Daiwa
Capital Markets

Daiwa Capital Markets Europe Limited

Pillar 3 disclosures for the year ended 31 March 2015

Daiwa
Capital Markets

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1. Glossary of terms and abbreviations used in this document

CRDIV	Collective term for CRR and CRD, repealing all previous versions
CRR	REGULATION (EU) No 575/2013 OF THE EUROPEAN PARLIAMENT AND OF THE COUNCIL of 26 June 2013 on prudential requirements for credit institutions and investment firms and amending Regulation (EU) No 648/2012
CRD	DIRECTIVE 2013/36/EU OF THE EUROPEAN PARLIAMENT AND OF THE COUNCIL of 26 June 2013 on access to the activity of credit institutions and the prudential supervision of credit institutions and investment firms, amending Directive 2002/87/EC and repealing Directives 2006/48/EC and 2006/49/EC
CRD (Repealed)	(a)+(b) From the definitions below
CRDII	(a)+(b)+(c)+(d)+(e)
CRDIII	(a)+(b)+(c)+(d)+(e)+(f)
BIRPU	Prudential Sourcebook for Banks, Building Societies and Investment firms
BPV	Basis Point Value
CCR	Counterparty Credit Risk
CSA	Credit Support Annexes
DCA	Daiwa Corporate Advisory Holdings Ltd
DCME	Daiwa Capital Markets Europe
DSGI	Daiwa Securities Group Inc.
EBA	European Banking Authority (formerly CEBS, Committee of European Banking Supervisors)
ECAI	External Credit Assessment Institution
EU	European Union
FCA	Financial Conduct Authority
FX	Foreign Exchange
G3	Refers to an informal *troika* consisting of the foreign ministers of France, Germany and the United Kingdom who collectively wield most influence within the European Union.
G7	The Group of 7 (G7) is a group consisting of the finance ministers and central bank governors of seven major advanced economies as reported by the International Monetary Fund: Canada, France, Germany, Italy, Japan, the United Kingdom, and the United States meeting to discuss primarily economic issues.
GMRA	Global Master Repurchase Agreement
GMSLA	Global Master Securities Lending Agreement
ICAAP	Internal Capital Adequacy Assessment Process
ICR	Internal Credit Ratings
IFRU	Prudential Sourcebook for Investment Firms
ILAA	Internal Liquidity Adequacy Assessment
ILG	Individual Liquidity Guidance
ISDA	International Swaps & Derivatives Association Master Agreement
KRI	Key Risk Indicators
LAB	Liquid Asset Buffer
NPA	Net Paying Addenda *(in this document)*
ORCC	Operational Risk & Compliance Committee
ORM	Operational Risk Management
OSLA	Overseas Securities Lending Agreement

OTC	Over the Counter
RALCO	Risk Asset Liability Committee
SLRP	Supervisory Liquidity Review Process
VaR	Value at Risk

CRR / CRD definitions

(a)	DIRECTIVE 2006/48/EC OF THE EUROPEAN PARLIAMENT AND OF THE COUNCIL of 14 June 2006 relating to the taking up and pursuit of the business of credit institutions (recast)
And	
(b)	DIRECTIVE 2006/49/EC OF THE EUROPEAN PARLIAMENT AND OF THE COUNCIL of 14 June 2006 on the capital adequacy of investment firms and credit institutions (recast)

As amended by:-

(c)	DIRECTIVE 2009/111/EC OF THE EUROPEAN PARLIAMENT AND OF THE COUNCIL of 16 September 2009 amending Directives 2006/48/EC, 2006/49/EC and 2007/64/EC as regards banks affiliated to central institutions, certain own funds items, large exposures, supervisory arrangements, and crisis management
(d)	DIRECTIVE 2009/83/EC of 27 July 2009 amending certain Annexes to Directive 2006/48/EC of the European Parliament and of the Council as regards technical provisions concerning risk management
(e)	DIRECTIVE 2009/27/EC of 7 April 2009 amending certain Annexes to Directive 2006/49/EC of the European Parliament and of the Council as regards technical provisions concerning risk management
And	And
(f)	DIRECTIVE 2010/76/EU OF THE EUROPEAN PARLIAMENT AND OF THE COUNCIL of 24 November 2010 amending Directives 2006/48/EC and 2006/49/EC as regards capital requirements for the trading book and for re-securitisations, and the supervisory review of remuneration policies

2. Overview

2.1. Background

The European Union (EU) Capital Requirement Regulation (CRR) and Capital Requirements Directive (CRD) (collectively known as CRD IV) implements the revised Basel capital adequacy framework (Basel III) and applies it to all investment firms, building societies and banks. The CRD IV package was formally adopted by the EU on 26 June 2013 and became effective in the UK on 1 January 2014.

CRD IV is a continuation of the now repealed CRD III which introduced the concepts of minimum capital requirements (Pillar 1) and supervisory review processes (Pillar 2) in the determination of those requirements. The disclosure requirements of Pillar 3 complement the capital requirements described in Pillar 1 and Pillar 2 and seek to promote greater market discipline and transparency through the disclosure of key information about risk exposures and risk management processes.

Daiwa Capital Markets Europe Limited (“the Firm”) adopted the Pillar 1 standardised approach to credit, market and operational risk with effect from 1 January 2008 and were subject to the Pillar 2 and Pillar 3 requirements from that date. The number and granularity of disclosures have continuously expanded over the last 7 years, including this year where we have a number of additional disclosure requirements.

2.2. Structure

The Firm is the wholly owned European subsidiary of Daiwa International Holdings Inc. (“the Parent”), which is headquartered in Japan and is a wholly owned subsidiary of Daiwa Securities Group Inc. (“the Ultimate Parent”).

The Firm has its head office in London and operates a small branch and representative office network in Europe and the Middle East. At 31 March 2015, the Firm has one active wholly owned subsidiary undertaking, Daiwa Corporate Advisory Holdings Limited.

Daiwa Corporate Advisory Holdings Limited (formerly Daiwa Corporate Advisory Partners Limited) provides Corporate Finance, M&A and Debt Advisory services through a network of operating companies across Europe. For statutory accounting purposes, it is not consolidated in the Firm’s year-end financial statements on the basis that it is consolidated at group level by Daiwa Securities Group Inc. (DSGI). However, for regulatory purposes the Firm is required to file consolidated returns and has been filing on this basis since September 2009.

2.3. Principal Activities

The Firm’s principal activities are to provide investment banking services in Equities, Fixed Income and Derivatives together with Corporate Finance Advisory services, through its subsidiary group DC Advisory.

2.4. Scope

Daiwa Capital Markets Europe Limited is regulated by The Financial Conduct Authority (“the FCA”) in the UK. These Pillar 3 disclosures have been prepared as at 31 March 2015, which is the Firm’s accounting reference date and financial year-end.

2.5. Basis of Disclosures

The Pillar 3 disclosures presented here are the consolidated view for the Firm and include both the quantitative and qualitative information in relation to credit risk and market risk, both of which have been prepared on a "standardised approach" basis, and are disclosed in accordance with Part Eight of the Capital Requirement Regulation (CRR) which replaced Chapter 11 of the Prudential Sourcebook for Banks, Building Societies and Investment Firms (BIPRU) section of the FCA handbook.

