immobilière de France. The book value of the assets was increased by EUR 1,156 million, and the corresponding capital gain was posted to consolidated stockholders' equity under "capital gains on restructuring", net of the related income tax effect (see note 20).

In order to reflect what now appears to be a lasting decline in the real estate market, in 1997 the BNP Group wrote down the book value of these real estate assets by EUR 545 million. The adjustment, net of the related income tax effect, was recorded in the balance sheet under "capital gains on restructuring", consistently with the initial adjustment (see note 20). Consequently, this adjustment had no impact on consolidated net income.

Gross amount at 31 December 1998	Allowance at 1 January 1998	Additions to allowance during period	Deductions from allowance at 31 December 1998	Other changes [1]	Total allowance at 31 December 1998	Net amount at 31 December 1998
25,533	11	—	(4)	—	7	25,526
2,083	306	24	(31)	5	304	1,779
1,977	351	24	(87)	(2)	286	1,691
990	—	—	—	—	—	990
30,583	**668**	**48**	**(122)**	**3**	**597**	**29,986**

Non Operating Assets

Non operating land and buildings amounted to EUR 24 million at 31 December 1998, compared with EUR 29 million at 31 December 1997 and EUR 21 million at 31 December 1996.

Depreciation, Amortization and Provisions

The charge for depreciation, amortization and provisions totaled EUR 333 million in 1998, compared with EUR 321 million in 1997 and EUR 314 million in 1996.

Note 11–Accrued income and other assets

In millions of euros, at 31 December	1998	1997	1996
Accrued income and other adjustment accounts			
Valuation adjustment account [1]	3,209	6,806	5,485
Accrued income	2,498	3,101	3,230
Collection account	1,924	1,727	1,799
Other adjustment accounts [2]	3,226	5,780	3,266
Total accrued income and other adjustment accounts	**10,857**	**17,414**	**13,780**
Other assets			
Premiums on purchased options [3]	11,873	6,838	4,363
Investments in *Codevi* “industrial development” securities	2,476	2,412	2,447
Deferred income tax assets	432	537	343
Other	4,922	4,353	1,993
Total other assets	**19,703**	**14,140**	**9,146**
Total accrued income and other assets	**30,560**	**31,554**	**22,926**

(1) Gains arising from marking transactions (foreign exchange instruments and forward instruments) to market.
(2) Includes prepaid interest for customers and financial institutions accounts and prepaid expenses.
(3) The development of the “Options” worldwide line of business has led to a significant increase in this caption.

ancial statements

Note 12 – Goodwill

In millions of euros, at 31 December	1998	1997	1996
Net amount at 1 January	79	27	26
Goodwill on acquisitions during the year	163	65	13
Translation difference	(3)	4	1
Amortization of goodwill	(24)	(17)	(13)
Unamortized goodwill at 31 December	**215**	**79**	**27**

The net amortization of the portion of goodwill not allocated to specific assets or liabilities totalled EUR 16 million in 1998 after deduction of EUR 8 million (EUR 16 million in 1997 after deduction of negative EUR 1 million and EUR 13 million in 1996).

Note 13 – Interbank and money market items and securities

In millions of euros, at 31 December	1998	1997	1996
Interbank and money market items			
Demand accounts:	6,323	6,864	5,372
Due to central banks and post office banks	3,392	3,636	1,936
Due to credit institutions	2,904	3,188	3,410
Related payables	27	40	26
Time deposits and borrowings:	55,225	56,962	62,754
Central banks	4,464	3,797	3,272
Other credit institutions	49,066	51,508	58,012
Related payables	1,695	1,657	1,470
Securities and bills sold firm or under repurchase agreements:			
Securities given under repurchase agreements	39,449	32,499	19,335
Bills sold firm or under repurchase agreements	7,097	5,548	7,572
Central banks	1,725	1,763	280
Other credit institutions	5,372	3,785	7,292
Total securities and bills sold firm or under repurchase agreements	**46,546**	**38,047**	**26,907**
Total interbank and money market items	**108,094**	**101,873**	**95,033**
Bonds and negotiable short-term debt instruments			
Interbank market securities	172	267	339
Total interbank items and money market securities	**108,266**	**102,140**	**95,372**
Including: accrued interest	*2,081*	*1,842*	*1,590*

Interbank demand deposits amounted to EUR 2,904 million at 31 December 1998, compared with EUR 3,187 million at 31 December 1997 and EUR 3,410 million at 31 December 1996.

Note 14 – Customer deposits, retail certificates of negotiable certificates of deposit

In millions of euros, at 31 December	1998	1997	1996
Customer deposits:			
Demand accounts	36,152	30,334	27,809
Time accounts	42,925	39,884	37,917
Regulated savings accounts	31,291	31,885	29,222
Repurchase agreements:			
Securities sold under delivered repurchase agreements	7,569	7,312	2,318
Securities and bills sold outright or under repurchase agreements	28	4	4
Total repurchase agreements	**7,597**	**7,316**	**2,322**
Total customer deposits	**117,965**	**109,419**	**97,270**
Bonds and negotiable short-term debt instruments:			
Negotiable certificates of deposit	24,614	25,796	26,961
Retail certificates of deposit	4,863	2,690	2,617
Total bonds and negotiable short-term debt instruments	**29,477**	**28,486**	**29,578**
Total customer deposits, retail certificates of deposit and negotiable certificates of deposit	**147,442**	**137,905**	**126,848**
Including: accrued interest	*851*	*820*	*821*

Regulated demand savings deposits, including savings collected for investment, totaled EUR 9,643 million at 31 December 1998 (EUR 10,570 million at 31 December 1997, EUR 8,513 million at 31 December 1996). Other customer demand deposits amounted to EUR 36,397 million at 31 December 1998 (EUR 30,648 million at 31 December 1997, EUR 28,072 million at 31 December 1996).

Customer deposits, excluding negotiable certificates of deposit, may be analyzed by category of customers as follows:

In millions of euros, at 31 December	1998	1997	1996
Financial customers	**14,009**	**10,097**	**8,353**
Non-financial customers			
Companies	40,065	34,809	29,100
Individuals	55,434	53,814	49,036
Sole proprietors	4,686	5,253	4,745
General government agencies	1,962	1,688	1,689
Other non-financial customers	6,672	6,448	6,964
Total non-financial customers	**108,819**	**102,012**	**91,534**

Note 15 – Bond issues

The main bond issues for which principal outstanding exceeds 2% of total bond debt are listed below:

In millions of euros, at 31 December	1998				1997	1996
	Issue	Maturity	Coupon in %	Principal outstanding	Principal outstanding	Principal outstanding
BNP SA						
Issue of EUR 549 million (3.6 billion FRF)	1995	2006	8.50	549	549	549
Issue of EUR 477 million (3.13 billion FRF)	1991	2000	9.00	477	477	477
Issue of EUR 445 million (2.92 billion FRF)	1994	2006	8.50	445	445	445
Issue of EUR 427 million (2.80 billion FRF)	1988	2000	9.00	427	427	427
Issue of EUR 381 million (2.50 billion FRF)	1992	1997	8.625	—	—	381
Issue of EUR 359 million (2.35 billion FRF)	1988	2000	9.00	359	359	359
Issue of EUR 320 million (2.10 billion FRF)	1992	1999	9.00	308	320	320
Issue of GBP 200 million	1994	1999	6.25	284	303	272
Issue of EUR 259 million (1.7 billion FRF)	1989	2000	9.00	259	259	259
Issue of EUR 229 million (1.5 billion FRF)	1992	2002	9.00	229	229	229
Issue of EUR 229 million (1.5 billion FRF)	1993	2003	6.50	229	229	229
Issue of EUR 198 million (1.3 billion FRF)	1989	2001	8.70	198	198	198
Issue of EUR 183 million (1.2 billion FRF)	1989	2000	9.00	183	183	183
Issue of EUR 183 million (1.2 billion FRF)	1993	2000	9.00	183	183	183
Issue of EUR 152 million (1 billion FRF)	1987	1999	Variable rate	152	152	152
Issue of EUR 152 million (1 billion FRF)	1988	2000	Variable rate	152	152	152
Other issues				2,399	2,946	3,694
Total bonds issued by BNP SA				**6,833**	**7,411**	**8,509**
Bonds issued by consolidated subsidiaries				352	513	597
BNP Group bonds held by consolidated subsidiaries				(287)	(289)	(451)
Total BNP Group bonds outstanding				**6,898**	**7,635**	**8,655**
Accrued interest				98	122	211
Total bond issues				**6,996**	**7,757**	**8,866**

Unamortized premiums on the various BNP Group bond issues outstanding, representing the difference between the proceeds of the issues and their redemption price, totaled EUR 44 million at 31 December 1998, compared with EUR 50 million at 31 December 1997 and EUR 53 million at 31 December 1996.

Note 16 – Accruals and other liabilities

In millions of euros, at 31 December	1998	1997	1996
Accruals:			
Valuation adjustment account [1]	4,853	7,091	5,300
Accrued liabilities	2,295	2,828	1,819
Funds pending collection	153	374	382
Other accruals	2,554	2,810	3,265
Total accruals	**9,855**	**13,103**	**10,766**
Other liabilities:			
Liabilities related to securities transactions	10,263	13,625	14,112
Deferred income tax liabilities	879	701	666
Other payables and liabilities [2]	17,884	13,769	8,513
Total other liabilities	**29,026**	**28,095**	**23,291**
Total accruals and other liabilities	**38,881**	**41,198**	**34,057**

(1) Losses arising from marking transactions (foreign exchange instruments and forward instruments) to market.
(2) Includes premiums received on written options.

Note 17 – Allowance for liabilities and charges

In millions of euros, at 31 December	1998	1997	1996
Allowance for off-balance sheet commitments (note 7)	553	389	321
Allowance for pension commitments and other employee benefits (note 25)	643	689	660
Allowance for other credit risks (note 7)	924	388	435
Other allowances	733	651	485
Total allowance for liabilities and charges	**2,853**	**2,117**	**1,901**

Off-balance sheet commitments covered by allowances amounted to EUR 913 million at 31 December 1998 against EUR 1,055 million at 31 December 1997 and EUR 804 million at 31 December 1996.

The allowance for other credit risks contains allowances made for miscellaneous risks, a general precautionary allowance in respect of at-risk countries, and an allowance set up in 1994 for unforeseeable sectoral risks in the areas believed to be the most heavily exposed to a worsening of market conditions. This allowance was originally set up with an allocation of EUR 396 million in 1994, followed by an addition of EUR 273 million in 1996. In 1996, EUR 451 million was deducted from this allowance to create a specific allowance for counterparty risks (EUR 213 million) and to cover the decrease in value of BNP's equity investments (EUR 238 million) in UAP and Pechiney. The remainder of the allowance, amounting to EUR 218 million at 31 December 1998, is unallocated and intended to cover unforeseeable sectoral risks.

Note 18 – Subordinated debt

In millions of euros, at 31 December	1998	1997	1996
Subordinated medium- and long-term debt	**6,261**	**6,266**	**5,329**
Undated subordinated debt:			
Undated participating subordinated notes	350	352	352
Undated floating-rate subordinated notes:			
In foreign currencies	428	456	399
In euros	305	305	305
Total undated floating-rate subordinated notes	**733**	**761**	**704**
Undated notes	653	597	176
Total undated subordinated debt	**1,736**	**1,710**	**1,232**
Total subordinated debt issued by BNP Group	**7,997**	**7,976**	**6,561**
Accrued interest	261	236	218
Total	**8,258**	**8,212**	**6,779**

Subordinated Medium- and Long-Term Debt

Subordinated debt included under this heading consists of medium- and long-term debentures issued in euros and foreign currencies, equivalent to debt ranking last before participating debt and securities. The main subordinated debt issues for which principal outstanding exceeds 5% of total subordinated liabilities are listed below:

In millions of euros, at 31 December	1998				1997	1996
	Issue	Maturity	Coupon in %	Principal outstanding	Principal outstanding	Principal outstanding
Debt issued by BNP SA:						
Issue of EUR 572 million (3,75 billion FRF)	1990	2002	10,60	572	572	572
Issue of EUR 381 million (2,50 billion FRF)	1991	2004	9,35	381	381	381
Issue of EUR 346 million (2,27 billion FRF)	1988	2000	9,30	346	346	346
Other issues in France				4,242	4,288	3,694
Debt issued by foreign branches				341	563	217
Total BNP SA borrowings				**5,882**	**6,150**	**5,210**
Total borrowings by consolidated subsidiaries				**379**	**116**	**119**
Total subordinated medium- and long-term debt				**6,261**	**6,266**	**5,329**

Subordinated medium- and long-term debt issued by the BNP Group generally contains a call provision authorizing BNP to buy back its securities directly in the market or through tender offers or, in the case of private placements, over the counter.

Borrowings in international markets by BNP SA or foreign subsidiaries of the BNP Group may be subject to early repayment of principal and the early payment of interest due at maturity in the event that changes in applicable tax laws oblige the BNP Group issuer to compensate debtholders for the consequences of such changes. The debt securities may be called on 30 to 60 days' notice subject to approval by the banking supervisory authorities.

Undated Subordinated Debt

In July 1984, pursuant to the French law of 3 January 1983, BNP issued a first block of 1,800,000 undated participating subordinated notes (*titres participatifs*) with a par value of French franc 1,000, for a total of EUR 274 million. Subscription rights to new undated participating subordinated notes were attached to each of these notes. In respect of rights exercised between 1 July and 30 July 1985, 1986, 1987, and 1988 BNP issued a total of 412,761 new undated participating subordinated notes with a face value of FFR 1,000 and received an issue premium of EUR 4 million. These notes are redeemable only in the event of a liquidation of BNP, but may be redeemed in accordance with the terms of the law.

In October 1985, BNP issued EUR 305 million of undated floating-rate subordinated notes (titres subordonnés à durée indéterminée, or TSDI). These notes are redeemable only in the event of liquidation. They are subordinated to all other company debts but senior to the undated participating subordinated notes issued by BNP. The Board of Directors is entitled to postpone the interest payments on these securities if the stockholders' meeting approving the financial statements declares that there is no income available for distribution. In September 1986, BNP raised a further USD 500 million by issuing new undated floating-rate subordinated notes with characteristics similar to those of the French franc notes issued in 1985.

Between 1996 and 1998, BNP SA issued undated notes, which may be called at the issuer's discretion, starting from a date specified in the issuing agreement and contingent upon the consent of the Commission Bancaire.

Undated participating subordinated notes, undated subordinated notes and undated notes qualify as Tier 2 capital under French regulations and international guidelines on capital adequacy.

At 31 December 1998	Issue	Call options	Coupon	Outstanding principal
BNP SA:				
Undated subordinated notes:				
Issue of EUR 305 million (FRF 2 billion)	1985		TMO	305
Issue of USD 500 million	1986		Variable rate	429
Undated notes:				
Issue of USD 20 million	1996	2006	Variable rate	17
Issue of USD 200 million	1996	2006	Variable rate	171
Issue of USD 50 million	1997	2007	Variable rate	43
Issue of USD 25 million	1997	2002	Variable rate	22
Issue of EUR 191 million (FRF 1.25 billion)	1997	2007	(2)	191
Issue of USD 50 million	1997	2007	Variable rate	43
Issue of USD 50 million	1997	2006	Variable rate	43
Issue of EUR 9 million (NLG 20 million)	1997	2007	(2)	9
Issue of EUR 37 million (BEF 1.5 billion)	1997	2002	Variable rate	37
Issue of EUR 77 million (ITL 150 billion)	1998	2008	Variable rate	77
Undated participating subordinated notes:				
BNP SA:				
Issue of EUR 274 million (FRF 1,800 million)	1984		Variable rate (1)	274
Issue of EUR 63 million (FRF 413 million)	1985–1988		Variable rate (1)	63
Issues by consolidated subsidiaries				
Issue of EUR 15 million (FRF 100 million)	1985		Variable rate	12
Total undated subordinated notes				**1,736**

(1) The minimum interest rate is equal to 85% of average TMO (average corporate bond yield).
(2) Fixed rate, switching to floating rate after the call option date.

Note 19 – Reserve for general banking risks

The reserve for general banking risks amounted to EUR 1,641 million at 1 January 1994. In 1994 and 1996 respectively, EUR 396 million and EUR 273 million were released and simultaneously allocated to the allowance for unforeseeable sectoral risks (note 34). At 31 December 1998, the reserve for general banking risks amounted to EUR 1,038 million.

