Daiwa Capital Markets Europe Limited

Annual report and financial statements for the year ended 31 March 2021

Company registered number: 01487359

Daiwa Capital Markets Europe Limited

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1. Chairman's Statement

March 2021 saw the completion of my first full fiscal year as Chairman of Daiwa Capital Markets Europe Limited (DCME) after having been initially appointed to the Board in May 2017. It has certainly been an unprecedented year with the Covid-19 pandemic bringing market volatility and testing our operational resilience against a backdrop of the UK moving into post Brexit reality.

Against this backdrop DCME has delivered exceptional financial results, reporting a full year profit for the financial year ended 31st March 2021 of £45.4m, compared to a loss of £34.2m in the previous year. This performance complements the strong results of the Daiwa Securities Group, which saw increases in revenues across all divisions and a year on year increase of group profit of 79.6% over the same period.

The start of the financial year saw great uncertainty in markets as the Covid-19 virus quickly developed into a global pandemic. We are still working to defeat the virus but we have seen several approved vaccines with rapid rollouts and a public health awareness and a new approach to social behaviours, which has controlled the spread and is delivering sight of a new life post the pandemic. This progress in the fight was reflected in the markets as the turmoil at the start of 2020 was replaced by global economic recovery as we moved through the year, which provided the opportunity for our strong operating results.

Our success and ability to ride the challenges presented to us in 2020 is a lasting testament to our employees and my thanks goes out to them. As we moved to a new "remote working" model in March 2020 we could never have foreseen that this would become the modus operandi throughout the fiscal year. Due to the initiative and hard work of our employees and strong IT infrastructure we have proven to be operationally resilient without any adverse impacts on our business or the service we provide to our clients. Indeed, we have learnt many valuable lessons through this sustained period of working from home and have seen many positives through the challenges. Whilst we recognise the need for the cultural and team benefits which face to face working facilitates, the realisation of other remote working positives has led us to plan a return to the office which will be a hybrid, more flexible model, having listened to our people and recognising lessons learned. At all times our approach will be prudent, putting the safety of our staff and society first and we will continue to follow government advice.

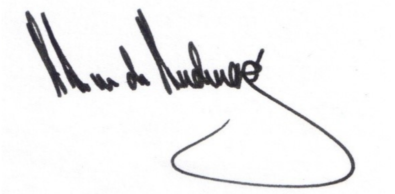
DCME adopted a new purpose statement in the past year of "providing Daiwa's European link to global markets, delivering on the Company's principles by building trust, contributing to society, supporting its employees and financing sustainable growth". Our passion for promoting the sustainability agenda is demonstrated by our support for the United Nations Sustainable Development Goals (SDG), and supporting sustainability is one of the firm's four principles, ensuring that it is increasingly at the heart of everything we do. This firm wide approach is embedded by the Sustainability Oversight Group (SOG) created in the last year, which coordinates our initiatives around wellbeing, diversity and inclusion, sustainability, charities, ESG business development and regulation and risk developments in an ESG context, notably the work of the Climate Financial Risk Forum as we move towards additional ESG disclosure requirements in 2022. By design we have ensured that the sustainability agenda has become ever more deeply embedded in DCME's practices and values.

There was a significant change to the entity structure in 2020 as on 1st October the separation was completed of Daiwa Corporate Advisory Limited London (DCA) from DCME as part of a reorganisation of the Daiwa Group structure. This resulted in a gain from the sale for DCME which contributed £19.2m to the 31st March 2021 results. Subsequent to our year end we have also seen changes to our Board of Directors. First, I would like to welcome Hidenobu Shirota who has joined the Board as the senior Daiwa Group representative for the region. I would also like to thank Keith Meekins, who has recently stepped down as our Chief Executive, for the outstanding contribution he has made to DCME over many years. The Board will look to appoint a new Chief Executive in due course.

DCME now has one subsidiary, Daiwa Capital Markets Deutschland GmbH (DCMD) which operates from offices in Frankfurt and is regulated by the German regulator BaFin. The establishment of this entity in 2017 and its continued expansion of trading in this fiscal year has allowed us to continue to be able to provide financial services and market access to clients in the European Economic Area in the post Brexit environment.

I would like to thank our staff and clients for their continued commitment in these challenging times. To our employees we are inspired by how you pulled together to achieve excellent results under extraordinary circumstances. I continue to be optimistic about the future as we seek to streamline and grow our business in a post-pandemic, post-Brexit world.

Yours sincerely,



Douglas van den Aardweg

Chairman

Daiwa Capital Markets Europe Limited

2. Strategic Review

2.1. Introduction

The purpose of this report is to provide users of these Financial Statements with an insight into Daiwa Capital Markets Europe's ("DCME") business strategy, the associated risks and opportunities, and how DCME's directors discharge their Companies Act 2006 Section 172 responsibilities. The report includes commentary on the company's performance, Key Performance Indicators ("KPIs"), an outline of how DCME is structured, an overview of future prospects and the risks the business faces together with the strategy to mitigate these risks.

2.2. Section 172 Compliance

Under Section 172 of the Companies Act 2006, DCME's directors have a responsibility to promote the success of the company for the long-term benefit of its members and in doing so have regard to:

(a) the likely consequences of any decision in the long term,

(b) the interests of the company's employees,

(c) the need to foster the company's business relationships with suppliers, customers and others,

(d) the impact of the company's operations on the community and the environment,

(e) the desirability of the company maintaining a reputation for high standards of business conduct, and

(f) the need to act fairly as between members of the company.

The purpose of this section is to explain how DCME's directors have discharged this responsibility and for clarity, certain items below are referenced to the requirements listed above. The Board considers it crucial that DCME maintains a reputation for high standards of business conduct. The Board is responsible for setting, monitoring and upholding the culture, values, standards, ethics and reputation of DCME to ensure that its obligations to its shareholder, employees, customers and other stakeholders are met. Management drives the embedding of the desired culture throughout the organisation. The Board monitors adherence to DCME's policies and compliance with local corporate governance requirements.

2.2.1. Shareholder

DCME has only one shareholder (Daiwa Securities Group Inc. ("DSGI")) and meets the requirements to act fairly between members of the company, (S172 (f)).

The primary benefit that DCME brings to DSGI is to be an effective part of Daiwa Group's network of overseas offices that provide access to Japan and Asia for European clients and access to Europe for Daiwa Group clients. DCME also provides outsourced services to Daiwa Group, particularly in the area of derivative modelling and technical support.

The directors discharge their primary responsibility to DSGI by ensuring that the company's objectives and business plans are closely aligned with those of its parent group and these are taken into account when approving the annual DCME plan and budget. This includes the alignment of long-term business plans (see S172 (a) above). The execution of this responsibility is aided by the fact that the DCME Board includes four Daiwa Group non-executive directors and also by the way that DCME's business lines (see business model below) mirror those of the Group. DCME's derivative infrastructure teams work closely with their Group customers to ensure that their requirements are met.

2.2.2. Business Culture

The directors strongly believe that fostering and maintaining a positive culture within DCME is essential to the long-term success of the company and, in addition to ensuring compliance with the FCA's conduct rules, have adopted an enhanced framework of Company Purpose, Principles and Values. This established four values:

Integrity: We do the right thing for our people, our clients, our regulator, our shareholder and society (S172 (a) (b) (c) (d) (e)).

Development: We recognise our achievements, develop our skills and continuously learn (S172 (e)).

Fairness and Inclusivity: We embrace diversity in all its forms and provide a safe, inclusive and empowering workplace (S172 (b) (e)).

Sustainability: We take a long-term view of our business decisions, our client relationships and the impact we have on our world (S172 (a) (c) (d)).

The Board monitors compliance with all conduct regulations. The 'Senior Manager and Certification Regime' operated by the firm's regulator (the FCA) is fully embraced by the Board as a positive culture enabler, and the FCA Conduct rules are reflected in DCME's Principles and Values (S172 (d) (e)).

2.2.3. Suppliers

It is vital that we build strong working relationships with our suppliers. DCME's relationship with its suppliers of services and goods is formalised by internal control processes. These ensure that supply risk is managed appropriately in relation to customer outcomes, data security, corporate responsibility and financial, operational, contractual and reputational damage caused by inadequate oversight of potential supplier failure. A uniform procurement approach is adopted to ensure that DCME receives the best value in terms of price and quality, whilst ensuring that the company meets the highest ethical standards (S172 (c)). DCME also takes compliance with the Bribery Act (2010) requirements seriously, embedding robust processes and procedures in place to support supplier engagement.

2.2.4. Society

The directors recognise the benefit and importance of minimising DCME's impact on the environment and making a positive contribution to society. 2020 saw DCME make a step change in its sustainability initiatives with the establishment of the Sustainability Oversight Group, chaired by the Head of Strategy and Executive Governance and comprised of senior management. This is designed to improve the co-ordination of DCME's sustainability initiatives and to support this key objective, the Sustainability Oversight Group has further established six working groups: Business Development; Regulation & Risk; Sustainability; Charity; Wellbeing and Diversity & Inclusion.

This governance structure will better coordinate the activities already in place, whilst developing a new range of initiatives aligned with the UN's Sustainable Development Goals ("SDGs") and materially increasing DCME's expertise and credentials in the sustainability space. This firm-wide approach is designed to ensure that sustainability becomes ever more deeply embedded in DCME's practices and values (S172 (d)).

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 seven pillars, reflecting the diversity of our staff: physical, mental, social, spiritual, environmental, financial and emotional (S172 (b)).

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 the resources available (S172 (b)). 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 Heath England (S172 (b)).

The directors recognise the necessity of ensuring that we have a diverse and inclusive workforce and create an environment where individuals from different backgrounds, cultures and beliefs feel welcome. The Diversity & Inclusion Working Group ("DI&WG") has been formed to help the firm in delivering this objective. The working group researches, proposes and where appropriate, implements and organises D&I initiatives and events 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 Diversity & Inclusion (e.g. disability, neuro-diversity, cognitive diversity, social mobility) are managed by the D&I WG as a whole (S172 (b)).

The firm is a signatory to the Women in Finance Charter demonstrating its commitment to increase the representative of women in banking, particular at senior levels and has joined the "Japan Diversity and Inclusion Group". A number of events have been held to attract more female graduates to Daiwa, including a successful "Women in Science, Technology, and Engineering & Mathematics" (STEM) careers fair (S172 (b)).

The Sustainability Working Group aims to define and monitor measures of waste, consumption and environmental impact in the context of DCME's business processes, and to develop a framework to guide the firm in lowering its environmental impact (S172 (d)). A key objective is to measure DCME's CO_2 footprint and identify a path to net neutral, including early reduction targets (S172 (d)).

