

Daiwa Asset Management (Europe) Ltd

ANNUAL REPORT

For the year ended 31 March 2012

Registered No: 02045607

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Daiwa Asset Management (Europe) Ltd

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Daiwa Asset Management (Europe) Ltd

Directors and Officers For the year ended 31 March 2012

Directors

Y Okada	(Managing Director) Appointed 26 August 2011
A Morita	Appointed 5 October 2011
J Murofushi	Resigned 27 April 2012
Y Hasegawa	Resigned 26 August 2011
A Tahara	Resigned 5 October 2011
D Kubo	Appointed 5 October 2011
A Osugi	Appointed 27 April 2012
K Sekiguchi	
H Norushi	

Company Secretary

A Morita

Registered Office

5th Floor
5 King William Street
London EC4N 7AX

Independent Auditors

PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
7 More London Riverside
London
SE1 2RT

Daiwa Asset Management (Europe) Ltd

Directors' report

For the year ended 31 March 2012

Registered Number 02045607

The directors present their report and the audited financial statements for the year ended 31st March 2012

Principal activities, business review and future developments

The profit and loss account for the year is set out on page 9. The principal activity of the company is the provision of investment management services to fellow group undertakings and third parties and the provision of investment advice to its parent undertaking and to fellow group undertakings. The company's operating profit for the year has increased from £1,444,092 to £1,517,367. Turnover was up by £387,651, an increase of 6.7% from previous year. The assets under management as at 31st March 2012 was £4.18 billion up from £3.99 billion in previous year.

Management fee income, which is mainly related to the value of assets under management, rose by 42.59% to £4.29 million, reflecting an increase in the value of assets under management and an increase in new funds.

In May 2011, Daiwa Asset Management (America) Ltd ('DAMAL'), a fellow subsidiary, terminated the company's agreements to provide funds related administrative services as a result of the steady growth in the volume of trade and the benefits of the convenience and immediate access to local market information. Consequently, the income from the provision of funds related administrative services fell by £798,320, a decrease of 55.34%. While DAMAL is well equipped to handle a complete range of administrative services themselves, the company continues to provide back up trading service supports for an annual fixed fee.

Despite the difficult economic climate and outlook, the company has experienced a year of stable performance with increase in overall turnover, the directors are satisfied with the results achieved and are optimistic for the future.

The company's directors are of the opinion that analysis using key performance indicators is not necessary for an understanding of the development, performance or position of the business.

Dividends

The directors recommended a final dividend of £3 per share (2011: Nil) making a total of £1,500,000 for the year (Note 8). No interim dividend was paid for the year (2011: £7.2 per share). The profit for the financial year of £1,123,401 will be transferred to reserves.

Directors

The directors of the company who were in office during the year and up to the date of signing the financial statements were listed on page 3.

None of the directors had any beneficial interest in the share capital of the company either at the beginning or end of the year.

Financial risk management

The company is exposed to financial risk through its fees receivable from investment fund management and advisory fees payable to fund advisors. The most important components of this financial risk are currency risk and liquidity risk. The company manages these risks by matching its assets to the liabilities arising from investment fund management, by maintaining bank accounts in foreign currencies.

Directors' report
For the year ended 31 March 2012 (*continued*)**Currency risk**

The company is exposed to currency risk in respect of fees receivable from investment fund management and advisory fees payable in currencies other than sterling. The most significant currencies to which the company is exposed are the US and Australian dollars. The company seeks to mitigate such risks by maintaining bank accounts in foreign currencies to match the foreign currency-denominated liabilities, principally commission payable.

Liquidity risk

Liquidity risk is the risk that cash may not be available to pay obligations when due at a reasonable cost. The Board sets limits on the minimum proportion of cash available to meet such obligations which should be in place to cover anticipated liabilities and unexpected levels of demand.

Charitable and political donations

No contributions to political organisations were made during the year (2011: Nil). No charitable donations were made during the year. (2011: £550 was paid to the Charity Appeal for the Japan Earthquake Relief Fund).

