

# Pillar 3 Disclosures

2020

*Haitong International (UK) Limited*



## Contents

1 Overview.....	3
1.1 Background.....	3
1.2 Structure .....	3
1.3 Principal Activities.....	3
1.4 Scope.....	3
1.5 Basis of Disclosure .....	4
1.6 Location and Verification.....	4
2 Risk Management Objectives and Policies .....	4
2.1 Governance and Structure .....	4
2.1.1 Board Committees.....	5
2.2 Governance Arrangements .....	5
2.3 Management Body .....	5
3 Significant Risks .....	5
3.1 Market Risk.....	5
3.2 Credit Risk.....	5
3.3 Liquidity Risk .....	6
3.4 Operational Risk.....	6
3.5 Other Risks .....	6
4 Capital Resources .....	6
4.1 Capital Adequacy .....	6
4.2 Credit Risk.....	8
4.3 Credit Risk - Standardised Approach .....	9
4.4 Market Risk.....	10
4.6 Credit Risk Mitigation .....	10
5 Remuneration.....	10
5.1 Basis of Disclosure .....	10
5.2 Remuneration Disclosure - Aggregate Remuneration Expenditure for MRTs .....	11
6. Board Approved Risk Appetite Statement.....	11

## 1 Overview

### 1.1 Background

The European Union (“EU”) Capital Requirement Regulation (“CRR”) and Capital Requirements Directive (“CRD”) (collectively known as “CRD IV”) implements the revised Basel capital adequacy framework (“Basel III”) and applies to all investment firms, building societies and banks. The CRD IV package was formally adopted by the EU on 26 June 2013 and became effective in the UK on 1 January 2014. CRD IV is a continuation of the now repealed CRD III, which introduced the concepts of minimum capital requirements (Pillar 1) and supervisory review processes (Pillar 2) in the determination of those requirements.

The disclosure requirements of Pillar 3 complement the capital requirements described in Pillar 1 and Pillar 2 and seek to promote greater market discipline and transparency through the disclosure of key information about risk exposures and risk management processes.

This document covers the period from 1 January 2020 to 31 December 2020 (“Relevant period”). As such, the information may have changed since the close of the relevant period.

The Pillar 1 standardised approach to credit, market and operational risk has been adopted.

### 1.2 Structure

Haitong International (UK) Limited (“HI(UK)L” or “Firm”) and Haitong International Securities (UK) Limited (“HIS(UK)L”) are authorised and regulated by the Financial Conduct Authority (“FCA”) and are indirectly owned by Haitong International Securities Group Limited (“Haitong International”), a company incorporated in Bermuda whose shares are listed on Hong Kong Stock Exchange. Haitong International is indirectly owned by Haitong Securities Co., Ltd. (“Haitong Securities”) a company whose shares are listed on the Shanghai Stock Exchange and The Stock Exchange of Hong Kong Limited.

HI(UK)L and HIS(UK)L are co-located with the London Branch of Haitong Bank, S.A. (“HTBK”), which is in the UK’s temporary permissions regime for EEA-based firms that previously passported into the UK. The London Branch is treated as an arms-length company and is indirectly owned by Haitong Securities.

### 1.3 Principal Activities

The current HI(UK)L business model is based on two distinct business pillars: Equities and Fixed Income (“FICC”). The intention is to continue to explore business synergies within the wider Haitong Group which includes Research and Capital Markets business lines.

### 1.4 Scope

HI(UK)L is authorised and regulated by the Financial Conduct Authority (“FCA”) as an IFPRU 730K firm. An IFPRU 730k firm must hold initial capital of not less than the base own funds requirement. As set out in IFPRU 3.1.9, the base own funds requirement for an IFPRU 730k firm is €730,000.

These Pillar 3 disclosures have been prepared as at 31 December 2020, which is the Firm’s accounting reference date and financial year-end.

## 1.5 Basis of Disclosure

The Pillar 3 disclosures presented here include both the quantitative and qualitative information in relation to credit risk and market risk. Both of which have been prepared on a “standardised approach” basis, and are disclosed in accordance with Part Eight of the CRR which replaced Chapter 11 of the Prudential Sourcebook for Banks, Building Societies and Investment Firms (“BIPRU”) section of the FCA handbook.