Note 20 – Stockholders' equity after appropriation of income

In millions of euros	Capital stock	Ordinary capital surplus	Capital gain on restructuring and revaluation surplus	Statutory and additional amortization of investments	Accumulated translation difference	Parent company's retained earnings and Group's share in retained earnings of subsidiaries	Retained earnings, capital gain resulting from real estate restructuring and revaluation surplus	Stockholders' equity attributable to BNP Group	Minority interests	Total
Balance at 31 December 1995	**723**	**2,660**	**890**	**73**	**(441)**	**3,511**	**4,033**	**7,416**	**337**	**7,753**
1996 consolidated net income						588	588	588	42	630
Cash dividend						(171)	(171)	(171)	(12)	(183)
Operations affecting capital stock in 1996:										
Stock-for-stock public tender offers	49	313						362	(123)	239
Other	9	53						62		62
Effect of deconsolidation of UAP	10				50	89	139	149		149
Effect of exchange rate fluctuations in 1996					102		102	102	(2)	100
Issue of preferred shares									60	60
Other			(31)			(8)	(39)	(39)	(15)	(54)
Balance at 31 December 1996	**791**	**3,026**	**859**	**73**	**(289)**	**4,009**	**4,652**	**8,469**	**287**	**8,756**
Consolidated net income at 1997						909	909	909	39	948
Cash dividend						(228)	(228)	(228)	(17)	(245)
Operations affecting capital stock in 1997:										
Stock-for-stock public tender offers	5	30						35	(35)	
Other	17	127						144		144
Effect of exchange rate fluctuations in 1997:										
During 1997					85		85	85	17	102
On securities being sold					85	(64)	21	21		21
Adjustment of capital gain on real estate contribution			(420)				(420)	(420)		(420)
Issue of preferred shares									445	445
Other			(9)			(5)	(14)	(14)	8	(6)
Balance at 31 December 1997	**813**	**3,183**	**430**	**73**	**(119)**	**4,621**	**5,005**	**9,001**	**744**	**9,745**
1998 consolidated net income						1,114	1,114	1,114	53	1,167
Cash dividend						(328)	(328)	(328)	(50)	(378)
Operations affecting capital stock in 1998:										
Stock-for-stock public tenderoffers	7	46						53	(53)	
Other	13	192						205		205
Effect of exchange rate fluctuations in 1998:					(119)		(119)	(119)	(65)	(184)
Irreversible monetary depreciation (note 34)					39		39	39		39
Restructuring of the interest in the BANCWEST CORP. Group									438	438
Other			(26)			(12)	(38)	(38)	(3)	(41)
Balance at 31 December 1998	**833**	**3,421**	**404**	**73**	**(199)**	**5,395**	**5,673**	**9,927**	**1,064**	**10,991**

Operations involving capital stock in 1996, 1997 and 1998

BNP's capital stock at 1 January 1996, before the elimination of the impact of reciprocal shareholding, consisted of 192,183,938 common shares with a FRF 25 par value.

Capital Increases in 1996

Pursuant to a resolution of the Stockholders' Meeting of 23 May 1995, the Board of Directors of BNP decided on 28 June 1995 to launch a stock-for-stock public tender offer for BNP España SA and on 21 May 1996 to launch a stock-for-stock public tender offer for Compagnie d'Investissements de Paris. Consequently, BNP issued 720,280 new common shares (FRF 25 par value) with rights from 1 January 1995 in remuneration for the shares of BNP España it received, and 12,202,336 new common shares (FRF 25 par value) with rights from 1 January 1996 in remuneration for the shares of Compagnie d'Investissements de Paris it received.

In accordance with Section 180 V of the 1966 French Companies Act, the Stockholders' Meeting of 21 May 1996 approved the proposal of the Board of Directors, pursuant to its meeting on 13 March 1996, to issue shares reserved for subscribers to the company savings plan via the mutual fund BNP Actionnariat. This mutual fund subscribed 652,444 new common shares (FRF 25 par value) for this purpose.

BNP's capital was also increased by the creation of 1,675,995 shares for stockholders who opted to receive their dividends in the form of shares.

Capital Increases in 1997

Pursuant to a resolution of the Stockholders' Meeting of 23 May 1995, the Board of Directors of BNP decided on 5 May 1997 to launch a stock-for-stock public tender offer for BNP Intercontinentale. Consequently, BNP issued 1,315,122 new common shares (FRF 25 par value) with rights from 1 January 1997 in remuneration for the shares of BNP Intercontinentale it received.

In accordance with Section 180 V of the 1966 French Companies Act and pursuant to delegations received from the Stockholders' Meeting of 21 May 1996, the Board of Directors decided on 6 March 1997, to issue shares reserved for subscribers to the company savings plan via the mutual fund BNP Actionnariat. This mutual fund subscribed 920,000 common shares (FRF 25 par value) for this purpose.

BNP's capital was also increased by the creation of 3,574,073 shares for stockholders who opted to receive their dividends in the form of shares.

At 31 December 1997, BNP's capital stock consisted of 213,244,188 fully paid common shares (FRF 25 par value).

During the course of 1997, BNP employees subscribed 1,400 shares with rights from 1 January 1997 under the stock option plan. The corresponding capital increase took effect on 29 January 1998.

Capital Increases in 1998

Pursuant to a resolution of the Stockholders' Meeting of 22 May 1997, the Board of Directors of BNP decided on 13 May 1998 to launch a further stock-for-stock public tender offer for BNP Intercontinentale. Consequently, BNP issued 1,702,410 new common shares with a par value of FRF 25 and rights from 1 January 1998 in remuneration for the shares of BNP Intercontinentale it received.

In accordance with Section 180 V of the 1966 French Companies Act and pursuant to delegations received from the Stockholders' Meeting of 21 May 1996, the Board of Directors decided on 4 March 1998, to issue shares reserved for subscribers to the company savings plan via the mutual fund BNP Actionnariat. This mutual fund subscribed 1,280,000 common shares with a par value of FRF 25 for this purpose.

BNP's capital was also increased by the creation of 2,176,932 new shares with a par value of FRF 25 for stockholders who opted to receive their dividends in the form of shares.

In the first half of 1998, 5,741 shares with rights from 1 January 1998 were subscribed by BNP employees under the stock option plan.

At 31 December 1998, the capital of BNP SA consisted of 218,410,671 fully paid common shares with a par value of FRF 25.

During the course of 1998, BNP employees subscribed 78,129 shares with rights from 1 January 1998 under the stock option plan. The corresponding capital increase took effect on 5 January 1999.

Analysis of additional paid-in capital in excess of par, premiums on acquisition and capital gain on real estate restructuring

This item was increased in 1996 by the additional paid-in capital in excess of par resulting from the stock-for-stock public tender offers for BNP España and Compagnie d'Investissements de Paris, as well as the issue premiums resulting from the exercise by some stockholders of the option to receive dividends in the form of shares and from the placement of shares reserved for subscribers to the company savings plan. These issue premiums amounted to EUR 14 million and 299 million, respectively, after charging goodwill against additional paid-in capital in excess of par, on the stock-for-stock public tender offers, and EUR 54 million on the new share issues concerning the payment of the dividend and the shares placed with staff members.

Similarly, in 1997 this item was increased by the additional paid-in capital in excess of par resulting from the stock-for-stock public tender offer for BNP Intercontinentale, as well as the issue premiums resulting from the exercise by some stockholders of the option to receive dividends in the form of shares and from the placement of shares reserved for subscribers to the company savings plan. These issue premiums amounted to EUR 30 million after charging goodwill against additional paid-in capital in excess of par on the exchange offer, and to EUR 126 million on issues relating to the payment of the dividend and the shares placed with staff members.

In 1998, this item was increased by the additional paid-in capital in excess of par resulting from the stock-for-stock public tender offer for BNP Intercontinentale, as well as the issue premiums resulting from the exercise by some stockholders of the option to receive dividends in the form of shares and from the placement of shares reserved for subscribers to the company savings plan. These issue premiums amounted to EUR 46 million after charging goodwill against additional paid-in capital in excess of par on the exchange offer, and to EUR 192 million on issues concerning the payment of the dividend and the shares placed with staff members.

The capital gain on real estate restructuring of EUR 393 million relates to a restructuring operation whereby BNP transferred its real estate holdings to its subsidiary Compagnie Immobilière de France, "CIF", in 1991 and 1992. The resulting capital gain is recognized in the consolidated income statement in proportion to the additional depreciation charge taken by CIF. The value of the residual gain as at 31 December 1997 includes a write-down of EUR 420 million taken during 1997 (see notes 1 and 10) to reflect a decline in the real estate market that is now considered to be lasting.

Preferred shares

In April 1996, the BNP Group issued USD 75 million of preferred shares through its subsidiary BANCWEST CORP. These shares were redeemed on the restructuring of Bankwest Holding Company, which led to the creation of a new entity, BANCWEST CORP. Group (note 34).

In December 1997, BNP US Funding LLC, a wholly-owned subsidiary of the BNP Group, made a new USD 500 million issue of noncumulative preferred shares, which do not dilute earnings per ordinary share. They will pay a contractual dividend of 7.738% for a period of ten years. At the end of that period, the issuer may redeem the shares at par at the end of any calendar quarter. Until they are redeemed, the shares will pay a dividend indexed to Libor. The proceeds of this issue are included in stockholders' equity under "Minority interests" and the corresponding remuneration is treated as a distribution to minority stockholders.

Note 21 – Off-balance sheet commitments

In millions of euros, at 31 December	1998	1997	1996
FINANCING COMMITMENTS GIVEN AND RECEIVED			
Financing commitments given:			
To credit institutions	5,162	3,412	3,860
On behalf of customers:			
Confirmed letters of credit:			
Documentary credits	4,036	3,939	3,109
Other confirmed letters of credit	45,084	38,398	29,399
Other commitments given on behalf of customers	13,400	14,780	13,106
Total on behalf of customers	**62,520**	**57,117**	**45,614**
Total financing commitments given	**67,682**	**60,529**	**49,474**
Financing commitments received:			
Roll-over agreements (stand-by commitments) received from credit institutions	3,601	1,117	1,270
Roll-over agreements (stand-by commitments) received on behalf of customers	189	394	165
Total financing commitments received	**3,790**	**1,511**	**1,435**
GUARANTEES AND ENDORSEMENTS GIVEN AND RECEIVED			
Guarantees and endorsements given:			
To credit institutions:			
Confirmed documentary credits	796	759	785
Other	1,908	1,424	1,630
Total to credit institutions	**2,704**	**2,183**	**2,415**
On behalf of customers:			
Guarantees and endorsements:			
Real estate guarantees	756	596	519
Administrative and tax guarantees	3,840	3,640	3,476
Other	7,918	6,373	5,074
Other guarantees on behalf of customers	16,344	16,069	15,140
Total on behalf of customers	**28,858**	**26,678**	**24,209**
Total guarantees and endorsements given	**31,562**	**28,861**	**26,624**
Guarantees and endorsements received:			
From credit institutions	6,263	6,265	4,170
On behalf of customers:			
Guarantees received from government administrations and related	6,294	5,683	4,895
Guarantees received from financial institutions	794	688	497
Other guarantees received	9,989	11,567	8,470
Total on behalf of customers	**17,077**	**17,938**	**13,862**
Total guarantees and endorsements received	**23,340**	**24,203**	**18,032**
COMMITMENTS GIVEN AND RECEIVED ON SECURITIES:			
Securities to be received	5,933	9,695	8,466
Securities sold under repurchase agreements to be received (1)	23	—	1
Total securities to be received	**5,956**	**9,695**	**8,467**
Total securities to be delivered	**8,604**	**7,954**	**8,515**

(1) Receipt of these securities is contingent upon exercise of the repurchase option.

Note 22 – Forward and options contracts

The following transactions were entered into on different markets for specific or global hedging of assets and liabilities and for position management.

In millions of euros, at 31 December	1998			1997		
	Hedging transactions	Position management	Total	Hedging transactions	Position management	Total
Forward contracts:	**708,286**	**1,537,551**	**2,245,837**	**661,001**	**1,212,314**	**1,873,315**
On organized exchanges	39,699	812,688	852,387	30,841	596,554	627,395
Interest rate contracts	39,022	778,353	817,375	30,814	591,278	622,092
Foreign exchange contracts	0	25,376	25,376	27	43	70
Financial assets contracts	677	8,959	9,636	—	5,233	5,233
Over-the-counter	668,587	724,863	1,393,450	630,160	615,760	1,245,920
Forward-rate agreements (FRAs)	16,919	62,484	79,403	19,229	38,603	57,832
Interest rate swaps	52,548	635,254	687,802	42,507	462,915	505,422
Currency swaps	382,305	8,970	391,275	354,022	6,094	360,116
Foreign exchange forward swaps	215,961	14,949	230,910	214,347	102,736	317,083
Other forward contracts	854	3,206	4,060	55	5,412	5,467
Options	**19,395**	**307,665**	**327,060**	**10,890**	**324,803**	**335,693**
On organized markets	1,214	192,221	193,435	203	197,085	197,288
Interest rate options	—	41,795	41,795	54	72,116	72,170
Bought	—	14,263	14,263	27	30,790	30,817
Sold	—	27,532	27,532	27	41,326	41,353
Currency options	—	42,600	42,600	—	95,057	95,057
Bought	—	21,186	21,186	—	46,038	46,038
Sold	—	21,414	21,414	—	49,019	49,019
Other options	1,214	107,826	109,040	149	29,912	30,061
Bought	29	54,488	54,517	—	14,588	14,588
Sold	1,185	53,338	54,523	149	15,324	15,473
Over-the-counter	18,181	115,444	133,625	10,687	127,718	138,405
Caps and floors	4,378	63,814	68,192	2,241	57,127	59,368
Bought	1,677	27,708	29,385	1,073	27,241	28,314
Sold	2,701	36,106	38,807	1,168	29,886	31,054
Swaptions and options (Interest rate, currency and other)	13,803	51,630	65,433	8,446	70,591	79,037
Bought	7,561	27,189	34,750	4,660	37,315	41,975
Sold	6,242	24,441	30,683	3,786	33,276	37,062
Total forward and options contracts	**727,681**	**1,845,216**	**2,572,897**	**671,891**	**1,537,117**	**2,209,008**

The notional amounts of the contracts shown above should be construed as indicators of the BNP Group's activity on the financial instruments markets and not as indicators of the market risks arising on these instruments. Gains and losses on these transactions are presented in note 26 "Net Banking Income", and in notes 11 and 16 to the balance sheet.

Consolidated fin

Evaluation of counterparty risk exposure

The BNP Group's exposure to counterparty risk arising on forward and option contracts is assessed according to European Union and international prudential ratios applicable at 31 December 1998. Accordingly, it takes into account signed netting agreements, which are used to attenuate counterparty risk on derivatives.

The Bank primarily uses the portfolio approach, which enables it to close all positions and mark them to market upon default, netting all positive and negative payments between the two parties 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 as collateral.

The Bank also uses bilateral payment flow netting to attenuate counterparty risk on foreign currency payments. In this case, streams of payment orders in a given currency are replaced by a cumulative balance due to or from each party, representing the 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 Association Française des Banques (AFB), or those of the International Swaps and Derivatives Association (ISDA) for international agreements. BNP also participates in EchoNetting, enabling it to use multilateral netting for transactions involving other participants.

Credit risk on forward and options contracts	1998		1997	
In millions of euros	Positive replacement cost	Weighted risk equivalent	Positive replacement cost	Weighted risk equivalent
Sovereign exposure	225	—	75	—
Risk exposure on banks in zone A (1)	21,612	6,133	14,416	4,333
Risk exposure on banks in zone B (1) and non-banking counterparties	3,649	2,627	2,691	2,089
Total before netting agreements	**25,486**	**8,760**	**17,182**	**6,422**
Including exposures on:				
Interest rates	12,351	3,479	7,740	2,432
Exchange rates and other instruments	13,135	5,281	9,442	3,990
Impact of netting agreements	**(13,946)**	**(3,627)**	**(4,484)**	**(1,366)**
Total after netting agreements	**11,540**	**5,133**	**12,698**	**5,056**

(1) Zone A consists of the member states of the European Union (EU) and the Organization for Economic Cooperation and Development (OECD) provided that they have not rescheduled any external sovereign debt within the previous five years, and countries that have negotiated special borrowing agreements with the International Monetary Fund (IMF) within the framework of the IMF's General Agreements to Borrow (GAB). Zone B consists of all other countries.

At 31 December 1998, the weighted risk equivalent calculated on OTC forward and options contracts, excluding options sold, was 0.35% of the sum of notional amounts against 0.38% at 31 December 1997.

Counterparty risk exposure on forward and options contracts traded on the OTC market can be analyzed as follows according to the Standard & Poor's credit rating of the counterparty:

At 31 December 1998, by credit rating	Face value, analyzed by credit rating and residual term (%) up to 1 year	1 to 5 years	over 5 years	Total
AAA-AA	39.8	16.6	9.0	65.4
A	13.2	5.4	2.5	21.1
BBB	3.7	2.4	1.0	7.1
BB or lower	4.1	1.9	0.4	6.4
Total	**60.8**	**26.3**	**12.9**	**100.0**

At 31 December 1998, by credit rating	Weighted risk equivalent, analyzed by credit rating and residual term (%) up to 1 year	1 to 5 years	over 5 years	Total
AAA-AA	19.9	21.1	16.7	57.7
A	5.8	5.7	5.4	16.9
BBB	6.7	3.8	2.0	12.5
BB or lower	7.0	4.6	1.3	12.9
Total	**39.4**	**35.2**	**25.4**	**100.0**

Forward and options contracts by counterparty can be analyzed as follows:

At 31 December 1998, by credit rating	Face value, analyzed by credit rating and residual term (%) up to 1 year	1 to 5 years	over 5 years	Total
OECD states	0.5	0.2	0.1	0.8
OECD banks	55.2	23.5	11.5	90.2
Other counterparties	5.1	2.6	1.3	9.0
Total	**60.8**	**26.3**	**12.9**	**100.0**

At 31 December 1998, by credit rating	Weighted risk equivalent, analyzed by credit rating and residual term (%) up to 1 year	1 to 5 years	over 5 years	Total
OECD states	—	—	—	—
OECD banks	19.9	15.9	13.1	48.9
Other counterparties	19.5	19.3	12.3	51.1
Total	**39.4**	**35.2**	**25.4**	**100.0**

Note 23 – BNP's market risk exposure associated with financial instruments transactions

The BNP Group manages its market risk exposure on operational positions using a system to assess and monitor risks that primarily focus on interest rate, foreign exchange, and equity markets.

These risks are assessed either:

- in terms of sensitivity to notional risks calculated using a limited set of risk coefficients that make it possible to assess the maximum loss incurred in 95% of movements observed in the past, over a holding period of five days;

- or, for interest rate and currency swaps with a maturity of over two years, by using a VaR (Value at Risk) valuation model for each portfolio involved. VaR is calculated on the basis of a 99% quantile and a holding period of one day. A multiplier is applied to the resulting figure, which is then aggregated with the sensitivity to notional risks calculated for the other activities. This new approach was implemented during 1998.