Daiwa Capital Markets Europe Limited is a "Significant IFPRU firm" (according to the definition in IFPRU1.2G of the FCA Prudential sourcebook for Investment Firms) this has a bearing on the following requirements of the CRR and Capital Requirement Directive (CRD).

(1) article 76 of CRD on the establishment of an independent risk committee;
(2) article 88 of CRD on the establishment of an independent nominations committee;
(3) article 91 of CRD on the limitations on the number of directorships an individual may hold;
(4) article 95 of CRD on the establishment of an independent remuneration committee;
(5) article 100 of CRD on supervisory stress testing to facilitate the SREP under article 97 of CRD;
(6) articles 129 and 130 of CRD on applicability of the capital conservation buffer and the countercyclical capital buffer;
(7) article 6(4) of the CRR on the scope of liquidity reporting on an individual basis;
(8) article 11(3) of the CRR on the scope of liquidity reporting on a consolidated basis; and
(9) article 450 of the CRR on disclosure on remuneration.

Furthermore, certain additional disclosures have been mandated by the EBA to be disclosed in standard templates from 2015. These include:-

- Own Funds
- Leverage
- Asset Encumbrance
- Liquidity Coverage (qualitative)
- Capital Buffers (from 2016)

These disclosures can be found separately on the Pillar 3 disclosures section of the Daiwa Capital Markets Europe Limited website

Not all the Pillar 3 disclosure requirements apply to Daiwa Capital Markets Europe Limited. This document has been produced solely for the purposes of providing information on the capital adequacy and risk management of the Firm, any disclosure requirements that do not apply have not been included.

For remuneration purposes DCME is considered a Level 3 firm as the average total assets over the past three financial years has not exceeded £15bn. DCME review this position at regular intervals. The classification as a Level 3 firm for remuneration purposes does not preclude DCME from being considered a "Significant IFPRU firm" in FCA terms as highlighted above.

2.6. Location and Verification

The Pillar 3 disclosures have been approved by the Firm's Risk Asset and Liability Committee, ("RALCO"), Audit Committee and the Board of Directors of the Firm and are published on the Firm's website (www.uk.daiwacm.com). Disclosures will be updated on an annual basis and made available on the Firm's website[1] as soon as practicable.

This document has not been subject to audit by the Firm's external auditors.

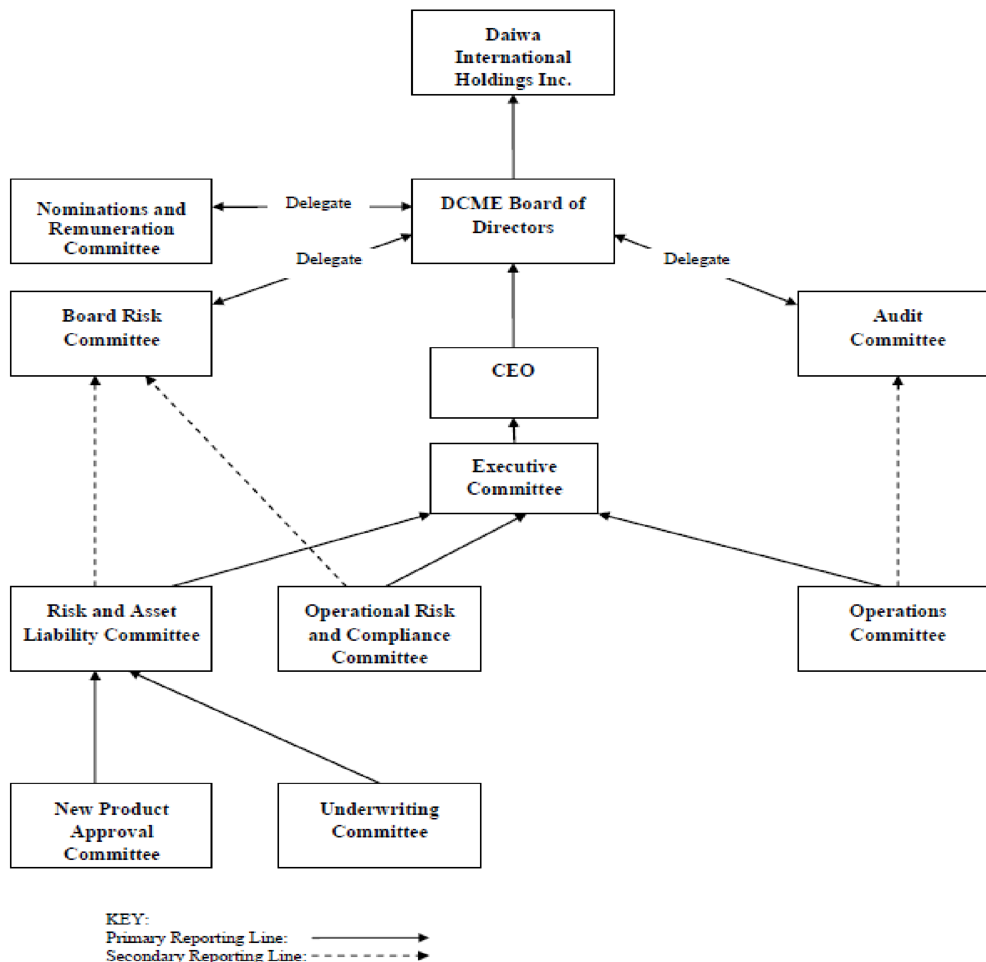
[1] http://www.uk.daiwacm.com/about-us/corporate-governance-and-regulatory

3. Risk Management Objectives and Policies

3.1. Governance and Structure

The Board of Directors of the Firm ("the Board") is ultimately responsible for the management of the Firm – including its branch and representative offices in Europe and the Middle East – and for establishing and monitoring the effectiveness of its corporate governance framework. The Board, the membership of which includes two Independent Non-Executive Directors, is also responsible for determining the Firm's strategic direction and risk appetite.

The Board meets on a monthly basis and more frequently should the need arise. Day to day management responsibilities are delegated to the Firm's Chief Executive Officer. To fulfil its responsibilities the Board is supported by a number of committees including a Board Risk Committee which has been established to focus specifically on risk management issues. The formal committee structure which is illustrated below is maintained centrally and any changes to these are approved by the Board.



The main roles and responsibilities of the committees shown in the above diagram are as follows:

Board Committees

3.1.1. Board Risk Committee

The Board Risk Committee, chaired by an independent non-executive director and composed of non-executives, is directly accountable to the Board and has delegated responsibility for oversight of high-level risk management, including:

- Reviewing in detail the risk appetite statement prepared by executive management;
- Recommending DCME's risk appetite and future risk strategy including capital and liquidity management strategy to the Board;
- Approving policy and key methodologies in relation to capital, funding, liquidity, credit, market, operational and other material risks;
- Monitoring the firm's exposure to material risks.

The committee convened on 3 occasions in the year to 31 March 2015, though its normal cycle is quarterly.

3.1.2. Audit Committee

The Audit Committee, chaired by an Independent non-executive director, is responsible for monitoring and reviewing the adequacy of the Firm's financial controls, internal controls and accounting policies.

