Daiwa
Capital Markets

Annual Report and Financial Statements

For the Year Ended 31 March 2022

Daiwa Capital Markets Europe Limited

Company registered number: 01487359

Contents

1. Chairman's Statement

The last year has been challenging and yet rewarding in many ways with the DCME business responding positively. I would like to thank my colleagues for the impactful contribution they have made to the firm including our new CEO, Megan McDonald and other staff and directors, who joined the business during a volatile and changing environment.

The Covid-19 pandemic understandably continued to have a significant effect on the UK economy, and in turn our business, however our staff worked hard and diligently throughout the year keeping the firm fully operational, prioritising our clients and stakeholders to ensure continued compliance with government guidelines and regulatory requirements. The firm adopted a flexible approach to working throughout this period ensuring staff welfare was closely monitored so that our colleagues were supported during this difficult time. This new style of working will continue this year with an 'Office of the Future' concept being introduced across the firm, whereby flexible working will be trialled as part of our firm's standard operating model. In addition to the pandemic, the resurgence of inflation and increase in interest rates has affected the firm and market as a whole with increased volatility and uncertainty. The recent events occurring in the Ukraine and the associated geopolitical issues have impacted market stability and the UK economy which we are closely monitoring.

Performance

The external economic factors and market environment have negatively impacted our financial performance resulting in a loss before tax of £23.6m for the last financial year. This is disappointing but something we are working to rectify with several strategic initiatives to improve business and increase revenue flows. Cost efficiency and optimisation has become increasingly critical to our strategy and it is something management will continue to focus on. We have challenged ourselves on the firm's corporate structure - deciding to initially focus our business on its core product offerings. This has resulted in the closure of the Principal Investments business, which ceased trading earlier this year. Our European subsidiary, Daiwa Capital Markets Deutschland, is now well established and has generated a profit for the year. Daiwa Group's strong performance throughout the year was impacted by market moves in the final quarter which impacted profits. Nevertheless, as a whole, group ordinary income was up 17.9% year on year, and underpinned profits which we have committed to contribute to in the coming years.

During the last two years, it has been difficult for the Board to meet in person as the firm has adopted a hybrid model whereby it meets virtually as a board and management body. We have come to appreciate the benefits of this new way of working, such as less travel and reduced costs, but welcome the changes that allow the Board to now meet in person where possible. As Chairman, Board effectiveness is paramount in order to ensure that the company is well run from a governance perspective and that the firm delivers on its strategic objectives. Further to this, I have made several changes to the Board membership, by recruiting a new Chief Executive Officer, Chair of the Risk Committee and Chair of the Remuneration Committee in addition to a new President of Strategic Business Development and Group Non-Executive Director. Two of our Group-Non Executive Directors have retired during this last year whom I would like to thank for the significant contribution that they made to DCME during the course of their tenure. We have appointed an new executive Chief People Officer to lead inter alia the design and delivery of diversity and inclusion strategies to ensure DCME is truly inclusive and delivers against its objective of championing talent. Committing to the Women in Finance Charter has been a significant focus for the Board and I am delighted with the progress the firm has made in this area. The representation of women across the firm has increased to 35% during the last year and we target to increase this further during the next year. Furthermore, women on the Board will shortly increase to 40% following the regulatory approval of our new CEO. This will result in the Board having two of its senior positions (Chief Executive Officer & Senior Independent Director) being held by women.

Looking Ahead

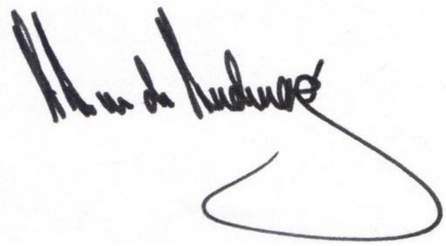
The coming year will continue to be challenging but we enter it with optimism; DCME is ready for change. The Board, Executive Team and staff are in the process of executing strategic changes to our booking model, which will leverage the group balance sheet and deliver both cost efficiencies and scalable revenue opportunities. These changes, coupled with the CEO's new strategic objectives, will ensure that DCME is well placed to deliver positive results in future.

There are important environmental developments on the horizon with Environmental Social Governance ("ESG") at the heart of DCME's strategy and purpose. The sustainability agenda is a priority for the firm and our ESG initiatives are of significant importance to the wider group. Strengthening of ESG capabilities is one of the Executive Committee's strategic projects, with key focus on green and low carbon initiatives and identifying a path to net carbon neutral. Committed to this initiative we have enhanced our client ESG franchise and appointed a new Head of ESG to coordinate our activities centrally. Stakeholder engagement is vitally important to us and we will continue to have a positive impact on our wider society by committing to local initiatives and ongoing charitable activities, such as supporting food poverty alleviation, mentoring the disadvantaged, gender and health equality and charitable activities. As an example, we are supporting our shareholder's initiative, the "Global Marathon", to celebrate 120 years of Daiwa Securities Group raising money for UNICEF during the coming months.

Thank you

I would like to thank my colleagues across the firm for their commitment, resilience and professionalism during the last year. We have achieved a significant amount and can look forward with optimism to exciting changes ahead, focusing on our strategy, sustainability and profitability for our shareholder.

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 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.

This section explains how DCME's Board of Directors (the "Board") have discharged this responsibility. 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 therefore meets the requirement to act fairly between members of the company.

DCME is an important part of the Daiwa Group's global footprint, providing access to Japan and Asia for European clients and access to Europe for Daiwa Group clients. DCME also provides outsourced services to the Daiwa Group.

The directors discharge their primary responsibility to DSGI by ensuring that the company's strategic 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 and adopting the Daiwa Spirit.

2.2.2. Business Culture

The Board 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 Financial Conduct Authorities' ("FCA") 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.

Development: We recognise our achievements, develop our skills and continuously learn.

Fairness and Inclusivity: We embrace diversity in all its forms and provide a safe, inclusive and empowering workplace.

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

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.

2.2.3. Suppliers

DCME's relationship with its suppliers is governed 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. DCME ensures compliance with the Bribery Act (2010) and Modern Slavery Act (2015) via robust processes and procedures.

2.2.4. Society

DCME, as part of the broader Daiwa group, have signed up to and are committed to supporting the UN's 17 Sustainability Development Goals ("SDG"s). The Board recognise the benefit and importance of minimising DCME's impact on the environment and making a positive contribution to society. The establishment of the Sustainability Oversight Group in 2020, along with six working groups, allowed DCME to markedly improve the co-ordination of its sustainability initiatives and to support this key objective. A further step forward was taken in 2021 with the creation of a Head of ESG role.

The Head of ESG, working with the Sustainability Oversight Group, coordinates DCME's Environmental Social Governance ("ESG") activities and an ESG strategy is being developed to ensure that sustainability becomes ever more deeply embedded in DCME's practices and values.

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.

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. 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.

The Board 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 ("D&IWG") 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 the People and Culture ("PC") department. 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&IWG as a whole.

The firm is a signatory to the Women in Finance Charter demonstrating its commitment to increase the representation of women in banking, particularly 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" careers fair.

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. A key objective is to measure DCME's CO2 footprint and identify a path to net neutral, including early reduction targets.

