Pillar III Disclosures

For the Year Ended 31 March 2021

Daiwa Capital Markets Europe Limited

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Glossary of terms and abbreviations

ALCO	Asset and Liability Committee
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
CQS	Credit Quality Step
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
EVE	Economic Value of Equity
ExCo	Executive Committee
FCA	Financial Conduct Authority
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
NII	Net Interest Income
ORC	Operational Risk Committee
ORM	Operational Risk Management
OTC	Over the Counter
PRA	Prudential Regulatory Authority
RAS	Risk Appetite Statement
RMC	Risk Management Committee
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
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 the Firm's credit, market and operational risk;
- Pillar 2 requires the 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 the 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 13 years.

1.2 Structure

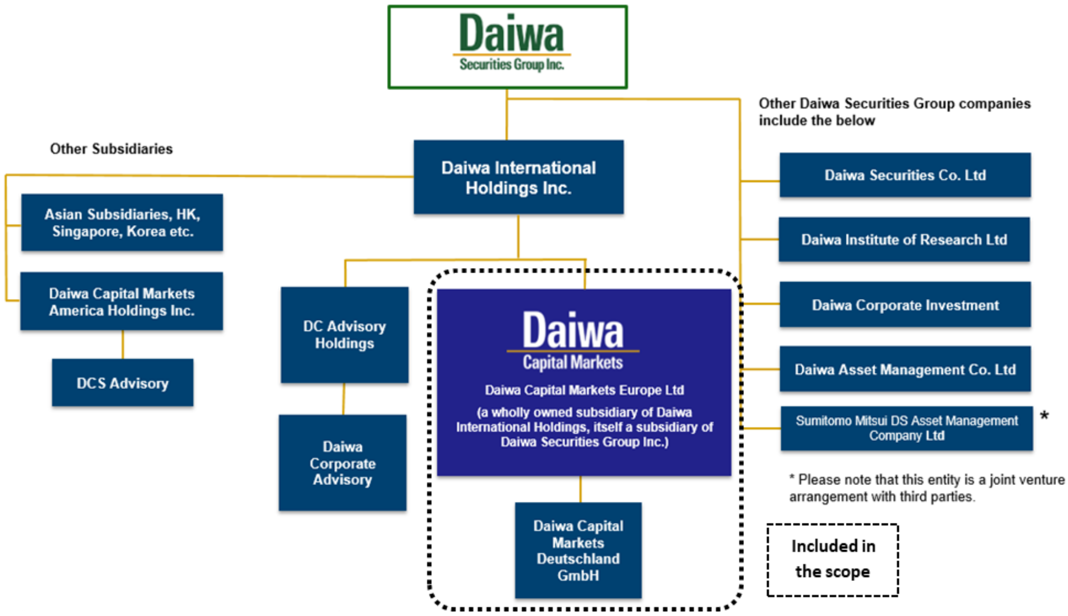
DCME is the wholly-owned European subsidiary of Daiwa International Holdings (DIH) which is a subsidiary of Daiwa Securities Group Inc. (DSGI), one of the largest brokerage and financial services groups in Japan. DCME's head office is based in London and operates a branch and representative office network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

Up until 30th September 2020, DCME had two material subsidiaries, Daiwa Capital Markets Deutschland GmbH (DCMD) and Daiwa Corporate Advisory Holdings Limited (DCA). On 13th July, the FCA approved the separation of DCA from DCME and the completion of the restructure took effect from 1st October 2020.

As at 31st March 2021, DCME has one material subsidiary, Daiwa Capital Markets Deutschland GmbH (DCMD). DCMD operates from offices in Frankfurt and is regulated by the German regulator BaFin.

The diagram below sets out the high level organisational structure:

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



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**: 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 CB Market Making (ICB)**: Core focus of the Convertible Bonds Division is to make markets in Japanese and Asian convertible bonds.
- **DCM/Syndication:** Debt Capital Markets is primarily a marketing and co-ordination function to develop business with international borrowers in the Primary/New Issue market.
- **Equity Capital Markets (ECM), including Convertible Primary:** 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 2021, 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 2021 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 (Macro-prudential 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 to disclose 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 Division, reviewed by the Head of Regulatory Governance, Deputy CFO and CFO; and challenged and approved by ALCO, Executive Committee, Board 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 Statutory Accounts for the corresponding period on the Firm’s website: https://www.uk.daiwacm.com/about-us/corporate-governance-regulatory

2 Governance and Risk Oversight

2.1 Governance Structure

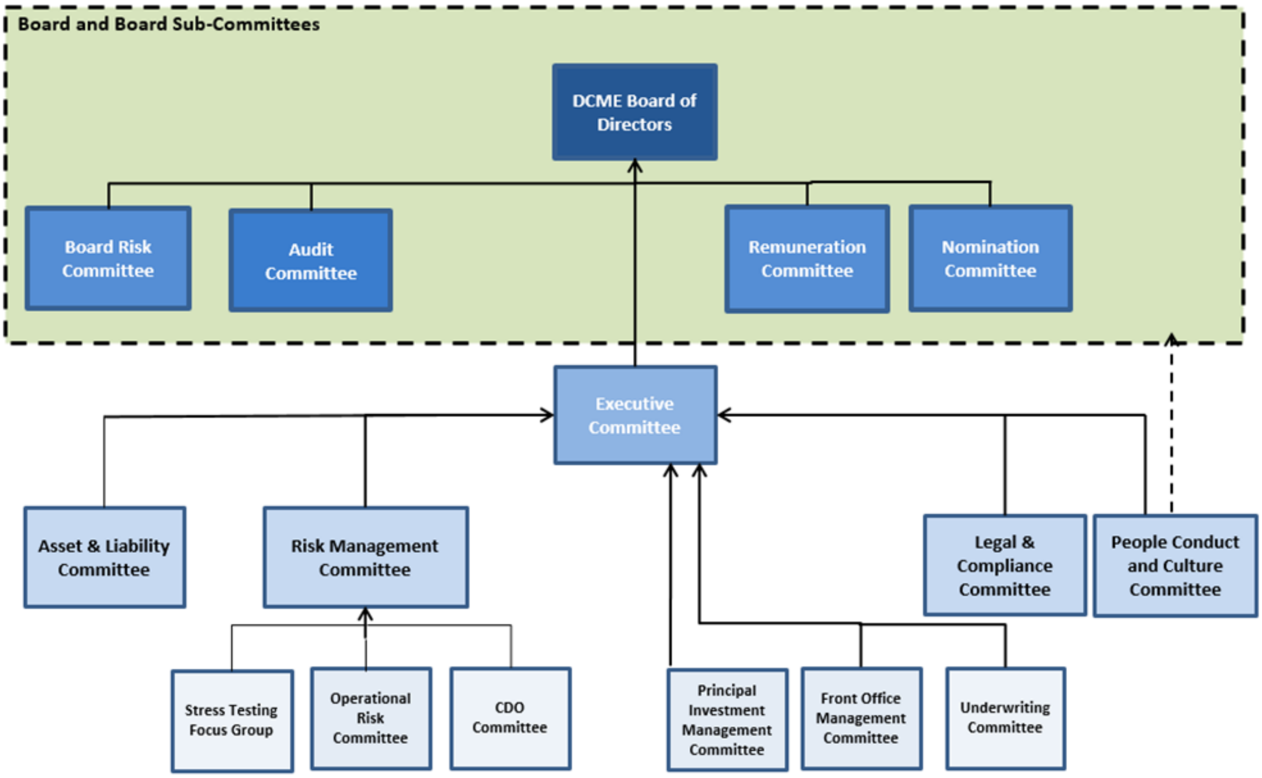
The DCME Board has ultimate responsibility for the management of the Firm, including its subsidiary, DCMD, its branch and representative offices in Europe and the Middle East. It is also responsible for establishing and monitoring the effectiveness of the Firm's corporate governance framework. The Board 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.