The Audit Committee monitors and reviews the adequacy of DCME's financial, risk management and other internal control systems; it monitors and reviews DCME's accounting policies, the integrity of its financial statements, its external reporting responsibilities, and oversees the relationship with external auditors.

3.1.3. Remuneration & Nominations Committee

The Remuneration & Nominations Committee is responsible for reviewing and approving the firm's remuneration principles and approach, ensuring such principles are consistent with the promotion of effective risk management and discourages excessive risk taking. The Committee also has the responsibility of reviewing the composition and effectiveness of the Board, and manage all Board appointments.

3.2. Executive Committees

3.2.1. Executive Committee

The Executive Committee provides on-going oversight of the Firm's key business and operational areas in the context of approved budgets and business plans. The Head of Risk Management & Compliance Division is a member of the Executive Committee and ensures that risk management perspectives and requirements are reflected in the firm's business activities. The Executive Committee also receives reports and information from the Risk and Asset Liability Committee and Operational Risk & Compliance Committee as appropriate.

3.2.2. Risk, Asset and Liability Committee (RALCO)

RALCO manages DCME's structural and business risk framework for the assessment and allocation of financial resources in a way that is consistent with the agreed strategy, business plans and risk appetite of the firm. RALCO oversees the framework for the management and control of market, credit and liquidity risk for DCME.

The responsibility of RALCO can be analysed into the following main components:

- Market Risk
- Credit Risk
- Capital
- Funding & Liquidity, and
- Balance Sheet Management.

The New Product Committee and Underwriting Committee report into RALCO.

3.2.3. Operational Risk & Compliance Committee (ORCC)

The ORCC, which meets on a bi-monthly basis, is responsible for:

- Overseeing the establishment of a sound operational risk management framework within DCME and monitoring the operational risk profile of the firm;
- Providing oversight of DCME's regulatory obligations and the Compliance framework put in place to help ensure they are met.

The ORCC monitors the firm's operational risk profile against the defined risk appetite, and compliance with regulatory requirements. Additionally, the ORCC reviews key operational risk and compliance policies and methodologies and recommends to the Board Risk Committee for approval. The ORCC reports on matters within its scope of responsibility to the Executive Committee and onwards to the Board Risk Committee.

3.2.4. Underwriting Committee

Responsible for assessing proposed transactions from a market, credit and reputational risk perspective.

3.2.5. New Product Committee

Responsible for ensuring there is a clearly defined approval process for the evaluation of new products and businesses from an operational perspective. The Committee ensures that new products are only approved after full consideration of the risks involved and the establishment of an adequate control environment.

3.2.6. Operations Committee

The Operations Committee incorporates the responsibilities of the former Programme Board, and oversees significant developments and implementations to ensure that they are carried out in accordance with business plans, IT strategy and policies and conducted to an appropriate standard.

3.3. Governance arrangements (Articles 88-96 of the Capital Requirements Directive IV)

1. The management body of DCME is the Board of Directors (the "Board"). The Board:

(a) has the overall responsibility for DCME and approves and oversees the implementation of DCME's strategic objectives, risk strategy and governance;

(b) ensures the integrity of the accounting and financial reporting systems, including financial and operational controls and compliance with the law and relevant standards;

(c) oversees the process of disclosure and communications; and

(d) is responsible for providing effective oversight of senior management;

2. The Board has established a Nominations Committee comprised of non-executive directors which has the responsibility to:

(a) identify potential candidates to fill Board vacancies, evaluate the balance of knowledge, skills, diversity and experience of the Board and prepare a description of the roles and capabilities for a particular appointment, and assess the time commitment expected;

(b) decide on a target for the representation of any underrepresented gender on the Board and prepare a policy on how to increase the number of any such underrepresented gender;

(c) assess the structure, size, composition and performance of the Board;

(d) assess the knowledge, skills and experience of individual members of the Board and of the management body collectively;

(e) review the policy of the Board for selection and appointment of senior management.

3.4. Management body

Members of the Board of Directors are all registered with the appropriate regulatory authorities. DCME has systems in place to monitor the good repute, knowledge, skills and experience of the directors. DCME monitors compliance with the requirements of Article 91 of the Capital Requirements Directive.

4. Significant Risks

The most significant types of risks to which the Firm is exposed are discussed below:

4.1. Market Risk

Market risk is defined as the potential adverse change in position values arising from movements in interest rates, credit spreads, stock prices, exchange rates or other market risk factors. Market risk exposures arise from trading book positions held in Fixed Income, Equity and Derivative instruments.

Risk is actively managed or hedged by the business within the policies and procedures set by the Risk Management & Compliance Division and within the trading book policy statement. Regular meetings are also held

between risk management personnel and desk heads from the front office divisions as part of its active management of the Firm's exposure to risk.

The Market Risk department is responsible for presenting a fair picture of the risk in the Firm's trading book. Market risk exposures are monitored daily to ensure that both individual trader exposures and overall exposures are within the pre-agreed limits framework.

Market risk limits are set top down with overall Group level limits agreed between the firm and parent. DCME's market risk appetite is set by the Board in conjunction with the firm's Board Risk Committee and the Risk & Asset Liability Committee (RALCO) to define a set of DCME Regional Market Risk limits. These limits are then allocated among the individual divisions together with a set of locally managed business specific limits.

Internal reports that identify daily trader and business limit utilisation levels are reviewed and distributed to front office staff and senior management.

Breaches of the pre-agreed Group limits are reported immediately to the Parent and any extensions agreed upon are ratified where appropriate by RALCO. Breaches of DCME Regional level limits are reported to RALCO (and on the same day to the Parent) and require approval from the Head of Risk Management & Compliance and head of the relevant business unit. Breaches of business level specific limits are reported monthly to RALCO and require the same approval as per the DCME Regional limits.

Market risk is controlled and monitored using a range of risk management tools including Value at Risk (VaR), basis point value (BPV) limits, and various changes in credit spreads. A variety of limits are set locally within rules set by the Parent – by instrument rating, issuer, geographic location, and both cumulative and aged holdings. External ratings, where available, are applied to securities. Should the security not be rated, an external issuer rating is used and in the absence of any external rating an internal issuer rating would be applied.

Option positions are adjusted into their delta equivalent positions and gamma and vega limits are applied. Concentrated holdings and aged inventories are monitored to check balance sheet utilisation. Interest rate risk is measured and controlled within overall parameters and limits.

All material market risks are monitored on a daily basis.

The VaR methodology the Firm uses is calibrated to a 99% confidence level, one day holding period and a two year observation period. The calculations are made using an internal model and are checked regularly for reasonableness by the Market Risk department, using techniques such as back testing and profit and loss attribution. Additionally, stress testing and scenario analysis techniques are used to assess the impact of extreme but plausible events. The scenarios are discussed and agreed regularly by the Stress Testing Focus Group (a subcommittee of RALCO) and signed off by RALCO.

The VaR analysis for the year was as follows:

	Year to Mar 2015	Year to Mar 2014
	£'000	£'000
Year-end	1,547	2,696
Average	2,163	2,744
Maximum	3,161	3,594
Minimum	1,432	1,910

Figure 1

The VaR numbers shown for 2015 incorporate full diversification offsets between businesses.

The VaR figures decreased steadily throughout the year for both the Fixed Income and Convertible Bonds businesses, whilst the VaR for the Equities Division remains negligible.

