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## Summary:
# BNP Paribas

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**Summary:**

# BNP Paribas

**Credit Rating:** AA+/Stable/A-1+

## Rationale

The ratings on French banking group BNP Paribas reflect its strong and highly diversified business profile; sound financial position, characterized by contained risk, satisfactory profitability, adequate capitalization, and high financial flexibility; good and stable management; and moderate risk appetite.

BNP Paribas' diversification is among the strongest in the world. The group's extremely diverse core businesses benefit from strong market positions and robust risk management, giving rise to resilient financial performance. A stable management team has efficiently executed the group's expansion strategy in recent years, making first a series of midsize acquisitions with limited integration risks (primarily in the U.S. and Europe) followed by the acquisition of Italy-based Banca Nazionale del Lavoro SpA (BNL) in the second quarter of 2006. Standard & Poor's Ratings Services acknowledges the sound strategic rationale for this opportunistic acquisition--notably in terms of diversification and profitability. BNL's integration into the group is well under way, even ahead of schedule in some areas, resulting in significant cost synergies.

Despite the current difficult market environment, we view the group's operating profitability as robust and sustainable. BNP Paribas' diversified earning streams, sound performance in all business lines--including corporate and investment banking (CIB)--and solid track record in controlling costs will help avoid any significant deterioration in earnings in the next two to three years. After very good results in 2007, BNP Paribas' results declined in the first quarter of 2008, but remained satisfactory, despite difficult capital market conditions. The group's limited exposure to areas most at risk, as well as its excellent business diversification, should allow it to keep outperforming most of its peers and post only a moderate decline in profitability in 2008. Moreover, strong and proactive market risk management will allow the bank to weather unfavorable conditions should the environment deteriorate further.

The bank's consolidated risk profile is reasonably contained, as a result of its diversified credit portfolio and moderate risk appetite. Risk management is strong and well embedded in the corporate culture. In a deteriorating global economic environment, we expect BNP Paribas' credit risk cost to increase further from moderate levels in 2007. The cost of risk is also likely to increase in the international retail services business line due to increasing business in emerging countries. Credit risk costs should, however, remain at very comfortable levels, allowing them to be easily absorbed by operating margins.

Counterparty risk has risen recently and has taken its toll on profitability in 2007 and the first quarter of 2008, especially because of the bank's exposure to monoline insurers. Although monoline exposure could further affect profitability, we believe that BNP Paribas' sound risk management practices and moderate overall exposure lessen the risks.

The group's extensive market activities and global position in equity and fund derivatives contribute to its franchise but result in sizable portfolios of illiquid and complex trading instruments. Standard & Poor's believes that the group is well equipped to deal with these potential market and operational risks.

## Outlook

The stable outlook reflects our expectation that the bank will maintain its robust financial profile and preserve its credit-risk-averse culture. Although we expect a further rise in loan loss provisions in 2008 compared with 2007, we think that the group will continue to weather the current difficult environment better than its peers, especially in CIB. The stable outlook also factors in our belief that the group's expansion policy will not significantly damage its risk profile or meaningfully weaken its capital position.

The ratings or outlook could come under pressure if the above conditions are not met or if the bank's leverage policy significantly changes as a consequence of the move to Basel II. In the current market environment and given BNP Paribas' large and complex market operations, a positive outlook appears unlikely.

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