Sensitivity to notional risks of fluctuations in interest rates on all interest-rate related financial instruments is determined by simulating a ±1% change in interest rates on open positions maturing in less than a year and a ±0.35% change in interest rates on open positions maturing in more than a year. The hypothetical fluctuation chosen for positions resulting from arbitrage (or related) operations is limited to ±0.15% or ±0.20% according to the type of operations. For option positions, the sensitivity to notional risks of fluctuations in interest rates is considered to be equal to the highest possible absolute value that would result from the combination of interest rate fluctuations of 0.25% to 1% and volatility fluctuations determined on the basis of historical analyses.

Sensitivity to notional risks of fluctuations in exchange rates on all exchange-rate related financial instruments, excluding options, is determined by simulating a change in the Bank's overall net foreign exchange position in a set of closely-related currencies with similar fluctuation bands on the basis of historical analysis. Four zones have thus been identified in which the fluctuations vary between 0.50% and 10%. For option positions, the sensitivity to notional risks of fluctuations in exchange rates is considered to be equal to the highest possible absolute value that would result from the combination of exchange rate fluctuations retained for non-optional exchange rate positions and the volatility fluctuations determined on the basis of historical analysis, particularly as a function of option expiration dates.

Higher coefficients determined on the basis of historical analyses are used for countries with a government-regulated currency for both interest rate and currency instruments.

Sensitivity to notional risks of fluctuations in prices of listed equity securities is determined by simulating a change in prices of between ±4% and ±33%, adjusted as a function of the stock market. This simulation applies to open positions in trading and investment securities held for sale portfolios, as well as to outstanding commitments to subscribe to share issues. The hypothetical fluctuation chosen for positions resulting from arbitrage operations varies between 0.25% and 1.25%, depending on the nature of the positions. Options' sensitivity to notional risks is determined taking into account the highest possible absolute value that would result from the combination of fluctuations between 4% and 33% in the price of the underlying security or index and volatility fluctuations determined on the basis of historical analyses.

Sensitivity to notional risks is determined per currency, per portfolio, and per entity. The absolute value of all individual risks added together (see table, below) gives an estimate of theoretical maximum losses far exceeding the risks actually incurred, as offsetting positions taken in the same currency or market by different entities are not taken into account, nor does notional risk take into account correlations between price movements on some markets.

The BNP Group has the following notional risk exposure:

At 31 December	1998		1997	
In millions of euros	BNP Group	Including BNP France	BNP Group	Including BNP France
Interest rate risk exposure	*264*	*100*	*264*	*137*
On French-franc and foreign-currency money market instruments and bonds	—	18	—	18
On derivatives	—	82	—	119
Currency risk exposure	*18*	*13*	*10*	*6*
On foreign exchange forward instruments	—	4	—	3
On foreign exchange options	—	9	—	3
Equity exposure	*208*	*16*	*74*	*12*

Notional risk exposure may be broken down according to worldwide business lines:

At 31 December	1998			1997		
In millions of euros	BNP Group	Including BNP France	Including options	BNP Group	Including BNP France	Including options
Money market and forex	122	50	9	95	38	4
Bonds	96	—	—	74	—	—
Swaps and derivatives	53	53	8	105	105	13
Equities	193	—	159	62	—	53
Other	26	26	—	12	12	—

Note 24 – Maturity schedule of loans, deposits, and interest rate instruments

In millions of euros, at 31 December 1998	Demand and overnight	Maturing during three months	Maturing after three months but within one year	Maturing after one but within five years	Maturing after five years	Total
LOANS (gross):						
Interbank and money market items (note 3):						
Cash and due from central banks and post office banks	3,669	—	—	—	—	**3,669**
Treasury bills and money market instruments	—	22,290	3,405	9,956	4,770	**40,421**
Due from credit institutions	8,093	54,178	7,526	1,719	519	**72,035**
Customer items (note 4):						
Due from customers	19,573	68,059	14,199	25,027	18,190	**145,048**
Leasing receivables	—	1,194	1,469	4,790	2,015	**9,468**
Bonds and other fixed-income instruments (note 5) (1):						
Trading account assets	—	6,237	—	—	—	**6,237**
Investment securities held for sale	—	1,963	372	681	1,365	**4,881**
Debt securities held for investment	—	1,071	708	2,092	2,281	**6,153**
DEPOSITS:						
Interbank and money market items and securities (note 13):						
Total interbank and money market items	18,701	76,143	9,292	2,627	1,331	**108,194**
Interbank market securities	—	119	23	30	—	**172**
Customer deposits, retail certificates of deposit, and negotiable certificates of deposit (note 14):						
Total customer deposits	46,655	51,546	10,689	7,368	1,707	**117,965**
Total bonds and negotiable short-term debt instruments	1,205	14,533	8,071	3,982	1,686	**29,477**
BNP Group bonds outstanding (note 15):	—	130	1,079	4,341	1,348	**6,898**
Subordinated medium and long-term debt outstanding (note 18)	—	—	—	3,219	3,042	**6,261**

(1) Excluding related receivables, which amount to EUR 451 million.

The BNP Group manages its liquidity within gap limits, all currencies combined, that are determined by the General Management Committee:

- The maximum mismatch on weighted balance sheet and off-balance sheet commitments maturing in more than one year (attributing maturities to commitments with no contractual maturity) is set at 25% of funds maturing in more than one year.
- The maximum mismatch on commitments with no contractual maturity, to which a maturity of more than one year has been attributed, is set at 150% of stable funds with no contractual maturity (customer demand deposits and savings deposits net of overdrafts, stockholders' equity net of long-term investments).

Throughout 1998, BNP continually complied with regulatory guidelines with respect to its short-term (one-month) liquidity ratio and its ratio of stockholders' equity to long-term funding (funds maturing in more than five years).

Maturity schedule of forward and options commitments at 31 December 1998

In millions of euros		Maturing after one but within five years	Maturing after five years	Total
Interest-rate contracts	1,366,415	218,733	109,419	**1,694,567**
On organized exchanges	856,817	2,353	—	**859,170**
Over-the-counter	509,598	216,380	109,419	**835,397**
Foreign exchange contracts	654,364	40,768	16,156	**711,288**
On organized exchanges	75,501	1,097	—	**76,598**
Over-the-counter	578,863	39,671	16,156	**634,690**
Other contracts	132,901	24,769	9,372	**167,042**
On organized exchanges	115,160	2,830	—	**117,990**
Over-the-counter	17,741	21,939	9,372	**49,052**

Note 25 – Pension and postemployment benefits

Pension Benefits

In France and in most of the countries where BNP Group companies operate, pensions are financed by regular contributions to independent pension institutions that manage the payment of benefits.

Since 1 January 1994, pursuant to a new industry-wide agreement on pensions presented in note 1, BNP has been making contributions to two nationwide complementary pension organizations in France.

BNP's pension fund pays additional benefits relative to services rendered prior to 31 December 1993. BNP computes the actuarial value of such pension obligations based on the 1993 mortality table recommended by the French Insurance Code. The difference between the discount and inflation rates used at 31 December 1997 is roughly 3.5%, corresponding to the constant differential between long-term interest rates and inflation over a thirty-year period.

Funding is provided by transfers from the pension funds' existing reserves and reserves that will steadily become eligible for allocation (about EUR 107 million at 31 December 1998), and by the annual employers' contributions paid contractually by BNP SA, which are limited to 4% of payroll costs. In addition, a reserve for general banking risks was set up as a precautionary measure in 1993, to take account of the general demographic risk addressed by the industry-wide agreement concluded in September 1993 (see notes 1 and 19).

In 1997, BNP SA signed an agreement establishing a funded pension system financed by employer and employee contributions. Upon retirement, BNP SA employees receive additional benefits over and above those they receive from the nationwide organizations.

Seniority and Postemployment Benefits

Employees of the various BNP Group companies are entitled to collective or contractual seniority and postemployment benefits such as retirement and seniority bonuses. In France, BNP is encouraging voluntary departures and early retirement among employees who meet certain eligibility criteria.

As a general rule, actuarial valuations of these obligations are made using a method that takes into account projected end-of-career salaries in order to determine the aggregate charge corresponding to benefits remaining to be paid to early retirees, retirees (if applicable), as well as vested benefits for employees.

Assumptions concerning mortality, employee turnover, and future salaries, as well as discounting rates (long-term market rates) and inflation, take into account economic conditions specific to each country or Group company. In France, the 1988-1990 mortality table adapted to the banking industry is used.

As of 31 December 1998, the discounting rate used for France and the estimated inflation rate are consistent with those used to assess the risks related to additional bank pension benefits.
BNP sets up an allowance to cover the charges related to the voluntary departure (Employment Adjustment Plan) or early retirement by staff members, once the voluntary departure or early retirement plan concerned has been approved or submitted for collective approval.

Allowances set up to cover these obligations are analyzed below:

At 31 December 1998	Working staff	Early retirement and retirement-equivalent staff	Total
Retirement bonuses	375	–	**375**
Early retirement and postemployment	20	56	**76**
Seniority bonuses	88	–	**88**
Employment Adjustment Plan	26	–	**26**
Other obligations to employees	53	25	**78**
Total (note 17)	**562**	**81**	**643**

For the purpose of determining the amount of such allowances, the fair value of the assets invested within entities responsible for their management is deducted from the gross amount of such obligation:

In millions of euros	Gross obligations	Assets	Net obligations
At 1 January 1998	733	43	690
Net charge for the year:			
Vested rights	47	–	47
Discounting effect	37	19	18
Benefit payments	(112)	–	(112)
At 31 December 1998	**705**	**62**	**643**

Note 26 – Net banking income

In millions of euros, at 31 December	Interest and related income (expense) 1998	1997	1996
Net interest and assimilated income on interbank items (note 27)	**(436)**	**(10)**	**(167)**
Net interest and assimilated income on customer items (note 28)	**4,233**	**3,983**	**4,357**
Net interest and assimilated income on lease transactions	**661**	**640**	**659**
Interest expense on debt issued by BNP Group:			
Interbank market securities	(62)	(75)	(98)
Negotiable certificates of deposit	(1,421)	(1,353)	(1,401)
Bonds	(575)	(685)	(751)
Subordinated debt and undated participating subordinated notes	(552)	(551)	(495)
Retail certificates of deposit and term savings certificates	(157)	(144)	(152)
Other	(148)	(29)	(39)
Total interest expense on debt issued by BNP Group	**(2,915)**	**(2,837)**	**(2,936)**
Income on bonds and other fixed-income instruments (note 29)	**2,067**	**1,769**	**1,717**
Income on equities and other non-fixed-income instruments (note 29)	**128**	**137**	**157**
Gains (losses) on financial operations:			
On trading account	1,607	1,199	576
On investment securities held for sale	20	95	105
Net gains on financial operations	**1,627**	**1,294**	**681**
Net commissions (note 30)	**1,794**	**1,520**	**1,351**
Total net banking revenues	**7,159**	**6,496**	**5,819**
Other net income from banking operations	**207**	**222**	**203**
Net banking income	**7,366**	**6,718**	**6,022**

Gains and losses on financial operations include:

- gains and losses on trading transactions, such as those recorded when trading account assets or borrowed securities (recorded under liabilities) are marked to market or sold;

- foreign exchange and arbitrage gains and losses resulting from purchases and sales of foreign currencies, the mark-to-market at the balance sheet date of foreign exchange and precious metals spot positions and foreign exchange forwards;

- gains and losses on interest rate and foreign exchange futures and options, with the exception of interest rate instruments entered into for hedging purposes; gains and losses on such operations are included with gains and losses on the hedged instruments;

- gains and losses on investment securities held for sale, representing capital gains and losses on disposals as well as movements affecting allowances covering the investment securities held for sale portfolio; interest and dividends from this portfolio are recorded under "Interest income on bonds and other fixed-income instruments" and "Income on equities and other non-fixed-income instruments" (see note 29).

The cost of funding of the various securities portfolios is recorded under the interest rate expense corresponding to the liability item used for refinancing.

The item "Other net income from banking operations" primarily reflects fee income from computer services and from remote banking services, underwriting fees, provisions for losses and expenses, and BNP's share in income from operations conducted jointly with other companies; it also includes charges invoiced back to customers and other income.

Allowances on interest in arrears related to financial credits are deducted from "Net banking income".

Note 27 – Net interest and assimilated income on interbank items

Expense			Income				Net		
1998	1997	1996	1998	1997	1996	In millions of euros	1998	1997	1996
(7,243)	(6,248)	(5,142)	6,802	6,093	4,888	Interest on interbank demand deposits, loans, and borrowings	(441)	(155)	(254)
(1,219)	(846)	(723)	1,101	893	739	Interest on securities held or given under repurchase agreements	(118)	47	16
—	—	—	12	5	12	Interest on subordinated term loans	12	5	12
(23)	(10)	(14)	134	103	73	Income from off-balance sheet transactions	111	93	59
(8,485)	**(7,104)**	**(5,879)**	**8,049**	**7,094**	**5,712**	**Net interest and assimilated income on interbank items**	**(436)**	**(10)**	**(167)**

"Income from off-balance sheet transactions" reflects income and expense on refinancing agreements and on guarantees and endorsements given and received. Gains and losses on foreign exchange transactions and on forward financial instruments are reflected under "Net gains (losses) on financial operations" (see note 26).

Note 28 – Net interest and assimilated income on customers items

Expense			Income				Net		
1998	1997	1996	1998	1997	1996	In millions of euros	1998	1997	1996
(3,898)	(3,719)	(3,019)	7,871	7,562	7,188	Interest on customer loans and deposits	3,973	3,843	4,169
(415)	(218)	(112)	477	158	100	Interest on securities held or given under repurchase agreements	62	(60)	(12)
—	—	—	4	6	12	Interest on subordinated term loans	4	6	12
						Income from off-balance sheet transactions:			
—	(2)	—	138	134	135	Income on commitments to lend	138	132	135
(12)	(2)	—	68	64	53	Income on guarantees and endorsements	56	62	53
(12)	(4)	—	206	198	188	Total income from off-balance sheet transactions	194	194	188
(4,325)	**(3,941)**	**(3,131)**	**8,558**	**7,924**	**7,488**	**Net interest and assimilated income on customer items**	**4,233**	**3,983**	**4,357**

Note 29 – Net income from securities portfolio

In millions of euros	1998	1997	1996
Interest on bonds and other fixed-income instruments:			
From investment securities held for sale	420	496	500
From debt securities held for investment	1,311	959	750
From Codevi “industrial development” securities	204	204	203
From hedging of interest rate instruments and other	132	110	264
Total interest on bonds and other fixed-income instruments	**2,067**	**1,769**	**1,717**
Income on equities and other non-fixed-income instruments:			
From investment securities held for sale	5	5	11
From equity securities held for investment	72	36	50
From other stock investments	51	96	96
Total income on equities and non-fixed-income instruments	**128**	**137**	**157**
Gains (losses) on transactions related to securities portfolio:			
Gains on trading account (1)	2,539	1,234	1,017
Gains (losses) on investment securities held for sale:			
Capital gains (losses) on disposals of investment securities held for sale:			
Capital gains	77	114	107
Capital losses	(27)	(17)	(20)
Net gains (losses) on disposals of investment securities held for sale	**50**	**97**	**87**
(Additions to) deductions from allowance on securities:			
Additions to allowance on securities	(44)	(18)	(8)
Deductions from allowance on securities	14	16	26
Net (addition to) deduction from allowance on securities	**(30)**	**(2)**	**18**
Net gains (losses) on investment securities held for sale	**20**	**95**	**105**
Net gains on transactions related to securities portfolio	**2,559**	**1,329**	**1,122**
Gains (losses) on disposals of long-term investments, net of provisions (note 33)			
Capital gains on disposals of long-term investments:			
Capital gains	517	390	194
Capital losses	(114)	(507)	(64)
Net capital gains on disposals of long-term investments	**403**	**(117)**	**130**
(Additions to) deductions from allowance on long-term investments:			
Additions to allowance on long-term investments	(47)	(92)	(545)
Deductions from allowance on long-term investments	122	572	308
Net (addition to) deduction from allowance on long-term investments	**75**	**480**	**(237)**
Total gains (losses) on disposals of long-term investments, net of provisions	**478**	**363**	**(107)**
Net income from securities portfolio	**5,232**	**3,598**	**2,889**

(1) Gains on trading account are grouped together with gains and losses on financial instruments in the consolidated income statement presentation in order to reflect the association of these various categories of instruments in the management of positions taken.

In 1997, capital losses on disposals of long-term investments included a EUR 373 million loss on UAP shares following Axa's public tender offer, which was completed in January 1997. This loss was offset by a deduction of the same amount from the allowance set up at 31 December 1996 to cover the decrease in value of BNP's equity investment in UAP.

