Anchorage Capital Europe, LLP
Pillar 3 Risk Disclosure
Year Ended 31 December 2015

Introduction

Anchorage Capital Europe, LLP ("ACE LLP" or the Firm) is required by the FCA to disclose information relating to the capital it holds and each material category of risk it faces in order to assist users of its accounts and to encourage market discipline.

The Capital Requirements Directive (CRD) created a revised regulatory capital framework across Europe covering how much capital financial services firms must retain. In the United Kingdom, rules and guidance are provided in the General Prudential Sourcebook (GENPRU) for Banks, Building Societies and Investments Firms (BIPRU).

The FCA framework consists of three "Pillars":

- Pillar 1 sets out the minimum capital requirements that companies need to retain to meet their credit, market and operational risk;

- Pillar 2 requires companies to assess whether their Pillar 1 capital is adequate to meet their risks and is subject to annual review by the FCA;

- Pillar 3 requires companies to develop a set of disclosures which will allow market participants to assess key information about its underlying risks, risk management controls and capital position. These disclosures are seen as complimentary to Pillar 1 and Pillar 2.

Rule 11 of BIPRU sets out the provisions for Pillar 3 disclosure. The rules provide that companies may omit one or more of the required disclosures if such omission is regarded as immaterial. Information is considered material if its omission or misstatement could change or influence the decision of a user relying on the information. In addition, companies may also omit one or more of the required disclosures where such information is regarded as proprietary or confidential. The Firm believes that the disclosure of this document meets its obligation with respect to Pillar 3.

Firm Overview

ACE LLP is incorporated in the UK and is authorised and regulated by the FCA as an Investment Management Firm. ACE LLP's activities give it the BIPRU categorisation of a "Limited Licence" and a "BIPRU" firm.

ACE LLP is part of a UK Consolidation Group consisting of ACE LLP and ACP Europe Limited ("ACP LTD"). As such this Pillar 3 Disclosure has been produced on both a solo and consolidated level.

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The Governing Body of ACE LLP has the daily management and oversight responsibility. It generally meets quarterly and is composed of:

- Thibault Gournay
- Natalie Birrell on behalf of ACP Europe Limited

The Governing Body is responsible for the entire process of risk management, as well as forming its own opinion on the effectiveness of the process. In addition, the Board decides ACE LLP's risk appetite or tolerance for risk and ensures that ACE LLP has implemented an effective, ongoing process to identify risks, to measure its potential impact and then to ensure that such risks are actively managed. Senior Management is accountable to the Governing Body for designing, implementing and monitoring the process of risk management and implementing it into the day-to-day business activities of ACE LLP.

Capital Resources and Requirements

Capital Resources

Pillar 1

As at 31 December 2015, the Firm on a solo basis held regulatory capital resources of £8,002,937, comprised solely of core Tier 1 capital of members' original capital contributions and £11,155,661 on a consolidated basis.

The Firm's capital requirements are the greater of:

- Its base capital requirement of €50,000;

- The sum of its market and credit risk requirements; or

- Its fixed overhead requirement (FOR).

As at 31 December 2015, the Firm's Pillar 1 capital requirement was £2,595,473
As at 31 December 2015, the Group's Pillar 1 capital requirement was £2,662,556

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Satisfaction of Capital Requirements

Pillar 2

The Firm has adopted the "Structured" approach to the calculation of its Pillar 2 Minimum Capital Requirement as outlined in the Committee of European Banking Supervisors Paper, 27 March 2006 which takes the higher of Pillar 1 and 2 as the ICAAP capital requirement. It has assessed Business Risks by modeling the effect on its capital planning forecasts and assessed Operational Risk by considering if Pillar 2 capital is required taking into account the adequacy of its mitigation.

Since the Firm's Internal Capital Adequacy Assessment Process (ICAAP or Pillar 2) process has not identified capital to be held *over* and *above* the Pillar 1 requirement, the capital resources detailed above are considered adequate to continue to finance the Firm *over* the next year. No additional capital injections are considered necessary and the Firm expects to continue to be profitable.

Risk Management

The Firm has established a risk management process in order to ensure that it has effective systems and controls in place to identify, monitor and manage risks arising in the business. The risk management process is overseen by the Firm's members.

As risks are identified within the business, appropriate controls are put in place to mitigate these and compliance with them is monitored on a regular basis. The frequency of monitoring in respect of each risk area is determined by the significance of the risk. The Firm does not intend to take any risks with its own capital and ensures that risk taken within the portfolios that it provides advice to is closely monitored. The results of the compliance monitoring performed is reported to the partners by the Compliance Officer.

Operational Risk

The Firm places strong reliance on the operational procedures and controls that it has in place in order to mitigate risk and seeks to ensure that all personnel are aware of their responsibilities in this respect.

