



## PILLAR III DISCLOSURE

### BNP PARIBAS INVESTMENT COMPANY KSA

(BNP PARIBAS GROUP)

REFERENCE PERIOD (14.11.2017)

<b>SUPERVISOR</b>	: Capital Market Authority (CMA) of Saudi Arabia
<b>REFERENCE PERIOD</b>	: 14 November 2017
<b>LAST UPDATE</b>	: 30 January 2018
<b>APPROVAL DATE</b>	: 08 February 2018
<b>STATUS</b>	: Final
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<b>APPROVED BY</b>	: Board of Directors, BNP Paribas Investment Company KSA



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## **1. PILLAR III**

The purpose of this Pillar III disclosure report is to comply with the regulations of Capital Market Authority (CMA) of Saudi Arabia issued under Article 68 of the Prudential Rules.

### **(a) Scope of Application:**

This Pillar III disclosure report is prepared for and issued by BNP Paribas Investment Company KSA which is licensed by the CMA under license number 13173-37 to conduct dealing, managing, custody, arranging and advising activities in Saudi Arabia.

### **(b) Shareholding Structure:**

BNP Paribas Investment Company KSA is a subsidiary of BNP Paribas SA and part of the BNP Paribas Group. The authorized and paid up share capital of BNP Paribas Investment Company KSA as at 14 November 2017 is SAR 87.5 million.

The Company was converted from a limited liability company to a closed joint stock company on November 15, 2017 which is the date of new commercial registration. As per revised articles of association of the Company, the Company's first fiscal period under legal statutes of a closed joint stock company will be from the date of commercial registration as Joint Stock Company i.e. November 15, 2017 and shall end on December 31 of the following year i.e. December 31, 2018. The Company's statutory financial statements for the subsequent years will be prepared from January 1 to December 31 of each Gregorian year. This year statutory financial statements are for the period from January 1, 2017, to November 14, 2017, and reflect the Company's last fiscal period as a limited liability company.

There are no current or foreseen, material or legal impediments to the prompt transfer of capital or repayment of liabilities by BNP Paribas Investment Company KSA.



## 2. CAPITAL STRUCTURE

### (a) Tier-1 Capital:

Tier-1 Capital comprises of

- Paid-up capital;
- Audited retained earnings;
- Reserves (other than revaluation reserves);

At 14 November 2017, BNP Paribas Investment Company KSA's Tier-1 Capital is as follows:

In SAR 000	14 Nov 2017	31 Dec 2016
<b>Paid up Capital</b>	<b>87,500</b>	<b>87,500</b>
Audited Retained Earnings	(17,422)	(10,031)
Reserves	101	101
Tier-1 adjustments	(23)	(28)
<b>Total Capital Base</b>	<b>70,156</b>	<b>77,542</b>

(For details, please refer to Appendix I)

### (b) Tier-2 Capital and Total Capital Base:

BNP Paribas Investment Company KSA did not have any exposures which are in the nature of Tier-2 capital.

Therefore, at 14 November 2017 total capital base was as follows:

In SAR 000	14 Nov 2017	31 Dec 2016
<b>Tier-1 Capital</b>	<b>70,156</b>	<b>77,542</b>
<b>Tier-2 Capital</b>	<b>-</b>	<b>-</b>
<b>Total Capital Base</b>	<b>70,156</b>	<b>77,542</b>

(For details, please refer to Appendix I)

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### 3. CAPITAL ADEQUACY

#### (a) Minimum Capital Requirement

BNP Paribas Investment Company KSA fully meets the minimum capital requirement as defined by the CMA. The Company is also fully compliant of the strategies and methods for valuing and maintaining capital in accordance with Prudential Rules.

A summary of minimum capital requirement of BNP Paribas Investment Company KSA at 14 November 2017 is as follows:

In SAR 000	14 Nov 2017	31 Dec 2016
Credit Risk	4,780	3,884
Market Risk	-	-
Operational Risk	2,462	3,099
<b>Total Minimum Capital Requirement</b>	<b>7,242</b>	<b>6,983</b>

#### (b) Capital requirement for Credit risk and Operational Risk

At 14 November 2017, the minimum capital requirement for credit risk and operational risk for BNP Paribas Investment Company KSA is as follows:

In SAR 000	14 November 2017		31 Dec 2016	
	RWAs	Capital Requirements	RWAs	Capital Requirements
Credit risk	34,141	4,780	27,739	3,884
Market Risk				
Operational Risk	9,846	2,462	12,397	3,099
<b>Total Minimum Capital Requirement</b>		<b>7,242</b>		<b>6,983</b>

(For details, please refer to Appendix II)

**(c) Capital Ratio:**

At 14 November 2017, total capital ratio is:

In SAR 000	14 November 2017	31 Dec 2016
Total Capital Base	70,156	77,542
Total Minimum Capital Requirement	7,242	6,983
Surplus/(Deficit) in Capital	62,914	70,559
Total Capital Ratio	9.69	11.10

(For details, please refer to Appendix II)

**(d) Capital monitoring at BNP Paribas Investment Company KSA:**

BNP Paribas Investment Company KSA is in charge of assessing and following its capital needs at local level. In particular, the outcomes of ICAAP and of BNP Paribas Investment Company KSA's capital monitoring process are important elements to support the discussions with the regulators, the shareholders and with head office with respect to their capital adjustments. The following aspects which have a direct impact on BNP Paribas Investment Company KSA available capital resources are decided through a dialogue with head office teams, taking into account the situation of the entity and the financial monitoring of the Group: dividend distribution, share capital increase, issuance of AT1 and Tier 2 capital instruments, RWA adjustments.

At BNP Paribas Investment Company KSA, capital monitoring aims at ensuring and reviewing regularly that BNP Paribas Investment Company KSA holds sufficient capital with respect to regulatory capital ratios requirements, and other regulatory measures required, and that BNP Paribas Investment Company KSA holds sufficient capital to meet its internal capital requirements, taking into account its strategic objectives. This internal capital monitoring process is performed on an annual basis as part of the ICAAP whilst regulatory capital adequacy monitoring is performed on a monthly basis and is also monitored on a forward-looking basis.

**4. RISK MANAGEMENT**

Details about strategies, processes and organization of risk management within BNP Paribas group as well as its capital adequacy can be found in its Pillar III disclosure, as part of its Registration Document, at: <https://invest.bnpparibas.com/en/registration-documents-annual-financial-reports>





## **4.1 Strategies and processes for risk management**

Risk management is central to the business of banking. At BNP Paribas, operating methods and procedures throughout the organization are geared towards effectively addressing this matter. The entire process is supervised by a dedicated function, RISK, which is responsible for measuring and controlling risks at Group level. RISK is independent from the operating divisions, business lines and territories and reports directly to Group Executive Management. The Compliance Function monitors all compliance risks, according to the same principle of independence and also reports directly to Group Executive Management.

Responsibility for managing risks primarily lies with the divisions and business lines that propose the underlying transactions. RISK continuously performs a second-line control over the Group's credit, market, banking book interest rate, liquidity, operational and insurance risks. As part of this role, it must ascertain the soundness and sustainability of the business developments and their overall alignment with the risk appetite target set by the Group.

RISK's remit includes formulating recommendations on risk policies, analyzing the risk portfolio on a forward-looking basis and trading limits, guaranteeing the quality and effectiveness of monitoring procedures and defining or validating risk measurement methods. RISK is also responsible for ensuring that all the risk implications of new businesses or products have been adequately assessed.

Compliance has identical responsibilities as regards compliance and reputation risks. It plays an important oversight and reporting role in the process of validating new products, new business activities and exceptional transactions.

## **4.2 ORGANISATION OF THE RISK AND COMPLIANCE FUNCTIONS**

The RISK organisation fully complies with the principles of independence, vertical integration and decentralisation laid down by the BNP Paribas Group's Management for its control functions.

### **Role of the Chief Risk Officer:**

The Group Chief Risk Officer directly reports to the Group Chief Executive Officer and sits on the Executive Committee of BNP Paribas. He has line authority over all RISK Function employees. He can veto the risk-related decisions and has no connection, in terms of authority, with the Heads of core businesses, business lines and territories

### **Role of the Chief Compliance Officer:**

The Group Chief Compliance Officer directly reports to the Group Chief Executive Officer and sits on the Executive Committee of BNP Paribas.

