Daiwa Capital Markets Europe Limited

Annual report and financial statements for the year ended 31 March 2020

Company registered number: 01487359

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Chairman’s Statement

After two and a half years on the Daiwa Capital Markets Europe Limited (“DCME”) Board it was a privilege to have been appointed to the position of Chairman in November last year. It was a time of challenge and opportunity as we faced the prospect of Brexit reality and then, as we entered the final month of our financial year, we found ourselves in unchartered territory, with financial market turmoil, millions of people globally in lockdown and scores of financial indicators hitting all time negative levels. The Covid-19 pandemic has of course been a test of the company’s operational resilience and the steadfast resolve of our staff and clients. Since mid-March 2020, all of our employees have been working remotely from home. I am pleased to report that, thanks to their fantastic effort, we have been able to make this transition without any adverse impact on our business or service to our clients. We will continue to follow government advice in helping to prevent the spread of the virus, by taking a prudent approach to “return to the office”, putting the safety of our staff first and helping to support our clients through these difficult times.

For the financial year ended 31 March 2020, DCME made a loss of £34m, compared with a loss of £11.2m in the previous year.

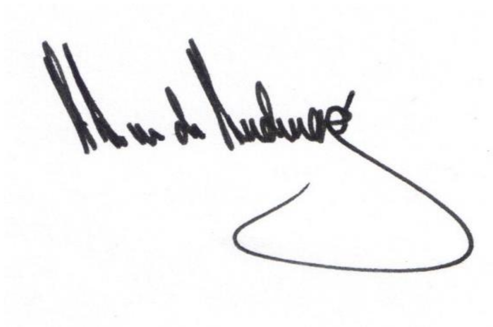
The period’s performance reflected the impact of the Covid-19 virus becoming a global pandemic, with the company sustaining large unrealised trading losses in March 2020 as financial asset prices fell. I am pleased to say that trading in the new financial year has started more positively. Also affecting the year’s performance was the very modest level of new issue income. As the Strategic Review explains, one of DCME’s core functions is to be part of the Daiwa Group’s global distribution network for new Japanese equity and bond issues, and this year the low level of new issues affected DCME (and the Daiwa Group’s results as a whole).

DCME’s corporate advisory subsidiary group, DC Advisory (not included within these results), had another strong year, with the highest revenue since DCME acquired the business in 2009. The year also saw DC Advisory establish a new Italian subsidiary. All other operating entities (UK, France, Germany and Spain) were profitable for the year.

This year was also the first full year of trading operations for DCME’s German subsidiary, Daiwa Capital Markets Deutschland GmbH (“DCMD”), which booked its first client trade in January 2019, in anticipation of a hard Brexit. DCMD has had a good start and is trading in line with expectations. DCME and DCMD have established a good foundation to support our existing EEA based clients, as we hope to have greater clarity on the future relationship between the UK and EU, during 2020.

During the year DCME focused considerable energy on meeting the regulatory agenda, and in strengthening its compliance and corporate governance capabilities. Excellent progress has been made in these areas, and this leaves the company in a stronger position going into the new financial year.

I would like to thank our staff and clients for their continued commitment to the Daiwa Group, during these challenging times. Personally, I want to take this opportunity to thank all the staff and clients who have interacted with and supported me during my first year as Chairman. In particular, my predecessor Mr Yanagisawa, has been hugely supportive in my transition to Chairman, I am grateful that he continues to be involved as a member of the Board and I wish him well in his new role as Senior Representative of the Daiwa Group in EMEA.



Yours sincerely,

Douglas van den Aardweg

Chairman

Daiwa Capital Markets Europe Limited

Introduction

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

Section 172 Compliance

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

(a) the likely consequences of any decision in the long term,
(b) the interests of the company's employees,
(c) the need to foster the company's business relationships with suppliers, customers and others,
(d) the impact of the company's operations on the community and the environment,
(e) the desirability of the company maintaining a reputation for high standards of business conduct, and
(f) the need to act fairly as between members of the company.

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

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

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

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

Business Culture

The directors strongly believe that fostering and maintaining a positive culture at DCME is essential to the long term success of the company, (as well as ensuring compliance with the FCA's conduct rules), and have therefore implemented the Daiwa Europe Spirit Code of Conduct. This code established six key areas of good conduct; Integrity (in staff behaviour),(S172 (e)), Full Compliance (with regulations), (S172(e)), Client Trust (there must be trust between DCME and its clients, and clients' best interests must be respected),(S172(c)), Confidence and Pride (DCME staff should have confidence and pride in their work and their employer),(S172(b)), Collaborative Working (DCME works to fulfil Daiwa Group's ambitions), and Diversity & Fairness (there should be equality of opportunity), (S172(b)). The Board monitors compliance with all external conduct regulations. The 'Senior Manager and Certification Regime' operated by the firm's regulator (the FCA) is fully embraced by the Board as a positive culture enabler and the FCA Conduct rules are reflected in the Daiwa Europe Spirit code of conduct.

Suppliers

It is vital that we build strong working relationships with our suppliers. DCME's relationship with its suppliers of services and goods is formalised by internal control processes. These ensure that supply risk is managed appropriately in relation to customer outcomes, data security, corporate responsibility, and financial, operational, contractual and reputational damage caused by inadequate oversight of supplier failure. The uniform procurement approach is adopted to ensure that DCME's receives the best value in terms of price and quality, whilst ensuing that the company meets the highest ethical standards, S172(c)).

Society

The directors recognise the benefit and importance of minimising DCME's impact on the environment and during the year the company undertook projects to improve energy efficiency and promote recycling at its 5 King William Street Office, (examples of these include the installation of more energy efficient boilers, further details of these initiatives are explained in the Directors Report). DCME is aligned to sustainable development goals and encourages environmental business such as green bonds. We recognise the importance of contributing to our local communities through volunteering and partnerships with charities, (S172 (d)).

Employees

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

DCME have developed an employee wellbeing strategy to manage obligations to support good mental health and support the wellbeing of employees, this includes a team of Mental Health First Aid trained employees. The wellbeing strategy demonstrates our commitment to encourage, support and promote good health. The company promotes initiatives and provides access to services within the wellbeing strategic framework and in support of the Daiwa Europe Spirit. The Wellbeing Forum has been established in support of the wellbeing strategy and to ensure that there are champions for health across the whole company.

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

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

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

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

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

Business Model

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

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

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

DCME provides M&A and Debt Advisory services through its wholly owned subsidiary group DC Advisory. DC Advisory operates through separately incorporated entities in the UK, France, Spain, Italy and Germany. The UK business (DC Advisory Limited) is regulated by the FCA. The results of DC Advisory are not consolidated in these financial statements.

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

Review of businesses, performance and strategy

DCME's 2020 pre-tax result was a loss on ordinary activities of £34.2m (2019: loss of £11.4m).

Net operating income decreased £21.9m (21.8%) y-o-y, while Administrative Expenses increased by £0.9m (0.8%).

The 2020 decline in net income reflects a downturn in primary revenues resulting from lower issuance of equity and convertible bond products in Japan, and a materially adverse impact on asset prices in March 2020 as a result of Covid-19. The low level of equity primary revenue reflects the tailing off of the positive impact of "Abenomics" that had buoyed revenue in prior years, whilst primary revenue in convertible bonds was very low as a consequence of the ultra-low interest environment.

For Administrative Expenses we believe that there is a good story to be told with there being only a small rise in costs y-o-y. This rise was against a background which saw DCME (as with many market practitioners), investing to build greater operational resilience and to deepen its knowledge base in its infrastructure areas.

Looking forward, DCME is cautiously optimistic about the trading environment despite the short term disruption from Covid-19. We believe that markets will remain volatile for some time. We also believe that the unrealised Covid-19 trading losses that we took in March 2020 mean that we are positioned to benefit from a market recovery. The company believes that secondary revenue will show a recovery whilst at the same time we think that our pipeline of Japanese primary new issues will remain modest.

