We create chemistry

Pillar 3 Disclosure

Introduction

BASF Metal Forwards Limited (BMFL) is authorized and regulated by the Financial Conduct Authority (FCA) to conduct business under the Financial Service and Market Act 2000 as amended by the Financial Services Act 2012. Firms with accounting reference dates on or before 31 December 2021 must continue to meet their disclosure obligations under BIPRU.

During the period of the 2021 accounts BMFL was classified as an Exempt BIPRU Commodities firm. It was not subject to the capital requirements of the Capital Requirements Regulation (Regulation EU No 575/213) or the Capital Requirement Directive (Directive 2013/36/EU).

The provisions of GENPRU and BIPRU on capital requirements and GENPRU 1.2 (Adequacy of financial resources) do not apply (BIPRU TP 15.6). The company continues to calculate its regulatory financial resources under the terms of Chapter 3 of the FCA's IPRU (INV) rulebook.

Chapter 11 of the FCA's Prudential Sourcebook for Banks, Building Societies and Investment Firms ('BIPRU') requires Exempt BIPRU Commodities firms to make certain disclosures to market participants. These are known as Pillar 3 disclosures.

Effective from 1st January 2022, the company is classified as a "non-SNI (Small and Non-Interconnected firm) " by the FCA. It is subject to the requirements of the Investment Firms Prudential Regime (IFPR).

Regulatory Environment

Given the political pressure to regulate OTC derivatives on a global scale, it is important that the group continues to have a regulated entity in the event of any future developments in this area and keeps up to date with the regulatory requirements of various regions.

UK European Markets Infrastructure Regulation (UK EMIR) was on-shored on 31 December 2021. Based on the UK EMIR definition, BMFL is classified as a financial counterparty and, as such, is required to comply with the UK EMIR requirements. The requirements which affect BMFL include reporting those derivatives as defined by the Regulation to a registered trade repository and also the risk-management of their derivative positions.

As of 31 December 2021, the company's excess Capital Resources were USD52.7 million

Investment Firms Prudential Regime (IFPR)

The company is an FCA (Financial Conduct Authority) authorized "UK MiFID Investment Firm. From 1 January 2022, the Investment Firms Prudential Regime (IFPR) applies to BMFL as a UK MiFID investment firm.

The new regulations impose:

- a regulatory capital requirement (or Own funds requirement, 'OFR') applies at all time;
- liquidity requirements;
- governance requirements;
- reporting requirements;
- record-keeping requirements; and
- notification requirements.

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Materials Services

The OFT is set as the highest of the:

- Permanent minimum capital requirement (PMR);
- Fixed overheads requirement (FPR), and
- K-Factor requirement (KFR)

The company calculates the regulatory requirements from 1st January 2022 as per IFPR sets.
BMFL does not currently enter into any transactions in the US or with any US counterparties but, as in the past, continues to monitor the regulatory requirements of Dodd-Frank. UK MiFID (UK Markets in Financial Instrument Directive (MiFID)) came into force on 3 January 2018. BMFL is defined as an investment firm under UK MiFID and required to adhere to relevant UK MiFID requirements.

The United Kingdom exited the transition period and completed its withdrawal from the European Union on the 31 of December 2020. BMFL has adopted a reverse solicitation model to enable the firm to continue its established trading activities with EU counterparties.

Disclosure Policy
The BMFL Management is to review and approve the issue of the Company's Pillar 3 disclosures on an annual basis, unless circumstances necessitate additional disclosures. Disclosures are prepared by BMFL in conjunction with the preparation of the annual statutory accounts.

The Pillar 3 Disclosure is published on a BASF website

https://www.basf.com/gb/en/who-we-are/BASF-in-the-United-Kingdom/BASF-Metals-Forwards-Limited--BMFL-.html

The BIPRU 11 requirements allow firms to omit one or more of the disclosures listed under BIPRU 11.5 if the information provided by such disclosures is not regarded as material. The requirements similarly allow firms to omit items of information from the BIPRU 11.5 disclosures if the information is regarded as proprietary or confidential. The BMFL Management reviews any such omissions as part of the overall process.

Disclosure Basis
BMFL is a member of the BASF Catalysts Division and is 100% indirectly owned by BASF SE. However, BMFL is neither a parent nor subsidiary undertaking or is part of a UK Consolidated Group for regulatory purposes. Consequently, this disclosure is made on an individual basis under the BIPRU 11.2.1.

Disclosure Data
This disclosure is prepared in conjunction with the annual statutory accounts and FCA report covering the financial year ending 31 December 2021.

Business Development
The company continues its precious metals activities.

Risk Management – Objectives, Policies & Disclosures

<u>Risk Management</u>
The company's risk management focuses on the major areas of market risk, credit risk, liquidity risk and operational risk.

Authority flows from the Management to individual authorized persons of the company and from them to the business managers who are integral to the management of risk. The Management determines the acceptability of risks that the company faces. The principle risks facing the business relate to the following:

<u>Market Risk</u>
Market Risk is the risk associated with the adverse movements in the prices of commodities in which the company holds positions.

Trading limits are established for each trading book and individual limits are set per counterparty, which take into account volumetric and market value considerations, and are subject to regular review. All trading limits are monitored daily by the Operations department and are signed off by the Operations Manager. The Finance department, with the help of the dealing desk, uses a variety of tools that are available to them in order to monitor price movements. All exposures are marked-to-market and monitored against their respective limits on a daily basis.

