Daiwa Capital Markets Europe Limited

Annual report and financial statements for the year ended 31 March 2015

Company registered number: 01487359

Contents

Chairman's Statement

For the financial year ending March 31st 2015, Daiwa Capital Markets Europe Limited ("DCME") made a loss of £15.9 million, compared to a loss of £21.2 million in the previous year. While the operating loss increased from £4.5 million to £12.3 million, there was a significant reduction in impairments, reflecting the reduced impact of historic items on the business. The current year operating loss includes £3.4m of restructuring costs, which reflect our reaction to changing market conditions and will help place DCME on a more sustainable footing for the long term.

Daiwa Securities Group Inc., our parent company, reported a net profit of ¥148.5 billion in Financial Year 2014 and generated an annualised Return on Equity of 12.8%. Operating profit beat the Group's mid-term Business Plan target at ¥184.6 billion. Overall, the Daiwa Group has been successful in achieving the quantitative goals laid out in its three-year Business Plan and has established a robust business structure broadly insulated from the external environment.

This past financial year, meanwhile, has been a turning point for DCME with a focus on cost reduction, a restructuring of our operations, and a diversification of revenue streams. Front office operations have been moved away from the volatility of principal position taking (including via the closure of the Convertible Bonds Principal Trading Desk), to a more client-driven model with a greater focus on our areas of strength, including the businesses related to the Group's retail franchise. Our streamlined back office structure, meanwhile, is now appropriately sized and more closely aligned to the businesses' requirements.

DCME continues to play a crucial role in the Group's strategy to benefit from the Japanese retail channels where there is an ongoing cultural change from savings to investments, inspired by Abenomics. Our Equity Division has achieved notable success in delivering French and Italian equities to Japanese retail clients through our retail sales network in Japan.

The Debt Capital Market (DCM) Department had a stellar year for new issue mandates, significantly increasing the number of new issues across US dollars, Japanese Yen and Australian dollars compared to the previous year – which was itself a strong year for issuance. Their benchmark deals included a healthy mix of first time mandates, 32 in total, and repeat mandates.

DCM was also awarded IFR's prestigious Yen Bond House of the Year award. Daiwa led more Samurais for its issuers in 2014 than in any previous year, achieving IFR's #1 ranking in the JPY underwriting league table. DCM also issued the first Basle III Tier 2 subordinated debt Samurai deals into the market, on behalf of Rabobank and BPCE.

The Equity Capital Market (ECM) Department was boosted by a buoyant International Convertible Bond primary market, which saw the largest number of new issues since 2006. In spite of intense competition, ECM grew its market share of this primary business to 19%, from 17% the previous year and from 12% in 2012.

Fixed Income's Structured MTN desk continued to thrive, and is now delivering up to 200 Private Placements a month. Daiwa retains its leading position in the Socially Responsible Investment market, with three new issues outside of the Uridashi space, including the first ever SRI bond from a Japanese SSA issuer. The MTN desk also issued a deep discounted note in an Emerging Market high-yield currency for the African Development Bank, a first, which was sold into Daiwa Retail as part of a new product initiative.

Times were tougher for much of the rest of the Fixed Income Division. The under-performance initiated a mid-year review, including a full review of its Sales and Trading Operations, resulting in a re-alignment of its product mix to better fit client demand, with a reduced reliance on proprietary trading.

High-yielding products remain very much in demand by European investors so Fixed Income will look to develop its emerging market SSA business in markets such as Russian Rouble, South African Rand and Turkish Lira. And DCME's Fixed Income business will continue to support Tokyo Fixed Income's product initiatives. As with the Equity Division, Fixed Income will distribute more of its product into the Japanese Retail network, with MTN Structured products already gaining some considerable traction.

We remain conscious of the need for enhanced revenue regeneration. As such we have made a concerted effort to expand our businesses and the past year saw DCME launch its Principal Investment business, focussed on providing finance for real estate developments.

2014 marked the 50th anniversary of Daiwa's operations in Europe through our London office. This longevity is testament to the firm's ability to react and adjust to the enormous changes that have been seen in the financial markets over that time. I am confident that the next 50 years will see Daiwa continue to make its mark on London. And I look forward to continue working with the firm's talented team as we focus on our core strengths and exciting new business initiatives in pursuit of delivering the best service to our clients globally.

Yours sincerely,

Junichi Arihara
Chairman
Daiwa Capital Markets Europe Limited

Introduction

The purpose of this report is to provide users of these Financial Statements with an insight into Daiwa Capital Markets Europe's ("DCME") business, strategy and the risks and opportunities associated with that strategy. The report includes commentary on the companies' 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.

Business Performance

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

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

DCME has the following revenue generating business units:

Equities

DCME's Equity Division includes investment research and advisory related agency brokerage with a core focus on Pan Asian equities. It offers execution services, to clients, using the Group's access to the Tokyo Stock Exchange and to other Asian exchanges. DCME also provides access to European equities for the group's clients through DCME's access to European exchanges. In addition the division distributes equity-linked primary issues originated by other parts of the Daiwa Group to a wide range of clients throughout Europe and the Middle East.

Through its alliance with Sanford C. Bernstein (UK) ("Bernstein") the division provides European research to Japanese institutional investors and to the Daiwa Group.

Fixed Income ("FI")

DCME's FI Division focuses on the distribution and trading of public and private investment grade bonds, primarily denominated in USD, EUR, JPY, AUD, GBP, NOK, SEK, CAD, and NZD. The division is organised into four core areas. The revenue generating areas are Trading (incorporating Credit, Government and Repo Trading), Medium Term Notes and Structured Products (MTN) and Sales. These desks are supported by Fixed Income Business Management.

Credit Trading focuses on trading investment grade credit product. The core books are USD SSA bonds, Floating Rate Notes (FRN) and AUD bonds, along with GBP and EUR books. The business is looking to expand selectively in peripheral currencies (TRY, ZAR, NOK, NZD, RUB etc.) and Financials going forward. Typically, the DCME FI product offering looks to facilitate the activity and demand we see from our Japanese and European client base.

The MTN desk primarily provides a key facilitation service to Tokyo's MTN and structured product requirements. The desk does not take any market or credit risk. An area of expansion focus for DCME is to originate deals from European counterparts for distribution into the Daiwa network.

The Government Bond trading business has been reduced significantly, with the focus now increasingly on providing client facilitation in European and Japan government bonds. This business previously took selective proprietary positions, however, due to the firm's risk appetite for P&L volatility this activity has reduced.

The Repo desk provides a financing function to the division, by arranging secured funding for its balance sheet positions. In addition the desk provides a client facilitation service to the group and external clients by undertaking a matched book in repo. This second function is a revenue generating function for DCME.

International Convertible Bonds ("ICB")

International Convertible Bonds makes markets in Japanese and Asian convertible bonds to its European and Asian client base, aiming to generate revenues by capturing bid-offer spreads. The business has a presence in both London and Hong Kong which allows it to service clients in both Asian and European time zones. It does not always receive simultaneous matching buy and sell orders so carries some bond inventory awaiting sale. The combination of market, credit, funding and capital limits, charges for holding bonds and position as market maker means the portfolio is reasonably liquid and turned over frequently.

In addition to market making activity, ICB participates in the primary markets by distributing primary transactions originated by Daiwa's ECM teams in Japan, Asia and Europe.

Equity Capital Markets ("ECM")

DCME ECM's role in primarily transactions is to facilitate the international tranches of Equity and Convertible Bond new issues originated in Japan and Asia. Additionally DCME ECM provides pricing and origination support for new Convertible Bond issues. The placing of these issues is done in conjunction with the Equity and ICB divisions.

Debt Syndication and Debt Capital Markets ("DCM")

These two distinct business areas work closely in the area of the primary issue of debt. The Syndication area provides origination advice to borrowers and coordinates with other members of a transaction syndicate of underwriters. DCM is primarily a marketing and co-ordination function to develop business with international borrowers. The main products handled are international bonds, in Global, and Eurobond format, denominated in a wide variety of currencies. Debt Syndication and Debt Capital Markets work closely with the Fixed Income Division in the market placing of debt.

Principal Investments ("PI")

This is a new business area. The aim of the division is to diversify DCME's revenue by investing the firm's capital via the provision of loans for development real estate projects. It is envisaged that these will initially be either residential or student accommodation projects located in South East England. In FY2014/15 this business was in still in start-up and did not book any transactions.

Overview of the Past Year

FY2014/15 was a tough year for DCME, with Operating Profit being below expectations. The underperformance can be attributed, primarily, to FI and International Convertible Bond Principal Trading ("ICB PT"). These underperformances were partly offset by strong performances elsewhere within ICB Market Making ("ICB MM") and ECM.

The underperformance at the half year stage resulted in a strategic review of the cost base and business structure. The key out comes from the review were:

1. Closure of the ICB PT business.
2. A reorganisation and rationalisation of the support areas.
3. A reorganisation and refocusing of the Fixed Income Division with the focus of the Division being directed away from proprietary trading to more sustainable customer driven revenue.

Equities

Equities produced a strong performance, moving into profit for the first time in a number of years and outperforming budget. A good performance in European Equities and Primary Revenue, together with lower costs helped offset relatively disappointing results in Japan and Asian equities.