Note 30 – Net commissions

Expense 1998	Expense 1997	Expense 1996	Income 1998	Income 1997	Income 1996	In millions of euros	Net 1998	Net 1997	Net 1996
(40)	(39)	(49)	58	49	49	Commissions on interbank and money market transactions	18	10	–
(51)	(48)	(24)	546	484	370	Commissions on customer transactions	495	436	346
(131)	(148)	(102)	86	53	36	Commissions on securities transactions	(45)	(95)	(66)
(5)	(5)	(4)	9	9	8	Commissions on foreign exchange and arbitrage transactions	4	4	4
(143)	(160)	(176)	239	228	278	Commissions on securities commitments	96	68	102
(89)	(150)	(64)	38	87	74	Commissions on forward financial instruments	(51)	(63)	10
						Commissions on securities-related services rendered:			
						On securities managed or on deposit:			
–	–	–	96	85	76	Custody fees	96	85	76
–	–	–	35	43	30	Management of customer securities portfolios	35	43	30
–	–	–	228	200	168	Mutual fund management	228	200	168
–	–	–	9	9	8	Other commissions on securities managed or on deposit	9	9	8
–	**–**	**–**	**368**	**337**	**282**	**Total commissions on securities managed or on deposit**	**368**	**337**	**282**
						Commissions on securities transactions on behalf of customers:			
–	–	–	211	175	120	For purchases and sales of securities	211	175	120
–	–	–	64	58	41	For purchases and sales of mutual fund shares	64	58	41
–	–	–	43	48	35	Other commissions on securities transactions on behalf of customers	43	48	35
–	**–**	**–**	**318**	**281**	**196**	**Total commissions on securities transactions on behalf of customers**	**318**	**281**	**196**
–	–	–	86	81	53	Commissions on customer assistance and advisory services	86	81	53
–	–	–	354	319	299	Commissions on payment systems	354	319	299
–	–	–	151	142	125	Commissions on other financial services	151	142	125
–	**–**	**–**	**1,277**	**1,160**	**955**	**Total commissions on securities-related services rendered**	**1,277**	**1,160**	**955**
(459)	**(550)**	**(419)**	**2,253**	**2,070**	**1,770**	**Net commissions**	**1,794**	**1,520**	**1,351**

The aggregate of "Net Commissions" calculated according to the regulatory definition, plus commissions reflected as interest and assimilated income (expense) and commissions carried under "Other net income from banking operations" offers an economic measure of the relative contribution of commissions to net banking income.

In millions of euros	1998	1997	1996
Net commissions	**1,794**	**1,520**	**1,351**
Commission-related income:			
Included under value added to capital:			
On commitments	305	287	246
On foreign exchange transactions	205	208	169
Included under "other net income from banking operations":			
On charges invoiced back to customers	83	84	86
On other income	98	110	83
On income from other banking transactions	52	42	48
Total commissions and commission-related income	**2,537**	**2,251**	**1,983**

In 1998, commissions and commission-related income accounted for 34.4% of net banking income, compared to 33.5% in 1997 and 32.9% in 1996.

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Note 31 – Salaries and employee benefits, including profit sharing

In millions of euros	1998	1997	1996
Salaries	**2,026**	**1,895**	**1,746**
Termination benefits and social security taxes:			
Retirement bonuses and retirement expenses	197	166	237
Social security taxes	579	564	537
Total termination benefits and social security taxes	**776**	**730**	**774**
Incentive plans and profit sharing:			
Incentive plans	31	40	26
Profit sharing	93	65	31
Total incentive plans and profit sharing	**124**	**105**	**57**
Payroll taxes	**159**	**165**	**155**
Total salaries and employee benefits, including profit sharing	**3,085**	**2,895**	**2,732**

Total remuneration paid to members of the board of directors and of the office of the chairman for positions they held in 1998 at the parent company and consolidated subsidiaries amounted to EUR 7.1 million (EUR 5.8 million in 1997 and EUR 5.2 million in 1996). The amount of directors' fees totaled EUR 0.3 million.

Note 32 – Stock option plan

Between 1990 and 1998, the Stockholders' Meeting of BNP SA authorized the Board of Directors to grant options to purchase and subscribe shares issued by BNP SA under various plans, the characteristics of which are listed below:

Stock option plan	1994	1995	1996	1997	1998
Date of Special Stockholders Meeting authorizing the plan	14 Dec. 1993	14 Dec. 1993	14 Dec. 1993	14 Dec. 1993	14 Dec. 93
Date of Board of Directors Meeting setting conditions for the plan	23 Mar. 1994	22 Mar. 1995	21 May 1996	22 May 1997	13 May 98
Total number of shares that may be purchased or subscribed	803,000	215,500	1,031,000	238,000	1,037,000
including shares that may be purchased or subscribed by members of the General Management Committee as constituted on 31 December 1998	*324,000*	*0*	*522,000*	*105,000*	*330,000*
Number of beneficiaries	135	128	140	64	259
Start date for exercising the options	24 Mar. 1996 (1)	23 Mar. 1997 (1)	22 May 1998 (1)	23 May 2002	14 May 2003
Expiration date	23 Mar. 2001	22 Mar. 2002	21 May 2003	22 May 2007	13 May 2008
Exercise price	EUR 32.32	EUR 33.23	EUR 29.73	EUR 36.89	EUR 74.55
Number of shares purchased or subscribed as of 31 December 1998	77,900	4,970	1,000	N/A	N/A

(1) Half these options may not be exercised until one year after this start date.

Note 33 – Gains (losses) on disposals of long-term investments, net of provisions

In millions of euros	1998	1997	1996
Debt securities held for investment:			
Capital gains (losses) on disposal	–	(7)	4
(Additions to) deductions from allowances	4	8	5
Total debt securities held for investment, net of provisions	**4**	**1**	**9**
Equity securities held for investment:			
Capital gains (losses) on disposals	272	201	34
(Additions to) deductions from allowances	63	34	(21)
Total equity securities held for investment, net of provisions	**335**	**235**	**13**
Other stock investments:			
Capital gains (losses) on disposals	131	(311)	92
(Additions to) deductions from allowances	8	438	(221)
Total other stock investments held for investment, net of provisions	**139**	**127**	**(129)**
Gains (losses) on disposals of long-term net of provisions	**478**	**363**	**(107)**

Note 34 – Nonrecurring items

In millions of euros, year ended 31 December	1998	1997	1996
(Addition) to allowance for nonrecurring costs associated with the single European currency and the year 2000	(62)	(43)	(92)
(Addition) to allowance for restructured or discontinued activities	(25)	(13)	(10)
Gain on restructuring of the equity interest in the BANCWEST CORP. Group	43	–	–
(Addition) to allowance for employee benefits	(3)	(93)	(47)
(Addition) to allowance for monetary depreciation of equity interests	(40)	(22)	–
(Addition) to allowance for sectoral risks	–	–	(273)
Other nonrecurring income (expense)	(42)	(41)	(99)
Nonrecurring items	**(129)**	**(212)**	**(521)**

Nonrecurring items reflect the impact on the financial statements of events that are infrequent and unusual in nature for the BNP Group's various lines of business. If these items were included under other income statement headings, the comparability of current-period operations with those of the reference periods would be impaired.

BNP's latest estimate of the cost of adapting to the introduction of the single European currency and to the Year 2000, prepared at end 1998, is about EUR 335 million over the period 1996-2002. France's accounting authorities have reiterated a series of guidelines governing the provisioning of charges made probable by events that have occurred or are ongoing, in cases where the nature of such charges is clearly identifiable. In application of these guidelines, BNP set up a EUR 92 million allowance at 31 December 1996, subsequently increased by EUR 43 million at 31 December 1997 and EUR 62 million at 31 December 1998. This allowance covers the non-capitalizable cost of outside assistance needed for BNP to deal with the changeover to the single European currency, a nonrecurring event. The allowance comprises EUR 134 million for the adaptation of information systems and contributions to the cost of adapting interbank systems, and EUR 63 million for the cost of euro-related corporate communication and customer relations programs. These costs, determined according to BNP's commonly used project assessment methods, are in addition to recurring expenses. More than half of these costs had been incurred at 31 December 1998.

The discontinuation of the operations of the Banque Arabe et Internationale d'Investissement group and its subsidiaries having begun, BNP made an additional provision of EUR 25 million in 1998 to meet ongoing liquidation costs in future years.

In 1998, BNP restructured its equity interest in its BANCWEST CORP. subsidiary. BNP exchanged its shares in the subsidiary for 45% of the shares issued by the new BANCWEST CORP. entity, which combines the operations of Bank of the West and First Hawaiian Bank. In accordance with French bank accounting rules, since BNP exercises dominant influence over the new entity and its 45% equity interest is greater than the combined interests of other stockholders holding stakes of more than 5%, BANCWEST CORP. is fully consolidated. The share exchange deal generated a capital gain of EUR 43 million net of charges arising on the restructuring of the two sub-groups and on the harmonization of their accounting policies with those of BNP.

The transaction increased net banking income by EUR 72 million, gross operating income by EUR 19 million and pre-tax net income by EUR 56 million. The impact on stockholders' equity (excluding net income for the year) was to increase minority interests by EUR 438 million. At 31 December 1998, BANCWEST CORP. had total assets of EUR 12,313 million.

In response to the level of real interest rates in France in 1996, BNP decided to discount the accrued charges resulting from employee benefits in France using a market interest rate compatible with expected yields on long-term investments, in line with the practice used by pension and life insurance funds to calculate companies' commitments to their employees. This resulted in an additional provision of EUR 47 million.

BNP made a EUR 73 million provision in 1997 to cover the nonrecurring charge corresponding to staff reductions resulting from computer investments made to adapt its computer systems to the single European currency and from the reorganization of its operational support centers and customer service activities within the domestic branch network in fiscal years 1998 and 1999. BNP also made a EUR 20 million provision to adjust the employee pension and post-retirement liabilities of the international entities to the level required by the Group's accounting policies.

The irreversible depreciation in the currencies in which some of BNP's equity interests are held led to the recognition of a provision of EUR 22 million in 1997 and EUR 40 million in 1998 to cover the associated foreign exchange risk.

Provisions and charges in relation to tax and social security audits are reflected under "Other nonrecurring income (expense)". BNP was subject to a tax audit in France for the years 1988-1990 and 1992-1994. It has recorded provisions as needed to cover adjustments by the French tax authorities which it may choose not to contest, including late payment interest.

Note 35 – Segment information

The table below shows net banking income and gross operating income by segment of business. These segments represent the strategic business lines of the BNP Group.

Domestic Banking covers the retail activities of the branch network in France and the French subsidiaries. Retail Banking outside euro countries mainly comprises the activities of the BANCWEST CORP. and BNPI groups. The Global Customers and Markets segment includes financial activities, asset management and specialized financing, as well as banking services for large clients provided by BNP itself and by its subsidiaries and branches.

The equity allocated to each of these segments is that effectively made available to the subsidiaries and foreign branches involved by BNP. No equity has been allocated to BNP SA French activities.

In millions of euros, at 31 December 1998	Net banking income	Gross operating income
Domestic Banking	3,829	855
Retail Banking outside euro countries	733	281
Global Customers and Markets	2,554	897
Other	348	314
Intercompany eliminations	(98)	—
TOTAL (note 26)	**7,366**	**2,347**
France	5,186	1,517
Other European Economic Space countries	687	196
The Americas and Asia	1,277	524
Other countries	216	110

Analysis by geographic area

In millions of euros, at 31 December 1998	Interbank transactions and equivalents	Customer transactions	Total
Assets:			
France	79,492	91,937	**171,429**
Other European Economic Space countries	11,957	18,809	**30,766**
The Americas and Asia	21,865	35,465	**57,330**
Other countries	2,029	2,462	**4,491**
TOTAL (notes 3 and 4)	**115,343**	**148,673**	**264,016**
Liabilities:			
France	65,383	72,608	**137,991**
Other European Economic Space countries	26,368	18,859	**45,227**
The Americas and Asia	13,412	23,331	**36,743**
Other countries	2,931	3,167	**6,098**
TOTAL (notes 13 and 14)	**108,094**	**117,965**	**226,059**

Note 36 – Income taxes

In millions of euros	1998	1997	1996
Income taxes for period, currently payable	255	319	150
Deferred income taxes (benefits) recognized during period	176	(15)	–
Income tax expense	**431**	**304**	**150**
From recurring items	479	380	207
From nonrecurring items	(48)	(76)	(57)

In accordance with generally accepted international accounting standards, BNP recognizes deferred tax assets on the basis of the probability that they will be recovered. The tax savings generated in 1998 from the utilization of tax losses and the deduction for tax purposes of charges accounted for in previous periods amounted to EUR 140 million for the BNP SA taxation group.

The effective tax rate can be analyzed as follows:

In percent	1998	1997	1996
Standard French corporate income tax rate	33.3	33.3	33.3
Long-term capital gains taxed at a reduced rate in France	(1.1)	(5.1)	(2.9)
Share of earnings of companies carried under equity method	(2.6)	(3.3)	(3.5)
Permanent differences added back to taxable income in France	(8.1)	(2.3)	(6.2)
Differences in foreign corporate income tax rates	(3.3)	(4.8)	(6.2)
Separate effect of negative items	5.6	3.5	4.5
Other	3.1	3.0	0.2
Effective tax rate	**26.9**	**24.3**	**19.2**

Deferred taxes have been reflected in the balance sheet as shown below:

At 31 December	1998			1997	1996
In millions of euros	Companies included in the taxation group (note 2)	Other companies	Total	Total	Total
Deferred income tax assets	352	80	**432**	**537**	**343**
Deferred income tax liabilities	507	372	**879**	**701**	**666**
Net deferred income tax liability	**155**	**292**	**447**	**164**	**323**

The deferred income tax on the capital gain realized on BNP's transfer to its subsidiary Compagnie Immobilière de France of its buildings and rights to real estate leasing contracts amounted to EUR 111 million at 31 December 1998, reflecting a write-down of EUR 105 million of the corresponding assets in 1997.

Note 37–Average number of employees

The average number of employees of BNP and fully consolidated subsidiaries may be analyzed as follows:

	1998		1997		1996	
Average number of employees	Management and non-management	Management only	Management and non-management	Management only	Management and non-management	Management only
BNP France	34,592	7,795	35,575	7,563	36,568	7,434
Branches outside France	5,005	1,437	4,644	1,331	4,318	1,203
French subsidiaries	3,341	1,279	3,163	1,159	2,909	1,026
Foreign subsidiaries	13,118	1,447	9,320	1,311	9,440	1,201
BNP Group total	**56,056**	**11,958**	**52,702**	**11,364**	**53,235**	**10,864**
France	37,933	9,074	38,738	8,722	39,477	8,460
Other countries	18,123	2,884	13,964	2,642	13,758	2,404
BNP Group total	**56,056**	**11,958**	**52,702**	**11,364**	**53,235**	**10,864**

Note 38 – Consolidated profit and loss account (CRB 91-02 presentation)

In thousands of euros	1998	1997	1996
INCOME AND CHARGES ARISING FROM BANKING OPERATIONS			
Interest receivable and similar income:	**21,054,091**	**19,013,920**	**17,061,008**
Interest receivable and similar income on transactions with credit institutions	8,048,968	7,093,899	5,712,376
Interest receivable and similar income on transactions with customers	8,558,163	7,924,314	7,488,476
Interest receivable and similar income on debt securities and other fixed-income securities	2,066,579	1,769,033	1,716,940
Income receivable arising from leasing and similar operations	2,379,795	2,226,557	2,143,097
Other interest receivable and similar income	586	117	119
Interest payable and similar charges:	**(17,444,034)**	**(15,469,660)**	**(13,430,818)**
Interest payable and similar charges arising from transactions with credit institutions	(8,484,899)	(7,103,740)	(5,879,491)
Interest payable and similar charges arising from transactions with customers	(4,325,686)	(3,941,778)	(3,131,925)
Interest payable and similar charges arising from debt securities and other fixed-income securities	(2,914,921)	(2,837,329)	(2,935,780)
Charges payable arising from leasing and similar operations	(1,718,528)	(1,586,813)	(1,483,622)
Income from variable yield securities	**128,241**	**137,589**	**156,669**
Commissions receivable	**2,256,379**	**2,073,242**	**1,771,390**
Commissions payable	**(462,974)**	**(553,404)**	**(420,187)**
Net profit on financial operations:	**2,834,106**	**1,328,939**	**1,193,116**
Net profit on transactions in trading securities	2,539,178	1,233,984	1,016,576
Net profit on transactions in securities held for sale	19,944	94,955	105,297
Net profit on exchange transactions	274,984	—	71,243
Net loss on financial operations:	**(1,207,375)**	**(34,910)**	**(512,100)**
Net profit on exchange transactions	**—**	**(33,210)**	**—**
Net loss on transactions in financial instruments	(1,207,375)	(1,700)	(512,100)
OTHER ORDINARY INCOME AND CHARGES			
Other operating income:	**735,153**	**685,856**	**598,557**
Other income from banking operations	496,214	460,960	487,522
Other income from nonbanking operations	238,939	224,896	111,035

Consolidated fin

In thousands of euros	1998	1997	1996
General operating charges:	**(4,685,743)**	**(4,349,214)**	**(4,054,618)**
Staff costs	(3,085,129)	(2,895,103)	(2,732,019)
Other administrative expenses	(1,600,614)	(1,454,111)	(1,322,599)
Depreciation, amortization and provisions on intangible and tangible assets	**(332,394)**	**(320,423)**	**(314,252)**
Other operating charges:	**(545,224)**	**(480,805)**	**(414,184)**
Other charges arising from banking operations	(388,072)	(339,844)	(367,892)
Other charges arising from non-banking operations	(157,152)	(140,961)	(46,292)
OTHER ORDINARY INCOME AND CHARGES			
Net loss on value adjustments in respect of loans and advances and off-balance sheet items	**(1,203,104)**	**(1,034,338)**	**(578,252)**
Net loss on value adjustments in respect of financial fixed assets	**–**	**–**	**(107,336)**
Net profit on value adjustments in respect of financial fixed assets	**477,622**	**362,833**	**–**
Surplus of allocation over write-back of funds for general banking risks	**(2,286)**	**(19,231)**	**–**
Surplus of write-back over allocation of funds for general banking risks	**–**	**–**	**269,316**
ORDINARY PRE-TAX PROFIT	**1,602,458**	**1,340,394**	**1,218,309**
EXTRAORDINARY INCOME AND CHARGES			
Extraordinary pre-tax income	**(128,902)**	**(212,167)**	**(520,930)**
Extraordinary income	173,707	45,235	41,856
Extraordinary charges	(302,609)	(257,402)	(562,786)
Tax on income	**(430,341)**	**(304,457)**	**(149,772)**
Share of profit or losses of companies carried under equity method	**124,082**	**124,269**	**81,842**
Non-financial	111,830	103,246	62,636
Financial	12,252	21,023	19,206
PROFIT FOR THE FINANCIAL YEAR	**1,167,297**	**948,039**	**629,449**
Group share	1,114,309	908,866	587,893
Minority interests	52,988	39,173	41,556

The consolidated profit and loss account (CRB 91-02 presentation) differs in the following respects from the consolidated income statement presented following the balance sheet:

- Additions to and deductions from the allowance for miscellaneous risks are reflected under "Other operating charges" in the CRB 91-02 presentation (EUR 1.2 million in 1998, EUR 1.4 million in 1997 and EUR 5.2 million in 1996), whereas they are reflected under "Net (addition to) deduction from reserve for general banking risks and other risks" in the consolidated income statement.