<u>Credit Risk</u>
Credit Risk is the risk that the counterparty to a trade will fail to perform an obligation to the firm.

All counterparties are assessed for credit purposes and trading facilities are granted accordingly. Management has a credit policy in place and the exposure to credit risk is monitored on an ongoing basis. Credit evaluations are performed on all customers requiring credit. All counterparty positions are marked-to-market and maintained flat at the end of each business day.

Liquidity Risk

Liquidity risk is defined as the risk that a firm, although solvent, either does not have available sufficient financial resources to enable it to meet its obligations as they fall due, or can secure resources only at excessive cost. The Company maintains sufficient financial facilities to conduct its business and complies with its regulatory capital adequacy requirements on a daily basis. To ensure a sufficient high level of liquidity security, regular stress tests are carried out to simulate extreme conditions.

Operational Risk

Operational Risk, inherent in all businesses, is the potential for financial and reputational loss arising from the failures in internal controls, operational processes or the systems that support them. It includes errors, omissions, disasters and deliberate acts such as fraud. The regulated environment, in which the company operates, imposes extensive reporting requirements and continuing self-assessment and appraisal. The company seeks continually to improve its operating efficiencies and standards.

Capital Resources

Capital resources comprise the company's called up share capital and reserves, not including investments.

As of 31 December 2021 the company's Capital Resources were USD53,437,000.

Financial Resources Requirement

Under FCA rules there are 4 classes of requirement:

(1) Primary Requirement

This comprises the total of 3 months of the Company's annual relevant expenditure plus liquidity adjustments. Although not described as such in the FCA rulebook, the 3 months of the company's annual relevant expenditure is effectively covering the company's operational risk.

The Company believes the Primary Requirement charge is sufficient to mitigate these risks.
As of 31 December 2021 the Company's Primary Requirement was USD191,000.

(2) Position Risk Requirement (PRR)

The Company calculates its PRR on all its commodity positions (including options), with the exception of gold which is deemed to be a currency for regulatory purposes. The method used is the "Extended Maturity Ladder" approach under the FCA rulebook. This involves allocating the long or short positions to an appropriate maturity band and then totaling all the charges which result (spread charges, carry charges and outright charges).

As of 31 December 2021, the Company's Position Risk Requirement was USD5,000.

(3) Foreign Exchange Requirement (FER)

Foreign currency exposures that exceed limits set by the Management are hedged using appropriate foreign exchange contracts (including forward contracts). The company calculates an additional PRR where there is an asset or a liability which is denominated in a currency other than US Dollar. For these purposes gold is treated as another currency under FCA rules.

The FER is calculated by:

- Calculating the net open position for each currency
- Converting each such net position into its base currency equivalent at current spot rates
- Calculating the totals for all short and all long positions
- Netting the totals for all short and all long positions, and
- Multiplying by 5% of the aggregate of its net long positions to produce the minimum requirements

As of 31 December 2021, the company's Foreign Exchange Requirements was USD5,000.

(4) Counterparty Risk Requirement (CRR)
The company calculates its total CRR on exposures to counterparties as the sum of all the amounts calculated in accordance with the appropriate FCA rules relating to OTC derivative transactions; the calculation also takes into account other qualifying deposits.

The company's credit officer continually monitors exposures to ensure that all customers are operating within the credit facilities allocated to them and that appropriate action is taken when facilities are exceeded.

No geographical distribution of the exposures is disclosed as the Management considers this information to be confidential.

The following off-balance credit mitigation techniques are used to reduce exposure to counterparties: Bank Guarantees, Letters of Credit, Counterparties' Parent or Associate Company Guarantees.

The company's bank deposit balance as of 31st December, 2021 was USD53,593,000.

Trade debtors and trade creditors comprise forward marked-to-market derivative transactions and other amounts due/payable arising from trading book activities. BMFL's derivative transactions consist of OTC contracts only. In all cases the company calculates its exposure to counterparty capital risk using the CRR marked to market method.

OTC exposures are marked-to-market with positive values (the replacement cost of the contract). The potential future credit exposure is calculated by multiplying the notional principle or underlying values by percentages set out in the FCA rulebook. These totals are added together to arrive at the total exposure value which is then multiplied by a set percentage as specified in the FCA handbook to obtain the required CRR.

As of 31 December 2021, the company's Counterparty Risk Requirement was USD453,000 after reducing the exposure on which its CRR is calculated to the extent that it makes provision for a specific counterparty balance. No Concentration Risk element was required.

Remuneration Disclosure
Remuneration disclosures are required under BIPRU 11.5. The level of disclosure required is dependent upon the size, international organization and nature, scope and complexity of its activities.

The Company does not have any employees. Staff are employed by a fellow subsidiary which is also owned by the same parent company. The costs attributable to work undertaken for BMFL are recharged. A list of Code staff working for BMFL is kept by the compliance officer. The aggregated costs for administrative expenses and aggregated Director's emoluments were USD628,000.

The Business Unit remuneration policy is based on competitive market-based wages that fairly compensate employees for skills provided, work performed and responsibility undertaken. The annual bonus scheme is neither contractual nor guaranteed and is entirely discretional. It is based on combination of both business and individual performance.