The decrease in Fixed Income VaR came partly from a reduced focus on proprietary trading activities, especially within the government bond trading business, as well as a reduction in risk-taking within the Secondary Credit Trading business, which mainly holds positions in high rated corporate, supranational and agency paper.

The decrease in Convertible Bonds VaR was partly due to the closure of a Principal Trading desk as well as a cheapening of the asset class during the spring/summer of 2014. Later in the year, there was an increase in VaR on the back of significant new issuance in Japan.

DCME adopts standardised approaches for calculating its regulatory capital requirements in relation to market risk accordance with CRR, Part Three, Title IV (Own funds requirements for Market Risk).

4.2. Credit Risk

Credit risk is defined as the potential financial loss arising from a customer or counterparty failing to meet its financial obligations to the Firm as they become due. Credit Risk includes Counterparty Risk and Issuer Risk.

Counterparty Risk primarily arises on over the counter (OTC) transactions, including derivatives and securities financing transactions, and is the risk that a counterparty may default before completing the satisfactory settlement of the transaction, exposing the firm to potential losses arising from cost of replacement and liquidation risks. Counterparty Risk is also present in the form of nostro balances and as cost of replacement in cash securities transactions where the firm has intermediated as simultaneous principal. Credit Risk is also present as Issuer Risk, where an event of default (or similar) creates a loss in the Firm's inventory through the issuer's inability to repay its obligation.

DCME's Risk & Asset Liability Committee (RALCO) sets credit policy and oversees the control of credit risk. It is supported by the Credit Risk Department which sits within the Firm's Risk Management & Compliance Division. Counterparty exposure is managed by counterparty rating, limit setting (notional, credit, settlement and issuer, each applied where necessary), exposure monitoring and exception reporting.

Formal Credit approval is required for all potential counterparties as part of the Firm's account opening process. Using an internally developed rating system, internal ratings ['ICR'] are then key in formalising an appropriate limit structure. ICRs are determined through a combination of quantitative and qualitative factors, trend analysis, global peer comparisons, scorecard-based factors and publicly available information and accounts, to ensure overall consistency with external ratings provided by External Credit Assessment Institutions (ECAI's).

Credit Limits are set at individual counterparty (legal entity) level and for groups of connected counterparties; Per Issuer Limits are set similarly. The overall limit profile approved for counterparties and groups of connected counterparties considers appropriate constraints executed to ensure the Firm's adherence to the FCA's Large Exposure Rule. Credit requirements beyond the Risk Management & Compliance Division's approval authority must be approved by senior management and/or the Risk Management Department of the Parent.

The counterparty base is predominantly investment grade banks, financial institutions, fund managers, funds and large corporates. At 31 March 2015 credit limits extended to investment grade counterparties represented 91% (2014: 92%) of total credit limits granted, and credit exposure to all sub-investment grade counterparties stood at 0.7% (2014: 0.5%) of total counterparty risk (calculated as Mark-to-Market + Potential Future Exposure, for all counterparties including affiliates beyond DCME's own control).

The credit limit framework is calculated recognising principal risk, settlement risk and pre-settlement risk factors. Exposures are monitored and reported upon daily. Trade capture and exposure calculation (including potential future exposure) is automated via overnight batch processing. Credit risk is captured at trade level and reported at legal entity level with netting methodology applied only when legally enforceable within controlling documentation. Exposure to groups of connected entities is managed similarly.

The use of market standard trading and collateralisation documentation is employed whenever practicable. The collateral management and margining of counterparty exposure is actively managed on a daily basis, and exposures revalued using independent price sources. Quality, concentration risk, correlated ('wrong way') risk, illiquidity, pricing risk and haircuts are all considered when determining acceptable collateral. The vast majority of collateral accepted by the Firm is in the form of bonds issued by governments and supranationals, and cash. Lower quality collateral is accepted when warranted by the counterparty quality and appropriate haircuts applied.

All counterparty ratings and limits are reviewed periodically and ad hoc upon financial or business developments. Credit limits may be reduced or cancelled, particularly in the case of dormant accounts. Reinstatement of a previously cancelled credit facility requires formal re-approval of the counterparty.

The basis upon which credit is granted is set out in the Firm's policy manual and any breach of limits, policy or procedure is recorded and reported immediately to senior management and Tokyo Risk Division, and highlighted again at the monthly RALCO when appropriate.

RALCO and management are further apprised of the Firm's Credit Risk profile/composition according to risk rating, geographic location and industry type, covering both aspects of exposure and limits granted.

No counterparty losses were suffered during the year.

DCME adopts standardised approaches for calculating its regulatory capital requirements in relation to counterparty and credit risk.

4.3. Liquidity Risk

Liquidity risk is the risk that the Firm, despite remaining solvent, either does not have sufficient financial resources to meet payment obligations as they fall due or that it can only secure such resources at excessive cost.

The Board approves the Firm's liquidity framework which is reviewed at least annually to ensure its continued relevance.

In considering the Firm's business plans, the Board will review the Firm's projected funding and liquidity plan over a three year horizon to ensure that the Firm can continue to have both adequate and appropriate financial resources to meet its requirements.

The Board delegates certain responsibility for operational oversight and management of Risk and Treasury matters to the Firm's Risk and Asset Liability Committee (RALCO). This committee is responsible for on-going development of all components of the liquidity risk framework including providing feedback to the Board to allow it to discharge its obligations.

RALCO allocates funding limits by business area, always ensuring that such limits can be accommodated within the overall funding capacity of the Firm. The Firm's funding sources comprise capital and reserves, parental support and secured funding from a range of professional counterparts. In addition, the Firm has access to a range of wholesale uncommitted lines. These uncommitted lines are accessed periodically as part of the Firm's operational liquidity management process. However, such facilities are not regarded as a core funding source for the business and are not assumed to be available under liquidity stress.

The Regulatory and Treasury Department within the Finance Division undertake daily monitoring of the Firm's funding and liquidity position. Liquidity Risk Management, one of the sections within this department, is tasked with overall responsibility for establishing and maintaining DCME's funding and liquidity framework, developing Treasury's funds transfer pricing policy and assuming day-to-day responsibilities for both internal and external reporting. The Treasury section provides direct market interface in funding DCME's operations as well as managing the firm's ring fenced Liquid Asset Buffer (LAB) portfolio. This portfolio consists of high quality unencumbered bonds (typically brought in through reverse repo) issued by core European sovereigns, select multilateral development banks and by the central governments of USA, UK and Japan. Treasury operates as a cost centre, with all funding and liquidity costs charged to business units in proportion to their funding usage and the liquidity characteristics of their balance sheets.

The cornerstone of the Firm's quantitative liquidity control is a balance sheet cash flow model, appropriately segmented, firstly on a contractual basis and then with behavioural overlays applied to assess the Firm's position in both normal conditions and under various stress scenarios. Due to their subjective nature, the control processes supporting the behavioural assumptions used are subject to a sequence of executive challenges, including agreement by RALCO and the Board.