The Firm has identified a number of key operational risks. These relate to disruption of the office facilities, system failures, trade failures and failure of third party service providers. Appropriate policies are in place to mitigate against risks, including appropriate insurance policies and business continuity plans.

Credit Risk

The main credit risk to which the Firm is exposed is in respect to the failure of its debtors to meet their contractual obligations. The majority of the Firm's receivable is related to investment management activities. The Firm believes its credit risk exposure is limited since the Firm's revenue is ultimately related to management fees received from funds. These management fees are drawn throughout the year from the funds managed. Other credit exposures include bank deposits and office rental deposits.

The Firm undertakes periodic impairment reviews of its receivables. All amounts due to the Firm are current and none have been overdue during the year. As such, due to the low risk of non-payment from its counterparties, management is of the opinion that no provision is necessary. A financial asset is overdue when the counterparty has failed to make a payment when contractually due. Impairment is defined as a reduction in the recoverable amount of a fixed asset or goodwill below its carrying amount.

The Firm has adopted the standardised approach to credit risk, and therefore follows the provision within BIPRU 3 standardised credit risk of the FCA handbook. The Firm applies a credit risk capital component of 8% to its non-trading book risk weighted exposure. As the Firm does not make use of an external credit rating agency, it is obligated to use a risk weight of 100% to all non-trading book credit exposures, except cash and cash equivalents which are held by investment grade firms and currently attract a risk weighting of 20%.

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The table below sets forth the Firm's credit exposures and corresponding capital resource requirements as at 31 December 2015:

Solo Basis	**Credit Exposure**	**Capital Resource Requirement**
National Governments	£74,885	£0
Tangible fixed assets	£218,643	£218,643
Due from affiliates – within 3 months	£6,909,878	£1,381,976
Due from affiliates – after 3 months	£30,194,408	£30,194,408
Cash at bank	£1,733,564	£346,713
Prepayments	£149,309	£149,309
Other	£152,361	£152,361
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Total	£39,433,048	£32,443,410
	=========	=======
Credit Risk Capital Component (8% of risk weighted exposure)		**£2,595,473**

Group Basis	**Credit Exposure**	**Risk Weighted Exposure**
National Governments	£74,885	£0
Tangible fixed assets	£218,643	£218,643
Due from affiliates – within 3 months	£6,909,878	£1,381,976
Due from affiliates – after 3 months	£30,194,408	£30,194,408
Cash at bank	£2,298,842	£459,768
Prepayments	£149,564	£149,564
Other	£877,595	£877,595
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Total	**£40,723,815**	**£33,281,953**
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Credit Risk Capital Component (8% of risk weighted exposure)		**£2,662,556**

Market Risk

Since the Firm holds no trading book positions on its own account, and all bank accounts are in GBP and all advisory fee income is in GBP, the Firm's exposure to foreign currency risk is not significant. Since the settlement of debtor balances take place without undue delay, the timing of the amount becoming payable and subsequently being paid is such that it is not considered to present a material risk to the Firm. The Firm has excluded Market risk on the basis that it is not a material risk to the Firm.

Remuneration Code

The Firm has adopted a remuneration policy and procedures that comply with the requirements of chapter 19C of the FCA's Senior Management Arrangements, Systems and Controls Sourcebook (SYSC), as interpreted in accordance with the FCA's guidance publication entitled "General Guidance on Proportionality: The Remuneration Code (SYSC 19C) & Pillar 3 Disclosures on Remuneration (BIPRU 11)" and subsequent items of guidance issued by the FCA, including its document entitled "Frequently Asked Questions on the Remuneration Code".

As a BIPRU limited licence firm, the Firm falls within proportionality level 3. The Firm has concluded, on the basis of its size and the nature, scale and complexity of its legal structure and business that it does not need to appoint a remuneration committee. Instead, the Governing Body sets, and oversees compliance with, the Firm's remuneration policy including reviewing the terms of the policy at least annually.

As at 31 December 2015, the Firm currently sets the variable remuneration of its partners and staff in a manner which takes into account partner and firm performance, by reference to individual performance, performance of the Firm. As permitted for firms falling within proportionality level 3, the Firm takes into account the specific nature of its own activities (including the fee based nature of its revenues) in conducting any ex-ante risk adjustments to awards of variable remuneration and, given the nature of its business, has disapplied the requirement under the Remuneration Code to make ex-post risk adjustments.

The Firm only has one "business area", namely its investment management business. All of the Firm's Code Staff fall into the "senior management" category of Code Staff for the purposes of the Remuneration Code. The aggregate "remuneration" (as defined in the FCA Rules) awarded to the firm's Code Staff during the financial year ending on the accounting reference date was £18,408,854.