The firm has already taken steps to reduce its carbon footprint, promoting energy efficiency, recycling and re-use. Recycling stations have been introduced throughout DCME's 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) (S172 (d)).

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.

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 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 (S172 (d)).

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 lead-managed over 50 transactions that align to the objectives of the SDGs (S172 (d)). DCME's Debt Capital Market 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 (S172 (d)). 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 (S172 (d)).

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 mind-set.

In recognition of the rapidly developing market, supervisory environment and associated risks, a Regulation & Risk Working Group has been established to review current and emerging regulation or guidance in the context of Environmental, Social and Governance (ESG) matters. The Regulation & Risk Working Group works closely with the Business Development Working Group to advise on any implications to proposed business initiatives (S172 (a)).

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. DCME has considered a number of responses and a project is planned to explore how the firm might be exposed to the risks associated with climate change and to develop a proportionate management response (S172 (a)). To this end, it is intended to follow the Bank of England's expectations and the Climate Financial Risk Forum guide. DCME has undertaken preliminary stage work on these matters.

2.2.5. Employees

The Board recognises that DCME employees are fundamental to its business and the delivery of DCME's strategic ambitions. The future success of DCME depends on attracting, retaining and motivating employees (including promoting internal development) (S172 (b)). The directors recognise the value of diversity within DCME's workforce and ensure that employee wellbeing is at the core of its operations. DCME is a responsible employer, both in pay and benefits, and also from the perspective of health and safety and the workplace environment (S172 (b)). The directors factor in the implications of decisions taken, giving due consideration to employees and the wider workforce where relevant and feasible (S172 (b)). Through employee forums, internal communications and an 'open door policy', directors engage with DCME employees on a wide range of matters arising within the business, also including wellbeing, culture, development and diversity (S172 (b)). Employees have regular exposure and engagement with the Senior Management team and these connections are effective in building and maintaining trust and communication; allowing for openness, honesty and transparency and promoting productivity within the business. These methods of engagement also act as a platform for DCME employees to influence change in relation to matters that affect them (S172 (b)).

DCME has a number of Ambassadors of Good Culture selected to represent all areas of the firm. The group has been established to help embed good conduct and promote positive culture values throughout the firm and engaging new joiners from the start of their journey to ensure they are provided with opportunities to understand the values and culture of the company (S172 (e)).

Diversity is a key objective of the directors and DCME has signed up to the Women in Finance Charter and have a number of policies in place to support diversity including flexible working, home working, shared parental leave, enhanced maternity policy and paternity leave (S172 (b)). The directors are committed to recruiting talent to promote a diverse and inclusive culture and HR's resourcing strategy aligns to the firm's commitment to diversity and its commitment to the Women in Finance Charter.

The Board recognises the business advantages from having a wide range of perspectives and actively aims to create a diverse and inclusive culture where everyone feels valued and able to speak up (S172 (b)). DCME encourages employee feedback to management and the Board supports a whistleblowing policy where employees can raise concerns on a confidential basis to a non-executive director (S172 (b)).

2.2.6. Customers

DCME's customers are at the core of our business and therefore central to the strategic development of the firm and we must treat them fairly. DCME ensures an open and effective communication with clients, ensuring our online platforms are tailored to the expectations of the firm's customers (S172 (c)). DCME adheres to Best Execution processes, its corporate values, operates a robust complaints process and a New Product Approval process is in place to ensure we provide customers with appropriate products in line with market expectations (S172 (c)).

2.2.7. Regulators

DCME is subject to financial services regulations and is the subject of close and continuous supervision by our regulators and we maintain constructive and open relationships with them. We have a programme of regular meetings between the directors and our regulators, the Financial Conduct Authority (S172 (e)).

2.3. Business Model

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

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

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

DCME has a German subsidiary, Daiwa Capital Markets Deutschland GmbH (DCMD), which was established as a response to the UK's decision to leave the EU. The primary aim of the entity is to protect Daiwa Group relationships with existing EEA clients and maintain access to EEA clients and products for Daiwa Group's clients. In the medium term the objective is to increase client and product coverage in the EEA through a local presence. The results of DCMD are not consolidated in these financial statements.

2.4. Review of businesses, performance and strategy

DCME's 2021 pre-tax result was a profit on ordinary activities of £45.4m (2020: loss of £34.2m).

Net operating income increased £68.7m (87.3%) y-o-y, while Administrative Expenses increased by £10.7m (9.5%).

Following a challenging end to the financial year 2020, DCME saw a strong recovery during 2021, the pre-tax profit reflects the benefits seen from a market rebound coupled with strong underlying business performance. Operating profits were largely driven by Fixed Income and Convertible Bond trading activity which saw £39.1m and £31.3m y-o-y increases respectively.

The full year's results of £45.4m include income from the sale of DCA, the firm's corporate advisory subsidiary, mid-way through the year which generated an income of £19.2m.

Administrative expenses saw a £10.7m (9.5%) increase y-o-y mainly reflecting the impact of the strong performance on compensation related costs.

DCME spent significant time and resources throughout the year enhancing operational resilience especially vis a vis home working and business continuity planning. Strategic investment in technology continues to strengthen the business and support areas so that the firm remains efficient with robust controls and regulatory compliance.

Looking forward, DCME remains optimistic about building on the recovery seen in 2021, with expectations of increasing primary revenue and a further build out of the Principal Investments business in 2022 and outer years of the business plan.

DCME is currently undertaking a strategic review of its booking model. As noted below in each of the respective Business Division sections, DCME forms part of the global strategy for each asset class. The Daiwa Group is exploring the potential options to integrate and optimize the booking flows across the broader global footprint, of which, DCME is a key component.

2.4.1. Covid-19

Whilst the long-term impacts of Covid-19 may remain unknown for a while, the speed and extent of the current recovery remains the subject of great scrutiny. DCME maintains a conservative approach and has based the 3-year business plan on forecasts from the firm's Economic Research department which have included considerations for the Covid-19 fall out.

While the majority of DCME staff continue to work remotely, as they have for over a year now, there are plans to introduce flexible hybrid working arrangements in order to leverage the numerous benefits of both working remotely and being physically present in the office.

DCME continues to regularly stress test capital and liquidity resources and undertakes annual fire drills of the senior management working groups to simulate severe stresses to the firm and the infrastructure in place to respond in an appropriate and agile manner.

2.4.2. Equities

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

The Equity Division had a 1% y-o-y increase in total revenue driven by a 93% y-o-y increase in primary revenue offset by an 11% fall in secondary.

The secondary business consists of two distinct products, namely being research and execution services. Whilst research remained stable, execution was impacted from decreased trading volumes during the year. At the end of the prior financial year investors rushed to liquidate positions in order to de-risk from the Covid-19 pandemic which led to sharp declines in global stock markets. Investors remained quiet during the first half of the year resulting in low levels of primary and secondary activity. In the second half of the year, primary markets rebounded and confidence came back to the global equity markets. Secondary execution commissions recovered, but this did not fully offset the loss of revenue seen in first half of the year.

From a research perspective, the Japanese product remains competitive for Japan specialists and DCME was able to keep its market share from the prior year despite a challenging market. This is the result of a "focused client strategy", where we allocate resources to priority clients.

For the execution business, DCME has also maintained its market share from the prior year. One of the criteria investors use when choosing execution brokers is market share of trading volumes. Orders tend to be routed via the brokers who are the most active in the market, as trade matching opportunities are higher, hence this is a key focus.

DCME is optimistic for 2022, with secondary activity expected to continue in the same vein as the second half of 2021, and to grow revenues for the Equity Division.

2.4.3. Fixed Income ("FI")

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

FI's revenues were up 339% y-o-y. FY20/21 performance was robust as the Credit Trading desk captured recovery from "Covid-19 shock" which resulted in P/L far exceeding the budget, with stable revenue from JGB and MTN.

Looking forward to 2022 DCME will focus more on expanding the client base, promoting Yen credits, expanding AUD bond business, and strengthening primary business to capture client flow and to build trading and sales revenue.

2.4.4. International Convertible Bonds ("ICB")

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

ICB's 2021 revenues were up 2,653% y-o-y. The March 2020 sell off provided an opportunity to build an attractive ascot book which performed strongly over the financial period. The market recovery created good opportunities with the business very active in capturing spreads and benefiting from the recovery in asset values. Primary markets in Asia were strong and, while Japan had a quieter year, DCME was involved in two significant transactions in the final quarter.

Throughout 2021 the ICB desk reduced its risk as the market recovery progressed and realised gains across the ascot book, however some low risk positions remain. DCME does not expect 2022 to see the strength enjoyed in 2021 as markets have now recovered, but there are expectations of a stronger primary business in the year ahead.

2.4.5. Debt Capital Markets ("DCM")/IB Syndication

DCM/IB Syndication forms part of the Investment Banking Division and has two purposes. The first performed by DCM is to act as a marketing and co-ordination function to develop business with international borrowers in the primary/new issue market for debt products targeted at Japanese and non-Japanese based retail and institutional investors. The second performed by the Syndication desk provides origination advice to borrowers and co-ordinates with other members of transaction underwriting syndicates.

For 2021, the combined DCM/IB Syndication reported weaker revenues (down 11% y-o-y) driven partly by the overall market sentiment.

For 2022, improved revenues are expected as the market stabilises, and business development both for Japanese and international borrowers has already been confirmed, however we see limited scope for improvement in Japanese retail orientated product revenue.

2.4.6. Equity Capital Markets ("ECM")

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

For 2021 revenues were up 160% y-o-y, based on a busy second half of the year as the market environment stabilised after the initial Covid-19 shock and many issuers, acting opportunistically to avoid further uncertainty, looked to raise money ahead of the winter and the US Presidential Election.

For 2022, the pipeline looks robust, with a number of issuers looking to utilise heightened share prices to improve balance sheets damaged during the Covid-19 pandemic.

2.4.7. Principal Investments ("PI")

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

For 2021 PI revenues were down 30% y-o-y. In a challenging year, PI achieved 97% of budget, despite a £1.2m loss impairment on one of the development loans. PI took a very cautious approach throughout the year, with no new loans underwritten due to the market volatility.

For 2022, PI will remain cautious with a focus on bridge lending initially, reflecting the need to rebuild the loan book given the number of loan redemptions in the last 12 months. Revenues are expected to be marginally lower than the previous year reflecting a cautious approach to rebuilding the portfolio.