Covid-19

The on-going impact of Covid-19 is impossible to predict, both on society and the world economy, and therefore on the financial markets in which we operate. From mid-March, DCME has operated in a full work from home capacity, without any significant disruption to operations or client service. This operating environment does not create any operational impediments to us; as a result, we will continue to take a conservative approach to returning to pre-COVID-19 working arrangements. The safety of our staff and service continuity for our clients is our priority. DCME will continue to review the outlook and revise financial projections as the pandemic evolves. In March 2020 DCME specifically addressed the issue of the pandemic by producing a Covid-19 stressed 3 year plan, the primary purpose of which was to monitor the impact of business performance on the company's capital and liquidity resources. This exercise showed that DCME continued to have sufficient capital and liquidity resources. DCME will continue to stress test its capital and liquidity resources, ensuring it can take appropriate action in a timely manner should conditions deteriorate.

Litigation provision

During the year DCME was unsuccessful in its final appeal to the Supreme Court against the judgment handed down in 2017 in the legal claim brought by the liquidators of Singularis Holdings Limited. There was no material impact from this decision as DCME had already provided for the full litigation claim, including interest and costs in prior periods. While DCME is disappointed by the outcome of this case, it accepts the ruling of the Supreme Court.

Equities

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

The Equity Division had an 11% y-o-y decrease in total revenue, with a 44% y-o-y decease in primary revenue being the main driver. On a positive note secondary revenue was relatively stable y-o-y, with a modest 5% decrease. The secondary business consists of two distinct businesses; namely research and execution.

From a research perspective, the Japanese product remains competitive for Japan specialists. By combining Japan research with Asia (ex Japan), DCME has started to gain market share (since the introduction of MiFIDII in January 2018) despite a challenging market. This is the result of a "focused client strategy", where we allocate resources to priority clients.

For the execution business, we have also been gaining market share. One of the criteria investors use when choosing execution brokers is how much trading market share each broker has. Volumes of trades executed by brokers are published (via Bloomberg). Orders tend to be routed via the brokers who trade most in the market, as trade matching opportunities are higher, so this is a key focus. We are working to enhance our profile in this space, and there are clear signs that we have been gaining market share, particularly in the Japan market.

For the execution business, we have also been gaining market share. One of the criteria investors use when choosing execution brokers is market share of trading volumes. Orders tend to be routed via the brokers who trade most in the market, as trade matching opportunities are higher, so this is a key focus. We have clear signs that we have been gaining market share, particularly in the Japan market.

DCME is cautiously optimistic that the 2021 outcome, for secondary activity in the Equity Division, will be moderately better with improved revenue, notwithstanding the downside risk from the Covid-19 pandemic. However, we anticipate primary activity will remain subdued

Fixed Income ("FI")

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

FI's revenues (adjusted to remove Debt Syndication) were down 25% y-o-y. Up to February 2020 FI's performance had been solid however the Covid-19 pandemic changed markets significantly, with Credit Trading booking significant unrealised losses in March 2020. DCME took a strategic decision to hold positions rather than crystallise losses in the expectation of a market recovery, which subsequently proved a very effective strategy.

Looking forward to 2021 we foresee a much better year for the division. Market volatility will remain high, but the unrealised trading losses which DCME took in March 2020 mean that the Credit Trading desk is positioned to benefit from a recovery in asset values and some level of volatility is generally positive for trading. DCME also expects to see revenue stability in the other FI businesses.

International Convertible Bonds ("ICB")

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

ICB's 2020 revenues were down 93% y-o-y. This reflected the March 2020 impact of the Covid-19 pandemic and the extremely low level of primary revenue during the year. As with FI, asset prices were adversely impacted in March 2020, affecting the year-end results.

For 2021 ICB are anticipating market volatility will remain high, but the unrealised trading losses that DCME took in March 2020 mean that the ICB business is positioned to benefit from a recovery in asset values and some level of volatility is generally positive for trading. The expectation on primary issuance is for this to remain modest during the year ahead.

Debt Capital Markets ("DCM")/IB Syndication

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

For 2020, the combined DCM/IB Syndication reported slightly stronger revenues (up 5% y-o-y) thanks to stable levels of new issuance from DCMEs client base.

For 2021, the outlook is mixed with improved revenues, particularly in Japanese and Asian investor oriented products, however we see limited scope for improvement in Japanese retail orientated product revenue.

Equity Capital Markets ("ECM")

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

2020 revenues were down 57% y-o-y, reflecting the end of the positive market impact of the "Abenomics" reforms, resulting in low levels of Equity and Convertible Bond issuance than in 2019.

We believe that the outlook for 2021 will marginally better for the business, but will stay modest, by historic levels. Covid-19 is also likely to feature significantly in the decision making of our clients, particularly around the timing of transactions. We see downside risk from a prolonged global lockdown or a second wave of global infections.

Principal Investments ("PI")

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

PI performed well in the year with revenues up 12% y-o-y. Revenues for the period were boosted by higher levels of deployed capital throughout the year.

For 2021, we expect lower revenues, reflecting the cautious approach we are taking to the current Covid-19 pandemic and the Brexit negotiations, which could both have an adverse impact on the UK property market.

Key Financial and Performance Indicators (KFI/KPIs)

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

KPIs	**2020**	**2019**
Performance against Plan		
Net Operating Income	-38.4%	-19.9%
Administrative expenses (exc. restructuring costs and goodwill amortisation)	+6.9%	+2.8%
Total headcount (including non-perm staff)	0%	+1.4%
Actual Performance		
Return on Equity	-7.83%	-2.42%
Voluntary staff turnover	8.0%	8.5%
Loss on ordinary activities before tax	(£34.2m)	(£11.4m)

These KPIs show that DCME's revenue for 2020 was significantly under plan, partly offset by overheads, which were also under plan. Headcount was on plan reflecting effective control of staff numbers.

KFIs

Capital	**2020**	**2019**
	£m	£m
Regulatory Capital Resources	404	436
Tier 1 Capital Ratio	38.0%	40.7%
Unsecured Funding – Daiwa Group	£bn	£bn
Usage	1.30	1.70
Limit	1.69	2.08

DCME derives a significant proportion of unsecured funding from Daiwa Securities Group Inc. (DSGI). DSGI is also the majority shareholder in the company. DCME is therefore sensitive to changes in the Group's resource allocation strategy.

As can be seen in the ratios above, DCME has significant levels of excess capital, which on one hand makes achieving a reasonable return on equity difficult, but on the other hand is essential for 'business as usual', as the Large Exposure requirements of the European Capital Adequacy Regulation and Directive (collectively referred to as CRD IV) are linked to capital levels. Without this large capital base DCME could face significant trading volume restrictions as a result of limits within the Large Exposure regime. Additionally this capital is a source of funding for DCME and would require replacement with an alternative source if reduced. There are currently no indications from the parent that they are requiring repatriation of capital.

Principal Risks and Uncertainties Facing the Company

Covid-19

The global Covid-19 pandemic has had a material impact on both the markets we operate in and our daily operations.

In terms of our own operations, DCME moved to split teams at the beginning of March, followed by a full "work from home" model from mid-March. The changes were implemented with no disruption to our business and client activities. We have continued to operate under a cautious model, with enhanced management oversight, including weekly Executive Committee meetings. The success of the change has meant we have the luxury of being able to take a very prudent approach to returning to normal and have the ability to operate under the current model for a prolonged period.

The impact, of the pandemic, on the market in which we operate remains difficult to predict. As a result, we continue to take a cautious approach to risk based activity. The conservative nature of DCME's business model, its high level of connectivity with the broader Daiwa Group and coupled with the company's strong resource position, means it is able to withstand a severe market stress.

The UK's future relationship with the European Union

As noted above, DCME established DCMD to ensure continuity of access to EEA clients and markets post Brexit. The year ended March 2020 was DCMD's first full year of business with the first trade having been booked January 2019, in response to the risk of a hard Brexit. The DCMD operations have matured over the last year and are now well established in Frankfurt.

Despite having made robust preparations, there are significant unknowns regarding the UK's future relationship with the European Union, our clients' response, our competitors' response and the impact the final outcome will have on markets both locally and globally. DCME and DCMD continue to remain vigilant to post-Brexit developments and will adjust the business model and operations as required.

