

Nanhua Financial (UK) Co Limited

Product and Service Risk Disclosure

2019

Table of Contents

Introduction	3
1. Derivatives	3
Futures/Forwards/Forward rate agreements.....	3
Options.....	3
2. Generic Risks	3
Liquidity.....	3
Credit Risk	4
Market Risk	4
Settlement Risk	4
Insolvency Risk	4
Currency Risk.....	4
Interest Rate Risk	4
Commodity Risk	4
Legal and Regulatory Risk	4

Introduction

The Product and Service Risk Disclosure (the Disclosure) is for Nanhua Financial (UK) Co Limited 's (NFC) clients who have been classified as Professional in accordance with the FCA's rules. The Disclosure cannot disclose all the risks associated with products traded by you with NFC but is intended to give you information on and a warning of the risks associated with them. The Disclosure does not constitute investment advice or a recommendation and cannot be relied upon. You should only deal in derivatives where you understand the nature of the contract and the risk exposure. Derivatives involve leverage which may increase the risks.

1. Derivatives

A derivative is a financial instrument whose value is derived from an underlying asset's value and an agreement is made to exchange money, assets or another value at some future date based in the underlying asset. On-exchange derivatives are subject to margin requirements and exchange rules. Off-exchange derivatives may be unlisted transferable securities or bi-lateral "over the counter" OTC contracts. Both types of derivatives are subject to the credit risk of the counterparty and subject to the terms of the contract. Off-exchange derivatives are individually negotiated and no centralised pricing source may be available making them harder to value.

Derivatives can be used for hedging or speculative purposes and in cases the suitability of the transaction must be considered. All derivatives are subject to major risks including: credit, risk, market risk and any specific sector risks connected with the underlying asset.

Futures/Forwards/Forward rate agreements

Futures or forwards transactions involve the obligation to make, or to take, delivery of the underlying asset of the contract at a future date or in some cases settle the contract with cash. There is significant gearing or leverage involved in these contracts which can lead to losses. These contracts contain contingent liability and have margining requirements with the requirement to settle cash losses daily.

Options

A put option is a contract that gives the buyer the right to sell a certain quantity of an underlying security to the writer of the option at a specified price up to a specified date. A call option is an option contract that gives the buyer the right to buy a certain quantity of an underlying security from the writer of the option at a specified price up to a specified date. Buying options is less risky than selling options as if the price of the asset falls then the option lapses and the maximum loss is limited to the premium and transaction costs. The risk involved in writing options is greater than buying options as it creates the legal obligation to purchase or sell the underlying option when the option is exercised.

2. Generic Risks

Liquidity

The liquidity of a Financial Instrument is affected by the supply and demand for it and other factors including market disruption and disruption in the settlement process. Trading conditions may make it difficult to liquidate or acquire a position for example in times of extreme volatility.

Credit Risk

Credit risk is the risk of loss due to counterparties including brokers to fulfill their obligations including due to credit deterioration.

Market Risk

The price of financial instruments may fluctuate depending on factors including; market supply and demand, investor confidence and the prices of underlying instruments. Certain markets may lack transparency, liquidity, legal and political certainty.

Settlement Risk

The risk that a counterparty does not deliver the commodity or security in accordance with agreed terms after the other counterparty has fulfilled its part of the agreement to deliver. The risk increases where different legs of the transaction settle in different time zones or settlement systems where netting is not possible.

Insolvency Risk

The risk that a counterparty defaults which may lead to positions being closed out or liquidated without consent. There is also risk in relation to the investment itself for example the counterparty to an OTC transaction.

Currency Risk

An adverse movement in currency rates can lead to a loss as the weakening of a currency relative to a benchmark currency or the currency of a client's account will negatively impact the client's account. Currency valuations are affected by economic, social and political factors with some countries having currency controls.

Interest Rate Risk

The value of a security may be negatively impacted by an increase in interest rates.

Commodity Risk

The prices of commodities can be volatile as there are number of factors that may affect prices including; natural disasters and armed conflict.

Legal and Regulatory Risk

Certain jurisdictions carry greater legal risk for example enforceability of contracts and regulatory changes may affect the availability of certain products.