

Pillar III Disclosures
For the Year Ended 31 March 2017

Daiwa Capital Markets Europe Limited

Version Control

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1 Glossary of terms and abbreviations used in this document

BIPRU	Prudential Sourcebook for Banks, Building Societies and Investment firms.
BPV	Basis Point Value.
BRC	Board Risk Committee
CCR	Counterparty Credit Risk.
CSA	Credit Support Annexes.
CRDIV	Collective term for CRR and CRD, repealing all previous versions.
CRR	REGULATION (EU) No 575/2013 OF THE EUROPEAN PARLIAMENT AND OF THE COUNCIL of 26 June 2013 on prudential requirements for credit institutions and investment firms and amending Regulation (EU) No 648/2012.
CRD	DIRECTIVE 2013/36/EU OF THE EUROPEAN PARLIAMENT AND OF THE COUNCIL of 26 June 2013 on access to the activity of credit institutions and the prudential supervision of credit institutions and investment firms, amending Directive 2002/87/EC and repealing Directives 2006/48/EC and 2006/49/EC.
CRD (Repealed)	(a)+(b) From the definitions below
CRDII	(a)+(b)+(c)+(d)+(e)
CRDIII	(a)+(b)+(c)+(d)+(e)+(f)
DCA	Daiwa Corporate Advisory Holdings Limited.
DCME	Daiwa Capital Markets Europe Limited.
DSGI	Daiwa Securities Group Inc.
EBA	European Banking Authority (formerly CEBS, Committee of European Banking Supervisors).
ECAI	External Credit Assessment Institution.
EU	European Union.
ExCo	Executive Committee
FCA	Financial Conduct Authority.
FX	Foreign Exchange.
G3	Refers to an informal <i>troika</i> consisting of the foreign ministers of France, Germany and the United Kingdom who collectively wield most influence within the European Union.
G7	The Group of 7 (G7) is a group consisting of the finance ministers and central bank governors of seven major advanced economies as reported by the International Monetary Fund: Canada, France, Germany, Italy, Japan, the United Kingdom, and the United States meeting to discuss primarily economic issues.
GMRA	Global Master Repurchase Agreement.
GMSLA	Global Master Securities Lending Agreement.
ICAAP	Internal Capital Adequacy Assessment Process.
ICR	Internal Credit Ratings.
IFRU	Prudential Sourcebook for Investment Firms.

ILAA	Internal Liquidity Adequacy Assessment.
ILG	Individual Liquidity Guidance.
ISDA	International Swaps & Derivatives Association Master Agreement.
KRI	Key Risk Indicator.
LAB	Liquid Asset Buffer.
NPA	Net Paying Addenda (<i>in this document</i>).
ORCC	Operational Risk & Compliance Committee.
ORM	Operational Risk Management.
OSLA	Overseas Securities Lending Agreement.
OTC	Over the Counter.
RALCO	Risk Asset and Liability Committee.
SLRP	Supervisory Liquidity Review Process.
SFT	Securities Financing Transaction
TREA	Total Risk Exposure Amount
VaR	Value at Risk.

CRR / CRD definitions

(a) DIRECTIVE 2006/48/EC OF THE EUROPEAN PARLIAMENT AND OF THE COUNCIL of 14 June 2006 relating to the taking up and pursuit of the business of credit institutions (recast).

And

(b) DIRECTIVE 2006/49/EC OF THE EUROPEAN PARLIAMENT AND OF THE COUNCIL of 14 June 2006 on the capital adequacy of investment firms and credit institutions (recast).

As amended by:

(c) DIRECTIVE 2009/111/EC OF THE EUROPEAN PARLIAMENT AND OF THE COUNCIL of 16 September 2009 amending Directives 2006/48/EC, 2006/49/EC and 2007/64/EC as regards banks affiliated to central institutions, certain own funds items, large exposures, supervisory arrangements, and crisis management.

(d) DIRECTIVE 2009/83/EC of 27 July 2009 amending certain Annexes to Directive 2006/48/EC of the European Parliament and of the Council as regards technical provisions concerning risk management.

(e) DIRECTIVE 2009/27/EC of 7 April 2009 amending certain Annexes to Directive 2006/49/EC of the European Parliament and of the Council as regards technical provisions concerning risk management.

And And

(f) DIRECTIVE 2010/76/EU OF THE EUROPEAN PARLIAMENT AND OF THE COUNCIL of 24 November 2010 amending Directives 2006/48/EC and 2006/49/EC as regards capital requirements for the trading book and for re-securitisations, and the supervisory review of remuneration policies.

2 Overview

2.1 Background

The European Union (EU) Capital Requirement Regulation (CRR) and Capital Requirements Directive (CRD) (collectively known as CRD IV) implements the revised Basel capital adequacy framework (Basel III) and applies it to all investment firms, building societies and banks. The CRD IV package was formally adopted by the EU on 26 June 2013 and became effective in the UK on 1 January 2014.

CRD IV is a continuation of the now repealed CRD III which introduced the concepts of minimum capital requirements (Pillar 1) and supervisory review processes (Pillar 2) in the determination of those requirements. The disclosure requirements of Pillar 3 complement the capital requirements described in Pillar 1 and Pillar 2 and seek to promote greater market discipline and transparency through the disclosure of key information about risk exposures and risk management processes.

DCME (“the Firm”) adopted the Pillar 1 standardised approach to credit, market and operational risk with effect from 1 January 2008 and were subject to the Pillar 2 and Pillar 3 requirements from that date. The number and granularity of disclosures have continuously expanded over the last 9 years, including this year where we have a number of additional disclosure requirements.

2.2 Structure

The Firm is the wholly owned European subsidiary of Daiwa International Holdings Inc. (“the Parent”), which is headquartered in Japan and is a wholly owned subsidiary of DSGI (“the Ultimate Parent”).

The Firm has its head office in London and operates a small branch and representative office network in Europe and the Middle East. At 31 March 2017, the Firm has one active wholly owned subsidiary undertaking, DCA.

DCA (formerly Daiwa Corporate Advisory Partners Limited) provides Corporate Finance, M&A and Debt Advisory services through a network of operating companies across Europe. For statutory accounting purposes, it is not consolidated in the Firm’s year-end financial statements on the basis that it is consolidated at group level by DSGI. However, for regulatory purposes the Firm is required to file consolidated returns and has been filing on this basis since September 2009.

2.3 Principal Activities

The Firm’s principal activities are to provide investment banking services in Equities, Fixed Income and Derivatives together with Corporate Finance Advisory services, through its subsidiary group DCA. The Firm also provides bridging and development finance to the real estate market in the UK through its Principal Investment division.

2.4 Scope

DCME is regulated by The Financial Conduct Authority (“the FCA”) in the UK. These Pillar 3 disclosures have been prepared as at 31 March 2017, which is the Firm’s accounting reference date and financial year-end.

2.5 Basis of Disclosures

The Pillar 3 disclosures presented here are the consolidated view for the Firm and include both the quantitative and qualitative information in relation to credit risk and market risk, both of which have been prepared on a “standardised approach” basis, and are disclosed in accordance with Part Eight of the Capital Requirement Regulation (CRR) which replaced Chapter 11 of the Prudential Sourcebook for Banks, Building Societies and Investment Firms (BIPRU) section of the FCA handbook.

DCME is a “Significant IFPRU firm” (according to the definition in IFPRU1.2G of the FCA Prudential sourcebook for Investment Firms) this has a bearing on the following requirements of the CRR and Capital Requirement Directive (CRD).

- (1) article 76 of CRD on the establishment of an independent risk committee;
- (2) article 88 of CRD on the establishment of an independent nominations committee;
- (3) article 91 of CRD on the limitations on the number of directorships an individual may hold;
- (4) article 95 of CRD on the establishment of an independent remuneration committee;
- (5) article 100 of CRD on supervisory stress testing to facilitate the SREP under article 97 of CRD;
- (6) articles 129 and 130 of CRD on applicability of the capital conservation buffer and the countercyclical capital buffer;
- (7) article 6(4) of the CRR on the scope of liquidity reporting on an individual basis;
- (8) article 11(3) of the CRR on the scope of liquidity reporting on a consolidated basis; and
- (9) article 450 of the CRR on disclosure on remuneration.

Furthermore, certain additional disclosures have been mandated by the EBA to be disclosed in standard templates from 2015. These include:-

- Own Funds
- Leverage
- Asset Encumbrance
- Liquidity Coverage (qualitative)
- Capital Buffers (from 2016)

These disclosures can be found separately on the Pillar 3 disclosures section of the DCME [website](http://www.uk.daiwacm.com)¹ (www.uk.daiwacm.com).

Not all the Pillar 3 disclosure requirements apply to DCME. This document has been produced solely for the purposes of providing information on the capital adequacy and risk management of the Firm, any disclosure requirements that do not apply have not been included.

For remuneration purposes DCME is considered a Level 3 firm as the average total assets over the past three financial years has not exceeded £15bn. DCME review this position at regular intervals. The classification as a Level 3 firm for remuneration purposes does not preclude DCME from being considered a “Significant IFPRU firm” in FCA terms as highlighted above.

2.6 Location and Verification

The Pillar 3 disclosures have been approved by the Firm’s RALCO, Audit Committee and the Board of Directors of the Firm and are published on the Firm’s website. Disclosures will be updated on an annual basis and made available on that website as soon as practicable.

This document has not been subject to audit by the Firm’s external auditors.

¹ <http://www.uk.daiwacm.com/about-us/corporate-governance-and-regulatory>

3 Risk Management Objectives and Policies

3.1 Governance and Structure

The DCME Board has ultimate responsibility for the management of the Firm, including its branch and representative offices in EMEA and its subsidiary group DCA. It is also responsible for establishing and monitoring the effectiveness of the Firm's corporate governance framework. The Board is also responsible for determining the Firm's strategic direction and risk appetite. The Board is directly accountable to the shareholder.

In order to meet its responsibilities the Board has delegated the day-to-day running of the Firm to the CEO. The CEO has, in turn, delegated certain responsibilities to senior management within the organisation.

The Board has established three independent committees to assist it with:

- i) The oversight of risk and regulatory matters (BRC);
- ii) All aspects of conduct and reputational risk (Conduct and Reputational Risk Committee); and
- iii) Financial and internal control adequacy (Audit Committee).

These committees act on delegated authority from the Board to oversee executive management of the specific topics.

The CEO has established the ExCo which has the objective of assisting the CEO with the task of providing continuous oversight of the key business areas in the context of approved budgets, business plans and risk appetite. The ExCo aids the CEO with managing the overall operation of DCME's business and ensures that activities are prioritised appropriately to reflect and support the agreed business plans. Various sub-committees of the Executive Committee have been established to support senior management in the effective day-to-day running and control of the business.

The diagram below shows the current committee structure of the organisation. In addition to the formal committees detailed below there are a number of working groups across various subject areas which support the committees.

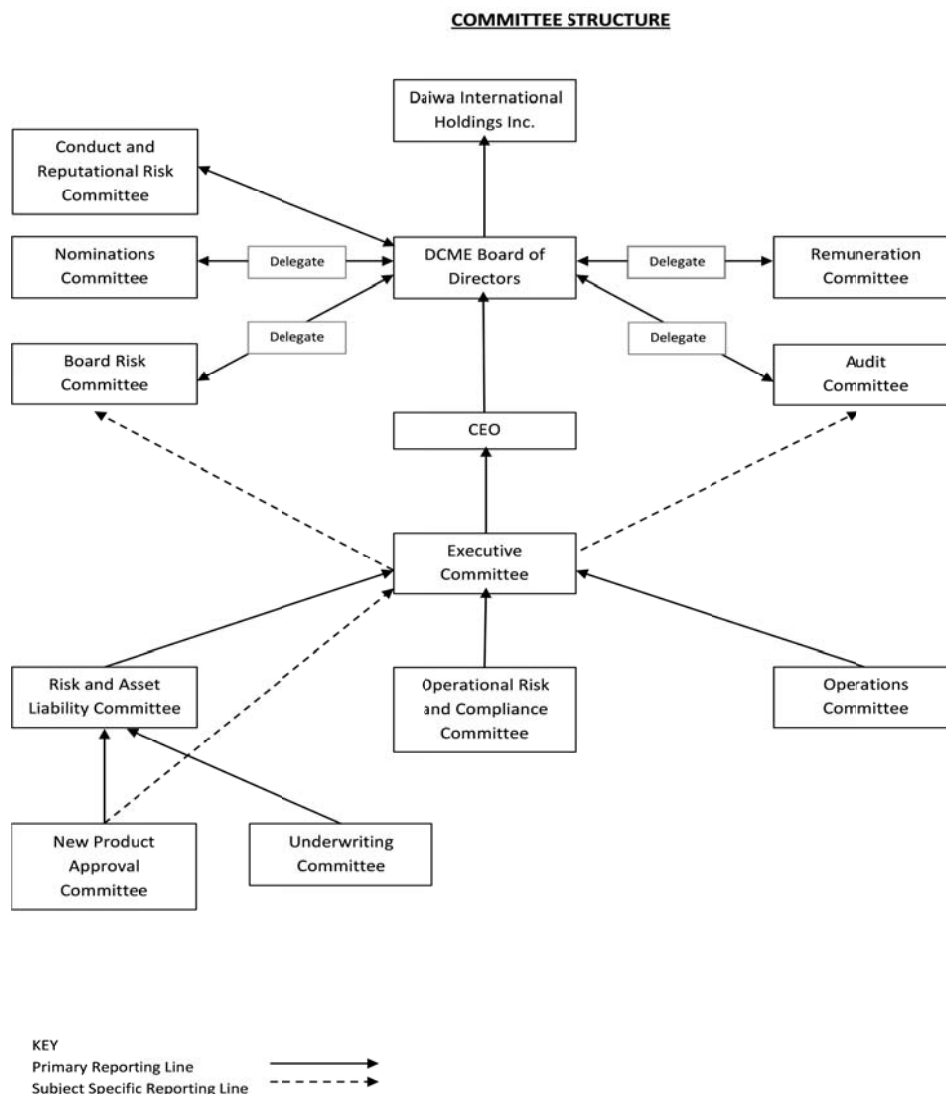


Figure 1

The main roles and responsibilities of the committees shown in the above diagram are as follows:

DCME Board is ultimately responsible for the management of the Firm, including ensuring appropriate corporate governance, defining the business and risk strategies, setting of the Firm's risk appetite and monitoring the execution of the business operations by executive management. The Board has established Board-level sub-committees to focus on key elements of these responsibilities on behalf of the Board.