Stress test analysis forms the basis by which the Firm defines its liquidity risk appetite. This is currently defined in terms of ensuring the firm remains cash positive for all periods up one year under a severe market wide liquidity stress and for all periods out to one month (without parental support) under a severe combination liquidity stress

(market wide and name specific scenario). Key aspects of the Firm's stress testing include, but are not limited to, the impact of additional margin calls and collateral requirements, the ability to access secured and unsecured funding, the impact of multiple downgrades to the parent's credit rating and the impact on access to payment or settlement systems. Supporting controls address other potential stress vulnerabilities including foreign exchange market access and the failure of funding or credit counterparts.

Were the Firm to conclude from either quantitative or qualitative liquidity/funding controls that there was a potential liquidity issue developing, it would invoke its Board approved Contingency Funding Plan.

From a regulatory viewpoint, Daiwa Europe is governed by the Financial Conduct Authority's (FCA's) prudential liquidity regime in the UK. The FCA requires the company to undertake an annual assessment into the adequacy of its liquidity resources and liquidity risk management framework. This self - assessment process is termed an Individual Liquidity Adequacy Assessment (ILAA) and it is subject to a Supervisory Liquidity Review Process (SLRP) that is conducted by the FCA. The SLRP leads to Individual Liquidity Guidance (ILG) being conferred on the company that requires the company to adhere to minimum quantitative standards on liquidity. The company holds a significant liquid asset buffer which ensures that it adheres to this minimum standard at all times.

4.4. Operational Risk

Operational risk is the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events. The definition includes legal risk, but excludes reputational and strategic risk.

Operational risks within DCME are limited by means of a network of controls, procedures, reports and responsibilities. Within the Firm, each division and department has responsibility for its own operational risks and establishes appropriate resources, processes and controls for limiting such risks. The focus is primarily on the early recognition, reduction and management of risks as well as the measurement and monitoring of risks.

An independent Operational Risk Management (ORM) function within the Risk & Compliance division is responsible for establishing, and ensuring effective maintenance of, the framework within which operational risk is managed and for its consistent application across the Firm.

DCME's operational risk framework incorporates the following group-wide processes for the identification, measurement, monitoring, mitigation and reporting of operational risks:

- Monthly monitoring and reporting of key risk indicators (KRI) which are established to monitor the firm's key operational risks and identify potential issues at an early stage;
- Performance of risk and control self-assessments for assessing possible effects of potential risk sources and the effectiveness of existing controls for reducing risks. Where significant risks are identified, mitigation plans are defined and implementation monitored by ORM;
- Capturing, assessing and reporting of operational risk incidents, including loss events. This procedure helps to identify where process improvements may be required to reduce the likelihood of a recurrence;

- Focussed risk assessments of specific functions or processes in conjunction with the affected specialist units;
- Co-ordination of the new product approval process, to ensure identification of risks which may be associated with new products or business activities and the establishment of appropriate mitigating controls.

In addition to the above, specialist support functions also provide expertise in areas such as compliance (regulatory / reputational / conduct risk), health & safety (people risk), business continuity and office security (external event risk), information security (technology risk), and legal and transaction management (legal risk).

ORM presents a summary of the firm’s key operational risks, monitoring activities and operational risk incidents to the Operational Risk & Compliance Committee. ORM also provides regular reports to the Board Risk Committee and Audit Committee.

DCME adopts the standardised approach for calculating its regulatory capital requirements in relation to operational risk in accordance with CRR.

4.5. Other Risks

It is the Firm's policy to have low open foreign exchange (FX) risk. FX risk in the profit and loss account is managed by the Product Control department which sits within the Finance Division. Limits are in place against which this is reviewed on a weekly basis. A process is in place to ensure that there is no material FX risk at each month-end. This is achieved through an interim FX sell-off at month-end, followed by a final sell-off after the month-end close process.

In addition, any material P&L items arising intra-month are considered on a case-by-case basis by front office with a view of entering into an interim FX transaction if appropriate.

5. Capital Resources

The table below details the composition of the Firm's consolidated regulatory capital as at 31 March 2015.

	Notes	31 March 2015 £'000	31 March 2014 £'000
Common Equity Tier 1 capital			
Called up share capital		732,121	732,121
Profit and loss account and other reserves	**1**	(115,987)	(96,793)
Less total deductions from tier 1 capital	**2**	(21,392)	(26,805)
Revaluation reserve		553	215
Total Common Equity Tier 1 capital	**3**	**595,295**	**608,738**
Total capital resources		**595,295**	**608,738**

Figure 2

Notes

1. The capital figures have been updated to include the audited year end reserves.
2. Deductions comprise: Goodwill on acquisition of Close Brothers Corporate Finance Holdings Limited, and of the convertibles business of KBC Financial Products £19,716k and prudential valuation adjustments £1,676k
3. Common Equity Tier 1 capital consists of share capital and reserves, including revaluation reserves. The Firm has no innovative Tier 1 instruments.

The Firm's capital resources are exclusively Common Equity Tier 1 capital. At 31 March 2015 and during the year, the Firm complied with all externally imposed capital requirements and all gearing rules in accordance with the rules set out in CRR.

5.1. Capital Adequacy

The Firm defines capital as the resources necessary to cover unexpected losses arising from discretionary risks, being those which it accepts as credit risk and market risk, or non-discretionary risks, being those which arise by virtue of its operations, such as operational risk.

The Firm's Risk Asset and Liability Committee and Board Risk Committee use capital management principles and related policies define the Internal Capital Adequacy Assessment Process (ICAAP) by which the Firm's risk profile is examined to ensure the level of capital:

- remains sufficient to support the Firm's risk profile and outstanding commitments;
- exceeds the Firm's supervisory capital requirement by an agreed margin;
- is capable of withstanding a severe economic downturn or stress scenario;
- remains consistent with the Firm's strategic and operational goals.

The following table shows the Firm's Pillar 1 consolidated capital requirement:

	31-March-15 **£'000**	**31 March 2014** **£'000**
Minimum capital requirements		
Trading book -		
Interest rate PRR	58,216	56,509
Equity PRR	3,741	8,517
CIU PRR	0	0
Foreign currency PRR	2,384	1,135
Market risk requirement	64,341	66,161
Trading book		
Counterparty risk capital component	17,576	14,016
Credit Risk Capital Component	6,976	6,156
Concentration risk capital component	0	0
Credit Valuation Adjustment	11,095	2,773
Default Fund Contribution capital charge	87	39
Credit risk requirement	35,734	22,984
Operational Risk Capital Requirement – Standardised Approach	22,207	24,956
Total Pillar 1 capital requirement	**122,283**	**114,101**
Total Tier 1 Capital	**595,295**	**608,738**
Total risk weighted assets	**1,528,532**	**1,426,278**
Tier 1 capital ratio	**38.95%**	**42.7%**

Figure 3

5.2. Counterparty Credit Risk

The following table shows the counterparty risk capital component and credit risk capital component by exposure class (8% of the risk weighted exposure amounts):

As at 31 March 2015	Counterparty Risk Capital Component £'000	Credit Risk Capital Component £'000
Standardised Approach		
Central Governments and Central Banks	309	22
Institutions	16,817	3,281
Corporates	450	3,673
Other Items	0	0
Total	**17,576**	**6,976**

As at 31 March 2014:	Counterparty Risk Capital Component £'000	Credit Risk Capital Component £'000
Standardised Approach		
Central Governments and Central Banks	1,118	22
Institutions	6,398	938
Corporates	6,500	5,196
Other Items	0	0
Total	**14,016**	**6,156**

Figure 4

DCME adopts standardised approaches for calculating its regulatory capital requirements in relation to counterparty and credit risk.