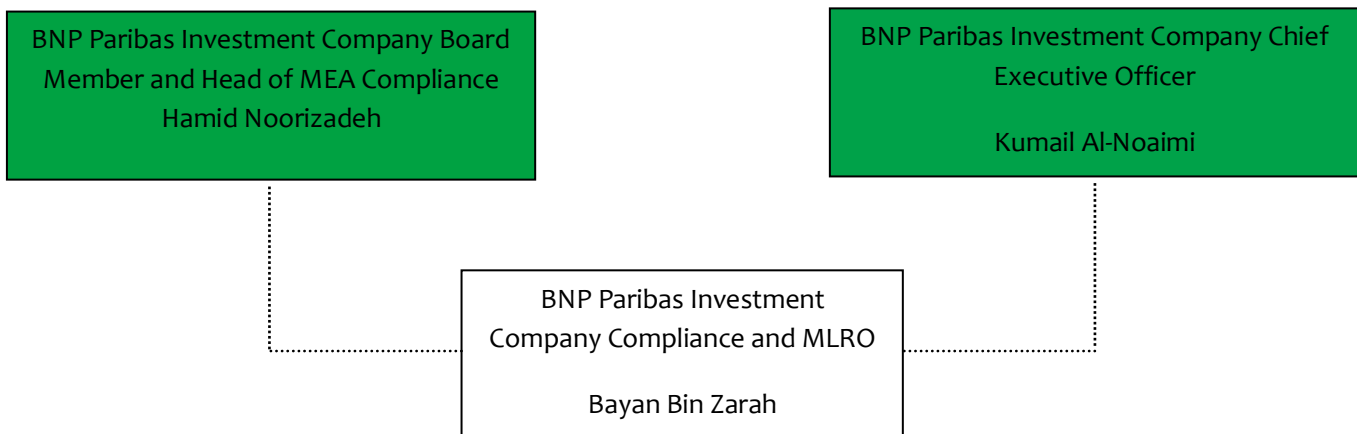
He has direct access, if necessary, to the Board of Directors and its Internal Control, Risk Management and Compliance Committee.

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He has no operational activity outside of compliance and reputation risk and no commercial activity, which guarantees his independence of action.

The Compliance Function's mission is to issue opinions and decisions, and provide oversight and second line controls, in order to give reasonable assurance that the Group's compliance oversight procedures for its transactions are effective and consistent, and that its reputation has been protected.

The compliance team is an independent function and has two reporting lines; one directly towards the Chief Executive Officer and one towards the Board of Directors.



### 4.3 Credit risk

Credit risk is defined as the potential that a bank borrower or counterparty will fail to meet its obligations in accordance with agreed terms. Evaluating accurately the probability of default and the expected recovery on the loan or receivable in the event of default are key components of credit quality assessment

#### (a) Risk strategy & measurement

BNP Paribas Investment Company KSA computes its credit risk based on Pillar I requirements as defined by CMA in the prudential rules.

At 14 Nov 2017, the RWA for credit risk was SAR 34,141k and capital requirement was SAR 4,780k.





In SAR 000	14 Nov 2017		31 Dec 2016	
	RWAs	Capital Requirements	RWAs	Capital Requirements
Government, central banks	924	129	-	-
Authorised Persons and Banks	14,289	2,000	18,101	2,534
Corporates	14,230	1,993	3,499	490
Other assets	4,698	658	5,818	815
Off balance sheet commitments	-	-	321	45
<b>Total Credit Risk</b>	<b>34,141</b>	<b>4,780</b>	<b>27,739</b>	<b>3,884</b>

For details, please refer to Appendix III

In line with the Prudential Rules, risk weight is assigned on the basis of credit rating.

#### Exposure to Central bank and Government entity:

As defined in Annex 3 Section 3 of Prudential Rules, a risk-weight of 150% is used.

#### Exposure to Authorized Persons and Banks:

For exposure to local bank a credit rating of 1 corresponding to a risk weight of 20% is used.

From a Group perspective, exposures arising from transactions within BNP Paribas Group do not generate any credit risk. However, in line with prudential rules, a credit rating of 2 corresponding to a risk weight of 50% is used. The global ratings assigned to BNP Paribas bank are as follows and can also be found at <https://invest.bnpparibas.com/en/debt-ratings>

Standard & Poor's	A
Fitch	A+
Moody's	Aa3

#### Exposure to Corporates:

Such exposures are assigned an unrated credit rating and a risk weight of 714% as per the mapping defined by prudential rules is applied.