- The amortization charge for goodwill is reflected under "Other operating charges" in the CRB 91-02 presentation, whereas it is reflected under "Amortization of goodwill" in the consolidated income statement (EUR 16 million in 1998, EUR 16 million in 1997, and EUR 13 million in 1996).

The BNP Group
at 31 December 1998

Europe

Austria	1
Belgium	2
Bulgaria	3
Cyprus	2
Croatia	1
Czech Republic	3
Germany	4
Great Britain	8
Greece	7
Hungary	4
Ireland	2
Italy	6
Jersey	2
Luxembourg	4
Netherlands	7
Norway	2
Poland	9
Portugal	5
Romania	2
Russia	5
Spain	77
Switzerland	9
Turkey	4
Ukraine	1
Total	**170**

Americas

Argentina	9
Bahamas	3
Brazil	3
Cayman Islands	2
Canada	5
Chile	3
Colombia	1
Costa Rica	1
Mexico	2
Panama	3
Peru	1
United States of America	227
Uruguay	2
Venezuela	2
Total	**264**

Asia

China	10
Hong Kong	15
India	7
Indonesia	4
Japan	4
Macau	2
Malaysia	4
Myanmar	1
Philippines	1
Singapore	1
South Korea	1
Taiwan	3
Thailand	2
Vietnam	2
Total	**57**

Pacific

Australia	8
New Zealand	1
Total	**9**

Africa

Algeria	1
Burkina-Faso	11
Burundi	8
Comoros	6
Congo (democratic rep.)	14
Ivory Coast	43
Djibouti	8
Gabon	11
Guinea (rep. of)	12
Madagascar	8
Mauritius	10
Morocco	85
Namibia	7
Rwanda	7
Senegal	13
South Africa	2
Togo	7
Tunisia	40
Zimbabwe	2
Total	**295**

Middle-East

Bahrain	2
Egypt	6
United Arab Emirates	1
Iran	1
Israel	1
Lebanon	6
Total	**17**

Dom-Tom

French Guiana	2
Guadeloupe	12
Martinique	13
New Caledonia	10
Reunion	11
Wallis & Futuna	2
Total	**50**

Joint statutory auditors' report on the consolidated financial statements for the year ended 31 December 1998

To the shareholders of Banque Nationale de Paris

As statutory auditors appointed by the Shareholders'Meeting we have audited the accompanying consolited financial statements of the BNP Group for the year ended 31 December 1998 as presented on pages 74 to 129 of this annual report.

These consolidated financial statements are the responsability of the Company's Board of Directors. Our responsability is to express an opinion on these consolidated financial statements based on our audit.

We conducted our audit in accordance with French auditing standards. Those standards require that we perform appropriate procedures to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall consolidated financial statements presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the BNP Group at 31 December 1998 and the results of its operations for the year then ended.

We have also carried out the specific verifications required by law on the information given in the Board of Directors'management report of the BNP Group. We have no observation to make on its fairness and conformity with the consolidated financial statements.

Neuilly-sur-Seine and Paris, 23 March 1999
The statutory auditors

BARBIER
FRINAULT & AUTRES
ARTHUR ANDERSEN
Christian Chiarasini
Radwan Hoteit

BEFEC-PRICE WATERHOUSE
Member of PricewaterhouseCoopers

Etienne Boris

SALUSTRO REYDEL

Edouard Salustro
Michel Savioz

Contents

Parent company financial statements

Balance sheet of BNP SA

Assets

In millions of euros, at 31 December	1998	1997	1996
Interbank and money market items:			
Cash and due from central banks and post office banks	2,354	1,024	1,558
Treasury and money market instruments	21,713	18,940	10,301
Due from credit institutions	77,220	77,841	84,275
Total interbank and money market items	**101,287**	**97,805**	**96,134**
Customer items:			
Due from customers	105,197	104,125	93,759
Leasing receivables	230	244	147
Total customer items	**105,427**	**104,369**	**93,906**
Bonds and other fixed-income instruments	**12,611**	**11,874**	**12,786**
Equities and other non-fixed-income instruments	**849**	**851**	**1,498**
Equity securities held for investment and other stock investments:			
Equity securities held for investment	704	719	276
Other stock investments	6,196	5,271	5,331
Total equity securities held for investment and other stock investments	**6,900**	**5,990**	**5,607**
Tangible and intangible assets	**2,176**	**2,180**	**2,214**
Accrued income	**25,518**	**27,739**	**18,199**
Total assets	**254,768**	**250,808**	**230,344**
Commitments given:			
Financing commitments given	55,914	54,120	44,955
Guarantees and endorsements given	36,153	33,679	31,533
Commitments given on securities	576	1,032	794
Commitments incurred on forward and options contracts	2,629,970	2,221,693	1,748,233

Liabilities and stockholders' equity

In millions of euros, at 31 December	1998	1998 (1)	1997	1996
	Before appropriation of income		After appropriation of income	
Interbank and money market items:				
Due to central banks and post office banks	3,366	3,366	3,618	1,906
Due to credit institutions	87,350	87,350	86,481	83,220
Total interbank and money market items	**90,716**	**90,716**	**90,099**	**85,126**
Customer deposits	**87,991**	**87,991**	**85 438**	**77,862**
Bonds and negotiable debt instruments:				
Retail certificates of deposit	646	646	853	1,080
Interbank market securities	105	105	117	100
Negotiable certificates of deposit	22,629	22,629	22,612	24,025
Bonds, including short-term portion	6,921	6,921	7,511	8,702
Other debt instruments	–	–	3	20
Total bonds and negotiable debt instruments	**30,301**	**30,301**	**31,096**	**33,927**
Accrued expenses	**26,195**	**26,523**	**26,840**	**18,594**
Provisions for risks and charges	**3,031**	**3,031**	**2,442**	**1,647**
Subordinated debt	**7,855**	**7,855**	**7,646**	**6,224**
Reserve for general banking risks	**913**	**913**	**917**	**919**
Stockholders' equity:				
Capital stock	832	832	813	791
Capital surplus	3,512	3,512	3,197	3,031
Retained earnings	2,344	3,094	2,320	2,223
Total stockholders' equity	**6,688**	**7,438**	**6,330**	**6,045**
Net income	**1,078**	**–**	**–**	**–**
Total liabilities and stockholders' equity	**254,768**	**254,768**	**250,808**	**230,344**
Commitments received:				
Financing commitments received	-	1,529	1,508	1,514
Guarantees and endorsements received	-	23,026	23,450	18,265
Commitments received on securities	-	462	979	888

(1) Appropriation of income was determined on the basis of the proposals submitted to the general meetings of BNP and its consolidated subsidiaries.

Income statement of BNP SA

In millions of euros	Balance		
	1998	1997	1996
INCOME (EXPENSE) FROM BANKING OPERATIONS			
Net interest and assimilated income:			
Net interest and assimilated income on interbank items	146	323	352
Net interest and assimilated income on customer items	3,603	3,557	3,688
Interest expense on bonds and negotiable debt instruments	(2,493)	(2,533)	(2,618)
Interest income on bonds and other fixed-income instruments	1,517	1,297	1,280
Income on equities and other non-fixed-income instruments	572	535	309
Net interest and assimilated income	3,345	3,179	3,011
Net commissions	1,380	1,248	1,157
Net gains (losses) on financial operations	615	626	298
Other net income from banking operations	143	153	160
Net banking income	**5,483**	**5,206**	**4,626**
Operating expense:			
Salaries and employee benefits, including profit-sharing	(2,347)	(2,306)	(2,215)
Other expense	(1,189)	(1,131)	(1,054)
Total operating expense	(3,536)	(3,437)	(3,269)
Depreciation, amortization, and provisions on tangible and intangible assets	(246)	(251)	(242)
Gross operating income	**1,701**	**1,518**	**1,115**
Net addition to allowance for credit risks and country risks	(973)	(840)	(306)
Net operating income	**728**	**678**	**809**
Gains (losses) on disposals of long-term investments, net of provisions	516	257	(234)
Net (addition to) deduction from reserve for general banking risks and miscellaneous risks	–	5	260
Nonrecurring items	(149)	(670)	(522)
Income taxes (benefits)	(17)	50	49
Net income	**1,078**	**320**	**362**

Accounting policies

Accounting policies applied in preparing the balance sheet and income statement comply with the accounting principles established for the French banking industry. The financial statements of foreign branches, prepared in accordance with accounting policies applied in their respective countries, have been restated to conform to BNP's accounting policies.
Accounting policies were applied on a consistent basis with those of the preceding three years.

Income and Expense Recognition

Interest income and related commissions are recognized on an accrual basis. Fees for services (not interest-related) are recorded when the services are rendered.

Foreign Currency Transactions

Foreign exchange positions are generally valued at official year-end exchange rates. Currency gains and losses on ordinary transactions denominated in a foreign currency are recorded in income and expense.

Exchange differences calculated on the basis of year-end exchange rates for assets denominated in foreign currencies and held on a long-term basis, including equity securities held for investment, the equity base of branches, and other stock investments in foreign units are posted to equity.

Foreign Currency Translations

Foreign currency denominated assets, liabilities, and off-balance sheet commitments of foreign branches have been translated into French francs at official year-end exchange rates, except non-monetary assets and liabilities of the branch in Argentina, which were translated at historical rates to correct for high inflation in that country. Income statements have been translated at average exchange rates for the year for foreign branches, except in Argentina (a country with high inflation), for which the year-end exchange rate was used.

Translation adjustments regarding the equity base of BNP branches outside France are included in "Accrued income" and "Accrued expense".

Bond Issues

Bond issue or redemption premiums are amortized using the actuarial method over the life of the bond. Issue costs are prorated over the term of the bond.

Securities

The term "securities" covers interbank market securities (mainly promissory notes and mortgage notes); Treasury and other negotiable debt instruments; bonds and other fixed-income instruments (whether fixed- or floating-rate); and equities and other non-fixed-income instruments.

Securities are classified as "Trading account assets", "Investment securities held for sale", "Debt securities held for investment", "Equity securities held for investment", and "Other stock investments".

Trading Account Assets

Securities held for up to six months are recorded under "Trading account assets" and valued individually at market. Changes in market values are posted to income.

Investment Securities Held for Sale

This category includes securities held for at least six months, but which BNP SA does not intend to hold on a long-term basis.

Bonds and other fixed-income instruments are valued at the lower of cost (excluding accrued interest) or their probable market value, which is generally determined on the basis of market prices. Accrued interest is posted to income under "Interest income on bonds and other fixed-income instruments".

Stocks are valued at the lower of cost (excluding accrued interest) or their probable market value, which is generally determined on the basis of stock market prices, for listed stocks, or BNP SA's share in net assets calculated on the basis of the most recent financial statements available, for unlisted stocks. Dividends received are posted to income under "Income on equities and other non-fixed-income instruments" at the time of their payment.

The cost of sale of investment securities held for sale is determined on a first in, first out (FIFO) basis. Capital gains on disposal are reflected in the income statement under "Net gains (losses) on financial operations", as are provisions for market value write-downs or recoveries.

Debt Securities Held for Investment

Fixed-income securities (mainly bonds, interbank market securities, Treasury securities, and other negotiable debt securities) are recorded under "Debt securities held for investment" to reflect BNP's intention of holding them on a long-term basis. Bonds classified under this heading are financed by matching funds or hedged against interest rate exposure to maturity.

The difference between cost and the redemption price of these securities is prorated over the life of the securities and posted to "Interest on bonds and other fixed-income instruments" in the income statement. In the balance sheet, their carrying value is amortized on a straightline basis to their redemption value.

Interest on debt securities held for investment is posted to income under "Interest on bonds and other fixed-income instruments".

A provision is made when a decline in the credit standing of an issuer jeopardizes redemption at maturity.

Equity Securities Held for Investment

This category includes shares and related instruments that BNP intends to hold on a long-term basis, without taking an active part in the management of the issuing companies. "Equity securities held for investment" are recorded individually at the lower of cost or fair market value. Fair market value is determined as follows: according to the average market price over the previous two fiscal years for listed securities or according to a more recent market price when a decrease in value of the underlying security is likely to endure, and according to net asset value per share (consolidated, if applicable) for unlisted securities.

Dividends received are posted to income under "Income on equities and other non-fixed-income instruments" at the time of their payment.

Other Stock Investments

This category includes affiliates in which the BNP Group exercises significant influence over management, as well as those affiliates that are considered strategic to the Group's business development. Significant influence is deemed to exist when the Group holds an ownership interest of at least 10%.

Other stock investments are recorded individually at the lower of cost or fair market value. Fair market value is determined as follows: according to the average market price over the previous two fiscal years for listed securities or according to a more recent market price when a decrease in value of the underlying security is likely to endure, and according to net asset value per share (consolidated, if applicable) for unlisted securities.

Capital gains or losses on disposals are recorded as "Gains (losses) on disposals of long-term investments, net of provisions" in the income statement.

Dividends on other stock investments are posted to income when the stockholders of those companies have voted to distribute the dividends during the year or upon receipt when the stockholders' decision is not known. They are posted to "Income on equities and other non-fixed-income instruments".

Forward Financial Instruments

BNP SA operates in the interest rate and currency futures and options markets, both on organized exchanges and in over-the-counter transactions. It engages in interest rate and currency swaps to manage its interest rate and exchange rate risk exposure, as well as for the purposes of arbitrage and trading.

Forward Interest Rate Instruments

Interest rate futures and options contracts traded on organized exchanges are valued at market at the balance sheet date. Realized and unrealized gains and losses are taken to income under "Net gains (losses) on financial operations".

Gains and losses on certain contracts, which are traded over the counter and are considered as isolated open positions, are taken to income either when the contracts are unwound or on a pro rata temporis basis, depending on the nature of the instruments. Provisions for risks are made to cover unrealized losses.

Gains and losses on settled interest rate contracts designated as hedging operations are recognized similar to the underlying instrument.

Currency Futures

Options contracts are marked to market and valuation differences are posted to income. Identical treatment is used for forward exchange contracts bought and sold for trading purposes. As a general rule, when these transactions are hedged, the hedging contracts are valued at the cash price prevailing at the end of the period. Premiums and discounts on contracts designated as a hedge are recognized on an accrual basis and posted to the income statement over the life of the underlying transaction.

Equity and Equity Index Derivatives

BNP buys and sells equity and equity index options for trading and hedging purposes. In the case of trading operations, unrealized gains and losses on contracts that have not been unwound by the balance sheet date are carried directly to income. Gains and losses on settled equity and equity index contracts designated as hedging operations are recognized similar to the underlying instrument.

Composite Instruments

Composite instruments (also known as structured products) are valued by aggregating the individual values of each basic instrument included in the composite.

However, they are recorded for accounting purposes as a single instrument, with a single notional value off balance sheet and a single net movement in the consolidated income statement.

Market Value of Financial Instruments

Financial instruments for which market valuation parameters are not freely available are valued on the basis of recent transaction prices or prices obtained from brokers or counterparties supported by qualitative analyses.

Customer Loans

"Customer loans" cover credits to entities other than credit institutions and are broken down into commercial and industrial loans, customer overdrafts, and other credits. Customer loans are carried in the balance sheet at principal amount plus accrued interest.

Whenever management determines that borrowers may not be able to repay their loans, a provision for credit risk is charged to income.

In the case of real estate professionals, potential losses are computed on the basis of the fair market value of the assets financed, guarantees, and losses on unfinished developments (reflecting income and expenses pending). The fair market value of assets financed takes into account rental values, prices of recent transactions involving comparable operations, and any possible capital losses. Expenses pending take into account all interest expense that will be due until complete disposal of the building program, construction costs, fees for professional services pending, and operating expenses.

Allowances for credit risks on items carried under assets in the balance sheet are deducted from the corresponding asset items. Allowances reported under liabilities consist of allowances for guarantees and endorsements, allowances for losses on real estate developments in which equity investments have been made, allowances for legal proceedings pending, allowances for risks not specifically identified, and allowances for unforeseeable sectoral risks.

Additions to and deductions from allowances, loan losses, and recoveries of loans written off are all carried under "Net addition to allowance for credit risks and country risks" in the income statement.

Additions to allowances for unforeseeable sectoral risks made by means of transfers from the reserve for general banking risks are recorded as nonrecurring expenses. These allowances are utilized to cover substantial risks identified by the income statement heading under which the corresponding allowance was recorded.

Country Risk Provisions

Provisions for country risk are based on the evaluation of non-transfer risk related to the future solvency of each of the countries at risk and on the systemic credit risk incurred by the debtors in the event of a constant and durable deterioration of the overall situation and the economies of these countries. Country risk provisions and write-backs are reflected in the consolidated income statement under "Net addition to allowance for credit risks and country risks".

Reserve for General Banking Risks

For reasons of conservatism, BNP SA has set up a reserve for general banking risks. Specific additions to, and deductions from, this reserve are reflected in the consolidated income statement under "Net (addition to) deduction from reserve for general banking risks and other risks". This reserve was originally set up through transfers from other reserves.