The Equity primary calendar was fairly quiet during the year, but was in line with expectations. The bright spot on the secondary revenue side was the European Equity business, which has benefited from the Bernstein venture and the commencement of the selling of European Equities to Japanese domestic investors.

In contrast Asian Equities underperformed in the year and the strategy around the Asian business became a focal point for senior management. With a redesigned research offering, a clearer strategy and a refresh of the London sales staff we expect this revenue line to improve in FY2015/16.

Japan Equities overall performance increased against the prior year. This was against a market background that in April through to October saw both the Yen/GBP rate and the Nikkei remain broadly flat, with uncertainty around "Abenomics" and global macroeconomics weighing on markets.

Fixed Income

FI experienced one of its toughest years ever, with the market posing significant headwinds. Continued low interest rates, tight credit spreads, market illiquidity and macroeconomic uncertainty created a market environment within which it was extremely difficult to profit from.

The underperformance at the half year resulted in a strategic review of the business. The restructuring highlighted a need to refocus DCME on Daiwa's core strengths and gradually move away from more volatile, risk taking that is non-core to the Group. Consequently the European Government Trading and Euro SSA trading teams were downsized. Focus was shifted to Emerging Market local currency SSA trading, Financials across the capital structure and products to distribute into the Daiwa retail network.

On a positive note the JPY/IRS business commenced during the year and the roll-out of the e-trading platform has generally been successful with a significant number of counterparties live across the 'TradeWeb' and 'MarketAxess' platforms.

International Convertible Bonds

ICB had a mixed year. The Market Making business had another strong year in the primary space, however, this was in part offset by poor results in the Principal Trading business, which precipitated the review and subsequent closure of that business. The Board took the decision that the business was not core to the Daiwa product offering, provided P&L volatility outside its tolerance and that a Market Making desk, with the ability to distribute primary transactions, provided enough product exposure for the firm.

Equity Capital Markets

ECM continued to perform strongly with another above expectation performance. Convertible Bond issuance was once again the main revenue driver, with ECM working on 17 new issues during the year.

Debt Syndication and Debt Capital Markets

DCM continued its recent record breaking performances executing 40 USD & JPY deals in the year (previous high was 27 in FY2013/14). DCM also continued to gain industry recognition, most notably receiving the prestigious "2014 Yen Bond House of the Year", from IFR. During the year DCM and Syndicate worked on deals which generated in excess of £70m for the group.

Syndicate also enjoyed a record year, with particular success in the USD and AUD space, the latter being an essentially new primary business for DCME, and one in which the 22 deals we brought to market, modest in size though they were, earned us a very respectable #12 position in the Kangaroo league table. This business has the potential to grow further in the coming year.

Strategy Going Forward

The increased focus on client flow means a much stronger correlation to the demands of our clients and thus the direction of the market. We foresee the continuing impact of "Abenomics" favouring a number of our businesses. Additionally Equities are seeking to benefit from increased Japanese investor demand for European equities. The major changes implemented in the FI and ICB divisions should decrease the volatility these businesses have experienced in recent years, and lastly we foresee a gradual lift off for our new PI business. The key changes to the existing strategy are detailed below.

Equities

Looking forward to FY2015/16 we expect global risk appetite to remain positive towards equities although the divergent paths of the Federal Reserve (tightening) and the ECB and BOJ (both easing quantitatively) may engender bouts of volatility. In general, we benefit from such a combination. Japanese equities are expected to perform well relative to other markets, especially if the yen stabilises while global growth recovers. Risks remain, of course, notably in certain emerging markets and in China especially, but the balance of risk and opportunity in equities should be favourable to the Division.

Our Asian equity revenues are expected to benefit partly as some of our competitors have exited the market. We are looking to increase sales in other areas of Europe and as such we foresee a growth in our market share. Generally we are seeking to increase our European client base, in particular, in the Netherlands and Scandinavia.

Our European equity product line has been transformed by our distribution agreement with Bernstein, which allows us to repackage and sell Bernstein research content to Daiwa's retail client base. Additionally we foresee on-going growing demand in Japan for European equities. This reflects higher risk appetite among Japanese institutional and retail investors combining with the weaker Yen to generate demand for European equity.

MIFID II legislation is expected to come into force late 2016 / early 2017. This is expected to have a material impact on the way we are paid by our clients. Asset managers will likely pay reimbursable dealing commissions to brokers for execution service only. They will have to pay for research and corporate access service out of their own pocket.

This is likely to impact asset manager's behaviour as they seek to access new, unique research inputs from independent research providers and additionally could shrink the overall fee pool as asset managers start to absorb the cost.

It is likely to impact the brokerage business model by the removal of leverage to rising markets and rising transaction volumes embedded in the traditional brokerage model. Brokers may move from un-priced to priced research services model and require a differentiated service offering. The exact impact and behaviour of our clients is still unclear, but this could have a profound impact on the industry and more specifically our business model.

Fixed Income

With the continuation of "Abenomics" and the continued conversion of savings to investments in Japan the Division is likely to see increased deal activity and demand for investment products from Japan.

In addition to the established support for our parents MTN program, we are developing relationships and products in Europe that are suitable for sale to Tokyo and overseas investors across the Daiwa network. In credit trading we are looking to expand opportunistically into currencies where we see customer demand and activity e.g. TRY, NOK and RUB. Additionally we are looking to explore opportunities in Financials, across the capital structure, including contingent convertible securities. The Repo desk will look to expand its "matched book" activity into peripheral bond markets (e.g. ZAR). We also expect further expansion of our new e-Trading platform and JPY IRS business, which kicked off in 2014.

Key Financial and Performance Indicators (KFI/KPIs)

DCME's core objectives are to maximise the return for our shareholder whist maintaining a strong capital base. KPI's and KFI's 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.

KPIs	**2015**	**2014**
Performance against Plan		
Revenue	-24%	-14%
Overheads (exc. restructuring costs and goodwill amortisation and impairment)	-13%	-5%
Total Headcount (including non-perm staff)	-6%	-3%
Return On Equity (before investment impairment)	-2%	-0.7%

These KPIs show that DCME is performing well in holding back costs with both overheads and headcount being below plan. On the revenue side one can see that in both 2015 and 2014 the business failed to achieve plan, as detailed in the performance review.

KFIs	2015	2014
	£'000	£'000
Capital		
Regulatory Capital Resources	607	620
ICG (Regulatory) Excess Capital	339	353
ICAAP Excess Capital	368	337
Tier 1 Capital Ratio	45.6%	47.0%

	2015		2014	
	£'bn		£'bn	
	Usage	Limit	Usage	Limit
Unsecured Funding				
Daiwa Group	0.97	1.15	1.10	1.21

DCME uses Daiwa Group for most of its unsecured funding and all of its capital. This means it is highly sensitive to any changes in the Group's resource allocation strategy. As can be seen in the ratios above, DCME has significant levels of excess capital, which on one hand make achieving a reasonable return on equity difficult, but on the other hand is essential for 'business as usual', as the Large Exposure requirements of CRDIV are linked to capital levels. Without this large capital base DCME could face significant trading volume restrictions as a result of limits within the Large Exposure regime. Additionally this capital is a source of funding for DCME and would require replacement with an alternative source if reduced. There are currently no indications from the parent that they are requiring a material repatriation of capital.

DCME uses unsecured funding from the Group to fund balance sheet positions which are not suitable for financing through the secured funding market or where secured funding is prohibitively expensive. Additionally a large part of the unsecured funding is used for regulatory liquidity risk management purposes, in the form of funding DCME's Liquid Asset Buffer (LAB). The unsecured funding facility from the Group is reviewed semi-annually in line with the projected business and liquidity reserve requirements. DCME is particularly sensitive to any change in the funding facility from the Group. A reduction in unsecured funding would require DCME to reduce certain activity, which could impact profitability. The tenor of unsecured funding tends to be in excess of 90 days, which would allow DCME sufficient time to manage any changes in funding in an orderly way. There is currently no indication from the Group that they require a change in the funding profile.

Principal Risks and Uncertainties Facing the Company

Geographic and Market Exposure

Daiwa Europe's business is focused principally in the 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.

Group Exposure

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

The Daiwa Group has a distinct 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 the Parent and Japanese economy as a whole. The Daiwa Group has experienced another year of strong growth and profitability. The strong performance has come on the back of the "Abenomics"-led market recovery in Japan. "Abenomics" presents a strategic opportunity to the Daiwa Group, as its fortunes are closely correlated to the success of Japanese stock market and the wider Japanese economy. With this opportunity comes the risk that failure will result in a significant under performance in expected results for the Group and the knock-on implications for the Group and individual business lines.

A significant portion of DCMEs 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 offices for revenue relating to those transactions originating in Japan and Asia. DCME is thus entirely reliant on other Daiwa offices for this revenue. Conversely transactions originated by DCME and sold into the Daiwa network will result in a distribution of the fee pool across the Daiwa group. While our expectation is that DCME would be a net beneficiary of this two way activity we are reliant on the rest of the group and not in full control of the outcome. This is, however, a key area of business for the group and a core reason for DCME's existence. As an example, DCM and Syndicate worked on transactions which generated in excess of £70m of revenue for the group.

Changes in Group strategy and/or Product line strategy could have a direct impact on DCME and its strategy. Differences between Group and local strategy need to be actively managed to avoid negatively impacting DCME. The inclusion of Tokyo Senior management on DCME's Board, Japanese Chairman and COO and close communication between DCME Division Heads and their global product heads helps to avoid these types of differences.

