Pillar III Disclosures

For the Year Ended 31 March 2020

Daiwa Capital Markets Europe Limited

Daiwa
Capital Markets

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Glossary of terms and abbreviations

AT1	Additional Tier 1
BaFin	Federal Financial Supervisory Authority
BIPRU	Prudential Sourcebook for Banks, Building Societies and Investment firms.
BPV	Basis Point Value.
BRC	Board Risk Committee
CCP	Central Counterparty
CCR	Counterparty Credit Risk.
CDS	Credit Default Swap
CET1	Common Equity Tier 1
CIUs	Collective Investment Undertakings
CQ1	Client Quality
CRD	Capital Requirements Directive
CRR	Capital Requirements Regulation
DCA	Daiwa Corporate Advisory Holdings Limited.
DCMD	Daiwa Capital Markets Deutschland GmbH
DCME	Daiwa Capital Markets Europe Limited.
DIH	Daiwa International Holdings
DSGI	Daiwa Securities Group Inc.
DVP	Delivery versus Payment
EBA	European Banking Authority
ECAI	External Credit Assessment Institution.
EU	European Union.
ExCo	Executive Committee
FCA	Financial Conduct Authority.
FOMC	Front Office Management Committee.
FOP	Free of Payment
FX	Foreign Exchange.
GMRA	Global Master Repurchase Agreement.
GMSLA	Global Master Securities Lending Agreement.
ICAAP	Internal Capital Adequacy Assessment Process.
ICR	Internal Credit Ratings.
IFPRU	Prudential Sourcebook for Investment Firms.
ILAA	Internal Liquidity Adequacy Assessment.
ILG	Individual Liquidity Guidance.
IRRBB	Interest Rate Risk in the Banking Book
ISDA	International Swaps & Derivatives Association Master Agreement.
KRI	Key Risk Indicator.
LAB	Liquid Asset Buffer.
LOD	Lines of Defence
LRM	Liquidity Risk Management
NPA	New Product Approval Committee.
OpTeCo	Operations and Technology Committee.
ORC	Operational Risk Committee.
ORM	Operational Risk Management.
OTC	Over the Counter.
PRA	Prudential Regulatory Authority
RALCO	Risk Asset and Liability Committee.
RAS	Risk Appetite Statement
RWAs	Risk-Weighted Assets
SA	Standardised Approach
SDGs	Sustainable Development Goals
SFT	Securities Financing Transaction
SLRP	Supervisory Liquidity Review Process.
SREP	Supervisory Review and Evaluation Process
SYSC	Senior Management Arrangements, Systems and Controls
T1	Tier 1
T2	Tier 2
TREA	Total Risk Exposure Amount
UNGC	United Nations Global Compact
VaR	Value at Risk.

1 Overview

1.1 Background

The Basel Capital Accord provides a global regulatory framework for capital and liquidity. It is detailed in the "International Convergence of Capital Measurement and Capital Standards: "A Revised Framework – Comprehensive Version" June 2006 (Basel II). This standard was revised in 2010 following the financial crisis through a number of reforms collectively known as Basel III and in particular, "Basel III: a Global regulatory framework for more resilient banks and banking systems" and "Revisions to the Basel II market risk framework – updated as of 31 December 2010".

The revised Basel Capital Accord has been implemented in the EU via the CRD and the Capital Requirements Regulation (collectively known as CRD IV). These new requirements took effect from 1 January 2014. However, certain aspects of CRD IV are subject to phased implementation and may also be dependent on final technical standards to be issued by the EBA and adopted by the European Commission, and ultimately implemented in the UK.

The regulatory framework established by CRD consists of three Pillars:

- Pillar 1 sets out the minimum capital required to meet a firm's credit, market and operational risk;
- Pillar 2 requires a firm to establish an Internal Capital Adequacy Assessment Process ("ICAAP") to establish whether its Pillar 1 capital requirement is sufficient to cover all the risks faced by the firm, and if not, to calculate the additional capital required. The ICAAP is then subject to review by the FCA, through the Supervisory Review and Evaluation Process ("SREP"); and
- Pillar 3 requires a firm to disclose specific information concerning its risk management policies and procedures, and its regulatory capital adequacy position.

The aim of Pillar 3 is to encourage market discipline by developing a set of disclosure requirements which will allow market participants to assess key pieces of information on the Firm's capital, risk exposures, risk assessment processes and remuneration approach.

The rules in Financial Conduct Authority ("FCA") Prudential Sourcebook for Investment Firms (IFPRU) set out the provisions governing Pillar 3 disclosures. The purpose of this document is to enable the Daiwa Capital Markets Europe Limited ("DCME" or "the Firm") to meet these requirements.

DCME ("the Firm") adopted the Pillar 1 Standardised Approach (SA) to credit, market and operational risk with effect from 1 January 2008 and were subject to the Pillar 2 and Pillar 3 requirements from that date. The number and granularity of disclosures have continuously expanded over the last 12 years.

1.2 Structure

DCME is the wholly-owned European subsidiary of Daiwa International Holdings (DIH) which is a subsidiary of Daiwa Securities Group Inc. (DSGI), one of the largest brokerage and financial services groups in Japan. DCME's head office is based in London and operates a branch and representative office network across the EMEA region. It also works closely with other subsidiaries throughout the Daiwa group network, providing global services to clients across 20 countries.

DCME is an FCA regulated entity and is considered 'significant' by the FCA in terms of size and business model complexity. The DCME Bahrain and Geneva branches are regulated locally by the Central Bank of Bahrain (CBB) and the Swiss Financial Market Supervisory Authority (FINMA) respectively.

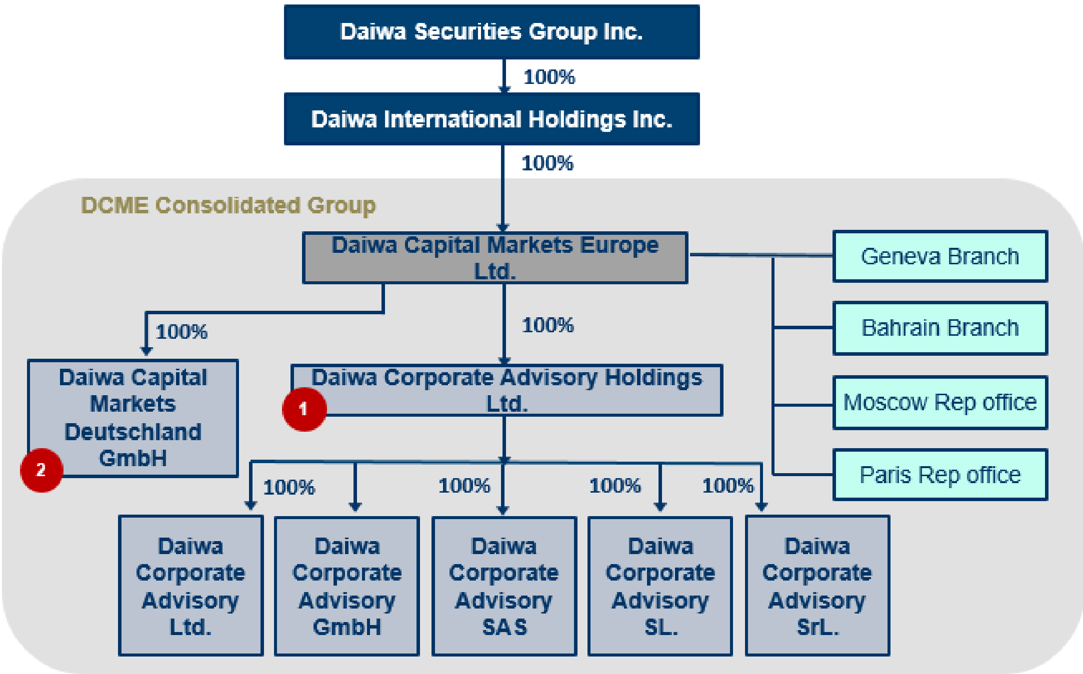
DCME has two material subsidiaries. Daiwa Capital Markets Deutschland GmbH (DCMD) was established in December 2017, operates from offices in Frankfurt and is regulated by the German regulator BaFin.

Daiwa Corporate Advisory Holdings Limited ("DCA") is the holding company for five wholly-owned subsidiaries.

Daiwa Corporate Advisory Limited is based in London with a branch in Manchester and is FCA registered. DC Germany is in Frankfurt (Daiwa Corporate Advisory GmbH) with a branch in Warsaw. DC France is in Paris (Daiwa Corporate Advisory SAS) and DC Spain is in Madrid (Daiwa Corporate Advisory SL – acquired in December 2018). In September 2019 DCA established a new wholly-owned subsidiary – DC Italy in Milan (Daiwa Corporate Advisory SrL). DCA and the DC entities outside of the UK are not regulated firms.

The diagram below sets out the high level organisational structure:

Figure 1: DCME Organisational Diagram (including branches and rep offices)



Note: DCME's Subsidiaries and the roles carried out by DCME Senior Managers within these subsidiaries:
1. DCA is a wholly-owned subsidiary of DCME. DCME CEO has shareholder oversight as the Chair of the Board for DCA, but this subsidiary is independently managed.

2. DCMD is a wholly-owned subsidiary of DCME based in Frankfurt. The DCME CEO and COO attend DCMD Committees for shareholder oversight but this subsidiary is independently managed and regulated by BaFin.

1.3 Principal Activities

As a wholly-owned subsidiary, DCME's business model, offering Japanese (and Asian) products for European investors and European products for Japanese investors, reflects the links with, and synergies available across, the Daiwa Group. DCME businesses are organised along global product lines. DCME comprises the following operating divisions:

- **Fixed Income Currencies and Commodities (FICC)**: Core focus on the trading and distribution of investment grade Government, Sovereign, Supranational, agency and credit products, predominately denominated in US dollars and Japanese Yen.

- **Equities**: Core focus is on the provision of brokerage services for Japanese and Asian equities using the Group's access to the Tokyo Stock Exchange and other Asian exchanges.

- **International Convertible Bonds (ICB)**: Core focus of the Convertible Bonds Division is to make markets in Japanese and Asian convertible bonds.

- **Investment Banking (Debt Capital Markets (DCM) and Equity Capital Markets (ECM), including Convertible Primary):** Debt Capital Markets is primarily a marketing and co-ordination function to develop business with international borrowers in the Primary/New Issue market. ECM facilitates transactions originated by the Daiwa Group including equity and equity linked products issued by Japanese corporates.

- **Principal Investments (PI):** Provides real estate development and bridging finance for residential and student accommodation projects in the UK.

1.4 Scope

DCME is regulated by the FCA in the UK. For regulatory purposes the Firm is required to file consolidated returns and has been filing on this basis since September 2009.

These Pillar 3 disclosures have been prepared as at 31 March 2020, which is the Firm's accounting reference date and financial year-end.

1.5 Basis of Disclosures

The Pillar 3 disclosures presented here are the consolidated view for the Firm as at 31 March 2020 and include both the quantitative and qualitative information. The Firm is required to produce its Pillar 3 disclosures as set out in part 8 of the Capital Requirement Regulation (EU) No 575/2013 ("CRR") of the European Parliament and the Council of the European Union and the FCA IFPRU.

DCME is a "Significant IFPRU firm" (according to the definition in IFPRU section 1.2 of the FCA) and therefore it has a bearing on the following requirements of the CRR and CRD.

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

Furthermore, there are certain additional disclosures according to the EBA Guidelines on disclosure requirements under Part Eight of Regulation 575 2013. These include:

- Section 4.2 (General requirements for disclosures),
  - Section B (non-material, proprietary or confidential information) and
  - Section E (timing and frequency of disclosures);
- Section 4.3 (Risk management, objectives and policies),
  - Section C (information on governance arrangements);
- Section 4.5 (Own funds);
- Section 4.7 (Macroprudential supervisory measures);
- Section 4.12 (Unencumbered assets);
- Section 4.14 (Remuneration) and
- Section 4.15 (Leverage ratio).

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

For remuneration purposes DCME is considered a Level 3 firm as the average total assets over the past three financial years has not exceeded £15bn.

DCME review this position at regular intervals. The classification as a Level 3 firm for remuneration purposes does not preclude DCME from being considered a "Significant IFPRU firm" in FCA terms as highlighted above.