Statement of directors' responsibilities

The directors are responsible for preparing the Directors' Report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have prepared the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period. In preparing these financial statements, the directors are required to

- select suitable accounting policies and then apply them consistently,
- make judgements and accounting estimates that are reasonable and prudent,
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements,
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Daiwa Asset Management (Europe) Ltd

Registered Number 02045607

Directors' report

For the year ended 31 March 2012 (*continued*)

Each director in office at the date the directors' report is approved confirms that

(a) so far as the directors are aware, there is no relevant audit information of which the company's auditors are unaware, and

(b) the director has taken all the steps that he ought to have taken as a director in order to make himself aware of any relevant audit information and to establish that the company's auditors are aware of that information

By order of the Board



A. Morita
COMPANY SECRETARY

20th July 2012

Daiwa Asset Management (Europe) Ltd

Independent auditors' report to the members of Daiwa Asset Management (Europe) Ltd

We have audited the financial statements of Daiwa Asset Management (Europe) Ltd for the year ended 31 March 2012 which comprise the Profit and Loss Account, the Balance Sheet, the Cash Flow Statement and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

Respective responsibilities of directors and auditors

As explained more fully in the Directors' Responsibilities Statement set out on page 4, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

This report, including the opinions, has been prepared for and only for the company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of whether the accounting policies are appropriate to the company's circumstances and have been consistently applied and adequately disclosed, the reasonableness of significant accounting estimates made by the directors, and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the Annual Report to identify material inconsistencies with the audited financial statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on financial statements

In our opinion the financial statements

- give a true and fair view of the state of the company's affairs as at 31 March 2012 and of its profit and cash flows for the year then ended,
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice, and
- have been prepared in accordance with the requirements of the Companies Act 2006

Opinion on other matter prescribed by the Companies Act 2006

In our opinion the information given in the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

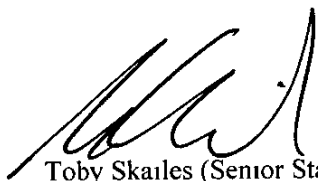
Daiwa Asset Management (Europe) Ltd

Independent auditors' report to the members of Daiwa Asset Management (Europe) Ltd (*continued*)

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us, or
- the financial statements are not in agreement with the accounting records and returns, or
- certain disclosures of directors' remuneration specified by law are not made, or
- we have not received all the information and explanations we require for our audit



Toby Skailes (Senior Statutory Auditor)
For and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
London
20 July 2012

Daiwa Asset Management (Europe) Ltd

Profit and loss account For the year ended 31 March 2012

	<u>Notes</u>	2012 £	2011 £
Turnover	3	6,184,439	5,796,788
Administrative expenses		(4,667,072)	(4,352,696)
Operating profit	4	<u>1,517,367</u>	<u>1,444,092</u>
Exceptional item	5	-	81,000
Interest receivable and similar income	6	<u>4,782</u>	<u>14,678</u>
Profit on ordinary activities before taxation		1,522,149	1,539,770
Taxation on profit on ordinary activities	7	(398,748)	(410,769)
Profit for the financial year	14	<u>1,123,401</u>	<u>1,129,001</u>

The results above are all derived from continuing operations

There is no difference between the profits on ordinary activities before taxation and the profits for the current and preceding financial year stated above and their historical cost equivalents

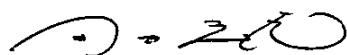
There are no recognised gains and losses for the current and preceding financial year other than those included in the profit and loss account above and therefore no statement of total recognised gains and losses has been prepared

Daiwa Asset Management (Europe) Ltd

Balance Sheet As at 31 March 2012

	<u>Notes</u>	2012 £	2011 £
Fixed assets			
Tangible fixed assets	9	16,731	11,679
Investments	10	-	-
		<u>16,731</u>	<u>11,679</u>
Current assets			
Deferred tax asset	11	1,658	5,470
Debtors	11	1,181,450	731,096
Cash at bank		3,732,390	2,459,212
		<u>4,915,498</u>	<u>3,195,778</u>
Creditors: amounts falling due within one year	12	<u>1,387,958</u>	<u>786,587</u>
Net current assets		<u>3,527,540</u>	<u>2,409,191</u>
Total assets less current liabilities		<u>3,544,271</u>	<u>2,420,870</u>
Capital and reserves			
Called up share capital	13	500,000	500,000
Profit and loss account	14	3,044,271	1,920,870
		<u>3,544,271</u>	<u>2,420,870</u>
Total shareholders' funds	15	<u>3,544,271</u>	<u>2,420,870</u>