2.4.8. Key Performance Indicators (KPIs)

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

Performance against Plan	**2021**	**2020**
Net Operating Income	+53.37%	-38.40%
Administrative expenses (exc. restructuring costs)	+10.29%	-6.90%
Total headcount (including non-perm staff)	+1.27%	0%
Actual Performance		
Return on Equity	9.48%	-7.83%
Voluntary staff turnover	8.00%	8.00%
Profit/(Loss) on ordinary activities before tax	£45.4m	(£34.2m)

These KPIs show that DCME's net operating income for 2021 was significantly ahead of plan. Overheads were also over plan primarily reflecting the impact of revenue and performance related costs. Headcount was slightly below plan reflecting effective control of staff numbers.

Capital	**2021**	**2020**
	£m	£m
Regulatory Capital Resources	403	404
Tier 1 Capital Ratio	54.66%	38.0%
Unsecured Funding – Daiwa Group	£bn	£bn
Usage	0.87	1.3
Limit	1.36	1.69

DCME derives a significant proportion of unsecured funding from Daiwa Securities Company Ltd. DCME is therefore sensitive to changes in the Daiwa Group's resource allocation strategy.

Whilst DCME maintains significant levels of excess capital, making the achievement of a reasonable return on equity challenging, it is essential for 'business as usual', as the large exposure requirements of the CRD IV regulation are linked to capital levels. Without this level of capital DCME could face significant trading volume restrictions. Additionally, capital provides a source of funding for DCME and the firm would require an alternative source if it were reduced.

There are currently no indications from the parent that they require repatriation of capital.

2.5. Principal Risks and Uncertainties Facing the Company

2.5.1. Covid-19

In 2020 Covid-19 presented the principal risk to DCME, and the firm reacted decisively in the build-up to lock down by splitting teams to ensure coverage should individuals become unable to work and testing the business continuity arrangements. When lockdown came DCME was well placed to adapt and experienced little operational impact due to the change. Controls and checks remained robust and as the year progressed DCME enjoyed a strong recovery from the initial impact of the crisis.

In late 2020 DCME began considering how its office of the future would look and began a consultation, led by the COO, to canvass management and employee opinion. Following the outcomes of the consultation DCME will begin a year's trial of a flexible working arrangement whereby each employee will be expected to work at least two days a week in the office on a "hot-desking" basis. Work to convert the office into an environment suitable for flexible working began in March 2021 with the trial set to begin in July, subject to government guidance.

Whilst the longer term impact of Covid-19 is difficult to predict DCME has factored the current global outlook into its economic forecasts upon which the 3 year business plan is based. DCME continues to stress test its capital, funding and liquidity regularly under a range of scenarios and senior management meet monthly to review these results.

2.5.2. The UK's future relationship with the European Union

At 11pm on 31st December 2020 the transition period between the EU and UK ended and Brexit was completed. The year ended March 2021 was DCMD's second full year of business and the entity is now fully established in Frankfurt. It was setup as a Brexit contingency to mitigate any inability to service European clients and access markets. It has traded back to back repurchase agreements versus DCME in this fiscal year and is fulfilling its purpose.

Despite the conclusion of the EU-UK Trade and Cooperation Agreement on 24th December 2020 there are only very limited provisions on financial services and it included no progress on key areas such as regulatory equivalence. On a positive note the declaration covering financial services contained stated aims for the UK and EU to establish structured regulatory co-operation. The parties also committed to discuss how to move forward with equivalence determinations. However, in the absence of a full agreement and framework for financial services the establishment of DCMD has ensured as smooth a transition as possible. DCME and DCMD continue to remain vigilant to post-Brexit developments and will adjust the business model and operations as required particularly considering upcoming changes to law and any future equivalence decisions.

2.5.3. Geographic and Market Exposure

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

2.5.4. Group Exposure

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

The Daiwa Group has a distinctly Japanese domestic bias, with a significant retail franchise within the Japanese market. As such, the wider strategic risks and uncertainties faced by the company are similar to those which are relevant to our parent company and the Japanese economy as a whole. The Daiwa Securities Group has experienced strong year, with Net Operating Revenue up 9.5%, Ordinary Income up 63.9% and Profit Attributable to Owners of Parent up 79.6% and ROE of 8.5% (2020: 4.9%).

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

Changes in Group strategy and/or product line strategy could have a direct impact on DCME and its strategy. Differences between Group and local strategy need to be actively managed to avoid negatively impacting DCME. The inclusion of Tokyo senior management on DCME's Board, and close communication between DCME division heads and their global product heads helps to avoid these types of conflicts. DCME is subject to the Senior Managers Regime, in the UK, which helps further embed strong governance and autonomy of decision making within the organisation.

2.5.5. Resource Constraints/Business Focus

A large part of the DCME business model requires, and will continue to require, taking on balance sheet positions in a market making capacity. Taking these positions requires access to both funding and capital, and whilst DCME has a very strong capital and liquidity profile there is a risk that, with increased focus on return on equity amongst Japanese firms, the current low returns will result in the Group re-deploying resources currently allocated to Europe which would severely constrain the business. Any changes in resource allocation would, however, be carefully considered and implemented in an orderly way.

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

2.5.6. Climate Change

The risks associated with climate change are a key area of concern for the regulators, markets, clients and society as a whole. DCME takes its responsibility to environmental matters seriously and supports the UN's Sustainable Development Goals (SDGs) through its corporate values and specific activities. Senior management have established the Sustainability Oversight Group (SOG) charged with managing the firm's response.

Climate change presents particular uncertainties that are challenging to the firm 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. DCME has considered a number of responses 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.

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.

2.5.7. DCME Specific Risks and Uncertainties

DCME continues to maintain its balance sheet in high quality liquid assets, with less than 7% of the asset base being invested in sub-investment grade credit (refer to note 9.30.4 of the accounts for further details).

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

Risk	Impact / Probability	Change in risk Y-o-Y	Mitigation of risk
Liquidity risk	Medium Impact Medium Probability	The corona-virus induced pandemic across the world sharply curtailed global economies throughout 2020 although some relief could emerge in 2021 with a successful rollout of a vaccine programme. The impact on the global economy of the lockdown measures currently in place are the main geopolitical risks. Governments and central banks continue to do 'whatever it takes' to support global economies and financial markets. Whilst there has been impact on the level of repo activity in the market, the funding line to DCME from the parent has remained stable. Daiwa Group's liquidity position also remains strong.	DCME has a dedicated liquidity risk management department focused on assessment, monitoring and reporting of liquidity risk. The department aims to evolve and improve all aspects of liquidity risk management on a continuous basis, as well as implementing associated liquidity regulations. DCME takes a prudent approach to liquidity risk management. DCME manages liquidity at levels such that it remains (i) cash flow positive over all time periods up to 1 month under a combined market and name specific liquidity stress, and (ii) cash flow positive for at least one year under a market stress. DCME holds a significant liquid asset buffer, which can be readily converted into cash when required. The trading portfolio also consists of high quality assets, most of which are deemed extremely liquid.
Regulatory changes	High Impact High Probability	Increased oversight and expectations, from the Regulator, has led to greater requirements for capital and liquidity, and additional operational requirements. New regulation and reporting requirements have increased the need for risk management, regulatory and compliance resources, as well as absorbing significantly more senior management and Board time. Key new regulation affecting the firm includes, but is not limited to, phasing out of LIBOR reference rates, Securities Financing Transaction Reporting, the upcoming new Prudential Regime for Investment Firms and on-going regulatory focus on Operational Resiliency, Cyber security and ESG.	The on-going raft of regulatory changes continues to provide significant challenges to the industry, both in terms of implementation and compliance. Meeting regulatory requirements is not just a high priority for DCME Board members but for the Group as a whole. DCME mitigates the implementation risks by employing experienced prudential regulatory staff. A dedicated regulatory governance section exists to ensure we are not only dealing with current changes but can also be forward looking to address future changes in a timely manner. In addition, the regulatory quality assurance function seeks to further enhance controls and ensure accuracy and completeness of data amidst the on-going change. The appropriate committees within DCME's governance structure are made aware of the changes, the impact on DCME, the cost and resources required to achieve implementation on the mandatory deadlines. The Asset and Liability Committee (ALCO) has detailed oversight of all prudential regulatory change while ultimate responsibility lies with the Board. In addition, the compliance with and impact on business of regulatory change is reduced by

Risk	Impact / Probability	Change in risk Y-o-Y	Mitigation of risk
			maintaining a non-complex product and service offering. During the year significant progress has been made in enhancing the firm's ability to prevent and detect market abuse and keep the firm proactively engaged with the regulator's agenda. Significant investment and effort is being expended in enhancing both Operational Resiliency and Cyber security across the organisation, with the view to ensuring continuity of key business processes. Given the announcements of the UK's Financial Conduct Authority (FCA) in 2017, the future of LIBOR is not guaranteed and banks will no longer be compelled to submit to LIBOR after December 2021. Therefore, alternative risk-free rates (RFRs), rate-based products, derivatives, liquidity pools and clearing capabilities need to evolve as part of an overall programme transition timetable. The key aim for the IBOR Transition project is to ensure that this regulatory request will be addressed within the expected timeframe. The project is focusing on both on transition of existing positions and to facilitate trading using new RFRs. The project is on track to deliver key objectives as planned. DCME's parent company, DSCL, has committed all Daiwa Group entities to furthering the UNs 17 sustainable development goals. As part of this commitment DCME has set up a Sustainability Oversight Group which is supported by an Environment Social and Governance (ESG) working group with the purpose of pursuing best practice in the ESG space.
Competitive pressure	High Impact Medium Probability	Unchanged. Staff turnover in the year was 13%, and voluntary turnover was 8%, which is low for the industry. No material risks crystallised during the year as a result of key staff departures.	The key competitive pressure we face is staff retention, which the company attempts to mitigate by ensuring compensation is competitive and promoting a positive culture of work/life balance. Significant investment and effort is being expended in enhancing both Operational Resiliency and Cyber security across the organisation, with the view to ensuring continuity of key business processes
Operational Risks (not covered separately)	High/Medium Impact Medium Probability	Operational risk is the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events and covers a variety of risk factors from rogue trading, and securities fraud to BCP	DCME has a common firm-wide framework overseen by a central Operational Risk Management function, with ownership of the actual risks residing with the managers responsible for the relevant business process. This framework was strengthened during last year via an enhancement project. This work was

