Tokai Tokyo Securities Europe Limited
Pillar 3 disclosures (unaudited)
For the year ended 31 December 2020

1 Overview

The transposition of the Basel III framework into EU law is in two parts: the Capital Requirements Directive IV ("CRD IV") and the Capital Requirements Regulation ("CRR"). Part Eight of CRR includes additional provisions on regulatory disclosure for credit institutions and investment firms. Both the Directive and Regulation are applicable since 1 January 2014. Both the CRD and CRR were subsequently implemented in the United Kingdom via the Financial Conduct Authority ("FCA") Handbook.

The FCA framework consists of three "Pillars":

- Pillar 1 sets out the minimum capital amount that meets the firm's credit, market and operational risk;
- Pillar 2 requires the firm to assess whether its Pillar 1 capital is adequate to meet its risks and is subject to annual review by the FCA; and
- Pillar 3 requires disclosure of specified information about the underlying risk management controls and capital position.

Tokai Tokyo Securities Europe Limited (the "Company") publishes Pillar 3 disclosures on a solo (unconsolidated) basis.

The Company is an IFPRU 50K firm.

2 Capital requirements summary

Capital Adequacy as at 31 December 2020		31-Dec-20 £ GBP
Own Funds		
Paid up capital instruments		3,000,000
Previous years retained earnings (audited)		8,230,725
Total capital/Tier 1/Common equity tier 1 (CET1) capital		**11,230,725**
Risk Exposure Amounts		
Institutions		2,220,844
Foreign Exchange		68,457
Other Items		571,395
Risk exposure amount for Fixed Overheads		4,175,768
Total Risk Exposure Amount		**7,036,464**
Base Own Funds Requirement IFPRU 50K firm		**44,920**
Pillar 1 own funds requirement		
Total Capital Ratio Requirement: 8% of total risk exposure amount		562,917
Tier 1 Capital Ratio Requirement: 6% of total risk exposure amount		422,188
CET 1 Capital Ratio Requirement: 4.5% of total risk exposure amount		316,641
Surplus of Total Capital Ratio Requirement		10,667,808
Surplus of Tier 1 Capital Ratio Requirement		10,808,537
Surplus of CET 1 Capital Ratio Requirement		10,914,084
Capital Ratio: Total capital/Tier 1/Common equity tier 1 (CET1) capital		**159.61%**
Pillar 2 Own Funds		
Foreign exchange risk		6,000
Business/operational risk		313,000
Cyber security risk		50,000
Total Pillar 2 Own Funds		**369,000**

3 Financial risk management

a. Business risk

The Company's business model is based on a low volume of high value transactions in Euro Medium Term Notes "Notes" and commission from arranging swap transactions in relation to such Notes. Accordingly, a downturn in demand for the Notes that the Company purchases and sells on will have a material effect on its business revenues. In order to mitigate such risk, the Company has established a low cost business which uses outsourced services where possible to ensure overheads remain flexible and in line with business profitability.

The main risk identified by the Company is the risk of being unable to pay for Notes purchased for resale. This risk encompasses concentration, liquidity, credit, market and operational risk considerations. Such risks are considered as part of the Company's risk appetite and managed via the systems and controls implemented to minimise operational risk.

The Company also provides JGB intermediary services to support Tokai Tokyo Securities Co., Ltd. ("TTSC")'s JGB business with its clients. The JGB business services consist of outright trade executions. The Company trades JGBs with the client on its own book as principal; however, all such trades are undertaken on a "matched principal broker" basis which is a mirrored by identical back-to-back trade carried out with TTSC resulting in no risk positions held by the Company.

The Company also provides Global Trading services to TTSC, whereby the Company acts on behalf of TTSC to trade financial instruments with brokers under a Master Services Agreement ("MSA") between the two companies. The Global Trading MSA also covers associated Middle and Back Office, Brokerage and Marketing services. The transactions are executed and settled by TTSC's own account under a discretionary mandate and relevant instructions within a limited trading capacity given by TTSC. This means that the Company does not take any position risks arising from the Global Trading transactions.

