Daiwa Capital Markets Europe Limited

Annual report and financial statements for the year ended 31 March 2019

Company registered number: 01487359

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Chairman's Statement

For the financial year ended 31 March 2019, Daiwa Capital Markets Europe Limited ("DCME"), made a loss of £11.2m, compared with a loss of £30.6m in the previous year. However, the prior period's performance was clouded by the impact of significant litigation expense and loan impairment adjustments. At the Operational level there was a decline in performance, with DCME recording an operating loss of £11.1m against an operating profit of £7.3m for the prior year.

A highlight for the year was the strong performance from our Principal Investments business, which has now firmly established itself within the development and bridging financing arena. DCME had another strong performance in primary Equity and Convertible Bond issuance, on the back of an exceptional 2018. Performance was, however, significantly impacted by poor performance within our Fixed Income Credit Trading business, which was adversely impacted by market weakness, particularly in Emerging Markets.

DCME continued to evolve its focus on advancing the Group's objectives regarding the UN's Sustainable Development Goals ("SDGs"). This initiative is nowhere more evident than in our Debt Capital Markets business where, following a number of ESG, SDG and Green bonds, DCME received awards from EMEA Finance for "Best ESG Bond House", "Best Sustainability Bond", "Best Green Bond in Europe" and "Lead Manager of the Year Social Bonds – Bank". This is an outstanding performance and demonstrates our strong commitment to achieving the SDG goals, for ourselves and our clients. In addition to outward focused goals DCME continues to promote internal SDGs, including good health and well-being, gender equality, energy efficiency, recycling and actions to combat climate change.

DCME's corporate advisory subsidiary group, DC Advisory (not included within these results), had another good year, continuing to consolidate its position as one of the leading mid-market M&A advisory firms in Europe. During the year the business expanded with the acquisition of Montalban Atlas Capital, in Spain. The business has been rebranded Daiwa Corporate Advisory SL ("DCA Spain"). The Daiwa Group also continued to develop its global M&A franchise, with Sagent and Signal Hill, in the US, being rebranded under the DC Advisory banner, from April 2019. The Daiwa Group's M&A businesses in Asia (ex Japan) and Japan have also started using the DC Advisory brand. This brings all the global M&A businesses under one unified brand, which will set us apart from our competitors in the mid-market space.

A major highlight of the year was the go live of DCME's German subsidiary, Daiwa Capital Markets Deutschland GmbH ("DCMD"). DCMD was established with the initial objective of ensuring DCME's ability to service its EU-based clients after Brexit. During the year DCMD obtained regulatory approval, and the required system architecture and staffing was put in place. DCMD was therefore able to commence business in September 2018 and book its first client trade in January 2019, well in advance of the original Brexit date. DCMD and DCME are now focused on supporting our existing clients with their transition strategies and to identify new clients and markets, with our enhanced continental base.

DCME has, and will continue to focus considerable energy on meeting the regulatory agenda. During the year significant work has been done to continue embedding MiFiD II across the organisation, evolve the firm's resiliency against cyber and operational threats, enhancing our systems and processes to prevent and detect Market Abuse and the firm is actively working towards compliance with the new Senior Managers Regime, ahead of the 9 December 2019 commencement date.

Chairman's Statement

In Japan, despite the Nikkei 225 reaching a 27-year high, financial markets experienced a prolonged period of correction, making it a very volatile year. The year ahead marks the second year of the Group's medium-term management plan and we will continue to pursue the "quality of our customer – first" objective, while maintaining our efforts to create and expand "new value" by fusing new business areas with the traditional securities business. For us in Europe, we face the significant challenge that Brexit uncertainty poses, together with a rapidly-changing operating environment, driven by technological change and the pursuit of socially responsible banking. It is incumbent on all of us to help this transformation by building a sustainable, cost-effective business model that meets the needs of our clients, employees and the wider global community. I am personally looking forward to working through these changing times, together with our Board, staff and the wider Daiwa community.

I would like to take this opportunity to thank all our staff and clients for their continued commitment to the Daiwa Group.

Yours sincerely,
Shiko Yanagisawa
Chairman
Daiwa Capital Markets Europe Limited

Strategic Review

Introduction

The purpose of this report is to provide users of these Financial Statements with an insight into Daiwa Capital Markets Europe's ("DCME") business, strategy and the risks and opportunities associated with that strategy. The report includes commentary on the company's performance, Key Performance Indicators (KPIs), an outline of how DCME is structured, an overview of future prospects and the risks the business faces together with the strategy to mitigate these risks.

Business Model

DCME is the UK subsidiary of Daiwa Securities Group Inc. ("DSGI") and as such its business model is closely aligned to that of the parent group. DCME's purpose, within the Group, is to provide access to Japan and Asia for European clients and access to Europe for Daiwa Group clients. That access is in both primary and secondary markets. DCME is authorised and regulated by the Financial Conduct Authority ("FCA").

DCME's primary office, in Europe, is based at 5 King William Street, London. It has branches in Geneva and Bahrain and representative offices in Moscow and Paris.

DCME is structured along product lines, consistent across the Group, which allows for global product strategies and management. Global and local product heads, along with DCME senior management, work together to determine business priorities and strategy.

DCME provides M&A and Debt Advisory services through its wholly owned subsidiary group DC Advisory. DC Advisory operates through separately incorporated entities in the UK, France, Spain and Germany. The UK business (DC Advisory Limited) is regulated by the FCA. The results of DC Advisory are not consolidated in these financial statements.

DCME has a German subsidiary, Daiwa Capital Markets Deutschland GmbH (DCMD) (incorporated December 2017), which was established as a response to the 2016 referendum on the UK's continued membership of the European Union (EU), and the decision to leave the EU. The primary aim of the entity is to protect Daiwa Group relationships with existing EEA clients and maintain access to EEA clients and products for Daiwa Group's clients. In the medium term the objective is to increase client and product coverage in the EEA through a local presence. During the year DCMD gained regulatory approval, completed its build-out of infrastructure, and hired all necessary staff. It commenced trading through its own infrastructure in January 2019. The results of DCMD are not consolidated in these financial statements.

Review of businesses, performance and strategy

DCME's 2019 pre-tax result was a loss on ordinary activities of £11.4m (2018: loss of £32.6m).

At the Operating level (before litigation and impairment adjustments) DCME reported a loss of £11.1m (2018: £7.3m profit). Net operating income decreased £15.7m (13.5%) y-o-y, while Administrative Expenses increased by £2.6m (2.4%).

In comparing the 2019 results with 2018 it must be noted that the prior year was particularly strong with DCME recording its best performance at Operating profit level for more than 5 years. Against the prior year almost all business areas recorded lower revenues with the Fixed Income Division's Credit Trading business accounting for much of this adverse result. By contrast the Principal Investments Division ("PI") recorded a very strong year, increasing revenue by 201%.

The impact of DCMD on DCME revenues has been relatively limited for 2019. As explained above, DCMD was established to allow the Daiwa Group to continue to service existing EEA clients post Brexit, and as such its revenues for now reflect business that would previously have been recorded in DCME. However, for 2019 DCMD's revenues amounted to 1.4% of the total revenue of the combined business.

Looking forward, DCME sees a continued challenging environment. Markets will continue to be reasonably challenging and competitive pressures will be strong. The uncertainties around Brexit will provide headwind for a number of areas, in particular our PI business. However, we anticipate there being a healthy pipeline for primary deals across all business areas. We also have confidence that our core Japanese Equity business (and by extension Asian Equities) will be able to build market share in the post MifiD II environment, (which since January 2018 has required the unbundling of the traditional Equity brokerage model).

Litigation provision

During the year, DCME was granted permission to appeal to the Supreme Court against the judgment handed down in 2017 in the legal claim brought by the liquidators of Singularis Holdings Limited. The hearing of this appeal is expected in July 2019. DCME has provided for the full litigation claim, including interest and costs. There is thus no further material downside risk associated with this case. As at March 2019 there are no other pending litigation cases.

Equities

The Equity Division includes investment research and advisory related agency brokerage with a core focus on Pan Asian equities. The division provides investment advice in the form of buy and sell recommendations on listed equities to institutional clients using Daiwa Group's research product. It offers execution services using the Group's access to the Tokyo Stock Exchange and to other Asian exchanges. In addition to secondary equity brokerage, the division distributes equity-linked primary issues originated by other parts of the Daiwa Group. The Pan Asian Equity desk serves a wide range of traditional and alternative fund managers throughout Europe and the Middle East. Additionally, the division provides European research and execution services to Japanese institutional investors and to the Daiwa Securities Group through a distribution partnership with Sanford C. Bernstein.

The Equity Division had a 19% y-o-y decrease in total revenue against a particularly strong 2018. Primary activity in the year remained strong (though it dipped 12% against the prior year), with some meaningful mandates from Japanese global offerings, (such as the Mercali IPO deal). However, it was a challenging year for secondary markets with revenue overall down 21% y-o-y. The booking of revenue in DCMD rather than in DCME resulted in a 3% y-o-y decrease in DCME equity revenue.

2019 was the first full year's results since the introduction of MifiD II, (in January 2018). The central tenet of MiFID II in respect of equities is that research and execution must be fully unbundled, and as such the secondary business, now has to be viewed as two standalone businesses; that is to say research and execution.

From a research perspective, our Japanese product remains competitive for Japan specialists. By combining Japan research with Asia (ex Japan), DCME has started to gain market share, despite a challenging market and our strategy is to focus our resources on the clients with the biggest budgets. Clients are becoming very selective as to the brokers they use, and we are focused on value added clients.

For the execution business, DCME has been gaining market share. One of the criteria investors use when choosing execution brokers is how much trading market share each broker has. Volumes of trades executed by brokers are published (via Bloomberg) and orders tend to be routed via the brokers who trade most in the market, as trade matching opportunities are higher, so this is a key focus. At the year end we see clear signs that DCME has been gaining market share, in the Japan market particularly.

On the macroeconomic side, the global correction of equity markets at the end of 2018 saw client activity become somewhat subdued. In Japan, Abe's administration has now become one of the longest running administrations in Japanese history, which had encouraged overseas investor flows to return to the market until recently, but it is becoming uncertain if this trend will continue going forward. Equity market conditions are obviously a big swing factor for our execution business.

DCME expects a stronger 2020 outcome for the Equity Division's secondary revenue. We anticipate a growth in market share for both research and execution business in our Japanese equity business, and we believe that we can also leverage growth in our Asian business from our Japan strength. In our primary business we foresee a healthy pipeline in terms of mandates for global secondary public offerings and initial public offerings.

Fixed Income ("FI")

The Fixed Income Division consists of the following core business lines: investment grade Credit Trading, Government Bond Trading, Repo, MTN, Debt Syndication and Sales. The Sales desk is responsible for placement of Daiwa's Fixed Income global product range, both secondary and primary, with European clients. The MTN desk primarily provides a facilitation service to Tokyo's MTN and structured product business. The MTN desk does not take any market or credit risk. The Repo desk provides a financing function to the division, by arranging secured funding for its balance sheet positions. In addition, the Repo desk provides a client facilitation service to the Group and external clients by undertaking a financing matched book. The Debt Syndication desk provides origination advice to borrowers and co-ordinates with other members of transaction underwriting syndicates.

FI had a disappointing year with revenue down 36% y-o-y. There were lower revenues across almost all business areas with Credit Trading having a particularly disappointing year (down 94% y-o-y) due to missed opportunities mainly linked to the extreme volatility in Turkish interest rates and, to a lesser extent, the policy decisions of the Australian central bank.

Looking forward to 2020 we foresee a better year for the division. We anticipate that arbitrage opportunities will exist for our trading business despite the challenge of low interest rates and the erosion of margins due to fierce competition. For our repo business we see opportunities for growth and we also anticipate that the sales business will continue benefitting from the rollout of the e-trading platform.

International Convertible Bonds ("ICB")

International Convertible Bonds makes markets in Japanese and Asian convertible bonds to its European and Asian client base, aiming to generate revenues by capturing bid-offer spreads. The division has a presence in both London and Hong Kong which allows it to service clients in both Asian and European time zones. It does not always receive simultaneous matching buy and sell orders so carries some bond inventory awaiting sale. In addition to market making activity, ICB seeks to participate in the primary market working closely with Daiwa's Equity Capital Markets (ECM) presence in both Japanese and Asian markets. The Japanese market is where Daiwa has strong corporate relationships and the business retains a market leading position in primary CB deals.

The business has staff located in Hong Kong and London with DCME owning the risk and P&L of the business.

ICB's 2019 revenues were down 11% y-o-y. Primary revenues were down 21% y-o-y, reflecting lower CB issuance in Japan and Asia. Secondary revenue was up slightly despite a particular tough market at the start of the year, and continuing volatility throughout the year.

For 2020, ICB will be continuing with the existing business strategy and anticipates that our secondary revenues will remain flat y-o-y. On a more positive note, we forecast stronger primary revenue for the next period, on the back of a strong refinancing pipeline in Japan.