The firm has already taken steps to reduce its carbon footprint, promoting energy efficiency, recycling and re-use. Recycling stations have been introduced throughout DCME's premises and plastic cups removed from staff kitchens and plastic bin bag consumption is set to be greatly reduced. The firm has ensured the most efficient operation of the building to reduce energy consumption (ISO 50001 accreditation achieved for Energy Management).

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 local food banks.

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. In a 2020 ESG scoring survey conducted by International Finance Corporation, a member of World Bank Group, Daiwa finished joint first.

The Business Development Working Group is charged with further promoting and exploring business opportunities linked to the ESG market in all relevant business lines with an open, forward-looking, opportunistic and well-balanced 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 ESG matters. The Regulation & Risk Working Group works closely with the Business Development Working Group to advise on any implications to proposed business initiatives.

The risks associated with climate change are a key area of focus. Climate change presents particular uncertainties that are challenging both in terms of the path climate change might follow in the long term and also the developing practices on how to manage the resulting risks. 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.

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). 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. The directors factor in the implications of decisions taken, giving due consideration to employees and the wider workforce. Through 'town halls', internal communications, an annual employee engagement survey and an 'open door policy', directors actively engage with DCME employees. Employees have the opportunity for regular exposure and engagement with the Senior Management team. These methods of engagement also act as a platform for DCME employees to influence change in relation to matters that affect them.

DCME has a robust and well communicated whistleblowing policy which provides a mechanism for staff to confidentially raise any concerns they may have, with the Chair of the Audit Committee acting as the company's designated whistleblowing champion.

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.

Diversity is a key objective of the directors and DCME has a number of policies in place to support diversity including flexible working, home working, shared parental leave, enhanced maternity policy and paternity leave. As already mentioned (2.2.4), the directors are committed to recruiting talent to promote a diverse and inclusive culture and the PC department'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. 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 or a confidential, independent, hotline.

2.2.6. Customers

DCME's customers are at the core of our business and therefore central to the strategic development of the firm. DCME seeks open and effective communication with clients at all times, ensuring our online platforms are tailored to the expectations of the firm's customers. 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.

2.2.7. Regulators

DCME is authorised and regulated by the Financial Conduct Authority and is the subject of close and continuous supervision. DCME maintains constructive and open relationships with the FCA via a programme of regular meetings between the FCA and members of the Board.

2.3. Business Model

DCME is the UK subsidiary of 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 also provides services to other Daiwa Group companies for which the company receives income.

DCME's primary office is based at 5 King William Street, London. It has branches in Geneva and Bahrain and representative offices in Moscow[1] 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 support Daiwa Group relationships with existing European Economic Area ("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 Financial Year to 2022 ("FY22") pre-tax result was a loss on ordinary activities of £23.6m (FY21: profit of £45.4m). Net Operating Income decreased £52.3m (-35.6%) year on year, while Administrative Expenses decreased by £5m (-4%).

Following a strong recovery from the initial impact of Covid-19 in FY21, DCME experienced a challenging year in FY22. The reduction in Net Operating Income was largely driven by Fixed Income and International Convertible Bond trading activity which saw £26m and £24m year on year decreases respectively. Additionally the prior year profit of £45.4m included income from the sale of DCA, the firm's corporate advisory subsidiary which generated an income of £19.2m.

DCME continues to spend significant time and resources enhancing operational resilience especially vis-à-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.

As a result of an extensive strategic review, DCME has worked on an initiative to move to a new booking model for its Fixed Income Trading and Convertible Bonds businesses. Project Diana, ("the Project") looks to deliver a number of strategic objectives which will support a sustainable business model and a global product set by leveraging the Daiwa Securities Co. Ltd (DSCL) global balance sheet. The Project, via a combination of back to back and direct bookings with DSCL, will reduce market risk in DCME and will also deliver a combination of cost efficiencies and scalable revenue opportunities.

The target timeline for the Project is Q1 of the FY23. The key strategic outcomes are operational and cost efficiencies through the optimising of the booking location, and the centralisation of certain functions, resulting in a sustainable business model for DCME. The initiative will reduce the size of the DCME balance sheet due to the reduction in securities inventory and repo trading which, coupled with an appropriate transfer pricing mechanism will significantly reduce P&L volatility. This new business profile aligns with the Daiwa Group's strategy of enhancing DSCL's trading capabilities and leveraging group IT infrastructure to support global product sets.

Looking forward, DCME remains optimistic for FY23 with a focus on expanding the client base, capturing increased revenues from secondary equity activity and a strong year in primary issuance in the International Convertible Bond space.

[1] Following the conflict in Ukraine and the imposition of international sanctions the DCME Board has taken the decision to close the Moscow office.

2.4.1. 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 3% year on year decrease in total revenue driven by a 13% year on year decrease in primary revenue, with secondary revenue remaining largely unchanged.

The secondary business consists of two distinct businesses; namely research and execution. Despite stable research fees the secondary business year on year revenues were impacted by the execution business which experienced decreased trading volumes during the first half of the financial year in particular. Trading volume rebounded into the 3rd quarter of FY22, but towards the end of the financial year trading volume decreased mainly due to the Ukraine crisis. All in all the trading business was flat compared to the previous year, whilst the primary business although having positive flows in Q2 and Q3 fell off in Q4 amid sluggish markets.

DCME is optimistic for FY23, with secondary activity expected to continue in the same vein as Q1 FY22 and revenues expected to grow.

2.4.2. Fixed Income ("FICC")

The FICC 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.

FICC revenues were down 60% year on year, with most of the downturn explained by the disappointing performance of Credit Trading which made a loss in the second half of the year reflecting the conflict in Ukraine and rising inflation, whilst the sales revenue was increased from Japanese Government Bond flows.

Looking forward to FY23, 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. However, it is planned to move to the new booking model under Project Diana in June 2022 which will result in the economic performance from this date being generated in DSCL with DCME revenues moving to a cost plus basis. As such, from the inception date of Project Diana the revenue profile will change in DCME as market risk will be booked and managed in DSCL.

2.4.3. International Convertible Bonds ("ICB")

ICB 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 convertible bond deals.

ICB's FY22 revenues were down 60% year on year, driven by an 84% decrease in secondary revenue that was partly offset by a 101% increase in primary revenue.

Overall, FY22 was a mixed year. On the primary side DCME, was active in Japan with four transactions including the ¥300bn dual tranche Nippon Steel bonds. In FY21, secondary revenue benefited greatly from the exceptionally strong recovery in valuations after the initial Covid-19 impact, and therefore it was inevitable that year on year performance would be significantly lower. Secondary market making in Japan had a solid year where valuations broadly held up, but in Asia ex-Japan there were many head winds including the Chinese regulatory changes, real estate stresses and the resulting weakness to the straight bond markets which made for a difficult business environment.

DCME does not expect the next financial year to see the strength enjoyed in the first half of this financial year as markets have now recovered, but as the ICB business will have transferred its market risk to DSCL by virtue of the new booking model under Project Diana in May 2022, volatility of earnings will be removed and be replaced by a cost plus profile.