The financial statements on pages 9 to 21 were approved by the Board of Directors on 20th July 2012 and were signed on its behalf by



Y. Okada
MANAGING DIRECTOR

Daiwa Asset Management (Europe) Ltd

Cash flow statement

For the year ended 31 March 2012

	<u>Notes</u>	2012 £	2011 £
Net cash inflow from operating activities	16	1,685,539	1,493,093
Return on investments and servicing of finance			
Interest received		4,782	2,813
Income from investment		-	11,865
Taxation			
UK corporation tax paid		(399,018)	(267,560)
Payment of group relief		-	(49,140)
Capital expenditure and financial investment			
Purchase of tangible fixed assets		(18,125)	(1,223)
Receipt from disposal of investment		-	81,000
Equity dividends paid		-	(3,600,000)
Management of liquid resources			
Sale of short-term investment		-	3,497,964
Increase in cash	17	<u>1,273,178</u>	<u>1,168,812</u>

Daiwa Asset Management (Europe) Ltd

Notes to the financial statements

For the year ended 31 March 2012 (*continued*)

1 Principal Accounting Policies

Basis of accounting

The financial statements have been prepared on the going-concern basis, under the historical cost convention, in accordance with the Companies Act 2006 and all applicable accounting standards in the United Kingdom (UK GAAP) which have been consistently applied. The principal accounting policies are set out below.

Tangible fixed assets

Tangible fixed assets are stated at cost less accumulated depreciation.

Provision is made for depreciation to write off the cost, less estimated residual value, in equal annual instalments over their estimated useful lives as follows:

Leasehold improvements	Period of the lease
Furniture and office equipment	2-5 years

Investments

Fixed asset investments are stated at cost less any provision for a permanent diminution in value. Current asset investments are stated at the lower of cost and net realisable value.

Investment and interest income

Investment and interest income are taken into account in the profit and loss account on an accrual basis.

Turnover

Turnover comprises amounts invoiced and receivable for the provision of investment advice and funds related administrative services to its parent company and fellow group undertakings and for the provision of investment management services to fellow group undertakings and third parties and are recognised on an accrual basis.

Administrative expenses

Administrative expenses comprise of staff costs and other overheads generated by conducting business and are taken into account on an accrual basis.

Daiwa Asset Management (Europe) Ltd

Notes to the financial statements For the year ended 31 March 2012 (*continued*)

Taxation

The charge of taxation is based on the results for the year adjusted for disallowable items

Deferred taxation is provided in full on all timing differences at the rate at which it is expected that the tax liability or benefits will arise. Deferred tax assets are recognised to the extent that it is regarded as more likely than not that they will be recovered. Deferred tax assets and liabilities are not discounted.

Foreign currencies

Transactions denominated in foreign currencies are translated into pound sterling at the rates of exchange prevailing at the time of the transactions. Assets and liabilities denominated in foreign currencies are translated at the rates of exchange prevailing at the balance sheet date with the exception of non-monetary items which are maintained at historical rates. Exchange gains or losses are taken to the profit and loss account.

Operating leases

All operating leases and the annual rentals are charged to operating profit on a straight line basis over the lease term.

2 Directors' emoluments and employee information

	2012 £	2011 £
Aggregate emoluments	490,009	301,552

	2012 £	2011 £
Highest paid director		
Aggregate emoluments	197,433	301,552

All the other directors were based overseas and received no emoluments for services to the company during the last or current year.

The aggregate emoluments of the highest paid director represents a director who served only eight months in the year and he is a different individual to that in 2011, that director having resigned as managing director in the year and remained as a non-executive director.

The average number of employees, including the executive directors, in the UK during the year was 19 (2011: 22). Staff costs (including directors') were as follows:

	2012 £	2011 £
Wages and salaries	2,014,681	2,016,731
Social security costs	100,679	113,923
Pension costs	77,199	92,761
	2,192,559	2,223,415

The company operates a defined contribution pension scheme through Aegeon Scottish Equitable plc. Contributions to the scheme are charged to the profit and loss account when payable.

