Daiwa
Capital Markets

Annual Report and Financial Statements

For the Year Ended 31 March 2023

Daiwa Capital Markets Europe Limited

Company registered number: 01487359

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1. Chairman's Statement

The last year has been as eventful as the previous two with the global environment moving from one enormous challenge to the next. Just as we started to feel that the economic and social impacts of the global Covid-19 pandemic were moving behind us, we were faced with a war in Ukraine which has literally fanned the flames of energy markets, driving them higher and leading to soaring inflation and a tightening of monetary policy across the developed world. People are facing a cost of living crisis and we have seen impact on the financial services industry with increased uncertainty and banking failures.

The fundamental changes in the global geopolitical, social and economic environment have required that we be proactive in looking at, and changing, ourselves. Our Chief Executive Officer, Megan McDonald, has now been with us for a full financial year and under her stewardship we have defined a new strategy and are refining our operating and governance models to deliver the value proposition and financial performance our clients and stakeholders expect of us.

On 1st May 2022, Daiwa Securities Group celebrated its 120th anniversary demonstrating the strength and sustainability of the Group model. To leverage on the strength of the Group we have revised our booking model, enabling us to maintain our client-facing focus whilst booking risk on the Group's balance sheet. As a result, DCME's balance sheet size has reduced from over £6.8bn to £2.5bn. This reduction in balance sheet size has provided the levers to make changes to our operating and governance models, driving further efficiencies which will continue to strengthen DCME.

DCME's new risk profile has enabled the CEO to reshape her Executive Management team through the rationalisation and merging of roles and responsibilities. A smaller, more effective, Executive Committee has been formed further to appointing a single Executive as Head of both the Risk and Compliance divisions and by expanding the remit of existing Executives. The Executive-level changes have also permeated through the entity with a reduction in headcount at 31st March 2023 to 398 (from 449 the previous year). We have reviewed our geographical footprint from an economic and geopolitical perspective, resulting in the closure of our Moscow branch (further to the Russian invasion of Ukraine) and the closure of our Geneva branch, centring our continental European operations in our Frankfurt subsidiary (Daiwa Capital Markets Deutschland GmbH). These changes, coupled with a strong cost discipline adopted by all areas of the business, are transforming DCME into an entity which can compete and deliver in the ever challenging business environment.

The external economic factors and the geopolitical situation has put pressure on our 2023 full year financial performance, resulting in an operating loss of £18,341k. There are however, many reasons to be positive when we take a closer look at this result. The transformational road map which we are following comes at a cost and there are restructuring costs of £9,928k. The changes to the booking model have reduced profit and loss volatility and, aside from an impairment related to our (now closed) Principal Investments business, the second half of the financial year produced an operating profit, excluding restructuring costs. In addition, our new operating model and business strategy are committed to our ESG responsibilities with a particular focus on the social opportunities from which our strategy will enable us to benefit. We are becoming well positioned to deliver on our financial targets and the developing underlying strength of the entity gives us every confidence in our ability to do so.

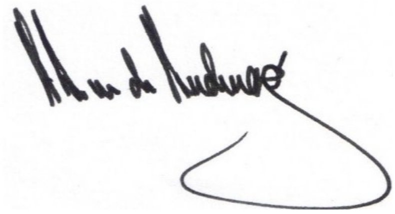
Essential to underpin our strategic objectives is the Daiwa culture and the enthusiasm and commitment of our talented people. Whilst acknowledging the many benefits of flexible working, we have taken the decision to rebalance the hybrid working model to deliver the firm's strategy. Employees now attend the office three days a week, structured around a firm wide 'Daiwa Day' for all staff, a specific divisional day and one flexible day. The objective was to create the foundations of a culture that fosters creativity and a strong collegiate work ethic. I am delighted to say that this has been a great success and we have seen real positives from the rebalancing of the hybrid working model.

During the year we have continued to drive the diversity of our Board, our Executives and our people, recognising the benefits of a diverse mix of gender, social and ethnic backgrounds. Our culture is core to our long term success and our move to a fixed weekly Daiwa Day every Wednesday gives us the hybrid working profile to embed our values of integrity, development, fairness and inclusivity, and sustainability. DCME continues to be a signatory to the Women in Finance Charter and our Board is now 44% women, with our Executive Committee being 50% women. We are committed to increasing the number of women in senior roles and closing the gender pay gap.

The Daiwa culture is only successful if our people are highly talented, engaged, motivated, and importantly, listened to. We care about employee wellbeing and also look to positive engagement between the Board, Executive and staff through numerous internal communication channels and an Employee Consultation Group. The culture of speaking up and being heard is further underpinned by our Whistleblowing Policy and Board level designated champion.

Into the new financial year, we move forward with our strategy and our vision of strong cultural values underpinning sustainable growth and financial success, whilst supporting social issues. We remain in a period of transformation but DCME is already well positioned to create sustainable value for our stakeholders beyond 2023. The transformation has only been possible due to the efforts across the firm of all our employees and their positive dedication to the pursuit of our goals. There is a purpose, passion and a shared vision in the people of DCME which makes me proud of their achievements and optimistic about the future.

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, clients 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") has 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, clients 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 Daiwa Group's (the "Group") global footprint, providing access to Japan and Asia for European clients and access to Europe for 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 Authority's ("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 client 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 assures 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 Group, support the UN's 17 Sustainability Development Goals ("SDGs"), where we recognise the importance of our role as a securities company by connecting investment to SDGs, creating positive impact for society.

The firm has continued in its efforts to reduce its carbon footprint, promoting energy efficiency, recycling and re-use. The emissions from gas usage in our London office are now offset, two of our three data centres now use 100% renewable energy in the UK with the third targeted to be renewable by 2025 and is currently producing <0.1 MTCO2e (Metric tons of carbon dioxide equivalent).

DCME has continued to support charitable activities with an emphasis on initiatives that enhance the surrounding community. Initiatives include mentoring programmes and gender and health equality, including support for local food banks.