2.2 Committee Structure

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



*Ordinarily meets virtually
The People Conduct and Culture Committee reports into ExCo, but escalates some matters to the Board and its Sub-Committees

KEY:

Primary Reporting Line ⟶

Subject Specific Reporting Line - - - - - - - ►

2.3 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:

- overall business objectives and strategy of the Firm, including establishing aligned objectives for senior management;
- overall risk management strategy and policies, including its risk tolerance/appetite and its risk management framework;
- a robust and transparent organisational structure with effective communication and reporting channels;
- a policy on the nomination and succession of individuals with key functions in the institution;
- a remuneration framework that is in line with the risk strategies, risk culture and risk appetite of the Firm;
- the governance principles and corporate values of the institution, including a code of conduct or comparable document;
- 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;
- monitoring the Firm's adherence to its risk appetite, risk policies and risk limits;
- approving and overseeing implementation of the Firm's ICAAP, ILAA, capital and liquidity plans, compliance policies and obligations, and the internal control system; and
- approving the selection, and overseeing performance, of senior management.

2.3.1 Board Sub-Committees:

Board Risk Committee (BRC)

BRC 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:

- reviewing the Firm's Risk Inventory and Risk Appetite Statement;
- reviewing current and future risk strategy, including capital and liquidity management strategy;
- reviewing the Risk Management Framework;
- approving policy for credit, market and operational risk; capital, funding and liquidity risks; and other material risk types where applicable;
- reviewing the policy for the allocation of financial resources within DCME;
- monitoring and reviewing the adequacy of DCME's risk and resource allocation policy in relation to current and forward-looking risk exposures; and
- 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 Group's accounting policies, the integrity of its Statutory Accounts, and external reporting responsibilities, and to oversee the Group's 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 of Daiwa Capital Markets Europe Limited has responsibility for the remuneration policies and practices across DCME in order to ensure that such policies and practices:

- are operated in line with DCME's business strategy and objectives, corporate culture and values and long-term interests;

- are consistent with and promote effective risk management and are aligned with UK legal and regulatory requirements;
- do not encourage risk taking which exceeds the tolerated level of risks within DCME; and
- 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 of the Company.

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 directors and the non-executive directors.

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

2.3.2 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:

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

ExCo Sub-Committees

1) **Principal Investments Management Committee (PIMC)**
   The PIMC is responsible for:

   - establishing the strategic direction of the Principal Investments business;
   - evaluating new investment submissions;
   - assessing material changes to existing loans;
   - monitoring business and investment performance against budget, risk parameters, risk appetite etc.; and
   - ensuring effective operation of the business.

2) **Front Office Management Committee (FOMC)**
   The purpose of the Front Office Management Committee is to assist DCME's CEO in managing the overall operation of DCME's front office business, ensuring that their activities appropriately reflect and support the business plan whilst adhering to all risk, regulatory and conduct requirements. The committee also seeks to identify new business opportunities and cost-saving initiatives to drive sustainable revenue for the Firm.

3) **Underwriting Committee (UWC)**
   The Underwriting Committee assesses the risk of proposed transactions from a risk (market, credit, liquidity and reputational), legal and regulatory perspective. Additionally, the committee is responsible for approving delegated authority limits to Investment Banking business heads to facilitate underwriting within pre-approved thresholds.

   Whilst the primary purpose of the committee is to opine on underwriting activity, the committee also retains approval responsibility for non-primary transactions that carry non-standard features and risks.

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

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

Asset Liability Committee (ALCO)
The purpose of ALCO is to exercise responsibility for the long-term sustainability and viability of the balance sheet of DCME, and to act as the steward and guardian of its balance sheet. It provides a single forum for DCME's balance sheet risks to be monitored and managed.

ALCO is responsible for identifying, managing and controlling all of DCME's balance sheet risks and capital management in executing its chosen business strategy. Balance sheet risks are managed by setting limits, monitoring exposures and implementing controls across the dimensions of capital, funding and liquidity.

Risk Management Committee (RMC)
The Risk Management Committee oversees the design and implementation of DCME's Risk Management Framework and monitors the Firm's risk exposures against the Board-approved risk appetite.

The Risk Management Committee is also responsible for reviewing and challenging the Firm's ICAAP, ILAA, Recovery Plan, Resolution Plan, Wind-Down Plan and regulatory stress testing submissions.

RMC Sub-Committees

1) **Operational Risk Committee (ORC)**
The Operational Risk Committee is responsible for overseeing the establishment of a sound Operational Risk Management Framework within DCME, monitoring the operational risk profile of the Firm and overseeing all level 2 risks within the operational risk taxonomy.

2) **Chief Data Officer Committee (CDO)**
The purpose of the CDO Committee is to:
   - Manage the Firm's requirements to support the overall Group RDA compliance.
   - Extend the principles to the broader data framework within DCME and over time all data related initiatives at DCME should come through this committee.
   - With regards to the two points above, ensure a framework is in place that controls the accuracy and completeness of key data.
   - Responsible for initiating discussions with regard to strategic data enhancements such as framework, controls and related projects.
   - Make policy, strategy and other recommendations to the RMC.

3) **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 RMC.

People, Conduct and Culture Committee (PCCC)
The PCCC 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 behaviours. The Committee will provide regular reporting to the DCME Board of Directors, Board Committees and Executive Committee.