Provisions for Other Risks

BNP SA makes provisions for other risks to cover specific risks that are uncertain and not quantifiable. These provisions may be written back in the case of individual risks which become certain and quantifiable and which are covered by specific provisions.

Lease Financing

Assets leased to others are carried in the balance sheet under "Customer items–Leasing receivables" net of accumulated depreciation.

Fixed Assets

In 1991 and 1992, as allowed by French regulations, BNP transferred its main operating real estate holdings to its subsidiary Compagnie Immobilière de France "CIF". This transaction covered wholly owned buildings and buildings leased to BNP SA (the parent company) by specialized subsidiaries. BNP intends to hold these buildings on a long-term basis.

In order to reflect the decline in the real estate market, which is now considered to be durable, the BNP Group in 1997 readjusted the value of the assets concerned by the above real estate restructuring. It wrote down the value of the Group's tangible assets for the amount net of the related income tax effect, in the consolidated balance sheet under "Capital gains on restructuring", in the same way as it recorded the initial adjustment. Consequently, this readjustment had no impact on consolidated net income.

The revaluation arising from this transaction has been posted to stockholders' equity net of the related deferred tax effect. A deferred tax allowance has been provided for.

Other premises and equipment are stated at cost or valued in accordance with France's appropriation laws of 1977 and 1978 or, for certain foreign branches, in accordance with local rules (see below).

The restructured real estate portfolio is depreciated over a fifty-year period starting from the date of transfer using the straight line method. Depreciation of other fixed assets is computed on the straight line method over their estimated useful lives in accordance with rules applicable in France and the countries where BNP's foreign branches operate. The difference between tax depreciation (accelerated methods) and book depreciation (generally straight line methods) is recorded under "Regulated deductions–Accelerated depreciation" in liabilities. No deferred income tax is calculated on the difference between book and tax depreciation.

Intangible assets essentially comprise software, which is amortized over a three-year period.

Statutory Revaluation

In 1978, in accordance with applicable tax laws, BNP revalued land and buildings owned at 31 December 1976 and still carried in its balance sheet at the date of revaluation. The revalued amounts, computed at 31 December 1976, were established by independent appraisers.

At the same time, investments in consolidated subsidiaries and equity-method companies were also revalued either at 31 December 1976 market values for companies listed on the Paris Stock Exchange, or on the basis of their net asset value as taken from the 31 December 1976 balance sheet after appropriation of income.

BNP has included within stockholders' equity the portion of the revaluation surplus relating to non-depreciable assets arising from this transaction.

Income Taxes

In France, the standard income tax rate is 33.33%. Long-term capital gains are taxed at a rate of 19%. Capital gains and losses on securities in the various portfolios losses are taxed at the standard income tax rate of 33.33%, with the exception of "Other stock investments", which are subject to long-term capital gains taxation. Dividends received from companies in which the BNP Group has an ownership interest of more than 10% or more than FRF 150 million are non-taxable.

In 1995 the French Government imposed a 10% surtax on corporate income for an unspecified period of time, and in 1997 it imposed a 15% surtax on corporate income, which will be lowered to 10% for fiscal year 1999 and expire at year-end 1999. BNP has taken these surtaxes into account to determine income taxes for each subsequent period that are currently payable, and it has used the liability method to adjust the amount of deferred taxes for cases where they would be subject to the surtax when the timing differences reverse themselves at any time in the future. This position is in accordance with the 15 September 1997 option of the French Accounting Council.

A charge for income taxes is taken in the year in which the respective taxable income and expense are booked, regardless of the time when the tax is actually paid. As a result, BNP SA books deferred taxes calculated on the basis of timing differences between profit and loss items for accounting and tax purposes, under the liability method.

In accordance with internationally accepted acounting principles, the BNP Group has been recording since 1997 deferred tax benefits taking into account the probability that they will be utilized, for amounts that may exceed deferred tax liabilities.

Profit-Sharing Plan

As required by French law, BNP provides for profit sharing in the year in which the profit arises, and reports the provision under salaries in "Operating expense" in the income statement.

Retirement and Pensions for Former Employees

Upon retirement, BNP employees receive pensions according to the laws and customs prevailing in the countries where BNP operates.

Outside France, BNP and its employees contribute to mandatory pension plans managed by independent organizations.

Retired employees of BNP in France are entitled to the following pension system starting 1 January 1994, pursuant to a new industry-wide agreement on pensions:

- Retirees receive pension benefits from the social security system and two nationwide organizations, which are financed by contributions received from employers and employees.
- Retirees receive additional benefits from the pension fund of BNP SA and its French subsidiaries relative to services rendered prior to 31 December 1993. Funding for these additional benefits is provided by transfers from the pension funds' existing reserves and by employer contributions, which are limited to a percentage of payroll costs. The amount of such additional benefits is adjusted to reflect the funding level of the pension funds and may consequently be reduced in due proportion.

The working capital contributions made to the two nationwide pension organizations in 1994 are treated as prepaid expenses and amortized over the average number of years left to retirement of BNP's affiliated employees, which is currently twenty years.

Employee Benefits

Under various agreements, BNP SA is committed to pay early retirement and seniority bonuses. Each year, BNP estimates the net current value of these commitments and adjusts the related allowance.

Profit and loss account of BNP SA (CRB 91-01 presentation)

In thousands of euros, year ended 31 December	1998	1997	1996
INCOME AND CHARGES ARISING FROM BANKING OPERATIONS			
Interest receivable and similar income:	**16,449,877**	**14,803,826**	**12,958,669**
Interest receivable and similar income on transactions with credit institutions	8,118,053	6,876,985	5,596,152
Interest receivable and similar income on transactions with customers	6,814,435	6,629,804	6,082,545
Interest receivable and similar income on debt securities and other fixed-income securities	1,517,149	1,297,037	1,279,972
Other interest receivable and similar income	240	–	–
Interest payable and similar charges:	**(13,697,731)**	**(12,175,529)**	**(10,266,802)**
Interest payable and similar charges arising from transactions with credit institutions	(7,971,598)	(6,553,981)	(5,244,058)
Interest payable and similar charges arising from transactions with customers	(3,233,082)	(3,088,767)	(2,405,200)
Interest payable and similar charges arising from debt securities and other fixed-income securities	(2,493,051)	(2,532,781)	(2,617,544)
Income from leasing operations	**21,105**	**18,274**	**13,719**
Charges arising from leasing operations	**(12)**	**(2,330)**	**(3,372)**
Income from rental operations	**3,069**	**3,175**	**1,961**
Charges arising from rental operations	**(3,044)**	**(2,747)**	**(1,378)**
Income from variable-yield securities	**572,160**	**534,413**	**308,713**
Commissions receivable	**1,701,472**	**1,613,934**	**1,469,163**
Commissions payable	**(322,379)**	**(365,705)**	**(312,443)**

in thousands of euros, year ended 31 December	1998	1997	1996
Net profit on financial operations:	**614,898**	**716,620**	**447,575**
Net profit on transactions in trading securities	315,282	260,682	397,047
Net profit on transactions in securities held for sale	101	5,377	19,053
Net profit on exchange transactions	238,403	–	31,475
Net profit on transactions in financial instruments	61,112	450,561	–
Net loss on financial operations:	**–**	**(90,507)**	**(149,324)**
Net loss on transactions in trading securities	–	–	–
Net loss on transactions in securities held for sale	–	–	–
Net loss on foreign exchange transactions	–	(90,507)	–
Net loss on transactions in> financial instruments	–	–	(149,324)
OTHER ORDINARY INCOME AND CHARGES			
Other operating income:	**534,274**	**496,766**	**520,524**
Other income from banking operations	410,291	385,706	413,039
Other income from nonbanking operations	123,983	111,060	107,485
General operating charges:	**(3,536,489)**	**(3,436,905)**	**(3,269,061)**
Staff costs	(2,347,610)	(2,306,364)	(2,215,229)
Other administrative expenses	(1,188,879)	(1,130,541)	(1,053,832)
Depreciation expenses and provisions for depreciation of intangible and tangible assets	**(245,906)**	**(251,309)**	**(242,247)**
Other operating charges:	**(391,877)**	**(345,420)**	**(369,238)**
Other charges arising from banking operations	(319,084)	(304,371)	(322,266)
Other charges arising from nonbanking operations	(72,793)	(41,049)	(46,972)
Net loss on value adjustments in respect of loans and advances and off-balance sheet items	**(972,979)**	**(839,354)**	**(306,204)**
Net loss on value adjustments in respect of financial fixed assets	–	–	**(233,654)**
Net gain on value adjustments in respect of financial fixed assets	**515,929**	**257,232**	**–**
Surplus of allocation for over write-back of funds for general banking risks	–	–	–
Surplus of write-back of over allocation for funds for general banking risks	**994**	**5,761**	**268,850**
ORDINARY PRETAX PROFIT	**1,243,361**	**940,195**	**835,449**
EXTRAORDINARY INCOME AND CHARGES			
Extraordinary pretax loss:	**(148,726)**	**(670,474)**	**(522,382)**
Extraordinary income	192,497	35,119	4,087
Extraordinary charges	(341,223)	(705,593)	(526,469)
Tax on income	**(16,714)**	**50,402**	**49,003**
PROFIT FOR THE FINANCIAL YEAR	**1,077,921**	**320,123**	**362,070**

The profit and loss account (CRB 91-01 presentation) differs in the following respects from the income statement presented following the balance sheet: Additions to, and deductions from, the allowance for miscellaneous risks are reflected under “Other operating charges” in the CRB 91-01 presentation (EUR 1.22 million in 1998, EUR 1.06 million in 1997, EUR 8.54 million in 1996), whereas they are reflected under “Net (addition to) deduction from reserve for general banking risks and other risks” in the income statement that is presented following the balance sheet.

Five-year financial summary of BNP SA

	1998	1997	1996	1995	1994
Capital at year-end					
Capital stock (in FRF)	5,460,266,775 (6)	5,331,104,700 (5)	5,185,874,825 (4)	4,804,598,450 (3)	4,751,153,975 (1)
Common and nonvoting shares issued	218,410,671 (6)	213,244,188 (5)	207,434,993 (4)	192,183,938 (3)	190,046,159 (1) (2)
Registered beneficiary shares (parts bénéficiaires) outstanding:					
- Former BNCI	–	–	–	22,100	44,202
- Former CNEP	–	–	–	16,840	33,682
Results of operations for the year (in euros)					
Total revenues, excluding VAT	19,872,682,097	18,075,051,960	15,555,320,140	15,645,546,300	14,466,086,100
Income before tax, nonrecurring non operating items, profit sharing, depreciation, and provisions	2,480,222,077	2,019,028,883	1,408,192,901	1,322,146,850	1,499,793,054
Income taxes (benefits)	16,713,974	(50,402,512)	(49,003,609)	24,767,685	48,620,150
Profit sharing for year	79,273,489 (7)	60,536,079	25,059,707	–	12,397,818
Income after tax, nonrecurring non operating items, profit sharing, depreciation, and provisions	1,077,921,835	320,123,632	362,070,512	270,947,817	201,238,254
Earnings distributed	327,733,200	227,563,562	170,765,608	105,877,935	92,729,371
Earnings per share (in euros)					
Earnings (excluding nonrecurring non operating items) after tax and profit sharing, but before depreciation and provisions	11.00	9.58	7.02	6.68	7.53
Earnings after tax, nonrecurring non operating items, profit sharing, depreciation, and provisions	4.93	1.50	1.74	1.41	1.06
Dividend per share	1.50 (10)	1.06 (9)	0.82	0.55 (8)	0.49
Employment					
Employment at year-end (11)	39,554	40,002	40,705	41,364	42,400
Total salaries (in euros)	1,473,856,654	1,460,129,682	1,365,309,090	1,328,681,778	1,305,355,110
Staff benefits (including health care) (in euros)	624,891,872	602,884,992	663,188,250	754,227,740	750,383,815

(1) Common stock was increased to FRF 4,751,153,975 from FRF 4,600,213,900 following the contribution of FRF 108,800,000 from Financière Gamma and the payment of a stock dividend amounting to FRF 42,140,075.

(2) Non-voting shares were converted into common shares.

(3) Common stock was increased to FRF 4,804,598,450 from FRF 4,751,153,975 by the payment of the dividend in shares.

(4) Common stock was increased to FRF 5,185,874,825 from FRF 4,804,598,450 by the FRF 18,007,000 stock-for-stock public tender offer for BNP España, the FRF 305,058,400 stock-for-stock public tender offer for Compagnie d'Investissement de Paris "CIP", the FRF 16,311,100 private placement reserved for BNP staff members, and the payment of a stock dividend amounting to FRF 41,899,875.

(5) Common stock was increased to FRF 5,331,104,700 from FRF 5,185,874,825 by the FRF 32,878,050 stock-for-stock public tender offer for BNPI, the FRF 23,000,000 private placement reserved for BNP staff members, and the payment of a stock dividend amounting to FRF 89,351,825.

(6) Common stock was increased to FRF 5,460,266,775 from FRF 5,331,104,700 by the FRF 42,560,250 stock-for-stock public tender offer for BNPI, the FRF 32,000,000 private placement reserved for BNP staff members, and on exercise of employee stock options for FRF 178,525.

(7) Provision made during the year.

(8) Paid to 192,904,218 shares, taking into account the 720,280 new shares with rights from 1 January 1995 created on 27 February 1996 following the stock-for-stock public tender offer for BNP España.

(9) Paid to 213,245,588 shares, taking into account the 1,400 new shares with rights from 1 January 1997 created pursuant to the 1995-2002 stock option plan and recorded on 29 January 1998.

(10) Paid to 218,488,800 shares, taking into account the 75,900 new shares with rights from 1 January 1998 created pursuant to the 1994-2001 stock option plan and the 2,229 new shares with rights from 1 January 1998 created pursuant to the 1995-2002 stock option plan, and recorded on 6 January 1999.

(11) For France, part-time employment is prorated according to the length of time worked.

Information on subsidiaries and associated companies

Companies	Currency	French francs exchange rate	Capital stock [1]	Reserves and retained earnings before appropriation of income [1]	Total revenues for last complete fiscal year [1]	Net income (loss) for last completed fiscal year [1]
Information on subsidiaries and associated companies whose book value exceeds 1% of BNP's capital stock						
A) Subsidiaries (> 50% ownership interest)						
FINANCIERE BNP	€ (FRF)		1,158,127	156,850	57,189	116,675
BNP GUYANE	€ (FRF)		5,336	-39,362	17,014	46,536
BNPI	€ (FRF)		29,083	330,296	248,738	159,026
BANEXI	€ (FRF)		91,256	211,662	72,888	33,926
BNP FINANCE	€ (FRF)		114,337	54,556	2,539,072	-86,258
NATIOCREDIT	€ (FRF)		149,199	89,931	26,906	26,373
BANQUE DE BRETAGNE	€ (FRF)		49,648	16,769	101,401	12,439
DU BOUZET SA	€ (FRF)		1,807	22,430	97,937	19,200
SOCIETE FRANCAISE AUXILIAIRE “SFA”	€ (FRF)		5,573	637,478	136,800	146,396
NATIOINFORMATIQUE	€ (FRF)		29,285	9,093	20,036	4,507
COMPAGNIE D'INVESTISSEMENT DE PARIS “CIP”	€ (FRF)		375,885	374,951	53,732	126,955
BNP IMMOBILIER	€ (FRF)		81	-1,287	2,174	-5,313
CRISTOLIENNE DE PARTICIPATIONS	€ (FRF)		18,751	-759	0	-1,536
BNP GESTIONS	€ (FRF)		9,921	2,625	221,032	18,293
BNP SUISSE	CHF	4.07990	84,000	187,960	605,149	38,614
UNITED EUROPEAN BANK UEB (SWITZERLAND)	CHF	4.07990	91,500	-40,130	30,000	9,766
BNP (CANADA)	CAD	3.631800	180,637	6,946	180,352	6,089
KASSINE HOLDING (IRELAND) [3]	GBP	9.298400	2,100			
KASSINE HOLDING (IRELAND) [3]	€ (ITL)		7,747			
BNP UK HOLDING LTD (UNITED KINGDOM)	GBP	9.298400	130,000	-15,640	4,429	2,593
BNP IFS SINGAPORE LTD	SGD	3.387300	27,500	11,756	7,406	-6,316
BNP LUXEMBOURG	€ (LUF)		32,226	120,894	284,947	22,074
BNP IRLANDE	€ (IEP)		38,465	3,627	237,937	16,942
BNP MEXICO HOLDING (MEXICO)	USD	5.622100	22,500	57	0	-255
BNP EQUITIES ASIA	USD	5.622100	48,559	0	171	157
BNP ESPAÑA (SPAIN)	€ (ESP)		125,950	-48,475	123,810	-8,311
BNP IFS HONG KONG LTD	HKD	0.725800	100,022	0	75,744	33,676
BANQUE DU CAIRE ET DE PARIS (EGYPT)	EGP	1.628200	50,493	30,547	143,326	1,376
BNP PRIVATE BANK & TRUST Cie BAHAMAS Ltd	USD	5.622100	14,000	0	7,002	2,317
BANCO BNP BRASIL SA	BRL	4.652100	62,450	921	112,662	2,779
BNP SECURITIES INC	USD	5.622100	5	21,477	107,262	854
BNP PRIME PEREGRINE (SOUTH EAST ASIA)	USD	5.622100	25,200	734	4,245	-1,685
BNP LEASING SPA (ITALY)	€ (ITL)		2,582	5,328	36,556	1,498
CIPANGO LTD (UNITED KINGDOM)	JPY	0.049394	1,500,000	-96,513	1,831,860	1,058,138
BNP ANDES (PERU) [4]	USD	5.62210		ND		
BNP CAPITAL MARKET LLC (UNITED STATES) [4]	USD	5.62210		ND		
BNP KB NORGE (NORWAY)	NOK	0.739400	52,772	182,605	13,232	12,427
B) Associated companies (10% - 50% ownership interest)						
SAGEM CADRES	€ (FRF)		9,122	28,409		79
CREDIT LOGEMENT DEVELOPPEMENT	€ (FRF)		312,520	1,211	27,112	3,744
CAISSE REFINANCEMENT HYPOTHECAIRE [3]	€ (FRF)		76,225	2,225	1,223,712	1,073
NATIO-VIE [2]	€ (FRF)		119,766	620,136	2,942,765	72,415
BNP DEVELOPPEMENT	€ (FRF)		64,791	8,936	3,859	8,058
INVERSIONES DRESDNER BNP CHILE (CHILE)	CLP	0.01190	52,091	8,953	547	1,741
BNP DRESDNER BANK RT (HUNGARY)	HUF	0.02567	3,500,000	2,386,356	12,539,415	80,094
BNP DRESDNER BANK CR/AS (CZECH REPUBLIC)	CZK	0.18622	1,000,000	294,598	3,445,473	147,004
BNP AK DRESDNER BANK AS (TURKEY)	TRL	0.000018	5,250,000	3,778,514	4,316,305	4,673,235
BNP DRESDNER BANK (POLSKA) SA	PLN	1.60450	193,400	29,455	154,659	28,901
SOCIETE FINANCIERE POUR LES PAYS D'OUTRE-MER - SFOM (SWITZERLAND)	CHF	4.07990	39,892	10,801	18,801	6,003
BANCWEST CORP (UNITED STATES)	USD	5.62210	59,005	891,050	203,394	12,700
INTERNATIONAL BANK OF PARIS AND SHANGHAI (CHINA, PEOPLE'S REPUBLIC OF)	USD	5.62210	63,641	1,701	10,671	22