Risk	Impact / Probability	Change in risk Y-o-Y	Mitigation of risk
		events, such as the failure of critical systems. DCME undertook a major Operational Risk Management enhancement programme in the 2019-20 financial year which has driven an improvement in the processes by which DCME identifies and monitors operational risk and the skill set of the Operational Risk Department. This has led to a significant improvement in operational risk oversight and management of risks across the firm.	subject to a successful Internal Audit review, and was approved by the Board. DCME utilises a number of firm-wide processes and tools for the identification, recording, assessment, monitoring, prevention and mitigation of operational risks. There continues to be a significant firm-wide initiative, to address the risks posed by cyber-crime and information security and material resources have been allocated by the Technology Division to mitigate these risks. DCME established a program to ensure that the firm's operational resilience is in-line with recent regulatory consultation papers. A number of senior hires in the Operational Risk team have led to increased awareness within the firm.
Litigation Risks	High Impact Medium Probability	Exposure to the risk of litigation is an inherent risk in the securities market and is further increased during periods of market volatility and corporate failures. DCME faces litigation risk from both current and historic activities. So, while the current business model is simpler than in prior years, the risks remain. The longer the current strategy continues the lower the litigation risk from past activity becomes. Litigation risks in the market have been increasing since the financial crisis as regulatory fines and penalties increase litigation risks on those firms being penalised by the Regulator. For DCME this increased risk is offset by a simplification in the business model and increased allocation of capital resources.	While our primary approach to mitigating these risks is through appropriate on-boarding controls and risk management techniques combined with good quality, market standard legal documentation, our view based on our own experiences and events in the market is that it is difficult to entirely eliminate these risks. As at the balance sheet date, DCME had no active litigation cases open against the firm. Senior management is also conscious of the increasing focus on ESG from markets, clients and regulators leading to reputational risk and high profile litigation cases. DCME actively supports to UN's Sustainable Development Goals and has established a Sustainability Oversight Committee charged with managing the firms ESG/SDG response.

The strategic report was approved by the Board on 24 June 2021 and signed on their behalf by:

Doug van den Aadrweg

Chief Executive Officer

3. Directors Report

The directors present their annual report on the affairs of Daiwa Capital Markets Europe Limited ('the company'), together with the financial statements and independent auditor's report, for the year ended 31 March 2021.

3.1. Principal Activities

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

3.2. Results and Dividends

The audited financial statements for the year ended 31 March 2021 are set out from section 6 onwards. The company's profit for the year after taxation was £44.8m (2020: Loss of £34m). The Strategic Review provides commentary and background on the company's performance. The directors do not recommend payment of a dividend in respect of the current financial year (2020: £nil).

3.3. Risk Management

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

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

The company actively manages its exposure to market risk (such as interest rates or equity prices) and credit risk, using a variety of techniques including value-at-risk, sensitivity limits, exposure limits, stress testing, diversification, mitigation by collateral and hedging. As part of its hedging activity, the company utilises derivative products such as interest rate swaps, futures and credit default swaps. Notes 9.30 and 9.31 to the financial statements provide a full explanation of the company's financial and capital risk management objectives and policies, and exposure to market, credit and liquidity risk.

3.4. Financial Instruments

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

3.5. Employee Consultation

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

3.6. Charitable Contributions

The company contributed £22,880 (2020: £34,886) to charities during the course of the year.

3.7. Disabled Employees

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

3.8. Environmental Measures

The company continues to support the UN Sustainable Development Goals (SDG's) and strives to reduce its carbon footprint and reduce its impact on the environment.

During the year DCME's environmental initiatives at 5 King William Street included a full replacement of the lighting system and controls (which is forecast to save 12% on the office's total annual electricity consumption), and a full review of the building's fan coil system.

DCME works with all our third party suppliers to ensure the best environmental practices are used in delivering services to the company and look for new initiatives to improve on what we currently do.

3.9. Streamlined Energy & Carbon Reporting (SECR)

For the year ended March 2021, DCME produced 566 tonnes of Greenhouse Gas emissions, an 18.1% reduction from the previous year.

	2021	2020
Emissions from activities for which the company own or control including combustion of fuel & operation of facilities (Scope 1)/tCO_2e	118	137
Emissions from purchase of electricity, heat, steam and cooling purchased for own use (Scope 2, location-based)/tCO_2e	448	553
Emissions from business travel in rental cars or employee-owned vehicles where company is responsible for purchasing the fuel (Scope 3)/tCO_2e	1	2
Total gross emissions/tCO2e	567	692
Intensity ratio: tCO_2e/m^2	0.0743	0.0907

3.10. Going Concern

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

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

3.11. Directors' and Officers' Indemnities

The company maintained insurance against liabilities for all directors and officers of the company during the financial year and at the date of this report. The Board approved the renewal of the insurance on 19th March 2021.

3.11.1. Directors

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

Name	Title	Nationality	Appointed/Resigned/ Retired as a Director	Committee Members #
Douglas van den Aardweg	Interim CEO & Executive Chairman	British	Appointed -15 May 2017	BRC, AC, RC, NC, EC
Yuzo Yonemoto	Deputy CEO	Japanese	Appointed - 1 Aug 2018	EC
Neil Mardon	Chief Operating Officer	British	Appointed - 8 July 2019	EC
Junichi Arihara	Non-Executive Director	Japanese	Appointed - 27 Apr 2010	BRC
Shiko Yanagisawa	Non-Executive Director	Japanese	Appointed - 1 Oct 2017	RC, NC
Yoshifumi Otsuka	Non-Executive Director	Japanese	Appointed - 1 Jan 2020	AC
Hidenobu Shirota	Non-Executive Director	Japanese	Appointed – 1 June 2021	AC, BRC, RC, NC
Ewa Kerin	Senior Independent Non-Executive Director	British	Appointed - 24 Sep 2020	AC, BRC, RC, NC
Keith Meekins	Chief Executive Officer	British	Retired - 6 Apr 2021	-
Mark Preston	Independent Non-Executive Director	British	Retired - 5 Feb 2021	-

reflects the committee membership as at 31 March 2021 or subsequently appointed

BRC - Board Risk Committee*, AC - Audit Committee*, RC - Remuneration Committee, EC - Executive Committee,

NC - Nominations Committee

3.12. Disclosure of Information to Auditors

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

3.13. Independent Auditors

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

By order of the Board:

Charlotte Birks

Secretary

24 June 2021

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

The directors are responsible for preparing the Strategic Report, the Directors Report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law they have elected to prepare the financial statements in accordance with UK Accounting Standards and applicable law (UK Generally Accepted Accounting Practice), including FRS 102 the Financial Reporting Standard applicable in the UK and Republic of Ireland.

Under company law, the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period. In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgments and estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements;
- assess the company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and
- use the going concern basis of accounting unless they either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error, and have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the company and to prevent and detect fraud and other irregularities.

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

Charlotte Birks

By order of the Board:

Charlotte Birks

Secretary

24 June 2021

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

5.1. Opinion

We have audited the financial statements of Daiwa Capital Markets Europe Limited ("the company") for the year ended 31 March 2021 which comprise the Statement of comprehensive income, Balance sheet, Statement of changes in equity and related notes, including the accounting policies in note 9.1.

In our opinion the financial statements:

- give a true and fair view of the state of the company's affairs as at 31 March 2021 and of its profit for the year then ended;
- have been properly prepared in accordance with UK accounting standards, FRS 102 The Financial Reporting Standard applicable in the UK and Republic of Ireland; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

5.2. Basis for opinion

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

5.3. Going concern

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

In our evaluation of the directors' conclusions, we considered the inherent risks to the company's business model and analysed how those risks might affect the company's financial resources or ability to continue operations over the going concern period.

Our conclusions based on this work:

- we consider that the directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate;
- we have not identified, and concur with the directors' assessment that there is not, a material uncertainty related to events or conditions that, individually or collectively, may cast significant doubt on the company's ability to continue as a going concern for the going concern period.

However, as we cannot predict all future events or conditions and as subsequent events may result in outcomes that are inconsistent with judgements that were reasonable at the time they were made, the above conclusions are not a guarantee that the company will continue in operation.

5.4. Fraud and breaches of laws and regulations – ability to detect

Identifying and responding to risks of material misstatement due to fraud

To identify risks of material misstatement due to fraud ("fraud risks") we assessed events or conditions that could indicate an incentive or pressure to commit fraud or provide an opportunity to commit fraud. Our risk assessment procedures included:

- Enquiring of directors, internal audit and compliance and inspection of policy documentation as to the Company's high-level policies and procedures to prevent and detect fraud, including the internal audit function, and the Company's channel for "whistleblowing", as well as whether they have knowledge of any actual, suspected or alleged fraud.
- Reading Board and Audit Committee minutes.
- Using analytical procedures to identify any unusual or unexpected relationships.

As required by auditing standards, and taking into account possible pressures to meet profit targets, we perform procedures to address the risk of management override of controls and the risk of fraudulent revenue recognition, in particular the risk that underwriting fee is recorded in the wrong period as timing of recognition can be more judgmental and therefore can be manipulated to meet profit targets.

We did not identify any additional fraud risks.

We performed procedures including Identifying journal entries and other adjustments to test based on risk criteria and comparing the identified entries to supporting documentation. These included those posted by senior management and those posted by infrequent user.

Identifying and responding to risks of material misstatement due to non-compliance with laws and regulations

We identified areas of laws and regulations that could reasonably be expected to have a material effect on the financial statements from our general commercial and sector experience and through discussion with the directors and other management (as required by auditing standards), and from inspection of the Company's regulatory and legal correspondence and discussed with the directors and other management the policies and procedures regarding compliance with laws and regulations.

As the Company is regulated, our assessment of risks involved gaining an understanding of the control environment including the entity's procedures for complying with regulatory requirements.

The potential effect of these laws and regulations on the financial statements varies considerably.

Firstly, the Company is subject to laws and regulations that directly affect the financial statements including financial reporting legislation (including related companies legislation), distributable profits legislation, and taxation legislation and we assessed the extent of compliance with these laws and regulations as part of our procedures on the related financial statement items.

Secondly, the Company is subject to many other laws and regulations where the consequences of non-compliance could have a material effect on amounts or disclosures in the financial statements, for instance through the imposition of fines or litigation or the loss of the Company's license to operate. We identified the following areas as those most likely to have such an effect: regulatory capital and liquidity recognising the regulated nature of the Company's activities. Auditing standards limit the required audit procedures to identify non-compliance with these laws and regulations to enquiry of the directors and other management and inspection of regulatory and legal correspondence, if any. Therefore if a breach of operational regulations is not disclosed to us or evident from relevant correspondence, an audit will not detect that breach.