Resource Constraints / Business Focus

Daiwa Europe is in the process of transforming its business to be less reliant on proprietary trading and more focused on customer driven flow. Despite this, a large part of the business is and will continue to require taking on balance sheet positions in both a proprietary and market making capacity. Taking these positions requires access to both funding and capital, which Daiwa Europe currently has. There is, however, a risk that with increased focus on return on equity, amongst Japanese firms, that the current low returns will result in the Group re-deploying resources currently allocated to Europe, which would severely constrain the business. Any changes in resource allocation would, however, be carefully considered and implemented in an orderly way.

Conversely a shift away from proprietary activity to client driven activity increases our exposure to our client base and the changing landscape of the global investment community. A strong shift away from our key markets by clients will have a greater impact on our revenue generating ability.

Daiwa Europe Specific Risks and Uncertainties

DCME continues to maintain its balance sheet in high quality liquid assets. Consistent with the prior year less than 5% of the asset base is invested in sub-investment grade credit (refer to note 26 of the statutory accounts for further details). Additionally the firm has significantly reduced the 'value at risk' ("VaR") at year end (£2.7m down to £1.5m) and the average VaR over the year (£2.7m down to £2.2m) (refer to note 26 of the statutory accounts for further details).

Outside of those risks and uncertainties faced by the market and the Group, Daiwa Europe has its own set of risks and uncertainties which it faces and which management are focused on ensuring we have mitigating controls and actions in place to address. The principal risks and uncertainties faced by the company, outside of economic risks, are as follows:

Risk	**Impact / Probability**	**Change in risk Y-o-Y**	**Mitigation of risk**
Liquidity risk	High Impact / Low Probability	Liquidity continues to be an area of concern in the market as central bank QE programs and regulatory liquidity requirements continue to drain liquidity from the market. Market conditions, however, have been fairly stable, without any significant liquidity constraints for DCME. Daiwa Group's liquidity position also remains strong.	DCME has a dedicated liquidity risk management section focused on assessment, monitoring and reporting of liquidity risk. The section aims to evolve and improve all aspects of liquidity risk management on a continuous basis, as well as implement the associated liquidity regulations. DCME takes a conservative approach to liquidity risk management. DCME manages liquidity at levels such that it remains (i) cash flow positive over all time periods up to 1 month considered under a combined market and name specific liquidity stress, and (ii) cash flow positive for at least one year under a market stress. DMCE holds a significant Liquid Asset Buffer and the trading portfolio consists of high quality assets most of which are deemed extremely liquid.
Regulatory changes	High Impact / High Probability	Unchanged	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 regulatory and project staff. 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 deadline. The Risk Asset & Liability Committeehas detailed oversight of all prudential Regulatory Change while ultimate

			responsibility lies with the Board. In addition the compliance and business impact of regulatory change are minimised by maintaining a fairly vanilla product and service offering.
Competitive pressure	High Impact / Medium Probability	Improved employment conditions have increased the risk of staff defections. Staff turnover in the prior year was 17.6%, half of which was through redundancies. Voluntary turnover was below 10%, which is low for the industry. There were no material risks crystallised during the year as a result of key staff departures.	The key competitive pressure we face is staff retention, which the company attempts to mitigate by ensuring compensation is competitive and promoting a positive culture of work/life balance.
Operational Risks (not covered separately)	High/Medium Impact / Medium Probability	Operational risk is the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events and covers a variety of risk factors from rouge trading, securities fraud to BCP events, failure of critical systems. Year on year this risk has remained broadly unchanged, with some improvement to the rate of change in DCME's IT infrastructure offset by heightened market concerns around cybercrime.	DCME has a common firm-wide framework overseen by a central Operational Risk Management (ORM) function, with ownership of the actual risks residing with the managers responsible for the relevant business process. DCME utilises a number of firm-wide processes and tools for the identification, recording, assessment, monitoring, prevention and mitigation of operational risks. Risk mitigation actions arising from the core components of the firm's Operational Risk Framework are centrally tracked by ORM and the status reported to the Operational Risk & Compliance Committee.
Litigation Risks	High Impact / Medium Probability	Exposure to the risk of litigation is a fact of life in the securities markets and is further increased during periods of difficult market conditions and corporate failures. DCME faces litigation risk from both current and historic activities, so while the current business model is simpler than in prior years, the risks remain. Notes 20 and 23 detail the	While DCME's business model is relatively simple and our exposure to litigation has in recent years been limited, our capital market and securities trading activities have nevertheless resulted in potential exposure to litigation arising from events such as the Lehman and Kaupthing collapses. While our primary approach to mitigating these risks is through appropriate onboarding controls and risk management techniques combined with

		current litigation actions faced by the company. Litigation risks in the market have been increasing over the last few years, as regulatory fines and penalties increase litigation risks on those firms being penalised by the regulator. For DCME this increased risk is offset by a simplification in business model.	good quality, market standard legal documentation; our view based on our own experiences and events in the market is that it is difficult to eliminate these risks entirely.

The strategic report was approved by the Board on 23 June 2015 and signed on their behalf by:

Keith Meekins
Chief Executive Officer

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 2015.

Principal Activities

Daiwa Capital Markets Europe Limited is a wholly owned subsidiary of Daiwa International Holdings Inc, which is a wholly owned subsidiary of Daiwa Securities Group Inc. ('Daiwa Group'), one of the largest brokerage and banking groups in Japan. The primary activities of the company are to provide investment banking services in Equities, Fixed Income, Convertible Bonds, Back-to-Back Derivatives and Corporate Finance Advisory, through its pan-European subsidiary group Daiwa Corporate Advisory. The company also has a branch network across Europe and the Middle East primarily involved in Equity Sales.

Results and Dividends

The audited financial statements for the year ended 31 March 2015 are set out on pages 20 to 61. The company's loss for the year after taxation was £15.9m (2014: Loss of £21.2m).

The directors do not recommend payment of a dividend in respect of the current financial year (2014: £nil).

Risk Management

In the normal course of its business, the company will be exposed to a range of operational and financial risks including market, credit and liquidity risk.

Risk management is a major focus for the entire company, to which the management is fully committed. A strong risk discipline is vital in maintaining financial health, providing reassurance to regulators and ensuring that business decisions are optimised for risk-return considerations. It is especially important during times of market volatility or as the business diversifies its product base.

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 the independent non-executive director responsible for risk, 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 function to provide comprehensive risk monitoring, reporting and control. Reporting and control of risk is undertaken both locally within the company and globally within the Daiwa Group.

The company actively manages its exposure to market risk (such as interest rates or foreign exchange) and credit risk, using a variety of techniques including value-at-risk, sensitivity limits, exposure limits, stress testing, diversification, mitigation by collateral and hedging. As part of its hedging activity, the company utilises derivative products such as swaps, futures and options. Notes 26 and 27 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.

Financial Instruments

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

Directors' and Officers' Indemnities

The company maintains insurance against liabilities for all directors and officers of the company during the financial year and at the date of this report.

Employee Consultation

The company places considerable value on the involvement of its employees and continues its previous practice of keeping them informed on matters affecting them as employees and on the various factors affecting the performance of the company.

Charitable Contributions

The company contributed £21,254 (2014: £7,807) to charities during the course of the year.

Disabled Employees

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

Environmental Measures

Environmental measures undertaken during the year include the recycling of waste, the use of biodegradable disposables and the efficient disposal of obsolete electrical items. Procurement decisions relating to premises actively consider the energy efficiency standards of new equipment. Our consultants are helping us identify better energy efficient approaches to electrical systems, where we aim to exceed legislative standards. In addition, the company continues to support the group in the development of financial product offerings with an environmental theme.

Going Concern

The directors' assessment of the company's ability to continue as a going concern is an ongoing management function. This assessment is based upon an assessment of liquidity & 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 ongoing assessment, various stress scenarios to the normal operating environment have been identified and considered.

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

Directors

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

Name	**Title**	**Nationality**	**Appointed / Resigned**	**Committee Members #**
Junichi Arihara	Chairman	Japanese	-	AC, BR, RC
Keith Meekins	Chief Executive Officer	British	-	EC
Hiroki Ikeda	Chief Operating Officer	Japanese	Appointed - 1 April 2014	EC
Mikita Komatsu	Non-Executive Director	Japanese	-	RC
Masaaki Goto	Non-Executive Director	Japanese	Resigned - 31 March 2015	RC
Yuichi Akai	Non-Executive Director	Japanese	Appointed - 24 April 2015	RC
Keisuke Natsume	Non-Executive Director	Japanese	-	-
Polly Williams	Independent Non-Executive Director	British	-	AC, BR, RC
Peter Goshawk	Independent Non-Executive Director	British	-	AC, BR, RC

Reflects committee membership as at 31 March 2015 or subsequently appointed

BR - Board Risk Committee, AC - Audit Committee, RC - Remuneration Committee, EC - Executive Committee

Disclosure of Information to Auditors

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

Independent Auditors

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

Roger Massey

By order of the Board:
Roger Massey
Secretary

5 King William Street
London,
EC4N 7DA

23 June 2015

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; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

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 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.