Since the 2016 referendum DCME has been active in addressing the situation and concerns of its EU national staff and the HR department continues to provide support in the form of a named Brexit point person. DCME is reassured both by the fact that HR has received very few Brexit queries in the past year, and also by its positive experience of the UK government's on-line settled status application process.

Geographic and Market Exposure

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

Group Exposure

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

The Daiwa Group has a distinctly Japanese domestic bias, with a significant retail franchise within the Japanese market. As such, the wider strategic risks and uncertainties faced by the company are similar to those which are relevant to our parent company and the Japanese economy as a whole. The Daiwa Securities Group has experienced a disappointing year, with Net Operating Revenue down 3.4%, Ordinary Income down 15.5% and Profit Attributable to Owners of Parent down 5.4% and ROE of 4.9% (2019: 5.1%). This performance was against the backdrop of low primary Issues in Japan relative to the prior year.

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

Changes in group strategy and/or product line strategy could have a direct impact on DCME and its strategy. Differences between group and local strategy need to be actively managed to avoid negatively impacting DCME. The inclusion of Tokyo senior management on DCME's Board, and close communication between DCME division heads and their global product heads helps to avoid these types of conflicts. From the 9 December 2019, DCME became subject to the Senior Managers Regime, in the UK, which has helped further embed strong governance and autonomy of decision making within the organisation.

Resource Constraints / Business Focus

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

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

DCME Specific Risks and Uncertainties

DCME continues to maintain its balance sheet in high quality liquid assets, with less than 1% of the asset base being invested in sub-investment grade credit (refer to note 29 of the accounts for further details).

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

Risk	Impact / Probability	Change in risk Y-o-Y	Mitigation of risk
Liquidity risk	Medium Impact / Medium Probability	The corona-virus induced pandemic across the world is leading towards a global recession not witnessed for many decades. Although there were liquidity stresses earlier in the year (with US repo-rates spiking in September 2019 before the Fed intervened and around mid-March 2020 as the usual quarter/year-end issues were exaggerated by the corona-virus issues), governments and central banks are stepping in to do 'whatever it takes' to support global financial markets. The end of the transition period for	DCME has a dedicated liquidity risk management department focused on assessment, monitoring and reporting of liquidity risk. The department aims to evolve and improve all aspects of liquidity risk management on a continuous basis, as well as implementing associated liquidity regulations. DCME takes a prudent approach to liquidity risk management. DCME manages liquidity at levels such that it remains (i) cash flow positive over all time periods up to 1 month under a combined market and name specific liquidity stress, and (ii) cash flow positive for at least one year under a market stress.

		the UK to leave the EU in December 2020, the elections in the US and impact on the global economy of the lockdown measures currently in place are the main geopolitical risks. Funding conditions for DCME remain stable. Daiwa Group's liquidity position also remains strong.	DCME holds a significant liquid asset buffer, which can be readily converted into cash when required. The trading portfolio also consists of high quality assets, most of which are deemed extremely liquid. DCME increased the minimum level of LAB, as a precaution against market illiquidity and enhanced liquidity oversight and monitoring was introduced during the stress period..
Regulatory changes	High Impact / High Probability	Increased oversight and expectations, from the Regulator, has led to greater requirements for capital and liquidity, and additional operational requirements. New regulation and reporting requirements have increased the need for risk management, regulatory and compliance resources, as well as absorbing significantly more of senior management and Board time. Key new regulation affecting the firm includes, but is not limited to, phasing out of LIBOR reference rates, Securities Financing Transaction Reporting, the upcoming Investment Firm Review and on-going regulatory focus on Operational Resiliency and Cyber security.	The on-going raft of regulatory changes continues to provide significant challenges to the industry, both in terms of implementation and compliance. Meeting regulatory requirements is not just a high priority for DCME Board members but for the Group as a whole. DCME mitigates the implementation risks by employing experienced prudential regulatory staff. A dedicated regulatory governance section exists to ensure we are not only dealing with current changes but can also be forward looking to address future changes in a timely manner. In addition, the regulatory quality assurance function seeks to further enhance controls and ensure accuracy and completeness of data amidst the on-going change. The appropriate committees within DCME's governance structure are made aware of the changes, the impact on DCME, the cost and resources required to achieve implementation on the mandatory deadlines. The Risk and Asset and Liability Committee (RALCO) has detailed oversight of all prudential regulatory change while ultimate responsibility lies with the Board. In addition, the compliance with and impact on business, of regulatory change is reduced by maintaining a fairly vanilla product and service offering. During the year significant progress has been

			made in enhancing the firm's ability to prevent and detect market abuse and keep the firm proactively engaged with the regulator's agenda. Significant investment and effort is being expended in enhancing both Operational Resiliency and Cyber security across the organisation, with the view to ensuring continuity of key business processes.
Competitive pressure	High Impact / Medium Probability	Unchanged. Staff turnover in the year was 11%, and voluntary turnover was 8%, which is low for the industry. No material risks crystallised during the year as a result of key staff departures.	The key competitive pressure we face is staff retention, which the company attempts to mitigate by ensuring compensation is competitive and promoting a positive culture of work/life balance. Significant investment and effort is being expended in enhancing both Operational Resiliency and Cyber security across the organisation, with the view to ensuring continuity of key business processes.
Operational Risks (not covered separately)	High/Medium Impact/ Medium Probability	Operational risk is the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events and covers a variety of risk factors from rogue trading, and securities fraud to BCP events, such as the failure of critical systems. DCME undertook a major Operational Risk Management enhancement programme in the year which has driven an improvement in the processes by which DCME identifies and monitors operational risk and the skill set of the Operational Risk Department. This has led to a year on year improvement in operational risk oversight and management of risks across the firm.	DCME has a common firm-wide framework overseen by a central Operational Risk Management function, with ownership of the actual risks residing with the managers responsible for the relevant business process. This framework was strengthened during the year via an enhancement project. This work was subject to a successful Internal Audit review, and was approved by the Board. DCME utilises a number of firm-wide processes and tools for the identification, recording, assessment, monitoring, prevention and mitigation of operational risks. There continues to be a significant firm-wide initiative, to address the risks posed by cyber-crime and information security and material resources have been allocated by the Technology Division to mitigate these risks. DCME has established a program to ensure that the firm's operational resilience is in-line with

			recent regulatory consultation papers.
Litigation Risks	High Impact / Medium Probability	Exposure to the risk of litigation is an inherent risk in the securities market and is further increased during periods of market volatility and corporate failures. DCME faces litigation risk from both current and historic activities. So, while the current business model is simpler than in prior years, the risks remain. The longer the current strategy continues the lower the litigation risk from past activity becomes. Litigation risks in the market have been increasing since the financial crisis as regulatory fines and penalties increase litigation risks on those firms being penalised by the Regulator. For DCME this increased risk is offset by a simplification in the business model and increased allocation of capital resources.	While our primary approach to mitigating these risks is through appropriate on-boarding controls and risk management techniques combined with good quality, market standard legal documentation, our view based on our own experiences and events in the market is that it is difficult to entirely eliminate these risks. As at the balance sheet date, DCME had no active litigation cases open against the firm

The strategic report was approved by the Board on 23 June 2020 and signed on their behalf by:

Keith Meekins
Chief Executive Officer

The directors present their annual report on the affairs of Daiwa Capital Markets Europe Limited ('the company'), together with the financial statements and independent auditor's report, for the year ended 31 March 2020.

Principal Activities

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

Results and Dividends

The audited financial statements for the year ended 31 March 2020 are set out on pages 24 to 64. The company's loss for the year after taxation was £34m (2019: Loss of £11.2m). The Strategic Review provides commentary and background on the company's performance. The directors do not recommend payment of a dividend in respect of the current financial year (2019: £nil).

Risk Management

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

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

The company actively manages its exposure to market risk (such as interest rates or equity prices) and credit risk, using a variety of techniques including value-at-risk, sensitivity limits, exposure limits, stress testing, diversification, mitigation by collateral and hedging. As part of its hedging activity, the company utilises derivative products such as interest rate swaps, futures and options. Notes 29 and 30 to the financial statements provide a full explanation of the company's financial and capital risk management objectives and policies, and exposure to market, credit and liquidity risk.