3.1.2 Board Committees

3.1.2.1 BRC

BRC is chaired by the independent non-executive director responsible for risk and membership is composed exclusively of non-executives. The BRC is directly accountable to the Board and has delegated responsibility from the Board for oversight of high-level risk and resource allocated matters, and risk and resource allocation governance, including:

- i) Reviewing in detail the RAS prepared by executive management and recommending it to the Board for approval;
- ii) DCME's risk appetite and future risk strategy, including capital and liquidity management strategy;
- iii) Approving policy for credit, market and operational risk, capital, funding and liquidity risks; and other material risk types where applicable;

- iv) Approving policy for allocation of resources within DCME;
- v) Monitoring and reviewing the adequacy of DCME's risk and resource allocation policy in relation to current and forward-looking risk exposures; and
- vi) Reviewing in detail DCME's regulatory related documents prepared by executive management and recommending them for approval to the Board, including ICAAP, ILAA, Recovery and Resolution Planning, Wind-Down Planning and Stress Testing.

3.1.2.2 Audit Committee

The Audit Committee monitors and reviews the adequacy of DCME's financial, risk management and other internal control systems; it monitors and reviews DCME's accounting policies, the integrity of its financial statements, its external reporting responsibilities, and oversees the relationship with external auditors.

3.1.2.3 Remuneration Committee

The Remuneration Committee is responsible for reviewing and approving the Firm's remuneration principles and approach, ensuring such principles are consistent with the promotion of effective risk management and discourages excessive risk taking.

3.1.2.4 Nominations Committee

The Nominations Committee is responsible for reviewing the composition and effectiveness of the Board, and managing all Board appointments.

3.1.2.5 Conduct and Reputational Risk Committee

The Conduct and Reputational Risk Committee acts as DCME's senior committee with responsibility for all aspects of Conduct and Reputational Risk. The Committee assists the Board with its responsibility for establishing plans, monitoring implementation and resolving issues concerning Conduct and Reputational Risk. The role of the Committee is to support the DCME Board in promoting its collective vision of DCME's purpose, values, culture and behaviours. The Committee also reviews on behalf of the Board, the management of Reputational Risk.

3.1.3 Executive Committees

3.1.3.1 ExCo

The ExCo acts as the CEO's senior committee and has the objective of assisting the CEO with the task of providing continuous oversight of the key business areas in the context of approved budgets and business plans. As well as providing oversight of controls over risk and regulatory matters.

3.1.3.2 RALCO

RALCO is the senior executive-level committee with responsibility for managing DCME's structural and business risk framework for the assessment and allocation of financial resources in a way that is consistent with the agreed strategy, business plans and risk appetite of the Firm.

RALCO oversees the framework for the management and control of market, credit and liquidity risk for DCME and its branch offices. (Operational risk falls under the remit of the ORCC). RALCO assesses proposed transactions from a market, credit, liquidity and reputational risk perspective.

RALCO makes policy, strategy and other recommendations to the CEO and BRC via the ExCo.

3.1.3.3 Operations Committee

The Operations Committee acts as the COO's senior committee for business support functions. The Committee has the objective of assisting the COO with the task of overseeing his areas of responsibility in terms of establishing plans, monitoring implementation and resolving issues. In addition it has responsibility for oversight of IT strategy and project governance.

The Operations Committee incorporates the responsibilities of the former Programme Board, and oversees significant developments and implementations to ensure that they are carried out in accordance with business plans, IT strategy and policies and conducted to an appropriate standard.

3.1.3.4 ORCC

The ORCC is responsible for overseeing the establishment of a sound operational RMF within DCME and monitoring the operational risk profile of the Firm, as well as, providing oversight of DCME's regulatory obligation and the Compliance framework put in place to help ensure they are met.

3.1.3.5 Underwriting Committee

The Underwriting Committee assesses the risk of proposed transactions from a market, credit and reputational perspective.

3.1.3.6 New Product Committee

The NPA Committee ensures that there are clearly defined approval processes for the evaluation of new products and businesses, and that these are implemented after due consideration of the risks involved and the establishment of an adequate control environment.

3.2 Governance arrangements (Articles 88-96 of the Capital Requirements Directive IV)

1. The management body of DCME is the Board of Directors (the "Board"). The Board:

- (a) has the overall responsibility for DCME and approves and oversees the implementation of DCME's strategic objectives, risk strategy and governance;
- (b) ensures the integrity of the accounting and financial reporting systems, including financial and operational controls and compliance with the law and relevant standards;
- (c) oversees the process of disclosure and communications; and
- (d) is responsible for providing effective oversight of senior management;

2. The Board has established a Nominations Committee comprised of non-executive directors which has the responsibility to:

- (a) identify potential candidates to fill Board vacancies, evaluate the balance of knowledge, skills, diversity and experience of the Board and prepare a description of the roles and capabilities for a particular appointment, and assess the time commitment expected;
- (b) decide on a target for the representation of any underrepresented gender on the Board and prepare a policy on how to increase the number of any such underrepresented gender;
- (c) assess the structure, size, composition and performance of the Board;
- (d) assess the knowledge, skills and experience of individual members of the Board and of the management body collectively; and
- (e) review the policy of the Board for selection and appointment of senior management.

3.3 Management body

Members of the Board of Directors are all registered with the appropriate regulatory authorities. DCME has systems in place to monitor the good reputation, knowledge, skills and experience of the directors. DCME monitors compliance with the requirements of Article 91 of the Capital Requirements Directive.

4 Significant Risks

The most significant types of risks to which the Firm is exposed are discussed below:

4.1 Market Risk

Market risk is defined as the potential adverse change in position values arising from movements in interest rates, credit spreads, stock prices, exchange rates or other market risk factors. Market risk exposures arise from trading book positions held in Fixed Income, Equity and Derivative instruments.

Risk is actively managed or hedged by the business within the policies and procedures set by the Risk Management Division and within the trading book policy statement. Regular meetings are also held between risk management personnel and desk heads from the front office divisions as part of its active management of the Firm's exposure to risk.

The Market Risk department is responsible for presenting a fair picture of the risk in the Firm's trading book. Market risk exposures are monitored daily to ensure that both individual trader exposures and overall exposures are within the pre-agreed limits framework.

Market risk limits are set top down with overall Group level limits agreed between the Firm and parent. DCME's market risk appetite is set by the Board in conjunction with the BRC and the RALCO to define a set of DCME Regional Market Risk limits. These limits are then allocated among the individual divisions together with a set of locally managed business specific limits.

Internal reports that identify daily trader and business limit utilisation levels are reviewed and distributed to front office staff and senior management.

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

Market risk is controlled and monitored using a range of risk management tools including VaR, BPV limits and various changes in credit spreads. A variety of limits are set locally within rules set by the Parent – by instrument rating, issuer, geographic location, and both cumulative and aged holdings. External ratings, where available, are applied to 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.

Option positions are adjusted into their delta equivalent positions and gamma and vega limits are applied. Concentrated holdings and aged inventories are monitored to check balance sheet utilisation. Interest rate risk is measured and controlled within overall parameters and limits.

All material market risks are monitored on a daily basis.

The VaR methodology the Firm uses is calibrated to a 99% confidence level, one day holding period and a two year observation period. The calculations are made using an internal model and are checked regularly for reasonableness by the Market Risk department, using techniques such as back testing and profit and loss attribution. Additionally, stress testing and scenario analysis techniques are used to assess the impact of extreme but plausible events. The scenarios are discussed and agreed regularly by the Stress Testing Focus Group (a subcommittee of RALCO) and subject to approval by DCME Board.

The VaR analysis for the year was as follows:

	Year to Mar 2017	Year to Mar 2016
	£'000	£'000
Year-end	1,535	1,406
Average	1,394	2,141
Maximum	1,786	3,300
Minimum	1,085	1,289

Figure 2

The VaR numbers shown incorporate full diversification offsets between businesses.

VaR is primarily attributable to the firm's main risk-taking businesses, Fixed Income and Convertible Bonds. Both businesses have reduced their risk profile from previous years as they focus strategically on reduced inventory levels and higher turnover. VaR usage within the Equity business remains negligible.

DCME adopts standardised approaches for calculating its regulatory capital requirements in relation to market risk accordance with CRR, Part Three, Title IV (Own funds requirements for Market Risk).

4.2 Credit Risk

Credit risk is defined as the potential financial loss arising from a customer or counterparty failing to meet (or being prevented from meeting) its financial obligations to the Firm as they become due. Credit Risk is defined within the Firm as a combination of Counterparty Risk and Issuer Risk.

Counterparty Risk primarily arises on OTC transactions, including derivatives and SFTs. It is the risk that a counterparty may default before completing the satisfactory settlement of transactions ['pre-settlement risk'], exposing the Firm to potential losses arising from cost of replacement and liquidation risks. Counterparty Risk is also present in the form of nostro balances and as cost of replacement in cash securities transactions where the Firm has intermediated as simultaneous principal: for the latter, the Firm is consequently market-risk neutral but carries pre-settlement risk against both counterparties with which it has traded.

Credit Risk is also present as Issuer Risk, representing the Firm's net long-holdings in Bonds and Convertible Bonds where an event of default (or similar) creates a loss in the Firm's inventory through the issuer's inability to repay its obligation. The exposure treatment assumes a 'jump to default' of the potential loss exposure with zero recovery, and is therefore considered a credit event exposure rather than within market risk traditional one-day change methodology. Exposure arising from Equities or synthetic Issuer Risk caused by OTC derivatives, specifically Credit Default Swaps, is calculated as a component of issuer risk.

DCME's RALCO sets credit policy and oversees the control of credit risk. It is supported by the Credit Risk department which sits within the Firm's Risk Management Division. Counterparty exposure is managed by counterparty rating, limit setting (notional, credit, settlement and issuer, each applied where necessary), exposure monitoring and exception reporting.

Formal Credit approval is required for all potential counterparties as part of the Firm's account opening process. Using an internally developed rating system, internal ratings ['ICR'] are key to formalising the appropriate limit structure for each prospective counterparty, and the limits maintained thereafter as part of on-going review processes. ICRs are determined through a combination of quantitative and qualitative factors, trend analysis, global peer comparisons, scorecard-based factors and publicly available information and accounts, to ensure overall consistency with external ratings provided by ECAs.

Credit Limits are set at individual counterparty (legal entity) level and for groups of connected counterparties; Per Issuer Limits are set similarly. The overall limit profile approved for counterparties and groups of connected counterparties applies due consideration of the Firm's adherence to the FCA's Large Exposure Rule Regime and the Firm's own Risk Appetite Statement. Credit requirements beyond the Risk Management Division's approval authority must be approved by senior management and/or the Risk Management Department of DSGI in Tokyo.

The counterparty base is predominantly investment grade banks, financial institutions, fund managers, funds and large corporates. At 31 March 2017 credit limits extended to investment grade counterparties represented 88% (2016: 88%) of total credit limits granted, and credit exposure to all sub-investment grade counterparties stood at 4.9% (2016: 3.2%) of total counterparty risk (calculated as Mark-to-Market + Potential Future Exposure, for all counterparties including affiliates beyond DCME's own control).