Roger Massey

By order of the Board:
Roger Massey
Secretary

5 King William Street
London
EC4N 7DA

23 June 2015

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

We have audited the financial statements of Daiwa Capital Markets Europe Limited for the year ended 31 March 2015 set out on pages 20 to 61. The financial reporting framework that has been applied in their preparation is applicable law and UK Accounting Standards (UK Generally Accepted Accounting Practice), including FRS 102 the Financial Reporting Standard applicable in the UK and Republic of Ireland.

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.

Respective responsibilities of directors and auditors

As explained more fully in the Directors' Responsibilities Statement set out on page 17, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit, and express an opinion on, the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

A description of the scope of an audit of financial statements is provided on the Financial Reporting Council's website at www.frc.org.uk/auditscopeukprivate.

Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view of the state of the company's affairs as at 31 March 2015 and of its loss for the year then ended;
- have been properly prepared in accordance with UK Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matter prescribed by the Companies Act 2006

In our opinion the information given in the Strategic Report and the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

Independent Auditor's Report to the Members of Daiwa Capital Markets Europe Limited (continued)

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us 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.

Zaffarali Khakoo (Senior Statutory Auditor)
for and on behalf of KPMG LLP, Statutory Auditor
Chartered Accountants
15 Canada Square
London
E14 5GL

23 June 2015

STATEMENT OF COMPREHENSIVE INCOME
For the Financial Year ended 31 March 2015

	Note	2015 £'000	2014 £'000
Fee and commission income	2	72,818	75,165
Fee and commission expense	2	(25,388)	(21,067)
Net trading revenue	3	19,701	6,592
Other income	4	29,436	33,464
Total non-interest income		**96,567**	**94,154**
Interest income and similar receivables	5	39,425	56,995
Interest payable and similar charges	6	(33,274)	(34,280)
Net interest income		**6,151**	**22,715**
Net operating income		**102,718**	**116,869**
Administrative expenses	7	(114,989)	(121,350)
Operating loss		**(12,271)**	**(4,481)**
Goodwill impairment	10	(1,595)	(5,500)
Amounts owed by subsidiary undertakings - impairment	14	-	(7,979)
Loss on ordinary activities before tax		**(13,866)**	**(17,960)**
Tax charged on ordinary activities	9	(2,041)	(3,267)
Loss for the financial year		**(15,907)**	**(21,227)**
Other comprehensive income			
Exchange adjustments on fair value reserve		(106)	(19)
Movement on fair value reserve		135	(4,106)
Deferred tax recognised in equity		(4)	966
Total comprehensive loss for the financial year		**(15,882)**	**(24,386)**

The accompanying notes on pages 23 to 61 are an integral part of the financial statements.

BALANCE SHEET

As at 31 March 2015

Company registered number: 01487359

	Note	2015 £'000	2014 £'000
Fixed assets			
Intangible assets	10	18,102	28,165
Tangible assets	11	16,934	15,528
Available for sale investments	12	916	891
		35,952	**44,584**
Current assets			
Debtors	14	12,838,348	7,667,853
Financial assets held for trading	16	3,051,660	4,095,590
Cash at bank and in hand	17	141,832	43,891
		16,031,840	**11,807,334**
Current liabilities			
Creditors: amounts falling due within one year	18	(13,716,228)	(9,152,486)
Financial liabilities held for trading	16	(1,728,718)	(2,060,062)
		(15,444,946)	**(11,212,548)**
Net current assets		**586,894**	**594,786**
Total assets less current liabilities		**622,846**	**639,370**
Creditors: amounts falling due after one year	21	(2,476)	(2,512)
Provisions for liabilities	20	(2,232)	(2,865)
		(4,708)	**(5,377)**
Net assets		**618,138**	**633,993**
Capital and reserves			
Called-up share capital	22	732,121	732,121
Reserves		(113,983)	(98,128)
Shareholders' funds (all equity interests)		**618,138**	**633,993**

The financial statements were approved by the Board on 23 June 2015 and signed on their behalf by:

Keith Meekins

Chief Executive Officer

The accompanying notes on pages 23 to 61 are an integral part of the financial statements.

STATEMENT OF CHANGES IN EQUITY

The table below presents the changes in Equity for the year ended 31 March 2015:

	Called-up Share Capital	Fair Value reserve	Capital reserve	Profit and loss account	Total
	£'000	£'000	£'000	£'000	£'000
Beginning of year	732,121	671	13,908	(112,707)	633,993
Share based payment reserve	-	-	-	27	27
Loss for the financial year	-	-	-	(15,907)	(15,907)
Exchange differences	-	(106)	-	-	(106)
Revaluation of available for sale investments	-	135	-	-	135
Deferred tax liability on fair value gain on available for sale investments	-	(4)	-	-	(4)
End of year	732,121	696	13,908	(128,587)	618,138

The table below presents the changes in Equity for the year ended 31 March 2014:

	Called-up Share Capital	Fair Value reserve	Capital reserve	Profit and loss account	Total
	£'000	£'000	£'000	£'000	£'000
Beginning of year	732,121	3,830	13,908	(91,513)	658,346
Share based payment reserve	-	-	-	33	33
Loss for the financial year	-	-	-	(21,227)	(21,227)
Exchange differences	-	(19)	-		(19)
Disposal of available for sale investments	-	(4,106)	-	-	(4,106)
Deferred tax liability on fair value gain on available for sale investments	-	966	-	-	966
End of year	732,121	671	13,908	(112,707)	633,993

1 Accounting policies

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.

a) 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 2015 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.

b) 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.

c) Disclosure exemptions

In accordance with disclosure exemptions 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.

1 Accounting policies (continued)

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 the Daiwa Securities Group Inc. in Japan in which the company's results are consolidated. See note 30 on page 60 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 31 Related Party Disclosure of FRS 102. Directors' remuneration is disclosed as required by the Companies Act 2006 shown in note 29 on page 60.

d) Intangible assets

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.

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.

Computer software
Computer software are 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 follow:

Intangible asset:	Rate per annum
Computer software	20 – 33%

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

e) 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:

1 Accounting policies (continued)

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

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

f) Financial assets and liabilities

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

The company classifies its financial assets in the following categories:

Financial assets

The company classifies its financial assets in four categories:

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

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

Financial assets at fair value through profit or loss

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.

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

1 Accounting policies (continued)

Purchases and sales of financial assets held for trading are recognised on trade date, being the date on which the company commits to purchase or sell the asset.

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 with a maturity of greater than one year 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 with a maturity of less than one year are recognised at original cost.

Loans and receivables are recognised on a trade date basis, except for cash collateral on repo or similar transactions, which are recognised on a value date basis.

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

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

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

Purchases and sales of financial assets available for sale are recognised on trade date, being the date on which the company commits to purchase or sell the asset.

Financial liabilities
Financial liabilities are measured at the original amount, 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. All financial liabilities not held for trading have a maturity of less than one year. Other financial liabilities (including other payables) are subsequently measured at amortised cost using the effective interest rate method.

1 Accounting policies (continued)

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.

g) Investments in subsidiary undertakings

Investments in subsidiary undertakings are stated at cost less impairment.

h) Income and expense

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.

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.

Other income

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

Interest income and similar receivables, interest payable and similar charges

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

i) 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.

1 Accounting policies (continued)

For each class of financial assets and/or liability 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).

j) 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.

k) Taxation

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 and laws 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 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.

l) 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.

m) 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.

1 Accounting policies (continued)

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. Trading profits and losses from dealings in securities 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.

n) Leases

The company enters into operating leases as described in note 23. 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 (2014: £nil).

o) 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.

p) Collateral

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

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

1 Accounting policies (continued)

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.

q) 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.

r) Share-based payments to employees

Daiwa Securities Group Inc., Daiwa Capital Market 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.

s) 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 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.

t) Provisions and contingent liabilities

Provisions are recognised if the company has a present legal or constructive obligation as a result of a past event, and 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.

1 Accounting policies (continued)

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.

u) 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. 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.

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.

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.

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.

v) Comparatives

The comparatives have been adjusted, where necessary, to facilitate comparison with the current year amounts.

2 Fee and commission income and expense

Fee and commission income and expense are mainly selling concessions and commissions.

3 Net trading revenue

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

4 Other income

	2015 £'000	2014 £'000
Costs recharged to group companies	29,436	29,303
Profit on disposal of available for sale investment`	-	4,161
	29,436	33,464

5 Interest income and similar receivables

	2015 £'000	2014 £'000
Interest and dividend income – held for trading	22,986	41,618
Interest income – other financial assets	16,439	15,377
	39,425	56,995

Included in the above is interest receivable from group companies amounting to £5.6m (2014: £3.4m).

6 Interest payable and similar charges

	2015 £'000	2014 £'000
Bank loans and overdrafts	3,126	2,891
Interest expense – held for trading	5,721	4,930
Interest expense – other financial liabilities	24,427	26,459
	33,274	34,280

Included in the above is interest payable to group companies amounting to £5.6m (2014: £4.0m).