The Firm is not a “Significant IFPRU firm” (according to the definition in IFPRU 1.2G of the FCA Prudential sourcebook for Investment Firms) and as a result reporting requirements relating to stress testing and capital buffers are not applicable to the Firm.

Furthermore, certain additional disclosures have been mandated by the European Banking Authority to be disclosed in standard templates from 2015. These include:

- Own Funds;
- Leverage;
- Asset Encumbrance; and
- Liquidity Coverage (qualitative).

For remuneration purposes, the Firm is considered a Level 3 firm as the average total assets over the past three financial years are less than £530m. The Firm reviews this position at regular intervals.

## 1.6 Location and Verification

The Pillar 3 disclosures have been approved by the Firm’s Board of Directors (“Board”) and are published on the Firm’s website. Disclosures will be updated on an annual basis and made available on that website as soon as practicable. This document has not been subject to audit by the Firm’s external auditors.

# 2 Risk Management Objectives and Policies

## 2.1 Governance and Structure

The Board oversees the Firm’s risk culture and provides appropriate challenge to management. The responsibility for drawing up and maintaining the disclosures lies with the Firm’s Board which has delegated such responsibility to the Firm’s Executive Committee as part of its delegated responsibility for managing the Firm’s capital and liquidity positions. The Executive Committee has tasked the Finance department with preparing and maintaining the disclosures. The disclosures will be reviewed and approved by the Board on at least an annual basis, or more frequently if required.

In addition, the Board is responsible for:

- Approving overall policy in relation to the types and level of risk that the Firm is permitted to assume in the implementation of its strategic business plans; and
- Maintaining a sufficient control environment to manage the principal risks and ensuring that the capital and liquidity resources are adequate to achieve the Firm’s objectives in line with its risk appetite.

### 2.1.1 Board Committees

The nature, scale and complexity of its business has meant the Board no longer requires support from local Board sub-committees. This will be kept under review.

## 2.2 Governance Arrangements

The Firm's objective is to effectively manage risk by aligning and integrating varying views of risk management into critical management activities through strong governance, policies and management information.

The Firm operates a three lines of defence model covering the following.

- First line of defence: Operational Management with key business owners managing and owning the risks with oversight from the Executive Committee.
- Second line of defence: Risk and Compliance functions providing policies to manage risk and providing independent oversight and challenge over the first line.
- Third line of defence: Internal Audit is entirely independent of the operational functions of the Firm and reports directly to the group Audit Committee. The role of the Internal Audit function is to provide the Board with an independent view of the Firm's systems and controls.

## 2.3 Management Body

Executive Board Directors are all registered with the FCA. The Firm has systems in place to monitor the good repute, knowledge, skills and experience of the directors. The Firm monitors compliance with the requirements of Article 91 of the Capital Requirements Directive.

## 3 Significant Risks

The most significant types of risks to which the Firm is exposed are discussed below.

### 3.1 Market Risk

Market Risk is the risk of loss as a result of fluctuations in the market value of positions. The Firm faces low market risk as it trades predominantly as agent or on a back-to-back basis.

### 3.2 Credit Risk

Credit risk is the risk of financial loss to the Firm if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Firm's receivables from customers and Investment securities.

### 3.3 Liquidity Risk

Liquidity risk is the risk that the Firm is unable to meet its financial obligations as they fall due or can only do so at excessive costs, leading to an inability to support normal business activity and meet liquidity regulatory requirements.

### 3.4 Operational Risk

Operational risk is the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events. The definition includes legal risk, but excludes reputational and strategic risk. Operational risks within Firm are minimised by means of a network of controls, procedures, reports and responsibilities. Within the Firm, each department has responsibility for its own operational risks and establishes appropriate resources, processes and controls for minimising such risks.

### 3.5 Other Risks

The Firm is subject to the following risks that have been addressed and managed through the risk appetite statement:

- Business Risk;
- Liquidity and Funding Risk;
- Conduct Compliance and Regulatory Risk;
- Interest Rate Risk in the non-Trading book;
- Leverage Risk; and
- Concentration risk.