Context of the ability of the audit to detect fraud or breaches of law or regulation

Owing to the inherent limitations of an audit, there is an unavoidable risk that we may not have detected some material misstatements in the financial statements, even though we have properly planned and performed our audit in accordance with auditing standards. For example, the further removed non-compliance with laws and regulations is from the events and transactions reflected in the financial statements, the less likely the inherently limited procedures required by auditing standards would identify it.

In addition, as with any audit, there remained a higher risk of non-detection of fraud, as these may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal controls. Our audit procedures are designed to detect material misstatement. We are not responsible for preventing non-compliance or fraud and cannot be expected to detect non-compliance with all laws and regulations.

5.5. Strategic report and directors' report

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

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

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

5.6. Matters on which we are required to report by exception

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

We have nothing to report in these respects.

5.7. Directors' responsibilities

As explained more fully in their statement set out on page 20, the directors are responsible for: the preparation of the financial statements and for being satisfied that they give a true and fair view; such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error; assessing the company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and using the going concern basis of accounting unless they either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

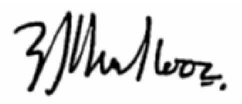
5.8. Auditor's responsibilities

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

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

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

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



Zaffarali Khakoo (Senior Statutory Auditor)
for and on behalf of KPMG LLP, Statutory Auditor

Chartered Accountants

15 Canada Square

London

E14 5GL

24 June 2021

6. STATEMENT OF COMPREHENSIVE INCOME

For the Financial Year ended 31 March 2021

	Note	2021	2020
		£'000	£'000
Fee and commission income	9.2	74,101	62,326
Fee and commission expense	9.2	(23,788)	(24,953)
Net trading revenue	9.3	45,914	(2,823)
Other income	9.4	36,213	33,019
Total non-interest income		**132,440**	**67,569**
Interest income and similar receivables	9.5	49,552	121,484
Interest payable and similar charges	9.6	(33,453)	(110,408)
Net interest income		**16,099**	**11,076**
Impairment of financial asset	9.7	(1,233)	-
Net operating income		**147,306**	**78,645**
Administrative expenses	9.8	(123,520)	(112,829)
Operating Profit/(Loss) before profit on disposal of investments		**23,786**	**(34,184)**
Profit on disposal of investments	9.10	21,627	-
Profit/(Loss) on ordinary activities before tax		**45,413**	**(34,184)**
Tax (charge)/credit on ordinary activities	9.11	(627)	171
Profit/(Loss) for the financial year		**44,786**	**(34,013)**
Other comprehensive income			
Exchange adjustments on fair value reserve that may be subsequently reclassified to the profit and loss.		-	39
Movement on fair value reserve		(1,662)	198
Deferred tax recognised in equity		323	(45)
Total comprehensive profit/(loss) for the financial year		**43,447**	**(33,821)**

The accompanying Notes to the Financial Statements in section 9 are an integral part of the financial statements.

7. BALANCE SHEET

As at 31 March 2021

Company registered number: 01487359	Note	2021	2020
Fixed assets		**£'000**	**£'000**
Intangible assets	9.12	2,995	3,532
Tangible assets	9.13	9,828	10,856
Available for sale investments	9.14	-	1,700
Investments in subsidiary undertakings	9.15	30,918	30,937
		43,741	**47,025**
Current assets			
Debtors	9.16	4,600,972	8,001,324
Financial assets held for trading	9.18	1,960,170	2,185,821
Financial assets designated at FVTPL	9.19	-	82,277
Cash at bank and in hand	9.20	39,999	23,770
		6,601,141	**10,293,192**
Current liabilities			
Creditors: amounts falling due within one year	9.21	(5,220,340)	(8,855,043)
Financial liabilities held for trading	9.18	(938,743)	(1,041,857)
Provisions for liabilities	9.22	(508)	(1,642)
		(6,159,591)	**(9,898,542)**
Net current assets		**441,550**	**394,650**
Total assets less current liabilities		**485,291**	**441,675**
Creditors: amounts falling due after more than one year	9.24	(1,317)	(1,148)
Provision for end of building lease costs	9.25	(4,000)	(4,000)
Net assets		**479,974**	**436,527**
Called-up share capital	9.26	732,121	732,121
Reserves		(252,147)	(295,594)
Shareholders' funds (all equity interests)		**479,974**	**436,527**

These financial statements were approved by the Board on 24 June 2021 and signed on their behalf by:

Doug van den Aardweg

Chief Executive Officer

The accompanying Notes to the Financial Statements in section 9 are an integral part of the financial statements.

8. STATEMENT OF CHANGES IN EQUITY

The table below presents the changes in Equity for the year ended 31 March 2021:

	Called-up Share Capital	Fair Value reserve	Capital reserve	Retained earnings	Total
	£'000	£'000	£'000	£'000	£'000
Beginning of year	732,121	1,339	13,908	(310,841)	436,527
Profit for the financial year	-	-	-	44,786	44,786
Release of reserve on sale of investment		(1,662)			(1,662)
Release of deferred tax liability on fair value gain on available for sale investments	-	323	-	-	323
End of year	732,121	-	13,908	(266,055)	479,974

The table below presents the changes in Equity for the year ended 31 March 2020:

	Called-up Share Capital	Fair Value reserve	Capital reserve	Retained earnings	Total
	£'000	£'000	£'000	£'000	£'000
Beginning of year	732,121	1,147	13,908	(276,828)	470,348
Loss for the financial year	-	-	-	(34,013)	(34,013)
Exchange differences	-	39	-	-	39
Revaluation of available for sale investments	-	198	-	-	198
Deferred tax liability on fair value gain on available for sale investments	-	(45)	-	-	(45)
End of year	732,121	1,339	13,908	(310,841)	436,527

9. Notes to the Financial Statements

9.1. Accounting policies

Daiwa Capital Markets Europe Limited ("the company") is a private company incorporated, domiciled and registered in England and Wales in the UK. The registered number is 01487359 and the registered address is 5 King William Street, London, EC4N 7AX.

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

9.1.1. Statement of compliance

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

The financial statements of the company for the year ended 31 March 2021 have been prepared in accordance with the Financial Reporting Standard applicable in the United Kingdom and Republic of Ireland (FRS 102) issued by the Financial Reporting Council.

9.1.2. Basis of preparation

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

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

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

9.1.3. Going Concern

The directors' assessment of the company's ability to continue as a going concern is an on-going management function. This analysis consists of an assessment of liquidity & funding, capital adequacy and cash flow forecasts for a period of at least 12 months from the date of the approval of the financial statements, which are prepared by the company in the normal course of its resource management. For the purpose of the going concern assessment, various stress scenarios to the normal operating environment have been considered.

As set out in note 9.2121 to these financial statements, Daiwa Securities Corporation Limited (DSCL), provides DCME with an unsecured borrowing facility to fund its on-going business and liquidity needs. This unsecured funding facility is covered by a letter of support from DSCL that states DSCL's intention to continue to provide DCME with an unsecured credit line for the foreseeable future and a minimum of 18 months. Similarly, there is an additional letter of support from Daiwa Securities Group Inc. (DSGI) confirming its intention to "continue to provide financial and other support to DCME for at least the next eighteen months from the date of the letter" (28th May 2021).

As with any company placing reliance on its parent company for financial support, the directors acknowledge that there can be no absolute certainty that this support will continue although, at the date of approval of these financial statements, they have no reason to believe that it will not do so. Consequently, the directors are confident that the company will have sufficient funds to continue to meet its liabilities as they fall due for at least 12 months from the date of the approval of the financial statements and therefore have prepared the financial statements on a going concern basis.

9.1.4. Disclosure exemptions

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

A reconciliation of the number of shares outstanding at the beginning and at the end of the year has not been presented. The company is exempt from specific share based payment disclosures under share based payment arrangements that existed during the period and the directors have not made full disclosures. The equivalent disclosures required by FRS 102 are included in the consolidated financial statements of Daiwa Securities Group Inc. in Japan in which the company's results are consolidated. See note 9.34 for details on where the company's ultimate parent company, Daiwa Securities Group Inc.'s, consolidated financial statements may be obtained from.

The company is also exempt from disclosing key management compensation in total under Section 32 Related Party Disclosure of FRS 102. Directors' remuneration is disclosed as required by the Companies Act 2006 in note 9.33.

9.1.5. Intangible assets

9.1.5.1. Goodwill

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

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

Goodwill is stated at cost less any accumulated amortisation and accumulated impairment losses.

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

9.1.5.2. Computer software

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

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

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

9.1.6. Tangible assets

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

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

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

9.1.7. Financial assets and liabilities

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

The company classifies its financial assets in the following categories:

9.1.7.1. Financial assets

The company classifies its financial assets in four categories:

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

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

Financial assets at fair value through profit or loss

This category includes:

- Financial assets held for trading. Instruments are classified as held for trading if they are:
  - (i) acquired principally for the purposes of selling or repurchasing in the near term, including marketable securities; or
  - (ii) part of a portfolio of identified financial assets that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking; or
  - (iii) a derivative.
- Financial assets designated at time of initial recognition at fair value through profit and loss ("FVTPL"). Instruments are classified in this way if either of the following circumstances apply:
  - (i) it significantly reduces a recognition or measurement inconsistency that would otherwise occur (an "accounting mismatch"); or
  - (ii) the instrument forms part of a group of financial assets whose performance is evaluated on a fair value basis in accordance with a documented investment strategy, and that information is provided to key management personnel on this basis.

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

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

Loans and receivables

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

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

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

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

Available for sale financial assets

Available for sale financial assets are non-derivative financial assets that are designated as available for sale and are not recognised into any of the other categories described above. They are initially recognised at fair value including direct and incremental transaction costs. They are subsequently held at fair value. Gains and losses arising from changes in fair value are included in a fair value reserve until sale when the cumulative gain or loss is transferred to the profit and loss account. The available for sale assets are reviewed for impairment if necessary.

9.1.7.2. Financial liabilities

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

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

9.1.8. Investments in subsidiary undertakings

Investments in subsidiary undertakings are stated at cost less impairment.

9.1.9. Income and expense

9.1.9.1. Fee and commission

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

9.1.9.2. Net trading revenue

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

9.1.9.3. Other income

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

9.1.9.4. Interest income and similar receivables, interest payable and similar charges

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

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

9.1.10. Determining fair value

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

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

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

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

Level 1: Quoted prices (unadjusted) in active markets for identical assets and liabilities.

Level 2: Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices).