Debt Capital Markets ("DCM")

The DCM department forms part of the Investment Banking Division and is primarily a marketing and co-ordination function to develop business with international borrowers in the primary/new issue market for debt products targeted at Japanese and non-Japanese based retail and institutional investors.

For 2019, DCM reported weaker revenue (down 17% y-o-y). During the year, DCM had a strong performance in the Yen sector, bringing 13 deals to market, but Brexit uncertainty prevented revenue from being even higher as some UK issuer target deals were postponed. The other core primary market for DCME, namely USD, was impacted by volatility surrounding geopolitical tensions, Brexit uncertainty, and reduced issuance in USD by the SSA client base owing to the new competitiveness offered by the EUR currency alternative (where DCME is a marginal player). General market activity remained subdued in the AUD currency, with Japanese investors significantly reducing their appetite given the unattractiveness of relative yields between AUD and USD/EUR alternatives. Good momentum continued throughout the year in MTN product and Uridashi revenue held up relatively well. DCM performed well in the SRI/SDG space, with 10 deals completed across 5 different currencies, and with industry awards won for our Social and ESG performance from Environmental Finance and Emea finance magazines.

For 2020, we believe that DCM will see improvements in all business areas. We anticipate that the Yen market will remain attractive for investors and also that the opening of the Daiwa Group's new office in Sydney will lead to an improvement in Japanese targeted deal flow for AUD mandates. Finally, we believe that our MTN business will benefit from the increased investment of resources in this area in Tokyo.

Equity Capital Markets ("ECM")

The ECM department forms part of the Investment Banking Division and its main role is the origination and execution of International tranches of Equity and Convertible Bonds issued by Japanese and Asian issuers.

2019 revenues were down 16% y-o-y when compared with what had been an exceptionally strong 2018 outcome. 2019 saw a reduction in sell downs from government owned entities which was only partly offset by more robust IPO activities.

We believe that the outlook for 2020 will be positive for the business with an expected strong level of IPOs and CB issuance.

Principal Investments ("PI")

The aim of the PI Division is to diversify DCME's revenue by investing the firm's capital via the provision of loans for development or bridging finance projects according to a strict set of parameters. These parameters restrict PI to only provide development finance to residential or student accommodation developments (with commercial projects only being considered it they form part of a residential projects).

PI performed extremely well in the year with revenues up 201% y-o-y. This reflects the increase in loans drawn (2019 average £75m v 2018 average £27m). However, looking forward, DCME has decided to respond to Brexit uncertainly by adopting an extremely cautious PI investment strategy. This has seen DCME withdraw from a number of deals which hitherto would have been acceptable to our risk appetite. Consequently we anticipate substantially lower revenues for the next year, but would hope to increase activity once Brexit uncertainty disappears.

Key Financial and Performance Indicators (KFI/KPIs)

DCME's core financial objectives are to maximise the return for our shareholder whilst maintaining a strong capital base. KPIs and KFIs are therefore focused on measuring business performance against plan, headcount, return on equity and providing clear visibility on the management of capital, funding and liquidity.

KPIs	**2019**	**2018**
Performance against Plan		
Revenue	-19.9%	-2.5%
Overheads (exc. restructuring costs, goodwill amortisation and impairment adjustments)	+2.8%	+4.0%
Total headcount (including non-perm staff)	+1.4%	-0.2%
Voluntary staff turnover	8.5%	8.0%
Actual Performance		
Return on Equity (before goodwill impairment and net litigation expense)	-2.37%	1.5%
Loss on ordinary activities before tax	(£11.4m)	(£32.5m)

These KPIs show that DCME's revenue for 2019 was significantly under plan, partly offset by overheads, which were also under plan. Headcount has continued to be closely managed although it ended the year with slightly higher numbers than budgeted.

KFIs

Capital	**2019**	**2018**
	£m	£m
Regulatory Capital Resources	436	476
Tier 1 Capital Ratio	40.7%	45.7%
Unsecured Funding – Daiwa Group	£bn	£bn
Usage	1.70	1.12
Limit	2.08	1.28

DCME derives a significant proportion of unsecured funding from Daiwa Securities Group Inc (DSGI). DSGI is also the majority shareholder in the company. DCME is therefore sensitive to changes in the Group's resource allocation strategy.

As can be seen in the ratios above, DCME has significant levels of excess capital, which on one hand makes achieving a reasonable return on equity difficult, but on the other hand is essential for 'business as usual', as the Large Exposure requirements of the European Capital Adequacy Regulation and Directive (collectively referred to as CRD IV) are linked to capital levels. Without this large capital base DCME could face significant trading volume restrictions as a result of limits within the Large Exposure regime. Additionally this capital is a source of funding for DCME and would require replacement with an alternative source if reduced. There are currently no indications from the parent that they are requiring repatriation of capital.

Principal Risks and Uncertainties Facing the Company

Brexit

As noted above, DCME established DCMD to ensure continuity in its ability to access EEA clients post Brexit and the build out of DCMD is complete. DCMD booked its first client trade in January 2019 (meeting the project deadline) and, since then, monthly trade volume has risen to circa 3,000 per month.

DCME has been active in addressing the situation and concerns of its EU national staff following Brexit. DCME has provided its EU national staff with expert immigration advice via a well received staff presentation and regularly updated information on the company intranet. Continued support is also available in the form of a named Brexit point person in the HR department and, so far, HR has received very few questions. DCME's experience of the UK government's on-line settled status application has been very reassuring.

Despite having made these robust preparations to protect the firm from a worst case Brexit scenario, there are significant unavoidable unknowns regarding the UK's future relationship with the European Union, our clients' response, our competitors' response and the impact the final outcome will have on markets both locally and globally. While we anticipate there could be positives in the medium term, our expectation is that the short term impact will be negative. The cost associated with setting up the operations in Germany will not be covered by increased revenue in the short term.

Geographic and Market Exposure

DCME's business is focused principally in capital markets, with its key geographic focus being Japan, Asia (ex Japan) and Europe. As such the company is exposed to the economic and regulatory challenges that impact the industry and geographic locations as a whole.

Group Exposure

While the company operates as a stand-alone entity, meeting the regulatory requirements to survive a failure of the parent undertaking, the reality is that it operates within a wider group and its fortunes are entwined with the successes and failures of the wider group.

The Daiwa Group has a distinct Japanese domestic bias, with a significant retail franchise within the Japanese market. As such, the wider strategic risks and uncertainties faced by the company are similar to those which are relevant to our parent company and the Japanese economy as a whole. The Daiwa Securities Group has experienced a disappointing year, with Net Operating Revenue down 12.7%, Ordinary Income down 46.6% and Profit Attributable to Owners of Parent down 42.3%. ROE was 5.1% (2018: 8.8%).

This performance was against the backdrop of unfavourable market conditions in Japan relative to the prior year. Consequently trading volume was down and the number of primary issues was lower.

A significant portion of DCME's revenue comes from primary activity (i.e. the origination and distribution of new debt and equity issues for our clients). DCME is reliant on other Daiwa offices for revenue relating to those transactions originating in Japan and Asia. DCME thus has very little control over the outturn related to primary activity which could result in both positive and negative material deviations from plan. Conversely, transactions originated by DCME and sold into the Daiwa network will result in a distribution of the fee pool across the Daiwa Group. While our expectation is that DCME would be a net beneficiary of this two way activity, we are reliant on the rest of the Group and not in full control of the outcome. This is, however, a key area of business for the Group and a core reason for DCME's existence.

Changes in group strategy and/or product line strategy could have a direct impact on DCME and its strategy. Differences between group and local strategy need to be actively managed to avoid negatively impacting DCME. The inclusion of Tokyo senior management on DCME's Board, a Japanese Chairman and COO and close communication between DCME division heads and their global product heads helps to avoid these types of conflicts.

Resource Constraints / Business Focus

DCME is continuing the process of transforming its business to be less reliant on proprietary trading and more focused on customer driven flow. Despite this, a large part of the business requires, and will continue to require, taking on balance sheet positions in a market making capacity. Taking these positions requires access to both funding and capital, which DCME currently has. There is, however, a risk that, with increased focus on return on equity amongst Japanese firms, the current low returns will result in the Group re-deploying resources currently allocated to Europe which would severely constrain the business. Any changes in resource allocation would, however, be carefully considered and implemented in an orderly way.

Conversely, a shift away from proprietary activity to client driven activity increases our exposure to our client base and the changing landscape of the global investment community. A strong shift away from our key markets by clients will have a greater impact on our revenue generating ability. Regulation also poses further risks to our business and that of our client base.

DCME Specific Risks and Uncertainties

DCME continues to maintain its balance sheet in high quality liquid assets, with only 2% of the asset base being invested in sub-investment grade credit (refer to note 30 of the accounts for further details).

Outside of those risks and uncertainties faced by the market and the Group, DCME has its own set of risks and uncertainties which it faces and on which management are focused on ensuring that mitigating controls and actions are in place. The principal risks and uncertainties faced by the company, outside of economic risks, are as follows:

Risk	Impact / Probability	Change in risk Y-o-Y	Mitigation of risk
Liquidity risk	Medium Impact / Medium Probability	Global growth is starting to show signs of a slow-down. Inflation in US, parts of Europe and Japan have also undershot Central Bank targets in the most recent quarter. In March, the Fed announced a prolonged pause in rate normalisation for 2019 and outlined a patient approach towards future policy decision which would depend on the evolution of data. The BOJ and ECB have also announced a continuation of accommodative package of measures. Resolution of the UK's withdrawal from EU, US-China trade negotiations and political risk in Italy are some of the main geopolitical risks. Funding conditions for DCME continue to remain stable. Daiwa Group's liquidity position also remains strong.	DCME has a dedicated liquidity risk management department focused on assessment, monitoring and reporting of liquidity risk. The department aims to evolve and improve all aspects of liquidity risk management on a continuous basis, as well as implementing associated liquidity regulations. DCME takes a conservative approach to liquidity risk management. DCME manages liquidity at levels such that it remains (i) cash flow positive over all time periods up to 1 month under a combined market and name specific liquidity stress, and (ii) cash flow positive for at least one year under a market stress. DCME holds a significant liquid asset buffer, which can be readily converted into cash when required. The trading portfolio also consists of high quality assets, most of which are deemed extremely liquid.
Regulatory changes	High Impact / High Probability	Increased oversight and expectations, from the Regulator, has led to greater requirements for capital and liquidity, and additional operational requirements. New regulation and reporting requirements have increased the need for risk management, regulatory and compliance resources, as well as absorbing significantly more of senior management and Board time.	The on-going raft of regulatory changes continues to provide significant challenges to the industry, both in terms of implementation and compliance. Meeting regulatory requirements is not just a high priority for DCME Board members but for the Group as a whole. DCME mitigates the implementation risks by employing experienced prudential regulatory staff. A dedicated regulatory governance section exists to ensure we are not only dealing with current changes but can also be forward looking to address future changes in a timely manner. In addition, the regulatory quality assurance section seeks to further enhance controls and ensure accuracy and completeness of data amidst the on-going change. The appropriate committees within DCME's

			governance structure are made aware of the changes, the impact on DCME, the cost and resources required to achieve implementation on the mandatory deadlines. The Risk and Asset and Liability Committee (RALCO) has detailed oversight of all prudential regulatory change while ultimate responsibility lies with the Board. In addition, the compliance with and impact on business, of regulatory change is reduced by maintaining a fairly vanilla product and service offering. During the year significant investment has been made in compliance resources, which has increased the firm's ability to prevent and detect market abuse and keep the firm proactively engaged with the regulator's agenda.
Competitive pressure	High Impact / Medium Probability	Unchanged. Staff turnover in the year was 11%, and voluntary turnover was below 8.5%, which is low for the industry. No material risks crystallised during the year as a result of key staff departures.	The key competitive pressure we face is staff retention, which the company attempts to mitigate by ensuring compensation is competitive and promoting a positive culture of work/life balance.
Operational Risks (not covered separately)	High/Medium Impact/ Medium Probability	Operational risk is the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events and covers a variety of risk factors from rogue trading, and securities fraud to BCP events, such as the failure of critical systems. Year on year this risk has remained broadly unchanged, with some improvement to the rate of change in DCME's IT infrastructure offset by heightened market concerns around cyber-crime.	DCME has a common firm-wide framework overseen by a central Operational Risk Management (ORM) function, with ownership of the actual risks residing with the managers responsible for the relevant business process. DCME utilises a number of firm-wide processes and tools for the identification, recording, assessment, monitoring, prevention and mitigation of operational risks. A programme of enhancement to the firm's Operational Risk Framework is in progress and the status is reported to the Operational Risk Committee (ORC) and Board on a monthly basis. A significant firm wide initiative, to address the risks posed by cyber-crime has been implemented, led by Tokyo, with material

			resources allocated, at the Group level. Related to this, the firm is undertaking a programme of work to consolidate its processes in relation to operational resilience, and align its related frameworks to the relevant ISO standards.
Litigation Risks	High Impact / Medium Probability	Exposure to the risk of litigation is an inherent risk in the securities market and is further increased during periods of market volatility and corporate failures. DCME faces litigation risk from both current and historic activities. So, while the current business model is simpler than in prior years, the risks remain. The longer the current strategy continues the lower the litigation risk from past activity becomes. Note 25 details the current Singularis litigation case which has now been fully provided for and possesses negligible future downside risk. There are no other pending litigation cases as at the year end. Litigation risks in the market have been increasing since the financial crisis as regulatory fines and penalties increase litigation risks on those firms being penalised by the Regulator. For DCME this increased risk is offset by a simplification in the business model and increased allocation of capital resources.	While DCME's business model is relatively simple and our exposure to litigation has in recent years been limited, our capital markets and securities trading activities have nevertheless resulted in potential exposure to litigation. Additionally, risks arise from operational events, such as settlements, as evidenced by the Singularis litigation. While our primary approach to mitigating these risks is through appropriate on-boarding controls and risk management techniques combined with good quality, market standard legal documentation, our view based on our own experiences and events in the market is that it is difficult to eliminate these risks entirely.

