NEUBERGER BERMAN

Capital Requirements Directive

2017 Pillar 3 Disclosure

1. Overview

The Capital Requirements Directive ("the Directive") of the European Union created a revised regulatory capital framework across Europe designed to ensure the financial soundness of credit institutions and reflect the capital rules of Basel II. All disclosures and figures in this document are based upon the rules in existence at 31 December 2017.

The new framework consists of three "pillars":
Pillar 1 sets out the minimum capital requirements that firms are required to meet for credit, market, and operational risk;
Pillar 2 requires firms to take a view on whether additional capital should be held against capital risks not covered by Pillar 1;
Pillar 3 requires firms to publish certain details of risks, capital and the risk management process.

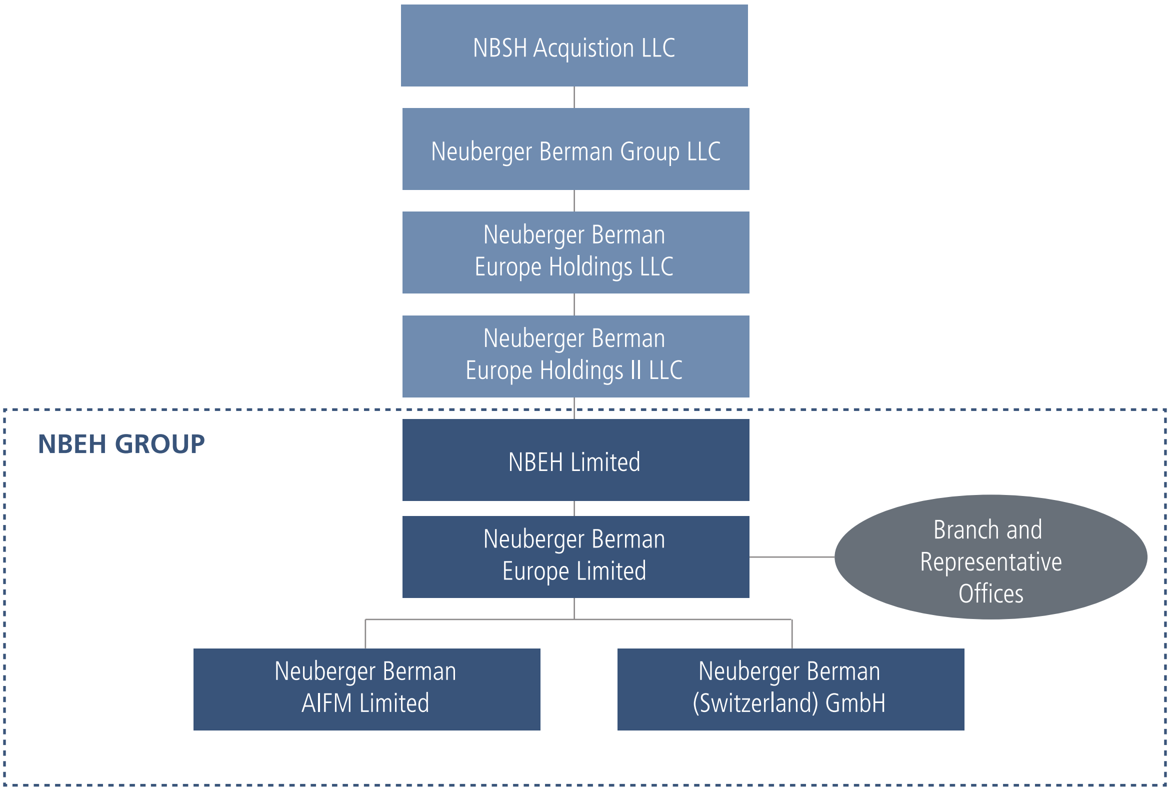
The Financial Conduct Authority ("the FCA") has adopted a risk-based approach in monitoring and enforcing a firm's compliance with the Pillar 3 requirements. Specifically, the FCA has created new rules and guidance via the General Prudential Sourcebook ("GENPRU") and the Prudential Sourcebook for Banks, Building Societies and Investment Firms ("BIPRU").

