



## PILLAR III DISCLOSURE

### BNP PARIBAS INVESTMENT COMPANY KSA

(BNP PARIBAS GROUP)

REFERENCE PERIOD (31.12.2015)

<b>SUPERVISOR</b>	: Capital Market Authority (CMA) of Saudi Arabia
<b>REFERENCE PERIOD</b>	: 31 December 2015
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<b>REVIEWED BY</b>	: BNP Paribas Head-Office teams: Public Affairs / Supervisory Affairs
<b>APPROVED BY</b>	: Board of Directors, BNP Paribas Investment Company KSA



## Table of contents

1. PILLAR III.....	- 1 -
2. CAPITAL STRUCTURE.....	- 2 -
3. CAPITAL ADEQUACY .....	- 3 -
4. RISK MANAGEMENT.....	- 5 -
4.1 STRATEGIES AND PROCESSES FOR RISK MANAGEMENT .....	- 5 -
4.2 RISK AND COMPLIANCE FUNCTION.....	- 6 -
4.3 CREDIT RISK.....	- 7 -
4.4 CREDIT RISK MITIGATION EXPOSURE .....	- 9 -
4.5 COUNTERPARTY CREDIT RISK (CCR) .....	- 9 -
4.6 MARKET RISK.....	- 10 -
4.7 OPERATIONAL RISK.....	- 11 -
4.8 LIQUIDITY AND REFINANCING RISK.....	- 13 -
5 APPENDICES.....	- 14 -



## **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 2015 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 2015, BNP Paribas Investment Company KSA's Tier-1 Capital is as follows:

In SAR 000	31 Dec 2015	31 Dec 2014
<b>Paid up Capital</b>	<b>87,500</b>	<b>87,500</b>
Audited Retained Earnings	(12,555)	(11,356)
Reserves	101	101
<b>Total Capital Base</b>	<b>75,046</b>	<b>76,245</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 2015 total capital base was as follows:

In SAR 000	31 Dec 2015	31 Dec 2014
<b>Tier-1 Capital</b>	<b>75,046</b>	<b>76,245</b>
<b>Tier-2 Capital</b>	<b>-</b>	<b>-</b>
<b>Total Capital Base</b>	<b>75,046</b>	<b>76,245</b>

(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 2015 is as follows:

In SAR 000	31 Dec 2015	31 Dec 2014
Credit Risk	3,815	5,873
Market Risk	-	-
Operational Risk	3,824	4,145
<b>Total Minimum Capital Requirement</b>	<b>7,639</b>	<b>10,018</b>

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

At 31 December 2015, the minimum capital requirement for credit risk and operational risk for BNP Paribas Investment Company KSA is as follows:

In SAR 000	31 Dec 2015		31 Dec 2014	
	RWAs	Capital Requirements	RWAs	Capital Requirements
Credit risk	27,250	3,815	41,952	5,873
Market Risk	-	-	-	-
Operational Risk	15,295	3,824	16,578	4,145
<b>Total Minimum Capital Requirement</b>	<b>42,546</b>	<b>7,639</b>	<b>58,530</b>	<b>10,018</b>

(For details, please refer to Appendix II)

**(c) Capital Ratio:**

At 31 December 2015, total capital ratio is:

In SAR 000	31 Dec 2015	31 Dec 2014
<b>Total Capital Base</b>	<b>75,046</b>	<b>76,245</b>
<b>Total Minimum Capital Requirement</b>	<b>7,639</b>	<b>10,018</b>
<b>Surplus/(Deficit) in Capital</b>	<b>67,407</b>	<b>66,227</b>
<b>Total Capital Ratio</b>	<b>9.82</b>	<b>7.61</b>

(For details, please refer to Appendix II)

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

The capital allocation process within BNP Paribas is centralized at head office. It is conducted with the objective of minimizing capital dispersion, and with a view to ensure a free and efficient flow of capital throughout the BNP Paribas group and its legal entities.

Such approach is essentially driven by two principles:

- Compliance with local regulatory requirements
- Analysis of the local business needs and prospects of growth;:

With respect to the first principle, the CFO is responsible for the daily management and reporting of the entity's solvency requirements. BNP Paribas Investment Company KSA has in place its own ICAAP process, which allows it to assess the capital position and follow the capital needs. When a capital need arises, it is analyzed on a case by case basis taking into consideration the entity's present situation and its future strategy. Local CEO is responsible for ensuring the company's financial sustainability and competitive position in terms of capital.

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.



## **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. As of 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:

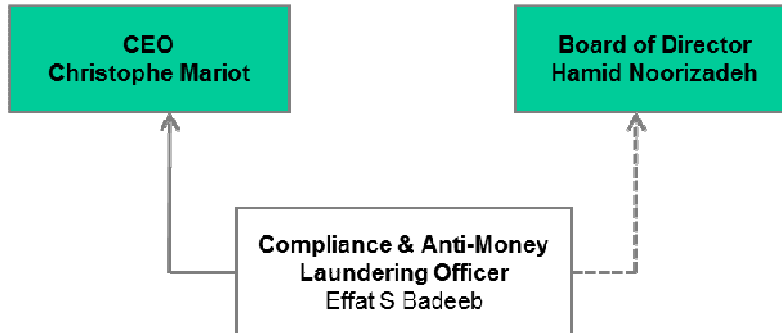
The Group Chief Risk Officer directly reports to the Group Chief Executive Officer and sits on the Executive Committee of BNP Paribas. He has line authority over all Risk Function employees. He can veto the risk-related decisions and has no connection, in terms of authority, with the Heads of core businesses,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

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

At 31 December 2015, the RWA for credit risk was SAR 27,250 k and capital requirement was SAR 3,815k.