7 Administrative expenses

Administrative costs are analysed as follows:	2015 £'000	2014 £'000
Permanent staff costs (see note 8)	67,281	70,211
Non – Permanent staff costs	4,518	6,252
Depreciation of tangible assets (see note 11)	2,318	1,593
Amortisation of intangible assets (see note 10)	8,666	8,948
Premises costs	5,358	7,269
External technology, communication and data costs	16,217	16,160
Net costs recharged by group companies	3,738	3,902
Other costs	6,893	7,015
Total	114,989	121,350

Administrative expenses include the following fees paid to the company's auditors:

Fees payable to the company's auditor for the audit of the company's financial statements	(176)	(187)
Fees payable to the company's auditor and its associates for other services:		
- audit related-assurance services	(146)	(145)
- other services relating to taxation	(11)	(12)
- all other services	(4)	(13)
Fees payable to unassociated auditor in respect of overseas branch regulatory requirement	(69)	(65)

8 Staff costs

Employee costs during the year amounted to:

	2015 £'000	2014 £'000
Wages and salaries	57,471	60,088
Social security costs	5,822	6,127
Pension costs – defined contribution plan	3,988	3,996
	67,281	70,211

8 Staff costs (continued)

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

	2015 Number	2014 Number
Front Office		
Equity	46	44
Fixed Income	35	38
Debt and Equity Capital Markets	21	19
Derivatives	25	28
Back Office Support	260	281
	387	410

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

	2015 Number	2014 Number
Branches		
Bahrain	8	7
Geneva	9	9
	17	16
Representative office		
Moscow	2	3
Frankfurt	2	3
Paris	3	3
	24	25

9 Tax charge on ordinary activities

The tax charge is based upon the effective UK corporation tax rate of 21% (2014: 23%) and comprises:

	2015	**2014**
	£'000	**£'000**
UK and overseas corporation tax:		
Current year	-	-
Prior year	172	-
Overseas taxation	-	-
Company tax credit for the year	172	-
Deferred tax:		
Timing differences, origination and reversal	(2,213)	(2,540)
Decrease in Tax Rate	-	(727)
Total deferred tax expense	(2,213)	(3,267)
Total tax charged on ordinary activities	(2,041)	(3,267)

The effective rate of tax is 14.72% (2014:18.19%). The following table reconciles the total tax expense for the year to the accounting loss on ordinary activities before tax multiplied by the standard UK corporation tax rate.

	2015	**2014**
	£'000	**£'000**
Loss on ordinary activities before tax	(13,866)	(17,960)
Taxation at UK standard corporation rate of 21% (2014: 23%)	2,912	4,131
Effects of:		
Permanent differences	(63)	(1,812)
Effects of unrecognised timing differences including loses	(2,849)	(2,318)
Overseas taxation	-	-
Effect of reversal of deferred tax on previously recognised losses	(2,213)	(2,540)
Group relief surrendered	172	-
Effect of changes in statutory rates	-	(728)
Company tax charge for the year	(2,041)	(3,267)

The company has a net deferred tax asset of £2.9m (2014: £5.1m), after accounting for a provision of £0.2m (2014:£0.2m) in respect of deferred taxation that would arise if the timing differences on investments held for sale were realised after the end of the reporting period. The deferred tax asset is attributable to unused UK tax losses of £15.3m (2014: £26.3m) incurred by the company in earlier years.

9 Tax charge on ordinary activities (continued)

Based on current forecasts it is considered that this deferred tax asset on losses will be fully utilised within 2 years and it is expected that £1.7m will reverse in the next reporting period.

A residual deferred tax asset totalling £45.7m 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 (2014: unrecognised deferred tax asset £41.8m).

The deferred tax asset at 31 March 2015 has been calculated using the rate of 20% substantively enacted at the balance sheet date and is the tax rate applicable for the period in which the asset is expected to realise.

10 Intangible assets

	Goodwill	Software	Assets in course of construction	Total
Cost	**£'000**	**£'000**	**£'000**	**£'000**
Beginning of year	29,180	28,862	5,055	63,097
Additions	-	-	198	198
Disposals	-	(286)	-	(286)
Transfers	-	4,252	(4,252)	-
End of year	29,180	32,828	1,001	63,009
Amortisation				
Beginning of year	16,049	18,883	-	34,932
Charge	1,852	6,814	-	8,666
Impairment charge	1,595	-	-	1,595
Disposals	-	(286)	-	(286)
End of year	19,496	25,411	-	44,907
Net book value				
At 31 March 2014	13,131	9,979	5,055	28,165
At 31 March 2015	9,684	7,417	1,001	18,102

The assets in course of construction comprise computer software.

10 Intangible assets (continued)

On 19 November 2010 the company acquired the global convertible bond (ex-US) business of KBC, via an asset purchase. The goodwill arising on acquisition is being amortised on a straight-line basis over ten years. This is the period over which the directors estimate as the useful economic life.

The company's accounting policy is to carry goodwill at amortised cost and review for impairment at each reporting date. A review of impairment of goodwill is measured as the difference between the carrying amount of the asset and its recoverable amount, with the recoverable amount being based on the higher of the fair value less costs to sell and value in use of the assets to which it relates.

In the opinion of the directors, the most appropriate estimate of the recoverable amount is the value in use of the Convertible Bond business. The value in use is measured by discounting cash flows, over a period of 3 years plus the terminal value, applying a discount rate of 25% and a perpetuity growth rate of 1.25%, this is consistent with the prior year.

During the financial year it was decided to close the Principal Trading desk. The reduction in resources and risk appetite of the business have impaired its revenue generating capabilities reflected in the value of the business. This has resulted in an impairment of £1.6m to the carrying value of goodwill.

11 Tangible assets

	Furniture, fittings and equipment £'000	Computer hardware £'000	Motor vehicles £'000	Assets in course of construction £'000	Total £'000
Cost					
Beginning of year	2,201	4,413	39	12,668	19,321
Additions	-	-	-	3,724	3,724
Disposals	-	(870)	-	-	(870)
Transfers	12,540	3,599	-	(16,139)	-
End of year	14,741	7,142	39	253	22,175
Depreciation					
Beginning of year	731	3,023	39	-	3,793
Charge	1,253	1,065	-	-	2,318
Disposals	-	(870)	-	-	(870)
End of year	1,984	3,218	39	-	5,241
Net book value					
At 1 April 2014	1,470	1,390	-	12,668	15,528
At 31 March 2015	12,757	3,924	-	253	16,934

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

12 Available for sale investments

	2015 £'000	2014 £'000
Unlisted investments	916	891

The movement in the year was as follows:

	2015 £'000	2014 £'000
Beginning of year	891	5,344
Exchange differences	(110)	(19)
Revaluation profit transferred to reserves	135	-
Additions	-	6
Disposals	-	(4,440)
End of year	916	891

13 Investments in subsidiary undertakings

The company had one subsidiary undertaking as at 31st March 2015. The percentage of the issued share capital held by the company is equivalent to the percentage of voting rights held.

Name of company	Country of incorporation	Principal activity	Percentage of equity and voting rights held
Daiwa Corporate Advisory Holdings Limited	UK	Investment Holding Company	100%

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

	2015 £'000	2014 £'000
Beginning of year	-	-
Disposal	-	-
End of year	-	-

13 Investments in subsidiary undertakings (continued)

The company's accounting policy is to carry investments in subsidiary undertakings at cost and review for impairment at each reporting date. Impairment of the investment in subsidiary was measured as the difference between the carrying amount of the asset and its recoverable amount, with the recoverable amount being based on the higher of the fair value less costs to sell and its value in use.

In the opinion of the directors, the most appropriate estimate of the recoverable amount is the value in use of Daiwa Corporate Advisory Holdings Limited. The value in use is measured by discounting cash flows, over a period of 3 years, plus the terminal value, applying a discount rate using a high – low range of 14% – 22% and a perpetuity growth rate range of 1.5% to 2%, (2014: measured by discounting cash flows, over a period of 3 years, plus the terminal value, applying a discount rate using a high – low range of 14% – 17% and a perpetuity growth rate range of 2%). In the opinion of the directors, the nil carrying value of the investment remains appropriate.

14 Debtors

Debtors comprise the following amounts:

	2015			2014		
	Financial Assets	**Non Financial Assets**		**Financial Assets**	**Non Financial Assets**	
	Loans and Receivables	**Other**	**Total**	**Loans and Receivables**	**Other**	**Total**
	£'000	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**
Trade debtors	941,958	-	941,958	775,930	-	775,930
Amounts owed by parent group undertakings	7,228,851	-	7,228,851	3,154,664	-	3,154,664
Amounts owed by subsidiary undertakings	22,114	-	22,114	12,802	29	12,831
VAT	-	881	881	-	634	634
Deposits paid for reverse repurchase agreements and securities borrowed	4,615,390	-	4,615,390	3,680,746	-	3,680,746
Deferred tax asset (note 15)	-	2,868	2,868	-	5,085	5,085
Other debtors	4,173	8	4,181	3,099	79	3,178
Corporation tax recoverable	-	81	81	-	92	92
Prepayments and accrued income	15,755	6,269	22,024	27,663	7,030	34,693
	12,828,241	10,107	12,838,348	7,654,904	12,949	7,667,853

14 Debtors (continued)

The carrying amount of debtors approximates to their fair value. All debtors are due within one year, with the exception of deferred tax asset which could be due after more than one year.

The company's accounting policy is to carry loans and receivables at amortised cost and review for impairment where necessary. As at 31st March 2015, in the opinion of the directors, the intercompany loan to Daiwa Corporate Advisory Holdings Limited did not need to be impaired, whilst for the prior year it was impaired by £8m. For purposes of valuation the loan is treated as an equity investment and compared against the value in use. The value in use is measured by discounting cash flows, over a period of 3 years, plus the terminal value, applying a discount rate using a high – low range of 14% – 22% and a perpetuity growth rate range of 1.5% to 2%. In the opinion of the directors, the nil carrying value of the investment remains appropriate.