2.4.4. Debt Capital Markets ("DCM")/ Investment Banking ("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 this financial year, the combined DCM/IB Syndication Division reported stronger revenues, up 48% year on year. The biggest source (one third) of revenue was from Japanese issuers in USD and EUR. DCME also performed well in USD with non-Japan supranational issuers where revenue grew by 40% year on year. Business with non-Japan JPY issuers, mainly Financial Institutions and group issuers, stayed low again this year following last year, given that market volume hasn't recovered since the pandemic began.

For the coming financial year, 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.

2.4.5. 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.

This year, revenues were up 32% year on year. Post Covid-19 financing needs remained high and where we lacked in sizeable Global IPO deals, it was more than offset by robust issuance in Japanese Convertible Bonds which saw total issuance amounts recover sharply year on year.

2.4.6. Principal Investments ("PI")

The aim of PI was 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 restricted PI to providing finance for residential or student accommodation developments.

For this financial year PI revenues were down 181% year on year, explained by the impact of increased provisioning. The performance led to a management review of the business and DCME's future appetite for this activity.

In February 2022 the strategic decision was taken to cease operating the PI business and to manage the remaining portfolio to completion.

2.4.7. 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	**2022**	**2021**
Net Operating Income	-25.01%	+53.37%
Administrative expenses (exc. restructuring costs)	-4.19%	+10.29%
Total headcount (including non-perm staff)	-4.77%	+1.27%
Actual Performance		
Return on Equity	5.14%	9.48%
Voluntary staff turnover	11.8%	8.00%
Profit/(Loss) on ordinary activities before tax	(£23.6m)	£45.4m

These KPIs reflect the challenging environment experienced by DCME with operating income considerably behind plan. Overheads were below plan reflecting the reduction in revenue and performance related costs.

Capital	**2022**	**2021**
	£m	£m
Regulatory Capital Resources	423	448
Own Funds Ratio	1,000.8%[2]	683.3%
Unsecured Funding – Daiwa Group	£bn	£bn
Usage	0.69	0.75
Limit	1.29	1.36

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 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

The long term impacts of Covid-19 continue to evolve, however the short term threats to DCME operations seems to be largely mitigated by the UK vaccination and testing programmes. On February 24 2022, the UK government removed the legal requirement to isolate where a person tested positive and the requirement to test and isolate in the event of a close contact. To support business continuity, DCME chose to maintain

[2] Following the go live of IFPR on 1st Jan 2022 the CRDIV concept of Tier one capital ratio is no longer binding for DCME. The 2021 ratio is restated as per the new IPFR requirement.

Own Funds Ratio = $\frac{\text{Own Funds}}{\text{Own Funds Requirement (as per MIFIDPRU 4.3)}} \geq 100\%$

the isolation period in cases of positive tests however the requirement for staff to wear masks when attending the office was removed.

Whilst DCME was able to function effectively with employees working remotely, following consultation the firm has introduced a hybrid working arrangement. This arrangement supports DCME's culture and teamwork whilst remaining flexible, supportive and sensitive of employee needs.

DCME continues to regularly stress test capital and liquidity resources. It also 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.

2.5.2. The conflict in Ukraine

The conflict in Ukraine and the global response to it was monitored closely by senior management at DCME and various activities were undertaken to mitigate potential risks. The FCA reminded its regulated firms that the sanctions against Russia were evolving and that firms such as DCME should expect changes at short notice. DCME was on high alert to identify any sanctions-related exposure in order to comply with its legal obligations not to conduct any prohibited activities with designated persons. DCME monitors the dedicated FCA sanction webpage closely for developments. DCME continues to stress test many scenarios including escalations in the conflict and this is subject to regular review.

The Board has reviewed the status of the DCME representative office in Moscow (which provides ECM, DCM and IB support with a head count of 3) in light of the conflict and the subsequent sanctions and concluded that it was appropriate to close the office.

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

At 11pm on 31 December 2020 the transition period between the EU and UK ended, and the UK completed its exit from the EU. From this date, the on-shored version of EU legislation has applied. However, certain aspects of financial regulation remained subject to temporary transitional powers lasting in theory, until 31 December 2022 although the UK regulators stopped using these powers on 31 March 2022 in all but two areas, (i) Share Trading Obligation ("STO") and (ii) Derivative Trading Obligation ("DTO").

The EU-UK Trade and Cooperation Agreement concluded on 24 December 2020 contained limited provisions on financial services and there was 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.

Having said that, the UK government has indicated a number of areas where it intends to review and amend the on-shored EU legislation with the aim of making it work better for UK markets and has initiated a review on the Financial Regulation Framework ("FRF"). The FRF review provides an opportunity to ensure that, having left the EU, the UK authorities maintain a coherent, agile, and internationally respected approach to financial services regulation that is proportionate and suitable for the UK. The government published a consultation on 9 November 2021 setting out its proposals and seeking views. That consultation closed on 9 February 2022. The government intends, as a general approach, to take a power to repeal retained EU law, and specifically the direct regulatory requirements which apply to UK firms. This repeal will enable the appropriate regulator to replace those provisions with their own rules. Areas flagged for amendment include trading venues, systematic internaliser rules, the derivatives trading obligation, the share trading obligation and the transparency regime for fixed income and derivatives markets. This will inevitably create some divergence between the UK and EU.

In the absence of a full agreement and framework for financial services, the establishment of DCMD has ensured as smooth a transition as possible for Daiwa to maintain a commercial presence in Europe. It was set up as a Brexit contingency to mitigate any inability to service European clients and access markets and continues to fulfil this purpose. The year ended March 2022 was DCMD's fourth full year of business and the entity is now fully established in Frankfurt reporting a profit for the year. 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.

2.5.4. 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.

2.5.5. 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 a strong year, with Net Operating Revenue up 7.6%, Ordinary Income up 17.9% and Profit Attributable to Owners of Parent down 12.5% and ROE of 7.0% (2021: 8.5%).

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.

2.5.6. Resource Constraints/Business Focus

Following the implementation of Project Diana a significant proportion of DCME's balance sheet will transfer to DSCL thereby reducing the own funds and funding requirements. Under IFPR, DCME has a transitional own funds requirement that will remain the minimum own funds requirement until the FCA undertake a SREP in 2023. Although the transitional own funds requirement does not reflect the reduced risk profile of the post Project Diana business model, DCME maintains significant headroom above it.

Whilst there are no plans to repatriate any capital there is a risk that, with a significant own funds head room, the group may decide to re-deploy resources currently allocated to Europe. Any changes in resource allocation would, however, be carefully considered and implemented in an orderly way with the approval of the FCA.

2.5.7. Climate Change

The risks associated with climate change are a key area of concern for the regulators, markets, clients and society as a whole. As mentioned in 2.2.4 above, DCME takes its responsibility for environmental matters seriously and supports the UN's SDGs through its corporate values and specific activities. Senior management have established the Sustainability Oversight Group 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. Following the guidelines published by the Climate Financial Risk Forum, the firm has undertaken a number of activities and changes to introduce climate risk into its risk management framework.

The firm's Chief Risk Officer has been assigned responsibility for the climate risk framework and climate change in the DCME risk inventory which is to be considered a driver that could impact other risk types already within the inventory, via physical hazards and transitional drivers. The risk inventory is intended as a catalogue of the risks the firm might be exposed to through execution of its business plan and as such looks at the impact of those risks to the firm's activities. This therefore considers climate-related impacts across all the firm's activities.