Level 3: Inputs for the asset or liability that are not based on observable market data (unobservable inputs).

9.1.11. Offsetting of assets and liabilities

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

9.1.12. Taxation

Tax on the profit or loss for the year comprises current and deferred tax. Tax is recognised in the profit and loss account except to the extent that it relates to items recognised directly in equity or other comprehensive income, in which case it is recognised directly in equity or other comprehensive income.

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

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

Deferred tax assets are only recognised to the extent that it is probable they will be recoverable against future taxable profits or deferred tax liability reversals. Deferred tax balances are not discounted.

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

9.1.13. Pension costs

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

9.1.14. Foreign currency

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

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

9.1.15. Leases

The company enters into operating leases as described in note 9.27. Rentals under operating leases are charged on a straight-line basis over the lease term. The company has not entered into any finance leases during the year (2020: £nil).

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

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

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

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

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

9.1.17. Collateral

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

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

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

9.1.18. Related party transactions

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

9.1.19. Share based payments to employees

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

9.1.20. Deferred Compensation

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

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

9.1.21. Provisions and contingent liabilities

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

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

9.1.22. Impairment of non-financial assets

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

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

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

9.1.22.1. Calculation of recoverable amount

The recoverable amount of non-financial assets is the greater of their fair value less costs to sell and value in use. In assessing value in use, the expected future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the rate of return expected on an equally risky investment.

For an asset that does not generate largely independent income streams, the recoverable amount is determined for the cash generating unit to which the asset belongs.

9.1.22.2. Reversals of impairment

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

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

9.1.23. Accounting estimates and judgments

The preparation of the financial statements requires management to make judgments, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgments about carrying values of assets and liabilities that are not readily apparent from other sources.

The company's accounting policy for investments in subsidiaries and recognising impairment on these investments are described in 9.1.8 and 9.1.22 respectively. The method involves the use of historical information coupled with forward looking information to assess various scenarios, supplemented with management judgment to determine whether there is indication of impairment. Each of the variables or inputs requires management to exercise judgment in making assumptions and estimations.

The company's accounting policy for Loans and Receivables and the recognition of impairment are described in 9.1.7.1. The process followed involves management using its judgment to determine whether there is objective evidence of impairment, and if so management will then determine (using forward looking information) the likely outcomes for the asset under review, and appropriate probability weights to be assigned to each scenario. Having agreed on the scenarios and probability weights, the impairment loss (if any) for each scenario is calculated in accordance with 9.1.7.1 (the difference between the asset's carrying value and the present value of the estimated future cash flows). These financial outcomes will then be weighted in order to arrive at the required impairment provision. Each of the variables or inputs requires management to exercise judgment in making assumptions and estimations.

9.2. Fee and commission income and expense

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

9.3. Net trading revenue

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

9.4. Other income

	2021	2020
	£'000	£'000
Costs recharged to Group companies	36,213	33,019
	36,213	33,019

9.5. Interest income and similar receivables

	2021 £'000	2020 £'000
Interest and dividend income – held for trading	25,339	36,116
Interest income – financial assets	24,213	85,368
	49,552	121,484

Included in the above is interest received from Group companies amounting to £1.9m (2020: £14.2m).

9.6. Interest payable and similar charges

	2021 £'000	2020 £'000
Bank loans and overdrafts	10,491	36,181
Interest expense – held for trading	390	450
Interest expense – financial liabilities	22,572	73,777
	33,453	110,408

Included in the above is interest paid to Group companies amounting to £15.5m (2020: £46.5m).

9.7. Impairment of financial asset

In the year ended March 2021 a £1,233k impairment provision was made against a loan in accordance with the accounting policies explained in accounting policy note 9.1.7.1 "Financial Assets - Loans and receivables".

9.8. Administrative expenses

Administrative expenses are analysed as follows:	2021 £'000	2020 £'000
Permanent staff costs (see note 9.9)	75,133	63,487
Non-permanent staff costs	3,940	6,922
Amortisation of intangible assets (see note 9.12)	1,655	2,877
Depreciation of tangible assets (see note 9.13)	1,719	3,285
Premises costs	5,331	5,504
External technology, communication and data costs	15,466	15,478
Net costs recharged by Group companies	12,159	6,412
Other costs	8,117	8,864
Total	123,520	112,829

Administrative expenses include the following fees paid to the company's auditors:	2021 £'000	2020 £'000
Fees payable to the company's auditor for the audit of the company's financial statements	301	311
Fees payable to the company's auditor and its associates for other services:		
- audit related assurance services	144	147
- tax advisory service	4	-
Fees payable to un-associated auditor in respect of overseas branch regulatory requirements	80	77

9.9. Staff costs

Employee costs during the year amounted to:

	2021 £'000	2020 £'000
Wages and salaries	63,126	53,692
Social security costs	7,273	5,680
Pension costs – defined contribution plan	4,734	4,115
	75,133	63,487

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

	2021 Number	2020 Number
Front Office		
Equity	43	45
Fixed Income	28	32
Debt and Equity Capital Markets	12	18
Other (CBs, Derivatives and Principal Investments)	25	20
Back Office Support	333	297
	441	412

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

	2021 Number	2020 Number
Branches		
Bahrain	8	8
Geneva	8	8
Representative offices	16	16
Moscow	3	3
Paris	2	2
	21	21

9.10. Profit on disposal of investments

	2021 £'000	2020 £'000
Profit on disposal of investment in Daiwa Corporate Advisory Holdings Limited	19,179	-
Profit on disposal of investment in Euroclear PLC	2,448	-
	21,627	-

9.11. Tax credit on ordinary activities

The tax charge/(credit) is based upon the standard UK corporation tax rate of 19% (2020: 19%) and comprises:

	2021 £'000	2020 £'000
UK and overseas corporation tax:		
Charge/(credit) for the current year	621	(171)
Charge/(credit) for the prior year	6	-
Company tax charge for the year	627	(171)

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

	2021 £'000	2020 £'000
Profit /(loss) on ordinary activities before tax	45,413	(34,184)
Taxation at UK standard corporation rate of 19% (2020: 19%)	8,628	(6,495)
Effects of:		
Profit on disposal of subsidiary not taxable	(3,644)	-
Permanent differences	2	27
Effects of unrecognised timing differences including losses	(4,365)	6,468
Prior year adjustment	6	-
Group relief surrendered	-	(171)
Company tax charge/(credit) for the year	627	(171)

The company has no net deferred tax liability (2020: £0.3m). The investments held for sale were sold during the year and therefore a deferred taxation liability is no longer recognised.

A residual deferred tax asset totalling £78.1m (2020: £83.0m) for all timing differences including UK tax losses and capital allowances has not been recognised because it is the directors' assessment that it is not sufficiently certain that there will be sufficient taxable profits available in the foreseeable future against which these losses and allowances can be utilised.

9.12. Intangible assets

	Goodwill £'000	Software £'000	Assets in course of construction £'000	Total £'000
Cost				
Beginning of year	29,180	30,812	877	60,869
Additions	-	-	1,118	1,118
Disposals	-	(4)	-	(4)
Transfers	-	1,352	(1,352)	-
End of year	29,180	32,160	643	61,983
Amortisation				
Beginning of year	29,180	28,157	-	57,337
Charge	-	1,655	-	1,655
Disposals	-	(4)	-	(4)
End of year	29,180	29,808	-	58,988
Net book value				
At 31 March 2021	-	2,352	643	2,995
At 31 March 2020	-	2,655	877	3,532

The assets in course of construction comprise computer software.

9.13. Tangible assets

	Furniture, fittings and equipment	Computer hardware	Motor vehicles	Assets in course of construction	Total
	£'000	£'000	£'000	£'000	£'000
Cost					
Beginning of year	19,026	6,831	39	167	26,063
Additions	-	-	-	691	691
Disposals	(1,373)	(360)	-	-	(1,733)
Transfers	20	769	-	(789)	-
End of year	17,673	7,240	39	69	25,021
Depreciation					
Beginning of year	9,269	5,899	39	-	15,207
Charge	1,369	350	-	-	1,719
Disposals	(1,373)	(360)	-	-	(1,733)
End of year	9,265	5,889	39	-	15,193
Net book value					
At 31 March 2021	8,408	1,351	-	69	9,828
At 31 March 2020	9,757	932	-	167	10,856

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

9.14. Available for sale investments

	2021 £'000	**2020 £'000**
Unlisted investments	-	1,700

The movement in the year was as follows:

	2021 £'000	**2020 £'000**
Beginning of year	1,700	1,464
Exchange differences	-	38
Revaluation profit transferred to reserves	-	198
Disposal of investment	(1,700)	-
End of year	-	1,700

During the year DCME disposed of its investment In Euroclear PLC yielding a profit of £2,448k, (disclosed in note 9.10).

9.15. Investments in subsidiary undertakings

The company had one subsidiary undertaking as at 31st March 2021.

Name of company	Aggregate of capital and reserves £'000	Loss for the year £'000	Registered Office	Class of shares held	Percentage of equity and voting rights held
Daiwa Capital Markets Deutschland GmbH ("DCMD")	26,883	609	Neue Mainzer Str.1, 60311 Frankfurt am Main, Germany	Ordinary Shares	100%

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

	2021 £'000	2020 £'000
Beginning of year	30,937	30,162
Addition*		775
Historical cost adjustment	(19)	-
End of year	30,918	30,937

*2020 Addition represents the restatement of the investment to historical GBP equivalent.

In October 2020 DCME sold its investment in Daiwa Corporate Advisory Holdings Limited to a Daiwa Group company. This investment was fully impaired as at 31 March 2020.

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.

9.16. Debtors

Debtors comprise the following amounts:

	Financial Assets Loans and Receivables £'000	Non Financial Assets Other £'000	2021 Total £'000	Financial Assets Loans and Receivables £'000	Non Financial Assets Other £'000	2020 Total £'000
Trade debtors	1,454	-	1,454	6,875	-	6,875
Amounts owed by parent Group undertakings *	1,164,199	-	1,164,199	2,943,142	-	2,943,142
Amounts owed by subsidiary undertakings	292,635	-	292,635	37,830	-	37,830
VAT	-	535	535	-	1,114	1,114
Deposits paid for reverse repurchase agreements and securities borrowed	3,074,094	-	3,074,094	4,907,192	-	4,907,192
Other debtors	44,972	7	44,979	86,281	7	86,288
Corporation tax recoverable	-	246	246	-	460	460
Prepayments and accrued income	6,928	15,902	22,830	10,691	7,732	18,423
	4,584,282	16,690	4,600,972	7,992,011	9,313	8,001,324

*Amounts owed by parent Group undertakings includes £1,084m for Deposits paid for reverse repurchase agreements (2020: £2,884m).