The rules in BIPRU Chapter 11 set out the provision for Pillar 3 disclosure. In order to comply with the requirements laid out in BIPRU 11.3.1 and BIPRU 11.3.2, Neuberger Berman Europe Limited will draft the Pillar 3 disclosure document annually, to be followed by an internal verification of the disclosures.

The disclosure document will then be reviewed and challenged by appropriate members of the Neuberger Berman Europe Limited Board to ensure that the information contained within is appropriate. The FCA does not expect disclosures to be made that are regarded as immaterial, proprietary or confidential. Information that is regarded as material is if on its omission or misstatement, could change or influence the assessment or decision of a user relying on it to make economic decisions. Proprietary or confidential information could include information which, if shared with competitors, would render a firm's investments less valuable or if the information comprises obligations to customers or other counterparty relationships binding a firm to confidentiality. Where such omissions have been made, details of the information not disclosed with reason will be included.

Scope

The UK entity authorised and regulated by the FCA as at 31 December 2017 is Neuberger Berman Europe Limited ("NBEL"), which is a subsidiary 100%-owned by Neuberger Berman Europe Holdings ("NBEH") Limited.



NBEL is focused on two main activities: first, the distribution of Neuberger Berman investment products to clients in the UK, Continental Europe, Latin America and the Middle East (collectively, "EMEA") and, second, the provision of investment management services to those clients. It is supported in those activities by professionals in legal, compliance, finance, operations, information technology, human resources and portfolio analytics functions.

NBEL also has two subsidiary companies:

- Neuberger Berman AIFM Limited (the "AIFM"), an FCA-regulated UK company formed in 2015 to provide investment management and risk management services to Neuberger Berman's European alternative investment funds in accordance with the European Union's AIFM Directive.
- Neuberger Berman (Switzerland) GmbH ("NB Switzerland"), a Zurich-based distributor of Neuberger Berman strategies in Switzerland regulated by FINMA.

Frequency

This report will be produced on an annual basis shortly after the completion of NBEL's annual report and accounts.

2. Risk Management Framework

The Neuberger Berman group of companies ("NB Group") employs a risk management framework that features dedicated investment and operational risk teams. These teams are independent of the firm's portfolio managers. Together, they provide for consistency in, and frequency of, investment and operational risk reviews. They collaborate with other control units of the firm, including: compliance, internal audit, legal and business control. This structure is enhanced by an ability to escalate to executive management and our boards certain issues, including unusual market, credit, operational or reputational risk matters that may have a potential effect on either client portfolios or the investment management business as a whole.

Enterprise Risk Management

Assessment of enterprise risks focuses leadership across business segments and informs board level oversight

FIVE PILLARS OF ENTERPRISE RISK MANAGEMENT

Strategic Risk			Financial Risk	Investment Risk	Operational Risk	Regulatory Risk
Client Activity	Product Offering	Organizational Model	Liquidity & Capital	Investment Performance	Business Process	Legal & Compliance
• LTM Net Flows	• Products and services aligned with industry demand • New product related risk — execution and focus	• Key Person Risk • Employee Engagement	• Extreme Market Risk Dislocation impact on AUM & Revenue • Leveraged Balance Sheet	• Peer Rank • % NB AUM beating benchmark • Market Risk Premia • Market Liquidity	• Infrastructure Platform • Information Security • Operating Platform IT • Operating Platform Ops • Business Continuity • Counterparty Risk	• Litigation/Regulatory actions • Fraud or self dealing • Anti-money laundering • Global Regulatory Environment

OVERSIGHT

Operating Committee

RISK OWNERS

Client Coverage Mgmt.	Product Development IRC & ORC	Human Capital Mgmt. CIOs Partnership Committee	CFO/Finance Partnership Committee Audit Committee	Individual PMs CIOs Portfolio Analysis & Risk IRC	Infrastructure Mgmt. Business Technology Global Operations Operational Risk Mgmt. ORC	Legal & Compliance Business Supervision

Our control groups hold meetings with portfolio management and business units to help ensure that risks are identified and proactively mitigated to the extent possible and that a strong internal control environment exists, with overlapping and reinforcing elements.