The strategic report was approved by the Board on 24 June 2019 and signed on their behalf by:

Keith Meekins
Chief Executive Officer

The directors present their annual report on the affairs of Daiwa Capital Markets Europe Limited ('the company'), together with the financial statements and independent auditor's report, for the year ended 31 March 2019.

Principal Activities

Daiwa Capital Markets Europe Limited is a wholly owned subsidiary of Daiwa International Holdings Inc, which is a wholly owned subsidiary of Daiwa Securities Group Inc. ('Daiwa Group'), one of the largest brokerage and banking groups in Japan. The primary activities of the company are to provide investment banking services in Equities, Fixed Income, Convertible Bonds, financing for development real estate projects and Corporate Finance Advisory, through its pan-European subsidiary group Daiwa Corporate Advisory. The company also has a branch network across Europe and the Middle East primarily involved in Equity Sales, and a German subsidiary (Daiwa Capital Markets Deutschland GmbH) established to service EU based customers once the UK withdraws from the EU.

Results and Dividends

The audited financial statements for the year ended 31 March 2019 are set out on pages 21 to 61. The company's loss for the year after taxation was £11.2m (2018: Loss of £30.6m). The Strategic Review provides commentary and background on the company's performance.

The directors do not recommend payment of a dividend in respect of the current financial year (2017: £nil).

Risk Management

In the normal course of its business, the company will be exposed to a range of operational and financial risks including market, credit, liquidity, operational and conduct risks. A strong risk discipline is vital in maintaining financial health, providing reassurance to regulators and counterparties and ensuring that business decisions are optimised for risk-return considerations.

The Board is responsible for setting an overall risk appetite based on the company's revenue plans, tolerance for risk and underlying capital base. The Board Risk Committee, chaired by an independent non-executive director, has delegated responsibility, from the Board, for oversight of high-level risk management. The risk management framework includes a governance structure of risk committees and officers, together with a dedicated independent risk function to provide comprehensive risk monitoring, reporting and control. Reporting and control of risk is undertaken both locally within the company and globally within the Daiwa Group.

The company actively manages its exposure to market risk (such as interest rates or foreign exchange) and credit risk, using a variety of techniques including value-at-risk, sensitivity limits, exposure limits, stress testing, diversification, mitigation by collateral and hedging. As part of its hedging activity, the company utilises derivative products such as swaps, futures and options. Notes 30 and 31 to the financial statements provide a full explanation of the company's financial and capital risk management objectives and policies, and exposure to market, credit and liquidity risk.

Financial Instruments

Buying and selling financial instruments, including risk management products, is integral to the company's activities.

Directors' and Officers' Indemnities

The company maintained insurance against liabilities for all directors and officers of the company during the financial year and at the date of this report.

Employee Consultation

The company places considerable value on the involvement of its employees and continues its previous practice of keeping them informed on matters affecting them as employees, and on the various factors affecting the performance of the company, through regular senior management forums, news feeds, the company newsletter and other measures.

Charitable Contributions

The company contributed £34,052 (2018: £40,584) to charities during the course of the year.

Disabled Employees

Applications for employment by disabled persons are always fully considered, bearing in mind the aptitudes of the applicant concerned. In the event of members of staff becoming disabled, every effort is made to ensure that their employment with the company continues and that appropriate training is arranged. It is the policy of the company that the training, career development and promotion of disabled persons should, as far as possible, be identical with that of other employees.

Environmental Measures

During the year, the company has embraced the UN Sustainable Development Goals (SDG's) and has taken steps to reduce its carbon footprint in many different areas. These measures include improving recycling by the introduction of recycling stations for staff and the removal of plastic cups from staff kitchens. The engineers at our London office control the 'Building Management System' to ensure the most efficient operation of the plant to reduce energy consumption across the whole building. DCME has also achieved ISO 50001 accreditation for Energy Management.

In London, the DCME café buys local sustainable food and the coffee sold is from a brand that supports women's empowerment in Nicaragua. DCME has held a 'Go-Green' Roadshow for staff where its suppliers promoted the good work that is being undertaken and held competitions for staff to learn more about environmental issues and what they can do to support the SDG's.

In addition, the company continues to support the Group in the development of financial product offerings with an environmental theme.

Going Concern

The directors' assessment of the company's ability to continue as a going concern is an on-going management function. This assessment is based upon an assessment of liquidity & funding, capital adequacy and cash flow forecasts that are prepared by the company and its subsidiaries in the normal course of its resource management. For the purpose of the on-going assessment, various stress scenarios to the normal operating environment have been identified and considered. Note 1 (b) to these financial statements provides further information about the going concern basis.

The company's directors believe there are no material uncertainties that may cast significant doubt about the company's ability to continue as a going concern.

Directors

The following directors have held office throughout the year and to the date of these accounts except where otherwise noted:

Name	Title	Nationality	Appointed/ Resigned/Retired	Committee Members #
Shiko Yanagisawa	Chairman	Japanese	-	AC, BR, RC, NC, CC
Keith Meekins	Chief Executive Officer	British	-	EC
Yuzo Yonemoto	Chief Operating Officer	Japanese	Appointed – 1 August 2018	EC
Jun Hayakawa	Chief Operating Officer	Japanese	Retired – 1 August 2018	-
Junichi Arihara	Non-Executive Director	Japanese	-	BR, RC, NC
Hiroki Ikeda	Non-Executive Director	Japanese	-	RC, NC
Keiko Tashiro	Non-Executive Director	Japanese	-	RC, NC
Douglas van den Aardweg	Independent Non-Executive Director	British	-	AC, BR, RC, NC, CC
Peter Goshawk	Independent Non-Executive Director	British	-	AC, BR, RC, NC, CC
Mark Preston	Independent Non-Executive Director	British	Appointed – 14 June 2019	-

Reflects committee membership as at 31 March 2019 or subsequently appointed

BR - Board Risk Committee*, AC - Audit Committee*, RC - Remuneration Committee, EC - Executive Committee, NC - Nominations Committee, CC – Conduct and Reputational Risk Committee

*Membership of the Board Risk and Audit Committees also includes Alex Monnas, an independent consultant, who is not a DCME director.

Disclosure of Information to Auditors

The directors who held office at the date of approval of this directors' report confirm that, so far as they are each aware, there is no relevant audit information of which the company's auditors are unaware; and the directors have taken all the steps that they ought to have taken as directors to make themselves aware of any relevant audit information and to establish that the company's auditors are aware of that information.

Independent Auditors

Pursuant to Section 489 of the Companies Act 2006, the auditors will be deemed to be reappointed and KPMG LLP will therefore continue in office.

Roger Massey

By order of the Board:
Roger Massey
Secretary

5 King William Street
London,
EC4N 7DA

24 June 2019

Statement of Directors' responsibilities in respect of the Strategic Report, the Directors Report and the Financial Statements

The directors are responsible for preparing the Strategic Report, 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 they have elected to prepare the financial statements in accordance with UK Accounting Standards and applicable law (UK Generally Accepted Accounting Practice), including FRS 102 the Financial Reporting Standard applicable in the UK and Republic of Ireland.

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 judgments and 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;
- assess the company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and
- use the going concern basis of accounting unless they either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

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 responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error, and have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the company and to prevent and detect fraud and other irregularities.

The directors are responsible for the maintenance and integrity of the corporate and financial information included on the company's website. Legislation in the UK governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Roger Massey

By order of the Board:
Roger Massey
Secretary

24 June 2019

Independent Auditor's Report to the Members of Daiwa Capital Markets Europe Limited

Opinion

We have audited the financial statements of Daiwa Capital Markets Europe Limited ("the company") for the year ended 31 March 2019 which comprise the Statement of comprehensive income, Balance sheet, Statement of changes in equity and related notes, including the accounting policies in note 1.

In our opinion the financial statements:

- give a true and fair view of the state of the company's affairs as at 31 March 2019 and of its loss for the year then ended;
- have been properly prepared in accordance with UK accounting standards, including FRS 102 The Financial Reporting Standard applicable in the UK and Republic of Ireland; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities are described below. We have fulfilled our ethical responsibilities under, and are independent of the company in accordance with, UK ethical requirements including the FRC Ethical Standard. We believe that the audit evidence we have obtained is a sufficient and appropriate basis for our opinion.

The impact of uncertainties due to the UK exiting the European Union on our audit

Uncertainties related to the effects of Brexit are relevant to understanding our audit of the financial statements.

All audits assess and challenge the reasonableness of estimates made by the directors and related disclosures and the appropriateness of the going concern basis of preparation of the financial statements. All of these depend on assessments of the future economic environment and the company's future prospects and performance.

Brexit is one of the most significant economic events for the UK, and at the date of this report its effects are subject to unprecedented levels of uncertainty of outcomes, with the full range of possible effects unknown. We applied a standardised firm-wide approach in response to that uncertainty when assessing the company's future prospects and performance. However, no audit should be expected to predict the unknowable factors or all possible future implications for a company and this is particularly the case in relation to Brexit.

Going concern

The directors have prepared the financial statements on the going concern basis as they do not intend to liquidate the company or to cease its operations, and as they have concluded that the company's financial position means that this is realistic. They have also concluded that there are no material uncertainties that could have cast significant doubt over its ability to continue as a going concern for at least a year from the date of approval of the financial statements ("the going concern period").

We are required to report to you if we have concluded that the use of the going concern basis of accounting is inappropriate or there is an undisclosed material uncertainty that may cast significant doubt over the use of that basis for a period of at least a year from the date of approval of the financial statements. In our evaluation of the directors' conclusions, we considered the inherent risks to the company's business model, including the impact of Brexit, and analysed how those risks might affect the company's financial resources or ability to continue operations over the going concern period. We have nothing to report in these respects.

However, as we cannot predict all future events or conditions and as subsequent events may result in outcomes that are inconsistent with judgements that were reasonable at the time they were made, the absence of reference to a material uncertainty in this auditor's report is not a guarantee that the company will continue in operation.

Strategic report and directors' report

The directors are responsible for the strategic report and the directors' report. Our opinion on the financial statements does not cover those reports and we do not express an audit opinion thereon.

Our responsibility is to read the strategic report and the directors' report and, in doing so, consider whether, based on our financial statements audit work, the information therein is materially misstated or inconsistent with the financial statements or our audit knowledge. Based solely on that work:

- we have not identified material misstatements in the strategic report and the directors' report;
- in our opinion the information given in those reports for the financial year is consistent with the financial statements; and
- in our opinion those reports have been prepared in accordance with the Companies Act 2006.

Matters on which we are required to report by exception

Under the Companies Act 2006 we are required 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.

We have nothing to report in these respects.

Directors' responsibilities

As explained more fully in their statement set out on page 17, the directors are responsible for: the preparation of the financial statements and for being satisfied that they give a true and fair view; such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error; assessing the company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and using the going concern basis of accounting unless they either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue our opinion in an auditor's report. Reasonable assurance is a high level of assurance, but does not guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

A fuller description of our responsibilities is provided on the FRC's website at www.frc.org.uk/auditorsresponsibilities.

The purpose of our audit work and to whom we owe our responsibilities

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members, as a body, for our audit work, for this report, or for the opinions we have formed.

Zaffarali Khakoo (Senior Statutory Auditor)
for and on behalf of KPMG LLP, Statutory Auditor
Chartered Accountants
15 Canada Square
London
E14 5GL

24 June 2019

STATEMENT OF COMPREHENSIVE INCOME
For the Financial Year ended 31 March 2019

	Note	2019	2018
		£'000	£'000
Fee and commission income	2	74,906	83,659
Fee and commission expense	2	(27,623)	(31,241)
Net trading revenue	3	18,905	22,669
Other income	4	32,472	33,631
Total non-interest income		**98,660**	**108,718**
Interest income and similar receivables	5	127,343	88,221
Interest payable and similar charges	6	(125,445)	(80,640)
Net interest income		**1,898**	**7,581**
Net operating income		**100,558**	**116,299**
Administrative expenses*	7	(111,694)	(109,049)
Operating (loss)/profit before litigation and impairment adjustments		**(11,136)**	**7,250**
Loan impairment writeback*	9	-	19,862
Net litigation expense*	10	(259)	(59,686)
Loss on ordinary activities before tax		**(11,395)**	**(32,574)**
Tax credit on ordinary activities	11	217	1,989
Loss for the financial year		**(11,178)**	**(30,585)**
Other comprehensive income			
Exchange adjustments on fair value reserve		(25)	33
Movement on fair value reserve		87	97
Deferred tax recognised in equity		(12)	(24)
Total comprehensive loss for the financial year		**(11,128)**	**(30,479)**

*Total administrative expenses (including impairment adjustments and net litigation expense) amounted to £111,953k (2018: £148,873k).

