

# **PILLAR III DISCLOSURE**

## **BNP PARIBAS INVESTMENT COMPANY KSA**

**(BNP PARIBAS GROUP)**

**REFERENCE PERIOD (31.12.2014)**

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<b>SUPERVISOR</b>	: Capital Market Authority (CMA) of Saudi Arabia
<b>REFERENCE PERIOD</b>	: 31 December 2014
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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 report is to comply with the regulations of Capital Market Authority of Saudi Arabia issued Article 68 of the Prudential Rules and under Circular number 06367/6 dated 13/11/2013.

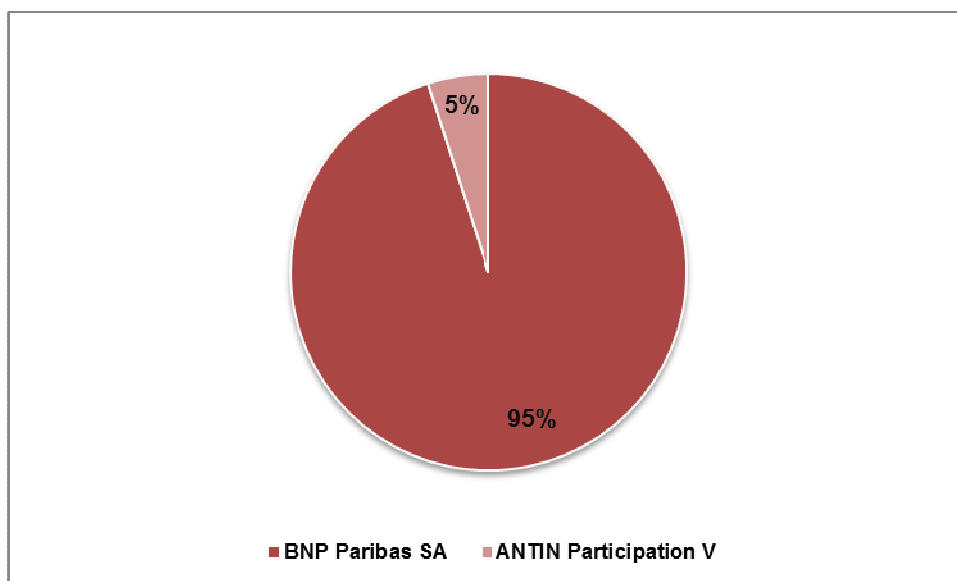
### **(a) Scope of Application:**

This Pillar III disclosure is made for BNP Paribas Investment Company KSA which is licensed by the Capital Market Authority (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 comprises of 875,000 shares of SAR 100 each.

The shareholding structure is as follows:



There is no current or foreseen material or legal impediment to the prompt transfer of capital or repayment of liabilities between the BNP Paribas Investment Company KSA and any of its affiliate companies.



## 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 2014, BNP Paribas Investment Company KSA's Tier-1 Capital is as follows:

<b>BNP Paribas Investment Company KSA</b>	<b>SAR '000</b>
Paid up Capital	87,500
Audited Retained Earnings	-11,356
Reserves	101
<b>Total Tier-1 Capital at 31 Dec 2014</b>	<b>76,245</b>

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

At 31 Dec 2014, BNP Paribas Investment Company KSA did not have any exposures which are subject to deduction, as defined by Prudential Rules, to arrive at Tier-2 capital.

Therefore, at 31 Dec 2014 total capital base was:

<b>BNP Paribas Investment Company KSA</b>	<b>SAR '000</b>
Tier-1 Capital	76,245
Tier-2 Capital	0
<b>Total Capital Base at 31 Dec 2014</b>	<b>76,245</b>



### **3. CAPITAL ADEQUACY**

#### **(a) Minimum Capital Requirement**

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

#### **(b) Capital management:**

##### **BNP Paribas Group:**

The BNP Paribas Group Internal Capital Adequacy Assessment Process is operated in order to ensure that the BNP Paribas Group:

- Identifies all the risks generated by its banking activities,
- Adequately measures and aggregates these risks,
- Implements sound internal control systems dedicated to risks monitoring,
- Adequately calculates the level of capital that is required to cover the identified risks.