Financial Instruments

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

Directors' and Officers' Indemnities

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

Employee Consultation

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

Charitable Contributions

The company contributed £34,886 (2019: £34,052) to charities during the course of the year.

Disabled Employees

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

Environmental Measures

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

During the year DCME undertook a project to replace the boilers at 5 King William Street with a more energy efficient solution and we have seen a saving of around 15% of gas consumption through the winter months. DCME also introduced LED lights in the 5 King William Street café and reception area.

DCME have continued to encourage recycling with more 'recycling stations' introduced in London and all our waste is now either recycled or sent for incineration to produce energy.

DCME works with all our 3rd party suppliers to ensure the best environmental practices are used in delivering services to the company and look for new initiatives to improve on what we currently do.

In addition, the company continues to support the Group in the development of financial product offerings with an environmental theme.

Streamlined Energy & Carbon Reporting (SECR)

Based on the guidance provided in Her Majesty's Government Guidelines for SECR compliance 2019; DCME has been deemed a low energy user in relation to SECR regulations and is therefore is not required to disclose details of its energy use and carbon emissions.

Going Concern

The directors' assessment of the company's ability to continue as a going concern is an on-going management function. This assessment is based upon an assessment of liquidity & funding, capital adequacy and cash flow forecasts that are prepared by the company and its subsidiaries in the normal course of its resource management. For the purpose of the on-going assessment, various stress scenarios to the normal operating environment have been identified and considered. In addition for the March 2020 going concern assessment DCME has addressed the issue of the pandemic by producing a stressed Covid-19 3 year plan which includes an impact assessment on capital and liquidity resources, Note 1 (b) to these financial statements provides further information about the going concern basis.

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

Directors

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

Name	Title	Nationality	Appointed/ Resigned/Retired as a Director	Committee Members #
Douglas van den Aardweg	Independent Non- Executive Chairman	British	Appointed -15 May 2017	AC, BR, RC,NC
Keith Meekins	Chief Executive Officer	British	Appointed – 5 July 2011	EC
Yuzo Yonemoto	Chief Operating Officer	Japanese	Appointed – 1 Aug 2018	EC
Neil Mardon	Chief Financial Officer	British	Appointed – 8 July 2019	EC
Junichi Arihara	Non-Executive Director	Japanese	Appointed – 27 Apr 2010	BR, NC
Shiko Yanagisawa	Non-Executive Director	Japanese	Appointed – 1 Oct 2017	AC, BR, RC, NC
Yoshifumi, Otsuka	Non-Executive Director	Japanese	Appointed - 1 Jan 2020	RC
Hiroki Ikeda	Non-Executive Director	Japanese	Retired – 31 Dec 2019	-
Keiko Tashiro	Non-Executive Director	Japanese	Retired – 31 Dec 2019	-
Peter Goshawk	Independent Non-Executive Director	British	Retired – 30 June 2019	-
Mark Preston	Independent Non-Executive Director	British	Appointed – 14 June 2019	AC, BR, RC, NC

Reflects committee membership as at 31 March 2020 or subsequently appointed

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

Disclosure of Information to Auditors

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

Independent Auditors

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

By order of the Board:
Charlotte Birks
Secretary
23 June 2020

Statement of Directors Responsibilites

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

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

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

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

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

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

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

Charlotte Birks

By order of the Board:
Charlotte Birks
Secretary

23 June 2020

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

Opinion

We have audited the financial statements of Daiwa Capital Markets Europe Limited ("the company") for the year ended 31 March 2020 which comprise the Statement of comprehensive income, Balance sheet, Statement of changes in equity and related notes, including the accounting policies in note 1.

In our opinion the financial statements:

- give a true and fair view of the state of the company's affairs as at 31 March 2020 and of its loss for the year then ended;
- have been properly prepared in accordance with UK accounting standards, including FRS 102 The Financial Reporting Standard applicable in the UK and Republic of Ireland; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Basis for opinion

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

Going concern

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

We are required to report to you if we have concluded that the use of the going concern basis of accounting is inappropriate or there is an undisclosed material uncertainty that may cast significant doubt over the use of that basis for a period of at least a year from the date of approval of the financial statements. In our evaluation of the directors' conclusions, we considered the inherent risks to the company's business model, and analysed how those risks might affect the company's financial resources or ability to continue operations over the going concern period. We have nothing to report in these respects.

However, as we cannot predict all future events or conditions and as subsequent events may result in outcomes that are inconsistent with judgements that were reasonable at the time they were made, the absence of reference to a material uncertainty in this auditor's report is not a guarantee that the company will continue in operation.

Strategic report and directors' report

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

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

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

Matters on which we are required to report by exception

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

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

We have nothing to report in these respects.

Directors' responsibilities

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

Auditor's responsibilities

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

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

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

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

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

23 June 2020

STATEMENT OF COMPREHENSIVE INCOME
For the Financial Year ended 31 March 2020

	Note	2020	2019
		£'000	**£'000**
Fee and commission income	2	62,326	74,906
Fee and commission expense	2	(24,953)	(27,623)
Net trading revenue	3	(2,823)	18,905
Other income	4	33,019	32,472
Total non-interest income		**67,569**	**98,660**
Interest income and similar receivables	5	121,484	127,343
Interest payable and similar charges	6	(110,408)	(125,445)
Net interest income		**11,076**	**1,898**
Net operating income		**78,645**	**100,558**
Administrative expenses	7	(112,829)	(111,953)
Loss on ordinary activities before tax		**(34,184)**	**(11,395)**
Tax credit on ordinary activities	9	171	217
Loss for the financial year		**(34,013)**	**(11,178)**
Other comprehensive income			
Exchange adjustments on fair value reserve		39	(25)
Movement on fair value reserve		198	87
Deferred tax recognised in equity		(45)	(12)
Total comprehensive loss for the financial year		**(33,821)**	**(11,128)**

The accompanying notes on pages 27 to 64 are an integral part of the financial statements.

BALANCE SHEET

As at 31 March 2020

Company registered number: 01487359

	Note	2020	2019
		£'000	£'000
Fixed assets			
Intangible assets	10	3,532	4,488
Tangible assets	11	10,856	9,472
Available for sale investments	12	1,700	1,464
Investments in subsidiary undertakings	13	30,937	30,162
		47,025	**45,586**
Current assets			
Debtors	14	8,001,324	6,549,977
Financial assets held for trading	16	2,185,821	2,482,649
Financial assets designated at FVTPL	17	82,277	203,978
Cash at bank and in hand	18	23,770	47,528
		10,293,192	**9,284,132**
Current liabilities			
Creditors: amounts falling due within one year	19	(8,855,043)	(7,361,846)
Financial liabilities held for trading	16	(1,041,857)	(1,341,499)
Provisions for liabilities	20	(1,642)	(164,168)
		(9,898,542)	**(8,867,513)**
Net current assets		**394,650**	**416,619**
Total assets less current liabilities		**441,675**	**462,205**
Debtors: amounts falling due after more than one year	22	-	9,836
Creditors: amounts falling due after more than one year	23	(1,148)	(1,693)
Provision for end of building lease costs	24	(4,000)	-
Net assets		**436,527**	**470,348**
Capital and reserves			
Called-up share capital	25	732,121	732,121
Reserves		(295,594)	(261,773)
Shareholders' funds (all equity interests)		**436,527**	**470,348**

The financial statements were approved by the Board on 23 June 2020 and signed on their behalf by:

Keith Meekins

Chief Executive Officer

The accompanying notes on pages 27 to 64 are an integral part of the financial statements.