Legal and Compliance Committee (LCC)
The Legal & Compliance Committee is responsible for:

- Providing oversight of DCME's legal obligations and the Legal framework put in place to help ensure they are met.
- Providing oversight of DCME's regulatory obligations and the Compliance framework put in place to help ensure they are met.
- Receiving reports on the development and operation of systems and controls designed to control, identify and report financial crime activity.
- Receiving reports from the Head of Privacy.
- Providing oversight of DCME's financial crime obligations and the robustness of the preventative and detective control framework implemented to ensure they are met.
- Receiving reports on the development and operation of systems and controls designed to control, identify and report financial crime activity.

- Receiving reports on financial crime issues including realised incidents and 'near misses'.
- Ensuring action points to enhance the financial crime framework are distributed and tracked to completion.

2.4 Additional Governance arrangements

Please refer to the Statutory Accounts for the year ended 31st March 2021 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 appointed a separate Chair and CEO of the Board. As at 31st March 2021, the Firm has complied with it. Please refer to the Statutory Accounts for the detail committee membership as at 31 March 2021 or subsequently appointed.

2. Separate Board risk, Nominations and Remuneration committees. As at 31st March 2021, the Firm has complied with it.

- 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).

2.5 Three Lines of Defence

DCME's RMF 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.

[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.

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 Committee of Sponsoring Organizations of the Treadway Commission (COSO)/ The Institute of Internal Auditors (IIA) guidelines.

- **First line of defence** – 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** – 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** – 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.

2.6 Principal 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 principal types of risks to which the Firm is exposed are detailed below:

2.6.1 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 and the risk appetite of the business.

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 RMC 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 utilisation.

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

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 within DCME governing exposures 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% confidence 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 RMC) and subject to approval by DCME Board. Risk Management also calculates and analyses a stressed VaR using a lookback period to 2011.

Figure 4: VaR analysis

	Year to Mar 2021 £'000	Year to Mar 2020 £'000
Year-end	1,462	849
Average	1,284	996
Maximum	2,687	1,441
Minimum	673	571

The VaR numbers shown incorporate full diversification offsets between businesses.

The VaR calculation is primarily attributable to the Firm's two main risk-taking businesses, Fixed Income and International Convertible Bonds.

The VaR numbers shown for 2021 incorporate full diversification offsets between businesses. VaR figures for 2021 on average have been higher primarily due to the impact of increased market volatility following the corona virus related economic crisis. The main trading businesses have continued to focus on their main strategies which for Fixed Income is in higher quality rated assets and for Convertible Bonds in Japanese and other Asian names with strong fundamentals. Exposures have been in a steady range, albeit slightly rising throughout the year as new opportunities were captured, all well within controlled limits.

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

2.6.2 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.

2.6.2.1 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 Risk Management 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.

2.6.2.2 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.

2.6.2.3 Credit Exposures

The counterparty portfolio continues to be predominantly investment grade banks, financial institutions, fund managers, funds and large corporates. As at 31st March 2021, 82.4% of the credit limits extended were to investment grade counterparties and 17.6% were to sub-investment grade counterparties.

Issuer limits are predominately extended to high grade SSAs, financial and corporate entities, with 94.3% of the issuer portfolio internally rated as investment grade and 5.7% sub-investment grade.
The Firm did not suffer any counterparty losses in the period from 31/03/2020 to 31/03/2021.

2.6.2.4 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.

2.6.2.5 Credit Risk Mitigation

DCME 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

2.6.3 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 ALCO and RMC. These senior executive-level committees are 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.

The RMC 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, an 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 Liquidity Risk department, within the Risk Management Division, undertakes daily reporting of the Firm's funding and liquidity position. The Liquidity Risk department is tasked with the overall responsibility for establishing and maintaining DCME's liquidity risk framework and the day-to-day responsibility for monitoring adherence to the Firm's liquidity risk appetite. The Treasury Markets department, within the Finance division, provides direct market interface in funding DCME's operations as well as managing the Firm's ring-fenced Liquid Asset Buffer (LAB portfolio).

This unencumbered portfolio consists of high quality bonds issued by core European sovereigns and the central governments of the USA, UK and Japan. The Treasury department 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.

2.6.4 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 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 residual 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 are assigned "Accountable Executive" responsibilities for their respective area of expertise across the operational risk taxonomy. Their responsibility is to identify areas across DCME where the management, monitoring or embeddedness of a risk type requires further enhancement.

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, Audit Committee, ExCo and RMC.

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

2.7 Other Risks

In pursuing its business strategy, the Firm is exposed to a population of risks. Of these other risks not considered elsewhere business 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 RMC 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. 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 to long 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.

3 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

	31-Mar-21 £'000	31-Mar-20 £'000
Common Equity Tier 1 (CET1)	473,643	428,656
Tier 1	473,643	428,656
Total capital	473,643	428,656
Risk-weighted assets (amounts)		
Total risk-weighted assets (RWA)	780,680	1,266,623
Risk-based capital ratios as a percentage of RWA		
Common Equity Tier 1 ratio (%)	60.7%	33.8%
Tier 1 ratio (%)	60.7%	33.8%
Total capital ratio (%)	60.7%	33.8%
Additional CET1 buffer requirements as a percentage of RWA		
Capital conservation buffer requirement (2.5% since 2019) (%)	2.5%	2.5%
Countercyclical buffer (CCyB) requirement (%)	0.0117%	0.0147%
Total of bank CET1 specific buffer requirements (%)	2.51%	2.51%
CET1 available after meeting the Firm's minimum capital requirements (%)	52.67%	25.84%
Leverage ratio		
Leverage ratio exposure measure	6,511,839	10,172,674
Leverage ratio (%)	7.27%	4.21%

Key changes since previous year:

- Total Capital was made up of £473.6 million of Tier 1 capital which increased by £45 million since 2020 due to the profit for the financial year 20/21. See tables 2 and 3.
- RWA decreased by £486 million, of which £180 million relates to operational risk (due to DCA separation), £175 million relates to market risk (76% related to Interest Rate PRR) and £98 million relates to credit risk (47% related to PI). See table 7.
- CCyB ratio has remained significantly low because of changes in jurisdictions CCyB rate to 0% as a result of COVID-19. See table 8 and 9.
- Leverage ratio increased as a result of higher Tier 1 capital and lower total exposures. See table 5.