The accompanying notes on pages 24 to 61 are an integral part of the financial statements.

BALANCE SHEET

As at 31 March 2019

Company registered number: 01487359

	Note	2019	2018
		£'000	£'000
Fixed assets			
Intangible assets	12	4,488	7,094
Tangible assets	13	9,472	11,479
Available for sale investments	14	1,464	1,402
Investments in subsidiary undertakings	15	30,162	641
		45,586	**20,616**
Current assets			
Debtors	16	6,549,977	8,402,416
Financial assets held for trading	18	2,482,649	2,473,421
Financial assets designated at FVTPL	19	203,978	24,411
Cash at bank and in hand	20	47,528	74,257
		9,284,132	**10,974,505**
Current liabilities			
Creditors: amounts falling due within one year	21	(7,361,846)	(9,504,559)
Financial liabilities held for trading	18	(1,341,499)	(1,032,181)
Provisions for liabilities	25	(164,168)	(541)
		(8,867,513)	**(10,537,281)**
Net current assets		**416,619**	**437,224**
Total assets less current liabilities		**462,205**	**457,840**
Debtors: amounts falling due after more than one year	23	9,836	176,688
Creditors: amounts falling due after more than one year	24	(1,693)	(1,768)
Provisions for liabilities	25	-	(151,284)
Net assets		**470,348**	**481,476**
Capital and reserves			
Called-up share capital	26	732,121	732,121
Reserves		(261,773)	(250,645)
Shareholders' funds (all equity interests)		**470,348**	**481,476**

The financial statements were approved by the Board on 24 June 2019 and signed on their behalf by:

Keith Meekins

Chief Executive Officer

The accompanying notes on pages 24 to 61 are an integral part of the financial statements.

STATEMENT OF CHANGES IN EQUITY

The table below presents the changes in Equity for the year ended 31 March 2019:

	Called-up Share Capital	Fair Value reserve	Capital reserve	Profit and loss account	Total
	£'000	£'000	£'000	£'000	£'000
Beginning of year	732,121	1,097	13,908	(265,650)	481,476
Loss for the financial year	-	-	-	(11,178)	(11,178)
Exchange differences	-	(25)	-	-	(25)
Revaluation of available for sale investments	-	87	-	-	87
Deferred tax liability on fair value gain on available for sale investments	-	(12)	-	-	(12)
End of year	732,121	1,147	13,908	(276,828)	470,348

The table below presents the changes in Equity for the year ended 31 March 2018:

	Called-up Share Capital	Fair Value reserve	Capital reserve	Profit and loss account	Total
	£'000	£'000	£'000	£'000	£'000
Beginning of year	732,121	991	13,908	(235,065)	511,955
Loss for the financial year	-	-	-	(30,585)	(30,585)
Exchange differences	-	33	-	-	33
Revaluation of available for sale investments	-	97	-	-	97
Deferred tax liability on fair value gain on available for sale investments	-	(24)	-	-	(24)
End of year	732,121	1,097	13,908	(265,650)	481,476

1 Accounting policies

A summary of the principal company accounting policies is set out below. Except where indicated, they have been applied consistently throughout the current and preceding year.

a) Statement of compliance

The financial statements are prepared on the going concern basis , under the historical cost convention, as modified by the revaluation of certain assets, including investments and financial instruments and in accordance with the Companies Act 2006.

The financial statements of the company for the year ended 31 March 2019 have been prepared in accordance with the Financial Reporting Standard applicable in the United Kingdom and Republic of Ireland (FRS 102) issued by the Financial Reporting Council.

b) Basis of preparation

The results of the company's overseas branches are incorporated within the company's results. Any exchange gains and losses are reported through the company's profit and loss account.

In accordance with s401 of the Companies Act 2006 the company has not prepared consolidated financial statements on the basis that it is exempt from the obligation to prepare and deliver group financial statements. The company is a wholly owned subsidiary of Daiwa Securities Group Inc. incorporated in Japan, which prepares group financial statements.

These financial statements present information about Daiwa Capital Markets Europe Limited as an individual undertaking and not about its group.

Going Concern

The directors' assessment of the company's ability to continue as a going concern is an on-going management function. This assessment is based upon an assessment of liquidity & funding, capital adequacy and cash flow forecasts that are prepared by the company in the normal course of its resource management. For the purpose of the on-going assessment, various stress scenarios to the normal operating environment have been identified and considered.

As set out in note 21 to these financial statements, Daiwa Securities Corporation Limited (DSCL), the company's parent company, provides DCME with an unsecured borrowing facility to fund its on-going business and liquidity needs. The directors of the company have satisfied themselves that DSCL will continue to provide DCME with funding resources to meet its business and liquidity needs for the foreseeable future.

As with any company placing reliance on its parent company for financial support, the directors acknowledge that there can be no certainty that this support will continue although, at the date of approval of these financial statements, they have no reason to believe that it will not do so. Consequently, the directors are confident that the company will have sufficient funds to continue to meet its liabilities as they fall due for the foreseeable future and therefore have prepared the financial statements on a going concern basis.

1 Accounting policies (continued)

c) Disclosure exemptions

In accordance with disclosure exemptions available under FRS 102 set out in paragraph 1.12 (except for the disclosure exemptions from Section 11 Basic Financial Instruments and Section 12 Other Financial Instruments Issues); the directors have adopted certain disclosure exemptions. The directors have not prepared a cash flow statement for the year on the grounds that a parent undertaking included the company in its own published consolidated financial statements.

A reconciliation of the number of shares outstanding at the beginning and at the end of the year has not been presented. The company is exempt from specific share based payment disclosures under share based payment arrangements that existed during the period and the directors have not made full disclosures. The equivalent disclosures required by FRS 102 are included in the consolidated financial statements of Daiwa Securities Group Inc. in Japan in which the company's results are consolidated. See note 34 for details on where the company's ultimate parent company, Daiwa Securities Group Inc.'s, consolidated financial statements may be obtained from.

The company is also exempt from disclosing key management compensation in total under Section 33 Related Party Disclosure of FRS 102. Directors' remuneration is disclosed as required by the Companies Act 2006 in note 33.

d) Intangible assets

Goodwill

Goodwill represents the excess of the fair value of purchase price and costs directly attributable to the acquisition over the purchase of identifiable assets acquired and the liabilities assumed on acquisition. Goodwill is capitalised as an intangible asset and amortised through the profit and loss account on a straight line basis over its expected useful economic life. Capitalised goodwill is reviewed for impairment at each reporting date.

Impairment losses recognised for goodwill are not reversed in subsequent periods, even if the reasons for the impairment loss have ceased to apply.

For the purpose of calculating goodwill, fair values of acquired assets and liabilities assumed are determined by reference to market values, where available, or by reference to the current price at which similar assets could be acquired or similar obligations entered into.

Computer software

Computer software is shown at cost less accumulated amortisation and impairment, if any, and reviewed for impairment if necessary. Where appropriate, the labour costs of the company's own employees are capitalised if an asset is self-constructed, provided that those costs are directly attributable to bringing the asset into working condition. Amortisation is provided on these assets at rates calculated to write off the cost, less estimated residual value, of each asset on a straight-line basis over its expected useful life, as follows:

Intangible assets:	Rate per annum
Computer software	20 – 33%

1 Accounting policies (continued)

Amortisation is not charged on intangible assets until they have been completed and brought into operation.

e) Tangible assets

Tangible assets are shown at cost less accumulated depreciation and impairment, if any, and reviewed for impairment if necessary. Depreciation is provided on these assets at rates calculated to write off the cost, less estimated residual value, of each asset on a straight-line basis over its expected useful life, as follows:

Tangible assets:	Rate per annum
Computer hardware and other office machinery	20 – 33%
Motor vehicles	25%
Office furniture, fittings and equipment	0 – 33%

Depreciation is not charged on assets in course of construction until they have been completed and brought into operation.

f) Financial assets and liabilities

The company has adopted the recognition and measurement provisions of IAS 39 Financial Instruments: Recognition and Measurement (as adopted for use in the EU) and the disclosure requirements of Section 11 Basic Financial Instruments and Section 12 Other Financial Instruments. The scope of IAS 39 applies to all of the company's financial instruments at balance sheet date.

The company classifies its financial assets in the following categories:

Financial assets

The company classifies its financial assets in four categories:

- financial assets at fair value through profit and loss;
- loans and receivables (measured at amortised cost);
- held to maturity investments (measured at amortised cost);
- available for sale financial assets (measured at fair value with fair value changes recorded in other comprehensive income).

Management determines the classification of financial assets and liabilities at initial recognition. The company had no assets in the category "held to maturity investments" in the current or prior year.

Financial assets at fair value through profit or loss

This category includes:

- Financial assets held for trading. Instruments are classified as held for trading if they are:

(i) acquired principally for the purposes of selling or repurchasing in the near term, including marketable securities; or

1 Accounting policies (continued)

(ii) part of a portfolio of identified financial assets that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking; or
(iii) a derivative.

- Financial assets designated at time of initial recognition at fair value through profit and loss ("FVTPL"). Instruments are classified in this way if either of the following circumstances apply:

(i) it significantly reduces a recognition or measurement inconsistency that would otherwise occur (an "accounting mismatch"); or
(ii) the instrument forms part of a group of financial assets whose performance is evaluated on a fair value basis in accordance with a documented investment strategy, and that information is provided to key management personnel on this basis.

Financial assets at FVTPL are recognised initially at fair value and transaction costs are taken directly to the profit and loss account. Gains and losses arising from changes in fair value are included directly in the profit and loss account.

Purchases and sales of financial assets held for trading are recognised on settlement date basis, being the date on which legal title to the traded instruments changes hands.

Loans and receivables
Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and which are not classified as available for sale.

Loans and receivables are initially recognised at fair value including direct and incremental transaction costs. They are subsequently valued at amortised cost, using the effective interest method.

Loans and receivables are assessed at each reporting date to determine whether there is objective evidence of impairment.

An impairment loss is calculated as the difference between an asset's carrying amount and the present value of the estimated future cash flows discounted at the asset's original effective interest rate. Losses are recognised in profit or loss and reflected in an allowance account. When the company considers that there are no realistic prospects of recovery of the asset, the relevant amounts are written off. If the amount of impairment loss subsequently decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, then the previously recognised impairment loss is reversed through profit or loss.

Available for sale financial assets
Available for sale financial assets are non-derivative financial assets that are designated as available for sale and are not recognised into any of the other categories described above. They are initially recognised at fair value including direct and incremental transaction costs. They are subsequently held at fair value. 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.

1 Accounting policies (continued)

Financial liabilities

Financial liabilities are measured at the original amount, except for financial liabilities held for trading, which are measured at fair value through profit and loss. Financial liabilities include non-derivative marketable securities, derivative financial instruments or trading liabilities. Other financial liabilities (including other payables) are subsequently measured at amortised cost using the effective interest rate method.

The effective interest rate method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability, or when appropriate, a shorter period, to the carrying amount of the financial liability on initial recognition. The effective interest rate is determined on the basis of the carrying amount of the financial liability at initial recognition.

g) Investments in subsidiary undertakings

Investments in subsidiary undertakings are stated at cost less impairment.

h) Income and expense

Fee and commission

Fee and commission income is recognised in the profit and loss account when the related services are provided. Fee and commission expense is recognised when services are received.

Net trading revenue

Gains and losses arising from changes in fair value of financial assets and liabilities held for trading are included in the profit and loss account as net trading revenue.

Other income

Other income mainly consists of costs recharged to group companies for services, which are recognised when the services are provided.

Interest income and similar receivables, interest payable and similar charges

Interest income and interest expense are recognised based upon the effective interest method.

Arrangement and Exit Fees on loans are treated as part of the funding aspect of the loan and are recognised over the life of the loan using the effective interest method. They are disclosed as interest in the financial statements.

i) Determining fair value

Where the classification of a financial instrument requires it to be stated at fair value, this is determined by reference to the quoted bid price or offer price (as appropriate) in an active market wherever possible. Where no such active market exists for the particular asset or liability, the company uses a valuation technique to arrive at the fair value including the use of prices obtained in recent arms-length transactions, discounted cash flow analyses, option pricing models and other valuation techniques commonly used by market participants.