The firm is a signatory to the Women in Finance Charter and has joined the Japan Diversity and Inclusion Group. DCME has demonstrated its commitment to increase the representation of women in banking, particularly at senior levels - 50% of the Executive Committee and 44% of the Board are women. Positive progress has also been demonstrated by the reduction of the DCME's mean gender pay gap from 38.8% to 30.9% in 2022. The Board and Executive Committee recognise the necessity of ensuring that we have an inclusive and diverse workforce and an environment where everyone can thrive regardless of their background and personal characteristics

2.2.5. Employees

The Board recognises that our employees are fundamental to the success of DCME's business and strategic ambitions. The directors are committed to attracting and retaining the best talent, harnessing the discretionary effort of our people and building an equitable and inclusive culture, thus ensuring we have a truly diverse workforce.

Management puts employee wellbeing at the core of our operations. DCME is a responsible employer, both in terms of pay and benefits and from the perspective of health and safety, including creating a positive workplace environment.

"Employee voice" is another crucial element of our culture. Directors engage with employees via a variety of mechanisms. This includes the Employee Consultation Group and our internal communication channels e.g. town halls, regular e-communications and social events. These platforms enable employees to share feedback and engage with leaders on matters that directly affect them.

DCME has a robust and well communicated Whistleblowing Policy. This provides a mechanism for employees to confidentially raise any concerns they may have with the Chair of the Audit Committee, who acts as the company's designated Whistleblowing Champion.

Improving diversity is a key objective of the directors and DCME has a number of policies and practices in place to support diversity and inclusion, including flexible working and enhanced adoption, maternity and paternity leave. The People & Culture department's resourcing strategy supports the firm's commitment to Equity, Diversity and Inclusion as does a commitment to the 'Women in Finance' Charter.

2.2.6. Clients

DCME's clients 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 clients. DCME adheres to Best Execution processes. Its corporate values, robust complaints process and a New Product Approval process ensure we provide clients with appropriate products in line with market expectations.

2.2.7. Regulators

DCME is authorised and regulated by the FCA 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 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 Group companies for which the company receives income.

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's primary office is based at 5 King William Street, London. It has branches in Geneva and Bahrain and a representative office in Paris (although the Geneva branch will be closing during the new financial year).

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 European Union. The primary aim of the entity is to support the Group's relationships with existing European Economic Area ("EEA") clients and maintain access to EEA clients and products for the 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 performance, businesses and strategy

2.4.1. Performance

This financial year to 2023 ("FY23") has been a period of fundamental change at DCME, which is strongly reflected in the company's financial statements. In the Statement of Comprehensive Income (Section 6 below) there is shift from net income generated from Commission, Interest and Trading activity to one derived from recharges to the Group (classified under "Other income and expense"). The table below provides analysis of the Statement of Comprehensive Income:

	2023 £'000	2022 £'000	mvmt £'000	mvmt %
Net income (excl. Recharges to Daiwa Group)	42,775	63,922	-21,147	-33%
Recharges to Daiwa Group (note 9.4)	69,332	38,888	30,444	78%
Net Operating Income (excl. impairment of financial asset)	**112,107**	**102,810**	**9,297**	**9%**
Administrative expenses (excl. restructuring costs)	-112,885	-114,977	2,092	-2%
Operating Loss (excl. restructuring costs and impairment of financial asset)	**-778**	**-12,167**	**11,389**	**-94%**
Impairment of financial asset	-7,635	-7,809	174	-2%
Restructuring costs (included in Administrative expenses in statement of comprehensive income)	-9,928	-3,596	-6,332	176%
Operating Loss	**-18,341**	**-23,572**	**5,231**	**-22%**

In the first quarter, DCME made a fundamental change to its business with the implementation of a new booking model for much of its Fixed Income Trading and all of its Convertible Bonds businesses. Under this model these divisions have moved to a system of back to back trade bookings with the transferring of commissions to Daiwa Securities Co. Ltd (DSCL). These DCME divisions are now remunerated by DSCL on a cost plus basis. In FY23, since these changes, the new recharges were £28.4m. The impact on DCME's balance sheet of this change has also been significant with the almost total elimination of non-derivative trading positions (see note 9.16).

The key outcome of this booking model change has been 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 that significantly reduced P&L volatility and market risk in the company as well as leading to cost efficiencies within DCME. 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 offerings.

DCME has followed on from the new booking model with a 3 year program of fundamental review and reduction of costs, resulting in significant FY23 restructuring costs (see above), to this end DCME is growing the German subsidiary, DCMD, closing the Geneva branch office and has already closed the Moscow representative office. The impact of this initiative is also evidenced in the reduction in DCME's headcount which at March 2023 year end was 398 compared with 449 a year before.

Late in FY23 the strategic decision was made to end all of DCME's repo and reverse repo activity during H1 FY24. By March 2023 the winding down of this activity was well advanced and this is evidenced on the balance sheet with significantly smaller Debtor and Credit balances year on year (Sections 9.15 and 9.18 below respectively)

Outside of the impact of the major changes in the Fixed Income and Convertible Bonds businesses, FY23 was disappointing for Equity related primary revenue. However lower year on year primary revenues were partly offset by higher interest income on the company's capital reflecting higher interest rates.

2.4.2. Business

2.4.2.1. 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 the 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 17% year on year decrease in total revenue mostly driven by a 74.% year on year decrease in primary revenue, (reflecting poor Japanese primary issuance). Secondary revenue was down 7% year on year.

DCME intends to develop its focus on the EU market primarily via DCMD, and anticipates that FY24 revenues will by slightly improved on those of FY23.

2.4.2.2. 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 the placement of Daiwa's Fixed Income global product range, both secondary and primary, with European clients. The Repo desk provides a client facilitation service to the Group and external clients by undertaking a financing matched book. As explained above, the Repo business will be closing in the new year.

The FICC Division had a 47% year on year increase in revenue with most of this improvement being explained by a fundamental change in the division's revenue profile. Under the new booking model market risk is booked and managed (and therefore economic performance generated) in DSCL with DCME revenues moving to a cost plus basis. For FY23 72% of FICC revenues came from recharges (FY22 28%) with the new booking model recharges accounting for 45% of FICC's FY23 revenue.