##### **BNP Paribas Investment Company KSA**

At BNP Paribas Investment Company KSA, capital allocation process is centralized at the Head office level and mainly rests on two principles

- Compliance with local regulatory requirements and analysis of the local business needs
- Prospects of growth; such an exercise is always conducted with the objective of minimizing capital dispersion.

With respect to the first principle, the CFO is responsible for the daily management and reporting of the entity's solvency requirements. When a capital need arises, it is analysed on a case by case basis by Financial Management taking into consideration the entity's present situation and its future strategy.

Furthermore, each year the Group monitors the results repatriation process. Regarding dividend distributions, the Group policy stipulates that the entire distributable profit, including the accumulated distributable results put in reserves, of every entity must be paid out, exemptions being studied on a case by case basis. This policy ensures that the capital remains centralized at the Group level and contributes also to reducing the currency risk at the Group's level.

Local CEO is responsible for ensuring the subsidiary's financial sustainability and competitive position in terms of capital, where relevant. To avoid giving local teams the wrong type of incentives, the subsidiaries are not evaluated based on their actual levels of capital (meaning that local management is never deterred from securing an adequate capitalization); on the other hand, any capital action requested by a subsidiary is challenged by and subject to authorization from the Head office

With respect to the second principle, the business needs are challenged by dedicated teams in the light of the Group strategy in the country, the business growth prospects and the macroeconomic environment.

### **(c) Capital requirement for Credit risk and Operational Risk**

At 31 Dec 2014, the minimum capital requirement for credit risk and operational risk for BNP Paribas Investment Company KSA was as follows:

<b>BNP Paribas Investment Company KSA</b>	<b>SAR '000</b>
Credit Risk	5,873
Operational Risk	4,145
<b>Total Minimum Capital Requirement at 31 Dec 2014</b>	<b>10,018</b>

### **(d) Capital Ratio:**

At 31 Dec 2014, Total capital ratio is computed as:

<b>BNP Paribas Investment Company KSA</b>	<b>SAR '000</b>
Total Capital Base	76,245
Total Minimum Capital Requirement	10,018
<b>Surplus/(Deficit) in Capital</b>	<b>66,227</b>
<b>Total Capital Ratio at 31 Dec 2014</b>	<b>7.61</b>



## 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>*

### **(a) Risk profile and BNP Paribas Group approach:**

The Risk Profile is stated as the risk level by type of risk that BNP Paribas is willing to accept in support of its business strategy. The Risk Profile policy defines BNP Paribas' overall medium to long term tolerance for risk taking.

The Risk Profile framework integrates existing risk management tools, processes, principles and guidelines into a consistent approach and is meant to guide risk taking activities within the boundaries agreed upon, thus ultimately enhancing the consistency of risk practices throughout the Group.

At Group level, Risk Profile is expressed through:

- Risk Profile principles and related metrics, specified in four categories:
  - Risk adjusted profitability and earnings volatility
  - Capital adequacy,
  - Funding and liquidity
  - Concentrations.
- Key qualitative principles, especially on risks that are hardly quantifiable by nature such as reputation risk, as well as qualitative guidelines stemming from the decisions of the various Executive Management risk forums.
- This Risk Profile framework allows to:
  - Define an explicit and forward-looking view of the BNP Paribas Group's desired Risk Profile
  - Guide risk taking activities within the boundaries of the stated Risk Profile, and enhance the consistency of risk practices throughout the Group.
  - Monitor Risk Profile, thus contributing to proactively manage risks, capital and liquidity in a controlled and optimized way;
  - Facilitate the dialogue with the Board and with the supervisors.



**(b) Governance and cascading**

The Risk Profile Policy is reviewed by the Executive Management and presented to the Board for approval.

In practice, the dissemination of the targeted Risk Profile, i.e. translation of Risk Profile orientations and guidelines into business strategies and risk taking, is also made through two complementary and interconnected processes:

- The strategic planning and budget process which allows setting limits/ targets (in the risk, profitability, capital and funding needs areas) at more granular levels (per Pole or Business Line)
- The risk taking process (e.g. strategic risk forums) allowing to communicate largely to risk takers on the Executive Management’s Risk Profile orientations.

