Pillar 3 Disclosures
Reference Date: 31 December 2019

1 Table of Contents

1. Background

The purpose of this document is to set out the Pillar 3 disclosures of Algebris (UK) Limited ("Algebris" or the "Firm") as at 31 December 2019, (Reference Date).

Algebris is a Collective Portfolio Management Investment Firm (CPMI) authorised under AIFMD but permitted to undertake Additional Activities (per AIFMD Art.6(4)). Being permitted to undertake Additional Activities CPMI are subject to ICAAP and Pillar 3 Disclosure.

Algebris, as a CPMI, is authorised and regulated by the Financial Conduct Authority (FCA). Algebris is subject to the GENPRU/BIPRU as a BIPRU CPMI.

2. Scope & Basis of Disclosure

Algebris benefits from the FCA Capital Requirements Regulation derogation which allows it to carry forward CRD III rules as at 31 December 2013 and as result this Pillar 3 document has been prepared in accordance with Chapter 11 of the BIPRU section of the FCA Handbook. There may be information that is regarded by the Firm as immaterial or proprietary and confidential, and where this is the case such information has been excluded in accordance with BIPRU 11.

Algebris is required to meet the prudential requirements of AIFMD (the Main Requirement under IPRU(INV)11.2 and 11.3) and as a CPMI (the Additional Requirement under IPRU(INV)11.6), so far as it's Additional Activities only. The Additional Requirement's capital adequacy framework consists of three pillars:

Pillar 1 – sets out the minimum capital requirements that should be calculated on the mandated risks of a CPMI firm.

Pillar 2 – focuses on the Internal Capital Adequacy Assessment Process ("ICAAP") undertaken by the Firm and the adequacy of the capital held by the Firm in relation to the risks it faces that are not covered or adequately covered in Pillar 1.

Pillar 3 – is the public disclosure of the Firm's risk management policies, capital resources and capital requirements.

The disclosure in this document sets out the key risks facing Algebris, how they are managed and how it has satisfied itself that it has sufficient capital in respect of those risks. This document is published on the Algebris website (https://www.algebris.com).

3. Capital Resources

3.1 Own Funds

The Firm maintains sufficient capital to meet its regulatory requirements and takes a prudent approach when managing its capital base. The amount and type of capital resources of the Firm at 31 December 2019 is set out in the table below:

	€m
Core Tier 1 Capital	
Permanent Share Capital	**0.3**
Share Premium	1.5
Audited Reserves	67.4
Less: Deductions	-
Tier 1 Capital	**69.2**
Total Capital Resources (Own Funds)	**69.2**

3.2 Pillar 1 Capital Requirements

As a CPMI firm, Algebris is required to hold Pillar 1 capital in excess of the following:

The Main Requirement (IPRU(INV)11.3)

Higher of (a) or (b) plus (c):

(a) Capital resource requirement for externally managed Alternative Investment Funds ("AIFs") of €125,000;

(b) The higher of:

i. Funds Under Management Requirement which is calculated as €125k plus 0.02% of Funds Under Management, as defined, in excess of €250 million (where Funds Under Management is calculated as the sum of all AIFs Managed by the Firm as an AIFM); and

ii. Fixed Overheads Requirement ("FOR") which is calculated as 25% of the Firm's audited fixed overheads from the most recent audited financial period; plus

(c) Professional Negligence Capital Requirement which is calculated as 0.01% of AIF's Funds Under Management.

The Additional Requirement (IPRU(INV)11.6.4)

In the event that the sum of BIPRU 3 (the Credit Risk Component) and BIPRU 7.5 (the Foreign Exchange Position Risk Requirement) is higher than the Main Requirement's Main Requirement then Algebris' Pillar 1 Minimum Requirement is the Additional Requirement, plus the Professional Negligence Capital Requirement.