The cost plus profile of the majority of FICC revenues across a full financial year will drive a positive profit before tax in FY24.

2.4.2.3. 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. 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.

The ICB Division had a 30% year on year increase in revenue. In May 2022, ICB moved to the new booking model (explained above) and therefore 87% of its FY23 P&L were derived from recharge revenues.

For FY24 100% of ICB revenues will be from cost plus recharges, and it is anticipated that FY24 revenues will be similar to those of FY23.

2.4.2.4. 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 revenues were virtually unchanged year on year.

By developing the potential cross-selling and promotional opportunities between primary and syndication desks, DCME anticipates stronger FY24 revenues for the business.

2.4.2.5. Equity Capital Markets ("ECM")

ECM 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 down 58% compared with a strong prior year performance (particularly in CB related activity).

DCME anticipates that FY24 ECM revenues will be slightly higher than those of FY23 driven by development of ECM's Asian collaboration and exploration of equity, and equity linked primary opportunities.

2.4.2.6. 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	**2023**	**2022**
Net Operating Income (exc. Impairment of financial asset)	-16.55%	-18.84%
Administrative expenses (exc. restructuring costs)	-9.06%	-4.19%
Total headcount (including non-perm staff)	-17.0%	-4.77%
Actual Performance		
Return on Equity	-4.16%	-5.14%
Voluntary staff turnover	9.8%	11.8%
Loss on ordinary activities before tax	(£18.3m)	(£23.6 m)

These KPIs reflect the impact on Overheads and Headcount of the company's three year strategic cost efficiency program.

Capital	**2023** £m	**2022** £m
Regulatory Capital Resources	407	423
Unsecured Funding – Daiwa Group	£bn	£bn
Usage	0.0	0.69
Limit	0.4[1]	1.29

[1] Unsecured funding limit reduced to £100m (Y16bn) on 1st April 2023 reflecting the lower funding requirements.

DCME derived a significant proportion of unsecured funding from DSCL. However, following the change of the booking model, implemented in 2022, the unsecured funding requirements within DCME decreased significantly.

DCME maintains significant levels of excess capital, making the achievement of a reasonable return on equity challenging. However, capital provides a source of funding for DCME and the firm would require an alternative source if it were to be reduced.

2.4.3. Strategy

Under the leadership of our new CEO in 2022 the firm began developing a new three year "Journey to 2025" strategy, focused on becoming a client centric rather than product centric organisation. The firm will partner with our clients to deliver solutions that enable them to achieve the outcomes they require in a socially responsible and mutually beneficial manner.

DCME is optimistic for FY24, the new business operating model, European restructure and focus on cost control is expected to stem the losses seen in recent years. This, coupled with the implementation of a clear vision and strategy for the firm's development and exploration of new business opportunities positions DCME well in order to achieve the goals of the Journey to 2025.

2.5. Principal Risks and Uncertainties Facing the Company

2.5.1. High Inflation

The continuing high levels of inflation, which have led to increasing prices for goods and services for both business and individuals has been of significant focus worldwide. The March 2023 Bank of England (BoE) Monetary Policy Committee (MPC) stated that inflation had increased to 10.4% as of February 2023 (10.1% in January 2023). The inflation rate is expected to fall in Q2 2023 due primarily to falls in wholesale energy prices. This situation has led to a challenging cost environment where DCME is working hard to mitigate the impact from a business perspective and in its capacity as an employer.

Britain's low growth rate coupled with high inflation raises the possibility of the UK economy entering a period of stagflation. Whilst the current strong labour market will help mitigate the slow-down in the economy, the recent Bank of England rate rises will increase pressure on individuals and businesses alike and potentially result in greater unemployment and reduced demand.

DCME continues to monitor the inflationary situation closely.

2.5.2. Cybersecurity Risk

As financial services have become increasingly digitised firms have become increasingly vulnerable to cybercrime and operational IT deficiencies. This has been exacerbated in part by the prevalence of remote working since the pandemic. Such attacks could create significant economic and financial disruption to DCME and lead to operational issues restricting our ability to manage the business. DCME recognises that cyber-attacks are a significant threat and continues to work hard to strengthen information security and risk management frameworks to safeguard its operations, clients and business.

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2.5.3. Geographic and Market Exposure

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

Recently there has been significant financial services market instability whereby certain U.S. regional banks and Credit Suisse experienced rapid liquidity and customer deposit outflows, resulting in bank failures or restructuring. In aggregate, financial institutions' fundamentals remain sound, but recent events have led to tightening financial and credit conditions, as the priority for many institutions has been to preserve ample liquidity amid increased competition for deposits. Broader banking sector contagion and financial stability concerns have abated for now, but markets have not fully reversed the recent deterioration and longer-term implications for financial conditions and asset prices are uncertain.

Concerns remain that regulators could impose heightened capital and liquidity requirements which may lead to a reduction in bank willingness to provide lending which in itself would remove stimulus from the global economy at just the time that it is required.

2.5.4. Group Exposure

While the company operates as a stand-alone entity, the reality is that it operates within a wider Group construct 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.

Following the migration of trading positions to Tokyo and the change in booking model to book all FICC and ICB trading activity on a back to back basis with DSCL, the principle source of revenues for FICC and ICB have been fees from DSCL on a cost plus basis. This has increased the DCME reliance on the Group in order to undertake its business.

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 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 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 for the origination and quantum. 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 Group senior management on DCME's Board, and close communication between DCME division heads and their global product heads helps to avoid these types of conflicts. DCME is subject to the Senior Managers Regime, in the UK, which helps further embed strong governance and autonomy of decision making within the organisation.