The credit limit framework is calculated recognising principal risk, settlement risk and pre-settlement risk factors. Exposures are monitored and reported upon daily. Trade capture and exposure calculation (including Potential Future Exposure) is automated via overnight batch processing. Credit risk is captured at trade level and reported at legal entity level with netting methodology applied only when legally enforceable within controlling documentation. Exposure to groups of connected entities is managed similarly.

The use of market-standard trading and collateralisation documentation is employed whenever practicable. The collateral management and margining of counterparty exposure is actively managed on a daily basis, and exposures revalued using independent price sources. Quality, concentration risk, correlated ('wrong way') risk, illiquidity, pricing risk and haircuts are all considered when determining acceptable collateral. The vast

majority of collateral accepted by the Firm is in the form of bonds issued by governments and supranationals, and cash. Lower quality collateral is accepted when warranted by the counterparty quality and appropriate haircuts applied.

All counterparty ratings and limits are reviewed regularly and ad hoc upon financial or business developments. Credit limits will be reduced when determined by deterioration in counterparty credit quality and/or historical limit usage; a process of inactivation is also followed for dormant accounts (defined as one year of inactivity). Reinstatement of a previously cancelled credit facility requires formal re-approval of the counterparty, and any desire to increase a credit, settlement or issuer limit to any counterparty must be accompanied, and justified, by a review of the ICR.

The basis upon which credit is granted is set out in the Firm's policy manual and any breach of limits, policy or procedure is recorded and reported immediately to senior management and Tokyo Risk Division, and highlighted again at the monthly RALCO when appropriate.

RALCO and management are further apprised of the Firm's credit risk profile/composition according to risk rating, geographic location and industry type, covering both aspects of exposure and limits granted. Stressed exposure reporting methodology was enhanced during 2016 and all exposures are now stressed under various scenarios and reported to local management and Tokyo Risk on a monthly basis.

The Firm did not suffer any counterparty losses in the financial year ended 31/3/2017.

DCME adopts standardised approaches for calculating its Pillar 1 regulatory capital requirements in relation to counterparty and credit risk.

4.3 Liquidity Risk

Liquidity risk is the risk that the Firm is unable to meet its financial obligations as they fall due or can only do so at excessive costs, leading to an inability to support normal business activity and meet liquidity regulatory requirements.

In considering DCME's business plans, the Board will review the Firm's projected funding and liquidity plan over a three year horizon to ensure that the Firm has access to adequate and appropriate financial resources to support those plans.

The Board (via the CEO) delegates certain responsibility for operational oversight and management of Risk and Treasury matters to the Firm's RALCO. This committee is responsible for overseeing the development of the liquidity risk framework, including providing feedback to the Board to allow it to discharge its obligations.

RALCO allocates funding limits by business area, always ensuring that such limits can be accommodated within the overall funding capacity of the Firm. The Firm's funding sources primarily comprise of share capital and reserves, unsecured funding line from Daiwa Securities and secured funding from a range of professional counterparts. In addition, the Firm has access to a range of wholesale, unsecured deposit facilities from local lenders. These facilities are accessed periodically as part of the Firm's operational liquidity management process. However, such facilities are not regarded as a core funding source for the business and are not assumed to be available under the Firm's liquidity stress scenarios.

The Regulatory and Treasury Department within the Finance Division undertake daily monitoring of the Firm's funding and liquidity position. Liquidity Risk Management, one of the sections within this department, is tasked with overall responsibility for establishing and maintaining DCME's funding and liquidity framework, developing Treasury's funds transfer pricing policy and assuming day-to-day responsibilities for monitoring adherence to the firm's liquidity risk appetite. The Treasury section provides direct market interface in funding DCME's operations as well as managing the Firm's ring-fenced Liquid Asset Buffer (LAB portfolio. This portfolio consists of high quality unencumbered bonds (typically brought in through reverse repo) issued by core European sovereigns and the central governments of the USA, UK, Australia and Japan. Treasury operates as a cost centre, with all funding and liquidity costs charged to business units in proportion to their funding usage and the liquidity characteristics of their balance sheets.

The cornerstone of the Firm's quantitative liquidity control is a balance sheet cash flow model, appropriately segmented, firstly on a contractual basis and then with behavioural overlays applied to assess the Firm's position in both normal market conditions and under various stress scenarios.

Stress test analysis forms the basis by which the Firm defines its liquidity risk appetite. This is currently defined in terms of ensuring the Firm maintains to survive on a standalone basis of at least one year under a severe market wide liquidity stress and at least one month all under a severe combination liquidity stress (market wide and name specific stress scenario). Key aspects of the Firm's stress testing include, but are not limited to:

- liquidity impact from incremental margin calls;
- Impact on the firm's ability to access wholesale funding;
- multiple downgrades to the parent's credit rating; and
- increased intra-day liquidity requirements due to issues such as settlement failure, cessation of intra-day credit at clearers and intra-day margin call

Were the Firm to conclude from either quantitative or qualitative liquidity/funding controls that there was a potential liquidity issue developing, it would invoke its Board approved Contingency Funding Plan.

From a regulatory viewpoint, DCME is governed by the 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 termed an ILAA and it is subject to a SLRP review that is 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 LAB which ensures that it adheres to this minimum standard at all times.

4.4 Operational Risk

Operational risk is the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events. The definition includes legal risk, but excludes reputational and strategic risk.

Operational risks within DCME are minimised by means of a network of controls, procedures, reports and responsibilities. Within the Firm, each division and department has responsibility for its own operational risks and establishes appropriate resources, processes and controls for minimising such risks. The focus is primarily on the early recognition, reduction and management of risks as well as the measurement and monitoring of risks.

An independent ORM function within the Risk division is responsible for establishing, and ensuring effective maintenance of, the framework within which operational risk is managed and for its consistent application across the Firm.

DCME's operational risk framework incorporates the following group-wide processes for the identification, measurement, monitoring, mitigation and reporting of operational risks:

- Monthly monitoring and reporting of KRIs which are established to monitor the Firm's key operational risks and identify potential issues at an early stage;
- Performance of risk and control self-assessments for assessing possible effects of potential risk sources and the effectiveness of existing controls for reducing risks. Where significant risks are identified, mitigation plans are defined where possible and implementation monitored by ORM;
- Capturing, assessing and reporting of operational risk incidents, including loss events. This procedure helps to identify where process improvements may be required to reduce the likelihood of a recurrence;
- Focussed risk assessments of specific functions or processes in conjunction with the affected specialist units;
- Co-ordination of the new product approval process, to ensure identification of risks which may be associated with new products or business activities and the establishment of appropriate mitigating controls.

In addition to the above, specialist support functions also provide expertise in areas such as compliance (regulatory / reputational / conduct risk), health & safety (people risk), business continuity and office security (external event risk), information security (technology risk), and legal and transaction management (legal risk).

ORM presents a summary of the Firm's key operational risks, monitoring activities and operational risk incidents to the Operational Risk & Compliance Committee. ORM also provides regular reports to the BRC and Audit Committee.

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

4.5 Other Risks

It is the Firm's policy to have low open FX risk. FX exposures in the trading book are primarily managed and hedged by the trading desks within limits monitored by the Market Risk department. Any residual trading book FX risk, and FX risk in the non-trading book, is managed by the Product Control department which sits within the Finance Division. Limits are in place against which this is reviewed on a weekly basis. A process is in place to ensure that there is no material FX risk at each month-end. This is achieved through an interim FX sell-off at month-end, followed by a final sell-off after the month-end close process.

In addition, any material P&L items arising intra-month are considered on a case-by-case basis by front office with a view of entering into an interim FX transaction if appropriate.

5 Capital Resources

The table below details the composition of the Firm's consolidated regulatory capital as at 31 March.

	Notes	31-Mar-17 £'000	31-Mar-16 £'000
Common Equity Tier 1 capital			
Called up share capital		732,121	732,121
Profit and loss account and other reserves		-209,097	-141,323
Revaluation reserve		1,181	1,057
		524,205	591,855
Less total deductions from tier 1 capital	1	-10,788	-16,575
Total Common Equity Tier 1 capital	2	513,417	575,280
Total capital resources		513,417	575,280

Figure 3

Notes

1. Deductions comprise: Goodwill on acquisition of Close Brothers Corporate Finance Holdings Limited and of the convertibles business of KBC Financial Products (£8.5m) and prudential valuation adjustments (£2.3m).
2. Common Equity Tier 1 capital consists of share capital and reserves, including revaluation reserves. The Firm has no innovative Tier 1 instruments.

The Firm's capital resources are exclusively Common Equity Tier 1 capital. At 31 March 2017 and during the year, the Firm complied with all externally imposed capital requirements and all gearing rules in accordance with the rules set out in CRR.

5.1 Capital Adequacy

The Firm defines capital as the resources necessary to cover unexpected losses arising from discretionary risks, being those which it accepts as credit risk and market risk, or non-discretionary risks, being those which arise by virtue of its operations, such as operational risk.

The Firm's RALCO and BRC use capital management principles and related policies define the Internal Capital Adequacy Assessment Process (ICAAP) by which the Firm's risk profile is examined to ensure the level of capital:

- Remains sufficient to support the Firm's risk profile and outstanding commitments;
- Exceeds the Firm's supervisory capital requirement by an agreed margin;
- Is capable of withstanding a severe economic downturn or stress scenario;
- Remains consistent with the Firm's strategic and operational goals.

The following table shows the Firm's Pillar 1 consolidated capital requirement:

	31-Mar-17 £'000	31-Mar-16 £'000
Minimum capital requirements		
<i>Trading book -</i>		
Interest rate PRR	46,459	45,434
Equity PRR	5,624	2,347
Option PRR	0	0
CIU PRR	0	0
Foreign currency PRR	4,299	1,999
Market risk requirement	56,382	49,780
<i>Trading book</i>		
Counterparty risk capital component	14,232	8,712
Credit Risk Capital Component	7,704	7,529
Concentration risk capital component	0	
Credit Valuation Adjustment	1,433	1,020
Default Fund Contribution capital charge	153	92
Credit risk requirement	23,522	17,353
Operational Risk Capital Requirement – Standardised Approach	23,115	21,519
Total Pillar 1 capital requirement	103,018	88,652
Total Tier 1 Capital	513,417	575,280
Total risk weighted assets (TREA)	1,287,731	1,108,146
Tier 1 capital ratio	39.87%	51.91%

Figure 4

5.2 Counterparty Credit Risk

The following table shows the counterparty risk capital component and credit risk capital component by exposure class (8% of the risk weighted exposure amounts):

As at 31 March 2017	Counterparty Risk £'000	Credit Risk £'000
Standardised Approach		
Central Governments and Central Banks	6	9
Institutions	7,071	2,509
Corporates	5,145	6,667
Other Items	-9,184	682
Total	12,904	9,866

As at 31 March 2016	Counterparty Risk £'000	Credit Risk £'000
Standardised Approach		
Central Governments and Central Banks	104	10
Institutions	4,826	2,105
Corporates	2,248	5,496
Other Items	1,533	0
Total	8,712	7,611

Figure 5

DCME adopts standardised approaches for calculating its regulatory capital requirements in relation to counterparty and credit risk.

Area	Approach	Rules
Credit Risk	Standardised approach	Part Three, Title II, Chapter 2. Art
CVA	Standardised method	Title VI Art 384
Counterparty Risk- Derivatives	Mark – To – Market Method	Part Three, Title II, Chapter 6 (Art 274)
Counterparty Risk- CDS	Items in the trading book	Part Three, Title II, Chapter 6 (Art 299)
Credit risk Mitigation	Financial Collateral Comprehensive Method	Part Three, Title II, Chapter 4 (Art 223)
	Supervisory volatility adjustment	Art 224 Art 227
Derivatives Netting	Master netting agreement	Art 298
Settlement Risk - DVP	Standard	Art 378
Settlement Risk - FOP	Standard	Art 379
Long settlement trades	Standard	Art 272(2)
Large Exposures	Standard	Part Four (Art 390-405)
ECAI Credit Ratings	Standard	Art 138 & Art 139
CCP Exposures - DFC	Standard	Art 308
CCP Exposures - Trades	Standard	Art 306
CCP-related transactions	Standard	Art 305
High Risk items	Standardised approach	Art 128
Large Exposures Guarantees & substitution	Standardised approach	Art 403

Figure 6

The following table details the OTC derivative contracts:

As at 31 March 2017

	Gross Positive Fair Value of contracts	Total Netting Benefits	Netted Current Credit Exposure (A)	Collateral Held * (B)	Net Derivatives Credit Exposure (C) = (A)- (B)
	£'000	£'000	£'000	£'000	£'000
Trading Book	548,114	845,788	420,840	251,644	169,196
Total	548,114	845,788	420,840	251,644	169,196

As at 31 March 2016

	Gross Positive Fair Value of contracts	Total Netting Benefits	Netted Current Credit Exposure (A)	Collateral Held * (B)	Net Derivatives Credit Exposure (C) = (A)- (B)
	£'000	£'000	£'000	£'000	£'000
Trading Book	616,202	1,015,346	389,349	219,336	170,014
Total	616,202	1,015,346	389,349	219,336	170,014

Figure 7

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

5.3 Credit derivative transactions

As at 31 March 2017, the Firm's portfolio of credit derivatives directly references a relatively small amount of assets held by the Firm. All credit derivatives are held in the Firm's trading book.