Daiwa Asset Management (Europe) Ltd

Notes to the financial statements **For the year ended 31 March 2012 (*continued*)**

3 Turnover

Turnover comprises income from the following

	2012	2011
	£	£
Income from funds managed for group related companies	4,293,250	2,890,071
Income from funds managed for third parties	-	120,800
Income from investment advice to the parent undertaking	1,246,872	1,343,280
Income from provision of funds related administrative services to the group undertakings	644,317	1,442,637
	6,184,439	5,796,788

4 Operating profit

	2012	2011
	£	£
Operating profit is stated after the following charges		
Auditors' remuneration		
Audit services	24,000	23,000
Non-audit services	15,000	32,900
Depreciation of tangible assets	13,073	15,869
Operating lease rentals for office equipment	1,797	2,396
Operating lease rentals for property	69,362	69,513
Wages and salaries	2,192,559	2,223,415

5 Exceptional item

	2012	2011
	£	£
Profit on disposal of investment (Note 10)	-	81,000

Daiwa Asset Management (Europe) Ltd

Notes to the financial statements For the year ended 31 March 2012 (*continued*)

6 Interest receivable and similar income

	2012	2011
	£	£
Interest on commercial paper	-	11,865
Interest receivable on cash deposits	4,782	2,813
	<u>4,782</u>	<u>14,678</u>

The interest on commercial paper represents interest accrued from the purchase and subsequent maturity of commercial paper held during the year

7 Taxation on profit on ordinary activities

(a) Analysis of charge in the year

	2012	2011
	£	£
Current tax		
UK corporation tax at 26% (2011 28%)	-	412,269
Amount payable to fellow subsidiaries in respect of tax saved by group relief	394,936	-
Total current tax (Note 7b)	<u>394,936</u>	<u>412,269</u>
Deferred tax		
Origination and reversal of timing differences	3,812	(1,500)
Taxation on profit on ordinary activities	<u>398,748</u>	<u>410,769</u>

(b) Factors affecting the tax charge for the year

The tax assessed for the year is based on the standard rate of corporation tax in the UK at 26% (2011 28%) Any differences are explained below

	2012	2011
	£	£
Profit on ordinary activities before taxation	<u>1,522,149</u>	<u>1,539,770</u>

Daiwa Asset Management (Europe) Ltd

Notes to the financial statements For the year ended 31 March 2012 (*continued*)

	2012 £	2011 £
Profit on ordinary activities before taxation multiplied by standard rate of corporation tax in the UK 26% (2011 28%)	395,759	431,136
Effects of:		
Depreciation in excess of Capital allowances	(2,540)	2,450
Expenses not deductible for tax purposes	1,717	1,363
Group relief claimed prior period	(412,269)	(49,140)
Payment for group relief prior period	412,269	49,140
Profit on disposal of investment	-	(22,680)
Current tax charge for the year (Note 7a)	394,936	412,269
Effective rate	26/%	27%

It has been agreed that companies within the Daiwa Securities Group (DSG) will pay each other for tax losses surrendered. The DSG consists of Daiwa Assets Management (Europe) Ltd, Daiwa Corporate Advisory Partners Limited, Daiwa Capital Markets Europe Limited, Daiwa Fund Asset Services Ltd, Daiwa Securities Trust and Banking (Europe) Plc and DC Advisory Partners Limited.

The tax payable for the year has been reduced by £394,936, because of group relief received from fellow subsidiaries for which payments of £394,936 will be made.

8 Dividends

	2012 £	2011 £
Interim of £7.2 per share paid on 29 th December 2010	-	3,600,000

The directors recommended a final dividend of £3 per share for the year ended 31st March 2012. The final dividend amounts to £1,500,000 and will be recognised in the financial statements for the year ending 31st March 2013. The dividend was approved by shareholder on 18th June 2012 and a payment was made on 29th June 2012.