2.5.5. DCME Specific Risks and Uncertainties

DCME continues to maintain its balance sheet in high quality liquid assets, with less than 8% of the asset base being invested in sub-investment grade credit (refer to section 9.27.4 below 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 Impact Low Probability	With the implementation of the new booking model, whereby DCME trades on a matched principal brokerage basis, liquidity risks have greatly diminished for the firm. As a consequence, long term funding from the parent has been fully repaid and DCME's funding requirements are fully supported by its own funds. Short term funding remains available from the Daiwa Group via a permanent unsecured funding line to DCME. The liquidity position of both DCME as well as the Daiwa Group remained strong throughout the year despite global inflationary pressures and tightening monetary policy.	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, ensuring that the portfolio of liquid assets covers the liquidity requirements for ongoing business operations, including periods of stress, as well as for an orderly wind-down. DCME maintains liquidity reserves in the form of high-quality liquid assets that consist exclusively of unencumbered assets, representing resources which can be readily converted into cash when required.
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 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.

Risk	Impact / Probability	Change in risk year on year	Mitigation of risk
			The Investment Firm Prudential Regime ("IFPR") required the introduction of the Internal Capital Adequacy and Risk Assessment ("ICARA") process, this has required a change in approach from assessments of risk to harm identification and assessment. This process has been embedded within DCME throughout 2022/2023 with extensive training provision and a rigorous approach to governance around the process and associated documentation. The MIF007 return was submitted to regulator on 31st March 2023. 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. DCME's parent company, DSCL, has committed all Daiwa Group entities to furthering the UNs 17 SDGs. As part of this commitment, DCME has set up a Sustainability Oversight Group which is supported by an ESG working group with the purpose of pursuing best ESG practice.
Staff Turnover	High Impact Medium Probability	Unchanged. Voluntary staff turnover was 9.8%. No material risks crystallised during the year as a result of key staff departures.	Employee retention continues to be impacted by a competitive external employment market especially in the technology space. Potential concerns around cost optimisation and organisational change may also impact retention. DCME is mitigating this risk by promoting a positive culture including employee voice mechanisms via the Employee

Risk	Impact / Probability	Change in risk year on year	Mitigation of risk
			Consultation Group and engaging the population in co-creation of their team strategies. All salaries are benchmarked to ensure market competitiveness and compensation decisions are informed by this process.
Operational Risks ("OR") (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 few 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. 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 and control ownership and engagement with the OR framework components, and positioning the OR department to provide 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. Overall the OR taxonomy has continued to underpin the various OR components and support analysis and reporting with Level 2 operational risks being assigned an accountable executive or relevant SMF function holder under the framework. The policy framework has been enhanced with a Non-Financial Risk Breach Policy. This formalises the assessment and documentation of policy breaches relating to OR level 2 risk types. Breaches reported through this process are reviewed from a conduct perspective. To further enhance the Operational Risk management across the firm we have implemented a new Governance Risk and Compliance ("GRC") system, which incorporates all of the OR framework

Risk	Impact / Probability	Change in risk year on year	Mitigation of risk
			components including incident and issue management.
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, whilst the company's business model has become simpler, DCME's business activity is still facing DCME clients hence 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 People & Culture 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 14 June 2023 and signed on their behalf by:

Megan McDonald

CEO

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 2023.

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 clients following the UK's withdrawal from the EU.

3.2. Results and Dividends

The audited financial statements for the year ended 31 March 2023 are set out from section 6 onwards. The company's loss for the year after taxation was £18.0m (2022: Loss of £21.2m). 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 (2022: £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, although the risk profile has changed where some risks (for example market risk) have reduced in materiality given the new booking model. 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.

Notes 9.27 and 9.28 below 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

All employees are kept fully informed about the company business performance through a variety of internal communication bulletins, newsletters, team and division meetings and town halls. In addition, in

2022, the Employee Consultation Group was formed for employee representatives from across the business to meet with the Executive team to solicit feedback from the wider employee population and propose solutions for operational business issues identified.

3.6. Charitable Contributions

The company contributed £7,125 (2022: £35,375) to charities during the course of the year.

3.7. Disabled Employees

During the recruitment and on-boarding process and within employment, employees are able to flag if they have any health/disabilities and/or require reasonable adjustments. Where required, occupational health referrals will be made and guidance from qualified professional given in relation to support provisions. The company aims to provide an inclusive environment where all employees, including those with disabilities, have equitable access to development and career enhancement opportunities.

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.

Other initiatives at 5 King William Street were the completed installation of LED lighting to all the office areas and a more optimised strategy on the heating and cooling demand to reduce energy consumption.

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 clients' 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 2023, DCME produced 514 tonnes of Greenhouse Gas emissions, an 8% reduction from the previous year.

	2023	**2022**
Emissions from activities for which the company own or control including combustion of fuel & operation of facilities (Scope 1)/tCO_2e	170	165
Emissions from purchase of electricity, heat, steam and cooling purchased for own use (Scope 2, location-based)/tCO_2e	343	392
Emissions from business travel in rental cars or employee-owned vehicles where company is responsible for purchasing the fuel (Scope 3)/tCO_2e	1	2
Total gross emissions/tCO2e	514	559
Energy consumption used to calculate above emissions:/KWH	2,709,547	2,750,890
Intensity ratio: tCO_2e/m^2	0.0675	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 23rd March 2023.

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/ South African	Appointed - 15 May 2017	RC, NC
Megan McDonald	Chief Executive Officer	British/ South African	Appointed - 1 June 2022	EC
Shuntaro Nagashima	President :Strategic Business Development	Japanese	Appointed - 15 June 2022	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	RC, 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				
Neil Mardon	Chief Operating Officer	British	Appointed - 8 July 2019 Retired - 15th July 2022	-
Yuzo Yonemoto	Deputy CEO	Japanese	Appointed - 1 August 2018 Retired - 14 June 2022	-

3.13. Disclosure of Information to Auditor

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 auditor 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 auditor 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 Auditor

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

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By order of the Board:

Simone Hodson

Secretary

5 King William Street

London

EC4N 7DA

14 June 2023

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 are 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.

By order of the Board:

Simone Hodson

Secretary

14 June 2023

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 2023 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 2023 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, in particular the risk that management may be in a position to make inappropriate accounting entries. On this audit we do not believe there is a fraud risk related to revenue recognition because the calculation of revenue is non-judgmental and straightforward, with limited opportunity for manipulation.

