

Nanhua Financial (UK) Co Limited

Pillar 3 Disclosures

31 December 2019

Index

1 Scope of Application

2 Governance

- I. Board**
- II. Board Recruitment and Diversity**
- III. Board Committees and Risk Oversight**

3 Risk Management

- I. Objective & Policies**
- II. Credit Risk**
- III. Market Risk**
- IV. Operational Risk**
- V. Liquidity Risk**

4 Own Funds

- I. 31 December 2019**
- II. Capital Instruments**

5 Capital Requirements

- I. Pillar 1**

6 Remuneration

- I. Remuneration Policy**
- II. Remuneration Governance**
- III. Performance Criteria**
- IV. Quantitative Information**

7 Disclaimer

1 Scope of Application

Nanhua Financial (UK) Co Limited (NFC) was incorporated on 17 July 2018 and is authorised and regulated by the FCA, FRN 812609 and a Category 2 LME member. NFC commenced investment business in December 2019.

The information contained in this document are on a standalone basis as NFC is not subject to consolidated supervision. The information is set out in accordance with the EU's Capital Requirements Regulation (EU575/2013(CRR) articles 431 to 455 (Disclosure by Institutions).

The information is based on NFC's financial position as at 31 December and are in NFC's Base Currency, US Dollars. The information is not subject to audit except where they are equivalent to those contained in NFC's audited financial statements. Information has not been included where it is not considered to be applicable or where advantage has been taken of one of the exemptions under Article 433 of the CRR. The document is available on NFC's website.

2 Governance

I. Board

NFC's Board consists of two Executive Directors and three Non-Executive Directors and NFC is their only UK Directorships.

Name	Position
Jiang Linqiang	Executive Director - the General Manager of NFC's immediate parent, HGNH International Financial Corporation Limited ('HGNH INTL')
Yan Nong	CEO
Yan Shuping	NED
Zhong Yiqiang	NED
Li Lingfang	NED

II. Board Recruitment and Diversity

The recruitment of new Board Members is subject to the approval of the Board. Potential new Board members on the basis of their experience, skills and knowledge including industry knowledge. NFC recognises the need to have a diverse work force and any new Board members are recruited only on the factors above.

III. Risk Oversight and Committees

The Board seeks to minimise the Risks faced by NFC and NFC's Risk Management Objectives and Policies are discussed in Section 3. To achieve this and to enable the Board to meet its objectives, the Board has established two Committees which are set out below.

Compliance, Audit and Risk Committee (CARC)

Established to provide oversight and advice to the Board in relation to future audit and risk strategy, risk appetite and key risk indicators. Provide oversight of financial reporting and disclosure and to provide assurance over the effectiveness of the systems of internal control.

Remuneration Committee (REMCO)

Responsible for ensuring that NFC has a formal and transparent procedure for developing policy on executive remuneration and fixing the remuneration of individual directors.

3 Risk Management

I. Objectives and Policies

The Company is exposed to the following main risks in the ordinary course of business: credit risk, market risk, operational risk, and liquidity risk. The Board of Directors set out the risk appetite and limit structures, which proposed by CARC. Periodic reviews of the risk management framework are undertaken by NFC Senior Management, and Board as appropriate.

II. Credit Risk

Credit Risk refers to the risk that the client will default on its contractual obligations resulting in a financial loss to NFC.

To mitigate credit risk, the company may require the client to deposit a cash margin or other forms of acceptable collateral on a daily basis and has the right to call for additional collateral on an intra-day basis. All credit lines issued to clients are required to be approved internally in accordance with the company's credit policy.

The company's Credit Committee comprise HGNH INTL Chairman, Nanhua Futures CRO (intermediate parent's Chief Risk Officer), HGNH INLT General Manger, HGNH INTL Head of Risk, NFC CEO, NFC CFO and NFC Head of Risk. The company's Credit Committee is delegated by the company's Board full delegation to approve all credit facilities within the company's credit approval delegation which has been given to the company by the immediate parent HGNH International Financial Corporation Limited ('HGNH INTL'). Where a credit decision falls outside the company's credit delegation the credit file must be supported by the company's Credit Committee prior to being submitted to HGNH INTL for final approval.