Daiwa Asset Management (Europe) Ltd

Notes to the financial statements

For the year ended 31 March 2012 (*continued*)

9	Tangible fixed assets	Short leasehold building improvements	Furniture and office equipment	TOTAL
		£	£	£
	Cost			
	At 31 March 2011	44,902	116,212	161,114
	Additions	-	18,125	18,125
	At 31 March 2012	44,902	134,337	179,239
	Depreciation			
	At 31 March 2011	37,272	112,163	149,435
	Charge for year	3,391	9,682	13,073
	At 31 March 2012	40,663	121,845	162,508
	Net book value			
	At 31 March 2012	4,239	12,492	16,731
	At 31 March 2011	7,630	4,049	11,679

10	Investments	2012	2011
	Golf club membership		
	Cost	£	£
	At 31 March 2011	-	81,000
	Disposal	-	(81,000)
	At 31 March 2012	-	-
	Amortization		
	At 31 March 2011	-	81,000
	Disposal	-	(81,000)
	At 31 March 2012	-	-

The company resigned as a member of the golf club and a refund of the deposit was received on 29th December 2010

Daiwa Asset Management (Europe) Ltd

Notes to the financial statements

For the year ended 31 March 2012 (*continued*)

11 Debtors

	2012	2011
	£	£
Amount falling due within one year		
Amounts due from group undertakings	507,804	613,183
Other debtors	66,185	65,638
Prepayments	65,443	52,275
Corporation Tax Recoverable	542,018	-
	<u>1,181,450</u>	<u>731,096</u>

Amounts due from group undertakings are unsecured, interest free and repayable on demand

The deferred tax asset represents timing differences between capital allowances and depreciation

	2012	2011
	£	£
At 31 March 2011	5,470	3,970
Movement in year	(3,812)	1,500
At 31 March 2012	<u>1,658</u>	<u>5,470</u>

12 Creditors: amounts falling due within one year

	2012	2011
	£	£
Corporation tax	-	220,129
Other taxation and social security	76,660	31,883
Creditors and accruals	262,469	355,137
Bank overdraft	-	-
Amounts payable to group undertakings	241,624	130,298
Group relief payable to group undertakings	807,205	49,140
	<u>1,387,958</u>	<u>786,587</u>

Amounts payable to group undertakings are unsecured, interest free and payable on demand

Daiwa Asset Management (Europe) Ltd
Notes to the financial statements
For the year ended 31 March 2012 (*continued*)

13 Called-up share capital

	2012	2011
	£	£
Authorized 1,000,000 (2011 1,000,000) ordinary shares of £1 each	1,000,000	1,000,000
Allotted, called-up and fully paid 500,000 (2011 500,000) ordinary shares of £1 each	500,000	500,000

14 Profit and loss account

	2012	2011
	£	£
Balance at beginning of year	1,920,870	4,391,869
Profit on ordinary activities after taxation	1,123,401	1,129,001
Dividends (Note 8)	-	(3,600,000)
Balance at end of year	3,044,271	1,920,870

15 Reconciliation of movements in shareholders' funds

	2012	2011
	£	£
Opening shareholder's funds	2,420,870	4,891,869
Profit on ordinary activities after taxation	1,123,401	1,129,001
Dividends (Note 8)	-	(3,600,000)
Closing shareholder's funds	3,544,271	2,420,870

Daiwa Asset Management (Europe) Ltd

Notes to the financial statements For the year ended 31 March 2012 (*continued*)

16 Reconciliation of operating profit to net cash inflow from operating activities

	2012 £	2011 £
Operating profit	1,517,367	1,444,092
Depreciation of tangible fixed assets	13,073	15,869
Decrease/(Increase) in debtors	91,664	(37,015)
Increase in creditors	63,435	70,147
Net cash inflow from operating activities	<u>1,685,539</u>	<u>1,493,093</u>

17 Reconciliation of net cash inflow to movement in net funds

	2012 £	2011 £
Net funds at beginning of year	2,459,212	1,290,400
Increase in cash in the year	1,273,178	1,130,368
Decrease in bank overdraft (Note 12)	-	38,444
Net funds at end of year	<u>3,732,390</u>	<u>2,459,212</u>

18 Operating lease commitments

At 31st March 2012 the company had annual commitments under non-cancellable operating leases as follows

	2012		2011	
	Property £	Property £	Others £	Others £
Expiring within one year	-	-	-	-
Expiring within two and five year inclusive	82,967	2,396	69,513	2,396

Daiwa Asset Management (Europe) Ltd

Notes to the financial statements

For the year ended 31 March 2012 (*continued*)

19 Related party transactions

As disclosed in Note 3, the company earned management fees from the management of funds for group related companies and administrative fees from the provision of funds related administrative services to its group undertakings. The company also earned investment advisory fees from its immediate parent undertaking, Daiwa Asset Management Company Limited (DAMCO). During the year, the company reimbursed Daiwa Capital Markets Europe Ltd ('DCM') for administration expenses incurred on behalf of the company.

