BNY MELLON

2015 PILLAR 3 DISCLOSURE

AS OF DECEMBER 31, 2015

Alcentra Asset Management

Pillar 3 Disclosure Report

December 31, 2015

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1 Introduction

1.1 Disclosure policy

This document comprises the Alcentra Asset Management Limited (AAM) Pillar 3 disclosures on capital and risk management as at 31 December 2015. These Pillar 3 disclosures are published in accordance with the requirements of the Capital Requirements Regulation (CRR) and the Capital Requirements Directive (CRD) referred to together as CRD IV, which came into effect on 1 January 2014. CRD IV has the effect of implementing the international Basel III reforms of the Basel Committee on Banking Supervision within the European Union The Pillar 3 disclosure requirements are contained in Part Eight of the CRR, in particular articles 431 to 455.

Pillar 3 disclosures are required for a consolidated group and for those parts of the group covered by CRD IV. Pending implementation of the Basel III framework by The Bank of New York Mellon Corporation (BNY Mellon), the ultimate holding company, there is currently no comparable disclosure provided on a consolidated basis by Alcentra's parent company.

Information in this report has been prepared solely to meet Pillar 3 disclosure requirements of the entity noted, and to provide certain specified information about capital and other risks and details about the management of those risks, and for no other purpose. These disclosures do not constitute any form of financial statement on the business nor do they constitute any form of contemporary or forward looking record or opinion about the business.

This document has been prepared with reference to the specific UK business regulated by the Financial Conduct Authority (FCA) – Alcentra Limited ("Alcentra"). Alcentra is a wholly owned subsidiary company of AAM. AAM is not authorised to carry out regulated activities.

Unless indicated otherwise, information contained within this document has not been subject to external audit.

1.2 The Basel III Framework

Basel III is the international banking accord intended to strengthen the measurement and monitoring of financial institutions' capital. The Basel III framework was implemented in the European Union through the Capital Requirements Directive (CRD) and establishes a more risk sensitive approach to capital management. It is comprised of three pillars:

- **Pillar 1 – Minimum capital requirement:** establishes rules for the calculation of minimum capital for credit risk, counterparty credit risk, market risk and operational risk and capital resources requirements
- **Pillar 2 – Supervisory review process:** requires firms and supervisors to undertake an internal capital adequacy assessment process to determine whether the financial institution needs to hold additional capital against risks not adequately covered in Pillar 1 and to take action accordingly
- **Pillar 3 – Market discipline**: complements the other two pillars and effects market discipline through public disclosure showing an institution's risk management policies, approach to capital management, its capital resources and an analysis of its credit risk exposures

Wherever possible and relevant, the Board will ensure consistency between Pillar 3 disclosures, Pillar 1 reporting and Pillar 2 ICAAP content.

1.3 Purpose of Pillar 3

Pillar 3 requires the external publication of exposures and associated risk weighted assets and the approach to calculating capital requirements for the following risk and exposure types:

- Credit risk

- Counterparty credit risk
- Market risk
- Credit valuation adjustment
- Securitisations
- Operational risk

Not all of the above risk and exposure types are relevant to Alcentra. These Pillar 3 disclosures only focus on those risk and exposure types relevant to Alcentra.

Alcentra includes both quantitative and qualitative disclosures to show the relevant information and describe its approach to capital management, its capital resources and an analysis of its credit risk exposures. The disclosures also include, where appropriate, comparative figures for the prior year and an analysis of the more significant movements to provide greater insight into its approach to risk management.

1.4 Non-material, proprietary or confidential information

In accordance with CRD IV, the Board may omit one or more disclosures if the information provided is not regarded as material. The criterion for materiality used in these disclosures is that Alcentra will regard as material any information where omission or misstatement could change or influence the assessment or decision of a user relying on that information for the purpose of making economic decisions.

Furthermore, the Board may omit one or more disclosures if the information provided is regarded as proprietary or confidential. Information is regarded as proprietary if disclosing it publicly would undermine its competitive position. It may include information on products or systems which, if shared with competitors, would render an institution's investment therein less valuable. In such circumstance, the Board will state in its disclosures the fact that specific items of information are not disclosed and the reason for non-disclosure. In addition it will publish more general information about the subject matter of the disclosure requirement except where these are to be classified as secret or confidential.