1.6 Frequency, Verification; and Media and Location of publication

CRD IV and EBA guidelines require the Firm discloses information at a minimum on an annual basis. To ensure the effective communication of the Firm's business and risk profile, it also pays particular attention to the possible need to provide information more frequently than annually.

The disclosures presented within this document have been prepared by the Regulatory Governance Department within the Finance and Regulatory Division, reviewed by the Head of Regulatory, Deputy CFO and CFO; and challenged and approved by RALCO, Audit Committee and the Board of Directors. This document has not been subject to audit by the Firm's external auditors.

The Pillar 3 disclosures report is produced on an annual basis and published concurrently with the Annual Report and Financial Statements for the corresponding period on the Firm's website: https://www.uk.daiwacm.com/about-us/corporate-governance-regulatory

2 Risk Management Objectives and Policies

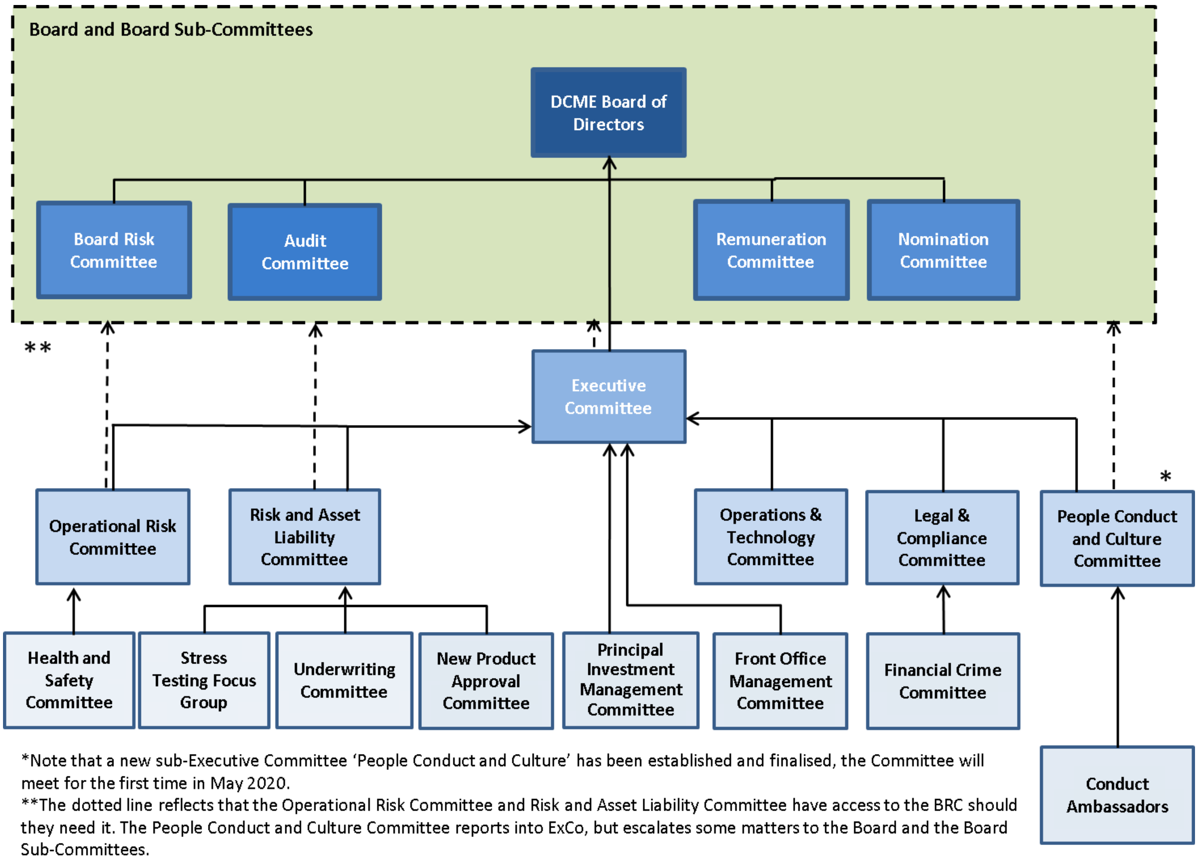
2.1 Governance Structure

The DCME Board has ultimate responsibility for the management of the firm, including its subsidiary, DCMD, its branch and representative offices in Europe and the Middle East and its subsidiary group DC Advisory. It is also responsible for establishing and monitoring the effectiveness of the firm's corporate governance framework. The Board is also responsible for determining the firm's strategic direction and risk appetite. The Board is directly accountable to the shareholder.

In order to meet its responsibilities the Board has delegated the day-to-day running of the firm to the CEO. The CEO has, in turn, delegated certain responsibilities to senior management within the organisation. The CEO has established the Executive Committee (ExCo) which has the objective of assisting the CEO with the task of providing continuous oversight of the key business areas in the context of approved budgets, business plans and risk appetite.

The diagram below shows the committee structure of the organisation. In addition to the formal committees detailed below there are a number of working groups across various subject areas which support the committees:

Figure 2: DCME Committee Structure



*Note that a new sub-Executive Committee 'People Conduct and Culture' has been established and finalised, the Committee will meet for the first time in May 2020.
**The dotted line reflects that the Operational Risk Committee and Risk and Asset Liability Committee have access to the BRC should they need it. The People Conduct and Culture Committee reports into ExCo, but escalates some matters to the Board and the Board Sub-Committees.

KEY:

Primary Reporting Line

Subject Specific Reporting Line

2.2 Committees Roles and Responsibilities

Board of Directors (Board)

The Board has ultimate responsibility for the management of the firm, including its branches and representative offices in Europe and the Middle East. In relation to establishing a robust organisation, key responsibilities of the Board include:

i. overall business objectives and strategy of the firm, including establishing aligned objectives for senior management;
ii. overall risk management strategy and policies, including its risk tolerance/appetite and its risk management framework;
iii. a robust and transparent organisational structure with effective communication and reporting channels;
iv. a policy on the nomination and succession of individuals with key functions in the institution;
v. a remuneration framework that is in line with the risk strategies, risk culture and risk appetite of the firm.
vi. the governance principles and corporate values of the institution, including a code of conduct or comparable document;
vii. an adequate and effective internal control framework, that includes well-functioning Risk, Compliance and Internal Audit functions as well as an appropriate financial reporting and accounting framework;
viii. monitoring the firm's adherence to its risk appetite, risk policies and risk limits;
ix. approving and overseeing implementation of the firm's ICAAP, ILAA, capital and liquidity plans, compliance policies and obligations, and the internal control system; and
x. approving the selection, and overseeing performance, of senior management.

2.2.1 Board Sub-Committees:

Board Risk Committee (BRC)

BRC is is directly accountable to the Board and has non-executive responsibility for oversight and advice to the board on significant high-level risk exposure and resource allocation related matters including, inter alia:

i. Reviewing the firm's Risk Inventory and Risk Appetite Statement;
ii. Reviewing current and future risk strategy, including capital and liquidity management strategy
iii. Reviewing the Risk Management Framework;
iv. Approving policy for credit, market and operational risk; capital, funding and liquidity risks; and other material risk types where applicable;
v. Reviewing the policy for the allocation of financial resources within DCME;
vi. Monitoring and reviewing the adequacy of DCME's risk and resource allocation policy in relation to current and forward-looking risk exposures;
vii. Embedding and maintenance of a supportive culture in relation to the management of risk.

Audit Committee

The Audit Committee's aim is to monitor and review the adequacy of DCME's (including its branches, representative offices and subsidiary) financial, risk management and other internal control systems.

In addition, the Audit Committee monitors and reviews the accounting policies, the integrity of its financial statements, and external reporting responsibilities, and to oversee the relationship with its external auditors.

The Audit Committee has delegated authority from the DCME Board of Directors to carry out these responsibilities and to oversee executive management of the specific topics.

Remuneration Committee

The Remuneration Committee has responsibility for the remuneration policies and practices across DCME in order to ensure that such policies and practices:

i. are operated in line with DCME's business strategy and objectives, corporate culture and values and long-term interests;
ii. are consistent with and promote effective risk management and are aligned with UK legal and regulatory requirements;
iii. do not encourage risk taking which exceeds the tolerated level of risks within DCME; and
iv. encourage and reward high standards of personal and professional conduct.

Nominations Committee

The role of the Nomination Committee is to develop and maintain a formal, rigorous and transparent procedure for making recommendations on appointments and reappointments to the Board.

In addition, it is responsible for recommending appointments to the Boards of material subsidiaries in the Group, and reviewing the succession plans for the executive and non-executive directors.

Committee's responsibility and authority covers the Firm and its direct and indirect subsidiaries.

2.2.2 Executive Committees and other Committees

Executive Committee (ExCo)

The purpose of the Executive Committee is to assist the Chief Executive in the performance of his/her duties within the bounds of their authority, including:

i. the development and implementation of strategy, operational plans, policies, procedures and budgets;
ii. the monitoring of operating and financial performance;
iii. the assessment and control of risk; and
iv. the prioritisation and allocation of resources.

ExCo Sub-Committees

Principal Investments Management Committee (PIMC)

The PIMC is responsible for:

i. Establishing the strategic direction of the Principal Investments business
ii. Evaluating new investment submissions
iii. Assessing material changes to existing loans
iv. Monitoring business and investment performance against budget, risk parameters, risk appetite etc.; and
v. Ensuring effective operation of the business.

Front Office Management Committee

The Front Office Management Committee is designed to assist DCME's CEO with:

i. Managing the overall operation of DCME's Front Office business, ensuring that activities are prioritised appropriately to reflect and support the business plan.
ii. Monitoring Front Office performance against the business plan.

iii. Considering new business opportunities.
iv. Monitoring Front Office performance in the context of risk management, regulatory and conduct requirements, including the effective utilisation of the control tower.
v. All other issues pertinent to the effective running of DCME's Front Office

Risk Asset Liability Committee (RALCO)

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

RALCO oversees the framework for the management and control of market, credit and liquidity risk for DCME and its branch offices. (Operational risk falls under the remit of the Operational Risk Committee (ORC)). RALCO assesses proposed transactions from a market, credit, liquidity and reputational risk perspective.

RALCO makes policy, strategy and other recommendations to the CEO, via the Executive Committee, and Board, via the Board Risk Committee.

RALCO Sub-Committees

New Product Approval Committee (NPA)

The New Product Approval Committee ensures that there is a clearly defined approval process for the evaluation of new products and businesses, and that these are implemented after due consideration of the risks involved and the establishment of an adequate control environment. Where new products involve other DCME entities, the Committee will require confirmation that a similarly approved NPA has been signed off.

Underwriting Committee

The Underwriting Committee assesses the risk of proposed transactions from a market, credit, liquidity and reputational risk perspective.

The committee retains responsibility for 'special transactions' that carry non-standard features and risks.

For all transactions for which UWC approval is sought, the Committee must be satisfied that:

i. The risks of the transaction are understood and will be managed appropriately.
ii. The transaction is in keeping with DCME's risk appetite and within risk limits.
iii. The business rationale is understood and projected returns are compatible with the risks.

Stress Testing Focus Group

The Stress Testing Focus Group is comprised of members of the Risk Management functions, Finance and Regulatory Department. It meets to review the stress testing approach operated by DCME, and recommends any changes or actions for approval at RALCO.

People, Conduct and Culture Committee (PCC)

The PCC is a sub-committee of the ExCo with responsibility for oversight of matters relating to DCME's people, conduct and culture. The role of the Committee is to support the Executive in promoting and embedding its collective vision of DCME's purpose, values, culture and behaviors. The Committee will provide regular reporting to the DCME Board of Directors, Board Committees and Executive Committee.

Operational Risk Committee (ORC)

The ORC is responsible for overseeing the establishment of a sound operational risk management framework within DCME and monitoring the operational risk profile of the firm.

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

ORC Sub-Committee

Health & Safety Committee

The Health & Safety Committee supports the Executive Team in the discharge of their health and safety responsibilities. The main aim is to oversee the health, safety and wellbeing issues of the company and monitor the implementation of the company's health and safety policy.

Operations and Technology Committee (OpTeCo)

The OpTeCo acts as the COO's senior committee for operations and technology functions. The Committee is tasked with overseeing the operations of the following support areas: Technology, Operations, CPMO and Facilities. The Committee has the objective of assisting the COO with the task of overseeing these areas of responsibility in terms of establishing plans, monitoring implementation and resolving issues.