The counterparty base for credit derivatives is predominantly investment grade banks.

The following table shows the notional value of the credit derivative transactions as at 31 March:

As at 31 March 2017	Protection Sold £'000	Protection Purchased £'000	Total £'000
Trading Book - Credit default swaps			
Specifically hedging	-	7,164	7,164
Other	-	159,755	159,755
Total	--	166,919	166,919

As at 31 March 2016	Protection Sold £'000	Protection Purchased £'000	Total £'000
Trading Book - Credit default swaps			
Specifically hedging	-	-	-
Other	-	168,357	162,047
Total	-	168,357	162,047

Figure 8

5.4 Credit Risk and Dilution Risk

Definition of past due and impaired

A financial asset (loan and receivable) is defined as past due when a counterparty has failed to make a payment when contractually due.

A financial asset (loan and receivable or available for sale investment) is impaired if its recoverable amount is less than its carrying amount on the balance sheet.

At each balance sheet date the Firm assesses whether, as a result of one or more events that occurred after initial recognition, there is objective evidence that a financial asset is impaired. Evidence of impairment may include indications that the counterparty is experiencing significant financial difficulty. If there is objective evidence that an impairment loss on a financial asset has been incurred, the amount of loss is measured as the difference between the assets carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The impairment loss is immediately recognised in the profit and loss account.

As at 31 March 2017 as the result of a 2014 impairment review, the intercompany loan with the Firm's subsidiary was impaired by £27.72m (31 March 2016 also £27.72m).

Analysis of credit risk exposures

The gross credit risk exposure (before credit risk mitigation) and the average for the year ended 31 March 2017 are summarised as follows:

	As at 31 March 2017		As at 31 March 2016	
	Average Gross Credit Exposures ²	Total Gross Credit Exposures	Average Gross Credit Exposures	Total Gross Credit Exposures
	£'000	£'000	£'000	£'000
Sovereigns	76,287	1,966	105,045	44,946
Institutions	18,146,603	17,168,917	22,155,580	15,984,738
Corporates	498,464	634,354	156,283	233,372
Other	191,448	10,363	14,577	14,888
Total	18,912,801	17,815,601	22,431,485	16,277,944

Figure 9

The geographical distribution of these exposures is as follows:

As at 31 March 2017

	UK	Japan	Europe	North America	Rest of the World	Grand Total
	£'000	£'000	£'000	£'000	£'000	£'000
Sovereigns	408	0	342	466	750	1,966
Institutions	4,173,521	6,747,336	2,073,835	3,826,962	347,263	17,168,917
Corporates	568,097	4,489	28,258	496	33,014	634,354
Other	5,684	0	115	2,220	2,345	10,363
Total	4,747,709	6,751,825	2,102,550	3,830,144	383,373	17,815,601

As at 31 March 2016

	UK	Japan	Europe	North America	Rest of the World	Grand Total
	£'000	£'000	£'000	£'000	£'000	£'000
Sovereigns	738	75	42,231	1,410	492	44,946
Institutions	5,281,452	6,567,138	1,258,439	1,658,890	1,218,819	15,984,738
Corporates	197,816	705	5,666	7,753	21,431	233,372
Other	14,640	0	11	102	135	14,888
Total	5,494,647	6,567,918	1,306,347	1,668,155	1,240,878	16,277,944

Figure 10

² Average gross credit exposure is based on data from the four previous quarter-ends

The distribution of exposures by industry and exposure class is as follows:

As at 31 March 2017

	Sovereigns £'000	Institutions £'000	Corporates £'000	Other £'000	Total £'000
Central Governments/Central Banks	1,966	-	-	4,424	6,390
Banks	-	5,835,989	-	-	5,835,989
Financials	-	11,332,928	-	-	11,332,928
Corporates	-	-	634,354	256	634,610
Other	-	-	-	5,682	5,682
Total	1,966	17,168,917	634,354	10,362	17,815,601

As at 31 March 2016	Sovereigns £'000	Institutions £'000	Corporates £'000	Other £'000	Total £'000
Central Governments/Central Banks	44,946	-	-	1,873	46,819
Banks	-	7,522,550	-	-	7,522,550
Financials	-	8,462,188	-	-	8,462,188
Corporates	-	-	233,372	151	233,523
Other	-	-	-	12,865	12,865
Total	44,946	15,984,738	233,372	14,888	16,277,944

Figure 11

The distribution of exposures by residual maturity is as follows:

As at 31 March 2017

	One year or less £'000	Over 1 year not exceeding 5 years £'000	Over five years £'000	Total £'000
Sovereigns	1,966	-	-	1,966
Institutions	15,919,252	350,046	899,619	17,168,917
Corporates	603,254	31,100	-	634,354
Other	3,813	2,126	-	5,939
Multilateral Development Banks	4,424	-	-	4,424
Total	16,532,709	383,273	899,619	17,815,601

As at 31 March 2016	One year or less £'000	Over 1 year not exceeding 5 years £'000	Over five years £'000	Total £'000
Sovereigns	44,946	-	-	44,946
Institutions	14,605,996	217,562	1,161,180	15,984,738
Corporates	231,041	2	2,329	233,372
Other	13,013	3	-	13,015
Multilateral Development Banks	1,873	-	-	1,873
Total	14,896,868	217,567	1,163,510	16,277,944

Figure 12

5.5 Credit Risk - Standardised Approach

The Firm uses Moody's as its external credit assessment institution (ECAI) for the purpose of calculating risk weighted exposure amounts in accordance with the standardised approach to credit risk.

The following details the standardised credit risk exposure classes for which the ECAI was used.

- Sovereigns (Central Governments/Central Banks)
- Regional Governments/Local Authorities
- Institutions
- Corporates
- Other Items

The following table shows the exposure values (before the application of supervisory hair-cuts) associated with each credit quality step as at 31 March. The credit quality steps are those used by the FCA and reflect the credit quality of exposures. The steps are determined by factors such as the type of exposure, credit rating and maturity. The highest credit quality is 1 and the poorest is 6.

As at 31 March 2017					
	Sovereigns	Institutions	Corporates	Other	Total Exposures
Credit Quality Step	£'000	£'000	£'000	£'000	£'000
1	1,808	8,573,520	30,147	4,674	8,610,148
2	0	7,204,231	2,542	6	7,206,779
3	10	230,257	87	0	230,354
4	0	62,555	18	0	62,573
5	0	0	0	0	0
6	0	0	0	0	0
Unrated	148	1,098,354	601,561	5,684	1,705,747
Total	1,966	17,168,917	634,354	10,363	17,815,601

As at 31 March 2016					
	Sovereigns	Institutions	Corporates	Other	Total Exposures
Credit Quality Step	£'000	£'000	£'000	£'000	£'000
1	3,088	6,449,696	1,128	1,177	6,455,089
2	75	8,600,047	18,593	0	8,618,715
3	0	257,273	412	0	257,685
4	0	52,356	0	0	52,356
5	0	0	0	0	0
6	0	0	0	0	0
Unrated	41,784	625,366	213,239	13,711	894,099
Total	44,946	15,984,738	233,372	14,888	16,277,944

Figure 13

The following table shows the exposure values after credit risk mitigation (including the application of supervisory haircuts) associated with each credit quality step as at 31 March:

As at 31 March 2017	Sovereigns	Institutions	Corporates	Other	Total
Credit Quality Step	£'000	£'000	£'000	£'000	£'000
1	1,808	346,924	1,443	4,674	354,849
2	-	183,822	1,135	6	184,962
3	10	5,105	87	-	5,203
4	-	27	18	-	45
5	-	-	-	-	-
6	-	-	-	-	-
Unrated	148	47,824	168,426	5,684	222,081
Total	1,966	583,701	171,108	10,363	767,139

As at 31 March 2016	Sovereigns	Institutions	Corporates	Other	Total
Credit Quality Step	£'000	£'000	£'000	£'000	£'000
1	3,088	384,756	1,128	1,177	390,149
2	75	103,767	1,056	-	104,898
3	-	4,893	412	-	5,305
4	-	-	-	-	-
5	-	-	-	-	-
6	-	-	-	-	-
Unrated	1,382	22,488	94,898	13,711	132,480
Total	4,545	515,905	97,494	14,888	632,832

Figure 14

5.6 Market Risk

Please refer to Section 2 Risk Management Objectives and Policies for a summary of the Firm's approach to the management of market risk.

DCME adopts standardised approaches for calculating its regulatory capital requirements in relation to market risk in accordance with CRR, Part Three, Title IV (Own funds requirements for Market Risk).

Risk	Method
Equity Specific Risk	Standard
Equity General Market Risk	Standard
Equity Non-Delta Risk	Standard
Interest Rate Specific Risk	Standard
Interest Rate General Market Risk	Standard / Maturity-based method
Foreign Exchange Risk	Standard / lower rate for closely correlated currencies
C I U	Standard

Figure 15

The following table shows the Firm's Pillar 1 capital requirement on market risk as at 31 March:

	As at 31 March 2017 £'000	As at 31 March 2016 £'000
<i>Trading Book</i>		
Interest rate PRR	46,459	45,434
Equity PRR	5,624	2,347
Option PRR	-	-
Collective Investment Undertakings PRR	-	-
Foreign currency PRR	4,299	1,999
Total Pillar 1 capital requirement for market risk	56,382	49,780

Figure 16

5.7 Operational Risk

Please refer to Section 2 - Risk Management Objectives and Policies for a summary of the Firm's approach to the management of operational risk.

The Firm has followed the criteria for the approach and assessment set out in CRR Part Three, Title II (Own funds requirements for operational risk). The Firm has adopted the standardised approach for calculating the Pillar 1 capital requirement for operational risk. The figures below are based on audited results for the 3 year period ended March 2017 and 2016 respectively.

	As at 31 March 2017 £'000	As at 31 March 2016 £'000
Operational risk	23,115	21,519
Total Pillar 1 capital requirement for operational risk	23,115	21,519

Figure 17

5.8 Non-Trading Book Exposures in Equities

The Firm does not have any significant equity exposures in its non-trading book. As at 31 March 2017, the Firm held a number of equity shareholdings in clearing houses for historical reasons and not for investment purposes. Management intends to hold those investments for the foreseeable future.

Those assets are classified as available for sale investments on the balance sheet as at 31 March 2017 and are held at fair value. Fair value is determined by reference to the quoted price in an active market wherever possible. Where no such active market exists, the Firm uses a valuation technique to arrive at the fair value, including the use of prices obtained in recent arms-length transactions and other valuation techniques commonly used by market participants.

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.

The following table shows the Firm's total available for sale investments:

	As at 31 March 2017 £'000	As at 31 March 2016 £'000
Available for sale investments	1,270	1,139
Total available for sale investments	1,270	1,139

Figure 18

The carrying amount of available for sale investments approximates to their fair value.

5.9 Exposures to Interest Rate Risk in the Non-Trading Book

Interest rate risk in the banking book (IRRBB) refers to the current or prospective risk to the Firm's capital and earnings arising from adverse movements in interest rates that affect the Firm's banking book positions. The Firm's exposure to IRRBB arise from treasury and funding activity and principle investment development financing loans, with the majority of interest rate risk centrally run on the Treasury book within approved limits.

In 2017, DCME's Treasury & LRM developed and implemented the standard integrated approach to the management of IRRBB proposed by Basel Committee on Banking Supervision in April 2016. In addition to the industry existing standard 200 basis point shock, the impact from six new standard interest rate scenarios³ were assessed. This has resulted in a £6.5m Pillar 2a capital reserve requirement under the worst case scenario during the Firm's 2017 internal capital adequacy assessment (ICAAP) process.

5.10 Credit Risk Mitigation

Please refer to Section 2 (Risk Management Objectives and Policies) for a summary of the Firm's approach to the management of credit risk mitigation.

The following table shows the total exposure value that is covered by collateral (after the application of supervisory hair-cuts):

	Exposure covered by Eligible Financial Collateral	
	As at 31 March 2017 £'000	As at 31 March 2016 £'000
Standardised Approach		
Sovereigns	0	41,765
Institutions	15,932,658	14,595,392
Corporates	521,336	156,701
	-	-
Total	16,453,993	14,793,859

Figure 19

6 Remuneration

6.1 Basis of Disclosure

The remuneration disclosures are prepared on the basis that DCME is a level 3 firm. A level 3 firm is defined as one whose average total assets over the past three financial years have not exceeded £15bn. As a result, the Firm's remuneration disclosures are not required to be as detailed as if it were level 1 or 2. The Firm monitors its position with regards to this definition closely due to the proximity to the threshold.

