Pillar Three Disclosures

1. Capital Requirements Directive (February 2018)

1.1 Overview

1.1.1 Background

The Capital Requirements Directive (CRD) sets out the regulatory capital framework applicable to financial institutions with the UK and European Union (EU). It requires Senior management to assess the nature of risks within their business and to ensure that sufficient capital is available to mitigate those risks. The framework is based upon three pillars:

Pillar 1 – sets out the minimum capital requirement for the company

Pillar 2 – requires the firm and its regulatory supervisors to assess whether additional capital should be held to offset risks within the business not sufficiently covered by Pillar 1 capital.

Pillar 3 – firms are required to publish details of their risks, capital and risk management process.

1.1.2 Scope

Nomura Asset Management U.K. Ltd. (NAM UK) is authorised and regulated by the Financial Conduct Authority (FCA) in the UK. It is a wholly owned subsidiary of Nomura Asset Management Co., Ltd. based in Tokyo, (NAM Tokyo). As NAM Tokyo is based outside of the EU, NAM UK does not consolidate its financial reporting with NAM Tokyo for FCA purposes.

Nomura Asset Management Ireland Ltd. (NAM Ireland) is an Irish domiciled company providing management company services to a small number of Irish based collective investment schemes. It is a 100% subsidiary of NAM UK and thereby consolidated into the NAM UK financial regulatory returns. NAM Ireland is not a significant subsidiary.

There are no known current or foreseen practical or legal impediments to the prompt transfer of capital resources or repayments of liabilities between parent and subsidiary undertakings and there are no subsidiary undertakings where actual capital resources are less than the required minimum.

1.1.3 Basis of Disclosure

This Pillar 3 disclosure is based on the ICAAP document approved by NAM UK's Board of Directors on 14th February 2018 and will be updated annually based upon audited financial statements for the year ending 31st March or upon any material change to the company's capital position.

1.2 Risk Management Objectives and Policies

The most significant risks facing the company are considered to be:

(1) risks which lead to a fall in assets under management and thereby a fall in income, such as poor investment performance or market depreciation; and

(2) a loss stemming from a failed internal process or procedure.

In order to consider and control such risks, NAM UK has developed a risk management framework that is overseen by the Executive Committee (monthly), the Risk and Control Committee (monthly) and the Operational Risk Committee (half-yearly).

1.2.1 Operational Risk Framework

The operational risk framework adopts a bottom up approach to identifying operational risks within each business area and considers the impact and probability of the risk occurring. Consideration is then given to the controls in place to mitigate the risks.

Risks identified as medium or high risk in each business area are summarised in a heat map which allows Senior management to apply a top down view to identify any particular trends or common risks in different business areas. Appropriate action plans can then be discussed and implemented.

1.2.2 Counterparty/Credit Risk

NAM UK is exposed to two main types of credit risk.

(a) The risk of clients not paying management fees. This risk is mitigated through credit control and invoicing arrangements with individual clients.

(b) The risk of default by counterparties with whom corporate cash deposits are placed for NAM UK proprietary funds. Deposits are diversified across suitably credit-worthy institutions.

1.2.3 Market Risk

NAM UK does not undertake proprietary trading therefore exposure to market risk is limited to the movement in foreign exchange rates which affects either the corporate funds held by NAM UK in currency other than sterling, or affects the value of management fees due from third parties who pay in foreign currency. This is not considered to be a material risk.

1.3 Capital Resources Disclosure

1.3.1 Tier One Capital

NAM UK's capital position as at March 31, 2017 (prior to payment of £8m final dividend) was as follows:

Tier One Capital		£'000
Called up share capital	4,744	
Reserves	24,329	
Total Tier One Capital		**29,073**

1.3.2 Pillar 1 minimum capital requirement

NAM UK is classified for regulatory and capital purposes as a limited licence firm and therefore the company's Pillar I capital requirement is the greater of the company's fixed overhead requirement or the sum of credit risk and market risk capital requirements. In common with many investment managers, NAM UK's fixed overhead requirement is significantly greater than the sum of credit and market risk requirements.

As at March 31, 2017, the fixed overheads requirement for NAM UK was £5.9m.

1.3.3 Pillar 2 capital requirement

NAM UK assesses the adequacy of its internal capital by undertaking the Internal Capital Adequacy Assessment Process (ICAAP) and produces a substantial report on the company's business and risk environment. The ICAAP is founded upon the existing operational risk framework however additional items such as business risks, articulation of risk appetite, scenario analysis and stress testing of key risks are included.

Through analysis and discussions with the Directors as part of the ICAAP review process, it was determined that Pillar 1 capital is sufficient given the company's risk appetite and the level of risk within the business. Nevertheless, the Board of Directors determined that it would be prudent for NAM UK to maintain a capital buffer in excess of the Pillar 1 requirement and equivalent to the projected six month winding down costs, to ensure that the company is able to undertake an orderly winding down should this unlikely event ever occur. This is represented as a percentage of Pillar 1 capital. NAM UK has adopted a Pillar 2 capital requirement of 231% of Pillar 1 capital, equivalent to £13.59m.