



## PILLAR III DISCLOSURE

### BNP PARIBAS INVESTMENT COMPANY KSA

(BNP PARIBAS GROUP)

REFERENCE PERIOD (31.12.2019)

**SUPERVISOR** : Capital Market Authority (CMA) of Saudi Arabia

**REFERENCE PERIOD** : 31 December 2019

**LAST UPDATE** : 17 March 2020

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**PREPARED BY** : Ali Alaraibi  
Financial & Regulatory Reporting Officer

**REVIEWED BY** : BNP Paribas Head-Office teams:  
Group Finance /Supervisory Affairs

BNP Paribas Investment Company KSA – A Closed Joint – Stock Company  
Al Faisaliah Tower, Level 04, King Fahad Road  
P.O. BOX 18771, Riyadh 11425, Kingdom of Saudi Arabia  
Tel: +966 11 273 9134, Fax: +966 11 273 9175  
Web: <http://mea.bnpparibas.com>  
Commercial Registration Number: 1010270533  
Licensed by the Capital Market Authority – License Number 13173 – 37  
Capital paid SAR 87,500,000  
The Company is a Subsidiary of BNP Paribas SA Which is a French Company

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هاتف: +٩٦٦ ١١ ٢٧٣ ٩١٣٤، فاكس: +٩٦٦ ١١ ٢٧٣ ٩١٧٥  
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APPROVED BY : 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 31 December 2019 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.

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## 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 2019, BNP Paribas Investment Company KSA's Tier-1 Capital is as follows:

In SAR 000	31 Dec 2019	31 Dec 2018
<b>Paid up Capital</b>	<b>87,500</b>	<b>87,500</b>
Audited Retained Earnings	(11,800)	(14,219)
Reserves	101	101
Tier-1 adjustments	(12)	(16)
<b>Total Capital Base</b>	<b>75,789</b>	<b>73,366</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 31 December 2019 total capital base was as follows:

In SAR 000	31 Dec 2019	31 Dec 2018
<b>Tier-1 Capital</b>	<b>75,789</b>	<b>73,366</b>
<b>Tier-2 Capital</b>	<b>-</b>	<b>-</b>
<b>Total Capital Base</b>	<b>75,789</b>	<b>73,366</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 31 December 2019 is as follows:

In SAR 000	31 December 2019	31 December 2018
Credit Risk	5,060	2,818
Market Risk	-	-
Operational Risk	2,583	2,626
<b>Total Minimum Capital Requirement</b>	<b>7,643</b>	<b>5,444</b>

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

At 31 December 2019, the minimum capital requirement for credit risk and operational risk for BNP Paribas Investment Company KSA is as follows:

In SAR 000	31 December 2019		31 December 2018	
	RWAs	Capital Requirements	RWAs	Capital Requirements
Credit risk	36,140	5,060	20,132	2,818
Market Risk				
Operational Risk	10,332	2,583	10,503	2,626
<b>Total Minimum Capital Requirement</b>		<b>7,643</b>		<b>5,444</b>

(For details, please refer to Appendix II)

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### (c) Capital Ratio:

At 31 December 2019, total capital ratio is:

In SAR 000	31 December 2019	31 December 2018
<b>Total Capital Base</b>	<b>75,789</b>	<b>73,366</b>
<b>Total Minimum Capital Requirement</b>	<b>7,643</b>	<b>5,444</b>
<b>Surplus/(Deficit) in Capital</b>	<b>68,146</b>	<b>67,922</b>
<b>Total Capital Ratio</b>	<b>9.92</b>	<b>13.48</b>

(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>*

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

Risk management is central to the banking business and is one of the cornerstones of operations for the BNP Paribas Group. BNP Paribas has an internal control system covering all types of RISKS to which the Group may be exposed, organized around three lines of defense.

- As the first line of defense, Internal Control is the business of every employee, and the heads of the operational activities are responsible for establishing and running a system for identifying, assessing and managing risks according to the standards defined by the functions exercising an independent control in respect of a second level of control;
- The main control functions within BNP Paribas ensuring the second line of defense are the Compliance, Risk and Legal functions. Their Heads report directly to Chief Executive Officer and account for the performance of their missions to the Board of Directors via its specialized committees;
- General Inspection provides a third level of defense. It is responsible for the periodic control.