In respect of each credit facility, the Credit Department is required to complete a credit application (must include a review and assessment of the financial strength of the credit and/or collateral) for presentation to the Credit Committee for any new or existing client to whom credit is extended. All credit limits must be reviewed annually; and for non-credit line or fully margined clients, formal reviews are only completed as required once the initial due diligence has been completed.

The position of every client is marked to market on a daily basis (and intra-day when required), and credit/non-credit exposures are closely monitored to ensure that approved credit limits/position limits are respected and adhered to.

The company is committed to continue to build a client base spread across diverse industries and geographical areas to reduce the level of concentration risk.

III. Market Risk

Market Risk is the risk of loss arising from an adverse movement in commodity prices, interest rates and foreign exchange rates.

NFC is a Limited Activity Firm and is prohibited by its FCA license to carry out proprietary trading.

IV. Operational Risk

Operational Risk is the risk of financial loss resulting from inadequate or failed internal processes, people, and systems or from external events.

As a limited Activity regulated Company, NFC is not required to include an operational risk requirement as part of its regulatory capital calculation as it includes an Annual Expenditure Requirement.

V. Liquidity Risk

Liquidity Risk refers to the risk that the Firm is unable to meet its financial obligations due to insufficient current financial resources. The granting of credit lines in volatile markets, as well as its trading activities, exposes the company to material liquidity and cash flow risks. The Firm is classified as a Non-ILAS Firm and, hence, is subject to the Overall Liquidity Adequacy Rule (BIPRU 12.2.1), having in place Liquidity Systems and Controls which include the management of Liquidity Risk via scenario and stress testing of the Firm's Cash Flow Forecast and the establishment of management actions and contingency funding plans.

4 Own Funds

I. 31 December 2019

NFC's Own Funds as at 31 December 2019 as set out in the financial statements were as follows:

Own Funds	Amount \$'000
Share Capital	20,000
Retained Earnings	(2,004)
Total Own Funds	17,996

II. Capital Instruments

NFC's Own Funds consist of Common Equity Tier 1 items within the meaning of Article 26 of the CRR. Tier 1 Capital is issued and fully paid up ordinary shares and retained earnings.

5 Capital requirements

I. Application of Pillar 1

NFC follows the standardised approach and as an FCA Limited Activity Firm, calculates the Fixed Overhead Requirement in accordance with Article 97. The capital requirements as at 31 December 2019 were as follows:

Capital Requirement	Amount \$'000
Credit Risk (CCP's & Bank balance)	4,451
Market Risk (LME B Share)	4,427
Fixed Overhead Risk	545
Total Capital Requirements	9,423

Capital Ratios	As per COREP % \$
CET 1 Capital Requirement	190.98%
Surplus of CET 1 Capital	8,573

NFC assesses its required internal capital through its ICAAP.

6 Remuneration

I. Remuneration Policy

Following the guidance in SYSC19A of the FCA Handbook, NFC classifies as a Proportionality Tier Four firm. NFC's policies have been designed to comply with the Tier 4 requirements.

II. Remuneration Governance

The Board is responsible for implementing the Remuneration Policies through the REMCO. The Policies are reviewed on an on-going basis.

III. Performance Criteria

To determine the fixed and variable elements of remuneration, the Board through REMCO considers certain factors including:

- Contribution to profitability

- Compliance with policies and regulations
- Operational efficiency and performance

IV. Quantitative Remuneration

The aggregate quantitative remuneration for Remuneration Code Staff, staff whose actions have a material impact on NFC,6 is £836,591 for the year ended 31 December 2019.No Code Staff earning over 1 Million Euros per month.

7 Disclaimer

The document has been prepared to meet the requirements of the EU CRR regarding the disclosures of matters in Part 8 of the CRR. This disclosure generally contains information about capital requirements and about the management of risk relating to those requirements and for no other purpose. It therefore does not constitute any form of contemporary or forward- looking record or opinion.