The Board of Directors of the Company (the "Board") has allocated additional Pillar 2 capital specifically to business and reputation risk to cover the wide risk profile that reputation risk covers and for costs associated with likely remediation and public relations activity in engaging with issuer counterparties and the press. For Pillar 2 purposes we have used as a proxy the operational risk capital requirement in Article 315 of the CRR and applied a 9% weighting to arrive at the Pillar 2 capital amount of £313,000. The Board were of the view this additional capital was more than reflective of the types of costs and losses that might occur for a business risk failure.

b. Concentration risk

The nature of the Company's main business means that it has a credit concentration risk to the sister company, TTSC as the sole counterparty to which it sells Notes. Should TTSC fail to meet its obligations to purchase Notes from the Company on the settlement date then the Company will, in turn, be unable to meet its obligations to purchase Notes from issuers. Risk in relation to TTSC is addressed in the credit risk section below.

c. Liquidity risk

The Company holds fully paid up share capital of £3,000,000 and reserves of £8,230,725 as cash and rolling term deposits totalling £11,230,725 at 31 December 2020. Under normal trading conditions liquidity risk is very limited, however, liquidity risk could become an issue in the event that during a Notes transaction TTSC suffers an insolvency event and is unable to meet its obligations to purchase Notes from the Company. It is an indirect risk, as the obligation to purchase the Notes could be rescinded by the Company which would lead to litigation risk for a fail to perform the contract. Such liquidity risk is considered under credit risk and market risk below. No additional allowance has therefore been made for liquidity risk in the ICAAP.

d. Credit risk (including counterparty risk)

Counterparty credit risk for Notes transactions is relevant to the three types of counterparties. In relation to an issuer, from whom the Company purchases Notes, counterparty credit risk is managed by settling on a delivery versus payment basis. Delivery versus payment settlement also applies to purchases and sales of JGBs with counterparties. Counterparty credit risk to swap providers is limited to the amount of arrangement fees due, and is not considered material. Credit risk to TTSC, the purchaser of the Notes, is mitigated by the following factors:

The Company has clear visibility of TTSC's financial position as a group company and will be notified of financial difficulties and be able to complete outstanding trades and wind down activity in an orderly fashion;

- TTSC only enters into transactions for Notes with the Company on the basis of back-to-back agreements with clients in Japan; and

- Transactions are cleared through TTSC's consolidated account at Euroclear which has a USD 75 million overdraft facility.

Trade receivables represent monies due from clients and market counterparties. No provision for impairment of receivables existed at 31 December 2020 (2019: £nil). There has been no impairment of balances in the year.

e. *Market risk*

Market risk is limited to volatility during the settlement period should an insolvency event occur to TTSC causing it to fail to meet its obligation to purchase Notes sold to it by the Company. As discussed above, under credit risk, the Directors consider it unlikely that the Company will face such market risk.

f. *Operational risk*

Operational risks such as settlement breaks could result in liabilities to both an issuer and TTSC on a short term basis. There are equally operational risks with the JGB business, although much of this is outsourced to TTSC via an Agency Agreement. Such operational risk is mitigated by the Company's systems and controls, and the use of Euroclear to settle transactions automatically on a delivery-versus-payment basis. The Company relies on the competency and TTSC's ability to settle JGB transactions via the Bank of Japan book-entry system in an accurate and timely fashion.

The Additional risk exposure due to Fixed Overheads is calculated as per Art 95(2) CRR and is £4,175,768. It covers all foreseeable operational and business risks.

g. *Interest rate risk*

The Company is exposed to interest rate risk on the cash deposits which it places with its bankers. Fluctuations in interest rates will result in volatility in the interest receivable on these cash deposits.

Interest rate risk was considered as the Company's capital and reserves are held in on rolling term deposit for periods of a week up to 3 months. However, the Company does not rely on such investment for income and, accordingly, risk in interest rate fluctuations was not considered material. This risk was scenario and stress tested and it was determined that no additional capital requirement was required.

h. *Foreign Exchange risk*

Foreign Exchange Risk is very limited and is calculated in accordance with Art 351 and 352 of CRR with a risk exposure amount of £5,477. This is below the requirement for Own Funds calculation requirement in Art 351 CRR. The Board has agreed to include Pillar 2 capital of £6,000 for this risk.

i. *Capital management*

The Company ensures it holds sufficient capital for the size and complexity of its business. Investment of capital is made under the following criteria adopted by the Board:

- Bank deposits (rated AA or above), money market funds (rated A1/P1 or AA) and other short-term products with high liquidity. The investment decisions are made by the Chief Executive Officer and reported to the Board;
- The Company complied with the Base Capital Resource Requirement of €50,000 for the current and prior years.

j. *Cyber Security Risk*

The Company's and third parties' computer systems and networks have been, and will continue to be, subject to an increasing risk of continually evolving, sophisticated cyber security risks that could result in the theft, loss, misuse or disclosure of confidential client or customer information, damage to the Company's reputation, additional costs to the Company, regulatory penalties, legal exposure and financial losses.

Cyber security risk is a medium risk for the Company, the main feature being business operations being stopped and impacting reputation. The Company has had some experience on dealing with virus attacks and has procedures in place to react quickly. (See also above in relation to reputation risk issues). The Company is also able to quantify such risks. It has allocated approximately £50,000 for a severe cyber attack.

4 Summary of Management Actions and Conclusion

Following stress and scenario testing the Company's management considered the results of the testing and the likely actions they would take. No further stress or scenario tests were considered necessary and no further mitigating action was taken. This was considered reasonable in the circumstances, due to the simplicity and low risk nature of the Company's business.

It was agreed that holding excess capital levels with a surplus of the Total Capital Ratio Requirement of above 150% was a more than significant measure to mitigate key risks. On this basis it was agreed to allocate additional Pillar 2 capital to the Pillar 1 requirements as documented in the ICAAP.

In addition, the Company's management considered their analysis in the following additional Pillar 2 capital provisions:

Business and Reputation Risk £313,000

Cyber Security Risk £50,000

FX Risk £6,000

This £369,000 Pillar 2 provision is in addition to the £562,917 Pillar 1 calculation (25% of Fixed Overhead Requirement) resulting in £931,917 of capital required. Given that the Company has own funds of £11,230,725 this is still a capital surplus of £10,298,808 and an excess buffer of 1,105%.

The Board therefore concluded that the Company is adequately capitalised to take account of all the risks that we face.

5 Pillar 3 Remuneration Disclosure

a. Decision-making process for remuneration policy

The Board is responsible for human resource issues connected to terms and conditions of employment, remuneration (fixed and variable) and benefits.

The Company receives advice from Tokai Tokyo Financial Holdings Inc. ("TTFH"), its shareholder, in order to harmonise human resource policies across the shareholder's group of companies while taking into account domestic laws and regulations as well as determining the remuneration of the executive management.

b. Remuneration disclosures for the year ended 31 December 2020

The Board determines remuneration policy taking full account of the firm's business strategy, objectives, values and long term interests of the firm. The Remuneration Policy encourages staff to improve how they undertake work rather than with a focus on how much revenue or profit they can make. This is based on the fact that most of the criteria which determine any variable remuneration are non-financial.

i. Code Staff

Remuneration Code Staff comprise staff that hold significant influence functions, are senior management, risk takers, staff who undertake controlled functions and employees receiving remuneration on a par with senior management.

ii. Pay-performance link

The pay performance link for Code Staff is made up of fixed pay of salary and benefits and performance related pay which is determined by a set of criteria for each Code Staff member. These criteria are mostly non-financial performance measures linked to the quality of the work done with some linkage to agreed financial targets. The performance component of the remuneration relates to a percentage of a Code Staff members salary with bonuses also determined by the overall financial performance of the shareholder, TTFH, based in Japan.

iii. Code Staff remuneration

The Company has 12 Code Staff. Fixed Remuneration consists of base salaries for Code Staff. No fees are paid for non-executive directors who are employed by the shareholder. Variable remuneration consists of semi-annual and annual bonuses.

For all Code Staff total fixed remuneration was £1,426k and total variable remuneration was £121k. Please note that certain Code Staff are seconded from TTFH or another subsidiary of TTFH and have a different performance review period from local staff and runs from April – March financial year. The above amounts outlining remuneration include seconded staff remuneration for a full performance review period of one year using the last performance review of the prior performance review period of October 2019 - March 2020 and April – September 2020. For local staff the remuneration and performance review period runs from January to December 2020.