(1) Thousands of euros or local currency units.
(2) Figures for Natio-Vie only (figures for Assu-Vie are not available).
(3) 1997 FIGURES.
(4) 1998 INVESTMENTS.

of BNP SA

BNP's ownership interest (%)	Book value of shares held BNP Gross	Net	Including revaluation surplus	Dividends received by BNP during year	Outstanding loans and advances granted by BNP (1)	Guarantees and endorsment given by BNP (1)
99.99%	1,638,242	1,314,970		21,959		
94.00%	16,928	15,911	1,108		14,847	
97.85%	255,062	255,062	22,021	5,066	39,986	
100.00%	267,844	267,844	5,996	62,966	186,091	494
100.00%	119,980	64,100			7,273,250	15,245
66.56%	172,641	172,641		12,512		
100.00%	71,021	71,021		11,481	42,506	14,884
99.53%	24,467	24,467		12,362	12,196	13,272
100.00%	360,000	360,000		159,942	20,242	
65.00%	34,569	27,389				
100.00%	597,982	597,982		90,212		
100.00%	261,602	81,549			47	
100.00%	49,509	16,965				
99.75%	118,445	118,445	13	17,418		
62.34%	74,871	74,871	6,572	6,341	1,480,803	
100.00%	196,035	177,229	13,741		1,009,383	
88.90%	127,568	82,114	190			9,809,547
100.00%	1,985	1,985		312		
100.00%	7,747	7,747		612		
100.00%	153,965	153,965	16,180			
100.00%	13,008	13,008				
54.50%	38,062	38,062	341	10,587	369,502	5,595
100.00%	51,161	51,161		6,070		
100.00%	19,284	12,162				
100.00%	41,619	41,619				
99.11%	149,500	93,691			734	
100.00%	13,547	12,581		25,321		
76.00%	22,337	19,316		677		
100.00%	26,570	25,284		2,633		
99.00%	50,499	50,499				
100.00%	19,503	19,503				
90.00%	19,439	19,439				
100.00%	11,879	10,109				
100.00%	12,345	12,345				
100.00%	22,198	22,198				
99.00%	42,426	42,426				
100.00%	26,028	26,028		610		
30.00%	14,821	14,821				
10.00%	31,252	31,252		356		
16.15%	13,787	13,787		160		
20.00%	71,599	71,599		11,125	71,065	
45.24%	29,585	29,585		709		1,067
50.00%	19,301	19,301				
50.00%	11,426	11,426			70,717	
50.00%	14,085	14,085		999	850,562	
16.00%	9,439	9,439		776		
50.00%	28,857	28,857			62,588	
48.36%	22,603	18,672	4,241			
44.00%	730,952	730,952		23,702		
50.00%	26,666	26,666		138		

Information on other subsidiaries and associated companies

In euros	Book value of shares held by BNP		
	Gross	Net	Including revaluation surplus
I) Subsidiaries not included under (A)			
French companies	187,724	55,703	0
Foreign companies	126,417	49,717	4,361
II) Subsidiaries not included under (B)			
French companies	133,885	96,537	66
Foreign companies	84,019	62,972	2,050

Acquisitions of significant equity interests

Pursuant to Section 356 of the 1966 French Companies Act, stockholders are hereby informed of acquisitions during 1997 of equity interests in companies headquartered in France that have brought BNP's equity interest in those companies above the following thresholds:

Over 5%
Société Financière du Porte-Monnaie Electronique

Over 10%
NA

Over 33.33%
Protection 24

Over 50%
NA

Over 66.66%
NA

Principal acquisitions and disposals of equity interests in France and abroad

In France

Acquisitions

New investments
Société des Bourses Françaises
Société Financière du Porte-Monnaie Electronique
Protection 24

Follow-on investments (acquisitions)
BNP Intercontinentale
Caisse de Refinancement Hypothécaire
Du Bouzet

Disposals

Total
Euris SA
Musée Grévin
Thomson
Suez-Lyonnaise des Eaux
Sopardev
Faure Construction SA

Partial
Soparind
Rhône-Poulenc

Follow-on investments (subscriptions)
BNP Finance
Natio-Vie
BNP Immobilier
SNC Lille Centre d'Affaires
Crédit Logement Developpement

OUTSIDE FRANCE

Acquisitions

New investments
BANCWEST CORP (United States)(1)
BNP Equities Asia (Malaysia)
Cipango Ltd (United Kingdom)
BNP Andes (Peru)
BNP Asset Management Japan
BNP Capital Markets LLC (United States)
BICI Mali
BNP Dresdner Bank Romania
BNP Dresdner Bank Ukrainia
Pasfin Securities SIM Spa (Italy)
Ekachart Securities (Thailand)
BNP Dresdner European Bank (Austria)
SFOM Inter Africa 1 (Switzerland)
CIBC Inc (United States)
European Private Equity Fund (United Kingdom)
Fonds CVC European Equity II (Jersey)
LGV 1988 (United Kingdom)

Follow-on investments (acquisitions)
BNP Suisse (Switzerland)
CLS Service Ltd (United Kingdom)
UEB Holding (Switzerland)

Follow-on investments (subscriptions)
BNP Dresdner Bank ZAO (Russia)
BNP AK Dresdner Bank (Turkey)
BNP Ireland
SIFIDA (Switzerland)
Doughty Hanson (United Kingdom)

Disposals

Total
ACEC Union Minière (Mexico)
Guangzhou Peugeot Automobiles (China)
Brasilinvest Administraçao de Bens (Brazil)

Partial
Kassine Holding (Ireland)

(1) Transfer of BANCWEST CORP. shares to the new BANCWEST CORP. holding company created through the merger between BANCWEST CORP. & FIRST HAWAIIN BANK.

Joint statutory auditors' special report on regulated agreements for the year ended 31 December 1998

In our capacity as Auditors, we hereby report to stockholders on regulated agreements.

Our responsibility does not include identifying any undisclosed agreements. We are required to report to stockholders, based on the information provided to us, about the main features and terms of agreements that have been disclosed to us by the Chairman of the Board of Directors, without commenting on their relevance or substance. Under the provisions of Article 92 of the decree of 23 March 1967, it is the responsibility of stockholders to determine whether these agreements are appropriate and should be approved.

We have not been informed of any new regulated agreements as defined by Article 101 of the law of 24 July 1966 entered into during the year.

In application of the decree of 23 March 1967, we were advised of the following agreement approved in prior years, which remained in force during the year:

Bank deposit guarantees

In accordance with the industry-wide agreement established by the Association Française des Banques in 1980, Banque Nationale de Paris has been guarantying the customer deposits of the following companies of the consolidated Group:

- Banque Nationale de Paris Intercontinentale "BNPI",
- Banque pour l'Expansion Industrielle "Banexi",
- BNP Guyane,
- BNP Finance,
- BNP Lease (formerly Crédit Universel),
- Banque de Bretagne,
- Banque de la Cité,
- BNP Martinique,
- BNP Guadeloupe.

Participating and subordinated loans

Participating and subordinated loans granted in previous years to the following subsidiaries remained outstanding in 1998:

- BNP Suisse,
- UEB Genève,
- BNP IFS Hong Kong,
- BNP UK Holding Ltd. London,
- BANCWEST CORPORATION (formerly Bank of the West),
- BNP Dresdner Bank Rt (Hungary),
- BNP España,
- BNP Dresdner Bank (Poland).

Guarantees given to subsidiaries

Guarantees previously given to the following companies were maintained in 1998:

- Natiobail,
- Natiocrédimurs,
- Natioénergie,
- Natiolocation,
- Natiocrédibail,
- Locafinance (merged during the year into Natiolocation),
- BNP Lease (formerly BNP Bail),
- BNP Plc London,
- BNP IFS Singapore Ltd.
- BNP IFS Hong Kong (Comfort letter)
- BNP Finance HK (Comfort letter).

Guarantees given to BNP Canada and BNP Pacific (Australia) Ltd. concerning the following operations continued to have effect in 1998:

BNP Canada

Issue of, or trading in, promissory notes up to a limit of 1.5 billion Canadian dollars.

Issue of commercial paper notes up to a limit of 750 million US dollars.

Issue of a 40 million Canadian dollar debenture loan.

BNP Pacific (Australia) Ltd.

Issue of a 100 million Australian dollar debenture loan.

Issue of commercial paper notes up to a limit of 1.5 billion Australian dollars.

Guarantees given to directors

Banque Nationale de Paris subscribed insurance contracts with AIG Europe and Chubb to protect the Directors of its subsidiaries from their liability in the normal exercise of their duties. This guaranty amounts to 200 million French francs.

Your Board of Directors agreed to idemnify a director for potential liability that might arise as a result of his former function as a member of the Board of Directors of the Eurotunnel group.

We conducted our review in accordance with the standards of our profession. Those standards require that we carry out the necessary procedures to verify the consistency of the information disclosed to us with the source documents.

Neuilly-sur-Seine and Paris, 23 March 1999

The statutory auditors

BARBIER FRINAULT & AUTRES	BEFEC-PRICE WATERHOUSE	SALUSTRO REYDEL
ARTHUR ANDERSEN	Member of PricewaterhouseCoopers	
Christian Chiarasini Radwan Hoteit	Etienne Boris	Edouard Salustro Michel Savioz

General Information

Legal information concerning Banque Nationale de Paris

Corporate Name and Principal Office

Banque Nationale de Paris
16, boulevard des Italiens
75009 Paris

The Corporation's official documents may be consulted at its principal office.

Trade and Companies Register, Primary Business Sector

BNP is registered under the number B 662 042 449 in the Paris Trade and Companies Register (*Registre du Commerce et des Sociétés*). Its Primary Business Sector Code (*Code APE*) is 651C.

Duration and Fiscal Year

The duration of the Corporation is ninety-nine years from 17 September 1993. Each fiscal year begins on 1 January and ends on 31 December.

Legal Form, Regulatory Framework, and Corporate Purpose

Banque Nationale de Paris (BNP) is a French *société anonyme* registered as a credit institution and commercial bank (*établissement de crédit, agréé en qualité de banque*) under the 1984 Banking Act (*loi n° 84-646 du 24 janvier 1984*). It was founded pursuant to a decree dated 26 May 1966.

BNP is governed by the 1966 French Companies Act (*loi modifiée n° 66-537 du 24 juillet 1966 sur les sociétés commerciales*), its Articles of Incorporation, and specific regulations pertaining to its status as a credit institution. It engages in the full range of investment and related services as construed by with the 1996 Investment Services Act (*loi n° 96-597 du 2 juillet 1996*), banking and related operations, and all equity investments.

In accordance with regulations applicable to banks, BNP may also conduct business in all other areas or carry out operations other than those referred to above, particularly all arbitrage, brokerage, and commission operations.

Generally speaking, BNP may conduct for its own account, for others, or in participation, all financial, commercial, industrial, or agricultural activities, as well as all activities concerning securities and real estate, that may be directly or indirectly related to the activities referred to above or that may facilitate their execution.

Patents, Licenses, Contracts

Banque Nationale de Paris is not dependent upon any patent or license, nor any contract for industrial, commercial, or financial supplies for its conduct of business.

Extraordinary Events, Legal Proceedings Pending

At 31 December 1998, there are no extraordinary events nor legal proceedings pending which would have a material adverse effect on the financial position, results, or operations of Banque Nationale de Paris or the BNP Group.

Combined annual and extraordinary Stockholders' Meeting of 4 May 1999

ANNUAL MEETING

First resolution

Approval of the balance sheet at 31 December 1998 and the statement of income for the year ended at that date

The Annual Meeting, having reviewed the reports of the Board of Directors and the Auditors on the financial statements for the year ended 31 December 1998, approves the balance sheet at 31 December 1998 and the statement of income for the year then ended. The Annual Meeting notes that net income for the year amounted to FRF 7,070,703,732.19 (EUR 1,077,921,835.15).

Second resolution

Appropriation of 1998 net income and dividend

The Annual Meeting resolves, in accordance with the provisions of Section 20 of the bylaws, to transfer from net income for the year, in the amount of FRF 7,070,703,732.19 (EUR 1,077,921,835.15):

- an amount of FRF 12,916,207.50 (EUR 1,969,063.14) to the legal reserve to raise this reserve to 10% of the Company's capital (transfer limited by law to 5% of net income).

Following this transfer, the balance to be appropriated by the Annual Meeting amounts to FRF 7,057,787,524.69 (EUR 1,075,952,772.01). Including unappropriated retained earnings of FRF 1,327,025,135.03 (EUR 202,303,677.68) brought forward from the prior year, the total to be appropriated amounts to FRF 8,384,812,659.72 (EUR 1,278,256,449.69). The Annual Meeting resolves to appropriate this amount as follows:

1. To the special long-term capital gains reserve: FRF 1,139,541,489.30 (EUR 173,721,980.15), thereby raising the amount of this reserve to FRF 5,769,462,642.51 (EUR 879,548,909.84).
2. To other reserves: FRF 2,285,796,849.68 (EUR 348,467,483.33), including:
   - FRF 9,159,406.00 (EUR 1,396,342.44) to the "Investment reserve" corresponding to the reversal of the investment provision recorded in 1992;
   - FRF 2,276,637,443.68 (EUR 347,071,140.89) to "Other reserves".

   Thereby raising reserves to FRF 39,613,000,000.00 (EUR 6,038,962,919.83).
3. To the payment of a total dividend of EUR 327,733,200.00 to BNP SA stockholders, corresponding to a dividend of EUR 1.50 (FRF 9.84) per share with a par value of EUR 4.0. The total payout will therefore amount to EUR 2.25 (FRF 14.76), including the *avoir fiscal* tax credit of EUR 0.75 (FRF 4.92) corresponding to tax already paid to the Treasury. Full powers are given to the Board of Directors to credit dividends payable on shares held in treasury stock to unappropriated retained earnings.

   The 1998 dividend will be payable as from 21 May 1999 in cash.

   As required under Section 47 of the Act of 1 July 1965 (Act 65-566), the Board of Directors has informed the Annual Meeting that a dividend of FRF 3.60 per share with a par value of FRF 25 was paid out of 1995 earnings, representing a total payout of FRF 5.40 including the *avoir fiscal* tax credit of FRF 1.80, that a dividend of FRF 5.40 per share with a par value of FRF 25 was paid out of 1996 earnings, representing a total payout of FRF 8.10 including the *avoir fiscal* tax credit of FRF 2.70 and that a dividend of FRF 7.00 per share with a par value of FRF 25 was paid out of 1997 earnings, representing a total payout of FRF 10.50 including the *avoir fiscal* tax credit of FRF 3.50.
4. To unappropriated retained earnings: FRF 2,809,685,454.02 (EUR 428,333,786.21).

Third resolution

Approval of transactions and agreements governed by Sections 101 to 106 of the Companies Act of 24 July 1966

The Annual Meeting notes the terms of the Auditors' special report on transactions and agreements governed by Sections 101 to 106 of the Companies Act of 24 July 1966 and approves the transactions and agreements referred to therein.

Fourth resolution

Issuance of bonds and equivalents and other debt securities

The Annual Meeting authorizes the Board of Directors to issue, in France and abroad, any and all types of debt securities, including subordinated notes, equity notes and perpetual bonds, denominated in euros, in foreign currency or in any monetary unit determined by reference to a basket of currencies. The securities may be issued on one or several occasions, at the Board's discretion, provided that the aggregate face value of the issues may not exceed EUR 6 billion (FRF 39,357,420,000) or the equivalent in foreign currency or monetary units. The securities may be secured by a mortgage or other collateral or be unsecured. The Board shall have full powers to determine the type of securities to be issued, the timing of the issues, the interest rate and other terms and conditions of issue and repayment.

The Annual Meeting gives full powers to the Board of Directors and, by delegation, to any person duly authorized by the Board, to carry out the above issues, to determine the terms and conditions thereof and the characteristics of the securities. Any bonds or equivalents issued under this authorization may pay interest at a fixed or variable rate and may be redeemable at par or at a fixed or variable premium, in which case the premium will be in addition to the ceiling specified above. Issues in foreign currencies will be converted into euros on the basis of the exchange rate prevailing on the date of issue for the purpose of determining whether they fall within the above ceiling.