The investment and operational risk groups support the mandates of the Investment Risk Committee ("IRC") and the Operational Risk Committee ("ORC"). The role of these committees is to sustain a culture of risk awareness propagated through broad divisional senior management participation, with a goal of protecting the firm's clients, the firm's reputational franchise and its financial well-being. Members of the committees have proper incentives, which for many include equity ownership in the firm, participation in our deferred compensation program and non-competition agreements.

The IRC and ORC review investment and operational risks associated with new and existing products. The ORC also manages the process of identification and mitigation of risks associated with the firm's operational processes and systems.

Investment Risk Oversight

The Portfolio Analysis and Risk group ("PAR") is engaged in the independent identification and measurement of risk exposures within and across portfolios to assist in the management of high-quality portfolio returns, which are desired from portfolio managers' intended risk strategies and not by unintentional assumptions of risk.

Investment Risk Oversight Responsibilities:

- Establish independent risk oversight of the investment processes,
- Generate investment risk metrics and reports on investment strategies for the portfolio management teams, boards, management and the Investment Risk Committee. Those metrics will include, but not limited, risk and performance attribution/analysis, scenario analysis, scenarios and factors stress testing, limit setting, and liquidity analysis,
- Responsible for the firm's GIPS compliance.

Operational Risk Oversight

The Operational Risk Management group coordinates with operations, technology, trading, business, compliance, finance, management, and other groups to ensure that operational risks are proactively identified and, where possible, mitigated. The Operational Risk Management group, in conjunction with the ORC, is engaged in the independent identification of risk exposures within and across the firm's operations, in order to assist in the protection of client assets and the firm's operational integrity. Operational risk is defined as the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events.

The operational risk framework has defined processes for identifying and escalating risk concerns throughout the organisation. These processes help NBEL to safeguard client assets, protect the interests of all stakeholders and meet its responsibilities as a regulated European entity and parent of a number of regulated branch offices. The management and operation of the operational risk framework is conducted using a top-down strategic approach complimented by a bottom-up operational assessment process.

Top-down strategic approach – considers the strategic planning process to identify the most consequential and significant risks to client and partner value; supports risk-informed decisions at executive and committee level; ensures risk dialogue among management teams and enables risk oversight by the Group and NBEL board.The Internal Capital Adequacy Assessment Process (ICAAP) is a continuous process embedded across NBEL, which serves as an acid test to ensure the top-down risks are aligned to those identified using bottom-up processes. The ICAAP Pillar II keys risks are then stressed as appropriate, providing an input into a capital calculation to determine how much capital should be held by the firm.

Bottom-up operational approach – ensures a comprehensive risk assessment process that identifies and prioritises key risks; analyses data to verify key trends; and provides management with a view of events and risks that could impact the achievement of business and process objectives.

Operational Risk Oversight Responsibilities:

- Identify operational risk exposures and plan actions to mitigate these risks
- Partner with business units on the establishment and maintenance of a robust internal operational framework
- Evaluate operational risks to assist in the:
- Prioritization of initiatives
- Tactical and strategic planning
- Consider operational risks pertaining to new and existing investment strategies
- Leadership of the following:
  – Valuation Oversight
  – Counterparty Exposures

3. Capital Adequacy

Capital Resources

As at 31st December and throughout the year NBEL complied with the capital requirements of a BIPRU Limited Licence 50k firm as set out by the FCA.

NBEL's capital is comprised solely of Common Equity Tier 1 capital, NBEL does not hold additional Tier 1 or Tier 2 capital.

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Paid up Share Capital	21,500
Retained Earnings	47,769
Common Equity Tier 1 ("CET1") Capital	69,269
Deductions from Tier 1 Capital	–
Total Tier 1 Capital After Deductions	69,269
Total Tier 2 Capital	–
Total Capital Resources	69,269

Capital Requirement

The Pillar 1 capital requirement for NBEL is the higher of:

1. the base capital resources requirement of €50,000
2. the sum of the credit and market risk capital requirements
3. the Fixed Overhead Requirement ("FOR");

In calculating its credit risk capital requirement, NBEL applies the standardised approach.