Legal and Compliance Committee (LCC)

The Legal and Compliance Committee is responsible for providing oversight of DCME's legal and regulatory obligations and the legal and compliance framework put in place to help ensure they are met.

LCC Sub-Committee

Financial Crime Committee

The Financial Crime Committee is responsible for:

i. Providing oversight of DCME's financial crime obligations and the robustness of the preventative and detective control framework implemented to ensure they are met.
ii. Receiving reports on the development and operation of systems and controls designed to control, identify and report financial crime activity.
iii. Receiving reports on financial crime issues including realised incidents and 'near misses'
iv. Ensuring action points to enhance the financial crime framework are distributed and tracked to completion.

2.3 Additional Governance arrangements

Please refer to the Annual report and financial statements for the year ended 31st March 2020 for committee membership of Board members.

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

Under the CRD IV, the Firm (classified as 'significant'[1]) is required to have additional governance arrangements in place to support their risk management framework (see the list of the requirements in scope below)

Figure 3: Requirements - additional governance arrangements

Requirement	CRD IV Article	FCA Handbook ref
Board Risk Committee composed exclusively of non-executive directors (NEDs)	76	IFPRU 1.2.1G (1) & SYSC 7.1.18R
Board Nominations Committee composed exclusively of NEDs	88	IFPRU 1.2.1G (2) & SYSC 4.3A.8R
Board Remuneration Committee composed exclusively of NEDs	95	IFPRU 1.2.1G (4) & SYSC 19A.3.12R
Head of the risk management function has direct access to the board*	76(5)	SYSC 7.1.21R
Head of the risk management function cannot be removed without the approval of the board *	76(5)	SYSC 7.1.22R
A separate Chair and CEO of the board *	88(1e)	SYSC 4.3A.2R

* These three requirements apply to all IFPRU investment firms not just those classified as significant.

The Firm has ensured the structures to support the requirements are in place in order to allow the FCA to focus on the effectiveness of the governance arrangements rather than their form.

1. The chairperson of the Board of an institution must not simultaneously carry out the functions of a Chief Executive Officer within the same institution; therefore the Firm has appointed a separate Chair (Douglas van den Aardweg) and CEO (Keith Meekins) of the Board.

2. Board risk, Nominations and Remuneration committees.

- As a significant IFPRU firm, the Firm has these three committees in place at the relevant entity level.
- These committees are solely comprised of non-executives.
- The Firm has not combined the risk and audit committee. This is not permitted for significant IFPRU firms (see SYSC 7.1.18).

[1] The requirements apply to firms defined as "significant IFPRU firms" in IFPRU 1.2.3R; the FCA designed the thresholds to capture 66% of the overall impact of IFPRU investment firms measured by firm's assets, liabilities, fee income, client assets and client money. See Consultation Paper CP13/6 (Chapter 5) and Policy Statement PS13/10.

2.4 Three Lines of Defence

DCME's Risk Management Framework is based upon a three lines of defence model. The implementation of the three lines of defence is supported by the firm's overall corporate governance arrangements, which establish a clear organisational structure and allocation of responsibilities for risk management.

- First line of defence (1LoD) – this refers to those roles in the firm whose activities generate risks, whether financial or non-financial. This describes the controls the organisation has in place to deal with day-to-day business; the controls are owned by the "front-line" business divisions and control functions. They own the processes and risks and are responsible for ensuring that appropriate controls are in place.

- Second line of defence (2LoD) – this refers to the risk type controller roles in the firm who facilitate the implementation of a sound risk management framework throughout the organization. The 2LoD defines the risk appetite, risk management and control standards for their respective risk type, and independently oversees and challenges the risk taking and risk management activities of the 1LoD. These functions report independently of the first line of defence and review the management of risk in relation to the particular risk appetite of the business, as determined by the Board;

- Third line of defence 3(LoD) – this refers to the Internal Audit function which is accountable for providing independent and objective assurance on the adequacy of the design and effectiveness of the systems of internal control and risk management. Internal Audit provide the independent assurance to the Board Audit Committee, in relation to the effectiveness of the first and second lines of defence. The three lines of defence model ensures clear delineation of responsibilities between day-to-day operations, independent monitoring and oversight, and assurance over the risk management framework and is designed in accordance with COSO/IIA guidelines.

3 Significant Risks

To ensure the effective day-to-day monitoring and controlling of risk within DCME, the firm has established processes for identifying, assessing, treating, monitoring and communicating risks which ensure that material risks and associated risk concentrations can be identified, assessed, treated, monitored and communicated.

The approaches, tools and methodologies used by DCME's second line of defence functions to execute their responsibilities in relation to identifying, measuring, monitoring, controlling/mitigating and reporting of risk exposures are reviewed regularly to ensure that they remain appropriate for the firm's size, complexity and risk profile.

Risks are assessed both individually and on a consolidated basis including assessment of material risk concentrations. The approaches to identifying, assessing, treating, monitoring and communicating individual risk types are set out in greater detail in risk-specific policy and procedural documentation.

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

3.1 Market Risk

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

Risk is actively managed or hedged by the business within the policies and procedures set by the Risk Management Division and within the trading book policy statement. Regular meetings are held between risk management personnel and desk heads from the front office divisions as part of its active management of the Firm's exposure to risk.

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

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

Front office staff and senior management receive daily reports identifying risk metrics and risk limit utilitiastion.

Breaches of the pre-agreed Group limits are reported immediately to the Parent and any extensions agreed upon are ratified where appropriate by RALCO.

Market risk is controlled and monitored using a range of risk management tools including VaR, sensitivity measures such as basis point value (bpv) and scenario and stress testing. A variety of limits are set locally within rules set by the Parent – by instrument rating, issuer, geographic location, and both cumulative and aged holdings. External ratings, where available, are applied to securities based on that security or issuer, where these are not available, an internal issuer rating would be applied.

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

All material market risks are monitored on a daily basis and all trading book positions are subjected to VaR.
VaR is measured using an historic simulation methodology at a 99% confirdence level, with a 1-day holding period and a 560 day observation period. The calculations are made using an internal model and are checked regularly for reasonableness by the Market Risk department, using techniques such as back testing and profit and loss attribution. Additionally, stress testing and scenario analysis techniques are used to assess the impact

of extreme but plausible events. The scenarios are discussed and agreed regularly by the Stress Testing Focus Group (a subcommittee of RALCO) and subject to approval by DCME Board.

Figure 4: VaR analysis

	Year to Mar 2020 £'000	Year to Mar 2019 £'000
Year-end	849	1,094
Average	996	1,195
Maximum	1441	1,585
Minimum	571	856

The VaR numbers shown incorporate full diversification offsets between businesses.

VaR is primarily attributable to the firm's main risk-taking businesses, Fixed Income and Convertible Bonds.

The figures for 2020 have on average shown a reducing trend especially in the second half of the year as the Fixed Income business adjusted its focus towards higher quality rated assets and the International Convertible Bond business reduced inventory and the composition of the portfolio changed away from vega sensitive bonds. It should be noted that due to the volatility observed in march 2020, the VaR figure for 2021 (and beyond) will be significantly higher than those above. VaR usage within the Equity business remains negligible.

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

Figure 5: Approach for market risk

Risk	Method
Equity Specific Risk	Standard
Equity General Market Risk	Standard
Equity Non-Delta Risk	Standard
Interest Rate Specific Risk	Standard
Interest Rate General Market Risk	Standard / Maturity-based method
Foreign Exchange Risk	Standard / lower rate for closely correlated currencies
C I U	Standard

3.2 Credit Risk

Credit risk is defined as the potential financial loss arising from a trading counterparty or issuer of financial instruments we hold failing to meet its financial obligations to DCME either due to a default or deterioration in credit quality. Credit Risk is also present in the form of Nostro balances, which are deposited in treasury accounts at acceptable banking entities.

Counterparty Risk manifests itself as the risk that a trading counterparty may default before completing the satisfactory settlement of transactions ['settlement risk'], exposing the Firm to potential losses arising from cost of replacement and liquidation risks. DCME also has counterparty risk from lending commitments made via its Principal Investments business, which focuses on property finance with conservative advance rates and first charge over security.

Issuer Risk represents the Firm's net long holdings in securities where an event of default creates a loss in the Firm's inventory through the issuer's inability to repay its obligation.

Credit Risk Management & Evaluation

DCME's Board sanctions the firm's Credit Risk Framework and associated risk appetite measures to control the size and nature of the company's total credit exposure, with oversight of Credit Risk performed by DCME's RALCO committee.

Credit Risk Management is an independent second line of defence function that reports into DCME's Chief Risk Officer. It is responsible for the day-to-day oversight and implementation of the Credit Risk Framework specifically the identification, assessment, management, monitoring and reporting of Credit Risk across DCME and its subsidiaries.

As prescribed in the Credit Risk Framework, Credit Risk Management performs credit reviews, which include initial and ongoing analysis of DCME's counterparties. A credit review is an independent qualitative and quantitative analysis of the capacity and willingness of a counterparty to meet its financial obligations, resulting in an internal credit rating ("ICR"). In regards to principal investment lending transactions, DCME evaluates its exposure in comparison to its recovery prospects from security collateral.

Credit Risk Measures & Limits

The firm measures credit risk based on the current and potential future loss arising from a counterparty's inability to fulfil its obligations to DCME. Current exposure reflects the amount currently owed, taking into account where available netting and collateral arrangements. Potential future exposure represents the firm's estimate of the additional exposure that could arise over the life of a transaction.

Credit Risk Management (through delegated authority from Board) sets limits at individual counterparty and per issuer (legal entity) level and for groups of connected counterparties consistent with the firm's risk appetite statement. Sizing of limits is influenced by the specific business being targeted by the Firm and the entities ICR.

DCME's limit framework applies consideration to the firm's Risk Appetite Statement and adherence to the FCA's Large Exposure Regime.

Adherence to the limit structure is the responsibility of the front office business areas as part of their 1LOD responsibilities. Credit risk limits are monitored by Credit Risk Management, which as a 2LOD function is responsible for identifying and escalating to senior management, on a timely basis, instances where limits have been exceeded. Breaches also form part of the Firm's Conduct Risk control framework.

Credit Exposures

The counterparty portfolio continues to be predominantly investment grade banks, financial institutions, fund managers, funds and large corporates. As at 31st March 2020, 89% of the credit limits extended (2019: 88%) were to investment grade counterparties and 11% (2019: 12%) were to sub-investment grade rated counterparties. Per Issuer exposure to investment grade issuers was 99% of total issuer exposure.
The Firm did not suffer any counterparty losses in the period from 29/03/2019 to 31/03/2020.

Wrong Way Risk Exposure

DCME seeks to minimise correlated exposures which can result in "wrong-way risk". Wrong-way risk is typically categorised as either specific or general wrong-way risk.

Specific wrong-way risk arises when our counterparty and the issuer of a particular asset are the same entity or affiliated. This can also arise when we receive collateral supporting a transaction which is issued by the same counterparty or its affiliates. Specific wrong-way risk is explicitly prohibited in accordance with DCME'S credit risk policy.

General wrong-way risk arises when the counterparty's probability of default is correlated, for non-specific reasons, with the market or macroeconomic factors that affect the value of the counterparty's trades. E.g. a German bank issuing Bunds.

Credit Risk Mitigation

DCME's utilises several methods to mitigate their Credit Risk Exposure. These include but are not limited to: netting agreements, collateral agreements, guarantees and credit derivatives.

DCME adopts the following approaches for calculating its Pillar 1 regulatory capital requirements in relation to counterparty and credit risk.

Figure 6: Approach and rules for counterparty and credit risk

Area	Approach	Rules
Credit Risk	Standardised approach	Part Three, Title II, Chapter 2. Art 112
CVA	Standardised method	Title VI Art 384
Counterparty Risk- Derivatives	Mark – To – Market Method	Part Three, Title II, Chapter 6 (Art 274)
Counterparty Risk- CDS	Items in the trading book	Part Three, Title II, Chapter 6 (Art 299)
Credit risk Mitigation	Financial Collateral Comprehensive Method	Part Three, Title II, Chapter 4 (Art 223)
	Supervisory volatility adjustment	Art 224 Art 227
Derivatives Netting	Master netting agreement	Art 298
Settlement Risk - DVP	Standard	Art 378
Settlement Risk - FOP	Standard	Art 379
Long settlement trades	Standard	Art 272(2)
Large Exposures	Standard	Part Four (Art 390-405)
ECAI Credit Ratings	Standard	Art 138 & Art 139
CCP Exposures - DFC	Standard	Art 308
CCP Exposures - Trades	Standard	Art 306
CCP-related transactions	Standard	Art 305
High Risk items	Standardised approach	Art 128
Large Exposures Guarantees & substitution	Standardised approach	Art 403

3.3 Liquidity Risk

Liquidity risk is the risk that the Firm is unable to meet its financial obligations as they fall due or can only do so at excessive costs, leading to an inability to support normal business activity and meet liquidity regulatory requirements.

