IFR Disclosure

For the Half-Year Ended 30 September 2023

Daiwa Capital Markets Deutschland GmbH

Please note:

This translation is a courtesy translation only. The German original is the only binding source and prevails in case of doubts or discrepancies.

Contents

Glossary of Terms and Abbreviations

BaFin	The German Federal Financial Supervisory Authority
BVV	BVV Versicherungsverein des Bankgewerbes
CEO	Chief Executive Officer
CET1	Common Equity Tier 1
CFO	Chief Financial Officer
CRO	Chief Risk Officer
CRR	Capital Requirements Regulation
D&I	Diversity and Inclusion
DCM	Debt Capital Markets
DCMD	Daiwa Capital Markets Deutschland GmbH
DCME	Daiwa Capital Markets Europe Limited
DCME Group	DCME plus subsidiaries / branches
DSGI	Daiwa Securities Group Inc.
EBA	European Banking Authority
ESG	Environmental, Social and Governance
EWI	Early Warning Indicator
ExCo	Executive Management Committee
FOR	Fixed Overhead Requirements
ICAAP	Internal Capital Adequacy Assessment Process
ICR	Internal Credit Rating
IFD	Investment Firm Directive
IFR	Investment Firm Regulation
IVV	Remuneration Regulation for Institutions
K-ASA	K Factor required based on assets safeguarded and administered
K-AUM	K Factor required based on assets under management
K-CMG	K Factor required based on Clearing Margin Given
K-CMH	K Factor required based on Client Money Held
K-COH	K Factor required based on Client Orders Handled
K-CON	K Factor required based on Concentration Risk

K-DTF	K Factor required based on Daily Trading Flow
KFR	K Factor Requirement
K-NPR	K Factor required based on Net Position Risk
KPI	Key Performance Indicator
K-TCD	K Factor required based on Trading Counterparty Default
KWG	German Banking Act
LAB	Liquid Asset Buffer
LoD	Line of Defence
MaRisk	Minimum Requirements for Risk Management
MD	Managing Director
MiFID II	Markets in Financial Instruments Directive
MRT	Material Risk Taker
MTM	Mark-to-Market
PFE	Potential Future Exposure
RAS	Risk Appetite Statement
RCSA	Risk & Control Self-Assessment
RiCo	Risk Management Committee
RLF	Risk Limit Framework
RMF	Risk Management Framework
RtC	Risk to Client
RtF	Risk to Firm
RtM	Risk to Market
SREP	Supervisory Review and Evaluation Process
T1	Tier 1
T2	Tier 2
WpIG	German Investment Firm Act
WVV	Investment Firm Remuneration Ordinance

1 Overview

1.1 Background

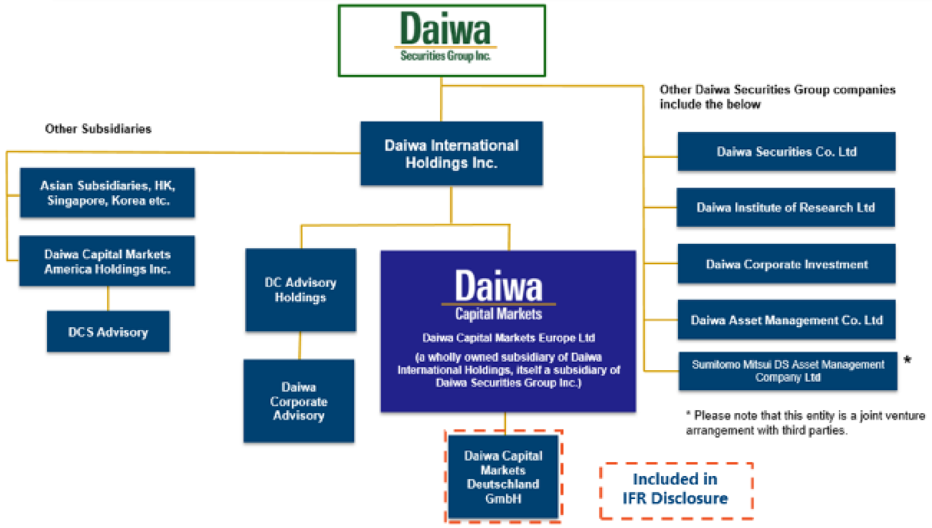
Since 26 June 2021, a new prudential regime applies to investment firms authorised under the Markets in Financial Instruments Directive (“MiFID II”). This new framework, set out in the Investment Firm Regulation ("IFR") and the Investment Firm Directive ("IFD"), significantly revises the prudential rulebook for investment firms by introducing a bespoke regime. Underpinned by the principles of risk relevance and proportionality, the new regime applies a range of rules relating to risk management objectives, capital requirements, financial and regulatory reporting, internal governance and remuneration to investment firms, depending on their classification across a risk spectrum.

Pursuant to section 1 of the German Investment Firm Act (*Wertpapierinstitutsgesetz*, “WpIG”), Daiwa Capital Markets Deutschland GmbH (“DCMD” or “the Firm”) is subject to WpIG since 26 June 2021. DCMD qualifies as a medium-sized investment firm (*Mittleres Wertpapierinstitut*) according to sections 2 (1), 2 (2) and 2 (17) WpIG and is regulated by the German Federal Financial Supervisory Authority (*Bundesanstalt für Finanzdienstleistungsaufsicht*, “BaFin”).

The public disclosure is an important part of the IFR as it increases transparency and confidence in the market and gives stakeholders and market participants an insight into how Firms are run.