The carrying amount of debtors approximates to their fair value.

9.17. Deferred tax

	2021 £'000	2020 £'000
Deferred tax liability (note 9.21)	-	323

The movement in the year was as follows:	2021 £'000	2020 £'000
Beginning of year	323	278
Charged/(credited) to the Reserves	(323)	45
End of year	-	323

The available for sale investments were sold in the year and therefore the deferred tax liability that was attributable to the taxation that would arise on their future realisation is no longer recognised.

9.18. Financial assets and liabilities held for trading

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

	2021 £'000	2020 £'000
Financial Assets		
Non Derivative marketable securities		
Equities	4,421	2,394
Government, Government Agency Bonds, and Municipal Bonds	364,340	406,375
Corporate Debt (inc. Convertible Bonds)	991,129	1,016,927
Total	1,359,890	1,425,696
of which listed	1,299,526	1,282,208
Derivative financial instruments		
Futures & Forwards	937	6,164
Options	49,800	5,877
Swaps	549,527	748,084
Other	16	-
Total	600,280	760,125
of which listed	330	758
Total financial assets held for trading	1,960,170	2,185,821
Financial Liabilities		
Non Derivative marketable securities		
Equities	85,926	41,361
Government, Government Agency Bonds, and Municipal Bonds	175,913	223,307
Corporate Debt (inc. Convertible Bonds)	89,680	2,941
Total	351,519	267,609
of which listed	349,758	266,164
Derivative financial instruments		
Futures & Forwards	527	5,268
Options	45,264	6,186
Swaps	539,325	761,846
Other	2,108	948
Total	587,224	774,248
of which listed	20	899
Total financial liabilities held for trading	938,743	1,041,857

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

	2021 £'000	2020 £'000
Government, Government Agency Bonds, and Municipal Bonds	-	51,694
Corporate Debt (inc Convertible Bonds)	-	30,583
Total*	-	82,277
of which listed	-	82,277

*Balance formed part of DCME's liquid asset buffer, and was managed as a strategy that seeks to minimise cost. This strategy was discontinued during the year ended March 2021.

9.20. Cash at bank and in hand

	2021 £'000	2020 £'000
Cash at bank and in hand	39,999	23,770
of which deposits with parent Group undertakings	6,670	373

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

9.21. Creditors: amounts falling due within one year

	Financial Liabilities	Non Financial Liabilities	2021 Total	Financial Liabilities	Non Financial Liabilities	2020 Total
	Loans and Receivables	Other		Loans and Receivables	Other	
	£'000	£'000	£'000	£'000	£'000	£'000
Other short-term borrowings	-	-	-	60,305	-	60,305
Overdrafts	672	-	672	44	-	44
Trade creditors	6,971	-	6,971	10,493	-	10,493
Amounts owed to parent Group undertakings *	1,057,572	-	1,057,572	2,164,029	-	2,164,029
Amounts owed to subsidiary undertakings	7,715	-	7,715	2,239	-	2,239
Deposits received for repurchase agreements and securities lent	4,116,678	-	4,116,678	6,593,616	-	6,593,616
Deferred tax liability	-	-	-	-	323	323
Corporation Tax payable	-	621	621	-	-	-
Social security and PAYE liability	-	1,546	1,546	-	1,848	1,848
Other creditors	2,630	17	2,647	3,473	9	3,482
Accruals and deferred income	25,918	-	25,918	18,664	-	18,664
	5,218,156	2,184	5,220,340	8,852,863	2,180	8,855,043

*Amounts owed to parent Group undertakings includes £124m for Deposits received for repurchase agreements (2020: £644m).

The carrying amount of creditors approximates to their fair value.

The company had a total unsecured borrowing facility of ¥207bn/£1.359bn (2020: ¥226bn/£1.687bn) from Daiwa Securities Company Ltd which was provided on an uncommitted basis, as at 31 March 2021 (and at 31 March 2020). At 31 March 2020 ¥114bn/£0.75bn (2020: ¥178bn/£1.3bn) was drawn on the facility.

There are overdrafts of £nil due to Group undertakings (2020: nil). The company has £245k due to clearing agents which is secured principally by securities held on the company's trading accounts with those clearing agents (2020: £nil).

Accruals and deferred income include defined contribution pension schemes accruals of £63,700 (2020: £54,984), all of which relates to certain overseas branch pension schemes.

9.22. Provisions for liabilities

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

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

	2021			2020
	Redundancy and restructuring	Pending litigation	Redundancy, restructuring and onerous contracts	Total
	£'000	£'000	£'000	£'000
Beginning of year	1,164	163,986	182	164,168
Provision adjustment	508	(151)	1,642	1,491
Release of provision	-	-	(35)	(35)
Exchange adjustments	-	(2,593)	-	(2,593)
Utilised during the year	(1,164)	(160,073)	(147)	(160,220)
Transferred to Creditors		(1,169)	-	(1,169)
	508	-	1,642	1,642

9.22.1. Pending litigation

DCME had no pending litigation cases as at the year end.

9.22.2. Redundancy, restructuring and onerous contracts

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

9.23. Analysis of Financial Assets and Liabilities by Measurement Basis

	Financial Assets and Liabilities measured at fair value £'000	Available for Sale Investments £'000	Financial Assets and Liabilities at amortised cost £'000	2021 Total £'000
Financial Assets				
Cash at bank and in hand	-	-	39,999	39,999
Financial assets held for trading	1,960,170	-	-	1,960,170
Debtors – Loans and Receivables	-	-	4,584,282	4,584,282
	1,960,170	-	4,624,281	6,584,451
Financial Liabilities				
Financial liabilities held for trading	938,743	-	-	938,743
Creditors falling due within one year – Financial Liabilities	-	-	5,218,156	5,218,156
Creditors falling due after one year	-	-	1,317	1,317
	938,743	-	5,219,473	6,158,216

	Financial Assets and Liabilities measured at fair value £'000	Available for Sale Investments £'000	Financial Assets and Liabilities at amortised cost £'000	2020 Total £'000
Financial Assets				
Cash at bank and in hand	-	-	23,770	23,770
Financial assets held for trading	2,185,821	-	-	2,185,821
Financial assets designated at FVTPL	82,277	-	-	82,277
Available for sale investments	-	1,700	-	1,700
Debtors – Loans and Receivables	-	-	7,992,011	7,992,011
	2,268,098	1,700	8,015,781	10,285,579
Financial Liabilities				
Financial liabilities held for trading	1,041,857	-	-	1,041,857
Creditors falling due within one year – Financial Liabilities	-	-	8,852,863	8,852,863
Creditors falling due after one year	-	-	1,148	1,148
	1,041,857	-	8,854,011	9,895,868

9.24. Creditors: amounts falling due after more than one year

	2021 £'000	2020 £'000
Accruals and deferred income	1,317	1,148

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

9.25. Provision for end of building lease costs

	2021 £'000	2020 £'000
Beginning of year	4,000	-
Addition	-	4,000
End of year	4,000	4,000

The current lease on DCME's main premises at 5 King William Street ends in March 2027, and no final decision has been taken on whether the company will negotiate a new lease. DCME retains a provision of £4m as a best estimate of the likely end of lease costs (if the company was to exit the building). An offsetting asset of £4m has been recognised in Tangible Assets (Note 9.13) under Furniture, fittings and equipment, and has been capitalised and amortised as depreciation cost.

9.26. Called-up share capital and reserves

	2021 £'000	2020 £'000
Allotted, called-up and fully paid		
Ordinary shares of £1 each	732,121	732,121

Capital Reserve: The capital reserve represents exchange gains on translation of the original share capital (previously denominated in Yen).

9.27. Financial commitments

9.27.1. Loan commitments

As at 31 March 2021, undrawn but committed loan facilities amounted to £9.2m (2020: £35.3m).

9.27.2. Capital commitments

As at 31 March 2021, capital expenditure contracted for but not provided for amounted to £0.1m (2020: £0.3m).

9.27.3. Contingent liabilities

As at 31 March 2021 there were no contingent liabilities.

9.27.4. Lease commitments

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

	Property £'000	Other £'000	2021 Total £'000	Property £'000	Other £'000	2020 Total £'000
Operating leases which expire						
- within 1 year	45	4	49	56	4	60
- within 2-5 years	238	42	280	238	4	242
- after 5 years	3,008	-	3,008	3,008	-	3,008
	3,291	46	3,337	3,302	8	3,310

9.27.5. Pension arrangements

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

The amount charged in the profit and loss account for pension costs of the company under both the contributory and non-contributory sections of the Group personal pension plan was £4.7m (2020: £4.1m).

The UK scheme also covers the following companies: Daiwa Asset Management (Europe) Ltd, the Daiwa Anglo Japanese Foundation, and Sumitomo Mitsui DS Asset Management (UK) Limited (formerly Daiwa SB Investments (UK) Ltd). Separate schemes are administered in respect of staff employed in the company's overseas branches and representative offices. The total cost in relation to branch pension schemes was £159,463 (2020: £163,359).

The company's ultimate parent undertaking, Daiwa Securities Group Inc., operates separate pension schemes of which certain employees seconded to the company from Japan are members. The total cost in relation to these pension schemes was £220,760 (2020: £208,279).

9.27.6. VAT

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

9.28. Share based payments

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

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

In accordance with FRS 102, the fair value of the equity-settled share based payments to employees is determined at the date of grant and is expensed on a straight line basis over the vesting period based on the company's estimate of options that will eventually vest. The weighted average fair value of options granted in the year was ¥32.55 (2020: ¥0.66) and the total charge for the year was £28,491 (2020: £34,184).

The company is exempt from specific share based payment disclosures under share based payment arrangements that existed during the period and the full disclosures as required by FRS 102 have not been disclosed as explained within accounting policies set out in note 9.1.4 The equivalent disclosures required by FRS 102 are included in the consolidated financial statements of the Daiwa Securities Group Inc. in Japan in which the company's results are consolidated.

9.29. Collateral

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

	2021 £bn	2020 £bn
Securities Received		
Securities received as collateral/borrowed	4.5	7.9
Source:		
Matched Book Repo Activity	3.4	6.6
Liquid Asset Buffer	0.7	1.0
Securities Borrowed	0.4	0.3
Total	4.5	7.9
Securities Pledged		
Securities pledged as collateral/lent	4.3	7.4
Use:		
Firm Funding Repo Activity	0.9	0.8
Matched Book Repo Activity	3.4	6.6
Total	4.3	7.4

9.30. Financial risk management

9.30.1. Exposures to risk

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

9.30.2. Objectives, policies and processes for managing risk

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

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

9.30.3. Market risk

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

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

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

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

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.

