

Nanhua Financial (UK) Co Limited

Pillar 3 Disclosure

31 December 2020

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1 Scope of Application

Nanhua Financial (UK) Co Limited (NFC) was incorporated on 17 July 2018. The company is authorised and regulated by the FCA, FRN 821609 and is a Category 2 member of the London Metal Exchange (LME). NFC commenced investment business in December 2019.

The information contained in this document is provided on a firm solo 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 is provided in NFC's Base Currency, US Dollars.

The information is not subject to audit except where it is equivalent to that 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 of Directors

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

Name	Position
Linqiang Jiang	Executive Director at NFC; General Manager of NFC's immediate parent - HGNH International Financial Corporation Limited ('HGNH INTL'), Hong Kong
Nong Yan	CEO
Zijian Zhang	NED
Baoping Li	NED
Wencai Xu	NED

II. Board Recruitment and Diversity

The recruitment of new Board Members is subject to the approval of the Board. Potential new Board members are assessed on the basis of their experience, skills and knowledge, including industry knowledge.

NFC recognises the need for and benefits of a diverse work force and, to that effect, any new Board members are recruited taking into account the aforementioned factors.

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)

This committee is established to provide oversight and advice to the Board in relation to future audit and risk strategy, risk appetite and key risk indicators. It also provides oversight of financial reporting and disclosure, and provides 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 are proposed by the Compliance, Audit and Risk Committee (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 comprises HGNH INTL Chairman, Nanhua Futures CRO (intermediate parent's Chief Risk Officer), HGNH INTL General Manager, HGNH INTL Head of Risk, NFC CEO, NFC CFO and NFC Head of Risk.

The company's Credit Committee has been granted 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 continuing building 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 an IFPRU Limited Licence Firm and is prohibited by its FCA licence 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 an IFPRU Limited Licence Firm, NFC is not required to include an operational risk provision as part of its regulatory capital adequacy calculation as it includes a Fixed Overheads Requirement.

V. Liquidity Risk

Liquidity Risk refers to the risk that the Firm is unable to meet its financial obligations as they fall due because of insufficient current financial resources.

The granting of credit lines in volatile markets, as well as the nature of the firm's trading activities, exposes NFC 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, as well as contingency funding plans.

4 Own Funds

I. 31 December 2020

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	(3,926)
Total Own Funds	16,074

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 IFPRU Limited Licence Firm, calculates the Fixed Overhead Requirement in accordance with Article 97. The capital requirements as at 31 December 2020 were as follows:

Capital Requirement	Amount \$'000
Credit Risk (CCP's & Bank Balance)	1,389
Market Risk	398
Total Capital/Own Funds Requirement	1,787

Capital Adequacy	
Total Eligible Own Funds (\$'000)	16,074
Total Risk Exposure (\$'000)	1,787
Capital Adequacy Ratio (%)	899%

NFC assesses its required internal capital through its ICAAP.

6 Remuneration

I. Remuneration Policy

Following the guidance in SYSC19A of the FCA Handbook, NFC is classified 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 – is 6, totaling £771,640 for the year ended 31 December 2020. No Code Staff earns over 1 Million Euros per month.

7 Disclaimer

The document has been prepared to meet the requirements of the EU CRR regarding the disclosure 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.