In considering DCME's business plans, the Board will review the Firm's projected funding and liquidity plan over a three year horizon to ensure that the Firm has access to adequate and appropriate financial resources to support those plans.

The Board (via the CEO) delegates certain responsibility for operational oversight and management of Risk and Treasury matters to the Firm's Risk and Asset Liability Committee (RALCO). This senior executive-level committee is responsible for overseeing the framework for the management and control of liquidity risk, including providing feedback to the Board to allow it to discharge its obligations.

RALCO allocates funding limits by business area, always ensuring that such limits can be accommodated within the overall funding capacity the Firm. The Firm's funding sources primarily comprise of share capital and reserves, unsecured funding line from Daiwa Securities Group and secured funding from a range of professional counterparts. In addition, the Firm has access to a range of wholesale, unsecured credit facilities from local lenders. These facilities are accessed periodically as part of the Firm's operational liquidity management process.

The Regulatory Department within the Finance Division undertake daily reporting of the Firm's funding and liquidity position. Liquidity Risk Management, within the Risk department, undertake the review and monitoring of the Firm's funding and liquidity position; and it is tasked with overall responsibility for establishing and maintaining DCME's funding and liquidity risk framework, developing Treasury's funds transfer pricing policy and assuming day-to-day responsibilities for monitoring adherence to the firm's liquidity risk appetite. The Treasury section provides direct market interface in funding DCME's operations as well as managing the Firm's ring-fenced Liquid Asset Buffer (LAB portfolio).

This portfolio consists of high quality unencumbered bonds issued by core European sovereigns and the central governments of the USA, UK, Australia and Japan. Treasury operates as a cost centre, with all funding and liquidity costs charged to business units in proportion to their funding usage and the liquidity characteristics of their balance sheets. The cornerstone of the firm's quantitative liquidity control is a balance sheet cash flow gap model, appropriately segmented, firstly on a contractual basis and then with behavioural overlays applied to assess the Firm's liquidity position in both normal market conditions and under various stress scenarios.

Stress test analysis forms the basis by which the Firm defines its liquidity risk appetite. This is currently defined in terms of ensuring the Firm survives on a standalone basis for at least one year under a severe market-wide liquidity stress and for at least one month under a severe combined liquidity stress (market-wide and idiosyncratic stress scenario).

Key aspects of the firm's stress testing parameters include, but are not limited to, assessing:

- Liquidity impact from incremental margin calls;
- The firm's resilience during periods where access to wholesale funding is severely or completely curtailed;
- Liquidity impact as a result of multiple downgrades to the parent's credit rating; and
- Increased intra-day liquidity requirements due to issues such as settlement failure, cessation of intra-day credit at clearers and intra-day margin calls.

Were the Firm to conclude from either quantitative stress testing or qualitative liquidity/funding controls that there was a potential liquidity issue developing, it would invoke its Board approved Contingency Funding Plan which outlines actions that should be undertaken to restore the firm's liquidity position to within the Board's risk tolerance.

From a regulatory viewpoint, DCME is governed by the FCA's prudential liquidity regime in the UK. The FCA requires the Firm to undertake an annual assessment into the adequacy of its liquidity resources and liquidity risk management framework. This self-assessment process is termed an ILAA and it is subject to a SLRP review that is conducted by the FCA. The SLRP leads to ILG being conferred on the Firm that requires the Firm to adhere to minimum quantitative standards on liquidity. The Firm holds a significant LAB which ensures that it adheres to the quantitative regulatory liquidity standards at all times.

3.4 Operational Risk

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

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

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

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

- Monthly monitoring and reporting of KRIs which are established to monitor the Firm's key operational risks and identify potential issues at an early stage;

- Performance of risk and control self-assessments for assessing possible effects of potential risk sources and the effectiveness of existing controls for reducing risks. Where significant risks are identified, mitigation plans are defined where possible and implementation monitored by ORM;

- Capturing, assessing and reporting of operational risk incidents, including loss events. This procedure helps to identify where process improvements may be required to reduce the likelihood of a recurrence;

- Focussed risk assessments of specific functions or processes in conjunction with the affected specialist units; and

- Co-ordination of the new product approval process, to ensure identification of risks which may be associated with new products or business activities and the establishment of appropriate mitigating controls.

In addition to the above, specialist support functions also provide 2LOD oversight and expertise aligned to the operational risk taxonomy as follows:

- Compliance (internal fraud, external fraud, financial crime, market conduct, client-focused, regulatory compliance and information security risks);

- MD Office (data management and project risks);

- Finance (financial accounting and reporting, tax and vendor risks);

- Human Resources (people/employment practices and facilities/workplace safety risks);

- Legal (legal and governance risks);

- Operations (transaction processing risks);

- Risk Management (business continuity and model risks); and

- Technology (technology and cyber risks).

A project is currently underway to significantly enhance DCME's operational risk framework, including the following improvements:

- As mentioned above, an operational risk taxonomy has been developed to ensure full coverage and oversight of all operational risks within DCME;

- Continuing to enhance and embed 3LOD model across the Firm;

- All areas across the Firm have appointed a dedicated risk & control manager (RCM) with accompanying job descriptions created;

- ORM have adopted a coverage model which ensures a named coverage manager for all business and support functions is in place;

- An engagement model is being put in place to ensure an appropriate level of engagement takes place between the 1LOD and 2LOD ORM function.

ORM presents a summary of the Firm's key operational risks, monitoring activities and operational risk incidents to the Operational Risk Committee. ORM also provides regular reports to the Board, BRC, ExCo and Audit Committee.

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

3.5 Other Risks

In pursuing its business strategy, the Firm is exposed to a population risks. Of these other risks not considered elsewhere business, group and reputational risk are assessed as material.

The annual business planning process typically covers a three-year cycle and as part of it, arising risks are identified and integrated into the overall risk management framework. Business heads are asked to identify vulnerabilities to the plan arising from the external business environment. The annual business plan is reviewed at the half year point and, if necessary, revised. Risks to the business are discussed at RALCO every month.

Operating as part of the Daiwa Group brings its own risks. The relationships and financial stability of other entities in the same group or the group as a whole may impact the Firm. Such scenarios are typically embedded within the operations of the Firm and taken into consideration through alignment with Group strategy and limits frameworks. As such they are assessed and managed within the affected risk areas.

The Firm considers that reputational damage is most likely to arise from matters of poor conduct and actively promotes a high standard of behaviour through training, conduct ambassadors and a code of conduct, the "Daiwa Spirit". Any breach of policy and limits is assessed for poor conduct and any such incidents are taken into consideration during remuneration.

The strengthening of the overall risk management process also involves the identification, understanding and monitoring of so called emerging risks, i.e. risks characterised by components that are partly unknown but considered significant, even though their effects are uncertain and cannot yet be fully integrated into the more consolidated risk management frameworks. These risks could have a significant impact on the Firm's financial position or business model in the medium term.

The identification of these types of risks derives primarily from the continuous analysis of the external environment and the main findings gathered by the risk management function during the identification and assessment processes, but also involves comparison with peers and with market best practices, as well as with the Firm's other control/business functions. In this regard, the Firm pays particular attention to risks associated with climate change.

4 Capital Resources

The table below is based on Basel Committee on Banking Supervision (BCBS) Basel III phase-in rules and it provides an overview of the consolidated prudential regulatory metrics.

Table 1 - KM1: Key Metrics

Available capital (amounts)	**31-Mar-20 £'000**	**29-Mar-19 £'000**
Common Equity Tier 1 (CET1)	428,656	462,181
Tier 1	428,656	462,181
Total capital	428,656	462,181
Risk-weighted assets (amounts)		
Total risk-weighted assets (RWA)	1,266,623	1,301,339
Risk-based capital ratios as a percentage of RWA		
Common Equity Tier 1 ratio (%)	33.8%	35.5%
Tier 1 ratio (%)	33.8%	35.5%
Total capital ratio (%)	33.8%	35.5%
Additional CET1 buffer requirements as a percentage of RWA		
Capital conservation buffer requirement (2.5% from 2019) (%)	2.5%	2.5%
Countercyclical buffer (CCyB) requirement (%)	0.0147%	0.30%
Total of bank CET1 specific buffer requirements (%)	2.51%	2.80%
CET1 available after meeting the Firm's minimum capital requirements (%)	25.84%	27.52%
Leverage ratio		
Leverage ratio exposure measure	10,172,674	9,377,073
Leverage ratio (%)	4.21%	4.93%

Key changes in 2020:

- Total Capital was made up of £428.6 million of Tier 1 capital which reduced by £33.5 million since 2019. See tables 2 table 3..
- RWA decreased by £34.7 million, of which £32 million related to market risk. See table 7.
- CCyB ratio significantly reduced because of changes in the UK CCyB rate to 0% as a result of COVID-19. See table 8 and 9.
- Leverage ratio decreased as a result of lower Tier 1 capital and higher total exposures. See table 5.

4.1 Capital composition

The Firm's capital resources are exclusively CET1 capital. At 31 March 2020 and during the year, the Firm complied with all externally imposed capital requirements and all gearing rules in accordance with the rules set out in CRR. Tier 1 capital consisted of fully issued ordinary shares, satisfying all the criteria for a Tier 1 instrument as outlined in the and CRR, and audited reserves.

Table 2 - CC1: Composition of regulatory capital

Own funds disclosure template - £'000		31-Mar-20	29-Mar-19
Common Equity Tier 1 (CET1) capital: instruments and reserves			
1	Capital instruments and the related share premium accounts	732,121	732,121
1a	of which: Instrument type 1	732,121	732,121
1b	of which: Instrument type 2	0	0
1c	of which: Instrument type 3	0	0
2	Retained earnings	-356,539	-319,949
3	Other reserves)	61,299	60,840
3a	Funds for general banking risk	0	0
4	Amount of qualifying items referred to in Article 484 (3) and the related share premium accounts subject to phase out from CET1	0	0
5	Minority interests (amount allowed in consolidated CET1)	0	0
5a	Independently reviewed interim profits net of any foreseeable charge or dividend	0	0
6	**Common Equity Tier 1 (CET1) capital before regulatory adjustments**	**436,881**	**473,012**
Common Equity Tier 1 (CET1) capital: regulatory adjustments			
7	Additional value adjustments (negative amount)	-1,815	-2,610
8	Intangible assets (net of related tax liability) (negative amount, incl Goodwill)	-6,410	-8,221
28	Total regulatory adjustments to Common Equity Tier 1 (CET1)	-8,225	-10,831
29	**Common Equity Tier 1 (CET1) capital**	**428,656**	**462,181**
Additional Tier 1 (AT1) capital: instruments			
36	**Additional Tier 1 (AT1) capital before regulatory adjustments**	**0**	**0**
Additional Tier 1 (AT1) capital: regulatory adjustments			
43	Total regulatory adjustments to Additional Tier 1 (AT1) capital	0	0
44	Additional Tier 1 (AT1) capital	0	0
45	**Tier 1 capital (T1 = CET1 + AT1)**	**428,656**	**462,181**
Tier 2 (T2) capital: instruments and provisions			
51	**Tier 2 (T2) capital before regulatory adjustments**		**0**
Tier 2 (T2) capital: regulatory adjustments			
57	57 Total regulatory adjustments to Tier 2 (T2) capital	0	0
58	**58 Tier 2 (T2) capital**	**0**	**0**
59	**59 Total capital (TC = T1 + T2)**	**428,656**	**462,181**
60	**60 Total risk weighted assets**	**1,266,623**	**1,301,339**
Capital ratios and buffers			
61	Common Equity Tier 1 (as a percentage of total risk exposure amount)	33.8%	35.5%
62	Tier 1 (as a percentage of total risk exposure amount)	33.8%	35.5%
63	Total capital (as a percentage of total risk exposure amount)	33.8%	35.5%
64	Institution specific buffer requirement (CET1 requirement in accordance with article 92 (1) (a) plus capital conservation and countercyclical buffer requirements, plus systemic risk buffer, plus systemically important institution buffer expressed as a percentage of risk exposure amount)	7.01%	7.30%
65	of which: capital conservation buffer requirement	2.50%	2.5%
66	of which: countercyclical buffer requirement	0.0147%	0.30%
67	of which: systemic risk buffer requirement	0	0%
67a	of which: Global Systemically Important Institution (G-SII) or Other Systemically Important Institution (O-SII) buffer	0	0%
68	**Common Equity Tier 1 available to meet buffers (as a percentage of risk exposure amount)**	**25.84%**	**27.52%**

The table below provides information on the CET 1, AT1 and Tier 2 instruments issued by the Firm per Article 3 of commission regulation EU no. 1423/2013. There were no changes since last year.