3.1 Capital composition

The Firm's capital resources are exclusively CET1 capital. At 31 March 2021 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-21	31-Mar-20
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	-310,733	-356,539
3	Other reserves	54,550	61,299
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**	**475,938**	**436,881**
Common Equity Tier 1 (CET1) capital: regulatory adjustments			
7	Additional value adjustments (negative amount)	-1,949	-1,815
8	Intangible assets (net of related tax liability) (negative amount, incl Goodwill)	-345	-6,410
28	Total regulatory adjustments to Common Equity Tier 1 (CET1)	-2,294	-8,225
29	**Common Equity Tier 1 (CET1) capital**	**473,643**	**428,656**
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)**	**473,643**	**428,656**
Tier 2 (T2) capital: instruments and provisions			
51	**Tier 2 (T2) capital before regulatory adjustments**	**0**	**0**
Tier 2 (T2) capital: regulatory adjustments			
57	Total regulatory adjustments to Tier 2 (T2) capital	0	0
58	**Tier 2 (T2) capital**	**0**	**0**
59	**Total capital (TC = T1 + T2)**	**473,643**	**428,656**
60	**Total risk weighted assets**	**780,680**	**1,266,623**
Capital ratios and buffers			
61	Common Equity Tier 1 (as a percentage of total risk exposure amount)	60.7%	33.8%
62	Tier 1 (as a percentage of total risk exposure amount)	60.7%	33.8%
63	Total capital (as a percentage of total risk exposure amount)	60.7%	33.8%
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%	7.01%
65	of which: capital conservation buffer requirement	2.50%	2.50%
66	of which: countercyclical buffer requirement	0.0117%	0.0147%
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)**	**52.67%**	**25.84%**

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)

	Statutory Accounts (Solo)	DCME solo entity	Adjustments	Consolidated for prudential purposes
Paid up capital instruments	9.26	732,121	-	732,121
Previous years retained earnings	-	- 310,840	107	- 310,733
Other reserves	8	58,693	- 4,144	54,550
Capital and reserves before deductions		**479,974**	**- 4,036**	**475,938**
Prudent Valuation adjustments	9.31	- 1,949	-	- 1,949
Goodwill accounted for as intangible asset	9.10	-	-	-
Intangible assets	9.31	- 211	- 135	- 345
Material Holdings	9.31	- 29,815	29,815	-
Common Equity Tier One Capital (CET1)		**447,999**	**25,644**	**473,643**

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.

3.2 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.

Whilst the regulatory Leverage Ratio is currently non-binding for DCME, the firm does monitor the ratio and the Board has set a risk appetite measure in relation to the Leverage Ratio.

The Firm does not publish Statutory Accounts 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)	1,622,555
2	Asset amounts deducted in determining Tier 1 capital	-5,896
3	**Total on-balance sheet exposures (excluding derivatives and SFTs) (sum of lines 1 and 2)**	**1,616,659**
Derivative exposures		
4	Replacement cost associated with all derivatives transactions (ie net of eligible cash variation margin)	11,417
5	Add-on amounts for PFE associated with all derivatives transactions (mark-to-market method)	189,128
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)**	**200,544**
Securities financing transaction exposures		
12	Gross SFT assets (with no recognition of netting), after adjusting for sales accounting transactions	4,682,568
13	(Netted amounts of cash payables and cash receivables of gross SFT assets)	-96,696
14	Counterparty credit risk exposure for SFT assets	105,092
15	Agent transaction exposures	-
16	**Total securities financing transaction exposures (sum of lines 12 to 15a)**	**4,690,964**
Off-balance sheet exposures		
19	**Off-balance sheet exposures**	**3,671**
Exempted exposures in accordance with CRR Article 429 (7) and (14) (on and off balance sheet)		
Capital and Total Exposures		
20	**Tier 1 capital**	**473,643**
21	**Total Exposures (sum of lines 3, 11, 16, 19 and 21a)**	**6,511,839**
Leverage Ratios		
22	**End of quarter leverage ratio**	**7.27%**

The leverage ratio increased from 4.21% (Mar 2020) to 7.27% (Mar 2021). This was due to a significant decrease of the SFT exposures (£3.2bn) and the increase of Tier 1 capital (£45m).

The risk of excessive leverage in DCME, 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:	1,618,953
EU-2	trading book exposures	1,364,939
EU-3	Banking book exposures, of which:	254,014
EU-4	Covered bonds	0
EU-5	Exposures treated as sovereigns	82,337
EU-6	Exposures to regional governments, MDB, international organisations and PSE NOT treated as sovereigns	1
EU-7	Institutions	95,577
EU-8	Secured by mortgages of immovable properties	0
EU-9	Retail exposures	0
EU-10	Corporate	23,857
EU-11	Exposures in default	0
EU-12	Other exposures (eg equity, securitisations, and other non-credit obligation assets)	52,242

4 Capital Requirements

4.1 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**
	2021	**2020**	**2021**
Credit risk (excluding counterparty credit risk)	114,968	212,777	9,197
Of which: standardised approach (SA)	114,968	212,777	9,197
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)	57,776	89,548	4,622
Of which: Mark-to-market	49,253	69,700	3,940
Of which: Internal Model Method (IMM)	-	-	-
Of which: exposures to central counterparties (CCPs)	528.34	999	42
Of which: credit valuation adjustment	7,995	18,849	640
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	69	1,523	6
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	351,199	526,391	28,096
Of which: standardised approach (SA)	351,199	526,391	28,096
Of which: internal model approaches (IMA)	-	-	-
Capital charge for switch between trading book and banking book	-	-	-
Operational risk	256,667	436,385	20,533
Amounts below the thresholds for deduction (subject to 250% risk weight)	-	-	-
Floor adjustment	-	-	-
Total	**780,680**	**1,266,623**	**62,454**

4.2 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 RMC 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.

4.3 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.

4.3.1 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 2021, the capital conservation buffer applied was 2.5% of RWAs.

4.3.2 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	CCyB 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	-	2,750,716	-	220,057	220,057	1.17%	1.00%
United Kingdom	78,885,802	7,958,396	7,877,194	78,146	7,955,340	42.29%	0.00%
France	-	2,839,535	-	28,395	28,395	0.15%	0.00%
Ireland	6,911	-	553	-	553	0.00%	0.00%
Luxemburg	6,570	-	526	-	526	0.00%	0.50%
Other countries with 0% rate	14,457,406	275,315,633	1,154,585	9,450,835	10,605,419	56.38%	0.00%
Total	**93,356,689**	**288,864,279**	**9,032,857**	**9,777,433**	**18,810,290**	**100%**	

Table 9 - CCyB: Amount of institution-specific countercyclical capital buffer

Figures in £'000s	2021	2020
Total risk exposure amount	382,220	528,463
Institution specific countercyclical capital buffer rate	0.0117%	0.0147%
Institution specific countercyclical capital buffer requirement	91.44	185.9

5 Credit Risk

Please refer to Section 2 for a summary of the Firm's approach to the management of credit risk.