6.2 Committee

The Firm has a Remuneration Committee. Authority is delegated by the Board to the Committee to review and approve remuneration, and to ensure remuneration policies across the Firm are consistent with the promotion of effective risk management and do not encourage risk taking which exceeds the Firm's risk appetite. It ensures that the risks associated with the operation of remuneration policies are considered. The Committee is

³ The six new standard interest rate scenarios are: Parallel shock up, Parallel shock down, Flattener shock, Steepener shock, Short rate shock up, Short rate shock down.

responsible for reviewing and approving any salary amendments and cash bonuses proposed to the Committee arising from the annual compensation review, subject to formal review by Head Office (Tokyo), with reports made to the Board as required. Within this process, individual review and approval is undertaken for employees considered to be Material Risk Takers (MRTs), including the consideration of any performance adjustments and review of deferred awards. The Committee also considers any “sign on” bonuses and severance payments made to MRTs during the year.

The Committee receives remuneration proposals from Heads of Regional Business and Support areas, after the proposals have been reviewed by respective Global Heads and London Senior Management.

The Committee is comprised of five Non-Executive Directors and receives contributions from other senior staff members including the Regional Head of HR and Regional Head of Risk, Regional Head of Legal and Compliance, as required. The Committee have the power and resources necessary to request such information and advice as it needs, both internally and from professional advisers, and that it deems appropriate to enable it to perform its functions.

During the period in question, remuneration consisted of fixed pay (base salary and benefits) and variable pay (e.g. annual discretionary cash bonus) designed to reward performance and to retain key staff members. The annual discretionary bonus is used to reflect financial performance, as well as to reward and encourage good non-financial performance.

Bonuses may be reduced or withheld completely if the employee has failed to comply with the Firm’s risk management policies, or where there has been any breach of regulatory requirements. The bonus may also be reduced to zero where there is poor performance, or where the employee is subject to a disciplinary warning, for example. The range of criteria chosen to determine discretionary bonuses may vary from year to year and from one business area to another. The actual levels of pay will be influenced by a number of factors including the Firm’s profitability and strategic objectives, which may change from time to time and also take into account competitive market practice.

The Firm has a deferral scheme in operation for any bonus payments above a bonus level as determined by the Remuneration Committee. This policy is applicable to all staff members. However, MRTs have additional performance adjustment measures in place under this scheme which may be applied at the discretion of the Remuneration Committee.

As a level 3 Firm, the Firm has chosen not to use financial instruments and to dis-apply the bonus cap for this period in question.

6.3 Remuneration disclosure

Aggregate remuneration expenditure for MRTs

Business Area	£’000
Fixed Income	5,489
Equity & ICB	1,151
Investment Banking	554
DCA ⁴	0
Derivatives	1,770

Figure 20

Remuneration for Financial Year for MRTs

⁴ No code staff were employed by DCA in the period

Analysis between fixed and variable amounts

	Senior Management	Non Senior Management
Number of code staff	13	41
Fixed pay:-	£'000	£'000
Cash based Fixed Remuneration	2,908	6,493
Variable Pay:-		
Cash	1,214	4,422
Deferred cash	279	1,253
Total variable pay	1,493	5,675
Overall Total	4,401	12,168

Figure 21

6.4 Sign on, Severance and Performance Adjustments

Category	£'000
Performance Adjustments	0
Sign On Payments	0
Severance Payments	23

Figure 22

6.5 Code Staff Remuneration

Total Compensation EUR	Number of code staff within bracket	
	2016/17	2015/16
<1,000,000	51	52
1,000,000-1,500,000	3	2

Figure 23

7 Board Approved Risk Statement

The Board maintains a Risk Appetite which is regularly monitored with formal reviews of the risk measures in conjunction with the long term planning process. During the year the risk profile of the Company has been maintained within the key risk limits.

The Board express the Risk Appetite through a number of key Risk Appetite measures which define the level of risk acceptable across a number of categories.

The risk appetite measures are integrated into decision making, monitoring and reporting processes, with early warning trigger levels set to drive any required corrective action before overall tolerance levels are reached.

The table below sets out a number of the key measures used to monitor the Firm's risk profile.

Risk Category	Risk Measure	Criteria	Tolerance Level	Value as at 31 Mar 2016	Value as at 31 Mar 2017
Capital Risk	Tier 1 Capital Ratio	Minimum tier 1 capital ratio >20%	>20% Tier 1 capital ratio ⁵	53.60%	40.50%
Liquidity Risk	Internal Coverage Ratio	Buffer above regulatory minimum	Minimum 10% buffer above regulatory minimum ILG	205%	99%
Market Risk	Value at Risk	1-day 99% diversified VaR (maximum \$10m at entity level)	Maximum \$10m for all businesses	\$2.4m	\$1.93m
Credit Risk	Net Credit Exposure	Total net credit exposure	Maximum £4bn (subject to overriding maximum portfolio Expected Loss)	£1,911.6m	£1,752.4m
Operational Risk	Operational Risk Losses: Max from single event	\$1m - single event impact	\$1m – single event impact	\$292k	\$87k
	Operational Risk Losses: Max aggregate annual loss	\$2m aggregate over prior 12 months (rolling basis)	\$2m aggregate per annum	\$334k	\$132k

Figure 24

Note: The market risk VaR number contained in the above table refers to the high point in the prevailing month rather than the month end value.

⁵ The Firm targets a minimum buffer above the regulatory individual capital guidance threshold and has operated at a significant surplus to this throughout the year. Our long term capital plan and internal capital adequacy assessment show the continuation of a surplus above the internally set capital buffer.

Appendices: EBA Pillar III Disclosure Templates

1 Own Funds

1.1 Capital instruments' main features as at 31 March 2017

Capital instruments main features template (1)		
1	Issuer	Daiwa Capital Markets Europe Limited
2	Unique identifier (e.g. CUSIP, ISIN or Bloomberg identifier for private placement)	N/A
3	Governing law(s) of the instrument	UK
<i>Regulatory treatment</i>		
4	Transitional CRR rules	Common Equity Tier 1
5	Post-transitional CRR rules	Common Equity Tier 1
6	Eligible at solo/(sub-)consolidated/ solo&(sub-)consolidated	Solo
7	Instrument type (types to be specified by each jurisdiction)	Ordinary shares
8	Amount recognised in regulatory capital (Currency in million, as of most recent reporting date)	GBP 732m
9	Nominal amount of instrument	GBP 732m
9a	Issue price	GBP 1
9b	Redemption price	GBP 1
10	Accounting classification	Shareholders' equity
11	Original date of issuance	Mar 2008: GBP109m Jun 2009: GBP98m Nov 2010: GBP125m Feb 2011: GBP50m Mar 2011: GBP500m Sep 2012: GBP(150m) (reduction)
12	Perpetual or dated	Perpetual
13	Original maturity date	No maturity
14	Issuer call subject to prior supervisory approval	No
15	Optional call date, contingent call dates and redemption amount	N/A
16	Subsequent call dates, if applicable	N/A
<i>Coupons / dividends</i>		
17	Fixed or floating dividend/coupon	Floating
18	Coupon rate and any related index	N/A
19	Existence of a dividend stopper	No
20 a	Fully discretionary, partially discretionary or mandatory (in terms of timing)	Fully discretionary
20 b	Fully discretionary, partially discretionary or mandatory (in terms of amount)	Fully discretionary
21	Existence of step up or other incentive to redeem	No
22	Noncumulative or cumulative	Noncumulative
23	Convertible or non-convertible	Nonconvertible
24	If convertible, conversion trigger(s)	N/A
25	If convertible, fully or partially	N/A
26	If convertible, conversion rate	N/A
27	If convertible, mandatory or optional conversion	N/A
28	If convertible, specify instrument type convertible into	N/A
29	If convertible, specify issuer of instrument it converts into	N/A
30	Write-down features	N/A
31	If write-down, write-down trigger(s)	N/A
32	If write-down, full or partial	N/A
33	If write-down, permanent or temporary	N/A
34	If temporary write-down, description of write-up mechanism	N/A
35	Position in subordination hierarchy in liquidation (specify instrument type immediately senior to instrument)	N/A
36	Non-compliant transitioned features	No
37	If yes, specify non-compliant features	N/A

1.2 Transitional own funds disclosure – Consolidated as at 31 March 2017

Common Equity Tier 1 (CET1) capital: instruments and reserves		(A) AMOUNT AT DISCLOSURE DATE	(C) AMOUNTS SUBJECT TO PRE-REGULATION (EU) NO 575/2013 TREATMENT OR PRESCRIBED RESIDUAL AMOUNT OF REGULATION (EU) NO 575/2013
1	Capital instruments and the related share premium accounts	732,121	
	of which: Instrument type 1	732,121	
	of which: Instrument type 2	0	
	of which: Instrument type 3	0	
2	Retained earnings	-209,097	
3	Accumulated other comprehensive income (and other reserves)	1,181	
3a	Funds for general banking risk	0	
4	Amount of qualifying items referred to in Article 484 (3) and the related share premium accounts subject to phase out from CET1	0	
	Public sector capital injections grandfathered until 1 January 2018	0	
5	Independently reviewed interim profits net of any foreseeable charge or dividend	0	
5a	Minority interests (amount allowed in consolidated CET1)	0	
6	Common Equity Tier 1 (CET1) capital before regulatory adjustments	524,205	
Common Equity Tier 1 (CET1) capital: regulatory adjustments			
7	Additional value adjustments (negative amount)	-2,277	-2,277
8	Intangible assets (net of related tax liability) (negative amount)	-8,511	-8,511
9	Empty set in the EU		
10	Deferred tax assets that rely on future profitability excluding those arising from temporary differences (net of related tax liability where the conditions in Article 38 (3) are met) (negative amount)	0	0
11	Fair value reserves related to gains or losses on cash flow hedges	0	0
12	Negative amounts resulting from the calculation of expected loss amounts	0	0
13	Any increase in equity that results from securitised assets (negative amount)	0	0
14	Gains or losses on liabilities valued at fair value resulting from changes in own credit standing	0	0
15	Defined-benefit pension fund assets (negative amount)	0	0
16	Direct and indirect holdings by an institution of own CET1 instruments (negative amount)	0	0
17	Direct, indirect and synthetic holdings of the CET 1 instruments of financial sector entities where those entities have reciprocal cross holdings with the institution designed to inflate artificially the own funds of the institution (negative amount)	0	0
18	Direct, indirect and synthetic holdings by the institution of the CET1 instruments of financial sector entities where the institution does not have a significant investment in those entities (amount above 10% threshold and net of eligible short positions) (negative amount)	0	0
19	Direct, indirect and synthetic holdings by the institution of the CET1 instruments of financial sector entities where the institution has a significant investment in those entities (amount above 10% threshold and net of eligible short positions) (negative amount)	0	0
20	Empty set in the EU		
20a	Exposure amount of the following items which qualify for a RW of 1250%, where the institution opts for the deduction alternative	0	0

Common Equity Tier 1 (CET1) capital: instruments and reserves		(A) AMOUNT AT DISCLOSURE DATE	(C) AMOUNTS SUBJECT TO PRE-REGULATION (EU) NO 575/2013 TREATMENT OR PRESCRIBED RESIDUAL AMOUNT OF REGULATION (EU) NO 575/2013
20b	of which: qualifying holdings outside the financial sector (negative amount)	0	0
20c	of which: securitisation positions (negative amount)	0	0
20d	of which: free deliveries (negative amount)	0	0
21	Deferred tax assets arising from temporary differences (amount above 10% threshold, net of related tax liability where the conditions in Article 38 (3) are met) (negative amount)	0	0
22	Amount exceeding the 15% threshold (negative amount)	0	0
23	of which: direct and indirect holdings by the institution of the CET1 instruments of financial sector entities where the institution has a significant investment in those entities	0	0
24	Empty set in the EU		
25	of which: deferred tax assets arising from temporary differences		
25a	Losses for the current financial year (negative amount)	0	0
25b	Foreseeable tax charges relating to CET1 items (negative amount)	0	0
26	Regulatory adjustments applied to Common Equity Tier 1 in respect of amounts subject to pre-CRR treatment	0	
26a	Regulatory adjustments relating to unrealised gains and losses pursuant to Articles 467 and 468	0	
	Of which: ...filter for unrealised loss 1	0	
	Of which: ...filter for unrealised loss 2	0	
	Of which: ...filter for unrealised gain 1	0	
	Of which: ...filter for unrealised gain 2	0	
26b	Amount to be deducted from or added to Common Equity Tier 1 capital with regard to additional filters and deductions required pre CRR	0	
	Of which:	0	
27	Qualifying AT1 deductions that exceed the AT1 capital of the institution (negative amount)	0	
28	Total regulatory adjustments to Common Equity Tier 1 (CET1)	-10,788	
29	Common Equity Tier 1 (CET1) capital	513,417	
Additional Tier 1 (AT1) capital: instruments			
30	Capital instruments and the related share premium accounts	0	
31	of which: classified as equity under applicable accounting standards	0	
32	of which: classified as liabilities under applicable accounting standards	0	
33	Amount of qualifying items referred to in Article 484 (4) and the related share premium accounts subject to phase out from AT1	0	
34	Qualifying Tier 1 capital included in consolidated AT1 capital (including minority interests not included in row 5) issued by subsidiaries and held by third parties	0	0
35	of which: instruments issued by subsidiaries subject to phase out	0	
36	Additional Tier 1 (AT1) capital before regulatory adjustments	0	
Additional Tier 1 (AT1) capital: regulatory adjustments			
37	Direct and indirect holdings by an institution of own AT1 instruments (negative amount)	0	0
38	Direct, indirect and synthetic holdings of the AT1 instruments of financial sector entities where those entities have reciprocal cross holdings with the institution designed to inflate artificially the own funds of the institution (negative amount)	0	0
39	Direct, indirect and synthetic holdings of the AT1 instruments of financial sector entities where the institution does not have a	0	0