The following table details the OTC derivative contracts

As at 31 March 2015

	Gross Positive Fair Value of contracts £'000	Total Netting Benefits £'000	Netted Current Credit Exposure (A) £'000	Collateral Held * (B) £'000	Net Derivatives Credit Exposure (C) = (A)- (B) £'000
Trading Book	341,223	461,631	231,859	106,422	125,437
Total	**341,223**	**461,631**	**231,859**	**106,422**	**125,437**

As at 31 March 2014:

	Gross Positive Fair Value of contracts £'000	Total Netting Benefits £'000	Netted Current Credit Exposure (A) £'000	Collateral Held * (B) £'000	Net Derivatives Credit Exposure (C) = (A)-(B) £'000
Trading Book	355,270	312,236	192,586	64,192	128,394
Total	**355,270**	**312,236**	**192,586**	**64,192**	**128,394**

Figure 5

All exposure values were calculated using the CCR mark to market method.

5.3. Credit derivative transactions

As at 31 March 2015, the Firm's portfolio of credit derivatives did not reference an asset held by the firm. All credit derivatives are held in the Firm's trading book.

The counterparty base for credit derivatives is predominantly investment grade banks.

The following table shows the notional value of the credit derivative transactions as at 31 March 2015:

As at 31 March 2015	**Protection Sold £'000**	**Protection Purchased £'000**	**Total £'000**
Trading Book - Credit default swaps			
Specifically hedging	-	-	-
Other	-	162,047	162,047
Total	**-**	**162,047**	**162,047**

As at 31 March 2014	**Protection Sold £'000**	**Protection Purchased £'000**	**Total £'000**
Trading Book - Credit default swaps		-	
Specifically hedging	-	7,889	7,889
Other	-	128,251	128,251
Total	**-**	**136,140**	**136,140**

Figure 6

5.4. Credit Risk and Dilution Risk

5.4.1. Definition of past due and impaired

A financial asset (loan and receivable) is defined as past due when a counterparty has failed to make a payment when contractually due.

A financial asset (loan and receivable or available for sale investment) is impaired if its recoverable amount is less than its carrying amount on the balance sheet.

At each balance sheet date the Firm assesses whether, as a result of one or more events that occurred after initial recognition, there is objective evidence that a financial asset is impaired. Evidence of impairment may include indications that the counterparty is experiencing significant financial difficulty. If there is objective evidence that an impairment loss on a financial asset has been incurred, the amount of loss is measured as the difference between the assets carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The impairment loss is immediately recognised in the profit and loss account.

As at 31 March 2015 as the result of a 2014 impairment review, the intercompany loan with the Firm's subsidiary was impaired by £27.72m (31 March 2014 also £27.72m).

5.4.2. Analysis of credit risk exposures

The gross credit risk exposure (before credit risk mitigation) and the average for the year ended 31 March 2015 are summarised as follows

	Year Ended 31 March 2015 Average Gross Credit Exposures[2] £'000	As at 31 March 2015 Total Gross Credit Exposures £'000	Year Ended 31 March 2014 Average Gross Credit Exposures £'000	As at 31 March 2014 Total Gross Credit Exposures £'000
Sovereigns	166,238	355,297	788,722	634,569
Institutions	18,565,162	22,176,668	12,726,424	11,217,848
Corporates	416,437	327,202	1,411,567	1,772,475
Other	1,960	1,122	624	1,485
Total	**19,149,797**	**22,860,289**	**14,927,337**	**13,626,377**

Figure 7

The geographical distribution of these exposures is as follows

As at 31 March 2015

	UK £'000	Japan £'000	Europe £'000	North America £'000	Rest of the World £'000	Total £'000
Sovereigns	3,189	617	348,949	1,710	832	355,297
Institutions	6,343,724	9,119,913	1,620,462	4,468,596	623,973	22,176,668
Corporates	33,742	542	7,582	281,821	3,515	327,202
Other	1,122	-	-	-	-	1,122
Total	**6,381,777**	**9,121,072**	**1,976,993**	**4,752,127**	**628,320**	**22,860,289**

As at 31 March 2014

	UK £'000	Japan £'000	Europe £'000	North America £'000	Rest of the World £'000	Total £'000
Sovereigns	2,769	6,767	623,413	1,244	377	634,569
Institutions	4,501,898	3,157,797	1,475,346	1,544,020	538,786	11,217,848
Corporates	59,953	4,682	365	1,705,435	2,040	1,772,475
Other	1,485	-	-	-	-	1,485
Total	**4,566,105**	**3,169,246**	**2,099,124**	**3,250,699**	**541,203**	**13,626,377**

Figure 8

The distribution of exposures by industry and exposure class is as follows

[2] Average gross credit exposure is based on data from the four previous quarter-ends.

As at 31 March 2015

	Sovereigns £'000	Institutions £'000	Corporates £'000	Other £'000	Total £'000
Central Government/Central Banks	355,297	-	-	-	355,297
Banks		9,533,862		1,122	9,387,319
Financials		12,642,986		-	12,790,471
Corporates	-		327,202	-	327,202
Other	-	-	-	-	0
Total	**355,297**	**22,176,668**	**327,202**	**1,122**	**22,860,289**

As at 31 March 2014

	Sovereigns £'000	Institutions £'000	Corporates £'000	Other £'000	Total £'000
Central Government/Central Banks	634,569	-	-	-	634,569
Banks		5,769,644		1,485	5,771,129
Financials		5,488,204		-	5,448,204
Corporates	-		1,722,475	-	1,722,475
Other	-	-	-	-	0
Total	**634,569**	**11,217,848**	**1,772,938**	**1,485**	**13,626,377**

Figure 9

The distribution of exposures by residual maturity is as follows:

As at 31 March 2015	One year or less £'000	Over one year not exceeding five years £'000	Over five years £'000	Total £'000
Sovereigns	350,378	-	4,919	354,816
Institutions	21,641,112	86,093	449,463	22,176,667
Corporates	327,202	-	-	327,202
Other	-	-	-	-
Multilateral Development Banks	1,122	-	-	1,122
Total	**22,319,814**	**86,093**	**454,382**	**22,860,289**

As at 31 March 2014	One year or less £'000	Over one year not Exceeding five years £'000	Over five years £'000	Total £'000
Sovereigns	608,832	15,726	10,011	634,569
Institutions	11,029,145	102,647	86,057	11,217,848
Corporates	1,772,367	67	41	1,772,475
Other	1,485	-	-	1,485
Total	**13,411,828**	**118,440**	**96,109**	**13,626,377**

Figure 10

5.5. Credit Risk - Standardised Approach

The Firm uses Moody's as its external credit assessment institution (ECAI) for the purpose of calculating risk weighted exposure amounts in accordance with the standardised approach to credit risk.

The following details the standardised credit risk exposure classes for which the ECAI was used.