5.1 Credit risk exposures by exposure classes

The gross credit risk exposure (before credit risk mitigation) for the year 2020 and 2021 and the quarterly average (Q2, Q3 and Q4 2020; and Q1 in 2021) are summarised as follows:

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

£'000	Quarterly 2020-2021 Average Gross Credit Exposures	As at 31 March 2021 Total Gross Credit Exposures	As at 31 March 2020 Total Gross Credit Exposures
Central Governments or Central Banks	337,840	292,051	330,445
Regional Governments/Local Authorities	14,925	28,915	419
Public Sector Entities	-	-	-
Multilateral Development Banks	1,092	3,277	-
International Organisations	-	-	-
Institutions	11,090,269	9,171,664	15,576,010
Corporates	1,258,729	594,449	921,992
Past due items	-	-	-
High-risk categories	63,236	40,440	76,263
Other	6,896	13,083	710
Total	12,772,714	**10,143,878**	**16,905,838**

The geographical distribution of these exposures is as follows:

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

As at 31 March 2021

£'000	UK	Japan	Europe	North America	Rest of the World	Grand Total
Central Governments or Central Banks	430	-	291,621	-	-	292,051
Regional Gov/Local Authorities	-	-	28,915	-	-	28,915
Multilateral Development Banks	-	-		-	3,277	3,277
Institutions	1,098,399	2,557,254	3,936,142	1,209,964	369,905	9,171,664
Corporates	92,839	3,891	475	497,244	0	594,449
High-risk categories	40,440	-		-	-	40,440
Other	12,668	-	415	-	-	13,083
Total	**1,244,776**	**2,561,145**	**4,257,568**	**1,707,208**	**373,181**	**10,143,878**

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**

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 2021 £'000	Central Governments Central Banks	Banks	Financials	Corporates	Other	Total
Central Governments or Central Banks	292,051	-	-	-	-	292,051
Regional Gov/Local Authorities	28,915	-	-	-	-	28,915
Multilateral Development Banks	-	3,277	-	-	-	3,277
Institutions	-	2,977,938	6,193,726	-	-	9,171,664
Corporates	-	-	-	594,449	-	594,449
High-risk categories	-	-	-	40,440	-	40,440
Other	-	-	-	-	13,083	13,083
Total	**320,965**	**2,981,215**	**6,193,726**	**634,888**	**13,083**	**10,143,878**

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	-	7,867,600	7,708,410	-	-	**15,576,010**
Corporates	-	-	-	921,992	-	**921,992**
High-risk categories	-	-	-	76,263	-	**76,263**
Other	-	-	-	-	710	**710**
Total	**330,864**	**7,867,600**	**7,708,410**	**998,254**	**710**	**16,905,838**

The distribution of exposures by residual maturity is as follows:

Table 13 - EU CRB-E: Maturity of exposures

As at 31 March 2021 £'000	Up to 12 months	1-5 years	More than 5 years	Total
Central Governments or Central Banks	292,051	-	-	292,051
Regional Gov/Local Authorities	28,915	-	-	28,915
Multilateral Development Banks	3,277	-	-	3,277
Institutions	8,200,675	409,325	561,664	9,171,664
Corporates	590,020	4,428	-	594,449
High-risk categories	40,440	-	-	40,440
Other	13,083	-	-	13,083
Total	**9,168,460**	**413,754**	**561,664**	**10,143,878**

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**

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

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

The Firm's accounting policy is to carry loans and receivables at amortised cost and review for impairment where necessary. In October 2020 DCME sold its investment in Daiwa Corporate Advisory Holdings Limited to a Daiwa Group company. In the opinion of the directors, there is no indication of impairment to the investment in DCMD and therefore the cost is the appropriate carrying value (See section 9.15 and 9.16 of DCME Statutory Accounts).

5.3 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 2021	As at 31 March 2020
Central Governments or Central Banks	283,441	330,369
Regional Governments/Local Authorities	28,804	406
Public Sector Entities	-	-
Multilateral Development Banks	-	-
International Organisations	-	-
Institutions	8,148,941	14,134,225
Corporates	548,486	833,659
Past due items	-	-
High-risk categories	-	-
Other	-	-
Total	**9,009,672**	**15,298,659**

5.4 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. For those exposures not externally rated by Moody's the Firm uses the column "Unrated", so that the table reconciles with other credit risk tables.

Table 15 - Gross Credit Exposure

As at 31 March 2021

Credit Quality Step £'000	1	2	3	Unrated	Total Exposures
Central Governments or Central Banks	498	291,553	-	-	292,051
Regional Gov/Local Authorities	28,915	-	-	-	28,915
Multilateral Development Banks	3,277	-	-	-	3,277
Institutions	4,834,798	4,118,009	216,906	1,951	9,171,664
Corporates	6	41	-	594,402	594,449
High-risk categories	-	-	-	40,440	40,440
Other	-	-	-	13,083	13,083
Total	**4,867,493**	**4,409,602**	**216,906**	**649,876**	**10,143,878**

Credit Quality Step £'000	1	2	3	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**

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 2021

Credit Quality Step £'000	1	2	3	Unrated	Total Exposures after Credit Risk Mitigation
Central Governments or Central Banks	498	8,112	-		8,609
Regional Governments/Local Authorities	525	-	-		525
Multilateral Development Banks	3,277	-	-		3,277
Institutions	162,494	196,676	2,668	1,951	363,790
Corporates	6	41	-	44,739	44,786
High-risk categories	-	-	-	40,440	40,440
Other	-	-	-	13,083	13,083
Total	**166,799**	**204,829**	**2,668**	**100,214**	**474,510**

As at 31 March 2020

Credit Quality Step £'000	1	2	3	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**

6 Counterparty Credit Risk

Please refer to Section 2 for a summary of the Firm's approach to the management of counterparty credit risk.

6.1 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 31st March 2021 £'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	93,114	7,995
Based on the original exposure method	-	-
Total subject to the CVA capital charge	93,114	7,995

6.2 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 2021

£'000	Gross Positive Fair Value of contracts	Total Netting Benefits	Netted Current Credit Exposure	Collateral Held	Net Derivatives Credit Exposure
Trading Book	624,103	749,452	273,019	161,236	111,783
Total	**624,103**	**749,452**	**273,019**	**161,236**	**111,783**

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**

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

As at 31 March 2021, 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 2021		As at 31 March 2020	
£'000	Protection Bought	Protection Sold	Protection Bought	Protection Sold
Notionals				
Single-name credit default swaps	-	-	4,222	-
Index credit default swaps	132,667	-	213,930	-
Total notionals	**132,667**	**-**	**218,152**	**-**

7 Market Risk

Please refer to Section 2 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 2021	As at 31 March 2020
£'000	**RWAs**	**Capital requirements**	**Capital requirements**
Interest rate PRR	298,513	23,881	34,466
Equity PRR	44,009	3,521	5,247
Option PRR	-	0	-
Collective Investment Undertakings PRR	6	0.5	0.4
Foreign currency PRR	8,671	694	2,399
Total	**351,199**	**28,096**	**42,111**

8 Operational Risk

Please refer to Section 2 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 2021 and 2020 respectively.