Common Equity Tier 1 (CET1) capital: instruments and reserves		(A) AMOUNT AT DISCLOSURE DATE	(C) AMOUNTS SUBJECT TO PRE-REGULATION (EU) NO 575/2013 TREATMENT OR PRESCRIBED RESIDUAL AMOUNT OF REGULATION (EU) NO 575/2013
	significant investment in those entities (amount above 10% threshold and net of eligible short positions) (negative amount)		
40	Direct, indirect and synthetic holdings by the institution of the AT1 instruments of financial sector entities where the institution has a significant investment in those entities (net of eligible short positions) (negative amount)	0	0
41	Regulatory adjustments applied to additional tier 1 in respect of amounts subject to pre-CRR treatment and transitional treatments subject to phase out as prescribed in Regulation (EU) No 575/2013 (i.e. CRR residual amounts)	0	
41a	Residual amounts deducted from Additional Tier 1 capital with regard to deduction from Common Equity Tier 1 capital during the transitional period pursuant to article 472 of Regulation (EU) No 575/2013	0	
	Of which items to be detailed line by line, e.g. Material net interim losses, intangibles, shortfall of provisions to expected losses etc.	0	
41b	Residual amounts deducted from Additional Tier 1 capital with regard to deduction from Tier 2 capital during the transitional period pursuant to article 475 of Regulation (EU) No 575/2013	0	
	Of which items to be detailed line by line, e.g. Reciprocal cross holdings in Tier 2 instruments, direct holdings of non-significant investments in the capital of other financial sector entities, etc.	0	
41c	Amount to be deducted from or added to Additional Tier 1 capital with regard to additional filters and deductions required pre- CRR	0	
	Of which: ...possible filter for unrealised gains	0	
	Of which: ...possible filter for unrealised losses	0	
	Of which: ...	0	
42	Qualifying T2 deductions that exceed the T2 capital of the institution (negative amount)	0	
43	Total regulatory adjustments to Additional Tier 1 (AT1) capital	0	
44	Additional Tier 1 (AT1) capital	0	
45	Tier 1 capital (T1 = CET1 + AT1)	513,417	
Tier 2 (T2) capital: instruments and provisions			
46	Capital instruments and the related share premium accounts	0	
47	Amount of qualifying items referred to in Article 484 (5) and the related share premium accounts subject to phase out from T2	0	
	Public sector capital injections grandfathered until 1 January 2018	0	
48	Qualifying own funds instruments included in consolidated T2 capital (including minority interests and AT1 instruments not included in rows 5 or 34) issued by subsidiaries and held by third parties	0	0
49	of which: instruments issued by subsidiaries subject to phase out	0	
50	Credit risk adjustments	0	
51	Tier 2 (T2) capital before regulatory adjustments	0	
Tier 2 (T2) capital: regulatory adjustments			
52	Direct and indirect holdings by an institution of own T2 instruments and subordinated loans (negative amount)	0	
53	Holdings of the T2 instruments and subordinated loans of financial sector entities where those entities have reciprocal cross holdings with the institution designed to inflate artificially the own funds of the institution (negative amount)	0	

Common Equity Tier 1 (CET1) capital: instruments and reserves		(A) AMOUNT AT DISCLOSURE DATE	(C) AMOUNTS SUBJECT TO PRE-REGULATION (EU) NO 575/2013 TREATMENT OR PRESCRIBED RESIDUAL AMOUNT OF REGULATION (EU) NO 575/2013
54	Direct and indirect holdings of the T2 instruments and subordinated loans of financial sector entities where the institution does not have a significant investment in those entities (amount above 10% threshold and net of eligible short positions) (negative amount)	0	
54a	Of which new holdings not subject to transitional arrangement	0	
54b	Of which holdings existing before 1 January 2013 and subject to transitional arrangements	0	
55	Direct and indirect holdings by the institution of the T2 instruments and subordinated loans of financial sector entities where the institution has a significant investment in those entities (net of eligible short positions) (negative amount)	0	
56	Regulatory adjustments applied to tier 2 in respect of amounts subject to pre-CRR treatment and transitional treatments subject to phase out as prescribed in Regulation (EU) No 575/2013 (i.e. CRR residual amounts)	0	
56a	Residual amounts deducted from Tier 2 capital with regard to deduction from Common Equity Tier 1 capital during the transitional period pursuant to article 472 of Regulation (EU) No 575/2013	0	
	Of which items to be detailed line by line, e.g. Material net interim losses, intangibles, shortfall of provisions to expected losses etc.	0	
56b	Residual amounts deducted from Tier 2 capital with regard to deduction from Additional Tier 1 capital during the transitional period pursuant to article 475 of Regulation (EU) No 575/2013	0	
	Of which items to be detailed line by line, e.g. reciprocal cross holdings in at1 instruments, direct holdings of non-significant investments in the capital of other financial sector entities, etc.	0	
56c	Amount to be deducted from or added to Tier 2 capital with regard to additional filters and deductions required pre CRR	0	
	Of which: ...possible filter for unrealised gains	0	
	Of which: ...possible filter for unrealised losses	0	
	Of which: ...	0	
57	Total regulatory adjustments to Tier 2 (T2) capital	0	
58	Tier 2 (T2) capital	0	
59	Total capital (TC = T1 + T2)	513,417	
59a	Risk weighted assets in respect of amounts subject to pre-CRR treatment and transitional treatments subject to phase out as prescribed in Regulation (EU) No 575/2013(i.e. CRR residual amounts)	1,287,731	
	Of which: ...items not deducted from CET1 (Regulation (EU) No 575/2013 residual amounts) (items to be detailed line by line, e.g. Deferred tax assets that rely on future profitability net of related tax liability, indirect holdings of own CET1, etc.)		
	Of which: ...items not deducted from AT1 items (Regulation (EU) No 575/2013 residual amounts) (items to be detailed line by line, e.g. Reciprocal cross holdings in T2 instruments, direct holdings of non-significant investments in the capital of other financial sector entities, etc.)	0	
	Items not deducted from T2 items (Regulation (EU) No 575/2013 residual amounts) (items to be detailed line by line, e.g. Indirect holdings of own t2 instruments, indirect holdings of non-significant investments in	0	

Common Equity Tier 1 (CET1) capital: instruments and reserves		(A) AMOUNT AT DISCLOSURE DATE	(C) AMOUNTS SUBJECT TO PRE-REGULATION (EU) NO 575/2013 TREATMENT OR PRESCRIBED RESIDUAL AMOUNT OF REGULATION (EU) NO 575/2013
	the capital of other financial sector entities, indirect holdings of significant investments in the capital of other financial sector entities etc.)		
60	Total risk weighted assets	1,287,731	
Capital ratios and buffers			
61	Common Equity Tier 1 (as a percentage of total risk exposure amount)	39.87%	
62	Tier 1 (as a percentage of total risk exposure amount)	39.87%	
63	Total capital (as a percentage of total risk exposure amount)	39.87%	
64	Institution specific buffer requirement (CET1 requirement in accordance with article 92 (1) (a) plus capital conservation and countercyclical buffer requirements, plus systemic risk buffer, plus systemically important institution buffer expressed as a percentage of risk exposure amount)	16,100	
65	of which: capital conservation buffer requirement	16,097	
66	of which: countercyclical buffer requirement	3	
67	of which: systemic risk buffer requirement	0	
67a	of which: Global Systemically Important Institution (G-SII) or Other Systemically Important Institution (O-SII) buffer	0	
68	Common Equity Tier 1 available to meet buffers (as a percentage of risk exposure amount)	1.250%	
69	[non relevant in EU regulation]		
70	[non relevant in EU regulation]		
71	[non relevant in EU regulation]		
Amounts below the thresholds for deduction (before risk weighting)			
72	Direct and indirect holdings by the institution of the CET1 instruments of financial sector entities where the institution has a significant investment in those entities (amount below 10% threshold and net of eligible short positions)	0	
73	Direct and indirect holdings by the institution of the CET1 instruments of financial sector entities where the institution has a significant investment in those entities (amount below 10% threshold and net of eligible short positions)	0	
74	Empty set in the EU		
75	Deferred tax assets arising from temporary differences (amount below 10% threshold, net of related tax liability where the conditions in Article 38 (3) are met)	0	
Applicable caps on the inclusion of provisions in Tier 2			
76	Credit risk adjustments included in T2 in respect of exposures subject to standardised approach (prior to the application of the cap)	0	
77	Cap on inclusion of credit risk adjustments in T2 under standardised approach	0	
78	Credit risk adjustments included in T2 in respect of exposures subject to internal ratings-based approach (prior to the application of the cap)	0	
79	Cap for inclusion of credit risk adjustments in T2 under internal ratings-based approach	0	
Capital instruments subject to phase-out arrangements (only applicable between 1 Jan 2014 and 1 Jan 2022)			
80	Current cap on CET1 instruments subject to phase out arrangements	0	
81	Amount excluded from CET1 due to cap (excess over cap after redemptions and maturities)	0	
82	Current cap on AT1 instruments subject to phase out arrangements	0	

Common Equity Tier 1 (CET1) capital: instruments and reserves		(A) AMOUNT AT DISCLOSURE DATE	(C) AMOUNTS SUBJECT TO PRE-REGULATION (EU) NO 575/2013 TREATMENT OR PRESCRIBED RESIDUAL AMOUNT OF REGULATION (EU) NO 575/2013
83	Amount excluded from AT1 due to cap (excess over cap after redemptions and maturities)	0	
84	Current cap on T2 instruments subject to phase out arrangements	0	
85	Amount excluded from T2 due to cap (excess over cap after redemptions and maturities)	0	

1.3 Transitional own funds disclosure – Solo as at 31 March 2017

Common Equity Tier 1 (CET1) capital: instruments and reserves		(A) AMOUNT AT DISCLOSURE DATE	(C) AMOUNTS SUBJECT TO PRE-REGULATION (EU) NO 575/2013 TREATMENT OR PRESCRIBED RESIDUAL AMOUNT OF REGULATION (EU) NO 575/2013
1	Capital instruments and the related share premium accounts	732,121	
	of which: Instrument type 1	732,121	
	of which: Instrument type 2	0	
	of which: Instrument type 3	0	
2	Retained earnings	-221,158	
3	Accumulated other comprehensive income (and other reserves)	992	
3a	Funds for general banking risk	0	
4	Amount of qualifying items referred to in Article 484 (3) and the related share premium accounts subject to phase out from CET1	0	
	Public sector capital injections grandfathered until 1 January 2018	0	
5	Independently reviewed interim profits net of any foreseeable charge or dividend	0	
5a	Minority interests (amount allowed in consolidated CET1)	0	
6	Common Equity Tier 1 (CET1) capital before regulatory adjustments	511,955	
Common Equity Tier 1 (CET1) capital: regulatory adjustments			
7	Additional value adjustments (negative amount)	-2,277	-2,277
8	Intangible assets (net of related tax liability) (negative amount)	-3,200	-3,200
9	Empty set in the EU		
10	Deferred tax assets that rely on future profitability excluding those arising from temporary differences (net of related tax liability where the conditions in Article 38 (3) are met) (negative amount)	0	0
11	Fair value reserves related to gains or losses on cash flow hedges	0	0
12	Negative amounts resulting from the calculation of expected loss amounts	0	0
13	Any increase in equity that results from securitised assets (negative amount)	0	0
14	Gains or losses on liabilities valued at fair value resulting from changes in own credit standing	0	0
15	Defined-benefit pension fund assets (negative amount)	0	0
16	Direct and indirect holdings by an institution of own CET1 instruments (negative amount)	0	0
17	Direct, indirect and synthetic holdings of the CET 1 instruments of financial sector entities where those entities have reciprocal cross holdings with the institution designed to inflate artificially the own funds of the institution (negative amount)	0	0
18	Direct, indirect and synthetic holdings by the institution of the CET1 instruments of financial sector entities where the institution does not have a significant investment in those entities (amount above 10% threshold and net of eligible short positions) (negative amount)	0	0
19	Direct, indirect and synthetic holdings by the institution of the CET1 instruments of financial sector entities where the institution has a significant investment in those entities (amount above 10% threshold and net of eligible short positions) (negative amount)	0	0
20	Empty set in the EU		
20a	Exposure amount of the following items which qualify for a RW of 1250%, where the institution opts for the deduction alternative	0	0
20b	of which: qualifying holdings outside the financial sector (negative amount)	0	0
20c	of which: securitisation positions (negative amount)	0	0
20d	of which: free deliveries (negative amount)	0	0