1 Accounting policies (continued)

Where appropriate, valuations are adjusted to account for various factors including time value, volatility factors and underlying share prices in respect of options, warrants and convertible bonds; and counterparty credit quality, bid/offer and future administration costs for OTC derivatives.

Profits and losses are only recognised on initial recognition when such profits can be measured solely by reference to observable current market transactions or valuation techniques based solely on observable market inputs.

For each class of financial assets and/or liabilities recognised at fair value, the company utilises the following hierarchy:

Level 1: Quoted prices (unadjusted) in active markets for identical assets and liabilities.
Level 2: Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices).
Level 3: Inputs for the asset or liability that are not based on observable market data (unobservable inputs).

j) Offsetting of assets and liabilities

Assets and liabilities, which are considered to be financial assets and liabilities for the purposes of FRS 102, are offset and the net amount reported in the balance sheet when there is a legally enforceable right to offset the recognised amounts and there is an intention to either settle on a net basis, or realise the asset and settle the liability simultaneously.

k) Taxation

Current tax is recognised for the amount of tax payable (or receivable) in respect of the taxable profit (or loss) for the current or prior periods using the tax rates and laws that have been enacted or substantially enacted by the balance sheet date.

Deferred tax is recognised in respect of all timing differences arising when items are included in a tax assessment in one period and recognised in the financial statements in another. Deferred tax is calculated using the tax rates and laws that have been enacted or substantively enacted by the balance sheet date that are expected to apply to the reversal of the timing difference.

Deferred tax assets are only recognised to the extent that it is probable they will be recoverable against future taxable profits or deferred tax liability reversals.

Deferred tax assets and deferred tax liabilities are offset only if the group has a legally enforceable right to offset and the amounts relate to taxes levied by the same taxation authority.

l) Pension costs

Pension benefits are provided through a defined contribution scheme (group personal pension plan) to which the company contributes a percentage based on each member's earnings. Differences between contributions payable in the year and contributions actually paid are shown as either accruals or prepayments in the balance sheet.

1 Accounting policies (continued)

m) Foreign currency

The financial statements are presented in Sterling, which is the functional currency of the company. Items included in the financial statements are measured using their functional currency, being the currency of the primary economic environment in which the company operates.

Monetary assets and liabilities denominated in foreign currencies at the year end are reported in the functional currency at the rates of exchange prevailing at the year end. Income and expenses denominated in foreign currency are recorded in the functional currency at the exchange rate prevailing at the end of the month in which they arise and any gains or losses arising are reflected in the profit and loss account.

n) Leases

The company enters into operating leases as described in note 27. Rentals under operating leases are charged on a straight-line basis over the lease term. The company has not entered into any finance leases during the year (2018: £nil).

o) Securities purchased/sold subject to resale/repurchase agreements (including stock borrowing and lending)

Securities may be lent or sold subject to a commitment to repurchase them (a 'repo'). Such securities are retained on the balance sheet when, substantially, all the risks and rewards of ownership remain with the company, and the counterparty liability is included separately on the balance sheet as appropriate.

Similarly, where the company borrows or purchases securities subject to a commitment to resell them (a 'reverse repo') but does not acquire the risks and rewards of ownership, the transactions are treated as collateralised loans, and the securities are not included in the balance sheet.

The difference between sale and repurchase price is accrued over the life of the agreement using the effective interest method.

Securities lent to counterparties are retained in the financial statements. Securities borrowed are not recognised in the financial statements, unless these are sold to third parties, at which point the obligation to repurchase the securities is recorded as a trading liability at fair value. Any subsequent gains or losses are included in net trading income.

p) Collateral

The company enters into master agreements with counterparties whenever possible and, when appropriate, obtains collateral. Master agreements provide that, if an event of default occurs, all outstanding transactions with the counterparty will fall due and all amounts outstanding will be settled on a net basis.

The company obtains collateral in respect of customer liabilities where this is considered appropriate. The collateral normally takes the form of a lien over the customer's assets and gives the company a claim on these assets for both existing and future liabilities. The company also receives collateral in the form of cash or securities in respect of other credit instruments, such as stock borrowing contracts, and derivative contracts in order to reduce credit risk. Collateral received in the form of securities is not recorded on the balance sheet. Collateral received in the form of

1 Accounting policies (continued)

cash is recorded on the balance sheet with a corresponding liability. Any interest payable or receivable arising is recorded as interest expense or interest income respectively.

The company measures the market value of the securities borrowed and loaned against collateral on a daily basis. Additional collateral is obtained as necessary to ensure such transactions remain adequately collateralised.

q) Related party transactions

In accordance with exemptions granted under FRS 102 the directors have not disclosed related party transactions with other entities included in the consolidated financial statements of Daiwa Securities Group Inc.

r) Share based payments to employees

Daiwa Securities Group Inc., Daiwa Capital Markets Europe Limited's ultimate parent company, engages in equity settled share based payment transactions in respect of services received from certain employees of the company. The fair value of the services received is measured by reference to the fair value of the shares or share options granted on the date of the grant. The cost of the employee services received in respect of the shares or share options granted is recognised in the profit and loss account over the period that the services are received, which is the vesting period. The fair value of the options granted is determined using option pricing models, which take into account the exercise price of the option, the current share price, the risk free interest rate, the expected volatility of the share price over the life of the option and other relevant factors. In respect of vesting conditions related to market conditions, the charges for the services received are recognised regardless of whether or not the market related vesting condition is met.

s) Deferred Compensation

The company has various deferred compensation arrangements in place at the year end. Staff compensation may include awards in the form of deferred bonuses in cash and cash-settled share based payments. The vesting of deferred bonuses is dependent on future service and can be subject to claw back provisions.

Deferred bonuses are only payable once the conditions of the deferred arrangement have been met and will, at a minimum, require the employee to be an employee in good standing at the payment date. Deferred compensation costs are recognised over the period of service, if it is more likely than not that the amounts will be paid out. The awards are expensed over the required service period and accruals are adjusted for changes to respective vesting dates that the awards are expected to be paid out. Any accrued interest and change in value of share based payments, will be booked through the profit and loss account in the period to which they relate.

t) Provisions and contingent liabilities

Provisions are recognised if the company has a present legal or constructive obligation as a result of a past event, it is probable that an outflow of resources will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation. If these conditions are not met, no provision is recognised. The amount recognised as a provision is measured at the directors' best estimate of the consideration required to settle the obligation as of the balance sheet date, the expense is recognised in the profit and loss account, taking into account the risks and uncertainties surrounding the obligation.

1 Accounting policies (continued)

Contingent liabilities are possible obligations whose existence will be confirmed only by uncertain future events or present obligations where the transfer of economic benefit is uncertain or cannot be reliably measured. Contingent liabilities are not recognised but are disclosed, unless they are remote.

u) Impairment of non-financial assets

The carrying amounts of the company's non-financial assets, such as goodwill and investment in subsidiary, are reviewed for impairment when events or changes in circumstances indicate that the carrying amount of the asset may not be recoverable. If any such indication exists, the asset's recoverable amount is estimated.

An impairment loss is recognised whenever the carrying amount of an asset or its cash generating unit exceeds its recoverable amount. The investment in subsidiary is carried at cost and reviewed for impairment at each reporting date. Capitalised goodwill is reviewed for impairment at each reporting date.

Impairment losses are recognised in the profit and loss account. Impairment losses recognised for goodwill are not reversed in subsequent periods, even if the reasons for the impairment loss have ceased to apply.

Calculation of recoverable amount

The recoverable amount of non-financial assets is the greater of their fair value less costs to sell and value in use. In assessing value in use, the expected future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the rate of return expected on an equally risky investment. For an asset that does not generate largely independent income streams, the recoverable amount is determined for the cash generating unit to which the asset belongs.

Reversals of impairment

Where the recoverable amount increases as a result of a change in economic conditions or in the expected use of the asset then the resultant reversal of the impairment loss should be recognised in the current period (with the exception of goodwill).

An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

v) Accounting estimates and judgments

The preparation of the financial statements requires management to make judgments, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgments about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from those estimates. The company's accounting policy for investments in subsidiaries and recognising impairment on these investments are described in Note 1(g) and 1(u) respectively. The method involves the use of historical information coupled with forward looking information to assess various scenarios, supplemented with

1 Accounting policies (continued)

management judgment to determine whether there is indication of impairment. Each of the variables or inputs requires management to exercise judgment in making assumptions and estimations.

2 Fee and commission income and expense

Fee and commission income and expense consists mainly of equity related brokerage commissions and new issue related fees, expenses and shared commissions.

3 Net trading revenue

Net trading revenue is the net gains on financial assets or financial liabilities classified as held for trading.

4 Other income

	2019 £'000	2018 £'000
Costs recharged to group companies	32,472	32,579
Release of surplus withholding tax penalty	-	1,052
	32,472	33,631

5 Interest income and similar receivables

	2019 £'000	2018 £'000
Interest and dividend income – held for trading	37,487	31,717
Interest income – other financial assets	89,856	56,504
	127,343	88,221

Included in the above is interest received from group companies amounting to £25.9m (2018: £21.6m).

6 Interest payable and similar charges

	2019 £'000	2018 £'000
Bank loans and overdrafts	39,660	18,191
Interest expense – held for trading	752	3,063
Interest expense – other financial liabilities	85,033	59,386
	125,445	80,640

Included in the above is interest paid to group companies amounting to £54.3m (2018: £31.6m).

7 Administrative expenses

Administrative expenses are analysed as follows:	2019 £'000	2018 £'000
Permanent staff costs (see note 8)	65,031	65,953
Non-permanent staff costs	5,920	4,306
Amortisation of intangible assets (see note 12)	2,850	2,908
Depreciation of tangible assets (see note 13)	2,283	2,523
Premises costs	5,394	5,906
External technology, communication and data costs	15,104	14,504
Net costs recharged by group companies	6,389	5,792
Other costs	8,723	7,157
Total	111,694	109,049

Administrative expenses include the following fees paid to the company's auditors:	2019 £'000	2018 £'000
Fees payable to the company's auditor for the audit of the company's financial statements	303	223
Fees payable to the company's auditor and its associates for other services:		
- audit related assurance services	139	192
- tax advisory service	6	-
Fees payable to un-associated auditor in respect of overseas branch regulatory requirements	74	74

8 Staff costs

Employee costs during the year amounted to:

	2019 £'000	2018 £'000
Wages and salaries	54,870	55,616
Social security costs	6,404	6,554
Pension costs – defined contribution plan	3,757	3,783
	65,031	65,953

8 Staff costs (continued)

The average monthly number of staff employed by the company during the year was as follows:

	2019 Number	2018 Number
Front Office		
Equity	44	48
Fixed Income	39	42
Debt and Equity Capital Markets	17	17
Other (CBs, Derivatives and Principal Investments)	17	17
Back Office Support	277	260
	394	384

The average monthly number of staff employed by the company overseas (included above) was as follows:

	2019 Number	2018 Number
Branches		
Bahrain	7	7
Geneva	9	11
	16	18
Representative offices		
Moscow	3	3
Paris	2	2
	21	23

9 Loan impairment writeback

During the year, there was no loan impairment adjustment (2018: £19,862k write back), and therefore the impairment against the inter-company loan to Daiwa Corporate Advisory Holdings Limited remained unchanged at £7.9m (see Note 16).

10 Net litigation expense

During the year, £259k was the net expense for providing against pending litigation (2018: £59,686k). Details of pending litigation are disclosed in note 25.

11 Tax credit on ordinary activities

The tax credit is based upon the standard UK corporation tax rate of 19% (2018: 19%) and comprises:

	2019 £'000	2018 £'000
UK and overseas corporation tax:		
Group relief: prior year	27	168
Group relief: current year	190	1,821
Total tax credited on ordinary activities	217	1,989

The tax assessed on the loss on ordinary activities for the year is lower than the standard UK corporation tax rate. The reconciliation is provided below:

	2019 £'000	2018 £'000
Loss on ordinary activities before tax	(11,395)	(32,574)
Taxation at UK standard corporation rate of 19% (2018: 19%)	2,165	6,189
Effects of:		
Permanent differences	(35)	3,730
Effects of unrecognised timing differences including losses	(2,130)	(9,919)
Group relief surrendered	217	1,989
Company tax credit for the year	217	1,989

The company has a net deferred tax liability of £0.3m (2018: £0.3m). This is attributable to deferred taxation that would arise if the timing differences on investments held for sale were realised after the end of the reporting period.

11 Tax credit on ordinary activities (continued)

A residual deferred tax asset totalling £68.4m (2018: £66.4m) for all timing differences including UK tax losses and capital allowances has not been recognised because it is the directors' assessment that it is not sufficiently certain that there will be sufficient taxable profits available in the foreseeable future against which these losses and allowances can be utilised.

The deferred tax liability at 31 March 2019 has been calculated using the rate of 19% (2018: 19%) which is the tax rate applicable for the period in which he asset is expected to realise.