DCME's business model has limited exposure to climate risk. The firm's balance sheet and banking book has limited real estate exposure and a short term maturity profile. Trading business areas have limited assets and have a rapid turnover of inventory, holding only in the short term. However, underwriting activities combined with changing market sentiment and rapidly developing standards/policy could potentially give rise to suggestion of greenwashing and associated reputational harm.

The DCME plan to change the firm's booking model and withdraw from Principal Investment lending activities will further reduce any exposure to climate change.

2.5.8. DCME Specific Risks and Uncertainties

DCME continues to maintain its balance sheet in high quality liquid assets, with less than 5% of the asset base being invested in sub-investment grade credit (refer to note 9.28.4 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:

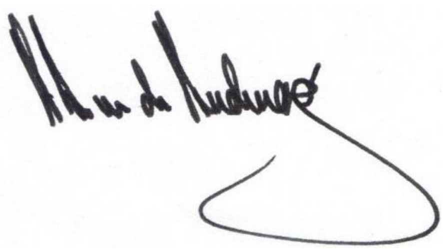
Risk	**Impact / Probability**	**Change in risk year on year**	**Mitigation of risk**
Liquidity risk	Low/Medium Impact Medium/High Probability	The corona-virus induced pandemic across the world sharply curtailed global economies throughout 2020. Although some relief emerged in 2021 with a successful rollout of vaccine and booster programmes, economic growth in 2022 is expected to meet headwinds amid soaring inflation, tax rises and geo-political events, including Russia's invasion of Ukraine. The firm's funding cost increased during the year in line with the overall increase in global short term rates in our material currencies.	DCME has a dedicated liquidity risk management department which provides an independent oversight and challenge of liquidity risk. It is responsible for the daily assessing, monitoring and internal reporting of DCME's liquidity and funding risks under normal and stressed scenarios 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.

Risk	Impact / Probability	Change in risk year on year	Mitigation of risk
		DCME's and Daiwa Group's liquidity position remained strong and the funding line to DCME from the parent remained stable.	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	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 Investment Firm Prudent Regime ("IFPR") 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 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. 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 maintaining a non-complex product and service offering. 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. Following the FCA announcement in 2017 that LIBOR would no longer be supported, DCME initiated a project to migrate existing positions to risk-free rates ("RFR"s) and facilitate trading using new RFRs. The project delivered key objectives as planned within the required timeframe. DCME's parent company, DSCL, has committed all Daiwa Group entities to furthering the UNs 17 SDGs. As part of this

Risk	Impact / Probability	Change in risk year on year	Mitigation of risk
			commitment, DCME has set up a Sustainability Oversight Group which is supported by an ESG working group with the purpose of pursuing best practice in the ESG space.
Staff Turnover	High Impact Medium Probability	Unchanged. Voluntary staff turnover was 11.8%. No material risks crystallised during the year as a result of key staff departures.	DCME faces pressure in staff retention, which has been exacerbated as a result of a buoyant employment market especially in the Technology space. The company attempts to mitigate this risk by ensuring compensation is competitive and promoting a positive culture of work/life balance.
Operational Risks (not covered separately)	High/Medium Impact Medium Probability	Operational risk is the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events and covers a variety of risk factors from rogue trading, and securities fraud to Business Continuity events, such as the failure of critical systems. DCME has undertaken a major Operational Risk Management enhancement programme in the last several years 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 ("OR"). This focus on strengthening the control environment has led to significant enhancements in areas such as governance and information security risk. The steps taken and improved operating environment has been recognised by DCME's regulatory body.	The Second Line of Defence ("2LOD") OR department has increased in size and seniority, enabling the effective operation of the coverage model across the firm. This has been supplemented with additional First Line of Defence ("1LOD") resources, including a dedicated operational risk management resource in larger functions within the firm. This investment has provided the foundation for ensuring appropriate 1LOD risk ownership and engagement with the OR framework components, and positioning the OR department to perform 2LOD oversight and challenge. The OR department is proactive and engaged across the firm. Framework components are used to analyse risk and prioritise responses, including assurance testing of key controls. A number of independent reviews have been undertaken since the conclusion of the Operational Risk Framework Enhancement Project, which demonstrate the ongoing effectiveness of the firm's operational risk framework. To further develop the Operational Risk management across the firm has committed to implementing a new Governance Risk and Compliance ("GRC") system. 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.

Risk	Impact / Probability	Change in risk year on year	Mitigation of risk
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 will become simpler following completion of Project Diana, the DCME business activity is still facing DCME clients hence, the litigation risk will remain. 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 example, in respect of miss-selling and price fixing. Litigation can also arise in respect of disputes with employees and former employees who may make claims against DCME, such as unfair dismissal or discrimination.	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. By not providing services to retail clients, the risk of litigation is significantly reduced. 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 the UN's Sustainable Development Goals and has established a Sustainability Oversight Committee charged with managing the firms ESG/SDG response. Employee related disputes, are managed by the PC department and their external advisors. A mitigation of this risk, is to build a positive culture in the firm of good conduct and ensure that line managers receive relevant training.

The strategic report was approved by the Board on 15 June 2022 and signed on their behalf by:



Douglas van den Aardweg

Chairman

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 2022.

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, and Convertible Bonds. 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 withdrawl from the EU.

3.2. Results and Dividends

The audited financial statements for the year ended 31 March 2022 are set out from section 6 onwards. The company's loss for the year after taxation was £21.2m (2021: Profit of £44.8m). 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 (2021: £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 9.28 and 9.29 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 on the intranet, the company newsletter and other measures.

3.6. Charitable Contributions

The company contributed £35,375 (2021: £22,880) to charities during the course of the year.

3.7. Disabled Employees

Applications for employment by disabled persons are always fully considered, with reasonable adjustments being offered to allow a disabled candidate the opportunity to interview comfortably. 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 adjustments are arranged. It is the policy of the company that the employment, 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's SDGs and strives to reduce its carbon footprint and reduce its impact on the environment.

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

The DCME Sustainable Working Group launched a campaign to 'Do 1 Thing' to encourage staff to help build a greener world by pledging to do something different to benefit the environment for at least 3 months.

Other initiatives at 5 King William Street were the continued rollout of LED lighting which saw a net reduction of 66% on lighting consumption. More sub-metering has been installed to better understand and control energy usage across the building.

As announced in May 2021, the Daiwa Securities Group formulated its management vision "Vision 2030" putting the SDGs at the centre of its strategy, and is promoting initiatives towards the transition to a carbon-neutral society and the realisation of a resilient society.

Under these circumstances, towards the early achievement of a carbon-neutral society, the group has formulated the "Daiwa Securities Group Net Zero Carbon Declaration" that commits to achieve net zero greenhouse gas emissions within our own operations by 2030, and net zero greenhouse gas emissions across our investment and loan portfolios, etc. by 2050.

Through our business activities, the group will continue to provide support for our customers' efforts towards de-carbonisation and for new technologies that contribute to the delivery of a carbon neutral society.

The group will continue to aim for the realisation of the SDGs by creating a sustainable capital cycle, as well as contributing to the creation of a sustainable and prosperous society.