Alcentra undertakes no obligation to revise or to update any forward looking or other statement contained within this report regardless of whether or not those statements are affected as a result of new information or future events.

1.5 Frequency and means of disclosure

Disclosure will be made annually based on calendar year end and will be published in conjunction with the preparation of the Annual Report and Financial Statements. Alcentra will reassess the need to publish some or all of the disclosures more frequently than annually in light of any significant change to the relevant characteristics of its business including disclosure about capital resources and adequacy, and information about risk exposure and other items prone to rapid change.

This policy will be periodically reassessed and updated in light of market developments associated with Pillar 3.

Disclosures will be published on Alcentra's website (www.alcentra.com) in the Regulatory Information Section.

1.6 Board Approval

These disclosures were approved for publication by AAM's Board of Directors on 15/12/2016. The Board has verified that they are consistent with formal policies adopted regarding production and validation and are satisfied with the adequacy and effectiveness of the risk management arrangements.

1.7 Post Year-end Events

In relation to the assessment and monitoring of economic, political and regulatory risks, Alcentra's is continuing to evaluate the impact of the outcome of the recent referendum in relation to the UK's membership of the EU on the company's business strategy and business risks in the short, medium and long term. In the short term there is no significant impact expected on the Alcentra's business activities, there will be no immediate change in business strategy, and it does not affect the going concern position of the company. Over the course of the expected two year transition period following a notification of intention to leave the EU, Alcentra will continue to closely monitor developments and will make appropriate changes to the business strategy once the outcome of the referendum result and its impact on the UK and European financial services industry is more certain.

2 Key Metrics

Table 1: Key Metrics - The following risk metric reflect Alcentra's risk profile.

Metric	2015		2014	
	£m	Ratio	£m	Ratio
Common equity tier 1 capital	176	58.9%	138	72.9%
Total tier 1 capital	176	58.9%	138	72.9%
Total capital	176	58.9%	138	72.9%
Risk weighted assets	290		189	

3 Scope of Application

3.1 Company Description

Alcentra is a wholly owned and an operationally independent subsidiary of BNY Alcentra Group Holdings Inc., which is, in turn, a subsidiary of the Bank of New York Mellon Corporation (BNYMC).

BNY Mellon is a global investments company dedicated to helping its clients manage and service their financial assets throughout the investment lifecycle. Whether providing financial services for institutions, corporations or individual investors, BNY Mellon delivers informed investment management and investment services in 35 countries and more than 100 markets. As at December 31 2015, BNY Mellon had $28.9 trillion in assets under custody and/or administration, and $1.6 trillion in assets under management.

Alcentra has regulatory permissions as an investment advisor and discretionary fund manager. Alcentra is considered an IFPRU limited licence firm under Basel III, meaning that it is not authorised to carry out MiFID activities to (1) deal on its' own account (A3); (2) provide the investment services of underwriting or placing financial instruments on a firm commitment basis (A6); or (3) hold client money or assets. For accounting and prudential purposes Alcentra reports on an individual basis.

Alcentra brings together a depth of knowledge in sub-investment grade corporate debt that covers the entire spectrum of investment possibilities – from Secured Loans and High Yield Bonds to Direct Lending & Mezzanine, Special Situations, Structured Credit and Multi-Strategy.

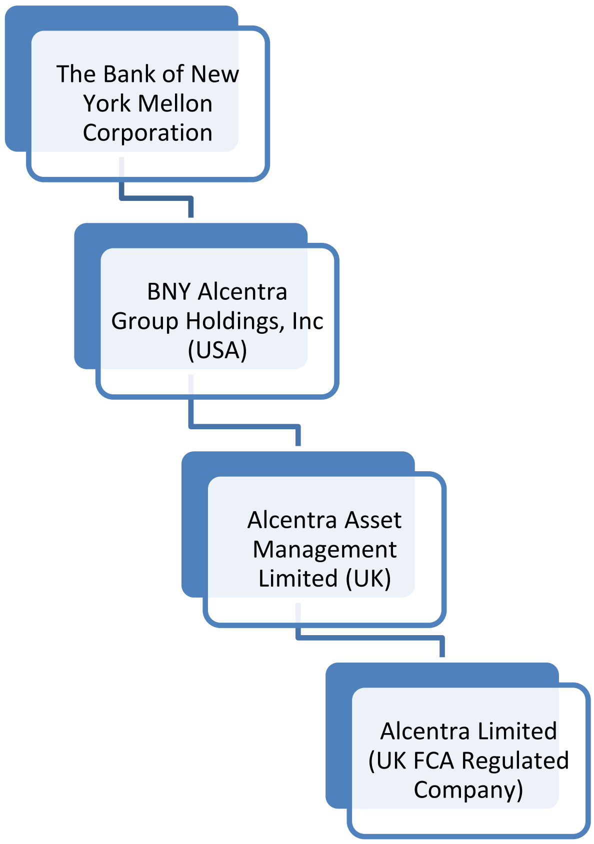
Alcentra works with investors around the world to help them make the most of the market opportunities. Alcentra's clients gain access through a large range of investment funds and where required we can help them build a portfolio tailored to their own specific needs and requirements.