1.2 Structure

DCMD operates as a wholly owned subsidiary of Daiwa Capital Markets Europe Ltd (“DCME”), based in London, United Kingdom (together “DCME Group”). DCME is itself a subsidiary in the end of Daiwa Securities Group Inc. (“Daiwa Group”, or “DSGI”), one of the largest brokerage and financial services groups in Japan. A Daiwa Holding company acts in between DCME and DSGI.



DCMD is based in Frankfurt am Main, Germany, and currently has no subsidiaries or branches. The Firm was established to enable Daiwa Group to continue offering financial services to EU-based clients following the United Kingdom´s departure from the European Union ("Brexit"). The aim is also to acquire additional clients and business relationships from this new base in Continental Europe.

1.3 Principal Activities

The business lines of DCMD are divided into global product areas with reporting lines to the EMEA Division Heads and to the global Division Heads at group level.

DCMD´s core business involves offering Japanese and Asian financial products and financial services (largely research) to European institutional investors. Additionally, European financial products are offered to Japanese and other non-European clients of the Daiwa Group facilitating access to the European market. The strategy of DCMD´s business activity reflects the links with, and synergies available across the Daiwa Group. The core business lines in accordance with the group business lines are: Cash Equities, Fixed Income Securities, International Convertible Bonds, Debt Capital Markets ("DCM") / Investment Banking and the offering of related financial services (essentially research) to European institutional investors.

1.4 Basis of Disclosure - Application

This document has been prepared in accordance with the disclosure rules set out in article 46 IFR / section 54 WpIG.

- **Firm Categorisation:** DCMD fulfils the WpIG / IFR criteria for a medium-sized (class 2) investment firm.
- **Level of Disclosure:** The Firm is required to disclose only on an individual entity basis (DCMD solo).
- **Reference Date:** This mid-year disclosure has been prepared as at 30 September 2023.
- **Frequency:** This mid-year disclosure covers Environmental, Social and Governance ("ESG") Risks only, which need to be disclosed on a biannual basis (according to article 53 IFR).
- **Location:** The document is published on the Firm's website: *www.de.daiwacm.com/policies/*
- **Governance:** This document is prepared by DCMD Finance and Risk Management. The document is reviewed, challenged and approved by DCMD Management. This document was not subject to audit by the Firm's external auditors.

2 Environmental, Social and Governance Risks (Article 53 IFR)

According to article 53 IFR, from 26 December 2022, investment firms which do not meet the criteria referred to in article 32 (4) IFD shall disclose information on ESG Risks, including physical risks and transition risks, as defined in the report referred to in article 35 IFD.

As outlined in DCMD's latest full-year disclosure, DCMD does not meet the criteria of article 32 (4) IFD and thus has to make a disclosure regarding ESG Risks for the first time for the financial year ending 31 March 2023 and biannually thereafter (article 53 IFR).

2.1 Definition ESG Risks

2.1.1 ESG Risks

ESG Risks are defined as events or preconditions in the areas of environmental, social or governance, the occurrence of which can have a potentially negative impact on the firm's assets position, financial situation or financial performance.

ESG Risks are not an independent risk class, but rather risk drivers within existing risk types.

2.1.2 Environmental Risk

Environmental Risk is the risk of any negative financial impact on the institution stemming from the current or prospective impacts of environmental factors on its counterparties or invested assets.

Physical Risk is a sub-category of Environmental Risk and refers to the current or prospective impacts of the physical effects of environmental factors. Physical Risk can be categorised either as acute, if it arises from weather-related or climate events and an acute destruction of the environment (e.g. flooding or heat waves), or chronic, if it arises from a progressive shift in climate and weather patterns or a gradual loss of ecosystem services (e.g. rising sea levels).

Transition Risk is another sub-category of Environmental Risk and refers to the current or prospective impacts of the transition to an environmentally sustainable economy, which includes for example changing customer behaviour or policy changes to promote adaptation to climate change.

2.1.3 Social Risk

Social Risk is the risk of any negative financial impact on the institution stemming from the current or prospective impacts of social factors on its counterparties or invested assets. Social factors include e.g. equality, workplace health and safety and diversity.

2.1.4 Governance Risk

Governance Risk is the risk of any negative financial impact on the institution stemming from the current or prospective impacts of governance factors on its counterparties or invested assets. Governance factors include e.g. anti-bribery and anti-fraud policies, accountability and codes of conduct.

2.2 ESG Risk Profile

Within Market Risk, ESG risks, including physical and transition risks, could have a negative impact on the assets position, financial situation or financial performance of an issuer, which in turn could have a negative effect on the price of its securities.
Since DCMD conducts all trades on a back-to-back basis with its parent company and thus does not have market risk, ESG risks do not hold an increased significance within the Firm's market risk profile.

Within Credit Risk, ESG risks, including physical and transition risks, could have a negative impact on the assets position, financial situation or financial performance of DCMD's counterparties, which in turn could result in rating downgrades and a reduction in a counterparty's ability to honour its financial obligations to DCMD.
Given the very short duration of any financial trading obligation (trades are conducted with standard settlement terms, e.g. T+2) and the fact that ESG risks usually only have a gradual impact on the financial situation or the rating of DCMD's counterparties, ESG risks do not hold an increased significance within the Firm's credit risk profile.

ESG risks, including physical and transition risks, can act as risk drivers in all other material risk categories of the Firm. However, given DCMD's business model, the back-to-back trading setup, as well as the Firm's top down and bottom up awareness of ESG, ESG risks do not hold an increased significance within the Firm's other material risks.