Prepayments and accrued income include £91,502 of defined contribution pension scheme prepayments (2014: £85,560) in relation to certain overseas branch pension schemes.

15 Deferred tax asset

	2015 £'000	2014 £'000
Deferred tax asset (note 14)	2,868	5,085

The movement in the year was as follows:	2015 £'000	2014 £'000
Beginning of year	5,085	7,386
Charged to the Income Statement	(2,213)	(3,267)
(Charged)/Credited to the Reserves	(4)	966
End of year	2,868	5,085

	2015 £'000	2014 £'000
Deferred tax assets and liabilities, after offset of balances		
Tax Losses	3,050	5,263
Other timing differences	(182)	(178)
	2,868	5,085

16 Financial assets and liabilities held for trading

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

16 Financial assets and liabilities held for trading (continued)

	2015	2014
Financial Assets	**£'000**	**£'000**
Non Derivative marketable securities		
Equities	31,581	53,965
Government, Government Agency Bonds, and Municipal Bonds	1,034,570	1,504,081
Corporate Debt (inc Convertible Bonds)	1,687,905	2,266,139
Total	2,754,056	3,824,185
of which listed	2,552,361	3,448,663
Derivative financial instruments		
Futures & Forwards	30,297	58,130
Options	128,863	133,945
Swaps	138,271	79,222
Other	173	108
Total	297,604	271,405
of which listed	102	810
Total financial assets held for trading	3,051,660	4,095,590
Financial Liabilities		
Non Derivative marketable securities		
Equities	104,247	112,754
Government, Government Agency Bonds, and Municipal Bonds	852,974	1,116,213
Corporate Debt (inc. Convertible Bonds)	468,274	502,514
Total	1,425,495	1,731,481
of which listed	1,082,222	1,415,251
Derivative financial instruments		
Futures & Forwards	14,186	32,234
Options	138,133	155,584
Swaps	148,147	139,552
Other	2,757	1,211
Total	303,223	328,581
of which listed	992	724
Total financial liabilities held for trading	**1,728,718**	**2,060,062**

17 Cash at bank and in hand

Cash at bank and in hand for the company includes deposits of £1,404,112 (2014: £713,810) with the parent group undertakings.

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

18 Creditors: amounts falling due within one year

			2015			2014
	Financial Liabilities	Non financial Liabilities	Total	Financial Liabilities	Non financial Liabilities	Total
	Other	Other		Other	Other	
	£'000	£'000	£'000	£'000	£'000	£'000
Overdrafts	1,388	-	1,388	957	-	957
Trade creditors	1,113,433	-	1,113,433	1,099,585	-	1,099,585
Amounts owed to parent group undertakings	2,505,412	-	2,505,412	2,081,804	-	2,081,804
Deposits received for repurchase agreements and securities lent	10,062,352	-	10,062,352	5,932,446	-	5,932,446
Other creditors:						
- social security and PAYE	-	1,289	1,289	-	1,495	1,495
- other creditors	3,166	13	3,179	2,859	9	2,868
Accruals and deferred income	29,175	-	29,175	33,331	-	33,331
	13,714,926	1,302	13,716,228	9,150,982	1,504	9,152,486

The carrying amount of creditors approximates to their fair value.

The company had a total unsecured borrowing facility of ¥198bn/£1.15bn (2014: ¥208bn/£1.21bn) from Daiwa Securities Company Ltd which was provided on an uncommitted basis, as at 31 March 2015 and at 31 March 2014. At 31 March 2015 ¥172bn/£0.97bn (2014: £¥188bn/£1.1bn) was drawn on the facility.

18 Creditors: amounts falling due within one year (continued)

There are no amounts included within overdrafts due to group undertakings (2014: £nil). The company has £1,387,835 due to clearing agents which were secured principally by securities held on the company's trading accounts with those clearing agents (2014: £nil).

Included in accruals and deferred income is an amount of £803,917 for penalties and interest on a US withholding tax assessment, currently in dispute. While the likelihood of the company having to pay penalties is high the amount is uncertain, as the IRS may apply a range of penalties. The company is in regular dialogue with the IRS on this subject. The company has provided for the likely penalties plus interest.

Accruals and deferred income include defined contribution pension schemes accruals of £2,447 all of which relates to certain overseas branch pension schemes (2014: £2,689 all of which related to certain overseas branch pension schemes).

19 Analysis of Financial Assets and Liabilities by Measurement Basis

	Financial Assets and Liabilities measured at fair value	Available for Sale Investments	Financial Assets and liabilities at amortised cost	2015 Total
	£'000	£'000	£'000	£'000
Financial Assets				
Cash at bank and in hand	-	-	141,832	141,832
Financial Assets held for trading	3,051,660	-	-	3,051,660
Available for Sale Investments	-	916	-	916
Debtors – Loans and Receivables	-	-	12,828,241	12,828,241
	3,051,660	916	12,970,073	16,022,649
Financial Liabilities				
Financial Liabilities held for trading	1,728,718	-	-	1,728,718
Creditors falling due within one year – Financial Liabilities	-	-	13,714,926	13,714,926
Creditors falling due after one year	-	-	2,476	2,476
	1,728,718	-	13,717,402	15,446,120

19 Analysis of Financial Assets and Liabilities by Measurement Basis (continued)

	Financial Assets and Liabilities measured at fair value	Available for Sale Investments	Financial Assets and liabilities at amortised cost	2014 Total
	£'000	£'000	£'000	£'000
Financial Assets				
Cash at bank and in hand	-	-	43,891	43,891
Financial Assets held for trading	4,095,590	-	-	4,095,590
Available for Sale Investments	-	891	-	891
Debtors – Loans and Receivables	-	-	7,654,904	7,654,904
	4,095,590	891	7,698,795	11,795,276
Financial Liabilities				
Financial Liabilities held for trading	2,060,062	-	-	2,060,062
Creditors falling due within one year – Financial Liabilities	-	-	9,150,982	9,150,982
Creditors falling due after one year	-	-	2,512	2,512
	2,060,062	0	9,153,494	11,213,556

20 Provisions for liabilities

The company recognises a provision for a liability if the company has a present legal or constructive obligation as a result of a past event, and 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.

Pending litigation

Lehman Brothers underwriting

On 7th February, 2011 CalPERs commenced proceedings against the company in the United States District Court of Northern District of California San Francisco Division alleging violations of Sections 11 and 12(a)(2) of the Securities Act.

Background information

The company together with a number of other underwriters is a party to litigation in the United States arising out of the underwriting of bonds or notes for Lehman Brothers' entities. On 9th August, 2013 Mr Justice Kaplan of United States District Court Southern District of New York gave a Judgment in favour of the defendants (including the company) dismissing the case. CaLPERs have recently appealed the decision.

20 Provisions for liabilities (continued)

Claimed amount/financial impact

The maximum recoverable amount solely from the company is up to $13.3m. However, under the terms of underwriting agreements, liability is shared amongst the underwriters. The company's exposure if the maximum recoverable amount is divided equally amongst underwriters is approximately $4.53m. This matter is being vigorously defended. Whilst the outcome of this litigation is not predictable, the company's directors believe that, based on the information available to it, appropriate provision has been made in respect of the present state of proceedings.

Recent developments

There have been no material recent developments.

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.

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

			2015			2014
	Pending litigation	Redundancy, restructuring and onerous	Total	Pending litigation	Redundancy, restructuring and onerous	Total
	£'000	£'000	£'000	£'000	£'000	£'000
Beginning of year	1,200	1,665	2,865	2,036	2,097	4,133
Change in provision	-	419	419	(223)	764	541
Exchange adjustments	147	-	147	(142)	-	(142)
Utilised during the year	-	(1,199)	(1,199)	(471)	(1,196)	(1,667)
Total	1,347	885	2,232	1,200	1,665	2,865

21 Creditors: amounts falling due after more than one year

	2015 £'000	2014 £'000
Accruals and deferred income	2,476	2,512

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

22 Called-up share capital

	2015 £'000	2014 £'000
Allotted, called-up and fully paid		
Ordinary shares of £1 each	732,121	732,121

23 Financial commitments

a) Capital commitments

As at 31 March 2015, capital expenditure contracted for but not provided for amounted to £0.2m (2014: £nil).

b) Contingent liabilities

Pending litigation

Administration of Kaupthing Bank

On 6th September 2012, the administrators of Kaupthing Bank commenced proceedings against the company as the reserve defendant (with a broker, as the primary defendant) in the District Court of Reykjavik alleging that certain repurchase transactions by Kaupthing should be set aside and the sale of the proceeds repaid.

Background information

The proceedings relate to the sale by the company of bonds issued by Kaupthing Bank to a broker in 2008. It transpires that the broker was acting on behalf of the Issuer. The reference date for Kaupthing's winding up was 15 November 2008. The company believes it acted in good faith as a professional intermediary between two financial services institutions.

Claimed amount / financial impact

The value of the claim is ¥870m plus interest and costs. This matter is being vigorously defended. The directors estimate that the likelihood of the proceedings being successful as unlikely. The directors have formed their view based on external legal advice and believe that it is not necessary to make any provision in relation to this matter.