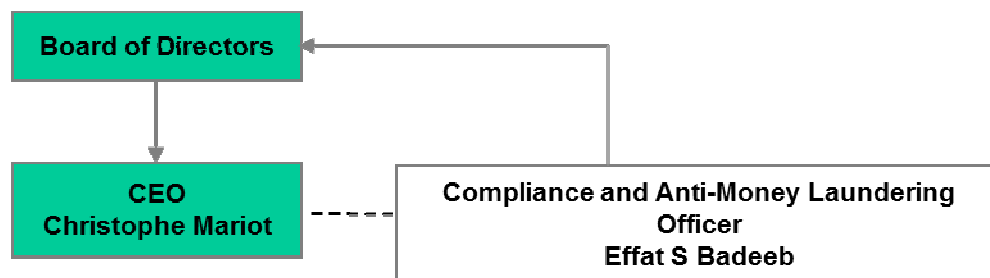
**(c) Measure and monitoring:**

A “Risk Dashboard” measures and monitors the BNP Paribas Group’s Risk Profile in light of its Risk Profile target as expressed through several metrics.

**(d) Compliance local resources**

The Compliance team acts as a direct contact with authorities as well as with BNP Paribas policies. This team acts locally as a supervisor and reports back to the Regional Hub. This structure allows the team to more efficiently monitor different branches in the GCC.

**At BNP Paribas Investment Company KSA level**





## 4.1 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

At 31 Dec 2014, the credit risk capital requirement was SAR 5,873. A capital requirement of 14% is used in line with Article 21 of Annex 3 of Prudential Rules.

BNP Paribas Investment Company KSA	SAR '000		
	Exposure Amount	RWA	Capital Requirement (14%)
<b>Exposure to Government and Central Bank</b>			
On balance sheet - deposit/receivable	608	150%	128
<b>Exposure to Authorised Persons and Banks</b>			
On balance sheet - deposit/receivable	70,480	20%	1,973
On balance sheet - deposit/receivable	6,542	50%	458
<b>Exposure to Corporates</b>			
On balance sheet - receivable	2,651	714%	2,650
<b>Other Items</b>			
Cash at hand	5	0%	0
Fixed Assets	33	300%	14
Prepaid Expenses	818	300%	344
Other current assets	307	714%	307
<b>Total Credit Risk at 31 Dec 2014</b>			<b>5,873</b>

**Exposure to Government entity:** Total exposure is for an amount of SAR 608k. As defined in Section 3 of Annex 3 of Prudential Rules, a risk-weight of 150% is used.

**Exposure to Authorised Persons and Banks:** Total exposure of SAR 70,480k is with local banks; therefore a credit rating of 1 corresponding to a risk weight of 20% is used.

Exposure amount of SAR 6,542k is from transactions within BNP Paribas Group. From a Group perspective, such transactions 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 on the link <https://invest.bnpparibas.com/en/debt-ratings>

<b>Standard &amp; Poor's</b>	<b>A+</b>
<b>Fitch</b>	<b>A+</b>
<b>Moody's</b>	<b>A1</b>

The mapping to assign risk weight according to credit rating is as follows:

<b>Credit quality Step</b>	<b>1</b>	<b>2</b>	<b>3</b>	<b>4</b>	<b>5</b>	<b>6</b>
<b>Risk Weight</b>	<b>20%</b>	<b>50%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>150%</b>

**Exposure to Corporates:** This exposure of SAR 2,651k is due to various local corporates. This is assigned an unrated credit rating and a risk weight of 714% as per the mapping defined by prudential rules and detailed below:

<b>Credit quality Step</b>	<b>1</b>	<b>2</b>	<b>3</b>	<b>4</b>	<b>5</b>	<b>6</b>	<b>Unrated</b>
<b>Risk Weight</b>	<b>20%</b>	<b>50%</b>	<b>100%</b>	<b>200%</b>	<b>400%</b>	<b>714%</b>	<b>714%</b>

**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%.



## **4.2 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. The amount of this risk (referred as "exposure" in the rest of the document) may vary over time in line with market parameters which impact the value of the relevant market transactions.

As at 31/12/2014, BNP Paribas Investment Company KSA is not involved in any position from which Counterparty risk may arise. This type of risk is thus not material for BNP Paribas Investment Company KSA

## **4.3 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. Liquidity is an important component of market risk. In times of limited or no liquidity, instruments or goods may not be tradable or may not be tradable at their estimated value. This may arise, for example, due to low transaction volumes, legal restrictions or a strong imbalance between demand and supply for certain assets.