STATEMENT OF CHANGES IN EQUITY

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

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

The table below presents the changes in Equity for the year ended 31 March 2019:

	Called-up Share Capital	Fair Value reserve	Capital reserve	Profit and loss account	Total
	£'000	£'000	£'000	£'000	£'000
Beginning of year	732,121	1,097	13,908	(265,650)	481,476
Loss for the financial year	-	-	-	(11,178)	(11,178)
Exchange differences	-	(25)	-	-	(25)
Revaluation of available for sale investments	-	87	-	-	87
Deferred tax liability on fair value gain on available for sale investments	-	(12)	-	-	(12)
End of year	732,121	1,147	13,908	(276,828)	470,348

1 Accounting policies

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

a) Statement of compliance

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

The financial statements of the company for the year ended 31 March 2020 have been prepared in accordance with the Financial Reporting Standard applicable in the United Kingdom and Republic of Ireland (FRS 102) issued by the Financial Reporting Council.

b) Basis of preparation

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

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

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

Going Concern

The directors' assessment of the company's ability to continue as a going concern is an on-going management function. This analysis consists of an assessment of liquidity & funding, capital adequacy and cash flow forecasts, which are prepared by the company in the normal course of its resource management. For the purpose of the going concern assessment, various stress scenarios to the normal operating environment have been considered. Additionally, for the March 2020 going concern assessment, DCME has produced a pandemic (Covid-19) induced global recession stressed 3 year plan, principally focusing on the impact on capital and liquidity resources. This scenario indicates that DCME maintains sufficient capital and liquidity over the entire planning horizon.

As set out in note 19 to these financial statements, Daiwa Securities Corporation Limited (DSCL), the company's parent company, provides DCME with an unsecured borrowing facility to fund its on-going business and liquidity needs. The directors of the company have satisfied themselves that DSCL will continue to provide DCME with funding resources to meet its business and liquidity needs for the foreseeable future.

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

1 Accounting policies (continued)

c) Disclosure exemptions

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

A reconciliation of the number of shares outstanding at the beginning and at the end of the year has not been presented. The company is exempt from specific share based payment disclosures under share based payment arrangements that existed during the period and the directors have not made full disclosures. The equivalent disclosures required by FRS 102 are included in the consolidated financial statements of Daiwa Securities Group Inc. in Japan in which the company's results are consolidated. See note 33 for details on where the company's ultimate parent company, Daiwa Securities Group Inc.'s, consolidated financial statements may be obtained from.

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

d) Intangible assets

Goodwill

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

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

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

Computer software

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

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

1 Accounting policies (continued)

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

e) Tangible assets

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

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

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

f) Financial assets and liabilities

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

The company classifies its financial assets in the following categories:

Financial assets

The company classifies its financial assets in four categories:

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

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

Financial assets at fair value through profit or loss

This category includes:

- Financial assets held for trading. Instruments are classified as held for trading if they are:

(i) acquired principally for the purposes of selling or repurchasing in the near term, including marketable securities; or

1 Accounting policies (continued)

(ii) part of a portfolio of identified financial assets that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking; or

(iii) a derivative.

- Financial assets designated at time of initial recognition at fair value through profit and loss ("FVTPL"). Instruments are classified in this way if either of the following circumstances apply:

(i) it significantly reduces a recognition or measurement inconsistency that would otherwise occur (an "accounting mismatch"); or

(ii) the instrument forms part of a group of financial assets whose performance is evaluated on a fair value basis in accordance with a documented investment strategy, and that information is provided to key management personnel on this basis.

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

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

Loans and receivables

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

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

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

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

Available for sale financial assets

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

1 Accounting policies (continued)

Financial liabilities

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

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

g) Investments in subsidiary undertakings

Investments in subsidiary undertakings are stated at cost less impairment.

h) Income and expense

Fee and commission

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

Net trading revenue

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

Other income

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

Interest income and similar receivables, interest payable and similar charges

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

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

i) Determining fair value

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

1 Accounting policies (continued)

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

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

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

Level 1: Quoted prices (unadjusted) in active markets for identical assets and liabilities.
Level 2: Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices).
Level 3: Inputs for the asset or liability that are not based on observable market data (unobservable inputs).

j) Offsetting of assets and liabilities

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

k) Taxation

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

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

Deferred tax assets are only recognised to the extent that it is probable they will be recoverable against future taxable profits or deferred tax liability reversals.

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

l) Pension costs

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

1 Accounting policies (continued)

m) Foreign currency

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

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

n) Leases

The company enters into operating leases as described in note 26. Rentals under operating leases are charged on a straight-line basis over the lease term. The company has not entered into any finance leases during the year (2019: £nil).

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

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

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

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

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

p) Collateral

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

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

1 Accounting policies (continued)

cash is recorded on the balance sheet with a corresponding liability. Any interest payable or receivable arising is recorded as interest expense or interest income respectively.

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

q) Related party transactions

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

r) Share based payments to employees

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

s) Deferred Compensation

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

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

t) Provisions and contingent liabilities

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

1 Accounting policies (continued)

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

u) Impairment of non-financial assets

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

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

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

Calculation of recoverable amount

The recoverable amount of non-financial assets is the greater of their fair value less costs to sell and value in use. In assessing value in use, the expected future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the rate of return expected on an equally risky investment. For an asset that does not generate largely independent income streams, the recoverable amount is determined for the cash generating unit to which the asset belongs.

Reversals of impairment

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

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

v) Accounting estimates and judgments

The preparation of the financial statements requires management to make judgments, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgments about carrying values of assets and liabilities that are not readily apparent from other sources. The impact of Covid-19, leading up to and subsequent to year-end, has also been considered. Actual results may differ from those estimates. The company's accounting policy for investments in subsidiaries and recognising impairment on these investments are described in Note 1(g) and 1(u) respectively. The method involves the use of historical information coupled with forward looking information to assess various scenarios, supplemented with

1 Accounting policies (continued)

management judgment to determine whether there is indication of impairment. Each of the variables or inputs requires management to exercise judgment in making assumptions and estimations.

2 Fee and commission income and expense

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

3 Net trading revenue

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

4 Other income

	2020 £'000	**2019 £'000**
Costs recharged to group companies	33,019	32,472
	33,019	32,472

5 Interest income and similar receivables

	2020 £'000	**2019 £'000**
Interest and dividend income – held for trading	36,116	37,487
Interest income – other financial assets	85,368	89,856
	121,484	127,343

Included in the above is interest received from group companies amounting to £14.2m (2019: £25.9m).

6 Interest payable and similar charges

	2020 £'000	**2019 £'000**
Bank loans and overdrafts	36,181	39,660
Interest expense – held for trading	450	752
Interest expense – other financial liabilities	73,777	85,033
	110,408	125,445

Included in the above is interest paid to group companies amounting to £46.5m (2019: £54.3m).

7 Administrative expenses

Administrative expenses are analysed as follows:	2020 £'000	2019 £'000
Permanent staff costs (see note 8)	63,487	65,031
Non-permanent staff costs	6,922	5,920
Amortisation of intangible assets (see note 10)	2,877	2,850
Depreciation of tangible assets (see note 11)	3,285	2,283
Premises costs	5,504	5,394
External technology, communication and data costs	15,478	15,104
Net costs recharged by group companies	6,412	6,389
Other costs	8,864	8,982
Total	112,829	111,953

Administrative expenses include the following fees paid to the company's auditors:	2020 £'000	2019 £'000
Fees payable to the company's auditor for the audit of the company's financial statements	311	303
Fees payable to the company's auditor and its associates for other services:		
- audit related assurance services	147	139
- tax advisory service	-	6
Fees payable to un-associated auditor in respect of overseas branch regulatory requirements	77	74

8 Staff costs

Employee costs during the year amounted to:

	2020 £'000	2019 £'000
Wages and salaries	53,692	54,870
Social security costs	5,680	6,404
Pension costs – defined contribution plan	4,115	3,757
	63,487	65,031

8 Staff costs (continued)

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

	2020 Number	**2019 Number**
Front Office		
Equity	45	44
Fixed Income	32	39
Debt and Equity Capital Markets	18	17
Other (CBs, Derivatives and Principal Investments)	20	17
Back Office Support	297	277
	412	394

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

	2020 Number	**2019 Number**
Branches		
Bahrain	8	7
Geneva	8	9
	16	16
Representative offices		
Moscow	3	3
Paris	2	2
	21	21

9 Tax credit on ordinary activities

The tax credit is based upon the standard UK corporation tax rate of 19% (2019: 19%) and comprises:

	2020 **£'000**	**2019** **£'000**
UK and overseas corporation tax:		
Group relief: prior year	-	27
Group relief: current year	171	190
Total tax credited on ordinary activities	171	217

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

	2020 **£'000**	**2019** **£'000**
Loss on ordinary activities before tax	(34,184)	(11,395)
Taxation at UK standard corporation rate of 19% (2019: 19%)	6,495	2,165
Effects of:		
Permanent differences	(27)	(35)
Effects of unrecognised timing differences including losses	(6,468)	(2,130)
Group relief surrendered	171	217
Company tax credit for the year	171	217

The company has a net deferred tax liability of £0.3m (2019: £0.3m). This is attributable to deferred taxation that would arise if the timing differences on investments held for sale were realised after the end of the reporting period.