Table 3 - Capital instruments' main features

Capital instruments main features template (1)		
1	Issuer	Daiwa Capital Markets Europe Limited
2	Unique identifier (e.g. CUSIP, ISIN or Bloomberg identifier for private placement)	N/A
3	Governing law(s) of the instrument	UK
	Regulatory treatment	
4	Transitional CRR rules	Common Equity Tier 1
5	Post-transitional CRR rules	Common Equity Tier 1
6	Eligible at solo/(sub-)consolidated/ solo&(sub-)consolidated	Solo
7	Instrument type (types to be specified by each jurisdiction)	Ordinary shares
8	Amount recognised in regulatory capital (Currency in million, as of most recent reporting date)	GBP 732m
9	Nominal amount of instrument	GBP 732m
9a	Issue price	GBP 1
9b	Redemption price	GBP 1
10	Accounting classification	Shareholders' equity
11	Original date of issuance	Mar 2008: GBP109m Jun 2009: GBP98m Nov 2010: GBP125m Feb 2011:GBP50m Mar 2011: GBP500m Sep 2012: GBP(150m) (reduction)
12	Perpetual or dated	Perpetual
13	Original maturity date	No maturity
14	Issuer call subject to prior supervisory approval	No
15	Optional call date, contingent call dates and redemption amount	N/A
16	Subsequent call dates, if applicable	N/A
	Coupons / dividends	
17	Fixed or floating dividend/coupon	Floating
18	Coupon rate and any related index	N/A
19	Existence of a dividend stopper	No
20 a	Fully discretionary, partially discretionary or mandatory (in terms of timing)	Fully discretionary
20 b	Fully discretionary, partially discretionary or mandatory (in terms of amount)	Fully discretionary
21	Existence of step up or other incentive to redeem	No
22	Noncumulative or cumulative	Noncumulative
23	Convertible or non-convertible	Nonconvertible
24	If convertible, conversion trigger(s)	N/A
25	If convertible, fully or partially	N/A
26	If convertible, conversion rate	N/A
27	If convertible, mandatory or optional conversion	N/A
28	If convertible, specify instrument type convertible into	N/A
29	If convertible, specify issuer of instrument it converts into	N/A
30	Write-down features	N/A
31	If write-down, write-down trigger(s)	N/A
32	If write-down, full or partial	N/A
33	If write-down, permanent or temporary	N/A
34	If temporary write-down, description of write-up mechanism	N/A
35	Position in subordination hierarchy in liquidation (specify instrument type immediately senior to instrument)	N/A
36	Non-compliant transitioned features	No
37	If yes, specify non-compliant features	N/A

Table 4 - Balance Sheet Reconciliation of Own Funds (Solo and Consolidated)

	Financial Statements note (Solo)	DCME solo entity	Adjustments	Consolidated for prudential purposes
Paid up capital instruments	25	732,121	-	732,121
Previous years retained earnings	-	-276,829	-43,120	-319,949
Other reserves	-	15,246	46,052	61,299
Capital and reserves before deductions		**470,538**	**2,933**	**473,471**
Prudent Valuation adjustments *	30	-1,815	-	-1,815
Goodwill accounted for as intangible asset	10	-	-6,003	-6,003
Intangible assets	10	-	-408	-408
Material Holdings	30	-30,936	30,936	
Year To Date Losses	-	-34,013	-2,577	-36,590
Common Equity Tier One Capital (CET1)		**403,774**	**24,882**	**428,656**

** the prudent valuation adjustment is made in accordance with Article 105 of the Capital Requirements Regulation EU/575/2013. This adjustment is not made in the financial statements.*

There are no current or foreseen material practical or legal impediment to the prompt transfer of own funds or repayment of liabilities among the parent undertaking and its subsidiaries.

4.2 Leverage ratio

CRD IV requires firms to calculate a non-risk based Leverage Ratio, to supplement risk-based capital requirements. The leverage ratio measures the relationship between the Firm's capital resources and total assets, as well as certain off balance sheet exposures. The Leverage Ratio is calculated as Tier 1 capital/total exposures, defined as:

• Tier 1 capital: comprising CET 1 and/or Additional Tier 1 (AT1) instruments.

• Total exposures: it is the sum of the following exposures: 1) on-balance sheet exposures; 2) derivative exposures; 3) securities financing transaction exposure; and 4) off-balance sheet items.

The Firm does not publish financial statements at the level of consolidation presented in Pillar 3 disclosures. Under Article 4 of the Implementing Technical Standards on disclosure of the leverage ratio the table "LRSum: Summary Reconciliation of Accounting Assets and Leverage Ratio exposures" is not completed.

Table 5 - LRCom: Leverage Ratio Common Disclosure

CRR leverage ratio exposures £'000		
On-balance sheet exposures (excluding derivatives and SFTs)		
1	On-balance sheet items (excluding derivatives and SFTs, but including collateral)	1,984,061
2	Asset amounts deducted in determining Tier 1 capital	-20,080
3	**Total on-balance sheet exposures (excluding derivatives and SFTs) (sum of lines 1 and 2)**	**1,963,981**
Derivative exposures		
4	Replacement cost associated with all derivatives transactions (ie net of eligible cash variation margin)	11,311
5	Add-on amounts for PFE associated with all derivatives transactions (mark-to-market method)	219,185
6	*Security trading positions*	-
7	*On balance sheet exposures subject to credit risk*	-
8	*Settlement Risk:*	-
9	*empty set in the EU*	-
10	*empty set in the EU*	-
11	**Total derivative exposures (sum of lines 4 to 10)**	**230,496**
Securities financing transaction exposures		
12	Gross SFT assets (with no recognition of netting), after adjusting for sales accounting transactions	7,903,247
13	(Netted amounts of cash payables and cash receivables of gross SFT assets)	-53,920
14	Counterparty credit risk exposure for SFT assets	119,251
15	Agent transaction exposures	-
16	**Total securities financing transaction exposures (sum of lines 12 to 15a)**	**7,968,578**
Off-balance sheet exposures		
19	**Off-balance sheet exposures**	**9,619**
Exempted exposures in accordance with CRR Article 429 (7) and (14) (on and off balance sheet)		
Capital and Total Exposures		
20	**Tier 1 capital**	**428,656**
21	**Total Exposures (sum of lines 3, 11, 16, 19 and 21a)**	**10,172,674**
Leverage Ratios		
22	**End of quarter leverage ratio**	**4.21%**

The leverage ratio decreased from 4.94% (Mar 2019) to 4.21% (Mar 2020). This was due to a combination of the increase of the SFT exposures (£1.3bn) and the decrease of Tier 1 capital (£33.5m).

The risk of excessive leverage in Daiwa Capital Markets Europe Limited, as an investment firm, is largely managed through control and monitoring of balance sheet exposures, since the amount of Tier 1 capital is relatively inflexible on a short term basis. The primary contribution to balance sheets assets comes from reverse repurchase agreements, particularly matched book repurchase trading, where securities are borrowed from one counterparty and lent to another. Daily monitoring and control processes have been established to ensure reverse repurchase assets remain within prescribed levels. Additional monitoring is carried out on the overall balance sheet size.

Table 6 - LRSpl: Split-up of on balance sheet exposures (excluding derivatives and SFTs)

CRR leverage ratio exposures		£'000
EU-1	Total on-balance sheet exposures (excluding derivatives and SFTs), of which:	2,274,443
EU-2	trading book exposures	1,511,169
EU-3	Banking book exposures, of which:	763,273
EU-4	Covered bonds	0
EU-5	Exposures treated as sovereigns	159,454
EU-6	Exposures to regional governments, MDB, international organisations and PSE NOT treated as sovereigns	14
EU-7	Institutions	461,371
EU-8	Secured by mortgages of immovable properties	0
EU-9	Retail exposures	0
EU-10	Corporate	65,462
EU-11	Exposures in default	0
EU-12	Other exposures (eg equity, securitisations, and other non-credit obligation assets)	76,972

5 Capital Requirements

5.1 Minimum capital requirements

Minimum capital requirements are referred to as Pillar 1 requirements. These requirements apply to the credit, market and operational risk generated by the Firm.

Regulatory capital adequacy is measured through three risk-based ratios i.e. CET1, Tier 1 and Total Capital ratios.

The Firm has applied the Standardised Approach to measure credit, market and operational RWAs. Under the approach we calculate our Pillar 1 capital requirement based on 8% of total RWAs. This covers credit risk, operational risk, market risk and counterparty credit risk. The Firm's capital adequacy was in excess of the minimum required by the regulators at all times.

Table 7 - EU OV1: Overview of RWAs

£'000	RWA		Minimum Capital requirements
	2020	2019	2020
Credit risk (excluding counterparty credit risk)	212,777	217,018	17,022
Of which: standardised approach (SA)	212,777	217,018	17,022
Of which: foundation internal ratings-based (F-IRB) approach	-	-	-
Of which: supervisory slotting approach	-	-	-
Of which: advanced internal ratings-based (A-IRB) approach	-	-	-
Counterparty credit risk (CCR)	89,548	86,558	7,164
Of which: Mark-to-market	69,700	67,409	5,576
Of which: Internal Model Method (IMM)	-	-	-
Of which: exposures to central counterparties (CCPs)	999	1,543	80
Of which: credit valuation adjustment	18,849	17,606	1,508
Equity positions under the simple risk weight approach	-	-	-
Equity investments in funds – look-through approach	-	-	-
Equity investments in funds – mandate-based approach	-	-	-
Equity investments in funds – fall-back approach	-	-	-
Settlement risk	1,523	779	122
Securitisation exposures in banking book	-	-	-
Of which: securitisation internal ratings-based approach (SEC-IRBA)	-	-	-
Of which: securitisation external ratings-based approach (SEC-ERBA), including internal assessment approach (IAA)	-	-	-
Of which: securitisation standardised approach (SEC-SA)	-	-	-
Market risk	526,391	558,505	42,111
Of which: standardised approach (SA)	526,391	558,505	42,111
Of which: internal model approaches (IMA)	-	-	-
Capital charge for switch between trading book and banking book	-	-	-
Operational risk	436,385	438,479	34,911
Amounts below the thresholds for deduction (subject to 250% risk weight)	-	-	-
Floor adjustment	-	-	-
Total	**1,266,623**	**1,301,339**	**101,329**

5.2 Capital Adequacy

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

The Firm's RALCO use capital management principles and related policies to define the ICAAP by which the Firm's risk profile is examined to ensure the level of capital:

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

5.3 Capital Buffers

In addition to the minimum capital requirements, CRD IV requires institutions to hold capital buffers that can be utilised to absorb losses in stressed conditions.

5.3.1 Capital conservation buffer ('CCB')

The CCB was designed to ensure that institutions build up capital buffers outside of times of stress that can be drawn upon if required. As at 31 March 2020, the capital conservation buffer level reached a final requirement of 2.5% of RWAs.

5.3.2 Countercyclical capital buffer ('CCyB')

The CCyB requires financial institutions to hold additional capital to reduce the build-up of systemic risk in a credit boom by providing additional loss absorbing capacity and acting as an incentive to limit further credit growth.

The Financial Policy Committee (FPC) is responsible for setting the UK CCyB rate for credit exposures located in the UK.

The geographical distribution of our credit exposures relevant for the calculation of its countercyclical capital buffer is disclosed in the table below.