Table 21 - Operational risk under the standardised approach

	As at 31 March 2021 £'000	As at 31 March 2020 £'000
Operational risk	20,533	34,911
Total Pillar 1 capital requirement for operational risk	**20,533**	**34,911**

9 Non-Trading Book Exposures in Equities

During the year DCME disposed of its investment in Euroclear PLC yielding a profit of £2,448k (See section 9.10 and 9.14 of DCME Statutory Accounts)

Table 22 - Available for sale investments

£'000	As at 31 March 2021	As at 31 March 2020
Available for sale investments	-	1,700
Total available for sale investments	**-**	**1,700**

10 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 2021**	**As at 31 March 2020**	**As at 31 March 2021**	**As at 31 March 2020**
Parallel up	**2,745**	**5,435**	**2,722**	**5,945**
Parallel down	**-2,844**	**-5,488**	**-2,722**	**-5,495**
Steepener	**-4,217**	**-8,155**		
Flattener	**4,088**	**8,031**		
Short rate up	**4,108**	**8,074**		
Short rate down	**-4,237**	**-8,200**		
Maximum	**-4,237**	**-8,200**	**2,722**	**5,945**

11 Asset Encumbrance

The EBA supervisory reporting requirements[2] specify that an asset shall be treated as being encumbered if it has been pledged or if it is subject to any form of arrangement to secure, collateralise or credit enhance any transaction from which it cannot be freely withdrawn.

The Firm's main source of encumbrance is in relation to collateral pledged against secured funding. The Firm does not issue covered bonds and is not involved in securitisations. The consolidated figures include results for DCME and its wholly-owned subsidiary DCMD.

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.

Tables 24, 25 and 26 have been prepared in accordance to EBA guidelines and use the median of the last four quarterly data points. Therefore, the sum of subcomponents does not necessarily add up.

Table 24 - Template A: Encumbered and unencumbered assets

		Carrying amount of encumbered assets	Fair value of encumbered assets	Carrying amount of unencumbered assets	Fair value of unencumbered assets
	All amounts in £'000	010	040	060	090
010	**Assets of the reporting institution**	**1,015,104**		**6,768,844**	
020	Loans on demand	0		5,453,721	
030	Equity instruments	0		1	1
040	Debt securities	970,995	970,995	449,721	449,721
050	of which: covered bonds	0		0	
060	of which: asset-backed securities	0		0	
070	of which: issued by general governments	459,732	459,732	68,865	68,865
080	of which: issued by financial corporations	474,068	474,068	225,404	225,404
090	of which: issued by non-financial corporations	31,930	31,930	137,158	137,158
100	Loans and advances other than loans on demand	0		67,681	
120	Other assets	52,087		726,307	

[2] *See EBA/RTS/2017/03*

Table 25 - Template B: Collateral received

	All amounts in £'000	Fair value of encumbered collateral received or own debt securities issued	Unencumbered Fair value of collateral received or own debt securities issued available for encumbrance
		010	040
130	**Collateral received by the reporting institution**	4,476,050	30,903
140	Loans on demand	0	0
150	Equity instruments	0	0
160	Debt securities	4,458,648	29,939
170	of which: covered bonds	0	0
180	of which: asset-backed securities	0	0
190	of which: issued by general governments	4,174,859	10,244
200	of which: issued by financial corporations	210,578	2,473
210	of which: issued by non-financial corporations	84,355	12,339
220	Loans and advances other than loans on demand	0	0
230	Other collateral received	0	0
240	**Own debt securities issued other than own covered bonds or ABSs**	0	0
250	**TOTAL ASSETS, COLLATERAL RECEIVED AND OWN DEBT SECURITIES ISSUED**	**5,647,734**	

Table 26 - Template C: Sources of encumbrance

	All amounts in £'000	Matching liabilities, contingent liabilities or securities lent	Assets, collateral received and own debt securities issued other than covered bonds and ABSs encumbered
		010	030
010	**Carrying amount of selected financial liabilities**	**6,009,919**	**5,630,333**
020	Derivatives	703,885	42,021
030	of which: Over-The-Counter	703,048	38,151
040	Deposits	5,287,037	5,582,640
050	Repurchase agreements	5,287,037	5,582,640
090	Debt securities issued	0	0
120	**Other sources of encumbrance**	**0**	**0**
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	0	0
160	Other	0	0
170	**TOTAL SOURCES OF ENCUMBRANCE**	**6,197,881**	**5,647,734**

12 Remuneration

12.1 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 2021.

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 ("IFD"). The DCME Remuneration Committee will therefore keep DCME's regulatory position under review to ensure full compliance with the IFD and the requirements and guidance provided within the new MIFIDPRU Remuneration Code proposed by the FCA in enforcing the IFD.

12.2 The Reward Strategy's Purpose

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.

12.3 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 Daiwa 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 five occasions in respect of the year to 31 March 2021. The Committee is prescribed to meet a minimum of four times a year (or more frequently if necessary), as per their 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 will advise the Committee on the risk-related factors relevant to the determination of variable remuneration (as summarised further below). The CRO will present a report to the Committee twice a year considering a current and future risk-related factors, such as DCME's performance against its predetermined risk appetite and highlighting any significant risk events occurring during the performance year. Reports also include specific reference to any conduct issues that the Committee should be aware of, both positive and negative. The Regional Head of Compliance and Regional Head of HR will attend Committee meetings from time to time 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.

Where secondees from Head Office (Tokyo) have been identified as Code Staff, the Committee works with Global HR and the Overseas Compensation Committee to ensure that variable remuneration awarded to these individuals is compliant with the FCA Remuneration Code, and also review and approve the provision of these individuals' variable compensation.

The DCME remuneration policy is applied consistently to Code Staff across the Daiwa 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).

DCME has engaged the services of Deloitte LLP to provide a third-party review for the purposes of assisting in the determination of the remuneration policy. Deloitte LLP will also provide independent review of any changes to remuneration policies and procedures put in place to meet IFD's requirements.

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 will assess 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 does not limit the Firm's ability to strengthen its capital base.

12.4 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 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 also 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. 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.

Where termination payments are awarded to Code Staff, these will be subject to the approval of the Committee, following robust consideration that such payment reflects performance achieved over time and does not constitute reward for failure.

The Firm's pension policy is fully aligned with its business strategy, objectives, values and long-term interests.