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

3.9. Streamlined Energy & Carbon Reporting (SECR)

For the year ended March 2022, DCME produced 559 tonnes of Greenhouse Gas emissions, a 1.5% reduction from the previous year.

	2022	2021
Emissions from activities for which the company own or control including combustion of fuel & operation of facilities (Scope 1)/tCO_2e	165	118
Emissions from purchase of electricity, heat, steam and cooling purchased for own use (Scope 2, location-based)/tCO_2e	392	448
Emissions from business travel in rental cars or employee-owned vehicles where company is responsible for purchasing the fuel (Scope 3)/tCO_2e	2	1
Total gross emissions/tCO2e	559	567
Energy consumption used to calculate above emissions:/KWH	2,750,890	2,564,634
Intensity ratio: tCO_2e/m^2	0.0743	0.0743

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 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 severe yet plausible 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 for at least 12 months from the date that the financial statements are approved.

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 5th April 2022.

3.12. Directors

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

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

Name	Title	Nationality	Appointed/Resigned/ Retired as a Director	Committee Members #
Douglas van den Aardweg	Chairman (Executive Chairman & interim CEO until 1 June 2022)	British	Appointed -15 May 2017	RC, NC, EC
Megan McDonald	Chief Executive Officer	British	Appointed - 1 June 2022	EC
Shuntaro Nagashima	President :Strategic Business Development	Japanese	Appointed - 15 June 2022	EC

Neil Mardon	Chief Operating Officer	British	Appointed - 8 July 2019	EC
Tsutomo Kobayashi	Non-Executive Director	Japanese	Appointed – 7 April 2022	BRC
Shiko Yanagisawa	Non-Executive Director	Japanese	Appointed - 1 October 2017	RC, NC
Hidenobu Shirota	Non-Executive Director	Japanese	Appointed – 1 June 2021	AC, BRC, RC, NC
Ewa Kerin	Senior Independent Non-Executive Director	British	Appointed – 24 September 2020	AC, BRC, NC
Maria Bentley	Independent Non-Executive Director	British	Appointed – 22 September 2021	RC, BRC, NC
Melanie Czarra	Independent Non-Executive Director	American	Appointed – 13 August 2021	BRC, AC, RC
Retired				
Keith Meekins	CEO	British	Retired - 6 April 2021	-
Yoshifumi, Otsuka	Non-Executive Director	Japanese	Retired – 31 March 2022	-
Junichi Arihara	Non-Executive Director	Japanese	Retired – 31 March 2022	-
Yuzo Yonemoto	Deputy CEO	Japanese	Retired – 14 June 2022	-

3.13. 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.

3.14. Other Information

An indication of likely future developments in the business and particulars of significant events which have occurred since the end of the financial year have been included in the strategic review on page 5.

3.15. 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

15 June 2022

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 judgements 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 controls 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 B

By order of the Board:

Charlotte Birks

Secretary

15 June 2022

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 2022 which comprise the Statement of comprehensive income, Balance sheet, Statement of changes in equity and related notes, including the accounting policies.

In our opinion the financial statements:

- give a true and fair view of the state of the company's affairs as at 31 March 2022 and of its loss for the year then ended;
- have been properly prepared in accordance with UK accounting standards, including FRS 102 The Financial Reporting Standard applicable in the UK and Republic of Ireland; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

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 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.

We communicated identified fraud risks throughout the audit team and remained alert to any indications of fraud throughout the audit.

As required by auditing standards, we perform procedures to address the risk of management override of controls and the risk of fraudulent revenue recognition, in particular:

- the risk that management may be in a position to make inappropriate accounting entries; and
- the risk that underwriting fee income is overstated/understated through recording revenues in the incorrect period.

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 finance management, those posted by infrequent users, those containing certain key words and material journal entries recorded at the end of the period.
- Assessing whether the judgements made in making accounting estimates are indicative of a potential bias.
- Testing a sample of underwriting fee income recognised close to the year end to test whether is revenue has been recognised in the correct period.

Identifying and responding to risks of material misstatement related to 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.

We communicated identified laws and regulations throughout our team and remained alert to any indications of non-compliance throughout the audit.

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 financial and 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 23, 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.

Alexander Snook (Senior Statutory Auditor)
for and on behalf of KPMG LLP, Statutory Auditor

Chartered Accountants

15 Canada Square

London

E14 5GL

15 June 2022

6. STATEMENT OF COMPREHENSIVE INCOME

For the Financial Year ended 31 March 2022

	Note	2022 £'000	2021 £'000
Fee and commission income	9.2	80,564	74,101
Fee and commission expense	9.2	(24,431)	(23,788)
Net trading revenue	9.3	(6,076)	45,914
Other income	9.4	38,888	36,213
Total non-interest income		**88,945**	**132,440**
Interest income and similar receivables	9.5	35,539	49,552
Interest payable and similar charges	9.6	(21,674)	(33,453)
Net interest income		**13,865**	**16,099**
Impairment of financial asset	9.7	(7,809)	(1,233)
Net operating income		**95,001**	**147,306**
Administrative expenses	9.8	(118,573)	(123,520)
Operating Profit/(Loss) before profit on disposal of investments		**(23,572)**	**23,786**
Profit on disposal of investments	9.10	-	21,627
Profit/(Loss) on ordinary activities before tax		**(23,572)**	**45,413**
Tax (charge)/credit on ordinary activities	9.11	2,334	(627)
Profit/(Loss) for the financial year		**(21,238)**	**44,786**
Other comprehensive income			
Movement on fair value reserve		-	(1,662)
Deferred tax recognised in equity		-	323
Total comprehensive profit/(loss) for the financial year		**(21,238)**	**43,447**

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 2022

Company registered number: 01487359	Note	2022	2021
Fixed assets		**£'000**	**£'000**
Intangible assets	9.12	3,400	2,995
Tangible assets	9.13	9,275	9,828
Available for sale investments	9.14	33	-
Investments in subsidiary undertakings	9.15	30,918	30,918
		43,626	**43,741**
Current assets			
Debtors	9.16	4,908,184	4,600,972
Financial assets held for trading	9.17	1,807,848	1,960,170
Cash at bank and in hand	9.18	62,873	39,999
		6,778,905	**6,601,141**
Current liabilities			
Creditors: amounts falling due within one year	9.19	(5,132,207)	(5,220,340)
Financial liabilities held for trading	9.17	(1,224,986)	(938,743)
Provisions for liabilities	9.20	(1,209)	(508)
		(6,358,402)	**(6,159,591)**
Net current assets		**420,503**	**441,550**
Total assets less current liabilities		**464,129**	**485,291**
Creditors: amounts falling due after more than one year	9.22	(1,393)	(1,317)
Provision for end of building lease costs	9.23	(4,000)	(4,000)
Net assets		**458,736**	**479,974**
Called-up share capital	9.24	732,121	732,121
Reserves		(273,385)	(252,147)
Shareholders' funds (all equity interests)		**458,736**	**479,974**

These financial statements were approved by the Board on 15 June 2022 and signed on their behalf by:

Douglas Van den Aardweg

Chairman

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 2022:

	Called-up Share Capital	Fair Value reserve	Capital reserve	Retained earnings	Total
	£'000	£'000	£'000	£'000	£'000
Beginning of year	732,121	-	13,908	(266,055)	479,974
Loss for the financial year	-	-	-	(21,238)	(21,238)
End of year	732,121	-	13,908	(287,293)	458,736

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

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 2022 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 financial statements have been prepared on a going concern basis which the directors consider to be appropriate for the following reasons. 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 revenue/profit 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 severe yet plausible stress scenarios to the normal operating environment have been considered. These assessments indicate that, taking account of reasonably possible downsides, the company will have sufficient funds, through its borrowing facility and, in downside cases, funding, from its parent company to meet its liabilities as they fall due during the going concern assessment period.