	$000
Credit Risk	13,690
Market Risk	3,081
Credit and Market Risk	16,771
Fixed Overhead Requirement	18,775
Pillar 1 Total	18,775

In calculating its credit risk capital requirement, NBEL applies the standardised approach.

Disclosures in relation to credit risk have been considered immaterial under BIRPU 11.3.5R (exemption from disclosure: materiality) as our capital requirement is our fixed overhead requirement, rather than the sum of our credit and market risk capital requirement.

ICAAP and Pillar 2 Capital Requirements

As part of its ICAAP process, NBEL identifies specific risks to its business and undertakes stress testing involving various scenarios. As part of its ICAAP process NBEL has set aside capital to mitigate the following risks:

- **Strategic Risk:** we do not calculate capital against strategic risk; instead, we test our capital adequacy through the use of stress scenarios to ensure that the group is adequately protected against strategic risks. The largest risks that the firm faces here are around Product concentration and Key Person Risk.
- **Financial Risk:** The group adopts a "Pillar I+" approach to Financial Risk and opts to use its Pillar I calculations for Credit and Market risk.
- **Investment Risk:** In this context Investment risk is the business risk conferred on us not by our own investments, but by the investments we manage on behalf of our clients. Like Strategic Risk, we do not calculate capital against Investment Risk: instead we test our capital adequacy through the use of stress scenarios to ensure that the group is adequately protected against Investment risks. The largest risks that the firm faces here are around the damage that poor performance or adverse conditions could inflict on our revenue stream (though these factors can also impact our Credit and Market risk relating to our balance sheet, particularly seed capital investments – stress testing allows us to assess the overall impact of these scenarios across the risk categories).
- **Operational Risk** is assessed on the basis of bottom up operational risk assessments, but the board has acted to increase this where information is lacking, or in its judgement further provision is necessary.
- **Regulatory/Compliance Risk** is assessed on the basis of bottom-up operational risk assessments, but the board has acted to increase this where information is lacking, or in its judgement further provision is necessary.

These risks are then aligned with the 12 risk categories required for consideration in GENPRU 1.2.30 to ensure that our risk universe is in compliance with FCA regulation:

- Credit risk
- Market risk
- Liquidity risk
- Operational risk
- Insurance risk
- Concentration risk
- Residual risk
- Securitisation risk
- Business risk
- Interest rate risk
- Pension obligation risk

Exposures

The risk areas covered by the ICAAP include Operational Risk, Financial/Economic Risk, Market Risk, Reputational Risk, Liquidity Risk, Transfer/Parent Risk and Regulatory Risk. The most relevant of these risks are set out in further detail below:

Operational Risk

The key operational risks that NBEL faces are execution, delivery and process management where losses can occur due to failure of transaction processing by internal resources or external trade counterparties and vendors. The management of this risk lies with the Director of Operational Risk, who is responsible for: the development and continual maintenance of the NBEL Operational Risk Framework. The output of which is escalated to both the NBEL Risk and Compliance Committee and the European Operating Committee—chaired by the Chief Executive Officer and which has senior representation from the distribution, fund management, legal and compliance, portfolio analytics and risk, product development, HR, client services and finance functions within the organisation.

All internal operation activities are carried out by an independent dedicated team. NBEL outsources all of the day-to-day internal operational activities to other members of the wider NB Group. This is an established process: procedures process management and service-level agreements are in place. Within NBEL the Middle Office team provides operational oversight for all London managed and co-managed portfolios with additional Middle Office support in the Hague for the Emerging Market Debt portfolio managers based there. This arrangement involves coordination between fund managers and back-office centres. The European operational risk and compliance departments maintain a breach log, which is provided to senior management, and the firm has a comprehensive Breaches and Dealing Error Policy.

Credit Risk

Credit risk is the risk that NBEL's clients or debtors fail to meet the amounts due to the Company. NBEL's main bank accounts are held with the UK branch of a major US bank. The majority of its cash / cash equivalents is held in money market funds (currently US Treasury MMFs).