12.5 Link between Pay and Performance

In calculating the bonus pools, the Committee considers the Firm's performance in line with the Overall Business Strategy as well as the performance of each individual Business Unit. Adjustments are made to these pools in accordance with the Firm's Bonus Pool Risk Adjustment Policy, 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 all current and future risks.

The pools for Front Office business units are calculated primarily based on their financial performances, and the Control Function pools are calculated separately, to ensure that their compensation is independent of the business units they control.

Staff performance is measured against financial and non-financial factors, and supported by the Annual Performance Assessment Process. A competency framework is used to support in providing a common understanding of the non-financial performance metrics, identifying to what standard an individual is expected to reach to achieve a particular grade. The areas within the competency framework include conduct and integrity, output and quality, technical ability and compliance with regulatory and systems of controls. Although there is no formulaic link between the individual competency assessment grades and the final overall assessment grade to the final bonus, Human Resources undertook second line reviews of performance grades and bonus to ensure staff were being awarded in a fair and consistent manner.

The range of criteria with which bonuses are determined varies between Business Units. 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 supports in evidencing that due process has been followed with all appropriate factors considered.

12.6 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 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 Compensation Plan Rules.

12.7 Remuneration disclosure

All Compensation for overseas Code Staff is converted using the European Commission's Monthly Accounting Rates for December 2020 (in line with other regulatory reporting).

Table 27 - Remuneration: Aggregate remuneration expenditure for MRTs

Business Area	£'000
Equity	3,998
Fixed Income	6,676
ICBs	6,730
Investment Banking	567
Other Business	735
Principal Investments	379
DCMD	1,891
Support[3]	12,541

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

	Senior Management	Other Material Risk Takers
Number of code staff	*13*	*125*
Fixed pay:-	£'000	£'000
Total Fixed Remuneration	2,400	16,549
Cash-based Fixed Remuneration	*2,400*	*16,549*
Variable Pay:		
Total Variable Remuneration	934	13,634
Cash-based Variable Remuneration	*934*	*13,364*
Of Which Deferred	*90*	*2,681*
Total Remuneration	3,334	30,183

[3] 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)

13 Environmental, Social and Governance (ESG)

The Daiwa Securities Group (DSG) and DCME are passionate about promoting Environmental, Social and Governance (ESG) matters through their active support of the United Nation's Sustainable Development Goals (SDGs). DSG's **Corporate Principles** (building trust, placing importance on personnel, contributing to society; and maintaining healthy earnings results) and the "**Daiwa Spirit**" put ESG values at the centre of the Firm's activities and provide a reference point for all staff engagement in their everyday work. SDG awareness is actively promoted among all employees and our activities publicised to increase awareness of these efforts within the community and environment.

We believe that our role is not only to maintain and develop a fair and dynamic financial market, but also to incorporate an ESG perspective in finance and to facilitate the flow of money to build a sustainable society and environment.

DSG recognises the SDGs adopted by the United Nations in 2015 as overarching goals to lead the world. Through our Group business, we will work actively for realisation of a prosperous society by pursuing both the Group's economic values and solution of social challenges at the same time.

DSG plays a role in contributing to resolving social issues with investment needs through financial functions and has a history of social bond issuance pre-dating the UN's adoption of the SDGs.

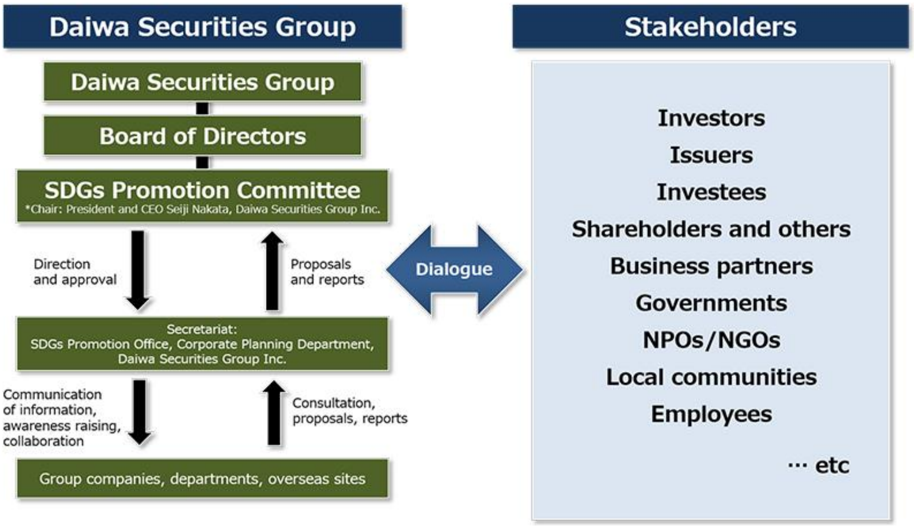
- Green Bonds issued to raise funds required for green projects that contribute to solving environmental issues.
- Social Bonds issued to raise funds required for social projects that contribute to solving social issues such as welfare and education.
- Sustainability Bonds issued to raise funds required for both green and social projects.

13.1 Group Overview

The corporate philosophy of the DSG is to contribute to society. We operate based on the mission of contributing to the development of society through the financial and capital markets. We have engaged in numerous initiatives aimed at resolving the social issues we identify through our stakeholder engagement.

DSG established the SDGs Promotion Committee in 2018 as the decision-making organisation for the Group's policies on SDGs promotion. The details of the Committee's discussions are regularly reported to the Board of Directors and the Executive Management Committee and are deliberated on by those bodies where appropriate. External experts are invited to the Committee enabling the Committee to utilise the experience and insights of those experts in their discussions.

Based on decisions made by the Committee, SDGs promotion initiatives are rolled out to the entire Group through the Corporate Planning Department's SDGs Promotion Office, as well as strengthening collaboration and raising awareness of SDGs within the Group.



In FY2020 SDGs managers and the SDGs Advisory Group were established. The SDGs managers, who are appointed for each organisation of the Group (each division and Group company), take charge of the promotion of SDGs business and the establishment and monitoring of the KPIs. The SDGs Advisory Group is an organisation composed of personnel engaged in SDG and ESG related work within the DSG. It conducts discussion and sharing based on the respective knowledge of those personnel.

More information on the Group's SDG/ESG strategy can be found here. https://www.daiwa-grp.jp/english/sdgs/

13.2 DCME Overview

13.2.1 ESG/SDG Strategy

DCME, as a wholly owned subsidiary of DSG, is fully aligned with the Group's SDG strategy and has established its own purpose, principles and values in support of the Group.