As set out in note 9.19 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 and not seek repayment of amounts currently made available for the foreseeable future and the going concern period. 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 through DSCL during the going concern period.

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 9.32 for details on where the company's ultimate parent company, Daiwa Securities Group Inc.'s, consolidated financial statements may be obtained from.

The company is also exempt from disclosing key management compensation in total under Section 33 Related Party Disclosure of FRS 102. Directors' remuneration is disclosed as required by the Companies Act 2006 in note 9.31.

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 the 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.

9.1.7.2. Financial assets at fair value through profit or loss

Financial assets are classified in this category if they are 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.

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.

9.1.7.3. 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 the 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.

9.1.7.4. 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.

9.1.7.5. 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 9.25. 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 (2021: £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 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 judgements

The preparation of the financial statements requires management to make judgements, 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 judgements 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 judgement to determine whether there is indication of impairment. Each of the variables or inputs requires management to exercise judgement 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 judgement 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 judgement 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

	2022 £'000	2021 £'000
Costs recharged to group companies	38,888	36,213

9.5. Interest income and similar receivables

	2022 £'000	2021 £'000
Interest and dividend income – held for trading	19,242	25,339
Interest income – financial assets	16,297	24,213
	35,539	49,552

Included in the above is interest received from group companies amounting to £1.3m (2021: £1.9m).

9.6. Interest payable and similar charges

	2022 £'000	2021 £'000
Bank loans and overdrafts	4,076	10,491
Interest expense – held for trading	392	390
Interest expense – financial liabilities	17,206	22,572
	21,674	33,453

Included in the above is interest paid to group companies amounting to £8.8m (2021: £15.5m).

9.7. Impairment of financial asset

	2022 £'000	2021 £'000
Impairment provision expense	7,809	1,233

The expense reflects the cost of impairing a loan made in accordance with the accounting policies explained in accounting policy note 9.1.7.3 "Financial Assets - Loans and receivables".

9.8. Administrative expenses

Administrative expenses are analysed as follows:	2022 £'000	2021 £'000
Permanent staff costs (see note 9.9)	76,960	75,133
Non-permanent staff costs	2,888	3,940
Amortisation of intangible assets (see note 9.12)	1,199	1,655
Depreciation of tangible assets (see note 9.13)	1,888	1,719
Premises costs	5,141	5,331
External technology, communication and data costs	16,113	15,466
Net costs recharged by group companies	8,248	12,159
Other costs	6,136	8,117
Total	118,573	123,520

Administrative expenses include the following fees paid to the company's auditors:	2022 £'000	2021 £'000
Fees payable to the company's auditor for the audit of the company's financial statements	300	301
Fees payable to the company's auditor and its associates for other services:		
- audit related assurance services	146	144
- tax advisory service	-	4
Fees payable to un-associated auditor in respect of overseas branch regulatory requirements	77	80

9.9. Staff costs

Employee costs during the year amounted to:

	2022 £'000	2021 £'000
Wages and salaries	64,486	63,126
Social security costs	7,579	7,273
Pension costs – defined contribution plan	4,895	4,734
	76,960	75,133

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

	2022 Number	2021 Number
Front Office		
Equity	42	43
Fixed Income	27	28
Debt and Equity Capital Markets	13	12
Other (ICB, Derivatives and Principal Investments)	23	25
Back Office Support	346	333
	451	441

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

	2022 Number	2021 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

	2022 £'000	2021 £'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% (2021: 19%) and comprises:

	2022 £'000	2021 £'000
UK and overseas corporation tax:		
Charge/(credit) for the current year	(1,779)	621
Charge/(credit) for the prior year	(555)	6
Company tax charge/(credit) for the year	(2,334)	627

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:

	2022 £'000	2021 £'000
Profit /(loss) on ordinary activities before tax	(23,572)	45,413
Taxation at UK standard corporation rate of 19% (2021: 19%)	(4,479)	8,628
Effects of:		
Profit on disposal of subsidiary not taxable	-	(3,644)
Permanent differences	4	2
Effects of unrecognised timing differences including losses	2,696	(4,365)
Prior year adjustment	(555)	6
Company tax charge/(credit) for the year	(2,334)	627

A residual deferred tax asset totalling £104.8m (2021: £78.1m) 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	32,160	643	61,983
Additions	-	-	1,604	1,604
Disposals	-	(345)	-	(345)
Transfers	-	291	(291)	-
End of year	29,180	32,106	1,956	63,242
Amortisation				
Beginning of year	29,180	29,808	-	58,988
Charge	-	1,199	-	1,199
Disposals	-	(345)	-	(345)
End of year	29,180	30,662	-	59,842
Net book value				
At 31 March 2022	-	1,444	1,956	3,400
At 31 March 2021	-	2,352	643	2,995

The assets in course of construction comprise computer software.

9.13. Tangible assets

	Furniture, fittings and equipment £'000	Computer hardware £'000	Motor vehicles £'000	Assets in course of construction £'000	Total £'000
Cost					
Beginning of year	17,673	7,240	39	69	25,021
Additions	-	-	-	1,335	1,335
Disposals	-	(125)	-	-	(125)
Transfers	523	228	-	(751)	-
End of year	18,196	7,343	39	653	26,231
Depreciation					
Beginning of year	9,265	5,889	39	-	15,193
Charge	1,417	471	-	-	1,888
Disposals	-	(125)	-	-	(125)
End of year	10,682	6,235	39	-	16,956
Net book value					
At 31 March 2022	7,514	1,108	-	653	9,275
At 31 March 2021	8,408	1,351	-	69	9,828

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

9.14. Available for sale investments

	2022 £'000	2021 £'000
Unlisted investment	33	-

The movement in the year was as follows:

	2022 £'000	2021 £'000
Beginning of year	-	1,700
Addition	33	-
Disposal of Investment	-	(1,700)
End of year	33	-

9.15. Investments in subsidiary undertakings

The company had one subsidiary undertaking as at 31st March 2022.

Name of company	Aggregate of capital and reserves £'000	Profit for the year £'000	Registered Office	Class of shares held	Percentage of equity and voting rights held
Daiwa Capital Markets Deutschland GmbH ("DCMD")	26,756	78	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:

	2022 £'000	2021 £'000
Beginning of year	30,918	30,937
Historical cost adjustment	-	(19)
End of year	30,918	30,918

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	2022 Total £'000	Financial Assets Loans and Receivables £'000	Non Financial Assets Other £'000	2021 Total £'000
Trade debtors	4,001	-	4,001	1,454	-	1,454
Amounts owed by parent group undertakings *	1,751,464	-	1,751,464	1,164,199	-	1,164,199
Amounts owed by subsidiary undertakings	232,442	-	232,442	292,635	-	292,635
VAT	-	644	644	-	535	535
Deposits paid for reverse repurchase agreements and securities borrowed	2,829,539	-	2,829,539	3,045,611	-	3,045,611
Other debtors	69,114	7	69,121	73,455	7	73,462
Corporation tax recoverable	-	2,100	2,100	-	246	246
Prepayments and accrued income	4,911	13,962	18,873	6,928	15,902	22,830
	4,891,471	16,713	4,908,184	4,584,282	16,690	4,600,972

*Amounts owed by parent group undertakings includes £1,699m for Deposits paid for reverse repurchase agreements (2021: £1,084m).