Transactions entered into, and trading balances outstanding as at 31st March 2012, were as follows:

Related parties		Income from related parties		Expenses payable to related parties		Amounts owed by related parties		Amounts owed to related parties	
		Year ended 31 st March 2012	Year ended 31 st March 2011	Year ended 31 st March 2012	Year ended 31 st March 2011	Year ended 31 st March 2012	Year ended 31 st March 2011	Year ended 31 st March 2012	Year ended 31 st March 2011
		£	£	£	£	£	£	£	£
Group undertakings	Management of funds	4,293,250	2,890,071	-	-	430,900	256,439	-	-
DAMCO	Advisory fees	1,246,872	1,343,280	940,276	674,424	61,016	129,988	138,985	61,171
Group undertakings	Funds related administrative services	644,317	1,442,637	-	-	15,888	226,756	-	-
DCM	Reimbursement of administration expenses	-	-	1,635,445	1,465,225	-	-	102,639	69,007

On 1st May 2005, the company renewed the lease agreement on its London premises within the DCM building in King William Street. The lease agreement does not have a fixed renewal date and can be terminated by either party within a 12-month notice period. In February 2012, the company moved to temporary premises in Capital House in King William Street for sixteen months while the offices within the DCM building were being renovated. The annual rent payable to DCM was £82,967 (2011: £69,513) (Note 18).

On 25th June 2009, the company entered into an annual renewable agreement with DCM for DCM to provide supporting services for personnel, facilities, technology and business continuity. The total amount payable was £62,837 (2011: £62,837).

20 Ultimate parent undertakings and controlling party

The company's ultimate parent undertaking and controlling party is Daiwa Securities Group Inc., which is incorporated in Japan and is required to prepare and publish consolidated financial statements. The company's immediate parent undertaking is DAMCO, which is incorporated in Japan.

21 Pillar 3 disclosures

The company has made its Pillar 3 disclosures per the FSA requirements on pages 22 – 25. This information is unaudited and for disclosure purpose only. The independent auditors' report on pages 7 – 8 does not apply to pages 22 – 25.

Daiwa Asset Management (Europe) Ltd

**Appendix to the financial statements (Unaudited)
For the year ended 31 March 2012**

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Daiwa Asset Management (Europe) Ltd

Appendix to the financial statements (Unaudited) For the year ended 31 March 2012

1. Overview

This Appendix contains the Pillar 3 disclosure requirements, as contained in the Capital Requirements Directive (CRD) and laid out in Chapter 11 of FSA BIPRU sourcebook.

The CRD consists of three pillars

- Pillar 1 determines the minimum amount of capital required for credit, market and operational risks
- Pillar 2 requires a firm and its regulatory supervisor to determine whether additional capital should be held to offset risks within the business not sufficiently covered by Pillar 1 capital
- Pillar 3 requires a firm to disclose details of their risks, capital and risk management process

In accordance with the requirements of Pillar 3, this unaudited appendix is intended to disclose information relating to Daiwa Asset Management (Europe) Ltd (DAMEL), for the year ending 31 March 2012. DAMEL is authorised and regulated by the Financial Services Authority (FSA) in the UK.

DAMEL is the UK subsidiary of Daiwa Asset Management Co Ltd, Tokyo (DAMCO). It is 100% owned by its Tokyo parent company. DAMCO itself is part of the wider Daiwa Securities Group Inc, Tokyo, one of the largest financial groups in Japan. **As DAMCO is based outside of the EU, DAMEL does not consolidate its financial reporting with DAMCO for FSA purposes.**

2. Risk Management framework

DAMEL's key risks are largely business and operational. In order to control such risks, DAMEL undertakes a regular internal risk assessment of its overall operation and also prepares an Internal Capital Adequacy Assessment Process (ICAAP) document on an annual basis. Risks are also monitored both in London and Tokyo on a regular basis in conformity with regulatory requirements in both locations.

