



PILLAR III DISCLOSURE

BNP PARIBAS INVESTMENT COMPANY KSA

(BNP PARIBAS GROUP)

REFERENCE PERIOD (31.12.2016)

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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 31 December 2016 is SAR 87.5 million.

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 31 December 2016, BNP Paribas Investment Company KSA's Tier-1 Capital is as follows:

In SAR 000	31 Dec 2016	31 Dec 2015
Paid up Capital	87,500	87,500
Audited Retained Earnings	(10,031)	(12,555)
Reserves	101	101
Tier-1 adjustments	(28)	-
Total Capital Base	77,542	75,046

(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 31 December 2016 total capital base was as follows:

In SAR 000	31 Dec 2016	31 Dec 2015
Tier-1 Capital	77,542	75,046
Tier-2 Capital	-	-
Total Capital Base	77,542	75,046

(For details, please refer to Appendix I)



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 31 December 2016 is as follows:

In SAR 000	31 Dec 2016	31 Dec 2015
Credit Risk	3,884	3,815
Market Risk	-	-
Operational Risk	3,099	3,824
Total Minimum Capital Requirement	6,983	7,639

(b) Capital requirement for Credit risk and Operational Risk

At 31 December 2016, the minimum capital requirement for credit risk and operational risk for BNP Paribas Investment Company KSA is as follows:

In SAR 000	31 Dec 2016		31 Dec 2015	
	RWAs	Capital Requirements	RWAs	Capital Requirements
Credit risk	27,739	3,884	27,250	3,815
Market Risk				-
Operational Risk	12,397	3,099	15,295	3,824
Total Minimum Capital Requirement		6,983		7,639

(For details, please refer to Appendix II)

**(c) Capital Ratio:**

At 31 December 2016, total capital ratio is:

In SAR 000	31 Dec 2016	31 Dec 2015
Total Capital Base	77,542	75,046
Total Minimum Capital Requirement	6,983	7,639
Surplus/(Deficit) in Capital	70,559	67,407
Total Capital Ratio	11.10	9.82

(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 the Group Risk Function, which is responsible for measuring and controlling risks.

Group Risk Function is independent from the operating divisions, business lines and territories and reports directly to Group Executive Management. The Group Compliance (GC) 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. Group Risk continuously performs a second-line control over the Group's credit, market, liquidity 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 profile target set by Executive Management.

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. From 2015, Risk is also responsible for these functions for operational risk.

GC 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 Risk and Compliance function

Role of the Chief Risk Officer:

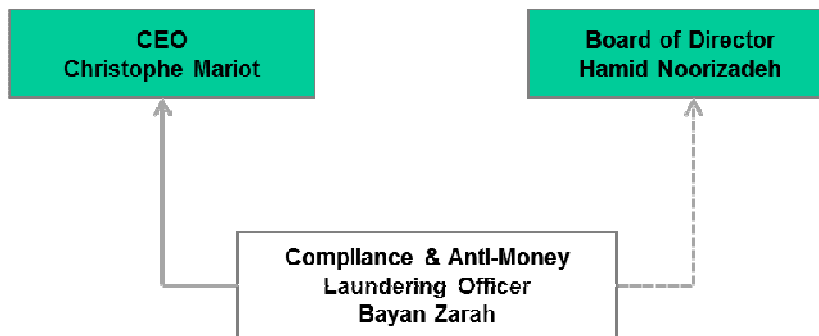
The Group Chief Risk Officer directly reports to the Group Chief Executive Officer and sits on the Executive Committee of BNP Paribas. He has line authority over all Risk Function employees. He can veto the risk-related decisions and has no connection, in terms of authority, with the Heads of core businesses,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

At BNP Paribas Investment Company KSA, the Compliance team plays a particularly important role in ensuring that the company's practices are in line with the principles defined by the BNP Paribas Group and complying with the local laws and regulations.

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 31 Dec 2016, the RWA for credit risk was SAR 27,739k and capital requirement was SAR 3,884k.

In SAR 000	31 Dec 2016		31 Dec 2015	
	RWAs	Capital Requirements	RWAs	Capital Requirements
Government, central banks	-	-	926	130
Authorised Persons and Banks	18,101	2,534	18,397	2,575
Corporates	3,499	490	2,285	320
Other assets	5,818	815	5,642	790
Off balance sheet commitments	321	45	-	-
Total Credit Risk	27,739	3,884	27,250	3,815

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	A1

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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%.



4.4 Credit risk Mitigation Exposure

During the year ended 31 December 2016, 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 31 December 2016, 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 31 December 2016, 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

<i>In SAR 000</i>	31 Dec 2016	31 Dec 2015
Market Risk	-	-
Total Market Risk	-	-



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	31 Dec 2016		31 Dec 2015	
	RWA	Capital Requirements	RWA	Capital Requirements
Total overhead expenditure	12,397	3,099	15,295	3,824
Total Operational Risk	12,397	3,099	15,295	3,824



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>	31 Dec 2016	31 Dec 2015
Paid-up capital	87,500	87,500
Share premium		
Reserves	101	101
Audited retained earnings	(10,031)	(12,555)
Tier-1 adjustments	(28)	
TIER-1 CAPITAL	77,542	75,046
TIER-2 CAPITAL	-	-
TOTAL CAPITAL BASE	77,542	75,046

Appendix II: Disclosure on Capital Adequacy

<i>In SAR 000</i>	31 Dec 2016		31 Dec 2015	
	RWAs	Capital Requirements	RWAs	Capital Requirements
Exposures to government, central banks	-	-	926	130
Exposures to Authorised persons and banks	18,101	2,534	18,397	2,575
Exposures to corporates	3,499	490	2,285	320
Other assets	5,818	815	5,642	790
Off-balance sheet commitments	321	45	-	-
TOTAL CREDIT RISK	27,739	3,884	27,250	3,815
TOTAL MARKET RISK	-	-	-	-
Overhead expenses	12,397	3,099	15,295	3,824
TOTAL OPERATIONAL RISK	12,397	3,099	15,295	3,824
TOTAL MINIMUM CAPITAL REQUIREMENT		6,983		7,639
TOTAL CAPITAL BASE		77,542		75,046
SURPLUS/(DEFECIT) IN CAPITAL		70,559		67,407
TOTAL CAPITAL RATIO		11.10		9.82

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

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

In SAR 000	31 Dec 2015						RWA	Capital Requirement
	0%	20%	50%	150%	300%	714%		
On-balance Sheet Exposures								
Governments and central banks								
Exposures				617			926	130
Credit protection (-)								
Authorised Persons and banks								
Exposures		67,779	9,683				18,397	2,575
Credit protection (-)								
Corporates								
Exposures						320	2,285	320
Credit protection (-)								
Other assets	3				1,738	60	5,642	790
Total On-balance sheet exposures							27,250	3,815
Off-balance sheet exposures							-	-
TOTAL CREDIT RISKS							27,250	3,815