## 4 Capital Resources

The table below details the composition of the Firm's consolidated regulatory capital as at 31 December 2020.

	<b>31.12.2020</b> <b>(£)</b>
Common Equity Tier 1 Capital:	
Called up share capital	8,334,563
Share Premium Account	2,856,650
Profit and loss account and other reserves	(1,765,328)
Revaluation Reserve	-
Less capital deductions from CET1	(22,105)
<b>Total Common Equity Tier 1 Capital</b>	<b>9,403,780</b>

#### 4.1 Capital Adequacy

The Firm defines capital as the resources necessary to cover unexpected losses arising from discretionary risks, being those which it accepts as credit risk and market risk, or non-discretionary risks, being those which arise by virtue of its operations, such as operational risk.

The Firm uses capital management principles and related policies define the Internal Capital Adequacy Assessment Process (“ICAAP”) by which the Firm’s risk profile is examined to ensure the level of capital:

- Remains sufficient to support the Firm’s risk profile and outstanding commitments;
- Exceeds the Firm’s supervisory capital requirement by an agreed margin;
- Is capable of withstanding a severe economic downturn or stress scenario;
- Remains consistent with the Firm’s strategic and operational goals.

The Firm’s Pillar 1 capital adequacy calculation is set out in the tables below.

<b>Minimum Capital Requirements</b>	<b>31.12.2020</b>
	<b>£</b>
Interest rate PRR	-
Equity PRR	-
Option PRR	-
CIU PRR	-
FX PRR	175,581
<b>Total Market Risk Capital Requirement</b>	<b>175,581</b>
Counterparty Credit Risk Capital Requirement	-
Credit Risk Capital Requirement	314,788
Concentration Risk Capital Requirement	-
Credit Valuation Adjustment	-
Default Fund Contribution Charge	-
<b>Total Credit Risk Capital Requirement</b>	<b>314,788</b>
<b>Operational Risk Capital Requirement</b>	<b>932,444</b>
<b>Total Pillar 1 Capital Requirement</b>	<b>1,422,813</b>
<b>Total Tier 1 Capital</b>	<b>9,403,780</b>
<b>Total Surplus</b>	<b>7,980,967</b>
<b>Total risk weighted assets equivalent (TREA)</b>	<b>17,785,156</b>
<b>Tier 1 Capital Ratio</b>	<b>52.87%</b>

## 4.2 Credit Risk

The following table shows the counterparty risk capital component and credit risk capital component by exposure class (8% of the risk weighted exposure amounts).

<b>As at 31.12.2020 (current year) - £</b>	<b>Exposure</b>	<b>Risk Weighted Assets</b>	<b>Credit Risk Capital</b>
<b>Standardised approach</b>			
Central Governments and Central Banks	93,975	-	-
Institutions	8,042,933	1,608,587	128,687
Corporates	1,285,678	1,285,678	102,854
Other items	1,040,582	1,040,582	83,247
<b>Total</b>	<b>10,463,168</b>	<b>3,934,847</b>	<b>314,788</b>

The geographical distribution of these exposures is as follows.

<b>Total Gross Credit Exposures (31.12.2020) - £</b>	<b>UK</b>	<b>US</b>	<b>Asia</b>	<b>Europe</b>	<b>Rest of the World</b>	<b>Grand Total</b>
Central Governments and Central Banks	93,975	-	-	-	-	93,975
Institutions	8,042,867	-	66	-	-	8,042,933
Corporates	172,403	-	1,113,275	-	-	1,285,678
Other items	1,040,582	-	-	-	-	1,040,582
<b>Total</b>	<b>9,349,827</b>	<b>-</b>	<b>1,113,341</b>	<b>-</b>	<b>-</b>	<b>10,463,168</b>

The distribution of exposures by industry and exposure class is as follows.

<b>Total Gross Credit Exposures (31.12.2020)- £</b>	<b>Sovereigns</b>	<b>Institutions</b>	<b>Corporates</b>	<b>Other</b>	<b>Grand Total</b>
Central Governments and Central Banks	93,975	-	-	-	93,975
Institutions	-	8,042,933	-	-	8,042,933
Corporates	-	-	1,285,678	-	1,285,678
Other items	-	-	-	1,040,582	1,040,582
<b>Total</b>	<b>93,975</b>	<b>8,042,933</b>	<b>1,285,678</b>	<b>1,040,582</b>	<b>10,463,168</b>

## Haitong International (UK) Limited - 2020 Pillar 3 Disclosures

The distribution of exposures by residual maturity is as follows.