The carrying amount of debtors approximates to their fair value.

9.17. Financial assets and liabilities held for trading

The company's financial assets and liabilities held for trading consists 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.

	2022	2021
Financial Assets	**£'000**	**£'000**
Non Derivative marketable securities		
Equities	1,365	4,421
Government, Government Agency Bonds, and Municipal Bonds	377,559	364,340
Corporate Debt (inc. Convertible Bonds)	955,706	991,129
Total	1,334,630	1,359,890
of which listed	1,120,409	1,299,526
Derivative financial instruments		
Futures & Forwards	3,812	937
Options	28,507	49,800
Swaps	440,899	549,527
Other	-	16
Total	473,218	600,280
of which listed	2,412	330
Total financial assets held for trading	1,807,848	1,960,170
Financial Liabilities		
Non Derivative marketable securities		
Equities	36,380	85,926
Government, Government Agency Bonds, and Municipal Bonds	578,600	175,913
Corporate Debt (inc. Convertible Bonds)	149,409	89,680
Total	764,389	351,519
of which listed	761,971	349,758
Derivative financial instruments		
Futures & Forwards	2,281	527
Options	26,150	45,264
Swaps	431,392	539,325
Other	774	2,108
Total	460,597	587,224
of which listed	914	20
Total financial liabilities held for trading	1,224,986	938,743

9.18. Cash at bank and in hand

	2022 £'000	2021 £'000
Cash at bank and in hand	62,873	39,999
of which deposits with parent group undertakings	8,520	6,670

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

9.19. Creditors: amounts falling due within one year

	Financial Liabilities Loans and Receivables	Non Financial Liabilities Other	2022 Total	Financial Liabilities Loans and Receivables	Non Financial Liabilities Other	2021 Total
	£'000	£'000	£'000	£'000	£'000	£'000
Overdrafts	391	-	391	672	-	672
Trade creditors	8,728	-	8,728	6,971	-	6,971
Amounts owed to parent group undertakings *	993,301	-	993,301	1,057,572	-	1,057,572
Amounts owed to subsidiary undertakings	10,950	-	10,950	7,715	-	7,715
Deposits received for repurchase agreements and securities lent	4,074,982	-	4,074,982	4,093,871	-	4,093,871
Corporation Tax payable	-	-	-	-	621	621
Social security and PAYE liability	-	1,998	1,998	-	1,546	1,546
Other creditors	19,570	70	19,640	25,437	17	25,454
Accruals and deferred income	22,217	-	22,217	25,918	-	25,918
	5,130,139	2,068	5,132,207	5,218,156	2,184	5,220,340

*Amounts owed to parent group undertakings includes £150m for Deposits received for repurchase agreements (2021: £124m).

The carrying amount of creditors approximates to their fair value.

The company had a total unsecured borrowing facility of ¥206bn/£1.290bn (2021: ¥207bn/£1.359bn) from Daiwa Securities Company Ltd which was provided on an uncommitted basis, as at 31 March 2022 (and at 31 March 2021). At 31 March 2022 ¥110bn/£0.69bn (2021: ¥114bn/£0.75bn) was drawn on the facility.

There are overdrafts of £nil due to group undertakings (2021: nil). The company has £nil due to clearing agents which is secured principally by securities held on the company's trading accounts with those clearing agents (2021: £245k).

Accruals and deferred income include defined contribution pension schemes accruals of £505,294 (2021: £63,700).

9.20. 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:

	2022 £'000	2021 £'000
Provision for redundancy and restructuring	1,209	508

The movement in the year was as follows:	2022 £'000	2021 £'000
Beginning of year	508	1,164
Provision adjustment	1,209	508
Utilised during the year	(508)	(1,164)
End of year	1,209	508

9.20.1. Pending litigation

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

9.20.2. 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.

9.21. 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	2022 Total £'000
Financial Assets				
Cash at bank and in hand	-	-	62,873	62,873
Financial assets held for trading	1,807,848	-	-	1,807,848
Available for sale investments	-	33	-	33
Debtors – Loans and Receivables	-	-	4,891,471	4,891,471
	1,807,848	33	4,954,344	6,762,225
Financial Liabilities				
Financial liabilities held for trading	1,224,986	-	-	1,224,986
Creditors falling due within one year – Financial Liabilities	-	-	5,130,139	5,130,139
Creditors falling due after one year	-	-	1,393	1,393
	1,224,986	-	5,131,532	6,356,518

	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
Available for sale investments	-	-	-	-
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

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

	2022	2021
	£'000	£'000
Accruals and deferred income	1,393	1,317

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

9.23. Provision for end of building lease costs

	2022	2021
	£'000	£'000
Provision for end of building lease costs	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.

9.24. Called-up share capital and reserves

	2022	2021
	£'000	£'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).

9.25. Financial commitments

9.25.1. Loan commitments

As at 31 March 2022, undrawn but committed loan facilities amounted to £5.7m (2021: £9.2m).

9.25.2. Capital commitments

As at 31 March 2022, capital expenditure contracted for but not provided for amounted to £0.01m (2021: £0.1m).

9.25.3. Contingent liabilities

As at 31 March 2022, there were no contingent liabilities (and at 31 March 2021).

9.25.4. 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	2022 Total £'000	Property £'000	Other £'000	2021 Total £'000
Operating leases which expire						
- within 1 year	212	-	212	45	4	49
- within 2-5 years	3,078	26	3,104	238	42	280
- after 5 years	-	-	-	3,008	-	3,008
	3,290	26	3,316	3,291	46	3,337

9.25.5. 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. Under the core scheme, employee contributions are voluntary, and are given through a sacrifice scheme. 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 £4.2m (2021: £4.7m).

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 £154,520 (2021: £159,463).

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 £225,859 (2021: £220,760).

9.25.6. 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.

9.26. 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 ¥3.70 (2021: ¥32.55) and the total charge for the year was £18,293 (2021: £28,491).

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.

9.27. 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:

	2022 £bn	2021 £bn
Securities Received		
Securities received as collateral/borrowed	4.8	4.5
Source:		
Matched Book Repo Activity	3.4	3.4
Liquid Asset Buffer	0.6	0.7
Securities Borrowed	0.8	0.4
Total	4.8	4.5
Securities Pledged		
Securities pledged as collateral/lent	4.3	4.3
Use:		
Firm Funding Repo Activity	0.9	0.9
Matched Book Repo Activity	3.4	3.4
Total	4.3	4.3

9.28. Financial risk management

9.28.1. 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.

9.28.2. 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, 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.