9 Tax credit on ordinary activities (continued)

A residual deferred tax asset totalling £83.0m (2019: £68.4m) for all timing differences including UK tax losses and capital allowances has not been recognised because it is the directors' assessment that it is not sufficiently certain that there will be sufficient taxable profits available in the foreseeable future against which these losses and allowances can be utilised.

The deferred tax liability at 31 March 2020 has been calculated using the rate of 19% (2019: 19%) which is the tax rate applicable for the period in which the asset is expected to realise.

10 Intangible assets

	Goodwill	Software	Assets in course of construction	Total
Cost	**£'000**	**£'000**	**£'000**	**£'000**
Beginning of year	29,180	30,252	974	60,406
Additions	-	-	1,921	1,921
Disposals	-	(1,458)	-	(1,458)
Transfers	-	2,018	(2,018)	-
End of year	29,180	30,812	877	60,869
Amortisation				
Beginning of year	27,766	28,152	-	55,918
Charge	1,414	1,463	-	2,877
Impairment charge	-	-	-	-
Disposals	-	(1,458)	-	(1,458)
End of year	29,180	28,157	-	57,337
Net book value				
At 31 March 2020	-	2,655	877	3,532
At 31 March 2019	1,414	2,100	974	4,488

The assets in course of construction comprise computer software.

11 Tangible assets

	Furniture, fittings and equipment £'000	Computer hardware £'000	Motor vehicles £'000	Assets in course of construction £'000	Total £'000
Cost					
Beginning of year	14,738	6,299	39	484	21,560
Additions	4,000	-	-	669	4,669
Disposals	(57)	(109)	-	-	(166)
Transfers	345	641	-	(986)	-
End of year	19,026	6,831	39	167	26,063
Depreciation					
Beginning of year	6,426	5,623	39	-	12,088
Charge	2,900	385	-	-	3,285
Disposals	(57)	(109)	-	-	(166)
End of year	9,269	5,899	39	-	15,207
Net book value					
At 31 March 2020	9,757	932	-	167	10,856
At 31 March 2019	8,312	676	-	484	9,472

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

12 Available for sale investments

	2020 £'000	2019 £'000
Unlisted investments	1,700	1,464

The movement in the year was as follows:

	2020 £'000	2019 £'000
Beginning of year	1,464	1,402
Exchange differences	38	(25)
Revaluation profit transferred to reserves	198	87
End of year	1,700	1,464

13 Investments in subsidiary undertakings

The company had two subsidiary undertakings as at 31st March 2020. The percentage of the issued share capital held by the company is equivalent to the percentage of voting rights held.

Name of company	**Country of reg office**	**Principal activity**	**Percentage of equity and voting rights held**
Daiwa Corporate Advisory Holdings Limited	UK	Investment Holding Company	100%
Daiwa Capital Markets Deutschland GmbH ("DCMD")	Germany	Investment Bank and Broker Dealer	100%

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

	2020 £'000	**2019 £'000**
Beginning of year	30,162	641
Addition*	775	29,533
Exchange Differences	-	(12)
End of year	30,937	30,162

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

In the opinion of the directors, the most appropriate estimate of the recoverable amount is the value in use of Daiwa Corporate Advisory Holdings Limited. The value in use is measured by discounting cash flows, over a period of 3 years, plus the terminal value, applying a discount rate using a high – low range of 13% – 19% and a perpetuity growth rate range of 1.4% to 2.3%. In the opinion of the directors, the nil carrying value of the investment remains appropriate.

DCMD was incorporated in December 2017 and has £31.9m of share capital following an additional investment in the prior period. In the opinion of the directors, there is no indication of impairment to the investment in DCMD and therefore the cost is the appropriate carrying value.

14 Debtors

Debtors comprise the following amounts:

	2020			2019		
	Financial Assets Loans and Receivables	Non Financial Assets Other	Total	Financial Assets Loans and Receivables	Non Financial Assets Other	Total
	£'000	£'000	£'000	£'000	£'000	£'000
Trade debtors	6,875	-	6,875	9,399	-	9,399
Amounts owed by parent group undertakings *	2,943,142	-	2,943,142	1,767,058	-	1,767,058
Amounts owed by subsidiary undertakings	37,830	-	37,830	41,148	-	41,148
VAT	-	1,114	1,114	-	836	836
Deposits paid for reverse repurchase agreements and securities borrowed	4,907,192	-	4,907,192	4,485,962	-	4,485,962
Other debtors	86,281	7	86,288	221,539	-	221,539
Corporation tax recoverable	-	460	460	-	286	286
Prepayments and accrued income	10,691	7,732	18,423	15,792	7,957	23,749
	7,992,011	9,313	8,001,324	6,540,898	9,079	6,549,977

*Amounts owed by parent group undertakings includes £2,884m for Deposits paid for reverse repurchase agreements (2019: £1,665m).

14 Debtors (continued)

The carrying amount of debtors approximates to their fair value.

The company's accounting policy is to carry loans and receivables at amortised cost and review for impairment where necessary. As at 31st March 2020, in the opinion of the directors, the £7.9m impairment against the intercompany loan to Daiwa Corporate Advisory Holdings Limited remained appropriate. For purposes of valuation the loan is treated as an equity investment and compared against the value in use. The value in use is measured by discounting cash flows, over a period of 3 years, plus the terminal value, applying a discount rate using a high – low range of 13% – 19% and a perpetuity growth rate range of 1.4% to 2.3%. The directors are comfortable that the carrying value of the loan is reasonable based on the value in use calculation.

15 Deferred tax

	2020 **£'000**	**2019** **£'000**
Deferred tax liability (note 19)	(323)	(278)

The movement in the year was as follows:	**2020** **£'000**	**2019** **£'000**
Beginning of year	(278)	(266)
Charged to the Reserves	(45)	(12)
End of year	(323)	(278

The deferred tax liability is attributable to the taxation that would arise if the timing differences on Available for sale investments was realised after the end of the reporting period.

16 Financial assets and liabilities held for trading

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

16 Financial assets and liabilities held for trading (continued)

	2020	2019
Financial Assets	**£'000**	**£'000**
Non Derivative marketable securities		
Equities	2,394	6,266
Government, Government Agency Bonds, and Municipal Bonds	406,375	467,080
Corporate Debt (inc. Convertible Bonds)	1,016,927	1,373,244
Total	1,425,696	1,846,590
of which listed	1,282,208	1,634,990
Derivative financial instruments		
Futures & Forwards	6,164	2,042
Options	5,877	25,080
Swaps	748,084	608,918
Other	-	19
Total	760,125	636,059
of which listed	758	49
Total financial assets held for trading	**2,185,821**	**2,482,649**
Financial Liabilities		
Non Derivative marketable securities		
Equities	41,361	92,288
Government, Government Agency Bonds, and Municipal Bonds	223,307	416,758
Corporate Debt (inc. Convertible Bonds)	2,941	197,074
Total	267,609	706,120
of which listed	266,164	682,777
Derivative financial instruments		
Futures & Forwards	5,268	2,905
Options	6,186	18,630
Swaps	761,846	610,710
Other	948	3,134
Total	774,248	635,379
of which listed	899	2,111
Total financial liabilities held for trading	**1,041,857**	**1,341,499**

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

	2020	2019
	£'000	£'000
Government, Government Agency Bonds, and Municipal Bonds	51,694	53,295
Corporate Debt (inc Convertible Bonds)	30,583	150,683
Total*	82,277	203,978
of which listed	82,277	197,807

*Balance forms part of DCME's liquid asset buffer, and is managed as a strategy that seeks to minimise cost.