12 Intangible assets

Cost	Goodwill £'000	Software £'000	Assets in course of construction £'000	Total £'000
Beginning of year	29,180	29,770	1,212	60,162
Additions	-	-	702	702
Disposals	-	-	(458)	(458)
Transfers	-	482	(482)	-
End of year	29,180	30,252	974	60,406
Amortisation				
Beginning of year	26,873	26,195	-	53,068
Charge	893	1,957	-	2,850
Impairment charge	-	-	-	-
Disposals	-	-	-	-
End of year	27,766	28,152	-	55,918
Net book value				
At 31 March 2019	1,414	2,100	974	4,488
At 31 March 2018	2,307	3,575	1,212	7,094

The assets in course of construction comprise computer software.

12 Intangible assets (continued)

On 19 November 2010 the company acquired the global convertible bond (ex-US) business of KBC via an asset purchase. The goodwill arising on acquisition is being amortised on a straight-line basis over ten years. This is the period over which the directors estimate as the useful economic life.

The company's accounting policy is to carry goodwill at amortised cost and review for impairment at each reporting date. A review of impairment of goodwill is measured as the difference between the carrying amount of the asset and its recoverable amount, with the recoverable amount being based on the higher of the fair value less costs to sell and value in use of the assets to which it relates.

In the opinion of the directors, the most appropriate estimate of the recoverable amount is the value in use of the Convertible Bond business. The value in use is measured by discounting cash flows, over a period of 3 years plus the terminal value, applying a discount rate of 25% and a perpetuity growth rate of 1.25%, this is consistent with the prior year.

Based on the conservative end of the discount range and a mid-point growth rate, as being the best indication of the value in use, the directors believe there has been no impairment to the carrying value of the goodwill (2018: Nil).

13 Tangible assets

	Furniture, fittings and equipment £'000	Computer hardware £'000	Motor vehicles £'000	Assets in course of construction £'000	Total £'000
Cost					
Beginning of year	14,738	6,814	39	556	22,147
Additions	-	-	-	417	417
Disposals	-	(863)	-	(141)	(1,004)
Transfers	-	348	-	(348)	-
End of year	14,738	6,299	39	484	21,560
Depreciation					
Beginning of year	5,394	5,235	39	-	10,668
Charge	1,032	1,251	-	-	2,283
Disposals	-	(863)	-	-	(863)
End of year	6,426	5,623	39	-	12,088
Net book value					
At 31 March 2019	8,312	676	-	484	9,472
At 31 March 2018	9,344	1,579	-	556	11,479

The assets in course of construction comprise furniture, fittings and equipment, and computer hardware.

14 Available for sale investments

	2019 £'000	2018 £'000
Unlisted investments	1,464	1,402

The movement in the year was as follows:

	2019 £'000	2018 £'000
Beginning of year	1,402	1,270
Exchange differences	(25)	35
Revaluation profit transferred to reserves	87	97
End of year	1,464	1,402

15 Investments in subsidiary undertakings

The company had two subsidiary undertakings as at 31st March 2019. The percentage of the issued share capital held by the company is equivalent to the percentage of voting rights held.

Name of company	Country of reg office	Principal activity	Percentage of equity and voting rights held
Daiwa Corporate Advisory Holdings Limited	UK	Investment Holding Company	100%
Daiwa Capital Markets Deutschland GmbH ("DCMD")	Germany	Investment Bank and Broker Dealer	100%

The movement in the company's investments in subsidiary undertakings was as follows:

	2019 £'000	2018 £'000
Beginning of year	641	-
Addition	29,533	641
Exchange Differences	(12)	-
End of year	30,162	641

15 Investments in subsidiary undertakings (continued)

In the opinion of the directors, the most appropriate estimate of the recoverable amount is the value in use of Daiwa Corporate Advisory Holdings Limited. The value in use is measured by discounting cash flows, over a period of 3 years, plus the terminal value, applying a discount rate using a high – low range of 14% – 22% and a perpetuity growth rate range of 1.5% to 2.0%, consistent with the prior year. In the opinion of the directors, the nil carrying value of the investment remains appropriate.

DCMD was incorporated in December 2017, and now has £30.2m of share capital following an additional investment of £29.5m during the year (made to ensure that the company had sufficient working and regulatory capital). In the opinion of the directors, there is no indication of impairment and therefore the cost is the appropriate carrying value.

16 Debtors

Debtors comprise the following amounts:

			2019			2018
	Financial Assets Loans and Receivables	Non Financial Assets Other	Total	Financial Assets Loans and Receivables	Non Financial Assets Other	Total
	£'000	£'000	£'000	£'000	£'000	£'000
Trade debtors	9,399	-	9,399	8,473	-	8,473
Amounts owed by parent group undertakings *	1,767,058	-	1,767,058	4,574,216	-	4,574,216
Amounts owed by subsidiary undertakings	41,148	-	41,148	26,811	1,490	28,301
VAT	-	836	836	-	785	785
Deposits paid for reverse repurchase agreements and securities borrowed	4,485,962	-	4,485,962	3,726,810	-	3,726,810
Other debtors #	221,539	-	221,539	36,120	-	36,120
Corporation tax recoverable	-	286	286	-	231	231
Prepayments and accrued income	15,792	7,957	23,749	20,288	7,192	27,480
	6,540,898	9,079	6,549,977	8,392,718	9,698	8,402,416

*Amounts owed by parent group undertakings includes £1,665m for Deposits paid for reverse repurchase agreements (2018: £4,420m).

16 Debtors (continued)

Balance includes £155.7m of funds held by the Courts Funds Office in an escrow account pending the conclusion of litigation detailed in Note 25. For 2018 the equivalent balance of £142.2m was classified within Debtors: amounts falling due after more than one year (see note 23).

The carrying amount of debtors approximates to their fair value.

The company's accounting policy is to carry loans and receivables at amortised cost and review for impairment where necessary. As at 31st March 2019, in the opinion of the directors, the £7.9m impairment against the intercompany loan to Daiwa Corporate Advisory Holdings Limited remained appropriate. For purposes of valuation the loan is treated as an equity investment and compared against the value in use. The value in use is measured by discounting cash flows, over a period of 3 years, plus the terminal value, applying a discount rate using a high – low range of 14% – 22% and a perpetuity growth rate range of 1.5% to 2.0%, consistent with the prior year. The directors are comfortable that the carrying value of the loan is reasonable based on the value in use calculation.

17 Deferred tax

	2019 £'000	2018 £'000
Deferred tax liability (note 21)	(278)	(266)

The movement in the year was as follows:	2019 £'000	2018 £'000
Beginning of year	(266)	(242)
Charged to the Reserves	(12)	(24)
End of year	(278)	(266)

The deferred tax liability is attributable to the taxation that would arise if the timing differences on Available for sale investments was realised after the end of the reporting period.

18 Financial assets and liabilities held for trading

The company's financial assets and liabilities held for trading consist of marketable securities, classified as held for trading, and derivative financial instruments, comprising futures and forwards, options, swaps and forward foreign currency contracts. Fair value is the amount at which a financial instrument could be exchanged in an arms-length transaction between informed and willing parties, other than in a forced or liquidation sale and excludes accrued interest.

18 Financial assets and liabilities held for trading (continued)

	2019	2018
Financial Assets	**£'000**	**£'000**
Non Derivative marketable securities		
Equities	6,266	6,278
Government, Government Agency Bonds, and Municipal Bonds	467,080	367,728
Corporate Debt (inc. Convertible Bonds)	1,373,244	1,603,916
Total	1,846,590	1,977,922
of which listed	1,634,990	1,809,044
Derivative financial instruments		
Futures & Forwards	2,042	2,629
Options	25,080	47,665
Swaps	608,918	445,205
Other	19	-
Total	636,059	495,499
of which listed	49	147
Total financial assets held for trading	**2,482,649**	**2,473,421**
Financial Liabilities		
Non Derivative marketable securities		
Equities	92,288	136,691
Government, Government Agency Bonds, and Municipal Bonds	416,758	299,635
Corporate Debt (inc. Convertible Bonds)	197,074	116,358
Total	706,120	552,684
of which listed	682,777	541,948
Derivative financial instruments		
Futures & Forwards	2,905	4,134
Options	18,630	33,547
Swaps	610,710	437,604
Other	3,134	4,212
Total	635,379	479,497
of which listed	2,111	1,449
Total financial liabilities held for trading	**1,341,499**	**1,032,181**

19 Financial assets designated at Fair Value Through Profit and Loss (FVTPL)

	2019 £'000	2018 £'000
Government, Government Agency Bonds, and Municipal Bonds	53,295	10,144
Corporate Debt (inc Convertible Bonds)	150,683	14,267
Total*	203,978	24,411
of which listed	197,807	20,850

*Balance forms part of DCME's liquid asset buffer, and is managed as a strategy that seeks to minimise cost.

20 Cash at bank and in hand

	2019 £'000	2018 £'000
Cash at bank and in hand	47,528	74,257
of which deposits with parent group undertakings	855	815

The carrying amount of cash at bank and in hand approximates to its fair value.

21 Creditors: amounts falling due within one year

	2019			2018		
	Financial Liabilities Other £'000	Non Financial Liabilities Other £'000	Total £'000	Financial Liabilities Other £'000	Non Financial Liabilities Other £'000	Total £'000
Other short term borrowings	50,006	-	50,006	71,413	-	71,413
Overdrafts	3,612	-	3,612	28	-	28
Trade Creditors	3,706	-	3,706	6,726	-	6,726
Amounts owed to parent group undertakings*	2,092,961	-	2,092,961	1,840,333	-	1,840,333
Amounts owed to subsidiary undertakings	1,360	-	1,360	-	-	-
Deposits received for repurchase agreements and securities lent	5,182,772	-	5,182,772	7,555,072	-	7,555,072
Deferred tax liability	-	278	278	-	266	266
Other creditors:						
- social security and PAYE	-	1,573	1,573	-	1,582	1,582
- other creditors	3,208	21	3,229	4,351	16	4,367
Accruals and deferred income	22,349	-	22,349	24,772	-	24,772
	7,359,974	1,872	7,361,846	9,502,695	1,864	9,504,559

*Amounts owed to parent group undertakings includes £158m for Deposits received for repurchase agreements (2018: £434m).

21 Creditors: amounts falling due within one year (continued)

The carrying amount of creditors approximates to their fair value.

The company had a total unsecured borrowing facility of ¥300bn/£2.078bn (2018: ¥190bn/£1.274bn) from Daiwa Securities Company Ltd which was provided on an uncommitted basis, as at 31 March 2019 (and at 31 March 2018). At 31 March 2019 ¥245bn/£1.7bn (2018: £¥167bn/£1.12bn) was drawn on the facility.

There are overdrafts of £2,730 due to group undertakings (2018: £nil). The company has £119,081 due to clearing agents which is secured principally by securities held on the company's trading accounts with those clearing agents (2018: £27,181).

Accruals and deferred income include defined contribution pension schemes accruals of £36,098 (2018: £2,999), all of which relates to certain overseas branch pension schemes.

22 Analysis of Financial Assets and Liabilities by Measurement Basis

	Financial Assets and Liabilities measured at fair value £'000	Available for Sale Investments £'000	Financial Assets and Liabilities at amortised cost £'000	2019 Total £'000
Financial Assets				
Cash at bank and in hand	-	-	47,528	47,528
Financial assets held for trading	2,482,649	-	-	2,482,649
Financial assets designated at FVTPL	203,978	-	-	203,978
Available for sale investments	-	1,464	-	1,464
Debtors – Loans and Receivables	-	-	6,540,898	6,540,898
	2,686,627	1,464	6,588,426	9,276,517
Financial Liabilities				
Financial liabilities held for trading	1,341,499	-	-	1,341,499
Creditors falling due within one year – Financial Liabilities	-	-	7,359,974	7,359,974
Creditors falling due after one year	-	-	1,693	1,693
	1,341,499	-	7,361,667	8,703,166

22 Analysis of Financial Assets and Liabilities by Measurement Basis (continued)

	Financial Assets and Liabilities measured at fair value £'000	Available for Sale Investments £'000	Financial Assets and Liabilities at amortised cost £'000	2018 Total £'000
Financial Assets				
Cash at bank and in hand	-	-	74,257	74,257
Financial assets held for trading	2,473,421	-	-	2,473,421
Financial assets designated at FVTPL	24,411	-	-	24,411
Available for sale investments	-	1,402	-	1,402
Debtors – Loans and Receivables	-	-	8,392,718	8,392,718
	2,497,832	1,402	8,466,975	10,966,209
Financial Liabilities				
Financial liabilities held for trading	1,032,181	-	-	1,032,181
Creditors falling due within one year – Financial Liabilities	-	-	9,502,695	9,502,695
Creditors falling due after one year	-	-	1,768	1,768
	1,032,181	-	9,504,463	10,536,644

23 Debtors: amounts falling due after more than one year

	2019 £'000	2018 £'000
Financial Assets – Loans and Receivables	9,836	34,533
Financial Assets – Other Debtors*	-	142,155
	9,836	176,688

*The balance represents funds held by the Courts Funds Office in an escrow account pending the conclusion of litigation detailed in Note 25. For 2019 the balance of £155.7m is classified within Debtors (see note 16).