The Own Funds Requirement of Algebris as at 31st December 2019 is set out in the table below:

	€m
(a) Base Own Funds	0.125
(b) Higher of:	
(i) Funds Under Management Requirement;	0.78
(ii) Fixed Overhead Requirement Plus (c);	6.32
Where:	
(c) Professional negligence capital requirement	0.36
(These are higher than the Additional Requirement detailed below)	
Own Funds Requirement as a CPMI Firm	**6.68**

As a CPMI authorised under AIFMD, with licence to undertake Additional AIFMD activities, the Firm is required to comply with the applicable requirements of the sourcebooks set out in IPRU-INV 11.6.1G (Additional Requirements calculated below) in respect of its designated investment management business, in parallel with its requirements under IPRU-INV 11.2 and 11.3 (main requirements calculated above).

As a result, the Firm is required to calculate Credit Risk and Market Risk capital requirements for the purpose of calculating the variable capital requirement under GENPRU 2.1.40R.

The Firm's Pillar 1 Additional Requirements are determined at 31st December 2019 as being the higher of:

a) The sum of Credit Risk and Market Risk; and
b) Fixed Overhead Requirement

	€m
Credit Risk	6.5
Market Risk	1.7
(a) Sum of Credit & Market Risk	**8.2**
(b) Fixed Overhead Requirement	**6.68**
Pillar 1 Capital Requirement	**8.2**
Own Funds	**69.2**
Surplus of Own Funds	**61.0**

The Firm's Pillar 1 capital as at 31st December 2019 is therefore determined as the sum of credit and market risk of €8.2m.

As a BIPRU CPMI firm, the Pillar 1 capital requirements for the Firm does not include an operation capital component. This, along with all other risks the Firm is subject to and not covered by Pillar 1, is considered as part of the Pillar 2 Capital Requirements.

3.3 Pillar 2 Capital Requirements

Pillar 2 requires the Firm to assess all risks applicable that are not covered or adequately covered under Pillar 1. The Risk Register is a document used by Algebris to help capture and monitor these risks; the document is formally approved by the Board on an annual basis.

The Risk Register goes one step further to then understand the control environment surrounding the risk and identify any potential weaknesses. This information allows a score to be assigned to the identified risk by taking into account the likelihood and impact of the risk occurring.

Business risk is any internal or external risk that impacts the ability to execute the Firm's business strategy. As part of the risk assessment process the Firm has identified a number of business risks and these include the following:

Risk	Definition
Market	The risk to earnings or value that arises from adverse movements in equity and commodity prices, interest and/or foreign exchange rates. As a limited licence BIPRU Investment Firm, Algebris does not take principal risk. The only potential exposures are non-trading book exposures, i.e. from foreign exchange losses on assets or liabilities in foreign currencies. The exposure to this risk is limited given most fees earned by Algebris are in its functional currency. Income earned in other currencies is minimal and is used to cover liabilities in those respective currencies.
Credit	The risk to earnings and capital arising from an obligor's failure to meet the terms of a contract or its failure to perform as agreed. The Firm is exposed to credit risk through its cash deposits, trade debtors, intercompany balances and the monthly management fees earned. Algebris will hold all cash with banks with whom the Firm has a strong, well-established relationship with and who typically have a minimum Moody's or S&P investment grade rating. All funds managed by Algebris are monitored on a daily basis and impose limited credit default risk.
Liquidity	The objective in managing liquidity is to ensure, as far as possible, under both normal and adverse conditions, that Algebris always have sufficient liquidity to meet its liabilities when they fall due. As part of the ICAAP process, the liquidity risk is stress tested using forecasts and scenario testing. The Firm's cash balances, and aged creditors are monitored regularly by the Chief Finance Officer ("CFO") and working capital levels are assessed monthly.

Operational	Relates to people, processes, systems, cyber/information security and external events. The Firm has a number of tools to help manage the operational risk at Algebris. These include an operational risk framework, Risk Register, events log and operational risk committee. See Section 4 Risk Management Framework and Section 5 Risk Appetite and Governance for a better understanding for some of these tools used.
Concentration	Algebris endeavours to diversify its product range and client base in order to lessen the risk of increased volatility in Assets under Management (“AuM”) and earnings resulting from investment underperformance or the departure of key clients. Algebris are not specifically dependant on any one investor.