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.
- Evaluated the business purpose of significant unusual transactions
- Assessing whether the judgements made in making accounting estimates are indicative of a potential bias.

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 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

14 June 2023

6. STATEMENT OF COMPREHENSIVE INCOME

For the Financial Year ended 31 March 2023

	Note	2023 £'000	2022 £'000
Fee and commission income	9.2	46,015	80,564
Fee and commission expense	9.2	(14,397)	(24,431)
Net trading revenue	9.3	(1,356)	(5,975)
Other income and expense	9.4	67,873	38,787
Total non-interest income		**98,135**	**88,945**
Interest income and similar receivables	9.5	56,966	35,539
Interest payable and similar charges	9.6	(42,994)	(21,674)
Net interest income		**13,972**	**13,865**
Impairment of financial asset	9.7	(7,635)	(7,809)
Net operating income		**104,472**	**95,001**
Administrative expenses	9.8	(122,813)	(118,573)
Operating Loss		**(18,341)**	**(23,572)**
Tax credit on ordinary activities	9.10	354	2,334
Loss for the financial year		**(17,987)**	**(21,238)**
Other comprehensive income		-	-
Total comprehensive loss for the financial year		**(17,987)**	**(21,238)**

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 2023

Company registered number: 01487359	Note	2023	2022
Fixed assets		**£'000**	**£'000**
Intangible assets	9.11	3,288	3,400
Tangible assets	9.12	8,253	9,275
Available for sale investments	9.13	35	33
Investments in subsidiary undertakings	9.14	30,918	30,918
		42,494	**43,626**
Current assets			
Debtors	9.15	2,141,526	4,908,184
Financial assets held for trading	9.16	271,187	1,807,848
Cash at bank and in hand	9.17	53,057	62,873
		2,465,770	**6,778,905**
Current liabilities			
Creditors: amounts falling due within one year	9.18	(1,792,134)	(5,132,207)
Financial liabilities held for trading	9.16	(266,512)	(1,224,986)
Provisions for liabilities	9.19	(3,204)	(1,209)
		(2,061,850)	**(6,358,402)**
Net current assets		**403,920**	**420,503**
Total assets less current liabilities		**446,414**	**464,129**
Creditors: amounts falling due after more than one year	9.21	(1,665)	(1,393)
Provision for end of building lease costs	9.22	(4,000)	(4,000)
Net assets		**440,749**	**458,736**
Called-up share capital	9.23	732,121	732,121
Reserves		(291,372)	(273,385)
Shareholders' funds (all equity interests)		**440,749**	**458,736**

These financial statements were approved by the Board on 14 June 2023 and signed on their behalf by:

Megan McDonald

CEO

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 2023:

	Called-up Share Capital	Capital reserve	Retained earnings	Total
	£'000	**£'000**	**£'000**	**£'000**
Beginning of year	732,121	13,908	(287,293)	458,736
Loss for the financial year	-	-	(17,987)	(17,987)
End of year	732,121	13,908	(305,280)	440,749

The table below presents the changes in Equity for the year ended 31 March 2022:

	Called-up Share Capital	Capital reserve	Retained earnings	Total
	£'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 accompanying Notes to the Financial Statements in section 9 are an integral part of the financial statements.

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 2023 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 9.18 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 9.31 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 9.30.

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, 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 9.24. 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 (2022: £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 client liabilities where this is considered appropriate. The collateral normally takes the form of a lien over the client'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 and expense

	2023 £'000	2022 £'000
Costs recharged to Group companies	69,332	38,888
Loss on balance sheet foreign exchange revaluation	(1,459)	(101)
	67,873	38,787

9.5. Interest income and similar receivables

	2023 £'000	2022 £'000
Interest and dividend income – held for trading	9,656	19,242
Interest income – financial assets	47,310	16,297
	56,966	35,539

Included in the above is interest received from Group companies amounting to £20.5m (2022: £1.3m).

9.6. Interest payable and similar charges

	2023 £'000	2022 £'000
Bank loans and overdrafts	6,682	4,076
Interest expense – held for trading	319	392
Interest expense – financial liabilities	35,993	17,206
	42,994	21,674

Included in the above is interest paid to Group companies amounting to £27.3m (2022: £8.8m).

9.7. Impairment of financial asset

	2023 £'000	2022 £'000
Impairment provision expense	7,635	7,809

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:	2023 £'000	2022 £'000
Permanent staff costs (see note 9.9)	72,039	73,668
Non-permanent staff costs	1,150	2,888
Amortisation of intangible assets (see note 9.11)	1,130	1,199
Depreciation of tangible assets (see note 9.12)	2,055	1,888
Premises costs	5,376	4,914
External technology, communication and data costs	16,359	16,096
Net costs recharged by Group companies	8,974	8,248
Other costs	5,802	6,076
Restructuring Costs	9,928	3,596
Total	122,813	118,573

Prior year comparative of administrative expenses has been revised to separately categorise Restructuring costs which were previously included under other administrative expense categories.

Administrative expenses include the following fees paid to the company's auditors:	2023 £'000	2022 £'000
Fees payable to the company's auditor for the audit of the company's financial statements	368	300
Fees payable to the company's auditor and its associates for other services:		
- audit related assurance services	160	146
Fees payable to non-KPMG auditor in respect of overseas branch regulatory requirements	74	77

9.9. Staff costs

Employee costs during the year amounted to:

	2023 £'000	2022 £'000
Wages and salaries	60,115	61,194
Social security costs	6,994	7,579
Pension costs – defined contribution plan	4,930	4,895
	72,039	73,668

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

	2023 Number	2022 Number
Front Office		
Equity	40	42
Fixed Income	24	27
Debt and Equity Capital Markets	13	13
Other (ICB, Derivatives and Principal Investments)	22	23
Back Office Support	322	346
	421	451