#### Other Items:

- Cash: As per annex 3 section 27, cash at hand is assigned a risk weight of 0%.
- Fixed Assets: As per annex 3 section 24, fixed tangible assets are assigned a risk weight of 300%.
- Prepaid expenses: As per annex 3 section 25, prepaid expenses are assigned a risk weight of 300%.
- Other current assets: As per annex 3 section 29, other current assets are assigned a risk weight of 714%.

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#### 4.4 Credit risk Mitigation Exposure

During the year ended 14 November 2017, BNP Paribas Investment Company KSA did not employ any credit risk mitigation techniques to cover its credit risk exposure.

#### 4.5 Counterparty Credit Risk (CCR)

Counterparty risk is the translation of the credit risk embedded in the market, investment and/or payment transactions. Those transactions include bilateral contracts (i.e. Over-The-Counter- OTC) which potentially expose the Bank to the risk of default of the counterparty faced.

Counterparty risk identification is governed in BNP Paribas, including BNP Paribas Investment Company KSA, according to the principles and practices that underlie classical credit risk identification. In particular, it shall be noted that concentration risks are jointly analysed for credit and counterparty risks when monitoring countries, industries or single names.

As at 14 November 2017, BNP Paribas Investment Company KSA is not involved in any activity from which Counterparty credit risk may arise. This type of risk is thus not material for BNP Paribas Investment Company KSA

#### 4.6 Market Risk

Market risk is the risk of incurring a loss of value due to adverse trends in market prices or parameters, whether directly observable or not.

Observable market parameters include, but are not limited to exchange rates, prices of securities and commodities (whether listed or obtained by reference to a similar asset), prices of derivatives, and other parameters that can be directly inferred from them, such as interest rates, credit spreads, volatilities and implied correlations or other similar parameters.

Non-observable factors are those based on working assumptions such as parameters contained in models or based on statistical or economic analyses, non-ascertainable in the market.

As at 14 November 2017, BNP Paribas Investment Company KSA is not involved in any activity from which Market risk may arise. This type of risk is thus not material for BNP Paribas Investment Company KSA

In SAR 000	14 Nov 2017	31 Dec 2016
Market Risk	-	-
Total Market Risk	-	-

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## 4.7 Operational risk

Operational risk is defined as the risk due to inadequate or failed internal processes or due to external events, whether deliberate, accidental or natural occurrences.

Internal processes giving rise to operational risk may, for instance, involve employees and/or IT systems. External events include, but are not limited to floods, fire, earthquakes and terrorist attacks. Credit or market events such as default or fluctuations in value do not fall within the scope of operational risk.

Operational risk encompasses fraud, human resources risks, legal risks, non-compliance risks, tax risks, information system risks, the risk of providing inappropriate financial services, the risks of failed operational processes as well as the possible financial implications resulting from the management of reputation risks.

### **(a) Risk strategy & measurement**

The BNP Paribas Group aims at protecting its customers, its staff and its shareholders from operational risk either by avoidance, mitigation or transfer. It strives to contain operational risk, insofar as possible, to acceptable levels. The BNP Paribas Group develops a comprehensive risk and control management framework covering risk awareness and culture, risk identification and anticipation, risk mitigation techniques, risk monitoring and governance.

The internal control framework with respect to operational risk is aligned to the three lines of defense model:

- A first line of defense under the responsibility of the teams in charge of the operational implementation of the processes and that builds on the skills referred to as OPC (Operational Permanent Control).
- A second line of defense consisting of independent permanent control functions, and in particular Operational Risk and Control teams.
- A third line of defense ensured, under a mission of periodical control, by the General Inspection.

Internal audit is regularly reviewing both the way the second line of defense operates and how the operational risk and permanent control framework works with the first line of defense.

**(b) Operational Risk Capital Requirement:**

As for operational risk capital requirement, the BNP Paribas Group uses a hybrid approach combining the Advanced Measurement Approach (AMA), standardized approach (TSA), and basic indicator approach (BIA).

Additionally, At BNP Paribas Investment Company KSA, the expenditure based approach is used to calculate Operational risk as per Chapter 11 of the Prudential Rules issued by the CMA. A risk capital charge of 25% is applied.

In SAR 000	14 Nov 2017		31 Dec 2016	
	RWA	Capital Requirements	RWA	Capital Requirements
Total overhead expenditure	9,846	2,462	12,397	3,099
<b>Total Operational Risk</b>	<b>9,846</b>	<b>2,462</b>	<b>12,397</b>	<b>3,099</b>

**4.8 Liquidity risk:**

Liquidity risk is the risk of the Group being unable to fulfil current or future foreseen or unforeseen cash or collateral requirements, across all time horizons, from the short to the long term. This risk may stem from the reduction in funding sources, draw down of funding commitments, a reduction in the liquidity of certain assets, or an increase in cash or collateral margin calls. It may be related to the bank itself (reputation risk) or to external factors (risks in some markets).