For each risk in the Risk Register the financial impact is calculated. More specifically, an assessment is performed to determine if the impact could result in the erosion of Firm’s capital base and if so, determine amount of capital that is required to cover it. The impact will be in the form of a ‘one-off’ hit; e.g. compensation, replacement costs and/or a loss of AuM/revenue.

Algebris has identified a total of 142 risks scenarios as part of the risk assessment and projected the respective financial impact of each. Where Algebris becomes loss making due to the scenario/impact(s), Algebris will need to hold capital against this risk materialising. For the Pillar 2 capital requirement, Algebris takes the largest potential impact from the analysis and adds this to the Firm’s Credit Risk and Market Risk Requirements.

4. Risk Management Framework

Risk management at Algebris is used to:

- Identify and define ownership of risks;
- Quantify an acceptable level or risk;
- Put in place the necessary controls and procedures for the risks identified and in the context of the overall risk appetite;
- Ongoing monitoring of the identified risk for escalation as needed.

The Algebris Risk Policy provides high level guidance on the risk management philosophy. The Algebris Risk Framework is instead an operational document which outlines how the policy is implemented in practice.

The following principles govern risk management:

- The Algebris Board is accountable for risk management across the Group and delegates responsibility for certain risk management activities to the Executive Committee ("ExCo").
- The ExCo is supported in risk management by additional sub-committees. The responsibilities of these committees are defined under Section 5 Risk Appetite & Governance.
- The Board and ExCo take the lead in promoting a risk aware culture.
- The Board by taking into consideration the business strategy sets the risk appetite.

Overarchingly, risk management is the responsibility of all staff and it is part of their daily activities. This is achieved by having a strong embedded risk based culture and robust systems and controls.

5. Risk Appetite & Governance

The risk appetite of Algebris is expressed through the Algebris Risk Policy and defines the types and degree of risk that Algebris is willing to accept in order to execute its business strategy. This policy is utilised in conjunction with the Algebris Risk Register and the Internal Capital Adequacy Assessment Process ("ICAAP") report.

Overall, the Firm's appetite for risk is low as it does not carry out any propriety trading activities and does not have permission to hold client money.

The Board has ultimate responsibility for the Firm's risk strategy and for determining the appropriate risk appetite. To help with the risk governance, the following committees are in place:

Committee	Responsibilities
Management	• Execution of the business strategy defined by the Board • Responsible for the identification, assessment and management of most risk categories through its day-to-day management. • Receives up to date reports on issues and risks arising from various departments through regular meetings with department heads.
Investment Risk	• Co-chaired by the Chief Risk Officer ("CRO") and Chief Investment Officer ("CIO") and includes all members of the investment and risk team. • Provides strategic oversight of the key market driven risks in the portfolios, including hedging program. • Sets limits and risk framework to be adhered to at all times.
Operational Risk	• Sets policies and provides oversight relating to the operational risks internally identified. • Reviews the effectiveness of the control environment designed to mitigate operational risks. • Promotes staff awareness of the operational risks and the mitigating controls, policies and procedures in place.
Valuation	• Reviews the Firm's fund accounting arrangements • Provides oversight and governance of the valuation and pricing procedures for all UCITS, AIF's or any other mandates managed by Algebris. • Addresses difficult to value pricing scenarios.

Algebris regularly monitors its capital against its risk profile and business strategy. This is documented at least annually in the ICAAP report.

6. Remuneration Disclosure

Algebris is a CPMI subject to the AIFMD's Remuneration Code (set out as at SYSC19B. Also as classified as a BIPRU Firm it is also subject to the BIPRU Remuneration Code (set out at SYSC19C) but as Algebris complies fully with the provisions of SYSC19B, per SYSC19C.1.1A, it is not required to comply also with the BIPRU Remuneration Code. The Firm discloses remuneration under the provisions of AIFMD in the annual Report to Investors.