Common Equity Tier 1 (CET1) capital: instruments and reserves		(A) AMOUNT AT DISCLOSURE DATE	(C) AMOUNTS SUBJECT TO PRE-REGULATION (EU) NO 575/2013 TREATMENT OR PRESCRIBED RESIDUAL AMOUNT OF REGULATION (EU) NO 575/2013
21	Deferred tax assets arising from temporary differences (amount above 10% threshold, net of related tax liability where the conditions in Article 38 (3) are met) (negative amount)	0	0
22	Amount exceeding the 15% threshold (negative amount)	0	0
23	of which: direct and indirect holdings by the institution of the CET1 instruments of financial sector entities where the institution has a significant investment in those entities	0	0
24	Empty set in the EU		
25	of which: deferred tax assets arising from temporary differences		
25a	Losses for the current financial year (negative amount)	0	0
25b	Foreseeable tax charges relating to CET1 items (negative amount)	0	0
26	Regulatory adjustments applied to Common Equity Tier 1 in respect of amounts subject to pre-CRR treatment	0	
26a	Regulatory adjustments relating to unrealised gains and losses pursuant to Articles 467 and 468	0	
	Of which: ...filter for unrealised loss 1	0	
	Of which: ...filter for unrealised loss 2	0	
	Of which: ...filter for unrealised gain 1	0	
	Of which: ...filter for unrealised gain 2	0	
26b	Amount to be deducted from or added to Common Equity Tier 1 capital with regard to additional filters and deductions required pre CRR	0	
	Of which:	0	
27	Qualifying AT1 deductions that exceed the AT1 capital of the institution (negative amount)	0	
28	Total regulatory adjustments to Common Equity Tier 1 (CET1)	-5,477	
29	Common Equity Tier 1 (CET1) capital	506,478	
Additional Tier 1 (AT1) capital: instruments			
30	Capital instruments and the related share premium accounts	0	
31	of which: classified as equity under applicable accounting standards	0	
32	of which: classified as liabilities under applicable accounting standards	0	
33	Amount of qualifying items referred to in Article 484 (4) and the related share premium accounts subject to phase out from AT1	0	
34	Qualifying Tier 1 capital included in consolidated AT1 capital (including minority interests not included in row 5) issued by subsidiaries and held by third parties	0	0
35	of which: instruments issued by subsidiaries subject to phase out	0	
36	Additional Tier 1 (AT1) capital before regulatory adjustments	0	
Additional Tier 1 (AT1) capital: regulatory adjustments			
37	Direct and indirect holdings by an institution of own AT1 instruments (negative amount)	0	0
38	Direct, indirect and synthetic holdings of the AT1 instruments of financial sector entities where those entities have reciprocal cross holdings with the institution designed to inflate artificially the own funds of the institution (negative amount)	0	0
39	Direct, indirect and synthetic holdings of the AT1 instruments of financial sector entities where the institution does not have a significant investment in those entities (amount above 10% threshold and net of eligible short positions) (negative amount)	0	0
40	Direct, indirect and synthetic holdings by the institution of the AT1 instruments of financial sector entities where the institution has a significant investment in those entities (net of eligible short	0	0

		(A) AMOUNT AT DISCLOSURE DATE	(C) AMOUNTS SUBJECT TO PRE-REGULATION (EU) NO 575/2013 TREATMENT OR PRESCRIBED RESIDUAL AMOUNT OF REGULATION (EU) NO 575/2013
Common Equity Tier 1 (CET1) capital: instruments and reserves			
	positions) (negative amount)		
41	Regulatory adjustments applied to additional tier 1 in respect of amounts subject to pre-CRR treatment and transitional treatments subject to phase out as prescribed in Regulation (EU) No 575/2013 (i.e. CRR residual amounts)	0	
41a	Residual amounts deducted from Additional Tier 1 capital with regard to deduction from Common Equity Tier 1 capital during the transitional period pursuant to article 472 of Regulation (EU) No 575/2013	0	
	Of which items to be detailed line by line, e.g. Material net interim losses, intangibles, shortfall of provisions to expected losses etc.	0	
41b	Residual amounts deducted from Additional Tier 1 capital with regard to deduction from Tier 2 capital during the transitional period pursuant to article 475 of Regulation (EU) No 575/2013	0	
	Of which items to be detailed line by line, e.g. Reciprocal cross holdings in Tier 2 instruments, direct holdings of non-significant investments in the capital of other financial sector entities, etc.	0	
41c	Amount to be deducted from or added to Additional Tier 1 capital with regard to additional filters and deductions required pre- CRR	0	
	Of which: ...possible filter for unrealised gains	0	
	Of which: ...possible filter for unrealised losses	0	
	Of which: ...	0	
42	Qualifying T2 deductions that exceed the T2 capital of the institution (negative amount)	0	
43	Total regulatory adjustments to Additional Tier 1 (AT1) capital	0	
44	Additional Tier 1 (AT1) capital	0	
45	Tier 1 capital (T1 = CET1 + AT1)	506,478	
Tier 2 (T2) capital: instruments and provisions			
46	Capital instruments and the related share premium accounts	0	
47	Amount of qualifying items referred to in Article 484 (5) and the related share premium accounts subject to phase out from T2	0	
	Public sector capital injections grandfathered until 1 January 2018	0	
48	Qualifying own funds instruments included in consolidated T2 capital (including minority interests and AT1 instruments not included in rows 5 or 34) issued by subsidiaries and held by third parties	0	0
49	of which: instruments issued by subsidiaries subject to phase out	0	
50	Credit risk adjustments	0	
51	Tier 2 (T2) capital before regulatory adjustments	0	
Tier 2 (T2) capital: regulatory adjustments			
52	Direct and indirect holdings by an institution of own T2 instruments and subordinated loans (negative amount)	0	
53	Holdings of the T2 instruments and subordinated loans of financial sector entities where those entities have reciprocal cross holdings with the institution designed to inflate artificially the own funds of the institution (negative amount)	0	
54	Direct and indirect holdings of the T2 instruments and subordinated loans of financial sector entities where the institution does not have a significant investment in those entities (amount above 10% threshold and net of eligible short positions) (negative amount)	0	
54a	Of which new holdings not subject to transitional arrangement	0	
54b	Of which holdings existing before 1 January 2013 and subject to transitional arrangements	0	

Common Equity Tier 1 (CET1) capital: instruments and reserves		(A) AMOUNT AT DISCLOSURE DATE	(C) AMOUNTS SUBJECT TO PRE-REGULATION (EU) NO 575/2013 TREATMENT OR PRESCRIBED RESIDUAL AMOUNT OF REGULATION (EU) NO 575/2013
55	Direct and indirect holdings by the institution of the T2 instruments and subordinated loans of financial sector entities where the institution has a significant investment in those entities (net of eligible short positions) (negative amount)	0	
56	Regulatory adjustments applied to tier 2 in respect of amounts subject to pre-CRR treatment and transitional treatments subject to phase out as prescribed in Regulation (EU) No 575/2013 (i.e. CRR residual amounts)	0	
56a	Residual amounts deducted from Tier 2 capital with regard to deduction from Common Equity Tier 1 capital during the transitional period pursuant to article 472 of Regulation (EU) No 575/2013	0	
	Of which items to be detailed line by line, e.g. Material net interim losses, intangibles, shortfall of provisions to expected losses etc.	0	
56b	Residual amounts deducted from Tier 2 capital with regard to deduction from Additional Tier 1 capital during the transitional period pursuant to article 475 of Regulation (EU) No 575/2013	0	
	Of which items to be detailed line by line, e.g. reciprocal cross holdings in at1 instruments, direct holdings of non-significant investments in the capital of other financial sector entities, etc.	0	
56c	Amount to be deducted from or added to Tier 2 capital with regard to additional filters and deductions required pre CRR	0	
	Of which: ...possible filter for unrealised gains	0	
	Of which: ...possible filter for unrealised losses	0	
	Of which: ...	0	
57	Total regulatory adjustments to Tier 2 (T2) capital	0	
58	Tier 2 (T2) capital	0	
59	Total capital (TC = T1 + T2)	506,478	
59a	Risk weighted assets in respect of amounts subject to pre-CRR treatment and transitional treatments subject to phase out as prescribed in Regulation (EU) No 575/2013 (i.e. CRR residual amounts)	1,127,543	
	Of which: ...items not deducted from CET1 (Regulation (EU) No 575/2013 residual amounts) (items to be detailed line by line, e.g. Deferred tax assets that rely on future profitability net of related tax liability, indirect holdings of own CET1, etc.)		
	Of which: ...items not deducted from AT1 items (Regulation (EU) No 575/2013 residual amounts) (items to be detailed line by line, e.g. Reciprocal cross holdings in T2 instruments, direct holdings of non-significant investments in the capital of other financial sector entities, etc.)	0	
	Items not deducted from T2 items (Regulation (EU) No 575/2013 residual amounts) (items to be detailed line by line, e.g. Indirect holdings of own t2 instruments, indirect holdings of non-significant investments in the capital of other financial sector entities, indirect holdings of significant investments in the capital of other financial sector entities etc.)	0	
60	Total risk weighted assets	1,127,543	
Capital ratios and buffers			
61	Common Equity Tier 1 (as a percentage of total risk exposure amount)	44.92%	
62	Tier 1 (as a percentage of total risk exposure amount)	44.92%	

Common Equity Tier 1 (CET1) capital: instruments and reserves		(A) AMOUNT AT DISCLOSURE DATE	(C) AMOUNTS SUBJECT TO PRE-REGULATION (EU) NO 575/2013 TREATMENT OR PRESCRIBED RESIDUAL AMOUNT OF REGULATION (EU) NO 575/2013
63	Total capital (as a percentage of total risk exposure amount)	44.92%	
64	Institution specific buffer requirement (CET1 requirement in accordance with article 92 (1) (a) plus capital conservation and countercyclical buffer requirements, plus systemic risk buffer, plus systemically important institution buffer expressed as a percentage of risk exposure amount)	14,097	
65	of which: capital conservation buffer requirement	14,094	
66	of which: countercyclical buffer requirement	3	
67	of which: systemic risk buffer requirement	0	
67a	of which: Global Systemically Important Institution (G-SII) or Other Systemically Important Institution (O-SII) buffer	0	
68	Common Equity Tier 1 available to meet buffers (as a percentage of risk exposure amount)	1.25%	
69	[non relevant in EU regulation]		
70	[non relevant in EU regulation]		
71	[non relevant in EU regulation]		
Amounts below the thresholds for deduction (before risk weighting)			
72	Direct and indirect holdings by the institution of the CET1 instruments of financial sector entities where the institution has a significant investment in those entities (amount below 10% threshold and net of eligible short positions)	0	
73	Direct and indirect holdings by the institution of the CET1 instruments of financial sector entities where the institution has a significant investment in those entities (amount below 10% threshold and net of eligible short positions)	0	
74	Empty set in the EU		
75	Deferred tax assets arising from temporary differences (amount below 10% threshold, net of related tax liability where the conditions in Article 38 (3) are met)	0	
Applicable caps on the inclusion of provisions in Tier 2			
76	Credit risk adjustments included in T2 in respect of exposures subject to standardised approach (prior to the application of the cap)	0	
77	Cap on inclusion of credit risk adjustments in T2 under standardised approach	0	
78	Credit risk adjustments included in T2 in respect of exposures subject to internal ratings-based approach (prior to the application of the cap)	0	
79	Cap for inclusion of credit risk adjustments in T2 under internal ratings-based approach	0	
Capital instruments subject to phase-out arrangements (only applicable between 1 Jan 2014 and 1 Jan 2022)			
80	Current cap on CET1 instruments subject to phase out arrangements	0	
81	Amount excluded from CET1 due to cap (excess over cap after redemptions and maturities)	0	
82	Current cap on AT1 instruments subject to phase out arrangements	0	
83	Amount excluded from AT1 due to cap (excess over cap after redemptions and maturities)	0	
84	Current cap on T2 instruments subject to phase out arrangements	0	
85	Amount excluded from T2 due to cap (excess over cap after redemptions and maturities)	0	

1.4 Balance Sheet Reconciliation of Own Funds as at 31 March 2017

Balance Sheet Reconciliation of Own Funds

Balance Sheet Heading	Financial Statements Note (Daiwa Capital Markets Europe Limited Solo only)	Transitional own funds disclosure template item	Daiwa Capital Markets Europe Limited as a solo entity	* Amounts not included in the scope of accounting consolidation	Consolidated for prudential purposes
Share Capital	22	1	732,121		732,121
Profit and Loss Reserves	23	2	(235,065)	12,061	(223,004)
Capital Reserve	23	2	13,908		13,908
Other Reserves	23	3	992	189	1,181
Shareholders' funds (all equity interests)	24	6	511,955	12,250	524,205
Deductions					
Goodwill	10	8	(3,200)	(5,311)	(8,511)
Prudent Valuation Adjustment **	N/A	7	(2,277)		(2,277)
Common Equity Tier 1 capital		29,45,59	506,478		513,417

* Amounts not included in the scope of consolidation include reserves in subsidiary companies and additional goodwill arising on full consolidation of DC Advisory Limited

** the prudent valuation adjustment is made in accordance with Article 105 of the Capital Requirements Regulation EU/575/2013. This adjustment is not made in the financial statements.