18 Cash at bank and in hand

	2020	2019
	£'000	£'000
Cash at bank and in hand	23,770	47,528
of which deposits with parent group undertakings	373	855

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

19 Creditors: amounts falling due within one year

			2020			2019
	Financial Liabilities	Non Financial Liabilities	Total	Financial Liabilities	Non Financial Liabilities	Total
	Other	Other		Other	Other	
	£'000	£'000	£'000	£'000	£'000	£'000
Other short term borrowings	60,305	-	60,305	50,006	-	50,006
Overdrafts	44	-	44	3,612	-	3,612
Trade Creditors	10,493	-	10,493	3,706	-	3,706
Amounts owed to parent group undertakings*	2,164,029	-	2,164,029	2,092,961	-	2,092,961
Amounts owed to subsidiary undertakings	2,239	-	2,239	1,360	-	1,360
Deposits received for repurchase agreements and securities lent	6,593,616	-	6,593,616	5,182,772	-	5,182,772
Deferred tax liability	-	323	323	-	278	278
Other creditors:						
- social security and PAYE	-	1,848	1,848	-	1,573	1,573
- other creditors	3,473	9	3,482	3,208	21	3,229
Accruals and deferred income	18,664	-	18,664	22,349	-	22,349
	8,852,863	2,180	8,855,043	7,359,974	1,872	7,361,846

*Amounts owed to parent group undertakings includes £644m for Deposits received for repurchase agreements (2019: £158m).

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

The carrying amount of creditors approximates to their fair value.

The company had a total unsecured borrowing facility of ¥226bn/£1.687bn (2019: ¥300bn/£2.078bn) from Daiwa Securities Company Ltd which was provided on an uncommitted basis, as at 31 March 2020 (and at 31 March 2019). At 31 March 2020 ¥178bn/£1.3bn (2019: ¥245bn/£1.7bn) was drawn on the facility.

There are overdrafts of £nil due to group undertakings (2019: £2,730). The company has £nil due to clearing agents which is secured principally by securities held on the company's trading accounts with those clearing agents (2019: £119,081).

Accruals and deferred income include defined contribution pension schemes accruals of £54,984 (2019: £36,098), all of which relates to certain overseas branch pension schemes.

20 Provisions for liabilities

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

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

			2020			**2019**
	Pending litigation	**Redundancy, restructuring and onerous contracts**	**Total**	**Pending litigation**	**Redundancy, restructuring and onerous contracts**	**Total**
	£'000	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**
Beginning of year	163,986	182	164,168	151,284	541	151,825
Provision adjustment	(151)	1,642	1,491	259	116	375
Release of provision	-	(35)	(35)	-	-	-
Exchange adjustments	(2,593)	-	(2,593)	11,041	-	11,041
Utilised during the year	(160,073)	(147)	(160,220)	(1,504)	(475)	(1,979)
Transferred to Creditors	(1,169)	-	(1,169)	-	-	-
Transferred to Debtors	-	-	-	2,906	-	2,906
Total	-	1,642	1,642	163,986	182	164,168

20 Provisions for liabilities (continued)

Pending litigation

During the year, DCME was unsuccessful in its final appeal against the claim brought by the liquidators of Singularis Holdings Limited, and the claim (which was fully provided for in prior years) was settled. The remaining balance of £1,169k which mostly covers Insurance costs for future years has been reclassified under debtors.

DCME had no pending litigation cases as at the year end

Redundancy, restructuring and onerous contracts

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

21 Analysis of Financial Assets and Liabilities by Measurement Basis

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

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

	Financial Assets and Liabilities measured at fair value £'000	Available for Sale Investments £'000	Financial Assets and Liabilities at amortised cost £'000	2019 Total £'000
Financial Assets				
Cash at bank and in hand	-	-	47,528	47,528
Financial assets held for trading	2,482,649	-	-	2,482,649
Financial assets designated at FVTPL	203,978	-	-	203,978
Available for sale investments	-	1,464	-	1,464
Debtors – Loans and Receivables	-	-	6,540,898	6,540,898
	2,686,627	1,464	6,588,426	9,276,517
Financial Liabilities				
Financial liabilities held for trading	1,341,499	-	-	1,341,499
Creditors falling due within one year – Financial Liabilities	-	-	7,359,974	7,359,974
Creditors falling due after one year	-	-	1,693	1,693
	1,341,499	-	7,361,667	8,703,166

22 Debtors: amounts falling due after more than one year

	2020 £'000	2019 £'000
Financial Assets – Loans and Receivables	-	9,836

23 Creditors: amounts falling due after more than one year

	2020 £'000	2019 £'000
Accruals and deferred income	1,148	1,693

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

24 Provision for end of building lease costs

	2020 £'000	2019 £'000
Beginning of year	-	-
Addition	4,000	-
End of year	4,000	-

24 Provision for end of building lease costs (continued)

The current lease on DCME's main premises at 5 King William Street ends in March 2027, and no final decision has been taken on whether the company will negotiate a new lease. DCME have made a provision of £4m as a best estimate of the likely end of lease costs (if the company was to exit the building). An offsetting asset of £4m has been recognised in Tangible Assets (Note 11) under Furniture, fittings and equipment, and has been capitalised and amortised as depreciation cost.

25 Called-up share capital

	2020 £'000	2019 £'000
Allotted, called-up and fully paid		
Ordinary shares of £1 each	732,121	732,121

26 Financial commitments

a) Loan commitments

As at 31 March 2020, undrawn but committed loan facilities amounted to £.35.3m (2019: £61.5m).

b) Letter of Support to Subsidiary

DCME has provided a letter of support to its 100% owned subsidiary, Daiwa Corporate Advisory Holdings Limited. In this letter DCME has agreed to provide financial support, should it be required, for the period to 30 June 2021.

c) Capital commitments

As at 31 March 2020, capital expenditure contracted for but not provided for amounted to £0.3m (2019: £0.2m).

d) Contingent liabilities

As at 31 March 2020 there were no contingent liabilities.

e) Lease commitments

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

	2020			2019		
	Property £'000	Other £'000	Total £'000	Property £'000	Other £'000	Total £'000
Operating leases which expire						
- within 1 year	56	4	60	-	-	-
- within 2-5 years	238	4	242	194	8	202
- after 5 years	3,008	-	3,008	3,008	-	3,008
	3,302	8	3,310	3,202	8	3,210

26 Financial commitments (continued)

f) Pension arrangements

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

The amount charged in the profit and loss account for pension costs of the company under both the contributory and non-contributory sections of the group personal pension plan was £4.1m (2019: £3.8m).

The UK scheme also covers the following companies: Daiwa Asset Management (Europe) Ltd, Daiwa SB Investments (UK) Ltd and the Daiwa Anglo Japanese Foundation. Separate schemes are administered in respect of staff employed in the company's overseas branches and representative offices. The total cost in relation to branch pension schemes was £163,359 (2019: £132,453).

The company's ultimate parent undertaking, Daiwa Securities Group Inc., operates separate pension schemes of which certain employees seconded to the company from Japan are members. The total cost in relation to these pension schemes was £208,279 (2019: £211,724).

g) VAT

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

27 Share based payments

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

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

In accordance with FRS 102, the fair value of the equity-settled share based payments to employees is determined at the date of grant and is expensed on a straight line basis over the vesting period based on the company's estimate of options that will eventually vest. The weighted average fair value of options granted in the year was ¥0.66 (2019: ¥15.73) and the total charge for the year was £34,184 (2019: £43,210).

27 Share based payments (continued)

The company is exempt from specific share based payment disclosures under share based payment arrangements that existed during the period and the full disclosures as required by FRS 102 have not been disclosed as explained within accounting policies set out in note 1. The equivalent disclosures required by FRS 102 are included in the consolidated financial statements of the Daiwa Securities Group Inc. in Japan in which the company's results are consolidated.