**(a) Risk strategy & measurement**

The liquidity risk is managed globally at Group and local levels under governance, steering actions, monitoring tools and mitigation strategies defined in a dedicated Group Liquidity Risk Management Policy document. This ensures that liquidity is globally managed and balanced in terms of businesses' funding needs and related liquidity risk management



## 5 APPENDICES

### Appendix I: Disclosure on Capital Base:

<i>In SAR 000</i>	14 Nov 2017	31 Dec 2016
<b>Paid-up capital</b>	<b>87,500</b>	<b>87,500</b>
Share premium		
Reserves	101	101
Audited retained earnings	(17,422)	(10,031)
Tier-1 adjustments	(23)	(28)
<b>TIER-1 CAPITAL</b>	<b>70,156</b>	<b>77,542</b>
<b>TIER-2 CAPITAL</b>	<b>-</b>	<b>-</b>
<b>TOTAL CAPITAL BASE</b>	<b>70,156</b>	<b>77,542</b>

### Appendix II: Disclosure on Capital Adequacy

<i>In SAR 000</i>	14 Nov 2017		31 Dec 2016	
	RWAs	Capital Requirements	RWAs	Capital Requirements
Exposures to government, central banks	924	129	-	-
Exposures to Authorised persons and banks	14,289	2,000	18,101	2,534
Exposures to corporates	14,230	1,993	3,499	490
Other assets	4,698	658	5,818	815
Off-balance sheet commitments	-	-	321	45
<b>TOTAL CREDIT RISK</b>	<b>34,141</b>	<b>4,780</b>	<b>27,739</b>	<b>3,884</b>
<b>TOTAL MARKET RISK</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
Overhead expenses	9,846	2,462	12,397	3,099
<b>TOTAL OPERATIONAL RISK</b>	<b>9,846</b>	<b>2,462</b>	<b>12,397</b>	<b>3,099</b>
<b>TOTAL MINIMUM CAPITAL REQUIREMENT</b>		<b>7,242</b>		<b>6,983</b>
<b>TOTAL CAPITAL BASE</b>		<b>70,156</b>		<b>77,542</b>
<b>SURPLUS/(DEFECIT) IN CAPITAL</b>		<b>62,914</b>		<b>70,559</b>
<b>TOTAL CAPITAL RATIO</b>		<b>9.69</b>		<b>11.10</b>

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**Appendix III: Disclosure on Credit Risk exposure and risk weight:**

<i>In SAR 000</i>	14 Nov 2017						RWA	Capital Requirement
On-balance Sheet Exposures	0%	20%	50%	150%	300%	714%		
<b>Governments and central banks</b>				616			924	129
Exposures								
Credit protection (-)								
<b>Authorised Persons and banks</b>								
Exposures		71,443					14,289	2,000
Credit protection (-)								
<b>Corporates</b>								
Exposures						1,993	14,230	1,993
Credit protection (-)								
<b>Other assets</b>	7				1,359	87	4,698	658
<b>Total On-balance sheet exposures</b>							<b>34,141</b>	<b>4,780</b>
<b>Off-balance sheet exposures</b>							-	-
<b>TOTAL CREDIT RISKS</b>							<b>34,141</b>	<b>4,780</b>

<i>In SAR 000</i>	31 Dec 2016						RWA	Capital Requirement
On-balance Sheet Exposures	0%	20%	50%	150%	300%	714%		
<b>Governments and central banks</b>								
Exposures								
Credit protection (-)								
<b>Authorised Persons and banks</b>								
Exposures		74,922	6,234				18,101	2,534
Credit protection (-)								
<b>Corporates</b>								
Exposures						490	3,499	490
Credit protection (-)								
<b>Other assets</b>	5				1,837	43	5,818	815
<b>Total On-balance sheet exposures</b>							<b>27,418</b>	<b>3,839</b>
<b>Off-balance sheet exposures</b>							<b>321</b>	<b>45</b>
<b>TOTAL CREDIT RISKS</b>							<b>27,739</b>	<b>3,884</b>

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