NBEL makes proprietary investments in its own funds in order to facilitate the launch of new funds / share classes. Some of those funds may have investments in Credit debts, inclusive of non-investment grade or emerging countries debts, which may have a higher risk to not meeting their interest repayments, or repaying their debt. Management of this risk is addressed by the PAR group through their regular monitoring of the strategy.

Market Risk

Market risk is the risk of the effect on NBEL's financial position resulting from market movements, interest rate changes, currency movements, etc. Apart from its investment in money market funds (which it considers to be cash equivalents due to the nature of the funds and underlying securities), NBEL also invests in its own funds or those of affiliates e.g. in order to develop performance track record prior to marketing to clients. Some of those funds may invest in risker parts of the market and the PAR Group, through its regular monitoring; ensure that the portfolio's risks are consistent with the product expectation. Escalation procedures will address any material change in the risk profile.

NBEL's functional currency is US Dollar. However it has significant expenses in currencies other than USD, including Pound Sterling, Euro and Swiss Francs. NBEL seeks to mitigate currency risk by matching income and expenses and ensuring that adequate non-USD balances are held to meet short-term expense requirements.

Liquidity Risk

NBEL has a liquidity risk framework, the purpose of which is to:

1. identify any unwanted risks in relation to liquidity risk;
2. design and implement procedures to eliminate or mitigate those risks;
3. put processes in place to ensure that there is effective oversight and monitoring of liquidity risk; and
4. ensure there are contingency plans in place where possible in relation to identified risks.

Regulatory Risk

The cost of doing business for NBEL is subject to ongoing regulatory change. Regulatory risk is the risk to earnings, capital and reputation if NBEL fails to comply with the increasing volume and complexity of UK, European and US regulation it is subject to. The lack of regulatory risk governance could lead to regulatory action, fines, sanctions, a Section 166 order and general business disruption when trying to remediate a regulatory risk. The regulatory risk increases as NBEL expands the number of jurisdictions in which it operates. NBEL engages local lawyers, accountants and tax advisers in each jurisdiction in order to provide updates of any relevant regulatory changes and ensure compliance with local laws and regulations.

4. Remuneration Policy and Practices

NBEL qualifies as a Proportionality Level 3 firm under the Remuneration Code. It is required to disclose certain quantitative and qualitative remuneration items. Due to its size of operations in the UK and the structure of the NB Group, the firm has not established a Remuneration Committee in the UK. However, certain decisions about the remuneration arrangements applicable to the firm are made by the Remuneration Committee of Neuberger Berman LLC, an affiliate of the firm (the Remuneration Committee).

Decisions regarding: (i) the group-wide incentive plans that are applicable to the firm; and (ii) the overall bonus pools: are made by the Remuneration Committee. Any material decisions regarding remuneration applicable to NBEL are ratified by NBEL's Board of Directors.

Decisions regarding individual bonus awards applicable to each division within NBEL are made by the Managing Director of that business line. Input is received from NBEL's Managing Director and the Head of Human Capital for the region.

Implementation of NBEL's remuneration policy is reviewed annually by the Board of Directors.

Information on the link between pay and performance

The long-term interests of shareholders, investors and other stakeholders are taken into account by ensuring that the remuneration structures in place are designed to (i) reward the successful financial performance of NBEL and the NB Group; and (ii) by ensuring that remuneration is also linked to compliance with appropriate risk-taking behaviours; and (iii) by the deferral mechanisms described in the group's Contingent Compensation Plan.

Remuneration is benchmarked annually in order to ensure that remuneration is competitive, using industry standard salary surveys supplemented with anecdotal evidence, taking account of the size of the organisation and its activities. This means that NBEL can attract and retain talent. This is in line with long-term interests of shareholders, investors and other stakeholders.

The remuneration of the control function staff is linked to their success in relation to their control functions (amongst other things). In addition, remuneration is benchmarked to ensure that employees in control functions are remunerated adequately.

Guaranteed bonuses are paid only in line with FCA Guidance, and NBEL did not offer any exceptional or non-standard termination payments to employees in the last year.

Information on Code Staff remuneration

As at 31 December 2017 the company considered eight members of staff to be Code Staff.

Total Remuneration*

Code Staff $5.8m