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

	2023 Number	2022 Number
Branches		
Bahrain	8	8
Geneva	7	8
Representative offices	15	16
Moscow	2	3
Paris	2	2
	19	21

9.10. Tax credit on ordinary activities

The tax credit is based upon the standard UK corporation tax rate of 19% (2022: 19%) and comprises:

	2023 £'000	2022 £'000
UK and overseas corporation tax:		
Credit for the current year	-	(1,779)
Credit for the prior year	-	(555)
Group relief for the current year	(539)	-
Group relief for the prior year	185	-
Company credit for the year	(354)	(2,334)

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:

	2023 £'000	2022 £'000
Loss on ordinary activities before tax	(18,341)	(23,572)
Taxation at UK standard corporation rate of 19% (2022: 19%)	(3,485)	(4,479)
Effects of:		
Permanent differences	74	4
Effects of unrecognised timing differences including losses	2,872	2,696
Prior year adjustment	185	(555)
Company tax credit for the year	(354)	(2,334)

A residual deferred tax asset totalling £108.8m (2022: £104.8m) 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.

9.11. Intangible assets

	Goodwill £'000	Software £'000	Assets in course of construction £'000	Total £'000
Cost				
Beginning of year	29,180	32,106	1,956	63,242
Additions	-	-	1,085	1,085
Disposals	(29,180)	(1,628)	-	(30,808)
Transfers	-	2,974	(2,974)	-
End of year	-	33,452	67	33,519
Amortisation				
Beginning of year	29,180	30,662	-	59,842
Charge	-	1,130	-	1,130
Impairment Losses	-	67	-	67
Disposals	(29,180)	(1,628)	-	(30,808)
End of year	-	30,231	-	30,231
Net book value				
At 31 March 2023	-	3,221	67	3,288
At 31 March 2022	-	1,444	1,956	3,400

The assets in course of construction comprise computer software.

9.12. Tangible assets

	Furniture, fittings and equipment	Computer hardware	Motor vehicles	Assets in course of construction	Total
	£'000	£'000	£'000	£'000	£'000
Cost					
Beginning of year	18,196	7,343	39	653	26,231
Additions	-	-	-	1,033	1,033
Disposals	-	(247)	-	-	(247)
Transfers	345	1,215	-	(1,560)	-
End of year	18,541	8,311	39	126	27,017
Depreciation					
Beginning of year	10,682	6,235	39	-	16,956
Charge	1,529	526	-	-	2,055
Disposals	-	(247)	-	-	(247)
End of year	12,211	6,514	39	-	18,764
Net book value					
At 31 March 2023	6,330	1,797	-	126	8,253
At 31 March 2022	7,514	1,108	-	653	9,275

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

9.13. Available for sale investments

	2023 £'000	2022 £'000
Unlisted investment	35	33

The movement in the year was as follows:

	2023 £'000	2022 £'000
Beginning of year	33	-
Addition	-	33
Foreign exchange revaluation	2	-
End of year	35	33

9.14. Investments in subsidiary undertakings

The company had one subsidiary undertaking as at 31st March 2023.

Name of company	Aggregate of capital and reserves £'000	Loss for the year £'000	Registered Office	Class of shares held	Percentage of equity and voting rights held
Daiwa Capital Markets Deutschland GmbH ("DCMD")	27,665	149	Tower 185, 26. OG, Friedrich-Ebert-Anlage 35 -37 60327 Frankfurt am Main, Germany	Ordinary Shares	100%

	2023 £'000	2022 £'000
Investments in subsidiary undertakings	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.

9.15. Debtors

Debtors comprise the following amounts:

	Financial Assets Loans and Receivables £'000	Non Financial Assets Other £'000	2023 Total £'000	Financial Assets Loans and Receivables £'000	Non Financial Assets Other £'000	2022 Total £'000
Trade debtors	2,291	-	2,291	4.001	-	4,001
Amounts owed by parent Group undertakings *	1,030,566	539	1,031,105	1,751,464	-	1,751,464
Amounts owed by subsidiary undertakings	880	-	880	232,442	-	232,442
VAT	-	896	896	-	644	644
Deposits paid for reverse repurchase agreements and securities borrowed	1,055,551	-	1,055,551	2,829,539	-	2,829,539
Other debtors	38,130	7	38,137	69,114	7	69,121
Corporation tax recoverable	-	447	447	-	2,100	2,100
Prepayments and accrued income	2,041	10,178	12,219	4,911	13,962	18,873
	2,129,459	12,067	2,141,526	4,891,471	16,713	4,908,184

*Amounts owed by parent Group undertakings includes £1,014m for Deposits paid for reverse repurchase agreements (2022: £1,699m).

The carrying amount of debtors approximates to their fair value.

9.16. 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.

Financial Assets	**2023 £'000**	**2022 £'000**
Non Derivative marketable securities		
Equities	-	1,365
Government, Government Agency Bonds, and Municipal Bonds	-	377,559
Corporate Debt (inc. Convertible Bonds)	-	955,706
Total	-	1,334,630
of which listed	-	1,120,409
Derivative financial instruments		
Futures & Forwards	421	3,812
Options	35,662	28,507
Swaps	235,104	440,899
Total	271,187	473,218
of which listed	-	2,412
Total financial assets held for trading	271,187	1,807,848
Financial Liabilities		
Non Derivative marketable securities		
Equities	-	36,380
Government, Government Agency Bonds, and Municipal Bonds	-	578,600
Corporate Debt (inc. Convertible Bonds)	-	149,409
Total	-	764,389
of which listed	-	761,971
Derivative financial instruments		
Futures & Forwards	422	2,281
Options	35,662	26,150
Swaps	230,428	431,392
Other	-	774
Total	266,512	460,597
of which listed	-	914
Total financial liabilities held for trading	266,512	1,224,986

9.17. Cash at bank and in hand

	2023 £'000	2022 £'000
Cash at bank and in hand	53,057	62,873
of which deposits with parent Group undertakings	7,783	8,520