28 Collateral

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

	2020	2019
	£bn	£bn
Securities Received		
Securities received as collateral/borrowed	7.9	6.8
Source:		
Matched Book Repo Activity	6.6	4.7
Liquid Asset Buffer	1.0	1.3
Securities Borrowed	0.3	0.8
Total	**7.9**	**6.8**
Securities Pledged		
Securities pledged as collateral/lent	7.4	6.0
Use:		
Firm Funding Repo Activity	0.8	1.3
Matched Book Repo Activity	6.6	4.7
Total	**7.4**	**6.0**

29 Financial risk management

Exposures to risk

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

29 Financial risk management (continued)

Objectives, policies and processes for managing risk

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

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

Market risk

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

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

	2020	**2019**
	£'000	**£'000**
Year-end	849	1,094
Average	996	1,195
Maximum	1,441	1,585
Minimum	571	856

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

29 Financial risk management (continued)

The VaR numbers shown for 2020 incorporate full diversification offsets between businesses. VaR figures for 2020 on average were reducing, especially in the second half of the year; as the Fixed Income business adjusted focus this year to higher quality rated assets and the Convertible Bond business reduced inventory and the composition of the portfolio changed away from vega-sensitive bonds. It should be noted that, due to the significant market volatility observed in March 2020, the expectation is that the VaR figures for 2021 (and beyond) will be significantly higher than observed recently as data from that period is incorporated into the 560 historical observation period.

Credit risk

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

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

	2020	**2019**
	£'000	**£'000**
Available for sale investments	1,700	1,464
Financial assets at fair value through profit and loss:		
Derivative financial instruments	760,125	636,059
Marketable securities	1,425,696	1,846,590
Financial assets designated at FVTPL	82,277	203,978
Loans and receivables:		
Debtors - Loans and receivables	7,992,011	6,540,898
Cash at bank and in hand	23,770	47,528
	10,285,579	9,276,517

29 Financial risk management (continued)

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

Credit Rating	AAA 2020 £'000	AA 2020 £'000	A 2020 £'000	BBB 2020 £'000	Sub-Investment Grade 2020 £'000	Total 2020 £'000	AAA 2019 £'000	AA 2019 £'000	A 2019 £'000	BBB 2019 £'000	Sub-Investment Grade 2019 £'000	Total 2019 £'000
Available for sale investments	-	1,700	-	-	-	1,700	-	1,464	-	-	-	1,464
Debtors - Loans and Receivables	3,093	452,289	6,097,048	1,362,124	77,457	7,992,011	5,859	1,083,702	3,783,273	1,475,026	193,038	6,540,898
Derivative financial instruments	-	374,716	382,780	2,629	-	760,125	5	297,780	335,567	2,428	279	636,059
Marketable securities	420,427	427,086	328,786	240,377	9,020	1,425,696	574,487	502,177	484,552	256,257	29,117	1,846,590
Fin assets designated at FVTPL	56,302	25,975	-	-	-	82,277	155,467	48,511	-	-	-	203,978
Cash at bank and in hand	-	16,546	6,489	72	663	23,770	-	28,638	17,642	98	1,150	47,528
	479,822	1,298,312	6,815,103	1,605,202	87,140	10,285,579	735,818	1,962,272	4,621,034	1,733,809	223,584	9,276,517

Funding and Liquidity Risk Management

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

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

29 Financial risk management (continued)

Funding

Primary sources of funding include:

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

Liquidity Risk

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

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

Liquidity risk is managed through:

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

29 Financial risk management (continued)

Governance

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

Liquidity Reserves

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

The contractual maturity profile of financial liabilities is as follows:

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

29 Financial risk management (continued)

						2019
	On demand	Less than 1 month	1 to 3 months	3 months to 1 year	Between 1-5 years	Total
	£'000	£'000	£'000	£'000	£'000	£'000
Marketable Securities	706,120	-	-	-	-	706,120
Derivative Financial Instruments	635,379	-	-	-	-	635,379
Deposits received for repurchase agreements and securities lent	1,124,765	3,778,050	400,685	-	-	5,303,500
Other Financial Liabilities	270,762	408,792	986,797	390,123	1,693	2,058,167
Total	2,737,026	4,186,842	1,387,482	390,123	1,693	8,703,166

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

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

Financial liabilities not in the trading portfolio are presented on an undiscounted contractual cash flows basis and, with the exception of deferred staff bonuses, all fall due within one year. As at 31 March 2020, the undiscounted contractual cash flows approximate to the carrying amounts on the balance sheet (2019: approximate to the carrying amounts).

30 Capital risk management

Regulatory capital resources requirement

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

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

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

30 Capital risk management (continued)

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

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

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

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

Capital Management

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

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

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

Regulatory Capital	**2020**	**2019**
	£'000	**£'000**
Common Equity Tier 1 Capital	403,776	436,162
Regulatory capital resources	403,776	436,162

30 Capital risk management (continued)

	2020 £'000	2019 £'000
Shareholders' funds	436,527	470,348
Prudent Valuation adjustment (unaudited)	(1,815)	(2,610)
Intangible Assets – Goodwill	-	(1,414)
Material holdings	(30,936)	(30,162)
Regulatory capital resources	403,776	436,162

31 Fair Value estimation

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

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

31 Fair Value estimation (continued)

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

Level 3 financial assets are valued based upon parameters which are unobservable in the market. The level 3 marketable securities are valued based upon recent trading activity and price discovery as a lead manager.. The level 3 available for sale investments are valued by reference to the published net asset per share.

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

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

31 Fair Value estimation (continued)

The following table sets out fair value measurements as at 31 March 2019 using the FRS 102 fair value measurement hierarchy.

	Level 1 £'000	Level 2 £'000	Level 3 £'000	2019 Total £'000
Assets				
Available for sale investments	-	-	1,464	1,464
Financial assets at fair value through profit and loss:				
Derivative financial instruments	49	635,484	526	636,059
Marketable securities	1,776,190	70,009	391	1,846,590
Financial assets designated at FVTPL	203,978	-	-	203,978
Total assets	1,980,217	705,493	2,381	2,688,091
Liabilities				
Financial liabilities at fair value through profit and loss:				
Derivative financial instruments	2,111	633,000	268	635,379
Marketable securities	706,120	-	-	706,120
Total liabilities	708,231	633,000	268	1,341,499

The following table presents the changes in level 3 instruments for the year ended 31 March 2019.

	Available for sale investments £'000	Derivative financial instruments £'000	Marketable securities £'000	2019 Total £'000
Assets				
Beginning of the year	1,402	-	1,293	2,695
Transfers into Level 3 from Level 2	-	406	11	417
Purchases/Issues	-	120	46	166
Sales/Maturities	-	-	(362)	(362)
Revaluation	87	-	(597)	(510)
Exchange differences	(25)	-	-	(25)
End of year	1,464	526	391	2,381
Liabilities				
Beginning of the year	-	-	-	-
Transfers into Level 3 from Level 2	-	160	-	160
Sales	-	108	-	108
End of year	-	268	-	268

32 Related party transactions

Directors' remuneration

The remuneration of the directors was as follows:

	2020 £'000	2019 £'000
Emoluments	2,175	2,107
Company contributions to group personal pension plans	62	46
	2,237	2,153

Pensions

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

	2020 Number	2019 Number
Money purchase schemes	-	-

Highest paid director

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

	2020 £'000	2019 £'000
Emoluments	619	744
Company contributions to group personal pension plans	46	46
	665	790

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

33 Ultimate parent company

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

34 Country by Country Reporting and Disclosure of Return on Assets

a) Country by country reporting

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

Location	Principal Activities	Turnover £'000	Profit or (Loss) before tax £'000	Corporation Tax (amount credited) £'000	Average Headcount
United Kingdom	1	73,335	(33,871)	171	391
Switzerland	2	2,529	(459)	-	8
Bahrain	2	1,999	538	-	8
Russia	3	517	(140)	-	3
France	3	265	(252)	-	2
		78,645	(34,184)	171	412

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

Principal activities:

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

Public subsidies received:

The company receives no public subsidies.

b) Return on Assets

According to Article 90 of the European Union Capital Requirements Directive IV, DCME are required to disclose the return on net assets (being defined as net profit after tax). For the year ended 31 March 2020 this was -7.8%.