Table 8 - CCyB: Geographical distribution of credit exposures for calculating of the CCyB

£'000 Breakdown by country:	General credit exposures	Trading book exposures	Own funds requirements			Own funds requirements weights	Counter-cyclical capital buffer rate
	Exposure value for SA	Sum of long and short positions of trading book exposures for SA	for relevant credit exposures – Credit risk	for relevant credit exposures – Market risk	Total		
Hong Kong	-	402	-	6	6	0.02%	1.00%
United Kingdom	124,267	12,118	12,468	148	12,616	36.57%	0.00%
France	937	4,417	75	64	139	0.40%	0.25%
Ireland	101	-	8	-	8	0.02%	1.00%
Luxemburg	16,305	-	1,828	-	1,828	5.30%	0.25%
Other countries with 0% rate	38,712	331,203	2,968	16,935	19,903	57.69%	0%
Total	**180,323**	**348,140**	**17,348**	**17,154**	**34,501**	**100%**	

Table 9 - CCyB: Amount of institution-specific countercyclical capital buffer (figures in £'000s)

	2020	2019
Total risk exposure amount	528,463	690,567
Institution specific countercyclical capital buffer rate	0.0147%	0.3000%
Institution specific countercyclical capital buffer requirement	185.9	3,903

Note: DCME does not use internal models nor engage in securitisations; hence columns 020, 040, 050, 060 and 090 are not applicable and have been omitted from the disclosure template

Key changes since March 2019:

- On 11 March 2020 the Bank of England's three policy committees announced a package of measures aimed at combatting economic disruption from COVID-19 to UK businesses and consumers. The FPC reduced the CCyB rate to 0% of banks' exposures to UK borrowers, with immediate effect. The CCyB rate was previously 1% and, as announced in December 2019, was due to be increased to 2% in December 2020.
- On 16 March 2020 HKMA reduced the CCyB for Hong Kong from 2.0% to 1.0% with immediate effect.
- In light of current developments related to COVID-19, on 2 April 2020 the Central Bank of Ireland and the Banque de France reduced their rates to 0%. Given that the reporting period is 31st March and the changes do not affect the firm significantly (revised CCyB rate would be 0.0134% with a capital requirement of £170.2k), end of March rates have been kept (1% and 0.25%).

6 Credit Risk

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

6.1 Credit risk exposures by exposure classes

The gross credit risk exposure (before credit risk mitigation) for the year 2019 and 2020 and the quaterly average in 2020 are summarised as follows:

Table 10 - EU CRB-B: Total and average credit exposures

£'000	Quarterly 2020 Average Gross Credit Exposures	As at 31 March 2020 Total Gross Credit Exposures	As at 29 March 2019 Total Gross Credit Exposures
Central Governments or Central Banks	460,195	330,445	323,296
Regional Governments/Local Authorities	88,111	419	1,280
Public Sector Entities	-	-	167
Multilateral Development Banks	4	-	3,149
International Organisations	-	-	85
Institutions	15,256,995	15,576,010	12,522,990
Corporates	1,372,867	921,992	1,429,082
Past due items	64	-	334
High-risk categories	71,371	76,263	69,173
Other	696	710	699
Total	**17,250,304**	**16,905,838**	**14,350,255**

The geographical distribution of these exposures is as follows:

Table 11 - EU CRB-C: Geographical breakdown of exposures

As at 31 March 2020

£'000	UK	Japan	Europe	North America	Rest of the World	Grand Total
Central Governments or Central Banks	1,122	-	329,324	-	-	**330,445**
Regional Gov/Local Authorities	-	-	419	-	-	**419**
Institutions	1,860,154	6,250,969	4,513,068	1,911,688	1,040,131	**15,576,010**
Corporates	68,003	41,058	11,601	801,329	-	**921,992**
High-risk categories	63,168	-	13,095	-	-	**76,263**
Other	710	-	-	-	-	**710**
Total	**1,993,157**	**6,292,027**	**4,867,506**	**2,713,017**	**1,040,131**	**16,905,838**

As at 29 March 2019

£'000	UK	Japan	Europe	North America	Rest of the World	Grand Total
Central Governments or Central Banks	149,282	-	172,540	964	510	**323,296**
Regional Gov/Local Authorities	-	-	1,039	198	43	**1,280**
Public Sector Entities	-	11	156	-	-	**167**
Multilateral Development Banks	-	-	-	-	3,149	**3,149**
International Organisations	-	-	-	-	85	**85**
Institutions	2,523,145	4,344,694	2,896,179	1,452,626	1,306,346	**12,522,990**
Corporates	72,837	165,209	55,327	812,832	322,877	**1,429,082**
Past due items	-	-	-	-	334	**334**
High-risk categories	45,942	-	23,231	-	-	**69,173**
Other	685	-	-	14	-	**699**
Grand Total	**2,791,891**	**4,509,914**	**3,148,472**	**2,266,635**	**1,633,344**	**14,350,255**

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

Table 12 - EU CRB-D: Industry or counterparty types breakdown of exposures

As at 31 March 2020 £'000	Central Governments Central Banks	Banks	Financials	Corporates	Other	Total
Central Governments or Central Banks	330,445	-	-	-	-	**330,445**
Regional Gov/Local Authorities	419	-	-	-	-	**419**
Institutions	-	7,865,917	7,708,206	-	1,887	**15,576,010**
Corporates	-	-	7	86,237	835,748	**921,992**
High-risk categories	-	-	-	76,263	-	**76,263**
Other	-	-	-	-	710	**710**
Total	**330,864**	**7,865,917**	**7,708,214**	**162,499**	**838,344**	**16,905,838**

As at 29 March 2019 £'000	Central Governments Central Banks	Banks	Financials	Corporates	Other	Total
Central Governments or Central Banks	323,296	-	-	-	-	**323,296**
Regional Gov/Local Authorities	1,280	-	-	-	-	**1,280**
Public Sector Entities	167	-	-	-	-	**167**
Multilateral Development Banks	-	3,149	-	-	-	**3,149**
International Organisations	4	-	-	-	81	**85**
Institutions	-	5,612,570	6,910,420	-	-	**12,522,990**
Corporates	-	-	818,093	610,989	-	**1,429,082**
Past due items	-	-	-	334	-	**334**
High-risk categories	-	-	-	-	69,173	**69,173**
Other	-	-	-	-	699	**699**
Total	**324,747**	**5,615,719**	**7,728,513**	**611,323**	**69,953**	**14,350,255**

The distribution of exposures by residual maturity is as follows:

Table 13 - EU CRB-E: Maturity of exposures

As at 31 March 2020 £'000	Up to 12 months	1-5 years	More than 5 years	Total
Central Governments or Central Banks	330,445	-	-	**330,445**
Regional Gov/Local Authorities	419	-	-	**419**
Institutions	14,288,585	444,305	843,120	**15,576,010**
Corporates	920,546	1,232	213	**921,992**
High-risk categories	76,263	-	-	**76,263**
Other	710	-	-	**710**
Total	**15,616,968**	**445,537**	**843,333**	**16,905,838**

As at 29 March 2019 - £'000	Up to 12 months	1-5 years	More than 5 years	Total
Central Governments or Central Banks	323,296	-	-	**323,296**
Regional Gov/Local Authorities	1,280	-	-	**1,280**
Public Sector Entities	167	-	-	**167**
Multilateral Development Banks	3,149	-	-	**3,149**
International Organisations	85	-	-	**85**
Institutions	11,283,570	268,907	970,513	**12,522,990**
Corporates	1,387,902	38,504	2,676	**1,429,082**
Past due items	334	-	-	**334**
High-risk categories	59,337	9,836	-	**69,173**
Other	699	-	-	**699**
Total	**13,059,820**	**317,247**	**973,188**	**14,350,255**

6.2 Past due and impaired

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

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

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

As at 31 March 2020, the £7.9m impairment against the intercompany loan to Daiwa Corporate Advisory Holdings Limited remained appropriate. See Note 14 in Financial Statements for further information.

6.3 Credit Risk Mitigation

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

Table 14 - Exposure covered by Eligible Financial Collateral

£'000	As at 31 March 2020	As at 29 March 2019
Central Governments or Central Banks	330,369	152,168
Regional Governments/Local Authorities	406	948
Public Sector Entities	-	-
Multilateral Development Banks	-	-
International Organisations	-	-
Institutions	14,134,225	11,195,507
Corporates	833,659	1,320,208
Past due items	-	-
High-risk categories	-	-
Other	-	-
Total	**15,298,659**	**12,668,831**

6.4 Credit Quality Step (CQS)

The Firm uses Moody's as its external credit assessment institution (ECAI) to provide ratings information for use in the calculation risk weighted exposure amounts in accordance with the standardised approach to credit risk.

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

Table 15 - Gross Credit Exposure

As at 31 March 2020

Credit Quality Step £'000	1	2	3	4	Unrated	Total Exposures
Central Governments or Central Banks	1,287	328,095	1,063	-	-	**330,445**
Regional Gov/Local Authorities	419	-	-	-	-	**419**
Institutions	5,912,250	9,536,924	125,533	-	1,302	**15,576,010**
Corporates	-	3,218	-	-	918,774	**921,992**
High-risk categories	-	-	-	-	76,263	**76,263**
Other	-	-	-	-	710	**710**
Total	**5,913,955**	**9,868,238**	**126,597**	**-**	**997,049**	**16,905,838**

As at 31 March 2019

Credit Quality Step £'000	1	2	3	4	Unrated	Total Exposures
Central Governments or Central Banks	323,141	-	104	8	44	**323,296**
Regional Gov/Local Authorities	1,280	-	-	-	-	**1,280**
Public Sector Entities	156	11	-	-	-	**167**
Multilateral Development Banks	3,007	2	-	-	140	**3,149**
International Organisations	85	-	-	-	-	**85**
Institutions	7,523,046	4,607,147	392,789	8	-	**12,522,990**
Corporates	352,131	6,216	383	-	1,070,352	**1,429,082**
Past due items	-	-	-	-	334	**334**
High-risk categories	-	-	-	-	69,173	**69,173**
Other	-	14	-	-	685	**699**
Total	**8,202,846**	**4,613,390**	**393,276**	**16**	**1,140,728**	**14,350,255**

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

Table 16 - Credit exposures after CRM by CQS

As at 31 March 2020 **Credit Quality Step £'000**	**1**	**2**	**3**	**4**	**Unrated**	**Total Exposures after Credit Risk Mitigation**
Central Governments or Central Banks	1,287	8,596	1,063	-	-	**10,947**
Regional Governments/Local Authorities	14	-	-	-	-	**14**
Institutions	182,776	266,736	6,978	-	1,302	**457,792**
Corporates	-	3,218	-	-	110,239	**113,457**
High-risk categories	-	-	-	-	76,263	**76,263**
Other	-	-	-	-	710	**710**
Total	**184,077**	**278,550**	**8,042**	**-**	**188,513**	**659,182**

As at 29 March 2019 **Credit Quality Step £'000**	**1**	**2**	**3**	**4**	**Unrated**	**Total Exposures after Credit Risk Mitigation**
Central Governments or Central Banks	182,854	-	104	8	44	**183,009**
Regional Governments/Local Authorities	339	-	-	-	-	**339**
Public Sector Entities	156	11	-	-	-	**167**
Multilateral Development Banks	3,007	2	-	-	140	**3,149**
International Organisations	85	-	-	-	-	**85**
Institutions	312,443	148,599	20,300	8	-	**481,351**
Corporates	7,004	6,216	383	-	131,945	**145,549**
Past due items	-	-	-	-	334	**334**
High-risk categories	-	-	-	-	69,173	**69,173**
Other	-	14	-	-	685	**699**
Total	**505,888**	**154,842**	**20,787**	**16**	**202,321**	**883,855**

7 Counterparty Credit Risk

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

7.1 Credit Valuation Adjustments (CVA)

Credit valuation adjustments ('CVA') represent the risk of loss as a result of adverse changes to the credit quality of counterparties in derivative transactions.