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

9.18. Creditors: amounts falling due within one year

	Financial Liabilities Loans and Receivables £'000	Non Financial Liabilities Other £'000	2023 Total £'000	Financial Liabilities Loans and Receivables £'000	Non Financial Liabilities Other £'000	2022 Total £'000
Overdrafts	-	-	-	391	-	391
Trade creditors	11,716	-	11,716	8,728	-	8,728
Amounts owed to parent Group undertakings *	408,384	-	408,384	993,301	-	993,301
Amounts owed to subsidiary undertakings	9,017	-	9,017	10,950	-	10,950
Deposits received for repurchase agreements and securities lent	1,331,651	-	1,331,651	4,074,982	-	4,074,982
Social security and PAYE liability	-	1,809	1,809	-	1,998	1,998
Other creditors	9,678	25	9,703	19,570	70	19,640
Accruals and deferred income	19,854	-	19,854	22,217	-	22,217
	1,790,300	1,834	1,792,134	5,130,139	2,068	5,132,207

*Amounts owed to parent Group undertakings includes £355m for Deposits received for repurchase agreements (2022: £150m).

The carrying amount of creditors approximates to their fair value.

The company had a total unsecured borrowing facility of ¥65bn/£0.4bn (2022: ¥206bn/£1.290bn) from Daiwa Securities Company Ltd which was provided on an uncommitted basis, as at 31 March 2023 (and at 31 March 2022). At 31 March 2023 ¥nil/£nil (2022: ¥110bn/£0.69bn) was drawn on the facility.

There are overdrafts of £nil due to Group undertakings (2022: 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 (2022: £nil).

Accruals and deferred income include defined contribution pension schemes accruals of £15,943 (2022: £505,294).

9.19. 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:

	2023 £'000	2022 £'000
Provision for redundancy and restructuring	3,204	1,209

The movement in the year was as follows:	2023 £'000	2022 £'000
Beginning of year	1,209	508
Provision adjustment	3,144	1,209
Utilised during the year	(1,149)	(508)
End of year	3,204	1,209

9.19.1. Pending litigation

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

9.19.2. 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.

9.20. 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	2023 Total £'000
Financial Assets				
Cash at bank and in hand	-	-	53,057	53,057
Financial assets held for trading	271,187	-	-	271,187
Available for sale investments	-	35	-	35
Debtors – Loans and Receivables	-	-	2,129,459	2,129,459
	271,187	35	2,182,516	2,453,738
Financial Liabilities				
Financial liabilities held for trading	266,512	-	-	266,512
Creditors falling due within one year – Financial Liabilities	-	-	1,790,300	1,790,300
Creditors falling due after one year	-	-	1,665	1,665
	266,512	-	1,791,965	2,058,477

	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

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

	2023 £'000	2022 £'000
Accruals and deferred income	1,665	1,393

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

9.22. Provision for end of building lease costs

	2023 £'000	2022 £'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 9.12) under Furniture, fittings and equipment, and has been capitalised and amortised as depreciation cost.

9.23. Called-up share capital and reserves

	2023 £'000	2022 £'000
Allotted, called-up and fully paid		
732,121 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).

9.24. Financial commitments

9.24.1. Loan commitments

As at 31 March 2023, undrawn but committed loan facilities amounted to £nil (2022: £5.7m).

9.24.2. Capital commitments

As at 31 March 2023, capital expenditure contracted for but not provided for amounted to £nil (2022: £0.01m).

9.24.3. Contingent liabilities

As at 31 March 2023, there were no contingent liabilities (and at 31 March 2022).

9.24.4. 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	2023 Total £'000	Property £'000	Other £'000	2022 Total £'000
Operating leases which expire						
- within 1 year	18	1	19	212	-	212
- within 2-5 years	3,208	16	3,224	3,078	26	3,104
- after 5 years	-	-	-	-	-	-
	3,226	17	3,243	3,290	26	3,316

9.24.5. 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 £4.9m (2022: £4.9m). 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 £62,202 (2022: £154,520).

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 £174,781 (2022: £225,859).

9.24.6. 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.

9.25. 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 ¥16.9 (2022: ¥3.70) and the total charge for the year was £9,711 (2022: £18,293).

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.

9.26. 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:

	2023 £bn	2022 £bn
Securities Received		
Securities received as collateral/borrowed	2.1	4.8
Source:		
Matched Book Repo Activity	1.7	3.4
Liquid Asset Buffer	0.4	0.6
Securities Borrowed	-	0.8
Total	2.1	4.8
Securities Pledged		
Securities pledged as collateral/lent	1.7	4.3
Use:		
Firm Funding Repo Activity	-	0.9
Matched Book Repo Activity	1.7	3.4
Total	1.7	4.3

9.27. Financial risk management

9.27.1. 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 used to arise from trading book positions held in Fixed Income, Equity, Derivative and Convertible instruments, however following the implementation of the new booking model in May/June 2022 all market risks have been transferred to DSCL. Credit risk exposures arise from unsettled/outstanding trades in the event of counterparty failure. The deterioration of the credit quality of issuers of debt securities, is no longer a primary risk factor for the firm due to its new booking model. 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.

9.27.2. 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, proportionate 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 Compliance and Risk Management Committee.

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.

9.27.3. Market risk

Market Risk was formerly one of the key financial risks that the firm faced given its trading inventory in both Fixed Income as well as Equity and Equity Linked products. However, with the implementation of the new booking model, these risks have been mitigated through their transfer to DSCL. However, until the moment of transfer in May/June 2022, all material market risks, including those arising from market making and proprietary trading, were subject to VaR analysis on a daily basis. The VaR analysis for the year was as follows:

	2023 £'000	2022 £'000
Year-end	-	1,156
Average*	1,343	1,354
Maximum	1,641	2,004
Minimum	-	914

(*) the Average VaR for the financial year ending 31 March 2023 is based of the period starting 1 April 2022 until the final go-live weekend of the new booking model; 17 June.

VaR was 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 were subject to sensitivity analysis including BPV (gross and net basis) and credit spread (by rating, per issuer, per country, and gross and net basis).

9.27.4. 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.