9.28.3. 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:

	2022	**2021**
	£'000	**£'000**
Year-end	1,156	1,462
Average	1,354	1,284
Maximum	2,004	2,687
Minimum	914	673

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 2022 incorporate full diversification offsets between businesses. VaR figures for 2022 on average have been similar to last year and still higher compared to previous years 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 International Convertible Bonds in Japanese and other Asian names with strong fundamentals. Exposures have been in a steady range, all well within controlled limits.

9.28.4. 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. The firm continues to recognise the (limited) counterparty exposure on DVP trades. No counterparty losses were suffered during the year.

	2022 £'000	2021 £'000
Available for sale investments	33	-
Financial assets at fair value through profit and loss:		
Derivative financial instruments	473,218	600,280
Marketable securities	1,334,630	1,359,890
Loans and receivables:		
Debtors - Loans and receivables	4,891,471	4,584,282
Cash at bank and in hand	62,873	39,999
	6,762,225	6,584,451

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

						2022						2021
Credit Rating	**AAA**	**AA**	**A**	**BBB**	**Sub-I G**	**Total**	**AAA**	**AA**	**A**	**BBB**	**Sub-IG**	**Total**
	£'000	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**
Available for sale investments	-	33	-	-	-	33	-	-	-	-	-	-
Debtors - Loans and Receivables	9,605	589,978	3,174,669	842,120	275,099	4,891,471	31,722	1,250,720	2,100,184	796,352	405,304	4,584,282
Derivative financial instruments	-	2,805	466,396	3,690	327	473,218	-	276,199	321,523	2,555	3	600,280
Marketable securities	566,726	291,419	292,142	163,167	21,176	1,334,630	571,650	387,278	192,144	194,581	14,237	1,359,890
Cash at bank and in hand	-	44,301	9,420	390	8,762	62,873	-	18,536	14,438	107	6,918	39,999
	576,331	928,536	3,942,627	1,009,367	305,364	6,762,225	603,372	1,932,733	2,628,289	993,595	426,462	6,584,451

9.28.5. 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 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. As per 1 January 2022, the firm has switched to the IFPR regulation.

9.28.5.1. 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 ("CCP"s);

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.

9.28.5.2. 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.

9.28.5.3. 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 ("EWI"s) 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.

9.28.5.4. 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.

9.28.5.5. 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 Treasury liquid assets 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	2022 Total £'000
Marketable Securities	764,389	-	-	-	-	764,389
Derivative Financial Instruments	460,597	-	-	-	-	460,597
Deposits received for repurchase agreements and securities lent	929,330	2,059,818	1,154,238	67,028	-	4,210,414
Other Financial Liabilities	191,920	279,621	441,787	6,397	1,393	921,118
Total	2,346,236	2,339,439	1,596,025	73,425	1,393	6,356,518

	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

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 2022, the undiscounted contractual cash flows approximate to the carrying amounts on the balance sheet (2021: approximate to the carrying amounts).

9.28.5.6. Interest Rate Benchmark Reform

DCME's requirements with respect to LIBOR transition were relatively modest given the small size of our portfolio and the fact that our client base is restricted to professional counterparties. The IBOR transition project is now complete and all key objectives have been achieved.

9.29. Capital risk management

9.29.1. 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 the Investment Firms Prudential Regime (“IFPR”). The IFPR is the FCA’s new prudential regime for MiFID investment firms, which came into force on 1 January 2022.

The IFPR aims to streamline and simplify the prudential requirements for MiFID investment firms that the FCA prudentially regulate in the UK (FCA investment firms).

Although the IFPR does not explicitly refer to Pillars, it adopts the same three Pillar approach used in the Basel standards and implemented in CRD IV (previous regime).

- 1) Own Funds and Liquid Assets Requirements
- 2) Additional Own Funds and Liquidity Requirements
- 3) Public Disclosure

During the year, no breaches of the company’s capital requirement were reported to the FCA.

9.29.1.1. Capital Management

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

Formal procedures are in place to monitor and manage own funds 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 own funds utilisation through limit setting, own funds allocation and own funds planning. An Asset and Liability Management Committee, reporting to the Executive Committee, is in place to oversee the management of own funds and carry out periodic assessment of the company’s own funds resources requirements.

Regulatory Own Funds	2022 £'000	2021 £'000
Common Equity Tier 1 Capital	422,533	448,000
Regulatory Own Funds Resources	422,533	448,000

	2022 £'000	2021 £'000
Shareholders' Funds	458,736	479,974
Less Prudent Valuation Adjustment (unaudited)	(1,886)	(1,949)
Less Material Holdings	(30,917)	(29,814)
Less Intangible Assets	(3,400)	(211)
Regulatory Own Funds Resources	422,533	448,000

9.30. Fair Value estimation

The following table sets out fair value measurements as at 31 March 2022 using the FRS 102 fair value measurement hierarchy.

	Level 1 £'000	Level 2 £'000	Level 3 £'000	2022 Total £'000
Assets				
Available for sale investment	-	-	33	33
Financial assets at fair value through profit and loss:				
Derivative financial instruments	2,412	470,806	-	473,218
Marketable securities	921,052	389,266	24,312	1,334,630
Total assets	923,464	860,072	24,345	1,807,881
Liabilities				
Financial liabilities at fair value through profit and loss:				
Derivative financial instruments	914	459,683	-	460,597
Marketable securities	760,922	3,467	-	764,389
Total liabilities	761,836	463,150	-	1,224,986

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 2022.

Assets	Available for sale investments £'000	Derivative financial instruments £'000	Marketable securities £'000	2022 Total £'000
Beginning of the year	-	-	17,380	17,380
Purchases/Issues	33	-	9,822	9,855
Sales/Maturities	-	-	(532)	(532)
Revaluation	-	-	(2,358)	(2,358)
End of year	33	-	24,312	24,345

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

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

9.31. Related party transactions

Director's remuneration

The remuneration of the directors was as follows:

	2022 £'000	2021 £'000
Emoluments	1,738	2,319
Company contributions to group personal pension plans	37	83
	1,775	2,402

Pensions

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

Highest paid director

	2022 Number	2021 Number
Money purchase schemes	1	1

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

	2022 £'000	2021 £'000
Emoluments	454	642
Company contributions to group personal pension plans	4	-
	458	642

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.

9.32. 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.

9.33. Post Balance Sheet Events

There are no significant subsequent events, post the balance sheet date that require disclosure/adjustment in these financial statements.

9.34. Country by Country Reporting

The following reporting has been prepared to comply with the requirements set out in the Capital Requirements (Country by Country Reporting) Regulations 2013 as amended.

Location	Principal Activities	Turnover	Profit or (Loss) before tax	Corporation Tax	Average Headcount
		£'000	£'000	£'000	
United Kingdom	1	89,753	(22,705)	2,334	430
Switzerland	2	2,489	(696)	-	8
Bahrain	2	1,901	244	-	8
Russia	3	580	(152)	-	3
France	3	278	(263)	-	2
		95,001	(23,572)	2,334	451

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, and Convertible Bonds.
- The branches in Switzerland and Bahrain exist to facilitate sales activity in their local regions on behalf of DCME London.
- The representative office in France exists to source business opportunities for DCME London in those countries. The representative office in Moscow is in the process of being wound down.

Public subsidies received:

- The company receives no public subsidies.