As at 31/12/2014, BNP Paribas Investment Company KSA is not involved in any position from which Market risk may arise. This type of risk is thus not material for BNP Paribas Investment Company KSA



## **4.4 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 human resources risks, legal risks, tax risks, information system risks, non-compliance risks, risks linked to operations processing, risks related to published financial information. The scope of risks covered by operational risk being so large, its management relies on specialized teams who have the relevant skills for assessing and mitigating the risks. This is true, especially, for Legal, Tax, IT Security, Finance and also Compliance."

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

BNP Paribas has defined an operational risk management general policy that has been submitted to its Board and which defines the global objectives, principles and framework that should apply throughout the group.

This policy can then be refined and developed in more focused policies covering a specific domain of operational risk, such as fraud, IT security, outsourced activities or business continuity for instance.

Key objectives targeted by the operational risk management policy are:

- To mobilize everyone within the company with regard to risks control actions,
- To reduce the probability of the occurrence of operational risk events that could threaten the reputation of the BNP Paribas group; the confidence that it enjoys from customers, shareholders and employees; the quality of the services and products that it markets; the profitability of its business activities; the efficiency of the processes that it manages.
- The set-up of a consistent system throughout the group, with an adequate level of formalization and traceability, and that will serve to provide the management, the deliberating body and the regulators with reasonable assurance of the risk control,
- A good balance between the accepted risks and the cost of the operational risk management system.



The operational risk management policy within the BNP Paribas group is structured around six large-scale general principles:

- An approach proportioned to risks
- A management involving all levels of the organization
- A management as part of the decision process
- A management via processes
- A management relying on the cause – event – effect analysis
- A formalized management within a shared and common framework

The operational risk management framework aligns with the principles defined in the BNP Paribas internal control charter, while notably functioning with first and second levels of defence, under the control provided by internal audit, and as part of the dynamic risk management approach defined by permanent control.

**(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 used

<b>BNP Paribas Investment Company KSA</b>	<b>SAR '000</b>
Total Overhead expenses (as at 31 Dec 2014)	16,578
Risk Capital Charge	25%
<b>Capital Requirement for Operational Risk at 31 Dec 2014</b>	<b>4,145</b>



## **4.5 Liquidity and refinancing risk**

Liquidity and refinancing risk is the risk of the Bank being unable to fulfil current or future foreseen or unforeseen cash or collateral requirements without affecting routine transactions or its financial position.

This risk may arise as a result of total or partial lack of liquidity in certain assets or to the disappearance of certain funding sources. It may be related to the bank itself (reputation risk) or to external factors (crisis in certain markets).

Liquidity and refinancing risk is managed through a Global Liquidity Policy approved by Group Executive Management. This policy is based on management principles designed to apply both in business as usual and in a liquidity crisis. The Group's liquidity position is assessed on the basis of internal standards, warning flags and regulatory ratios.

Liquidity and refinancing risk is managed both at Group level and locally at BNP Paribas Investment Company KSA level. Local implementation is done in coordination with the BNP Paribas Group and in full alignment of the global processes, policies of the BNP Paribas Group and the Prudential Rules issued by the Capital Market Authority of Saudi Arabia

## 5. APPENDICES

### Appendix I: Illustrative Disclosure on Capital Base

<b>BNP Paribas Investment Company KSA</b>	<b>SAR '000</b>
Paid up Capital	87,500
Audited Retained Earnings	-11,356
Reserves	101
<b>Total Tier-1 Capital at 31 Dec 2014</b>	<b>76,245</b>

Tier-1 Capital	76,245
Tier-2 Capital	0
<b>Total Capital Base at 31 Dec 2014</b>	<b>76,245</b>

### Appendix II: Illustrative Disclosure on Capital Adequacy

<b>BNP Paribas Investment Company KSA</b>	<b>SAR '000</b>
Total Capital Base	76,245
Total Minimum Capital Requirement	10,018
<b>Surplus/(Deficit) in Capital</b>	<b>66,227</b>
<b>Total Capital Ratio at 31 Dec 2014</b>	<b>7.61</b>

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

BNP Paribas Investment Company KSA	SAR '000		
	Exposure Amount	RWA	Capital Requirement (14%)
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