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.

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**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 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:**

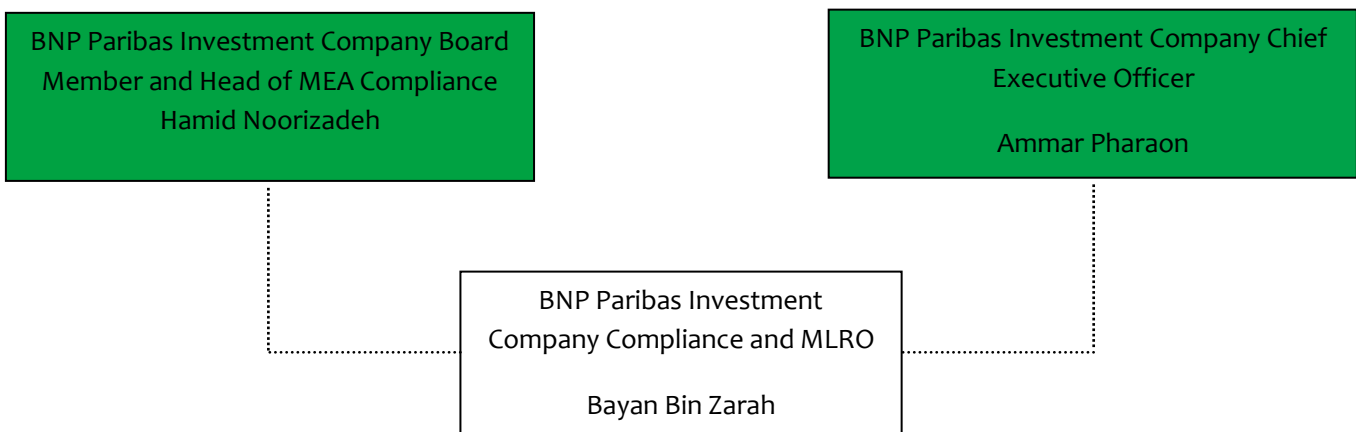
The Group Chief Compliance Officer directly reports to the Group Chief Executive Officer and sits on the Executive Committee of BNP Paribas.

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

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.



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### 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 2019, the RWA for credit risk was SAR 91,780k and capital requirement was SAR 12,849k.

In SAR 000	31 Dec 2019		31 Dec 2018	
	RWAs	Capital Requirements	RWAs	Capital Requirements
Government, central banks	21	3	-	-
Authorised Persons and Banks	13,797	1,932	15,263	2,136
Corporates	9,573	1,340	-	-
Other assets	10,017	1,402	4,869	682
Off balance sheet commitments	2,732	383	-	-
<b>Total Credit Risk</b>	<b>36,140</b>	<b>5,060</b>	<b>20,132</b>	<b>2,818</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

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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>

<i>Standard &amp; Poor's</i>	<b>A+</b>
<i>Fitch</i>	<b>AA-</b>
<i>Moody's</i>	<b>Aa3</b>

#### 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 2019, 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 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 2019, 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 2019, 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	31 Dec 2019	31 Dec 2018
<b>Market Risk</b>	-	-
<b>Total Market Risk</b>	-	-



## 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:**

With regards to 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 2019		31 Dec 2018	
	RWA	Capital Requirements	RWA	Capital Requirements
Total overhead expenditure	10,332	2,583	10,503	2,626
<b>Total Operational Risk</b>	<b>10,332</b>	<b>2,583</b>	<b>10,503</b>	<b>2,626</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:

In SAR 000	31 Dec 2019	31 Dec 2018
<b>Paid-up capital</b>	<b>87,500</b>	<b>87,500</b>
Share premium		
Reserves	101	101
Audited retained earnings	(11,800)	(14,219)
Tier-1 adjustments	(12)	(16)
<b>TIER-1 CAPITAL</b>	<b>75,789</b>	<b>73,366</b>
<b>TIER-2 CAPITAL</b>	<b>-</b>	<b>-</b>
<b>TOTAL CAPITAL BASE</b>	<b>75,789</b>	<b>73,366</b>