	2023 £'000	2022 £'000
Available for sale investments	35	33
Financial assets at fair value through profit and loss:		
Derivative financial instruments	271,187	473,218
Marketable securities	-	1,334,630
Loans and receivables:		
Debtors - Loans and receivables	2,129,459	4,891,471
Cash at bank and in hand	53,057	62,873
	2,453,738	6,762,225

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

						2023						2022
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	-	-	35	-	-	35	-	33	-	-	-	33
Debtors - Loans and Receivables	66,724	228,392	1,344,628	306,248	183,467	2,129,459	9,605	589,978	3,174,669	842,120	275,099	4,891,471
Derivative financial instruments	-	117,022	153,117	673	375	271,187	-	2,805	466,396	3,690	327	473,218
Marketable securities	-	-	-	-	-	-	566,726	291,419	292,142	163,167	21,176	1,334,630
Cash at bank and in hand	-	9,867	34,996	147	8,047	53,057	-	44,301	9,420	390	8,762	62,873
	66,724	355,281	1,532,776	307,068	191,889	2,453,738	576,331	928,536	3,942,627	1,009,367	305,364	6,762,225

9.27.5. Funding and Liquidity Risk Management

The Liquidity and Market Risk Management department provides independent oversight and challenge as it is responsible for the identification, daily assessment, monitoring and internal reporting of DCME's liquidity and funding risks under normal and stressed scenarios.

Primary sources of funding include the company's own funds which serve as the longest dated and most stable form of finance as well as access to an unsecured, uncommitted facility from the parent.

Liquidity risk is managed by:

- holding an adequate level of unencumbered Liquidity Reserves (Treasury Liquid Assets, "TLA"), assessed in the ICARA process under the IFPR regulation, which cover the requirements for ongoing business operations including periods of stress, as well as an orderly wind-down. The TLA portfolio is ring-fenced and managed by the firm's Treasury Markets function, denominated in major currencies and compromises highly liquid assets in line with eligibility criteria set by Risk Management,
- a comprehensive Contingency Funding Plan that details senior management action during a liquidity event to ensure that the company's core franchise remains intact.

A series of controls are in place ensuring that:

- the amount of funding gaps and cash flow mismatches over various time horizons are within the assigned limits,
- the liquidity reserves cover the requirements in normal and stress conditions, under the worst-case stress scenario,
- the composition of liquid asset portfolio, Treasury Liquid Assets, is complaint with internal requirements, relating to issuer, denomination currency and maturity profile,
- current and planned divisional funding usage is in line with Board agreed business plans.

Measurement is against both internal as well as external regulatory metrics, for example the FCA ILG ratio, applicable during the IFPR transitional period.

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	2023 Total £'000
Derivative Financial Instruments	266,512	-	-	-	-	266,512
Deposits received for repurchase agreements and securities lent	302,924	1,154,501	224,240	-	-	1,681,665
Other Financial Liabilities	73,454	14,498	14,266	6,417	1,665	110,300
Total	642,890	1,168,999	238,506	6,417	1,665	2,058,477

	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

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 2023, the undiscounted contractual cash flows approximate to the carrying amounts on the balance sheet (2022: approximate to the carrying amounts).

9.28. Capital risk management

9.28.1. 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").

IFPR streamlines and simplifies 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 a similar three pillar approach used previously by DCME in the Basel standards and implemented in CRD IV.

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.

9.28.1.1. 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	2023 £'000	2022 £'000
Common Equity Tier 1 Capital	406,541	422,533
Regulatory Own Funds Resources	406,541	422,533

	2023 £'000	2022 £'000
Shareholders' Funds	440,749	458,736
Less Prudent Valuation Adjustment (unaudited)	(2)	(1,885)
Less Material Holdings	(30,918)	(30,918)
Less Intangible Assets	(3,288)	(3,400)
Regulatory Own Funds Resources	406,541	422,533

9.29. Fair Value estimation

The following table sets out fair value measurements as at 31 March 2023 using the FRS 102 fair value measurement hierarchy.

	Level 1 £'000	Level 2 £'000	Level 3 £'000	2023 Total £'000
Assets				
Available for sale investment	-	-	35	35
Financial assets at fair value through profit and loss:				
Derivative financial instruments	-	271,187	-	271,187
Total assets	-	271,187	35	271,222
Liabilities				
Financial liabilities at fair value through profit and loss:				
Derivative financial instruments	-	266,512	-	266,512
Total liabilities	-	266,512	-	266,512

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 following table presents the changes in level 3 instruments for the year ended 31 March 2023.

Assets	Available for sale investments £'000	Marketable securities £'000	2023 Total £'000
Beginning of the year	33	24,312	24,345
Sales/Maturities	-	(24,312)	(24,312)
Revaluation	2	-	2
End of year	35	-	35

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				
Financial assets at fair value through profit and loss:				
Available for sale investment			33	33
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

The following table presents the changes in level 3 instruments for the year ended 31 March 2022.

Assets	Available for sale investments £'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

9.30. Related party transactions

Director's remuneration

The remuneration of the directors was as follows:

	2023 £'000	2022 £'000
Emoluments	2,747	1,738
Company contributions to Group personal pension plans	49	37
	2,796	1,775

Pensions

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

Highest paid director

	2023 Number	2022 Number
Money purchase schemes	2	1

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

	2023 £'000	2022 £'000
Emoluments	1,009	454
Company contributions to Group personal pension plans	31	4
	1,040	458

Emoluments include all salary and benefits accruing to directors, plus the bonus awarded in respect of the financial year.

9.31. 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.

9.32. Post Balance Sheet Events

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

9.33. 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	Turnover	Profit or (Loss) before tax	Corporation Tax	Average Headcount
	£'000	£'000	£'000	
United Kingdom	99,876	(17,391)	354	402
Switzerland	2,138	(836)	-	7
Bahrain	2,035	204	-	8
Russia	102	(27)	-	2
France	321	(291)	-	2
	104,472	(18,341)	354	421

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 was is in the process of being wound down for part of the year.

Public subsidies received:

- The company receives no public subsidies.