DAMEL undertakes no proprietary trading, therefore all risks to be assessed fall within the category of the NON-TRADING BOOK. Risk is managed and monitored by senior management with the assistance of compliance and finance officer. Risk Assessments and ICAAP are reported to the Board of Directors. Where additional risks or remedial action is identified, appropriate action is taken by senior management to rectify the issue.

Business & Operational Risk

Business - DAMEL maintains a low risk appetite both with its own capital and also with any portfolios it manages. There is a lack of over concentration in any one business area, which also aids in mitigating the risk in this area. Distribution remains almost entirely on the Japanese side, which is itself mitigated by the stability of the Japanese market. One of DAMEL's key risks relates to a fall in assets under management, leading to a fall in income. Assets currently continue to increase due to organic growth, which in itself mitigates some of the risk. Additionally as part of the ICAAP process, DAMEL carries out stress testing based on a fall of 25% and

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50% of assets under management to verify that the business and its income continues to be a viable proposition

Operational - Main area of risk is through losses incurred from a failed internal control or procedure. There is no record of major loss resulting from an operational failure within DAMEL. Checks and controls are in place and reviewed as part of the internal risk assessment and risks to the funds are monitored by the Risk Management Department of DAMCO in Tokyo. Additionally there is staff back up or doubling up for all key operational elements.

Credit Risk

There is limited risk exposure in respect of management and advisory fees, as these are already drawn monthly and bimonthly in respect of Gaika management fees, so as to reduce risk of large exposures. Only Negligible Counterparty risk exists and this is quantifiable, but not material.

Market Risk

DAMEL has no trading book positions, so the only market risk faced relates to fluctuations in revenue value due to currency rate movements (as certain income is payable in currencies other than sterling). These are not considered material to the firm but any foreign currency income is converted to sterling as soon as received.

Liquidity Risk

DAMEL continues to maintain high levels of liquidity (far in excess of Pillar 1 and 2 requirements) to ensure it can meet its financial obligations. DAMEL adopts the deduction of illiquid assets approach to calculating its capital requirements and accounts are checked on a monthly basis.

3. Capital Adequacy/Resources

As of 31st March 2012, DAMEL held regulatory capital resources of £1,962,603 comprising of Tier 1 capital, less a deduction of £81,669 for illiquid assets. DAMEL held capital reserves equivalent to 241.37% of its capital resources requirement in 2012. DAMEL uses the **Fixed Overheads Requirement (FOR)** to calculate its Pillar 1 capital requirements (which is taken as the higher of its base capital requirement of £50k, or the sum of its credit and market risks, or the **FOR**) (which was calculated at £813,097 in 2012, i.e. annual expenses net of variable costs deducted and comprising 241.37% of its capital resources requirement, itemised in the firm's ICAAP). The firm monitors expenditure on a monthly basis and takes into account any material fluctuations in order to determine whether the FOR remains appropriate to the size and nature of the business or whether any adjustment is required. This is monitored regularly by senior management. DAMEL also uses stress testing to ensure it has clear calculations for envisaging worst case scenarios. Information on capital adequacy is provided to the regulator on a regular basis by way of online returns.

4. Remuneration Code

The following disclosures are made in compliance with BIPRU 11.5.18-21.

Due to the size of DAMEL and based on a proportionate approach, a specific remuneration committee has not been set up. The Compliance Officer, Executive Director and Managing Director formulate the remuneration policy of DAMEL, with the Board of Directors assuming the role of a remuneration committee, giving final approval to the remuneration policy, statement and individual remuneration packages for FSA remuneration code staff. FSA remuneration code staff includes senior management, heads of control functions and other significant risk takers.

For the 2011/12 year, DAMEL identified three 'Code Staff', who each received a variable remuneration payment, but based on the FSA's principles of proportionality these payments were not subject to any restrictions in how the payments were made. Additionally no signing on bonuses or severance payments were made to 'Code Staff'.

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In general terms, when determining total remuneration, senior managers assess whether staff have contributed to some or all of the following performance against objectives and strategic goals, risk and compliance behaviour, operational efficiency and appropriate management of costs

It is DAMELS intention that the total remuneration of each of its employees rewards good performance and the contribution made by each employee to the overall success, whilst also taking into account the overall profitability of the company and its risk structure