In line with the Group 2030 Vision, DCME has developed its ESG and SDG strategy. Within the 17 interrelated SDGs, DCME has a role to play in all of them but focuses on those that can impact the most, using its business strategy and purpose to guide its choice.

13.2.2 Governance Arrangements

In 2020 DCME established the **Sustainability Oversight Group (SOG)** chaired by the Head of Strategy and Executive Governance and made up of senior management to improve the coordination of DCME's sustainability initiatives. In order to support it in this, the SOG has further established six working groups: Business Development; Regulation & Risk; Sustainability; Charity; Wellbeing and Diversity & Inclusion.

This structure will better coordinate the initiatives already in place, whilst developing a new range of initiatives aligned with the UN's SDGs and materially increasing Daiwa Europe's expertise and credentials in ESG. This firm-wide approach is designed to ensure SDG/ESG becomes ever more deeply embedded in DCME's practices and values.

13.2.3 Focus and Initiatives

13.2.3.1 Wellbeing

The Wellbeing Working Group aims to build a workplace environment and foster a culture that is supportive of all aspects of their own and others wellbeing. The wellbeing strategy has been developed against 7 pillars, reflecting the diversity of our staff, these pillars are: physical, mental, social, spiritual, environmental, financial and emotional.

Recent initiatives have seen the development of a regular wellbeing newsletter that is distributed to all staff focusing on the various aspects of wellbeing, what the Firm is doing to support them and resources available to them. A team of Mental Health First Aid trained employees has been established and the Firm aims to have a suitably qualified individual in every division and branch by 2022. The Firm also assesses itself against the London Healthy Working Place Charter established by the Greater London Authority and endorsed by Public Health England.

13.2.3.2 Diversity & Inclusion

At DCME, we aim to build a diverse and inclusive workforce, and create an environment where individuals from different backgrounds, cultures and beliefs feel welcome. The Diversity & Inclusion Working Group has been formed to help the Firm in delivering this. The working group researches, proposes and, where appropriate, implements and organises D&I initiatives and events in support of this and works closely with Human Resources. It is organised into four sub-groups on Gender & Family, Race & Ethnicity, LGBTQ+ and Multi-Faith. All other aspects of D&I (e.g. disability, neuro-diversity, cognitive diversity, social mobility) are managed by the D&I WG as a whole.

The Firm is a signatory to the "Women in Finance" charter demonstrating our commitment to increase the representative of women in Banking, particularly at senior levels, and has joined the "Japan Diversity and Inclusion Group". A number of events have been intended to attract more female graduates to Daiwa, including a successful "Women in Science, Technology, Engineering & Mathematics" (STEM) careers fair.

In 2021 the first D&I panel discussion was held to explore and create awareness around the issues that affect individuals within the financial services industry. Some of DCME's Senior Stakeholders shared their own experiences of progressing within the financial services sector and focused on the challenges they have faced and the lessons they learnt along the way. The DCME panellists were joined by a diversity and inclusion consultant.

13.2.3.3 Sustainability

The Sustainability Working Group (SWG) aims to define and monitor measures of waste, consumption and environmental impact in the context DCME's business processes and develop an environmental framework to guide the Firm in lowering its environmental impact. A key objective is to measure DCME's CO2 footprint and identify a path to net neutral, including early reduction targets.

The Firm has already taken steps to reduce its carbon footprint, promoting energy efficiency, recycling and re-use. Recycling stations have been introduced throughout our premises and plastic cups removed from staff kitchens. Plastic bin bag consumption is set to reduce by 50,000 a year. The Firm has ensured the most efficient operation of the building to reduce energy consumption (ISO 50001 accreditation achieved for Energy Management).

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

More recently the COVID 19 pandemic has seen a marked reduction in business travel and paper consumption as the majority of staff have worked from home. The Firm is exploring the best means to capitalise on this experience in its future operating model as staff begin to return to the office.

13.2.3.4 Charities

The Charity Working Group oversees DCME's charitable activities.
Emphasis is placed on supporting local initiatives and charities that can enhance the local community. Initiatives include support for areas in food poverty, disadvantage mentoring and gender and health equality. Donations to charities are made throughout the year and staff are encouraged to participate in fund-raising activities both internally and externally through volunteering days. Recent initiatives have seen support of a local food bank and a children's hospital.

13.2.3.5 Business Development

The Daiwa Securities Group and DCME have a long history of supporting the financing of social and environmental initiatives. The Firm has supported "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 Markets Department recently won The Environmental Finance Magazine's Lead Manager of the Year – Social Bonds Award, selected by a panel of the world's largest green, social and sustainability bond investors. In addition, EMEA Finance magazine awarded the team "Best ESG Bond House" recognising two ground-breaking 'Social' Samurai issues and a EUR 'Education' private placement bond. In a 2020 ESG scoring survey conducted by International Finance Corporation, a member of World Bank Group, Daiwa finished joint first.

The Business Development Working Group is charged with further promoting and exploring business opportunities linked to the ESG market in all relevant business lines with an open, forward-looking, opportunistic and well-balanced mindset.

13.2.3.6 Regulation & Risk

In recognition of the rapidly developing market, supervisory environment and associated risks, a Regulation & Risk Working Group (RRWG) has been created to review current and emerging regulation or guidance in the context of ESG matters. The RRWG works closely with the Business Development Working Group to advise on any implications to proposed business initiatives.

The risks associated with climate change are a key area of focus. Climate change presents particular uncertainties that are challenging both in terms of the path climate change might follow in the long term and also the developing practices on how to manage the resulting risks. Although DCME is not yet under any regulatory obligation, a number of responses have been considered and a project is planned to look at how the Firm might be exposed to the risks associated with climate change and a proportionate management response. To this end, it is intended to follow the Bank of England's expectations and the Climate Financial Risk Forum guide. DCME has undertaken some preliminary work on these matters.

Area	DCME actions
Governance	• SMF appointed holder for oversight function. • SOG along with supporting working groups have been established. • DCME's ESG and SDG Strategy has identified 5 SDGs for its primary focus, of which 1 is related to climate change (SDG 13: Climate action). • Climate change training for Board members and senior management planned for 2021.
Risk Management	• Initial qualitative impact assessment completed on different Business Lines. • Climate Risk included in the risk inventory as a transverse risk type considered as a driver of existing risk types.
Scenario Analysis	• Physical and transitional risk types have been considered for stress testing scenarios. • Operational risk scenario analysis considered the impact of extreme weather on the Firm's data centres. • Flood risk to Principal Investments portfolio assessed.

13.2.3.7 Other Initiatives

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.

The Firm has also been accredited 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 disadvantaged young people. We hold regular fund raising events and support individuals participating in sponsored charity events.

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 weekly staff newsletter and through "Town Hall" presentations by members of DCME senior management.