In accordance with the law, this authorization is given for a period of five years from the date of this Annual Meeting.

Fifth resolution

Share buy-backs

The Annual Meeting, having reviewed the report of the Board of Directors and the information memorandum approved by the *Commission des Opérations de Bourse*, resolves, in accordance with Section 217-2 of the Companies Act of 24 July 1966, to authorize the Board of Directors to buy back up to 10% of the shares representing the issued capital of the Company.

The shares may be acquired in order to stabilize the share price or for allocation or sale to employees in connection with the employee profit-sharing scheme, employee share-ownership plans or corporate savings plans, or in order to be cancelled at a later date, on a basis to be determined by the stockholders in Extraordinary Meeting, or for the purpose of being sold or exchanged or otherwise transferred, or in connection with the management of the Company's equity holdings.

The shares may be purchased, sold or transferred at any time and by any appropriate method, including by means of options.

The maximum price at which shares may be acquired under this authorization is set at EUR 120 per share and the minimum price at which they may be sold is set at EUR 50 per share.

These maximum and minimum prices may be adjusted following any transactions that have the effect of altering the Company's issued capital.

The Annual Meeting gives full powers to the Board of Directors and, by delegation, to any person duly authorized by the Board, to place any and all buy and sell orders, enter into any and all agreements, carry out any and all formalities and take any and all other action required to use this authorization.

This authorization is given for a period of eighteen months.

The Board of Directors will be required to report to stockholders at each Annual Meeting on the share buy backs, transfers, sales and cancellations carried out under this authorization.

Sixth resolution

Ratification of the appointment of a director and re-election

The Annual Meeting:

- ratifies the appointment as director of Mr. Bernhard Walter at the Board Meeting of 26 February 1999 to replace Mr. Jürgen Sarrazin, for the remainder of Mr. Sarrazin's term expiring at the close of the Annual Meeting to be called to approve the 1998 financial statements.

- notes that Mr. Bernhard Walter is due to retire at this Meeting and resolves to re-elect him for a six-year term expiring at the close of the Annual Meeting to be called in 2005 to approve the 2004 financial statements.

Seventh resolution

Re-election of a director

The Annual Meeting re-elects Mr. Jacques Friedmann as director for a six-year term expiring at the close of the Annual Meeting to be called in 2005 to approve the 2004 financial statements.

Eighth resolution

Re-election of a director

The Annual Meeting re-elects Mr. Jacques Henri Wahl as director for a six-year term expiring at the close of the Annual Meeting to be called in 2005 to approve the 2004 financial statements.

Ninth resolution

Re-election of a director

The Annual Meeting re-elects Mr. René Thomas as director for a six-year term expiring at the close of the Annual Meeting to be called in 2005 to approve the 2004 financial statements.

Tenth resolution

Election of a director

The Annual Meeting elects Mr. Jean-Marie Messier as director for a six-year term expiring at the close of the Annual Meeting to be called in 2005 to approve the 2004 financial statements. Mr. Jean-Marie Messier is due to replace Mr. Jean Gandois whose term expires at the close of the present Annual Meeting.

Eleventh resolution

Election of a director

The Annual Meeting elects Mr. François Grappotte as director for a six-year term expiring at the close of the Annual Meeting to be called in 2005 to approve the 2004 financial statements.

Twelfth resolution

Directors' fees

The Annual Meeting resolves to set at EUR 400,000 (FRF 2,623,828) the total annual fees payable to the Board of Directors. This amount shall apply until a further resolution is adopted on this matter by a subsequent Annual Meeting.

EXTRAORDINARY MEETING

Thirteenth resolution

Issuance of shares and share equivalents with pre-emptive subscription rights

The Annual Meeting, having reviewed the report of the Board of Directors and the Auditors' special report, resolves, in accordance with the provisions of paragraph 3 of Section 180-III of the Companies Act of 24 July 1966 (Act 66-537):

1. To give the necessary powers to the Board of Directors to issue shares and share equivalents in France and abroad on one or several occasions. The amounts and timing of such issues shall be decided by the Board at its discretion, subject to the limits specified herein.

2. That the maximum aggregate par value of the shares issued under this authorization, either directly or on conversion, redemption, exchange or exercise of share equivalents, may not exceed EUR 500 million (FRF 3,279,785,000). This ceiling shall not include the par value of any shares to be issued pursuant to the law to protect the rights of existing holders of share equivalents.

3. That the maximum aggregate face value of debt securities issued under this authorization may not exceed EUR 7.5 billion (FRF 49,196,775,000).

4. That stockholders shall have a pre-emptive right to subscribe for the shares or share equivalents, as provided for by law, pro rata to their existing holdings. The Board of Directors may also give stockholders a pre-emptive right to subscribe for any shares or share equivalents not

taken up by other stockholders. There shall be no limit on the number of shares or share equivalents that may be subscribed by stockholders exercising their secondary pre-emptive right, unless the issue is oversubscribed in which case the shares or share equivalents will be allotted pro rata to each stockholder's subscription rights.

If the total issue is not taken up by stockholders exercising their pre-emptive rights, as provided for above, the Board may:

- limit the amount of the issue to the subscriptions received, provided that at least three-quarters of the issue has been subscribed, and/or

- freely allocate all or some of the unsubscribed shares or share equivalents among stockholders, and/or

- offer all or some of the unsubscribed shares or share equivalents for subscription by the public.

5. That, in accordance with Section 339-5 of the Companies Act of 24 July 1966, stock warrants may be offered for subscription as provided for above or allocated to existing stockholders without consideration.

6. Having noted that the above authorization implicitly requires the waiver, by stockholders, of their pre-emptive right to subscribe for shares to be issued on conversion, redemption, exchange or exercise of any share equivalents issued under this authorization.

   To waive stockholders' pre-emptive right to subscribe for shares to be issued on conversion, redemption, exchange or exercise of said share equivalents.

7. That the amount received by the Company in respect of each of the shares issued under this authorization, either directly or on conversion, redemption, exchange or exercise of share equivalents, may not represent less than their par value.

8. To give full powers to the Board of Directors and, by delegation, to the Chairman, to use the above authorization, subject to compliance with the law, and to determine the timing and conditions of the issues, the form and characteristics of the securities to be issued, the issue price and other conditions, the amount of each issue, the date from which the securities will carry dividend or interest rights, which may be set retroactively, the method by which the shares or share equivalents are to be paid up and, if appropriate, the conditions under which they may be bought back on the stock market. The Board of Directors may also decide to suspend the right to exercise the rights attached to the share equivalents, for a period not to exceed three months. The Board shall also have full powers to determine the method to be used to ensure that the rights of existing holders of shares and share equivalents are protected, in accordance with the applicable laws and regulations. The Board of Directors or the Chairman may charge the securities issuance costs and any other amounts against the related premium and take all necessary or useful measures, enter into any and all underwriting agreements, place on record any capital increases resulting from primary or secondary issues of shares carried out under this authorization and amend the bylaws accordingly.

   In the case of issuance of debt securities, the Board of Directors and, by delegation, the Chairman, will have full powers to determine the securities' ranking for repayment purposes, to fix the interest rate, the life of the securities, the redemption price–which may be fixed or variable and may or may not include a premium–the terms and conditions of repayment, depending on conditions in the financial markets, and the conditions of conversion, redemption, exchange or exercise of the securities for shares.

9. That this authorization cancels and replaces all earlier authorizations to issue shares and share equivalents with pre-emptive subscription rights.

This authorization is given for the period provided for in the third paragraph of Section 180-III of the Companies Act of 24 July 1966 (Act 66-537).

Fourteenth resolution

Issuance of shares and share equivalents without pre-emptive subscription rights

The Annual Meeting, having reviewed the report of the Board of Directors and the Auditors' special report, resolves, in accordance with the provisions of paragraph 3 of Section 180-III and Section 193-1 of the Companies Act of 24 July 1966 (Act 66-537):

1. To give the necessary powers to the Board of Directors to issue shares and share equivalents, including shares and

share equivalents issued in application of Sections 194-1 and 339-3 of the Companies Act, in France and abroad, on one or several occasions. The shares and share equivalents may be issued in payment for securities of one or several other companies quoted on one of the regulated markets referred to in Section 193-1 of the Companies Act which are tendered under a public exchange offer made by the Company.

2. That the maximum aggregate par value of the shares issued under this authorization, either directly or on conversion, redemption, exchange or exercise of share equivalents, may not exceed EUR 2.4 billion (FRF 15,742,968,000). This ceiling shall not include the par value of any shares to be issued pursuant to the law to protect the rights of existing holders of share equivalents.

3. That:
   - if the public offers made by the Company for Société Générale and Paribas are not taken up by the two banks' stockholders, the ceiling provided for in paragraph 2 above shall be reduced to EUR 600 million;
   - if one or other of the above public offers is not taken up by the stockholders of the bank concerned, the ceiling provided for in paragraph 2 above shall be reduced to EUR 1,500 million.

4. That the maximum aggregate face value of debt securities issued under this authorization may not exceed EUR 7.5 billion (FRF 49,196,775,000) or the equivalent in the case of any issues denominated in foreign currency or a monetary unit determined by reference to a basket of currencies.

5. To waive stockholders' pre-emptive right to subscribe for the shares or share equivalents to be issued under this authorization. The Board of Directors may, however, offer stockholders a priority right to subscribe for all or part of the issue, within a period and on terms to be decided by the Board. Said priority right shall be non-transferable but stockholders may, at the Board's discretion, be offered a secondary priority right to subscribe for any shares or share equivalents not taken up by other stockholders.

6. That if the entire issue is not taken up by stockholders and the public, the Board of Directors may limit the amount of the issue to the subscriptions received, provided that at least three-quarters of the issue has been subscribed.

7. Having noted that the above authorization implicitly requires the waiver, by stockholders, of their pre-emptive right to subscribe for shares to be issued on conversion, redemption, exchange or exercise of any share equivalents issued under this authorization.

   To waive stockholders' pre-emptive right to subscribe for shares to be issued on conversion, redemption, exchange or exercise of said share equivalents.

8. That the amount received by the Company in respect of each of the shares issued under this authorization, either directly or on conversion, redemption, exchange or exercise of share equivalents, may not represent less than the minimum amount provided for by law. In the case of shares issued on exercise of stock warrants issued on a stand-alone basis, the amount received by the Company shall be considered to include the issue price of the warrants.

9. To give full powers to the Board of Directors and, by delegation, to the Chairman, to use the above authorization, subject to compliance with the law, and to determine the timing and conditions of the issues, the form and characteristics of the securities to be issued, the issue price and other conditions, the amount of each issue, the date from which the securities will carry dividend or interest rights, which may be set retroactively, the method by which the shares or share equivalents are to be paid up and, if appropriate, the conditions under which they may be bought back on the stock market. The Board of Directors may also decide to suspend the right to exercise the rights attached to the share equivalents, for a period not to exceed three months. The Board shall also have full powers to determine the method to be used to ensure that the rights of existing holders of shares and share equivalents are protected, in accordance with the applicable laws and regulations. The Board of Directors or the Chairman may charge the securities' issuance costs and any other amounts against the related premium and take all necessary or useful measures, enter into any and all underwriting agreements, place on record any capital increases resulting from primary or secondary issues of shares carried out under this authorization and amend the bylaws accordingly.

In the case of issuance of shares or share equivalents in payment for securities tendered under a public exchange offer made by the Company, the Board of Directors shall have full powers to determine the exchange parity and any balance to be paid in cash; to place on record the number of securities tendered for exchange and the number of shares or share equivalents to be issued in payment therefore; to determine the dates and conditions of issue, including the price and the date from which new shares or share equivalents will carry dividend or interest rights; to credit the difference between the issue price of the new shares and their par value to additional paid-in capital, to which all stockholders shall have equivalent rights and, if appropriate, to charge all costs and expenses incurred in connection with the authorized issue against additional paid-in capital.

In the case of issuance of debt securities, the Board of Directors and, by delegation, the Chairman, will have full powers to determine the securities' ranking for repayment purposes, to fix the interest rate, the life of the securities, the redemption price–which may be fixed or variable and may or may not include a premium–the terms and conditions of repayment, depending on conditions in the financial markets, and the conditions of conversion, redemption, exchange or exercise of the securities for shares.

10. That this authorization cancels and replaces all earlier authorizations to issue shares and share equivalents without pre-emptive subscription rights but with priority subscription rights, including all authorizations to issue shares and share equivalents in payment for securities tendered under a public offer made by the Company.

This authorization is given for the period provided for in the third paragraph of Section 180-III of the Companies Act of 24 July 1966 (Act 66-537).

Fifteenth resolution

Issuance of shares to be paid up by capitalizing earnings, retained earnings or additional paid-in capital

The Extraordinary Meeting, having reviewed the report of the Board of Directors, gives the Board of Directors full powers to increase the Company's capital on one or several occasions by an aggregate amount of EUR 600 million (FRF 3,935,742,000) by issuing bonus shares and/or raising the par value of existing shares, to be paid up by capitalizing earnings, retained earnings or additional paid-in capital.

Any rights to fractions of shares shall be non-transferable and the corresponding shares will be sold and the proceeds allocated among the holders of rights to fractions of shares within thirty days of the date on which the whole number of shares to which they are entitled are recorded in their share account.

The Extraordinary Meeting gives full powers to the Board of Directors and, by delegation, to the Chairman, subject to compliance with the law, to determine the dates and conditions of issuance of bonus shares, as well as the amounts of such issues, and to take all necessary measures to complete the issues, to carry out any and all formalities to affect the related capital increase or increases and to amend the bylaws accordingly.

This authorization is given for the period provided for in the third paragraph of Section 180-III of the Companies Act of 24 July 1966 (Act 66-537).

Sixteenth resolution

Issuance of shares while the Company is the target of a takeover bid

The Extraordinary Meeting, having reviewed the report of the Board of Directors, resolves, in accordance with the provisions of Section 180-IV of the Companies Act of 24 July 1966 (Act 66-537), that the authorizations to issue shares and share equivalents given to the Board of Directors in the thirteenth, fourteenth and fifteenth resolutions of this Meeting may be used while a public tender or exchange offer for the Company's shares is in progress.

This authorization is given for a period of one year expiring at the Annual Meeting to be called to approve the 1999 financial statements.

Seventeenth resolution

Blanket ceiling on financial authorizations

The Extraordinary Meeting, having reviewed the report of the Board of Directors, resolves, by virtue of the adoption of the thirteenth, fourteenth and fifteenth resolutions, to:

- set at EUR 10 billion (FRF 65,595,700,000) or the equivalent in foreign currency or monetary units determined by reference to a basket of currencies, the maximum aggregate face value of debt securities that may be issued under the authorizations given in the above resolutions;

- set at EUR 2.4 billion (FRF 15,742,968,000) the maximum aggregate par value of shares that may be issued under the authorizations given in the above resolutions, either directly or on conversion, redemption, exchange or exercise of share equivalents, provided that said ceiling does not include the par value of any shares to be issued to protect the rights of existing holders of share equivalents, as required by law.

Eighteenth resolution

Cancellation of shares and capital reduction

The Extraordinary Meeting, having reviewed the report of the Board of Directors and the Auditors' special report, authorizes the Board of Directors to cancel shares acquired under the authorization given in the fifth resolution of this Meeting–provided that the number of shares canceled during any period of twenty-four months does not exceed 10% of the Company's issued capital–and to reduce the capital accordingly and to debit any difference between the price paid for the cancelled shares and their par value against additional paid-in capital or revenue reserves.

The Extraordinary Meeting gives full powers to the Board of Directors and, by delegation, to the Chairman, to amend the bylaws to reflect the new capital, to carry out any and all formalities and to take all other action required in connection with the use of this authorization.

Nineteenth resolution

Changes in disclosure thresholds

The Extraordinary Meeting, having reviewed the report of the Board of Directors, resolves to amend the seventh paragraph of Article 5 of the bylaws concerning disclosure thresholds, as follows:

"In the case of failure to disclose any interest in excess of the legal disclosure thresholds or the disclosure thresholds specified in the bylaws, the shares corresponding to the undisclosed interest will be stripped of voting rights in application of Section 356-4 of the Companies Act of 24 July 1966, at the request of one or several stockholders together holding at least 2% of the Company's capital or voting rights."

Twentieth resolution

Power to carry out formalities

The Stockholders' Meeting gives full powers to the bearer of an original, copy or extract of the minutes of this Meeting to carry out all legal or administrative formalities and to make all filings and publish all notices required by the applicable laws.

Notes

Notes

The English-language version of this annual report is a free translation of the original French text. It is not a binding document. In the event of conflict in interpretation, reference should be made to the French version, which is the authentic text. The auditors' reports apply to the French version of the financial review and the financial statements.

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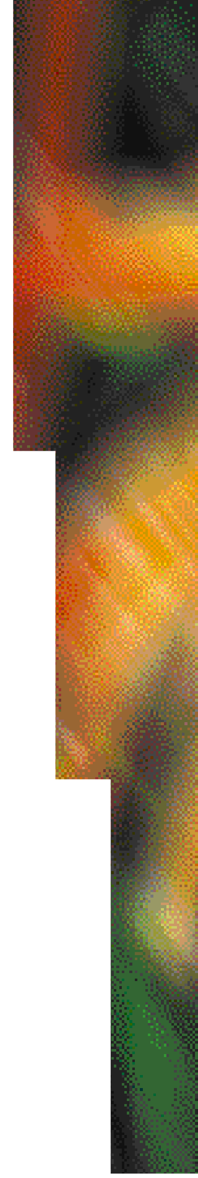

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