Table 17 - EU CCR2 - CVA capital charge

As at 31 March 2020 £'000	Exposure value	RWAs
Total portfolios subject to the advanced method	-	-
(i) VaR component (including the 3x multiplier)		-
(ii) SVaR component (including the 3x multiplier)		-
All portfolios subject to the standardised method	125,923	18,849
Based on the original exposure method	-	-
Total subject to the CVA capital charge	125,923	18,849

7.2 Collateral arrangements

The following table details the OTC derivative contracts:

Table 18 - EU CCR5-A: Impact of netting and collateral held on exposure values

As at 31 March 2020

£'000	**Gross Positive Fair Value of contracts**	**Total Netting Benefits**	**Netted Current Credit Exposure**	**Collateral Held**	**Net Derivatives Credit Exposure**
Trading Book	798,701	1,066,734	265,447	118,560	146,887
Total	**798,701**	**1,066,734**	**265,447**	**118,560**	**146,887**

As at 29 March 2019

£'000	**Gross Positive Fair Value of contracts**	**Total Netting Benefits**	**Netted Current Credit Exposure**	**Collateral Held**	**Net Derivatives Credit Exposure**
Trading Book	666,197	943,262	320,274	172,531	147,743
Total	**666,197**	**943,262**	**320,274**	**172,531**	**147,743**

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

As at 31 March 2020, the Firm's portfolio of credit derivatives directly references a relatively small amount of assets held by the firm. All credit derivatives are held in the Firm's trading book. The counterparty base for credit derivatives table shows the notional value of the credit derivative transactions as at 31 March:

Table 19 - EU CCR6: Credit derivatives exposures

	As at 31 March 2020		**As at 29 March 2019**	
£'000	**Protection Bought**	**Protection Sold**	**Protection Bought**	**Protection Sold**
Notionals				
Single-name credit default swaps	4,222	-	11,613	-
Index credit default swaps	213,930	-	173,940	-
Total notionals	**218,152**	**-**	**185,553**	**-**

8 Market Risk

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

Table 20 - EU MR1: Market risk under the standardised approach

		As at 31 March 2020	As at 29 March 2019
£'000	**RWAs**	**Capital requirements**	**Capital requirements**
Trading Book			
Interest rate PRR	30,819	34,466	39,145
Equity PRR	65,584	5,247	6,212
Option PRR	-	-	-
Collective Investment Undertakings PRR	5	0.4	0.3
Foreign currency PRR	29,983	2,399	1,818
Total	**26,391**	**42,111**	**47,175**

9 Operational Risk

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

The Firm has followed the criteria for the approach and assessment set out in CRR Part Three, Title II Art 317 (Own funds requirements for operational risk). The Firm has adopted the standardised approach for calculating the Pillar 1 capital requirement for operational risk. The figures below are based on audited results for the 3 year period ended March 2020 and 2019 respectively.

Table 21 - Operational risk under the standardised approach

	As at 31 March 2020 £'000	As at 29 March 2019 £'000
Operational risk	34,911	35,078
Total Pillar 1 capital requirement for operational risk	**34,911**	**35,078**

10 Non-Trading Book Exposures in Equities

The Firm does not have any significant equity exposures in its non-trading book. As at 31 March 2020, the Firm held a number of equity shareholdings in clearing houses for historical reasons and not for investment purposes. Management intends to hold those investments for the foreseeable future.

Those assets are classified as available for sale investments on the balance sheet as at 31 March 2020 and are held at fair value. Fair value is determined by reference to the quoted price in an active market wherever possible. Where no such active market exists, the Firm uses a valuation technique to arrive at the fair value, including the use of prices obtained in recent arms-length transactions and other valuation techniques commonly used by market participants.

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

Table 22 - Available for sale investments

£'000	As at 31 March 2020	As at 29 March 2019
Available for sale investments	1,700	1,464
Total available for sale investments	**1,700**	**1,464**

The carrying amount of available for sale investments approximates to their fair value. For further information, please refer to note 12 of the annual report and financial statements.

11 Exposures to Interest Rate Risk in the Non-Trading Book

IRRBB refers to the current or prospective risk to the Firm's capital and earnings arising from adverse movements in interest rates that affect the Firm's banking book positions. The Firm's exposure to IRRBB arise from Treasury's funding activity and Principal Investment development financing loans, with the majority of interest rate risk centrally run on the Treasury book within approved limits.

Table 23 - IRRBB1: Quantitative information on IRRBB

	ΔEVE		ΔNII	
£'000	**As at 31 March 2020**	**As at 29 March 2019**	**As at 31 March 2020**	**As at 29 March 2019**
Parallel up	**5,435**	**5,288**	**5,945**	**8,715**
Parallel down	**-5,489**	**-5,319**	**-5,495**	**-8,714**
Steepener	**-8,155**	**-8,142**		
Flattener	**8,031**	**8,048**		
Short rate up	**8,074**	**8,081**		
Short rate down	**-8,200**	**-8,175**		
Maximum	**-8,200**	**-8,175**	**5,945**	**8,715**
Period		**As at 31 March 2020**		**As at 29 March 2019**
Tier 1 capital		**428,656**		**462,181**

12 Asset Encumbrance

The Firm's main source of encumbrance is in relation to collateral pledged against secured funding (approximately 99%) and other collateralised obligations (less than 1%). The Firm does not issue covered bonds and is not involved in securitisations. The consolidated figures include results for DCME and its wholly-owned subsidiaries – DCA and DCMD, however at present there are no activities within both of these entities which give rise to encumbrance.

DCME funds a portion of its trading book portfolio assets and other securities through repurchase agreements and other secured borrowing. Collateral is also pledged to counterparties to mitigate their credit exposures to DCME and to clearing brokers/houses to meet derivative initial margin requirements.

The Firm is able to monitor the mix of secured and unsecured funding sources and seeks to utilise available collateral to raise funding to meet its needs. Similarly a portion of unencumbered assets may be monetised in a stress situation under the contingency funding plan to generate liquidity through use as collateral for secured funding or through outright sale.

Collateralisation is carried out under market standard agreements – ISDA for derivatives, GMRA for repo and reverse repo and GMSLA for stock borrowing and lending activity.

Table 24 - Template A: Encumbered and unencumbered assets

As at 31 March 2020 All amounts in £'000		Carrying amount of encumbered assets 010	Fair value of encumbered assets 040	Carrying amount of unencumbered assets 060	Fair value of unencumbered assets 090
010	**Assets of the reporting institution**	**864,647**		**9,523,678**	
030	Equity instruments	0		378	
040	Debt securities	804,893	804,893	703,747	703,747
050	of which: covered bonds	0	0	0	0
060	of which: asset-backed securities	0	0	0	0
070	of which: issued by general governments	302,426	302,426	141,619	141,619
080	of which: issued by financial corporations	469,319	469,319	343,851	343,851
090	of which: issued by non-financial corporations	33,148	33,148	218,277	218,277
120	Other assets	59,754		8,819,553	

Table 25 - Template B: Collateral received

As at 31 March 2020 All amounts in £'000		Fair value of encumbered collateral received or own debt securities issued 010	Unencumbered Fair value of collateral received or own debt securities issued available for encumbrance 040
130	**Collateral received by the reporting institution**	**6,857,413**	**148,602**
140	Loans on demand	0	0
150	Equity instruments	0	0
160	Debt securities	6,822,083	148,519
170	of which: covered bonds	0	0
180	of which: asset-backed securities	0	0
190	of which: issued by general governments	6,616,683	36,246
200	of which: issued by financial corporations	123,565	89,027
210	of which: issued by non-financial corporations	81,835	23,246
220	Loans and advances other than loans on demand	0	0
230	Other collateral received	35,330	83
240	**Own debt securities issued other than own covered bonds or ABSs**	**0**	**0**
250	**TOTAL ASSETS, COLLATERAL RECEIVED AND OWN DEBT SECURITIES ISSUED**	**7,722,060**	

Table 26 - Template C: Sources of encumbrance

	As at 31 March 2020 All amounts in £'000	Matching liabilities, contingent liabilities or securities lent 010	Assets, collateral received and own debt securities issued other than covered bonds and ABSs encumbered 030
010	**Carrying amount of selected financial liabilities**	**8,077,925**	**7,686,731**
020	Derivatives	772,797	45,371
040	Deposits	7,305,128	7,641,359
090	Debt securities issued	0	0
120	**Other sources of encumbrance**	**360,779**	**35,330**
130	Nominal of loan commitments received	0	0
140	Nominal of financial guarantees received	0	0
150	Fair value of securities borrowed with non cash-collateral	360,779	35,330
160	Other	0	0
170	**TOTAL SOURCES OF ENCUMBRANCE**	**8,438,704**	**7,722,060**

13 Remuneration

13.1 Basis of Disclosure

The following disclosures explain how Daiwa Capital Markets Europe Limited (DCME or the Firm) has complied with reward regulatory requirements under the UK implementation of the CRD IV, in particular Articles 92 to 96, both in respect of the FCA Remuneration Code (SYSC 19A) and the European Banking Authority Guidelines on sound remuneration policies, during the year to 31 March 2020.

The remuneration disclosures are prepared on the basis that DCME is a Level 3 firm. A Level 3 firm is defined under guidance published by the Financial Conduct Authority (FCA) as one whose average relevant total assets on the past three financial relevant dates has not exceeded £15bn. As a result, in light of UK regulatory guidance, the Firm's remuneration disclosures are not required to be as detailed as if it were Level 1 or 2. The Firm monitors its position with regards to this definition closely due to the proximity to the threshold.

DCME is mindful of the continually evolving regulatory environment, particularly with regards to the Investment Firms Directive and CRD V. The DCME Remuneration Committee will therefore keep DCME's regulatory position under review to ensure full compliance with any new regulations and guidance on remuneration relevant to DCME.

The objectives of the Firm's Reward Strategy are as follows:

1. The Firm undertakes to reward all employees fairly, regardless of job function, race, religion, colour, national origin, sex, sexual orientation, marital status, pregnancy, disability or age.
2. It is the policy of the Firm to operate competitive remuneration policies so as to attract, retain and motivate an appropriate workforce for the Firm.
3. The Firm is also committed to ensuring that its reward practices encourage high standards of personal and professional conduct, support sound risk management and do not encourage risk taking that exceeds the level of tolerated risk of the Firm, and are aligned with the regulatory requirements.

4. Rewards for all senior staff will be aligned to financial and non-financial performance and risk profile and in all cases will be in line with the business strategy, objectives, values, culture and long-term interests of the Firm.
5. The Firm will not allow any unfair or unjust practices that impact on pay.
6. The Firm undertakes that it will not award remuneration using vehicles or methods the aim of which is to attempt to avoid application of the FCA's Remuneration Code.

The ongoing review of the remuneration policies and practices is paramount to achieving our objectives going forward.

13.2 Governance

The Firm has a Remuneration Committee (the "Committee"). Authority is delegated by the Board to the Committee to review and approve remuneration, and to ensure remuneration policies across the Firm are consistent with the promotion of effective risk management and do not encourage risk taking which exceeds the Firm's risk appetite. It ensures that the risks associated with the design and operation of remuneration policies, as well as its practices and processes, are considered, including by engaging with other Board Committees, such as the Risk Committee, as appropriate.

The Committee is responsible for reviewing and approving any salary amendments and cash bonuses proposed to the Committee arising from the annual compensation review, subject to formal review by Head Office (Tokyo), with reports made to the Board as required. The Committee, however, will have final approval in relation to individual remuneration proposals for all Material Risk Takers ("Code Staff") of the Firm, including where they are employed by another entity within the DCME Group.

The Committee is also responsible for reviewing and approving the policy and process for identifying Code Staff to ensure compliance with the relevant remuneration regulations, as well as the approval of the final list of Code Staff on at least an annual basis, and any exclusions proposed to be notified to the FCA.

The Committee currently comprises four Non-Executive Directors and met on four occasions during the year to 31 March 2020. For the current financial year onwards, the Committee will be prescribed to meet a minimum of four times a year (or more frequently if necessary), under its Terms of Reference. Other senior staff may be asked to attend from time to time to report on specific topics or areas of concern.

In relation to the role of the Firm's independent control functions, the Firm's Chief Risk Officer (CRO) advises the Committee on the risk-related factors relevant to the determination of variable remuneration (as summarised further below). For the current financial year onwards, the CRO will present a report to the Committee twice a year considering current and future risk-related factors, such as DCME's performance against its predetermined risk appetite and highlighting any significant risk events that occurred during the performance year. The reports will also include specific reference to any conduct issues that the Committee needed to be aware of, both positive and negative.

The Regional Head of Compliance and Regional Head of HR also attend Committee meetings where they need to raise issues or concerns relevant to their function.

To support in the avoidance of conflicts of interest arising, no DCME Director or employee is involved in the determination of their own pay and control function pay is independent of the front office.

For the current financial year onwards, where secondees from Head Office (Tokyo) have been identified as Code Staff, the Committee will work with Executive Management and Global HR to ensure that variable remuneration awarded to these individuals is pre-approved by the DCME Remuneration Committee.