9.30.4. Credit risk

Counterparty Exposure is managed by regular quantitative and qualitative assessments of all trading counterparties, with internal ratings assigned that are a key component in determining the risk appetite and internal credit limit for each client. Exposure is monitored on a daily basis and mitigated where possible by the use of legally defined netting agreements, guarantees and collateral transfer. No counterparty losses were suffered during the year.

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

	2021	2020
	£'000	£'000
Available for sale investments	-	1,700
Financial assets at fair value through profit and loss:		
Derivative financial instruments	600,280	760,125
Marketable securities	1,359,890	1,425,696
Financial assets designated at FVTPL	-	82,277
Loans and receivables:		
Debtors - Loans and receivables	4,584,282	7,992,011
Cash at bank and in hand	39,999	23,770
	6,584,451	10,285,579

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

	2021						2020					
Credit Rating	**AAA**	**AA**	**A**	**BBB**	**Sub-IG**	**Total**	**AAA**	**AA**	**A**	**BBB**	**Sub-IG**	**Total**
	£'000	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**
Available for sale investments	-	-	-	-	-	-	-	1,700	-	-	-	1,700
Debtors - Loans and Receivables	31,722	1,250,720	2,100,184	796,352	405,304	4,584,282	3,093	452,289	6,097,048	1,362,124	77,457	7,992,011
Derivative financial instruments	-	276,199	321,523	2,555	3	600,280	-	374,716	382,780	2,629	-	760,125
Marketable securities	571,650	387,278	192,144	194,581	14,237	1,359,890	420,427	427,086	328,786	240,377	9,020	1,425,696
Fin assets designated at FVTPL	-	-	-	-	-	-	56,302	25,975	-	-	-	82,277
Cash at bank and in hand	-	18,536	14,438	107	6,918	39,999	-	16,546	6,489	72	663	23,770
	603,372	1,932,733	2,628,289	993,595	426,462	6,584,451	479,822	1,298,312	6,815,103	1,605,202	87,140	10,285,579

9.30.5. Funding and Liquidity Risk Management

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

DCME is governed by the Financial Conduct Authority's (FCA's) prudential liquidity regime in the UK. The FCA requires the company to undertake an annual self-assessment process into the adequacy of its liquidity resources and liquidity risk management framework. This Individual Liquidity Adequacy Assessment (ILAA) is reviewed and approved by the Board, and is subject to a Supervisory Liquidity Review Process (SLRP), conducted by the FCA. The SLRP leads to Individual Liquidity Guidance (ILG) that requires the company to adhere to minimum quantitative standards on liquidity. The company maintains an adequate liquid asset buffer and sufficient funding sources which ensures that it meets regulatory requirements at all times.

9.30.5.1. Funding

Primary sources of funding include:

The company's own capital and reserves which serve as the longest dated and most stable form of finance;

Secured financing (repos collateralised with the company's highly liquid trading book assets) from a diverse pool of counterparts, with the largest volume of trading conducted through Central Clearing Counterparties (CCPs);

Additional ISDA collateral posted by the parent company to cover regulatory capital exposure on certain back to back derivative trades; and

Access to an unsecured, uncommitted funding facility from the parent.

9.30.5.2. Liquidity Risk

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

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

9.30.5.3. Liquidity risk is managed through:

Balance sheet controls that ensure current and planned divisional funding usage is in line with Board agreed business plans;

Mismatch controls that limit the amount of funding gaps that the company/individual business lines can run;

Material currency gap limits, which ensure access to core currencies in the event of a stress;

A suite of early warning indicators (EWIs) that monitor emerging vulnerabilities in markets where the company has business interests;

Holding an unencumbered liquid asset buffer commensurate with the results of stress testing that enable the company to absorb the short term effects of a severe liquidity shock; and

A comprehensive contingency funding plan (CFP) that details senior management action during a liquidity event to ensure that the company's core franchise remains intact.

9.30.5.4. Governance

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

9.30.5.5. Liquidity Reserves

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

The contractual maturity profile of financial liabilities is as follows:

	On demand £'000	Less than 1 month £'000	1 to 3 months £'000	3 months to 1 year £'000	Between 1-5 years £'000	2021 Total £'000
Marketable Securities	351,519	-	-	-	-	351,519
Derivative Financial Instruments	587,224			-	-	587,224
Deposits received for repurchase agreements and securities lent	1,160,773	2,288,990	523,151	240,761	-	4,213,675
Other Financial Liabilities	215,339	207,730	309,915	271,497	1,317	1,005,798
Total	2,314,855	2,496,720	833,066	512,258	1,317	6,158,216

	On demand £'000	Less than 1 month £'000	1 to 3 months £'000	3 months to 1 year £'000	Between 1-5 years £'000	2020 Total £'000
Marketable Securities	267,609	-	-	-	-	267,609
Derivative Financial Instruments	774,248	-	-	-	-	774,248
Deposits received for repurchase agreements and securities lent	862,800	3,521,242	2,577,170	241,310	-	7,202,522
Other Financial Liabilities	292,045	289,854	639,463	428,979	1,148	1,651,489
Total	2,196,702	3,811,096	3,216,633	670,289	1,148	9,895,868

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

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

Financial liabilities not in the trading portfolio are presented on an undiscounted contractual cash flows basis and, with the exception of deferred staff bonuses, all fall due within one year. As at 31 March 2021, the undiscounted contractual cash flows approximate to the carrying amounts on the balance sheet (2020: approximate to the carrying amounts).

9.31. Capital risk management

9.31.1. Regulatory capital resources requirement

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

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

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

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

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

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

9.31.1.1. Capital Management

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

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

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

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

Regulatory Capital	2021 £'000	2020 £'000
Common Equity Tier 1 Capital	403,212	403,776
Regulatory capital resources	403,212	403,776

	2021 £'000	2020 £'000
Shareholders' funds	479,972	436,527
Less unaudited current year profits for the year	(44,786)	
Less Prudent Valuation adjustment (unaudited)	(1,949)	(1,815)
Less Material holdings	(29,814)	(30,936)
Less Intangibles	(211)	
Regulatory capital resources	403,212	403,776

9.32. Fair Value estimation

The following table sets out fair value measurements as at 31 March 2021 using the FRS 102 fair value measurement hierarchy.

	Level 1 £'000	Level 2 £'000	Level 3 £'000	2021 Total £'000
Assets				
Financial assets at fair value through profit and loss:				
Derivative financial instruments	330	599,950	-	600,280
Marketable securities	1,204,306	138,204	17,380	1,359,890
Total assets	1,204,636	738,154	17,380	1,960,170
Liabilities				
Financial liabilities at fair value through profit and loss:				
Derivative financial instruments	20	587,204	-	587,224
Marketable securities	346,043	5,476	-	351,519
Total liabilities	346,063	592,680	-	938,743

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

Level 3 financial assets are valued based upon parameters which are unobservable in the market. The level 3 marketable securities are valued based upon recent trading activity and price discovery as a lead manager.

The following table presents the changes in level 3 instruments for the year ended 31 March 2021.

Assets	Available for sale investments £'000	Derivative financial instruments £'000	Marketable securities £'000	2021 Total £'000
Beginning of the year	1,700	-	32,600	34,300
Transfers from Level 3 to Level 2	-	-	(9,250)	(9,250)
Purchases/Issues	-	-	17,380	17,380
Sales/Maturities	(1,700)	-	(23,350)	(25,050)
End of year	-	-	17,380	17,380

The following table sets out fair value measurements as at 31 March 2020 using the FRS 102 fair value measurement hierarchy.

	Level 1 £'000	Level 2 £'000	Level 3 £'000	2020 Total £'000
Assets				
Available for sale investments	-	-	1,700	1,700
Financial assets at fair value through profit and loss:				
Derivative financial instruments	758	759,367	-	760,125
Marketable securities	1,053,106	339,990	32,600	1,425,696
Financial assets designated at FVTPL	43,378	38,899	-	82,277
Total assets	1,097,242	1,138,256	34,300	2,269,798
Liabilities				
Financial liabilities at fair value through profit and loss:				
Derivative financial instruments	899	773,349	-	774,248
Marketable securities	267,609	-	-	267,609
Total liabilities	268,508	773,349	-	1,041,857

The following table presents the changes in level 3 instruments for the year ended 31 March 2020.

Assets	Available for sale investments £'000	Derivative financial instruments £'000	Marketable securities £'000	2020 Total £'000
Beginning of the year	1,464	526	391	2,381
Transfers into Level 3 from Level 1	-	-	5,765	5,765
Transfers from Level 3 to Level 2	-	-	(43)	(43)
Purchases/Issues	-	-	27,221	27,221
Sales/Maturities	-	(94)	(13)	(107)
Revaluation	198	(432)	(721)	(955)
Exchange differences	38	-	-	38
End of year	1,700	-	32,600	34,300
Liabilities				
Beginning of the year	-	268	-	268
Revaluation	-	(204)	-	(204)
Sales	-	(64)	-	(64)
End of year	-	-	-	-

9.33. Related party transactions

Director's remuneration

The remuneration of the directors was as follows:

	2021 £'000	2020 £'000
Emoluments	2,319	2,175
Company contributions to Group personal pension plans	83	62
	2,402	2,237

Pensions

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

	2021 Number	2020 Number
Money purchase schemes	1	-

Highest paid director

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

	2021 £'000	2020 £'000
Emoluments	642	619
Company contributions to Group personal pension plans	-	46
	642	665

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

9.34. Ultimate parent company

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

9.35. Country by Country Reporting and Disclosure of Return on Assets

9.35.1. Country by country reporting

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

Location	Principal Activities	Turnover	Profit or (Loss) before tax	Corporation Tax	Average Headcount
		£'000	£'000	£'000	
United Kingdom	1	141,947	45,752	627	420
Switzerland	2	2,689	(247)	-	8
Bahrain	2	1,870	354	-	8
Russia	3	555	(162)	-	3
France	3	245	(284)	-	2
		147,306	45,413	627	441

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

Principal activities:

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

Public subsidies received:

- The company receives no public subsidies.

9.35.2. Return on Assets

According to Article 90 of the European Union Capital Requirements Directive IV, DCME are required to disclose the return on net assets (being defined as net profit after tax). For the year ended 31 March 2021 this was 9.33%.