There are no current or foreseen material practical or legal impediment to the prompt transfer of own funds or repayment of liabilities among the parent undertaking and its subsidiaries

2 Asset Encumbrance

As at 31 March 2017

2.1 Template A - Assets

		All amounts in £million			
		Carrying amount of encumbered assets	Fair value of encumbered assets	Carrying amount of unencumbered assets	Fair value of unencumbered assets
		010	040	060	090
010	Assets of the reporting institution	1,360		9,441	
020	Loans on demand	0		8,136	
030	Equity instruments	0	0	3	3
040	Debt securities	1,318	1,318	575	575
100	Loans and advances other than loans on demand	0		0	
120	Other assets	42		727	
Not to be filled in					

2.2 Template B - Collateral received

		All amounts in £million		
		Fair value of encumbered collateral received or own debt securities issued	Unencumbered	
			Fair value of collateral received or own debt securities issued available for encumbrance	Nominal amount of collateral received or own debt securities issued not available for encumbrance
		010	040	070
<i>Daiwa Capital Markets Europe Limited is exempt from the requirement to disclose Template B as the fair value of collateral received in the form of debt securities is less than £100bn, in accordance with PRA supervisory statement SS11/14</i>				
130	Collateral received by the reporting institution	N/A	N/A	N/A
140	Loans on demand	N/A	N/A	N/A
150	Equity instruments	N/A	N/A	N/A
160	Debt securities	N/A	N/A	N/A
220	Loans and advances other than loans on demand	N/A	N/A	N/A
230	Other collateral received	N/A	N/A	N/A
240	Own debt securities issued other than own covered bonds or ABSs	N/A	N/A	N/A

2.3 Template C - Sources of encumbrance

		All amounts in £million	
		Matching liabilities, contingent liabilities or securities lent	Assets, collateral received and own debt securities issued other than covered bonds and ABSs encumbered
		010	030
010	Carrying amount of selected financial liabilities	8,105	8,794
020	Derivatives	506	39
040	Deposits	7,599	8,755
090	Debt securities issued	0	0
120	Other sources of encumbrance		

2.4 Template D - Information on importance of encumbrance

<p>The Firm's main source of encumbrance is in relation to collateral pledged against secured funding (approximately 99%) and other collateralised obligations (less than 1%). The Firm does not issue covered bonds and is not involved in securitisations. The consolidated figures include results for Daiwa Capital Markets Europe Limited and its wholly-owned subsidiary DC Advisory Limited, however there are no activities within DC Advisory Limited which give rise to encumbrance.</p> <p>Daiwa Capital Markets Europe Limited funds a portion of its trading book portfolio assets and other securities through repurchase agreements and other secured borrowing. Collateral is also pledged to counterparties to mitigate their credit exposures to Daiwa Capital Markets Europe Limited and to clearing brokers/houses to meet derivative initial margin requirements</p> <p>Daiwa Capital Markets Europe Limited is able to monitor the mix of secured and unsecured funding sources and seeks to utilise available collateral to raise funding to meet its needs. Similarly a portion on unencumbered assets may be monetised in a stress situation under the contingency funding plan to generate liquidity through the use as collateral for secured funding or through outright sale.</p> <p>Collateralisation is carried out under market standard agreements – ISDA for derivatives, GMRA for repo and reverse repo and GMSLA for stock borrowing and lending activity.</p> <p>Non-encumbered asset items in the "Other assets category" relate primarily to unsettled trade receivables and are not regarded as available for encumbrance, nor is the Firm's ring-fenced stock of liquid asset buffer securities.</p>

3 Leverage

As at 31 March 2017

3.1 CRR Leverage Ratio - Disclosure Template

Reference date	31 March 2017
Entity name	Daiwa Capital Markets Europe Limited
Level of application	Prudential Consolidation

3.2 Table LRSum: Summary Reconciliation of Accounting Assets and Leverage Ratio Exposures

		Applicable Amounts
1	statements	The Firm does not publish financial statements at the level of consolidation presented in Pillar 3 disclosures. Accordingly, under Article 4 of the Implementing Technical Standards on disclosure of the leverage ratio, this template is not completed
2	consolidated for accounting purposes but are outside the scope of regulatory	
3	recognised on the balance sheet pursuant to the applicable accounting leverage ratio exposure measure according to Article 429(11) of Regulation	
4	instruments	
5	transactions	
6	adjustments (i.e. conversion to credit equivalent amounts of off-balance sheet	
7	Other adjustments	
8	Leverage ratio exposure	

3.3 Table LRCom: Leverage Ratio Common Disclosure

		CRR leverage ratio exposures All Figures in £000s
On-balance sheet exposures (excluding derivatives and SFTs)		
1	On-balance sheet items (excluding derivatives and SFTs, but including collateral)	2,211,319
2	Asset amounts deducted in determining Tier 1 capital	-10,788
3	Total on-balance sheet exposures (excluding derivatives and SFTs) (sum of lines 1 and 2)	2,200,531
Derivative exposures		
4	Replacement cost associated with all derivatives transactions (i.e. net of eligible cash variation margin)	84,040
5	Add-on amounts for PFE associated with all derivatives transactions (mark-to-market method)	346,462
EU-5a	Exposure determined under Original Exposure Method	
6	<i>Security trading positions</i>	
7	<i>On balance sheet exposures subject to credit risk</i>	
8	<i>Settlement Risk:</i>	
9	<i>empty set in the EU</i>	
10	<i>empty set in the EU</i>	
11	Total derivative exposures (sum of lines 4 to 10)	430,502
Securities financing transaction exposures		

		CRR leverage ratio exposures All Figures in £000s
12	Gross SFT assets (with no recognition of netting), after adjusting for sales accounting transactions	8,168,936
EU-12a	SFT exposure according to Article 220 of Regulation (EU) NO. 575/2013	
EU-12b	SFT exposure according to Article 222 of Regulation (EU) NO. 575/2013	
13	(Netted amounts of cash payables and cash receivables of gross SFT assets)	-30,868
14	Counterparty credit risk exposure for SFT assets	84,458
EU-14a	Derogation for SFTs: Counterparty credit risk exposure in accordance with Article 429b (4) and 222 of Regulation (EU) No 575/2013	
15	Agent transaction exposures	
EU-15a	(Exempted CCP leg of client-cleared SFT exposure)	
16	Total securities financing transaction exposures (sum of lines 12 to 15a)	8,222,527
Off-balance sheet exposures		
17	Off-balance sheet exposures at gross notional amount	
18	Adjustments for conversion to credit equivalent amounts	
19	Other off-balance sheet exposures (sum of lines 17 to 18)	0
Exempted exposures in accordance with CRR Article 429 (7) and (14) (on and off balance sheet)		
EU-19a	(Exemption of intragroup exposures (solo basis) in accordance with Article 429(7) of Regulation (EU) No 575/2013 (on and off balance sheet))	
EU-19b	(Exposures exempted in accordance with Article 429 (14) of Regulation (EU) No 575/2013 (on and off balance sheet))	
Capital and Total Exposures		
20	Tier 1 capital	513,417
EU-21a	Exposures of financial sector entities according to Article 429(4) 2nd subparagraph of Regulation (EU) NO. 575/2013	
21	Total Exposures (sum of lines 3, 11, 16, 19 and 21a)	10,853,559
Leverage Ratios		
22	End of quarter leverage ratio	4.73%
EU-22a	Leverage ratio (avg. of the monthly leverage ratios over the quarter)	
Choice on transitional arrangements and amount of derecognised fiduciary items		
EU-23	Choice on transitional arrangements for the definition of the capital measure	
EU-24	Amount of derecognised fiduciary items in accordance with Article 429(11) of Regulation (EU) NO. 575/2013	

3.4 Table LRSpl: Split-up of on balance sheet exposures (excluding derivatives and SFTs)

		CRR leverage ratio exposures All Figures in £000s
EU-1	Total on-balance sheet exposures (excluding derivatives and SFTs), of which:	2,211,319
EU-2	trading book exposures	1,939,198
EU-3	Banking book exposures, of which:	272,121
EU-4	Covered bonds	0
EU-5	Exposures treated as sovereigns	46,836
EU-6	Exposures to regional governments, MDB, international organisations and PSE NOT treated as sovereigns	5,713
EU-7	Institutions	145,917
EU-8	Secured by mortgages of immovable properties	0
EU-9	Retail exposures	0
EU-10	Corporate	73,380
EU-11	Exposures in default	275
EU-12	Other exposures (e.g. equity, securitisations, and other non-credit obligation assets)	0

3.5 Table LRQua: Free format text boxes for disclosure on qualitative items

Row		
1	Description of the processes used to manage the risk of excessive leverage	The risk of excessive leverage in Daiwa Capital Markets Europe Limited, as an investment firm, is largely managed through control and monitoring of balance sheet exposures, since the amount of Tier 1 capital is relatively inflexible on a short term basis. The primary contribution to balance sheets assets comes from reverse repurchase agreements, particularly matched book repurchase trading, where securities are borrowed from one counterparty and lent to another. Daily monitoring and control processes have been established to ensure reverse repurchase assets remain within prescribed levels. Additional monitoring is carried out on the overall balance sheet size.
2	Description of the factors that had an impact on the leverage ratio during the period to which the disclosed leverage ratio refers	The leverage ratio (calculated using the “Delegated Act” ⁶ methodology) decreased from 5.76% (Mar 2016) to 4.73% (Mar 2017). This was due to a combination of an increase in SFT exposures (£1bn increase) and a decrease in Tier 1 capital (£62m decrease).

⁶ COMMISSION DELEGATED REGULATION (EU) 2015/62 of 10 October 2014 amending Regulation (EU) No 575/2013 of the European Parliament and of the Council with regard to the leverage ratio

4 Countercyclical Capital Buffer

Disclosure of information relevant for the calculation of the countercyclical capital buffer as at 31 March 2017

Level of application

Consolidated

4.1 Table 1 - Geographical distribution of credit exposures relevant for the calculation of the countercyclical capital buffer***

Row		General credit exposures	Trading book exposures	Own funds requirements			Own funds requirements weights	Counter-cyclical capital buffer rate
		Exposure value for SA	Sum of long and short positions of trading book exposures for SA	of which: General credit exposures	of which: Trading book exposures	Total		
		10	30	70	80	100	110	120
10	Breakdown by country:							
11	Czech Republic	-	-	-	-	-	0.0000%	0.50%
12	Hong Kong	115	0	8	0	8	0.0195%	1.25%
13	Iceland	-	-	-	-	-	0.0000%	1.00%
14	Norway	-	-	-	-	-	0.0000%	1.50%
15	Sweden	-	37	-	0	0	0.0008%	2.00%
16	Other (countries with 0% buffer rate)	219,653	478,067	15,895	27,479	73	0.0000%	
20	Total	219,768	478,104	15,903	27,479	43,374	0.0204%	

4.2 Table 2 - Amount of institution-specific countercyclical capital buffer

Row		Column (£000's)
		10
10	Total risk exposure amount	697,871
20	Institution specific countercyclical capital buffer rate	0.0003%
30	Institution specific countercyclical capital buffer requirement	1.82

*** Daiwa Capital Markets Europe Limited does not use internal models nor engage in securitisations; hence columns 020, 040, 050, 060 and 090 are not applicable and have been omitted from the disclosure template