- Sovereigns (Central Governments/Central Banks)
- Regional Governments/Local Authorities
- Institutions
- Corporates
- Other Items

The following table shows the exposure values (before the application of supervisory hair-cuts) associated with each credit quality step as at 31 March. The credit quality steps are those used by the FCA and reflect the credit quality of exposures. The steps are determined by factors such as the type of exposure, credit rating and maturity. The highest credit quality is 1 and the poorest is 6.

As at 31 March 2015

Credit Quality Step	Sovereigns £'000	Institutions £'000	Corporates £'000	Other £'000	Total Exposures £'000
1	5,827	5,063,690	585	1,103	5,071,205
2	617	10,857,869	1,026	-	10,859,512
3	348,760	1,281,904	124	-	1,630,787
4	-	5,843	45	-	5,887
5	-	-	-	-	-
6	-	-	-	-	-
Unrated	93	4,967,361	325,423	19	5,292,897
Total	**355,297**	**22,176,667**	**327,202**	**1,122**	**22,860,289**

As at 31 March 2014

Credit Quality Step	Sovereigns £'000	Institutions £'000	Corporates £'000	Other £'000	Total Exposures £'000
1	384,689	4,577,264	430	1,485	4,963,868
2	-	2,986,140	117	-	2,986,257
3	249,519	2,648,907	-	-	2,898,426
4	103	8,696	-	-	8,799
5	-	-	125	-	125
6	-	-	-	-	-
Unrated	258	996,841	1,771,803	-	2,768,902
Total	**634,569**	**11,217,848**	**1,772,475**	**1,485**	**13,626,377**

Figure 11

The following table shows the exposure values after credit risk mitigation (including the application of supervisory haircuts) associated with each credit quality step as at 31 March:

As at 31 March 2015	Sovereigns	Institutions	Corporates	Other	Total Exposures after Credit Risk Mitigation
Credit Quality Step	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**
1	5,827	241,189	585	1,103	248,704
2	617	223,722	1,026	-	225,364
3	7,729	38,095	124	-	45,948
4	-	31	45	-	76
5	-	-	-	-	-
6					
Unrated	94	258,246	49,596	19	307,954
Total	**13,786**	**761,283**	**51,375**	**1,122**	**827,566**

As at 31 March 2014	Sovereigns	Institutions	Corporates	Other	Total Exposures after Credit Risk Mitigation
Credit Quality Step	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**
1	27,698	180,940	430	1,485	210,553
2	-	160,069	117	-	160,186
3	27,848	84,081	-	-	111,929
4	103	-	-	-	103
5	-	-	125	-	125
6	-	-	-	-	-
Unrated	258	90,255	132,544	-	223,056
Total	**55,907**	**515,346**	**133,216**	**1,485**	**705,953**

Figure 12

5.6. Market Risk

Please refer to Section 2 Risk Management Objectives and Policies for a summary of the Firm's approach to the management of market risk.

The following table shows the Firm's Pillar 1 capital requirement on market risk as at 31 March.

	As at 31 March 2015 £'000	As at 31 March 2014 £'000
Trading Book		
Interest rate PRR	58,216	56,509
Equity PRR	3,741	8,517
Option PRR	-	0
Collective Investment Undertakings PRR	0	0
Foreign currency PRR	2,384	1,135
Total Pillar 1 capital requirement for market risk	**64,341**	**66,161**

Figure 13

DCME adopts standardised approaches for calculating its regulatory capital requirements in relation to market risk in accordance with CRR, Part Three, Title IV (Own funds requirements for Market Risk).

5.7. Operational Risk

Please refer to Section 2 - Risk Management Objectives and Policies for a summary of the Firm's approach to the management of operational risk.

The Firm has followed the criteria for the approach and assessment set out in CRR Part Three, Title II (Own funds requirements for operational risk). The Firm has adopted the standardised approach for calculating the Pillar 1 capital requirement for operational risk. The figures below are based on audited results for the 3 year period ended March 2015 and 2014 respectively.

	As at 31 March 2015 £'000	As at 31 March 2014 £'000
Operational risk	22,207	23,644
Total Pillar 1 capital requirement for operational risk	**22,207**	**23,644**

Figure 14

5.8. Non-Trading Book Exposures in Equities

The Firm does not have any significant equity exposures in its non-trading book. As at 31 March 2015, the Firm held a number of equity shareholdings in clearing houses for historical reasons and not for investment purposes. Management intends to hold those investments for the foreseeable future.

Those assets are classified as available for sale investments on the balance sheet as at 31 March 2015 and are held at fair value. Fair value is determined by reference to the quoted price in an active market wherever possible. Where no such active market exists, the Firm uses a valuation technique to arrive at the fair value, including the use of prices obtained in recent arms-length transactions and other valuation techniques commonly used by market participants.

Gains and losses arising from changes in fair value are included in a fair value reserve until sale when the cumulative gain or loss is transferred to the profit and loss account. The available for sale assets are reviewed for impairment if necessary.

The following table shows the Firm's total available for sale investments.

	As at 31 March 2015 £'000	As at 31 March 2014 £'000
Available for sale investments	916	891
Total available for sale investments	**916**	**891**

Figure 15

The carrying amount of available for sale investments approximates to their fair value.

5.9. Exposures to Interest Rate Risk in the Non-Trading Book

The Firm does not have non-trading book business. All non-trading book items included at the year-end represented tangible fixed assets, available for sale investments and working capital.

As part of the Firm's risk assessment process, stress and scenario testing was performed indicating that interest rate risk in its non-trading book was not material.

5.10. Credit Risk Mitigation

Please refer to Section 2 (Risk Management Objectives and Policies) for a summary of the Firm's approach to the management of credit risk mitigation.

The following table shows the total exposure value that is covered by collateral (after the application of supervisory hair-cuts):

	Exposure covered by Eligible Financial Collateral	
	As at 31 March 2015 £'000	As at 31 March 2014 £'000
Standardised Approach		
Sovereigns	340,756	590,686
Institutions	21,438,654	10,815,546
Corporates	284,602	1,687,307
	-	
Total	**22,064,012**	**13,093,538**

Figure 16

Credit risk mitigation is defined, in general terms, as the processes by which the Firm seeks to mitigate counterparty credit risk against the Firm i.e. potential loss for the firm in the event of a counterparty default (positive mark-to-market risk).

The first level of mitigation is via the process of trading with only credit worthy entities, controlled based on the Firm's credit management processes. The Firm's principal trading counterparties are investment grade (Internal Credit Ratings) and represent 97% (92% in 2014) of total credit limits extended, whereby the largest credit limits are extended to the most renowned and the largest global financial institutions.

As a second level of mitigation, in the event that counterparty is determined to be a weak member of a larger credit-worthy group, a parental guarantee will be sought. The Firm's Legal Department will negotiate the implementation of such documentation.

The third level of mitigation is via the implementation of market standard trading agreements with counterparties before a trading relationship occurs.

The negotiations and implementation of market standard trading documentation facilitates legal netting of counterparty exposure. Financing and OTC Derivative trading outside of documentation is not permitted without express approval by Credit Risk and is, in any event, a very rare occurrence.

The standard trading agreements most commonly in use between the Firm and its counterparties are the:

- GMRA – Global Master Repurchase Agreement
- GMSLA – Global Master Securities Lending Agreement
- OSLA – Overseas Securities Lending Agreement
- ISDA – International Swaps & Derivatives Association Master Agreement.

