

Background information on suspension and reopening of ABS funds in August

Thanks to its cautious credit policy, BNP Paribas is less affected by the sub-prime crisis than most of the international banks.

First of all, BNP Paribas has no significant direct exposure on sub-prime risk neither through CIB (Corporate & Investment Banking) portfolio nor through our American subsidiary Bank of the West.

Moreover, the funds managed by BNP Paribas are not invested in US sub-prime, except for three of them : BNP Paribas ABS Eonia, BNP Paribas ABS Euribor, both of which are French-domiciled, and Parvest Dynamic ABS, a Luxembourg-domiciled fund.

These three funds are explicitly invested in ABS (Asset-Backed Securities) in which by definition they must invest at least 80% of their assets: securitised assets like ABS are common and widely used in managing fixed income portfolios. Exposure to US sub-prime ABS represented 35% of their assets at the end of July 2007. All the sub-primes in the portfolios were rated AAA or AA and they have not suffered any default nor seen their rating downgraded.

On 27 July 2007 the fact that there was liquidity and trades in the market enabled BNP Paribas Investment Partners to communicate on the funds' liquidity and on their exposure to the sub-prime market (35% of assets totalling €2 billion), underlining the quality of the securities held.

When its earnings were announced on 1 August 2007, the Group indicated that its direct exposure to sub-primes was extremely limited, noting that the sub-prime assets of the three funds in question represented less than a thousandth of BNP Paribas Investment Partners' assets under management.

Since 6 August, trading on US sub-primes suddenly dried up regardless of the quality of assets. This phenomenon quickly spread to other American asset-backed securities. With no prices and no trading, there was no market to serve as a reference and thus it was impossible to value the three funds. Moreover, disposing of securities at knockdown prices to attract buyers in order to satisfy any sales would not have protected investors and selling other assets would not have respected the principle of investor equality.

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Given these exceptional circumstances, on 8 August it was decided to temporarily suspend the valuation of the funds, in coordination with the French and Luxembourg regulators to protect the interest and equal treatment of investors. This decision was immediately communicated to investors.

Coming right after the tensions on the Asian interbank markets, in a context of extreme market nervousness, this announcement received an excessive amount of media attention, with causes and effects becoming largely confused.

The funds were reopened very quickly, on 28 August for the French funds and 30 August for the Luxembourg fund, once a new method of valuing these funds had been developed taking into consideration illiquidity factors. Moreover, the resumption of subscriptions and redemptions was facilitated by renewed trading activity on the markets for the best rated securities.

The three funds reopened with only limited losses: BNP Paribas ABS Euribor slipped 0.97% compared to its 7 August value, BNP Paribas ABS Eonia 1.78% and Parvest Dynamic ABS 1.21%. This confirms ex post the wisdom of BNP Paribas's decision.

Moreover, compared to the other firms which had to take exceptional measures, the three BNP Paribas funds are the first and only ones to have returned to normal operations. The quality of securities in the portfolios (AAA and AA) must once again be emphasised, with no defaults or downgrades affecting the issuers selected.

During this unprecedented crisis, BNP Paribas' financial communication was transparent and conformed with investors' interest. The rapid reopening of the funds, as had been previously announced, confirms how seriously the bank is committed to serving its clients. The slight drop in value of the three funds since 7 August moreover confirmed that the decision to suspend valuations on a temporary basis played its expected protective role for investors.