In SAR 000	31 Dec 2015		31 Dec 2014	
	RWAs	Capital Requirements	RWAs	Capital Requirements
Government, central banks	926	130	912	128
Authorised Persons and Banks	18,397	2,576	17,367	2,431
Corporates	2,285	320	18,928	2,650
Other assets	5,642	790	4,745	664
<b>Total Credit Risk</b>	<b>27,250</b>	<b>3,815</b>	<b>41,952</b>	<b>5,873</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	A1

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 2015, 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. The amount of this risk may vary over time in line with market parameters which impact the value of the relevant market transactions.

As at 31 December 2015, 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. 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 December 2015, 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 2015	31 Dec 2014
<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.

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 applied.

In SAR 000	31 Dec 2015		31 Dec 2014	
	RWA	Capital Requirements	RWA	Capital Requirements
Total overhead expenditure	15,295	3,824	16,578	4,145
<b>Total Operational Risk</b>	<b>15,295</b>	<b>3,824</b>	<b>16,578</b>	<b>4,145</b>



#### **4.8 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: Disclosure on Capital Base:

In SAR 000	31 Dec 2015	31 Dec 2014
Paid-up capital	87,500	87,500
Share premium		
Reserves	101	101
Audited retained earnings	(12,555)	(11,356)
<b>TIER-1 CAPITAL</b>	<b>75,046</b>	<b>76,245</b>
<b>TIER-2 CAPITAL</b>	<b>-</b>	<b>-</b>
<b>TOTAL CAPITAL BASE</b>	<b>75,046</b>	<b>76,245</b>

### Appendix II: Disclosure on Capital Adequacy

In SAR 000	31 Dec 2015		31 Dec 2014	
	RWAs	Capital Requirements	RWAs	Capital Requirements
Exposures to government, central banks	926	130	912	128
Exposures to Authorised persons and banks	18,397	2,576	17,367	2,431
Exposures to corporates	2,285	320	18,928	2,650
Other assets	5,642	790	4,745	664
Off-balance sheet commitments	-	-	-	-
<b>TOTAL CREDIT RISK</b>	<b>27,250</b>	<b>3,815</b>	<b>41,952</b>	<b>5,873</b>
<b>TOTAL MARKET RISK</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
Overhead expenses	15,295	3,824	16,578	4,145
<b>TOTAL OPERATIONAL RISK</b>	<b>15,295</b>	<b>3,824</b>	<b>16,578</b>	<b>4,145</b>
<b>TOTAL MINIMUM CAPITAL REQUIREMENT</b>		<b>7,639</b>		<b>10,018</b>
<b>TOTAL CAPITAL BASE</b>		<b>75,046</b>		<b>76,245</b>
<b>SURPLUS/(DEFECIT) IN CAPITAL</b>		<b>67,407</b>		<b>66,227</b>
<b>TOTAL CAPITAL RATIO</b>		<b>9.82</b>		<b>7.61</b>

- 14 -



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

In SAR 000	31 Dec 2015						RWA	Capital Requirement
	0%	20%	50%	150%	300%	714%		
<b>On-balance Sheet Exposures</b>								
<b>Governments and central banks</b>								
Exposures				617			926	130
Credit protection (-)								
<b>Authorised Persons and banks</b>								
Exposures		67,779	9,683				18,397	2,576
Credit protection (-)								
<b>Corporates</b>								
Exposures						320	2,285	320
Credit protection (-)								
<b>Other assets</b>	3				1,738	60	5,642	790
<b>Total On-balance sheet exposures</b>							<b>27,250</b>	<b>3,815</b>
<b>Off-balance sheet exposures</b>							-	-
<b>TOTAL CREDIT RISKS</b>							<b>27,250</b>	<b>3,815</b>

In SAR 000	31 Dec 2014						RWA	Capital Requirement
	0%	20%	50%	150%	300%	714%		
<b>On-balance Sheet Exposures</b>								
<b>Governments and central banks</b>								
Exposures				608			912	128
Credit protection (-)								
<b>Authorised Persons and banks</b>								
Exposures		70,480	6,542				17,367	2,431
Credit protection (-)								
<b>Corporates</b>								
Exposures						2,651	18,928	2,650
Credit protection (-)								
<b>Other assets</b>	6				851	307	4,745	664
<b>Total On-balance sheet exposures</b>							<b>41,952</b>	<b>5,873</b>
<b>Off-balance sheet exposures</b>							-	-
<b>TOTAL CREDIT RISKS</b>							<b>41,952</b>	<b>5,873</b>