For ISDAs, specific addenda (Credit Support Annexes "CSAs ", and Net Paying Addenda "NPAs") are normally implemented. The Firm's Legal Department negotiate agreements using terms set by Credit Risk, who seek to minimise potential future exposure against the Firm, by imposing small bilateral thresholds and minimum transfer amounts.

Cross - Product Netting Agreements are not yet used within the Firm, although such capacity is recognised when the counterparty is also a UK legal entity whereupon the 'right of set off' is enshrined within UK Law.

The fourth level of mitigation is via processes conducted within our Collateral Management function whereby margining activity is conducted daily in accordance with the legal terms contained within respective trading agreements. Over 99% of the Firm's trading agreements include capacity for daily margining to be conducted; extended margining terms are rare.

The main types of *incremental* collateral taken by the firm are predominantly cash (USD, EUR), a smaller element by way of G7 Government Bonds, and a minor element in the form of highly rated Corporate Bonds. Sub-investment grade or unrated bonds are generally avoided, and bonds with correlated risk (wrong way risk) are not acceptable forms of incremental collateral/credit mitigation.

The Firm does have limited exposure to hedge funds that are sub-investment grade (according to the Firm's Internal Credit Rating), wherein the risk here is predominantly mitigated by counterparties over-collateralising

current and potential exposure through the use of cash or high grade government bonds, or otherwise exposure is limited to collateral-recall risk.

Liquidity and Concentration risks within incremental collateral, are judged not to be of material concern given they are predominantly represented by G3 cash and G3 Government bonds.

By following these parameters, the Firm seeks to ensure that when trading with any counterparty it should enjoy risk mitigation and at least two methods of repayment.

6. Remuneration

6.1. Basis of Disclosure

The remuneration disclosures are prepared on the basis that DCME is a level 3 firm. A level 3 firm is defined as one whose average total assets over the past three financial years have not exceeded £15bn. As a result the Firms remuneration disclosures are not required to be as detailed as if it were level 1 or 2. The firm monitors its positions with regards to this definition closely due to the proximity to the threshold.

6.2. Committee

The Firm has a Remuneration & Nominations Committee. Authority is delegated by the Board to the Committee to review, approve and ensure remuneration policies across the Firm are consistent with the promotion of effective risk management and do not encourage risk taking which exceeds the Firm's risk appetite. The Committee is comprised of five Non-Executive Directors and receives contributions from other staff including the Heads of HR and Head of Compliance and Risk, as required. The Committee also has the responsibility of reviewing the composition and effectiveness of the Board, and manage all Board appointments.

During the period in question, remuneration consisted of fixed pay (base salary and benefits) and variable pay (e.g. annual discretionary bonus) designed to reward performance. The annual discretionary bonus is used to reflect financial performance, as well as to reward and encourage good non-financial performance.

Bonuses may be reduced or withheld completely if the employee has failed to comply with the Firm's risk management policies, or where there has been any breach of regulatory requirements. The bonus may also be reduced to zero where there is poor performance, or where the employee is subject to a disciplinary warning, for example. The range of criteria chosen to determine discretionary bonuses may vary from year to year and from one business area to another. The actual levels of pay will be influenced by a number of factors including the Firm's profitability and strategic objectives, which may change from time to time and taking into account competitive market practice.

The Firm has a deferral scheme in operation. Code Staff subject to deferral have additional performance adjustment measures in place under this scheme which may be applied at the discretion of the Remuneration & Nominations Committee. As a level 3 Firm, the Firm has chosen not to use financial instruments and to disapply the bonus cap for this period in question. Deferrals and vesting schemes for previous periods will continue to be applicable on amounts due to be paid under these arrangements.

6.3. Remuneration disclosure

The number of Code Staff for the period has increased when compared year on year as a direct result of the new and broader definition of what constitutes a Material Risk Taker. The disclosures for the staff identified are shown below:

6.3.1. Aggregate remuneration expenditure

Business Area	£'000
Fixed Income	3,666
Equity & ICB	1,725
Investment Banking	3,541
DCA[3]	0
Derivatives	3,761

Figure 17

6.3.2. Remuneration for Financial Year

Analysis between fixed and variable amounts

	Senior Management	Non Senior Management
Number of code staff	*14*	*46*
Fixed pay:-	£'000	£'000
Cash based Fixed Remuneration	2,532	7,789
Variable Pay:-		
Cash	1,262	5,673
Variable as Units	-	-
Deferred cash	390	1,668
Total variable pay	1,652	7,341
Overall Total	**4,184**	**15,130**

Figure 18

6.4. Sign on, Severance and Performance Adjustments

Category	£'000
Performance Adjustments	0
Sign On Payments	0
Severance Payments	706

Figure 19

6.5. Code Staff Remuneration

Total Compensation EUR	Number of code staff within bracket	
	2013/14	**2014/2015**
<1,000,000	18	56
1,000,000-1,500,000	1	4

Figure 20

[3] No code staff were employed by DCA in the period

7. Board Risk Management Declaration

The Board is responsible for reviewing the effectiveness of the Company's risk management arrangements and systems of financial and internal control. These are designed to manage rather than eliminate the risks of not achieving business objectives, and – as such- offer reasonable but not absolute assurance against fraud, material misstatement and loss.

The Board considers that it has in place adequate systems and controls with regard to the Company's profile and strategy and an appropriate array of assurance mechanisms, properly resourced and skilled, to avoid or minimise loss.

8. Board Approved Risk Statement

The Board maintains a Risk Appetite which is regularly monitored with formal reviews of the risk measures in conjunction with the long term planning process. During the year the risk profile of the Company has been maintained within the key risk limits.

The Board express the Risk Appetite through a number of key Risk Appetite measures which define the level of risk acceptable across a number of categories.

The risk appetite measures are integrated into decision making, monitoring and reporting processes, with early warning trigger levels set to drive any required corrective action before overall tolerance levels are reached. The table below sets out a number of the key measures used to monitor the Firm's risk profile.

Risk Category	Risk Measure	Criteria	Tolerance Level	Value as at 31 Mar 2015
Capital Risk	Tier 1 Capital Ratio	Minimum tier 1 capital ratio >20%	>20% Tier 1 capital ratio[4]	41.40%
Liquidity Risk	Internal Coverage Ratio	Buffer above regulatory minimum	Minimum 10% buffer above regulatory minimum ILG	93%
Market Risk	Value at Risk	1-day 99% diversified VaR (maximum $10m at entity level)	Maximum $10m for all businesses	$2.51m
Credit Risk	Net Credit Exposure	Total net credit exposure (maximum 10x total capital resources)	Maximum10x total capital resources	3.93x
Operational Risk	Operational Risk Losses: Max from single event	$1m - single event impact	$1m – single event impact	$28k
	Operational Risk Losses: Max aggregate annual loss	$2m aggregate over prior 12 months (rolling basis)	$2m aggregate per annum	$61k

[4] The Firm targets a minimum buffer above the regulatory individual capital guidance threshold and has operated at a significant surplus to this throughout the year. Our long term capital plan and internal capital adequacy assessment show the continuation of a surplus above the internally set capital buffer.