23 Financial commitments (continued)

Recent developments

There have been no material recent developments.

Liquidation of Singularis Holding Limited

The liquidators of Singularis Holdings Limited ("SHL") commenced proceedings against the company on 15th July 2014 in the High Court of Justice Chancery Division alleging amongst other things negligence on the part of the company.

Background information

The proceedings concern dealings by the company with SHL, a former client. The company entered into various financing transactions with SHL. These positions were closed in June 2009. The company distributed the client's funds in accordance with instructions received from the client. Official liquidators of SHL were appointed by the Grand Court of The Cayman Islands on 18th September 2009.

Claimed amount / financial impact

The amount claimed by the liquidators is US$204m plus interest and costs. This matter is being vigorously defended. The company believes that it acted in good faith and considers the possibility of a successful claim as being unlikely. The directors have formed their view based on external legal advice and believe it is not necessary to make any provision in relation to this matter.

Recent developments

There have been no material recent developments.

c) 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:

			2015			**2014**
	Property £'000	**Other £'000**	**Total £'000**	**Property £'000**	**Other £'000**	**Total £'000**
Operating leases which expire						
- within 1 year	267	1	268	39	16	55
- within 2-5 years	12	18	30	205	43	248
- after 5 years	2,975	-	2,975	3,018	-	3,018
	3,254	19	3,273	3,262	59	3,321

23 Financial commitments (continued)

d) Pension arrangements

Pension benefits for the majority of staff are provided in the UK through a defined contribution scheme (group personal pension plan) to which the company contributes a percentage based on each member's pensionable earnings or salary, between 8% and 20%. Under the scheme, there are both contributory and non-contributory sections of membership with all new members joining the non-contributory section of the defined contribution scheme.

The amount charged in the profit and loss account for pension costs of the company under both the contributory and non-contributory sections of the group personal pension plan was £4.2m (2014: £3.9m).

The UK scheme also covers the following companies: Daiwa Asset Management (Europe) Ltd and 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 £131,939 (2014: 134,665).

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 £196,543 (2014: £138,877).

e) 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.

24 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 ¥115.12 (2014: ¥285.12) and the total charge for the year was £26,993 (2014: £32,778).

24 Share based payments (continued)

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 1 on page 30. 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.

25 Collateral

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

	2015	2014
	£ bn	£bn
Securities Received		
Securities received as collateral/borrowed	11.2	6.6
Source:		
Matched Book Repo Activity	8.6	3.5
Liquid Asset Buffer	1.0	1.1
Securities Borrowed	1.6	2.0
Total	**11.2**	**6.6**
Securities Pledged		
Securities pledged as collateral/lent	10.9	6.7
Use:		
Firm Funding Repo Activity	2.3	3.2
Matched Book Repo Activity	8.6	3.5
Total	**10.9**	**6.7**

Note that the information above is presented on a value date basis, whilst Financial Assets and Liabilities held for trading are presented on a trade date basis.

26 Financial risk management

Exposures to risk

In the normal course of its business the company is exposed to a range of financial risks including market, credit and liquidity risk. Market risk exposures arise from trading book positions held in Fixed Income, Equity, Derivative and Convertible instruments. Credit risk exposures arise from unsettled/outstanding trades in the event of counterparty failure and the deterioration of the credit quality of issuers of debt securities, resulting in a fall in the value of the

26 Financial risk management (continued)

company's holding of assets. Liquidity risk is the risk that the company does not have sufficient financial resources to meet its obligations when they fall due, or can secure such resources only at excessive cost.

The company manages such exposure by ensuring it has sufficient liquid resources available to it to withstand a severe and sustained market liquidity event.

Objectives, policies and processes for managing risk

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

Responsibility for day-to-day control and monitoring rests with the Risk Management & Compliance Division for market and credit risk and the Finance & Operations Division for liquidity risk, both of which have a reporting line that is independent from the sales and trading areas. The divisions employ a variety of risk management tools including a policy of limit control and exception reporting for both the proprietary and unsettled client positions.

Market risk

Market risk is controlled and monitored using a range of risk management tools including VaR, basis point value (BPV) limits, and scenario and stress testing. A variety of limits are set locally within parent company rules – by instrument rating, issuer, geographic location, and both cumulative and aged holdings. External ratings, where available, are applied to all securities. Should the security not be rated, an external issuer rating is used and in the absence of any external rating an internal issuer rating would be applied.

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

	2015 **£'000**	**2014** **£'000**
Year-end	1,547	2,695
Average	2,163	2,743
Maximum	3,161	3,594
Minimum	1,432	1,910

26 Financial risk management (continued)

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

The VaR numbers shown for 2015 incorporate full diversification offsets between businesses. The VaR figures have been steadily decreasing throughout the year in both Fixed Income and Convertible Bonds, whilst the VaR for the Equities Division remains negligible. The decrease in VaR, compared to 2014, is partly due to the reduced focus on proprietary trading activities, during the second half of the financial year.

Credit risk

Counterparty exposure is managed by rigorous on boarding procedures, counterparty rating, limit setting (notional, credit and settlement, where necessary), exposure monitoring and exception reporting. Appropriate legal agreements are entered into according to product. Risk mitigation is also conducted daily via collateral management activity.

Internal ratings are applied to all counterparties and are a key component in determining the risk appetite and size of limit assigned to each client. The company determines internal ratings through a scorecard-based approach using publicly available information and accounts and verifying broad consistency with external ratings provided by external credit rating assessment institutions (ECAI). No counterpart losses were suffered during the year.

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

	2015 £'000	2014 £'000
Available for sale investments	916	891
Financial assets at fair value through profit and loss:		
Derivatives financial instruments	297,604	271,405
Marketable securities	2,754,056	3,824,185
Loans and receivables:		
Debtors - Loans and receivables	12,828,241	7,654,904
Cash at bank and in hand	141,832	43,891
	16,022,649	11,795,276

26 Financial risk management (continued)

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

						2015						2014
Credit Rating	**AAA**	**AA**	**A**	**BBB**	**Sub-Investment Grade**	**Total**	**AAA**	**AA**	**A**	**BBB**	**Sub-Investment Grade**	**Total**
	£'000	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**
Available for sale investments	-	910	-	-	6	916	-	885	-	-	6	891
Debtors - Loans and Receivables	2,877	495,809	3,455,226	8,250,124	624,205	12,828,241	445,045	277,408	2,496,867	4,265,785	169,799	7,654,904
Derivative financial instruments	-	16,032	76,475	204,935	162	297,604	-	-	106,758	163,730	917	271,405
Marketable securities	450,230	1,385,900	524,616	312,387	80,923	2,754,056	1,574,426	1,604,173	325,455	232,524	87,607	3,824,185
Cash at bank and in hand	-	46,961	80,403	14,424	44	141,832	18	3,451	29,907	10,465	50	43,891
	453,107	1,945,612	4,136,720	8,781,870	705,340	16,022,649	2,019,489	1,885,917	2,958,987	4,672,504	258,379	11,795,276

Funding and Liquidity Risk Management

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

Daiwa Europe is governed by the Financial Conduct Authority's (FCA's) prudential liquidity regime in the UK. The FCA requires the company to undertake an annual assessment into the adequacy of its liquidity resources and liquidity risk management framework. This self-assessment process is referred to as the Individual Liquidity Adequacy Assessment (ILAA) and it is subject to a Supervisory Liquidity Review Process (SLRP), conducted by the FCA. The SLRP leads to Individual Liquidity Guidance (ILG) being conferred on the company that requires the company to adhere to minimum quantitative standards on liquidity. The company holds a significant liquid asset buffer which ensures that it adheres to this minimum standard at all times.

26 Financial risk management (continued)

Funding

Primary sources of funding include:

1. The firm's own capital and reserves which serve as the longest dated and most stable form of finance;
2. Secured financing (repos collateralised with the company's highly liquid trading book assets) from a diverse pool of counterparts, with the largest volume of trading conducted through Central Clearing Counterparties (CCPs);
3. Additional ISDA collateral posted by Group subsidiaries and the parent company to cover regulatory capital exposure on certain back to back derivative trades; and
4. Access to an unsecured, uncommitted funding facility from the parent.

Liquidity Risk

Liquidity risk is quantified through scenario tests that assess the impact of a variety of circumstances that could affect the liquidity profile of the balance sheet. Scenario testing involves conservative parameterisation of events that may transpire following a liquidity shock and include (but are not limited to) multiple downgrades of the parent's credit rating, severe disruptions in the wholesale markets, impaired functioning of the FX markets, increase in margin calls at the firm's clearers and counterparts being unable to settle trades on contractual settlement dates. Results are expressed in the form of 'funding gaps' which quantify the mismatch between funding resources and funding users.

The company's liquidity risk appetite statement requires the firm to be able to survive a combination liquidity event (market specific and idiosyncratic scenario) on a stand- alone basis (without parental support) for at least one month before senior management intervention e.g. through a forced sale of inventory or closure of elements of the business.
Liquidity risk is managed through:

1. Balance sheet controls that ensure current and planned divisional funding usage is in line with Board agreed business plans;
2. Mismatch controls that limit the amount of funding gaps that the firm/individual business lines can run;
3. A series of early warning indicators (EWIs) that monitor emerging vulnerabilities in markets where the firm has business interests;
4. Holding unencumbered liquidity reserves commensurate with the results of stress testing that enable the firm to absorb the short term effects of a severe liquidity shock; and
5. A comprehensive contingency funding plan (CFP) that details senior management action during a liquidity event to ensure that the firm's core franchise remains intact.