24 Creditors: amounts falling due after more than one year

	2019 £'000	2018 £'000
Accruals and deferred income	1,693	1,768

Accruals and deferred income comprises deferred compensation costs and social security costs falling due after more than one year.

25 Provisions for liabilities

The company recognises a provision for a liability if the company has a present legal or constructive obligation as a result of a past event, it is probable that an outflow of resources will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

The table below represents the present value of the anticipated liability of the company:

	2019			2018		
	Pending litigation	**Redundancy, restructuring and onerous contracts**	**Total**	**Pending litigation**	**Redundancy, restructuring and onerous contracts**	**Total**
	£'000	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**
Beginning of year	151,284	541	151,825	101,869	1,029	102,898
Additional provision	259	116	375	61,226	440	61,666
Release of provision	-	-	-	(1,540)	-	(1,540)
Exchange adjustments	11,041	-	11,041	(9,671)	-	(9,671)
Utilised during the year	(1,504)	(475)	(1,979)	(600)	(928)	(1,528)
Transferred to Debtors	2,906	-	2,906	-	-	-
Total	163,986	182	164,168	151,284	541	151,825
Due within one year	163,986	182	164,168	-	541	541
Falling due after more than one year	-	-	-	151,284	-	151,284

Pending litigation

Singularis Holdings Limited

On 1 February 2018, the Appeals Court rejected the company's appeal against the legal claim brought by the liquidators of Singularis Holdings Limited ("SHL"). The Supreme Court has granted permission to Appeal and a hearing for the Appeal is set for July 2019. In light of these developments the directors believe that it is appropriate to retain a full provision for the award amount plus interest and expenses totalling £164m (2018: £151m).

Redundancy, restructuring and onerous contracts

Provision is made for anticipated costs of restructuring and reorganisation, including redundancy costs, and contractual obligations. An obligation exists when the company has a detailed formal plan for restructuring a business and has raised valid expectations in those affected by the restructuring by announcing its main features or starting to implement the plan.

26 Called-up share capital

	2019 £'000	2018 £'000
Allotted, called-up and fully paid		
Ordinary shares of £1 each	732,121	732,121

27 Financial commitments

a) Loan commitments

As at 31 March 2019, undrawn but committed loan facilities amounted to £50.5m (2018: £37.6m).

b) Capital commitments

As at 31 March 2019, capital expenditure contracted for but not provided for amounted to £0.2m (2018: £0.4m).

c) Contingent liabilities

As at 31 March 2019 there were no contingent liabilities.

d) Lease commitments

The company leases a number of properties and certain items of office machinery under operating leases. The minimum annual rentals under these leases are as follows:

			2019			2018
	Property £'000	Other £'000	Total £'000	Property £'000	Other £'000	Total £'000
Operating leases which expire						
- within 1 year	-	-	-	14	-	14
- within 2-5 years	194	8	202	142	8	150
- after 5 years	3,008	-	3,008	3,008	-	3,008
	3,202	8	3,210	3,164	8	3,172

27 Financial commitments (continued)

e) Pension arrangements

Pension benefits for the majority of staff are provided in the UK through a defined contribution scheme to which the company contributes a percentage based on each member's pensionable salary, between 9% and 20%. Under the core scheme, employee contributions are voluntary. A contribution matching scheme is in operation to encourage a good pension outcome for the members. All aspects of the scheme including governance, communication and the scheme design are fully compliant with automatic enrolment. Due to legislative reasons, the company may choose to provide a cash allowance to those members of staff who are impacted by the Lifetime Allowance or Annual Allowance.

The amount charged in the profit and loss account for pension costs of the company under both the contributory and non-contributory sections of the group personal pension plan was £3.8m (2018: £3.8m).

The UK scheme also covers the following companies: Daiwa Asset Management (Europe) Ltd, Daiwa SB Investments (UK) Ltd and the Daiwa Anglo Japanese Foundation. Separate schemes are administered in respect of staff employed in the company's overseas branches and representative offices. The total cost in relation to branch pension schemes was £132,453 (2018: £184,102).

The company's ultimate parent undertaking, Daiwa Securities Group Inc., operates separate pension schemes of which certain employees seconded to the company from Japan are members. The total cost in relation to these pension schemes was £211,724 (2018: £190,086).

f) VAT

The company is registered for VAT purposes in a group of undertakings which share a common registration number. As a result, it has jointly guaranteed the VAT liability of the VAT group, and failure by other members of the group would give rise to additional liabilities for the company. The directors are of the opinion that no such liability is likely to arise.

28 Share based payments

The company's ultimate parent company, Daiwa Securities Group Inc., operates a share scheme of which certain employees seconded to the company from Japan are members.

The "Daiwa Securities Group Inc. Head Office New Stock Reservation Rights" scheme was introduced in September 2004, and is open to certain selected employees of the Daiwa Securities Group. Under the plan, the employees were granted share options over Daiwa Securities Group Inc. shares.

28 Share based payments (continued)

In accordance with FRS 102, the fair value of the equity-settled share based payments to employees is determined at the date of grant and is expensed on a straight line basis over the vesting period based on the company's estimate of options that will eventually vest. The weighted average fair value of options granted in the year was ¥15.73 (2018: ¥60.26) and the total charge for the year was £43,210 (2018: £44,431).

The company is exempt from specific share based payment disclosures under share based payment arrangements that existed during the period and the full disclosures as required by FRS 102 have not been disclosed as explained within accounting policies set out in note 1. The equivalent disclosures required by FRS 102 are included in the consolidated financial statements of the Daiwa Securities Group Inc. in Japan in which the company's results are consolidated.

29 Collateral

The company enters into repurchase agreements and engages in stock borrowing and lending as part of its funding, market-making and position management activities. The table below summarises the position at the reporting date:

	2019	2018
	£bn	£bn
Securities Received		
Securities received as collateral/borrowed	6.8	8.9
Source:		
Matched Book Repo Activity	4.7	7.3
Liquid Asset Buffer	1.3	1.0
Securities Borrowed	0.8	0.6
Total	**6.8**	**8.9**
Securities Pledged		
Securities pledged as collateral/lent	6.0	8.7
Use:		
Firm Funding Repo Activity	1.3	1.4
Matched Book Repo Activity	4.7	7.3
Total	**6.0**	**8.7**

30 Financial risk management

Exposures to risk

In the normal course of its business the company is exposed to a range of financial risks including market, credit and liquidity risk. Market risk exposures arise from trading book positions held in Fixed Income, Equity, Derivative and Convertible instruments. Credit risk exposures arise from unsettled/outstanding trades in the event of counterparty failure and the deterioration of the credit quality of issuers of debt securities, resulting in a fall in the value of the company's holding of assets. Liquidity risk is the risk that the company does not have sufficient financial resources to meet its obligations when they fall due, or can secure such resources only at excessive cost.

Objectives, policies and processes for managing risk

The Board is responsible for setting and monitoring the company's risk appetite and is responsible for oversight of the risk management function. The Board Risk Committee is directly accountable to the Board and has delegated responsibility for oversight of the risk management at a high level. The company's objective is to have comprehensive and timely control and disclosure of key risk measures and exposures with daily reports being made available to all division heads, local senior management and the immediate parent company in Tokyo. Senior management participate in the risk management process through the company's Risk and Assets and Liabilities Committee (RALCO) and other division-specific risk focus groups.

Responsibility for second line of defence oversight of market risk, credit risk and liquidity risk rests with the Risk Management Division, which has a reporting line that is independent from the sales and trading areas. The Risk Management Division employs a variety of risk management tools including a policy of limit control and exception reporting for both proprietary and unsettled client positions.

Market risk

Market risk is controlled and monitored using a range of risk management tools including VaR, basis point value (BPV) limits, and scenario and stress testing. A variety of limits are set locally within parent company rules – by instrument rating, issuer, geographic location, and both cumulative and aged holdings. External ratings, where available, are applied to all 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.

All material market risks, including those arising from market making and proprietary trading, are subject to VaR analysis on a daily basis. The VaR analysis for the year was as follows:

	2019	**2018**
	£'000	**£'000**
Year-end	1,094	1,246
Average	1,195	1,192
Maximum	1,585	1,574
Minimum	856	832

30 Financial risk management (continued)

VaR is measured using an historic simulation methodology at a 99% confidence level, with a 1-day holding period and a 560 day observation period. All trading book positions are also subject to other sensitivity analyses including BPV (gross and net) and credit spread (by rating, per issuer, per country, cumulative net and gross).

The VaR numbers shown for 2019 incorporate full diversification offsets between businesses. Although the VaR numbers for 2019 in most categories above remained broadly consistent with 2018, a downward trend can be observed through the year, with the year-end number over 10% lower than prior year. This is mainly due to reductions in secondary credit trading inventory whilst the composition of the convertible bonds portfolio changed, causing a further reduction in VaR.

Credit risk

Counterparty exposure is managed by rigorous on-boarding procedures, counterparty rating, limit setting (notional, credit and settlement, where necessary), exposure monitoring and exception reporting. Appropriate legal agreements are entered into according to product. Risk mitigation is also conducted daily via collateral management activity.

Internal ratings are applied to all counterparties and are a key component in determining the risk appetite and size of limit assigned to each client. The company determines internal ratings through a scorecard-based approach using publicly available information and accounts, and verifying broad consistency with external ratings provided by external credit rating assessment institutions (ECAI). No material counterpart losses were suffered during the year.

The maximum exposure to credit risk, gross of collateral, by class of financial asset as at the year-end was represented by the carrying amount as follows:

	2019	**2018**
	£'000	**£'000**
Available for sale investments	1,464	1,402
Financial assets at fair value through profit and loss:		
Derivative financial instruments	636,059	495,499
Marketable securities	1,846,590	1,977,922
Financial assets designated at FVTPL	203,978	24,411
Loans and receivables:		
Debtors - Loans and receivables	6,540,898	8,392,718
Cash at bank and in hand	47,528	74,257
	9,276,517	10,966,209

30 Financial risk management (continued)

The credit quality by class of financial asset can be assessed by reference to the company's credit monitoring process, described above, as follows:

Credit Rating	2019 AAA	2019 AA	2019 A	2019 BBB	2019 Sub-Investment Grade	2019 Total	2018 AAA	2018 AA	2018 A	2018 BBB	2018 Sub-Investment Grade	2018 Total
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Available for sale investments	-	1,464	-	-	-	1,464	-	1,402	-	-	-	1,402
Debtors - Loans and Receivables	5,859	1,083,702	3,783,273	1,475,026	193,038	6,540,898	7,880	703,594	6,403,892	1,180,233	97,119	8,392,718
Derivative financial instruments	5	297,780	335,567	2,428	279	636,059	18	217,030	277,823	628	-	495,499
Marketable securities	574,487	502,177	484,552	256,257	29,117	1,846,590	581,670	575,567	480,421	307,123	33,141	1,977,922
Fin assets designated at FVTPL	155,467	48,511	-	-	-	203,978	14,267	10,144	-	-	-	24,411
Cash at bank and in hand	-	28,638	17,642	98	1,150	47,528	-	60,400	11,546	1,349	962	74,257
	735,818	1,962,272	4,621,034	1,733,809	223,584	9,276,517	603,835	1,568,137	7,173,682	1,489,333	131,222	10,966,209

Funding and Liquidity Risk Management

The company's funding and liquidity risk management objective is to ensure that the company has adequate funding and liquidity resources to support its business activities and meet its financial obligations as they fall due under normal and stressed conditions. In order to achieve this objective, the company's funding mix is calibrated to provide stable and cost effective sources of finance to accommodate market disruptions over both the short and long term.

DCME 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 called an Individual Liquidity Adequacy Assessment (ILAA) which is reviewed and approved by the Board, and is subject to a Supervisory Liquidity Review Process (SLRP), 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 maintains an adequate liquid asset buffer and sufficient funding sources which ensures that it meets regulatory requirements at all times.

30 Financial risk management (continued)

Funding

Primary sources of funding include:

1. The company's own capital and reserves which serve as the longest dated and most stable form of finance;
2. Secured financing (repos collateralised with the company's highly liquid trading book assets) from a diverse pool of counterparts, with the largest volume of trading conducted through Central Clearing Counterparties (CCPs);
3. Additional ISDA collateral posted by the parent company to cover regulatory capital exposure on certain back to back derivative trades; and
4. Access to an unsecured, uncommitted funding facility from the parent.

Liquidity Risk

Liquidity risk is quantified through stress tests that assess the impact of a variety of scenarios that could affect the liquidity profile of the balance sheet. To assess the impact from the liquidity risk drivers, assumptions have to be made regarding the evolution of DCME's balance sheet following a liquidity shock being described in the scenario and include (but are not limited to) multiple downgrades of the parent company's credit rating, severe disruptions in the wholesale markets, impaired functioning of the FX markets, increase in margin calls at the company's clearers and counterparts being unable to settle trades on contractual settlement dates. Management actions are modelled to counterbalance the outflows incurred, including liquidation of the liquid asset buffer and sale of inventory with an estimated haircut and assumed speed of execution. Results are expressed in the form of a 'liquidity coverage ratio' which quantifies the mismatch between liquidity resources and liquidity requirements. Our stress testing assumptions are reviewed on a regular basis throughout the year.