The DCME remuneration policy applies to Code Staff across the DCME Group, as well as the Firm's representative offices, with the Committee having appropriate oversight to ensure that any entity level remuneration policies are consistent with DCME's remuneration policy. Minor differences may exist between entity level remuneration policies as a result of local regulatory requirements and/or local market practice (e.g. application of bonus cap in Germany).

The Firm's HR function is responsible for reviewing remuneration proposals (fixed and variable) prior to submission to the Committee to ensure consistency with internal and external guidelines. Separately, the CFO assessed the aggregate totals of the proposed variable remuneration awards prior to the making of such awards at year end in order to be able to confirm to the Committee that the payment of variable remuneration did not limit the Firm's ability to strengthen its capital base.

During the year, DCME engaged the services of Deloitte LLP to provide a third-party review for the purposes of assisting in the determination of the remuneration policy.

13.3 Reward Strategy in Practice

DCME rewards staff with fixed and variable remuneration in the form of salaries and bonuses respectively. All remuneration is offered in cash; no other instruments are offered as remuneration.

Salaries are determined by an employee's responsibilities, seniority, and experience. Salaries are typically reviewed annually against general market levels, with any increase being solely at the Company's discretion.

A Discretionary Bonus Scheme for locally employed staff is operated annually to reward and encourage good financial and non-financial performance, as well as high standards of personal and professional conduct. All employees are eligible for the Discretionary Bonus Scheme. There is no separate scheme for the Firm's Code Staff. Code Staff are requested to confirm that they will not undertake personal hedging strategies in respect of unvested bonus awards.

As a Level 3 firm, the Committee has determined that it is appropriate to disapply the pay-out process requirements and also the maximum limit on the level of fixed to variable remuneration; however, DCME voluntarily operates deferral and performance adjustment policies. For the year ended 31 March 2020, the Firm introduced clawback for all Code Staff in relation to their upfront as well as any deferred variable remuneration. The ratios between fixed and variable remuneration are closely monitored to ensure they remain appropriately balanced.

The Firm has a deferral scheme in operation for DCME employees for any bonus payments above a bonus level as determined by the Committee. This supports in assisting in the retention of key staff as well as emphasising the importance of encouraging longer term thinking and discouragement of excessive risk taking. Deferred awards are subject to malus and clawback provisions under the Deferred Compensation Plan Rules.

Guaranteed bonuses and/or buying out deferred variable remuneration may be used in exceptional circumstances to attract individuals through buying out variable remuneration accrued but unpaid whilst at their previous employer, as an incentive to join. Guarantee periods will be for no longer than 12 months from the commencement of employment, will be conditional upon the Firm having a sound and strong capital base and will be subject to malus and clawback provisions. Where accrued but unpaid variable remuneration is bought out, DCME will seek to ensure that the terms of the new award are no more favourable than the terms of the forfeited award.

For the current financial year onwards, where termination payments are awarded to Code Staff, these will be subject to the approval of the Committee, to ensure that such payment reflects performance achieved over time and does not constitute reward for failure.

The Firm does not award discretionary pension benefits and considers its position to be in alignment with its business strategy, objectives, values and long-term interests.

13.4 Link between Pay and Performance

The initial pools for Front Office business units are calculated primarily based on their financial performance, and the Control Function pools are calculated separately, to ensure that their compensation is independent of the business units they control. The range of criteria with which bonuses are determined varies between business units.

Adjustments are then made to the pools in accordance with the Firm's Bonus Pool Risk Adjustment Policy, which was introduced for the year ending 31 March 2020 to ensure that the Compensation Review is commensurate with market conditions and the performance of the firm (including where performance is subdued or negative) and takes into account current and future risks.

Staff performance is measured against a number of financial and non-financial factors, and supported by the Annual Performance Assessment Process. A competency framework was recently introduced to support in providing a common understanding of the expected level of behaviours and to enhance the link between individual performance (including non-financial performance) and reward, which will apply in relation to the 2020/2021 performance year onwards. The areas within the competency framework include conduct and integrity, output and quality, technical ability and compliance with regulatory and systems of controls.

Based on information provided to them by the CRO and other members of Senior Management, the Committee can use its discretion to reduce current year awards, partially or wholly, in light of certain risk events occurring during the year which include, but are not limited to:

- Failure to comply with the Firm's Risk Management policies, such as trading limits
- Breach of Regulatory Requirements
- Any disciplinary action taken against the individual during the financial year.

This process is governed by the Firm's Individual Risk Adjustment Policy, which sets out the due process to be followed and the appropriate factors to be considered.

13.5 Vesting

The portion of the bonus not subject to deferral is paid to employees after the financial year end, subject to the employee being employed on the date of payment, and not serving notice (either given by the employee or the Firm), or being suspended, or under investigation for a conduct issue.

Deferred variable compensation vests annually at the same time as cash bonuses. All deferred compensation for Code Staff is automatically deferred over three years, vesting in equal tranches over the period. Deferrals for non-Code Staff vest in equal proportions over a period of between one and three years, dependent on the amount deferred, as per the year's Deferred Compensation Plan Rules.

13.6 Remuneration disclosure

All Compensation for overseas Code Staff is converted using the European Commission's Monthly Accounting Rates for December 2019 (in line with other regulatory reporting).

Table 27 - Remuneration: Aggregate remuneration expenditure for MRTs

Business Area	£'000
Equity	4,344
Fixed Income	4,036
ICBs	1,611
Investment Banking	3,248
Other Business	1,345
Principal Investments	581
DCMD	1,091
Support[2]	8,824
DCA	24,083

Table 28 - REM 1: Remuneration awarded during the financial year for MRTs

	Senior Management	Other Material Risk Takers
Number of code staff	*24*	*158*
Fixed pay:-	£'000	£'000
Total Fixed Remuneration	5,994	24,988
Cash-based Fixed Remuneration	*5,994*	*24,988*
Variable Pay:		
Total Variable Remuneration	4,010	14,170
Cash-based Variable Remuneration	*4,010*	*14,170*
Of Which Deferred	*412*	*3,882*
Total Remuneration	**10,004**	**39,158**

[2] Includes Staff in Control Functions (Risk, Compliance, Internal Audit, Front Office Control), as well as Research and other Support Functions (Human Resources, Technology, Legal & Transaction Management, Finance & Regulatory, and Operations)

14 Corporate Social Responsibility (CSR)

Daiwa Securities Group (DSG) has a CSR to contribute to society through the core businesses. It is important that each and every employee is always aware of social issues in his or her everyday work. At DCME, we actively promote CSR awareness among all employees and publicize our CSR activities to our stakeholders to increase awareness of these efforts within the community.

DCME is passionate about contributing to the community around it and actively encourages staff engagement.

For example, as part of the Daiwa Group, the firm promotes and distributes "Vaccine Bonds" – bonds that raise money from Japanese investors to fund immunisations for children in the world's poorest countries. The firm is proud to work with the World Bank, the International Finance Facility for Immunisation Company (IFFIm) and the GAVI Alliance on the issue of these bonds. For news and press releases on these issues, see here.

Through an active internal Charity Committee, donations to charities are made throughout the year and staff are encouraged to participate in fund-raising activities both internally and externally. The company supports two charities of the year annually.

14.1 Mission for Financial Institutions toward Solving Social Issues

DCMEis aligned with DSG and believe that our role is not only to maintain and develop a fair and dynamic financial market, but also to incorporate a social perspective in finance and to facilitate the flow of money to build a sustainable society.

In January 2010, DSG signed the United Nations Global Compact (UNGC), a platform to help companies that have committed to sustainable and responsible business practices shape their policies, and has proceeded with business activities in compliance with the principles. DSG also incorporate into their activities the Sustainable Development Goals (SDGs) adopted in September 2015 at the United Nations Sustainable Development Summit.

Support for global initiatives:

- United Nations-supported Principles for Responsible Investment (PRI)
- CDP (formerly Carbon Disclosure Project)
- UNGC
- Principles for Financial Action for the 21st Century
- Task Force on Climate-related Financial Disclosures (TCFD)
- United Nations Environment Programme – Finance Initiative (UNEP-FI)
- 30% Club Japan

More information about the Group's mission toward solving social issues is available here.

14.2 Sustainable Development Goals (SDGs)

14.2.1 Group overview

The United Nations Sustainable Development Goals

Sustainable Development Goals (SDGs) are 17 goals common to all humankind that were created by member states of the United Nations and a variety of organizations and people and adopted by the UN in 2015. Each country has promised to actively work toward the achievement of these goals. Daiwa Securities Group views the SDGs as critical goals that will lead the future direction of the world. We will address the 17 social issues of the SDGs by positioning them as a common language for deploying business within and outside Japan.

At DSG CSR activities have been reported annually since FY2002 for the following two objectives: to disclose our CSR activities in an easy-to-understand way and to evaluate the current state of affairs and the challenges we face. From the second half of FY2019, DSG CSR activities were expanded as part of their initiatives for achieving SDGs.

Daiwa Securities Group positions SDGs as fundamental to management, and based on this perspective, it works to facilitate sustainable growth in society and the Group through its SDGs Promotion Committee, headed by the CEO, where experts from within and outside of the Group engage in dialogue.

In May 2019, the Group made the Daiwa Securities Group's SDGs Declaration, and have endeavoured to entrench it throughout the Group while promoting efforts to apply it to the core business. One outcome of this has been the formulation of the SDGs Promotion Action Plan in 2020 which is intended to lead to the construction of a Daiwa version of an SDG value chain based on aggregated opinions from within the Group.

More information about the Group's commitment and initiatives relating to SGDs are available here.

14.2.2 DCME initiatives

DCME is establishing a firm-wide approach to sustainability. This will be led by the DCME Sustainability Committee, chaired by the CEO. Within this framework, there will be a SDG sub-committee focused on diversity & inclusion, sustainability, wellbeing and charity. This structure will better coordinate the initiatives we already have in place, whilst developing a whole new range of initiatives aligned with the UN's SDGs.
In addition, an ESG sub-committee will focus on materially increasing Daiwa Europe's expertise and credentials in ESG, from a business development, risk and regulation perspective. This firm-wide approach will ensure wellbeing and sustainability (economic, environmental and social) become core to DCME's practices and values.

DCME has continued to engage in various CSR activities and to fully support the SDGs set by the UN.

- **Recycling and ban of plastic:** the Firm has taken steps to reduce its carbon footprint by introducing recycling stations and removing plastic cups from staff kitchens. Recycling has been promoted throughout the building and as a part of this initiative, plastic bin bag consumption is set to reduce by 50,000 a year.

- **Energy efficiency**: The Firm has ensured the most efficient operation of the building to reduce energy consumption (ISO 50001 accreditation achieved for Energy Management)

- **Sustainable Food**: The DCME cafe buys local sustainable food and the coffee offered is from a brand that supports women's empowerment in Nicaragua.

- **Awareness**: Early this year, a "Go-Green" Roadshow event for staff was held to showcase the efforts our key providers are taking in respect to their social responsibilities, and included our cleaning, recycling, energy management and catering suppliers.

- **Diversity & Inclusion**: The Firm signed up to the "Women in Finance" charter demonstrating our commitment to increase the representative of women in Banking, particular at senior levels, and y joining the "Japan Diversity and Inclusion Group". A number of events have been attended to attract more female graduates to Daiwa, including a successful "Women in Science, Technology, Engineering & Mathematics" (STEM) careers fair.

- **Poverty & Inequality**: The Firm has also been accredited this year as a "London Living Wage Employer" as part of our support to eradicating poverty and reducing inequality. We continue to work with inner city charities and offer a small number of apprenticeships each year targeting disadvantage young people. Through the Daiwa Society we support two chosen charities each year, hold regular fund raising events and support individuals participating in sponsored charity events.

- **Financial product offerings**: From a business perspective, the Firm has been supporting "Green bonds" and other ESG initiatives since 2008 and has since lead managed over 50 transactions that align to the objectives of the SDGs. DCME's Debt Capital Market Department recently won The Environmental Finance Magazine's Lead Manager of the Year – Social Bonds ward, selected by a panel of the world's largest green, social and sustainability bond investor. In addition, EMEA Finance magazine awarded the team "Best ESG Bond House" recognizing 2 ground-breaking 'Social' Samurai issues and a EUR 'Education' private placement bond.

  There is increasing interest in the Firm's promotion of SDGs, and we seek to raise awareness and keep staff members informed through regular articles in the all staff newsletter "Daiwa in the City" via the weekly intranet news, and through "town hall" presentations by members of DCME senior management.