Governance

The company's Board is ultimately responsible for approving all aspects of the firm's funding and liquidity policy framework. The Board has delegated certain responsibility on oversight of the firm's financial resources and liquidity risk to its senior executive committee - the Risk and Asset Liability Committee (RALCO). Independent non-executive review of the company's liquidity framework is undertaken by the firm's Board Risk Committee on behalf of the Board. The Liquidity Risk Management (LRM) section undertakes day on day monitoring of the firm's funding and

26 Financial risk management (continued)

liquidity position. Treasury is responsible for operational liquidity management in respect of raising unsecured financing for the firm and managing the firm's Liquid Asset Buffer (LAB) portfolio. The Operations, LRM and Treasury areas work in conjunction on intra-day liquidity management.

Liquidity Reserves

The company maintains a pool of liquid assets – cash on deposit at credit institutions and a Liquid Asset Buffer (LAB) portfolio comprising high credit quality unencumbered bonds issued by prime European sovereigns and the Central Banks of the USA, Japan, Australia and the UK. On occasion, the firm also includes in its liquidity pool, certain senior bonds issues by multilateral development banks such as the International Bank for Reconstruction & Development.

The composition of Daiwa's LAB portfolio reflects the currency mix of the firm's underlying balance sheet.

Contractual maturity for financial liabilities is analysed as follows:

						2015
	On demand	**Less than 1 month**	**1 to 3 months**	**3 months to year**	**Between 1-5 years**	**Total**
	£'000	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**
Marketable Securities	1,425,495	-	-	-	-	1,425,495
Derivative Financial Instruments	303,223	-	-	-	-	303,223
Deposits received for repurchase agreements and securities lent	3,507,417	6,214,010	1,130,654	-	-	10,852,081
Other Financial Liabilities	646,734	1,151,124	171,317	893,670	2,476	2,865,321
Total	5,882,869	7,365,134	1,301,971	893,670	2,476	15,446,120

26 Financial risk management (continued)

	On demand	Less than 1 month	1 to 3 months	3 months to year	Between 1-5 years	2014 Total
	£'000	£'000	£'000	£'000	£'000	£'000
Marketable Securities	1,731,481	-	-	-	-	1,731,481
Derivative Financial Instruments	328,581	-	-	-	-	328,581
Deposits received for repurchase agreements and securities lent	3,127,939	3,174,822	253,476	-	-	6,556,237
Other Financial Liabilities	366,747	1,127,498	151,650	948,850	2,512	2,597,257
Total	5,554,748	4,302,320	405,126	948,850	2,512	11,213,556

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 they all fall due within one year. As at 31 March 2015, the undiscounted contractual cash flows approximates to the carrying amounts on the balance sheet (2014: approximates to the carrying amounts).

27 Capital risk management

Regulatory capital resources requirement

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

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

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

27 Capital risk management (continued)

The Pillar 2 rules require regulated firms to establish an Internal Capital Adequacy Assessment Process (ICAAP), which forms the basis for an on-going self-assessment of their risk profile; with this being used to determine a "Pillar 2" capital resources requirement independent of, but no lower than, the minimum capital requirements imposed by Pillar 1.

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

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

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

Capital Management

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

Formal procedures are in place to monitor and manage capital resources on an active and timely basis. Responsibility for day to day monitoring of capital adequacy rests with the regulatory reporting function. Daily and periodic reports are prepared and distributed to local senior management and reported to head office in Tokyo.
The company manages its capital usage through limit setting, capital allocation and capital planning. A Risk, Asset and Liability Management Committee (RALCO), reporting to the company's Board, is in place to oversee the management of capital and carry out periodic assessment of the company's capital resources requirements.

Regulatory Capital	**2015**	**2014**
	£'000	**£'000**
Common Equity Tier 1 Capital	606,778	619,581
Additional Tier 1 Capital	-	-
Total Tier 2 Capital	-	-
Regulatory capital resources	606,778	619,581

27 Capital risk management (continued)

	2015	2014
	£'000	£'000
Shareholders' Funds	618,138	633,993
Prudent Valuation adjustment (unaudited)	(1,676)	(1,281)
Intangible Assets – Goodwill	(9,684)	(13,131)
Regulatory capital resources	606,778	619,581

28 Fair Value estimation

The following table sets out fair value measurements as at 31 March 2015 using the FRS 102 fair value measurement hierarchy.

	Level 1	Level 2	Level 3	2015 Total
	£'000	£'000	£'000	£'000
Assets				
Available for sale investments	-	-	916	916
Financial assets at fair value through profit and loss:				
Derivatives financial instruments	102	297,502	-	297,604
Marketable securities	2,640,919	109,191	3,946	2,754,056
Total assets	2,641,021	406,693	4,862	3,052,576
Liabilities				
Financial assets at fair value through profit and loss:				
Derivative financial instruments	992	302,231	-	303,223
Marketable securities	1,425,495	-	-	1,425,495
Total liabilities	1,426,487	302,231	-	1,728,718

28 Fair Value estimation (continued)

There have been transfers into Levels 3 from Level 2. A reconciliation of fair value measurement in Level 3 is set out below.

Level 3 financial assets are valued based upon parameters which are unobservable in the market. The level 3 marketable securities are valued based upon a fundamental analysis of expected recovery value. The level 3 available for sale investments are valued by reference to the published net asset per share.

The following table presents the changes in level 3 instruments for the year ended 31 March 2015.

	Available for sale investments	Derivative financial instruments	Marketable securities	2015 Total
	£'000	£'000	£'000	£'000
Assets				
Beginning of the year	891	-	3,294	4,185
Transfers into Level 3	-	-	464	464
Purchases/Issues	-	-	-	-
Sales/Maturities				
Revaluation	135	-	(214)	(79)
Exchange differences				
Gains/(losses)	(110)	-	402	292
End of year	916	-	3,946	4,862

There were no level 3 liabilities in the year ended 31 March 2015.

28 Fair Value estimation (continued)

The following table sets out fair value measurements as at 31 March 2014 using the FRS 102 fair value measurement hierarchy.

	Level 1	Level 2	Level 3	2014 Total
	£'000	£'000	£'000	£'000
Assets				
Available for sale investments	-	-	891	891
Financial assets at fair value through profit and loss:				
Derivatives financial instruments	810	270,595	-	271,405
Marketable securities	3,097,714	723,177	3,294	3,824,185
Total assets	3,098,524	993,772	4,185	4,096,481
Liabilities				
Financial assets at fair value through profit and loss:				
Derivative financial instruments	724	327,857	-	328,581
Marketable securities	1,585,561	145,920	-	1,731,481
Total liabilities	1,586,285	473,777	-	2,060,062

There were no transfers during the year between Levels 1 and 2. A reconciliation of fair value measurement in Level 3 is set out below.

The following table presents the changes in level 3 instruments for the year ended 31 March 2014.

	Available for sale investments	Derivative financial instruments	Marketable securities	2014 Total
	£'000	£'000	£'000	£'000
Assets				
Beginning of the year	5,344	-	-	5,344
Transfers out of Level 3	-	-	3,294	3,294
Purchases/Issues	6	-	-	6
Sales/Maturities	(4,440)	-	-	(4,440)
Revaluation	-	-	-	-
Exchange differences				
Gains/(losses)	(19)	-	-	(19)
End of year	891	-	3,294	4,185

There were no level 3 liabilities in the year ended 31 March 2014.

29 Related party transactions

Directors' remuneration

The remuneration of the directors was as follows:

	2015 £'000	2014 £'000
Emoluments	1,853	2,529
Company contributions to group personal pension plans	79	51
	1,932	2,580

Pensions

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

	2015 Number	2014 Number
Money purchase schemes	3	1

Highest paid director

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

	2015 £'000	2014 £'000
Emoluments	947	903
Company contributions to the group personal pension plan	59	51
	1,006	954

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

30 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.

31 Country by Country Reporting and Disclosure of Return on Assets

a) Country by country reporting

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

Location	Principal Activities	Turnover £'000	Profit or (Loss) before tax £'000	Corporation Tax (amount paid) £'000	Average Headcount
United Kingdom	1	96,290	(13,570)	0	364
Switzerland	2	3,613	(204)	0	9
Bahrain	2	1,987	615	0	8
Russia	3	343	(312)	0	2
France	3	284	(298)	0	1
Germany	4	201	(97)	0	3
		102,718	(13,866)	0	387

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

Principal activities:

1. The primary activities of the head office are to provide investment banking services in Equities, Fixed Income, Convertible Bonds, and Derivatives (primarily on a back-to-back basis).
2. The branches in Switzerland and Bahrain exist to facilitate sales activity in their local regions on behalf of DCME London.
3. The representative offices in France and Russia exist to source business opportunities for DCME London in those countries.
4. The representative office in Germany was closed in February 2015.

Public subsidies received:

The company receives no public subsidies.

b) Return on Assets

According to Article 90 of the European Union Capital Requirements Directive IV DCME are required to disclose the return on net assets (being defined as net profit after tax). For the year ended 31 March 2015 this was -2.6%.