The company's liquidity risk appetite statement requires the company to be able to survive a combined liquidity event (market wide and idiosyncratic scenario) on a stand alone basis (without parental support) for at least one month before senior management intervention e.g. through a forced sale of inventory or closure of elements of the business. The Board has also set a risk appetite statement around the company's expected survival period (a minimum of 1 year) during severe market shocks and a risk appetite statement around average residual tenor of unsecured deposits (funding) from the parent.

Liquidity risk is managed through:

1. Balance sheet controls that ensure current and planned divisional funding usage is in line with Board agreed business plans;
2. Mismatch controls that limit the amount of funding gaps that the company/individual business lines can run;
3. Material currency gap limits, which ensure access to core currencies in the event of a stress;
4. A suite of early warning indicators (EWIs) that monitor emerging vulnerabilities in markets where the company has business interests;
5. Holding an unencumbered liquid asset buffer commensurate with the results of stress testing that enable the company to absorb the short term effects of a severe liquidity shock; and
6. A comprehensive contingency funding plan (CFP) that details senior management action during a liquidity event to ensure that the company's core franchise remains intact.

30 Financial risk management (continued)

Governance

DCME's Board is ultimately responsible for the management of funding and liquidity risk. The Board delegates this responsibility to the Board Risk Committee which further delegates the responsibility for operational oversight and management of funding and liquidity risk to DCME's RALCO. The Liquidity Risk Management (LRM) section undertakes day to day monitoring of the company's funding and liquidity position. Treasury is responsible for operational liquidity management in respect of raising unsecured financing for the company and managing the company's liquid asset buffer portfolio. The Operations, LRM, Credit Risk and Treasury sections at DCME co-ordinate elements of intra-day liquidity management.

Liquidity Reserves

The company maintains a pool of high quality liquid assets that consists exclusively of unencumbered assets, representing resources immediately available to meet liquidity requirements in a stress situation. The liquidity asset buffer typically comprises high credit quality government bonds denominated in multiple currencies reflecting the currency mix of the company's underlying balance sheet. The company also includes in its liquidity pool, certain highly liquid senior bonds issued by multilateral development banks such as the European Investment Bank.

The contractual maturity profile of financial liabilities is as follows:

						2019
	On demand	**Less than 1 month**	**1 to 3 months**	**3 months to 1 year**	**Between 1-5 years**	**Total**
	£'000	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**
Marketable Securities	706,120	-	-	-	-	706,120
Derivative Financial Instruments	635,379	-	-	-	-	635,379
Deposits received for repurchase agreements and securities lent	1,124,765	3,778,050	400,685	-	-	5,303,500
Other Financial Liabilities	270,762	408,792	986,797	390,123	1,693	2,058,167
Total	2,737,026	4,186,842	1,387,482	390,123	1,693	8,703,166

30 Financial risk management (continued)

	On demand	Less than 1 month	1 to 3 months	3 months to 1 year	Between 1-5 years	2018 Total
	£'000	£'000	£'000	£'000	£'000	£'000
Marketable Securities	552,684	-	-	-	-	552,684
Derivative Financial Instruments	479,497	-	-	-	-	479,497
Deposits received for repurchase agreements and securities lent	670,976	6,559,752	736,222	-	-	7,966,950
Other Financial Liabilities	309,369	192,929	763,931	269,516	1,768	1,537,513
Total	2,012,526	6,752,681	1,500,153	269,516	1,768	10,536,644

The "On demand" time bucket includes balances with open maturity or due over night.

Derivative financial instruments and marketable securities have been included in the 'On demand' time bucket at their fair value or approximate thereto. Classification of derivative instruments in the on demand bucket, rather than presentation based on contractual maturity, is considered to be prudent given the potential for various triggers embedded in some of DCME's derivative contracts.

Financial liabilities not in the trading portfolio are presented on an undiscounted contractual cash flows basis and, with the exception of deferred staff bonuses, all fall due within one year. As at 31 March 2019, the undiscounted contractual cash flows approximate to the carrying amounts on the balance sheet (2018: approximate to the carrying amounts).

31 Capital risk management

Regulatory capital resources requirement

The company is regulated by the Financial Conduct Authority (FCA) in the UK and is subject to minimum capital requirements imposed by the Regulator and by the European Capital Adequacy Regulation and Directive (collectively referred to as CRD IV[1]). The EU Capital Adequacy framework, like its predecessor, consists of three "pillars".

Pillar 1 sets forth the rules for calculating the minimum capital requirements for market risk, credit risk and operational risk. The company has adopted the standardised approach for its Pillar 1 capital resources requirement calculation.

1 The "CRD IV" package of regulation (EU/575/2013) and directive (2013/36/EU) came into force on 1 January 2014 and covers capital resources ("own funds"), capital requirements ("own funds requirements") and liquidity & stable funding requirements.

31 Capital risk management (continued)

The Pillar 2 rules require regulated firms to establish an Internal Capital Adequacy Assessment Process (ICAAP), which forms the basis for an on-going self-assessment of their risk profile; with this being used to determine a "Pillar 2" capital resources requirement independent of, but not lower than, the minimum capital requirements imposed by Pillar 1.

The Pillar 2 process involves a supervisory review ("SREP") as a result of which the FCA provides firms with individual capital guidance (ICG); which is effectively an additional capital resources requirement to be applied to the Pillar 1 minimum.

The Pillar 3 rules require regulated firms to publish certain risk and capital disclosures typically either as part of the annual financial statements, or by being made available on the company's website. Disclosures will be updated as a minimum on an annual basis and made available on the company's website as soon as practicable.

Since the coming into force of CRD IV, the company has been categorised as a "full scope" IFPRU 730K investment firm under the revised framework. "IFPRU" refers to the "Prudential Sourcebook for Investment Firms", part of the FCA's Handbook of Rules and Guidance. During the year, no breaches of the company's capital requirement were reported to the FCA.

Capital Management

The company's capital management objectives are to ensure that the company maintains sufficient capital resources to support its business and planned strategic developments and that it complies with the regulatory capital requirements at all times. It is the company's policy to maintain a strong capital base commensurate with its risk appetite.

Formal procedures are in place to monitor and manage capital resources on an active and timely basis. Responsibility for day to day monitoring of capital adequacy rests with the regulatory reporting function. Daily and periodic reports are prepared and distributed to local senior management and reported to head office in Tokyo.

The company manages its capital usage through limit setting, capital allocation and capital planning. A Risk, Asset and Liability Management Committee, reporting to the Board Risk Committee, is in place to oversee the management of capital and carry out periodic assessment of the company's capital resources requirements.

Regulatory Capital	**2019**	**2018**
	£'000	**£'000**
Common Equity Tier 1 Capital	436,162	475,993
Regulatory capital resources	436,162	475,993

31 Capital risk management (continued)

	2019	2018
	£'000	£'000
Shareholders' funds	470,348	481,476
Prudent Valuation adjustment (unaudited)	(2,610)	(2,535)
Intangible Assets – Goodwill	(1,414)	(2,307)
Material holdings	(30,162)	(641)
Regulatory capital resources	436,162	475,993

32 Fair Value estimation

The following table sets out fair value measurements as at 31 March 2019 using the FRS 102 fair value measurement hierarchy.

	Level 1	Level 2	Level 3	2019 Total
	£'000	£'000	£'000	£'000
Assets				
Available for sale investments	-	-	1,464	1,464
Financial assets at fair value through profit and loss:				
Derivative financial instruments	49	635,484	526	636,059
Marketable securities	1,776,190	70,009	391	1,846,590
Financial assets designated at FVTPL	203,978	-	-	203,978
Total assets	1,980,217	705,493	2,381	2,688,091
Liabilities				
Financial liabilities at fair value through profit and loss:				
Derivative financial instruments	2,111	633,000	268	635,379
Marketable securities	706,120	-	-	706,120
Total liabilities	708,231	633,000	268	1,341,499

32 Fair Value estimation (continued)

A reconciliation of fair value measurement in Level 3 is set out below.

Level 3 financial assets are valued based upon parameters which are unobservable in the market. The level 3 marketable securities are valued based upon a fundamental analysis of expected recovery value. The level 3 available for sale investments are valued by reference to the published net asset per share.

The following table presents the changes in level 3 instruments for the year ended 31 March 2019.

	Available for sale investments	Derivative financial instruments	Marketable securities	2019 Total
	£'000	£'000	£'000	£'000
Assets				
Beginning of the year	1,402	-	1,293	2,695
Transfers into Level 3 from Level 2	-	406	11	417
Purchases/Issues	-	120	46	166
Sales/Maturities	-	-	(362)	(362)
Revaluation	87	-	(597)	(510)
Exchange losses	(25)	-	-	(25)
End of year	1,464	526	391	2,381
Liabilities				
Beginning of the year	-	-	-	-
Transfers into Level 3 from Level 2	-	160	-	160
Sales	-	108	-	108
End of year	-	268	-	268

32 Fair Value estimation (continued)

The following table sets out fair value measurements as at 31 March 2018 using the FRS 102 fair value measurement hierarchy.

	Level 1	Level 2	Level 3	2018 Total
	£'000	£'000	£'000	£'000
Assets				
Available for sale investments	-	-	1,402	1,402
Financial assets at fair value through profit and loss:				
Derivative financial instruments	147	495,352	-	495,499
Marketable securities	1,917,610	59,019	1,293	1,977,922
Financial assets designated at FVTPL	24,411	-	-	24,411
Total assets	1,942,168	554,371	2,695	2,499,234
Liabilities				
Financial liabilities at fair value through profit and loss:				
Derivative financial instruments	1,449	478,048	-	479,497
Marketable securities	546,261	6,423	-	552,684
Total liabilities	547,710	484,471	-	1,032,181

The following table presents the changes in level 3 instruments for the year ended 31 March 2018.

	Available for sale investments	Derivative financial instruments	Marketable securities	2018 Total
	£'000	£'000	£'000	£'000
Assets				
Beginning of the year	1,270	-	1,747	3,017
Transfers into Level 3	-	-	-	-
Purchases/Issues	-	-	-	-
Sales/Maturities	-	-	(276)	(276)
Revaluation	97	-	(178)	(81)
Exchange gains	35	-	-	35
End of year	1,402	-	1,293	2,695

There were no level 3 liabilities in the year ended 31 March 2018.

33 Related party transactions

Directors' remuneration

The remuneration of the directors was as follows:

	2019 £'000	2018 £'000
Emoluments	2,153	2,002
Company contributions to group personal pension plans	-	11
	2,153	2,013

Pensions

The number of directors who were members of group personal pension plans was as follows:

	2019 Number	2018 Number
Money purchase schemes	-	1

Highest paid director

The above amounts for remuneration include the following in respect of the highest paid director:

	2019 £'000	2018 £'000
Emoluments	790	908
Company contributions to group personal pension plans	-	-
	790	908

Emoluments include all salary and benefits accruing to directors, plus the current year cash portion of bonus awards and the vesting cash position of deferred awards.

34 Ultimate parent company

The company is a wholly owned subsidiary of Daiwa International Holdings Inc., itself a wholly owned subsidiary of Daiwa Securities Group Inc. incorporated in Japan. The parent company of the largest and smallest group that includes the company and for which group financial statements are prepared is Daiwa Securities Group Inc. The consolidated financial statements of this group, prepared under Japanese generally accepted accounting practice, are available to the public and may be obtained from 5 King William Street, London EC4N 7DA.

35 Country by Country Reporting and Disclosure of Return on Assets

a) Country by country reporting

The following reporting has been prepared to comply with the requirements set out in Article 89 of the European Union Capital Requirements Directive IV.

Location	Principal Activities	Turnover £'000	Profit or (Loss) before tax £'000	Corporation Tax (amount credited) £'000	Average Headcount
United Kingdom	1	94,015	(11,058)	217	373
Switzerland	2	3,664	(173)	-	9
Bahrain	2	1,894	342	-	7
Russia	3	611	(171)	-	3
France	3	374	(335)	-	2
		100,558	(11,395)	217	394

The above analysis takes into account the internal allocation of costs based upon estimated usage of support functions.

Principal activities:

1. The primary activities of the head office are to provide investment banking services in Equities, Fixed Income, Convertible Bonds, and financing for real estate development projects.
2. The branches in Switzerland and Bahrain exist to facilitate sales activity in their local regions on behalf of DCME London.
3. The representative offices in France and Russia exist to source business opportunities for DCME London in those countries.

Public subsidies received:

The company receives no public subsidies.

b) Return on Assets

According to Article 90 of the European Union Capital Requirements Directive IV, DCME are required to disclose the return on net assets (being defined as net profit after tax). For the year ended 31 March 2019 this was -2.4%.