Capital Requirements Directive – Pillar Three Disclosure

1 Overview

1 April 2010

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.

1.2 *Scope*

Nomura Asset Management U.K. Ltd. is authorised and regulated by the Financial Services Authority (FSA) 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 FSA 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.

1.3 *Basis of Disclosure*

This Pillar 3 disclosure is effective from 1 April 2010 and will be updated annually based upon audited financial statements for the year ending 31st March.

2 Risk Management Objectives and Policies

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

i) 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
ii) 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 Operational Risk Committee (quarterly) and the Executive Committee (monthly) of NAM UK. The Chief Executive Officer chairs both committees.

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. A strategic risk profile then takes a top down assessment of risks which culminates in the creation of a risk matrix or heat map showing the current assessment of operational risks within the company.

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 placed with suitable credit-worthy institutions.

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.

3 Capital Resources Disclosure

3.1 *Capital Resources*

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 31 March 2010, the fixed overheads requirement for NAM UK was £4.8m against which NAM UK held total capital resources of £13.1m.

NAM UK's capital position as at 31 March 2010 was as follows:

Tier One Capital	**£'000**
- Called up share capital	4,744
- Reserves	8,479
Total Tier One Capital	**13,223**
Less deduction of material holdings	86
Total Capital Resources	**13,137**

3.2 *Pillar 2 requirement*

As required by the FSA, NAM UK has assessed the adequacy of its internal capital by undertaking the Internal Capital Adequacy Assessment Process (ICAAP) and producing 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 were included.

Through analysis and discussions with the Board of Directors and the Executive Committee as part of the ICAAP process, it was determined that Pillar I 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 I requirement to ensure that the company is able to overcome short term business events or market downturns.