### Appendix II: Disclosure on Capital Adequacy

In SAR 000	31 Dec 2019		31 Dec 2018	
	RWAs	Capital Requirements	RWAs	Capital Requirements
Exposures to government, central banks	21	3	-	-
Exposures to Authorised persons and banks	13,797	1,932	15,263	2,136
Exposures to corporates	9,573	1,340	-	-
Other assets	10,020	1,402	4,869	682
Off-balance sheet commitments	2,732	383	-	-
<b>TOTAL CREDIT RISK</b>	<b>36,140</b>	<b>5,060</b>	<b>20,132</b>	<b>2,818</b>
<b>TOTAL MARKET RISK</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
Overhead expenses	10,332	2,583	10,503	2,626
<b>TOTAL OPERATIONAL RISK</b>	<b>10,332</b>	<b>2,583</b>	<b>10,503</b>	<b>2,626</b>
<b>TOTAL MINIMUM CAPITAL REQUIREMENT</b>		<b>7,643</b>		<b>5,444</b>
<b>TOTAL CAPITAL BASE</b>		<b>75,789</b>		<b>73,366</b>
<b>SURPLUS/(DEFECIT) IN CAPITAL</b>		<b>68,146</b>		<b>67,922</b>
<b>TOTAL CAPITAL RATIO</b>		<b>9.92</b>		<b>13.48</b>

BNP Paribas Investment Company KSA – A Closed Joint – Stock Company  
Al Faisaliah Tower, Level 04, King Fahad Road  
P.O. BOX 18771, Riyadh 11425, Kingdom of Saudi Arabia  
Tel: +966 11 273 9134, Fax: +966 11 273 9175  
Web: <http://mea.bnpparibas.com>  
Commercial Registration Number: 1010270533  
Licensed by the Capital Market Authority – License Number 13173 – 37  
Capital paid SAR 87,500,000  
The Company is a Subsidiary of BNP Paribas SA Which is a French Company

شركة بي أن بي باريبا السعودية للإستثمار – شركة مساهمة سعودية مقفلة  
برج الفيصلية، طريق الملك فهد  
ص.ب: ١٨٧٧١، الرياض ١١٤٢٥، المملكة العربية السعودية  
هاتف: +٩٦٦ ١١ ٢٧٣ ٩١٣٤، فاكس: +٩٦٦ ١١ ٢٧٣ ٩١٧٥  
الموقع الإلكتروني: <http://mea.bnpparibas.com>  
رقم السجل التجاري: ١٠١٠٢٧٠٥٣٣  
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**Appendix III: Disclosure on Credit Risk exposure and risk weight:**

In SAR 000	31 Dec 2019							RWA	Capital Requirement
	0%	20%	50%	150%	300%	714%			
<b>On-balance Sheet Exposures</b>									
<b>Governments and central banks</b>				14				21	3
Exposures									
Credit protection (-)									
<b>Authorised Persons and banks</b>									
Exposures		68,986						13,797	1,932
Credit protection (-)									
<b>Corporates</b>									
Exposures			8,379			754		9,573	1,340
Credit protection (-)									
<b>Other assets</b>	1				1,624	721		10,017	1,402
<b>Total On-balance sheet exposures</b>								<b>33,408</b>	<b>4,677</b>
<b>Off-balance sheet exposures</b>								<b>2,732</b>	<b>383</b>
<b>TOTAL CREDIT RISKS</b>								<b>36,140</b>	<b>5,060</b>
In SAR 000	31 Dec 2018							RWA	Capital Requirement
	0%	20%	50%	150%	300%	714%			
<b>On-balance Sheet Exposures</b>									
<b>Governments and central banks</b>									
Exposures									
Credit protection (-)									
<b>Authorised Persons and banks</b>									
Exposures		76,317						15,263	2,136
Credit protection (-)									
<b>Corporates</b>									
Exposures									
Credit protection (-)									
<b>Other assets</b>	7				1,392	97		4,869	682
<b>Total On-balance sheet exposures</b>								<b>20,132</b>	<b>2,818</b>
<b>Off-balance sheet exposures</b>								-	-
<b>TOTAL CREDIT RISKS</b>								<b>20,132</b>	<b>2,818</b>

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