Total Gross Credit Exposures (31.12.2020) - £	Less than 3 months	Over 3 months less than 1 year	Over 1 year less than 5 years	Over 5 years	Grand Total
Central Governments and Central Banks	93,975	-	-	-	93,975
Institutions	8,042,933	-	-	-	8,042,933
Corporates	1,285,678	-	-	-	1,285,678
Other items	1,040,582	-	-	-	1,040,582
<b>Total</b>	<b>10,463,168</b>	-	-	-	<b>10,463,168</b>

### 4.3 Credit Risk - Standardised Approach

The Firm uses Moody's as its external credit assessment institution (ECAI) for the purpose of calculating risk weighted exposure amounts in accordance with the standardised approach to credit risk. The following details the standardised credit risk exposure classes for which the ECAI was used:

- Sovereigns (Central Governments/Central Banks);
- Regional Governments/Local Authorities;
- Institutions;
- Corporates; and
- Other Items.

The following table shows the exposure values (before the application of supervisory hair-cuts) associated with each credit quality step as at 31 December 2020. The credit quality steps are those used by the FCA and reflect the credit quality of exposures. The steps are determined by factors such as the type of exposure, credit rating and maturity. The highest credit quality is 1 and the poorest is 6.

Total Gross Credit Exposures (31.12.2020) - £	Sovereigns	Institutions	Corporates	Others	Grand Total
<b>Credit Quality Step (CQS)</b>					
1	93,975	8,042,933	-	-	8,136,908
2	-	-	-	-	-
3	-	-	-	-	-
4	-	-	-	-	-
5	-	-	-	-	-
6	-	-	-	-	-
Not Rated	-	-	1,285,678	1,040,582	2,326,260
<b>Total</b>	<b>93,975</b>	<b>8,042,933</b>	<b>1,285,678</b>	<b>1,040,582</b>	<b>10,463,168</b>

#### 4.4 Market Risk

The following table shows the Firm's Pillar 1 capital requirement on market risk as at 31 December 2020.

<b>Minimum Capital Requirements</b>	<b>31.12.2020 (£)</b>
Interest rate PRR	-
Equity PRR	-
Option PRR	-
CIU PRR	-
FX PRR	175,581
<b>Total Market Risk Capital Requirement</b>	<b>175,581</b>

#### 4.5 Operational risk

Please refer to Section 2 (Risk Management Objectives and Policies) for a summary of the Firm's approach to the management of operational risk. The Firm has followed the criteria for the approach and assessment set out in CRR Part Three, Title II (Own funds requirements for operational risk). The Firm has adopted the basic indicator approach for calculating the Pillar 1 capital requirement for operational risk.

<b>Minimum Capital Requirements</b>	<b>31.12.2020 (£)</b>
<b>Operational Risk Capital Requirement</b>	<b>932,444</b>

#### 4.6 Credit Risk Mitigation

Please refer to Section 2 (Risk Management Objectives and Policies) for a summary of the Firm's approach to the management of credit risk mitigation.

## 5 Remuneration

### 5.1 Basis of Disclosure

The remuneration disclosures are prepared on the basis that the Firm is a level 3 firm. A level 3 firm is defined as one whose average total assets over the past three financial years have not exceeded £530m. As a result, the Firm's remuneration disclosures are not required to be as detailed as if it were level 1 or 2. The Firm monitors its position with regards to this definition closely.

## 5.2 Remuneration Disclosure – Aggregate Remuneration Expenditure for MRTs

Due to the small size of the Firm, the remuneration expenditure for Material Risk Takers (“MRTs”) is disclosed in aggregate: £1,553,870.

## 6. Board Approved Risk Appetite Statement

The Firm’s Risk Appetite is approved by the Board and the Board provides oversight for the measures used to monitor if the Firm’s activities are within the Risk Appetite.