Alcentra builds focused, capacity managed portfolios, offering clients access to its advanced yet transparent investment process through a range of funds. The core components of Alcentra's investment philosophy are a combination of top down investment strategy analysis, rigorous manager evaluation and detailed on-going monitoring.

The Board is not aware of any material impediments to the transfer of own funds or repayment of liabilities among the parent undertaking and its subsidiaries.

The corporate structure of Alcentra is illustrated in Figure 1.

Figure 1: Alcentra corporate structure



3.2 Core Business Lines

Alcentra has transitioned from a predominantly CLO based business to a credit manager specialising in alternatives. Alcentra has a number of key strategies of CLO, High Yield, Mezzanine, Direct Lending, Structured Credit, Special Situations and Multi Strategy through which the Group has continued to expand its product base through the launch and increase in AUM in its existing funds and managed accounts.

3.2.1 German Branch

In August 2014 a Structured Credit team from another BNYM Investment Management Boutique (Meriten) moved to join Alcentra in order to add more resource and expertise to this growing strategy. As part of this team move a number of funds which were managed by the team were outsourced/sub advised to Alcentra. As a result of this team move and outsourcing arrangements Alcentra Limited set up a Branch in Düsseldorf, Germany called Alcentra Ltd Zweigniederlassung Düsseldorf. In 2016 Alcentra's Directors decided to close the branch which occurred in 2016.

3.2.2 Risk Retention

Alcentra acts as the risk retention holder for CLO issuances by acting as Sponsor or originator and holding the 5% retention stake. These investments can either be in the form of a vertical or horizontal strip of the underlying notes. Due to the lower risk associated with a vertical strip (c.80% of the investment will be in BBB rated paper and above) Alcentra has opted for this option to satisfy the ECB rules. At the end of 2015 Alcentra has launched 6 Risk Retention Compliant CLOs with a total of €133m invested in vertical strips.

4 Own Funds

This section provides an overview of the regulatory balance sheet and composition of Alcentra's regulatory capital. There are a number of differences between the balance sheet prepared in accordance with International Financial Reporting Standards (IFRS) and Pillar 3 disclosures published in accordance with prudential requirements.

Table 2: Regulatory balance sheet

This table shows a reconciliation of Alcentra's balance sheet prepared in accordance with IFRS and the regulatory balance sheet prepared under prudential rules. The regulatory balance sheet forms the basis for the calculation of regulatory capital requirements.

In GBP '000's

31 December 2015	Published Audited Financial Statements	Adjustments due Consolidation Scope	Adjustments due Transitional Provisions	Regulatory Prudential Adjustments	Regulatory Own Funds
Common Equity Tier 1					
Capital instruments	1,700	0	0	0	1,700
Retained earnings	174,557	0	0	0	174,557
Other compressive income	0	0	0	0	0
Reserves	43	0	0	-43	0
Minority interest	0	0	0	0	0
Other adjustments and assets deducted	0	0	0	0	0
Total CET1	176,300	0	0	-43	176,257
Additional Tier 1 Capital					
Capital instruments	0	0	0	0	0
Instruments issued by subsidiaries	0	0	0	0	0
Other assets deducted	0	0	0	0	0
Other prudential deductions	0	0	0	0	0
Other adjustments and assets deducted	0	0	0	0	0
Total AT1	0	0	0	0	0

Total Tier 1 (CET1 + AT1)	176,300	0	0	-43	176,257
Tier 2 Capital					
Capital instruments	0	0	0	0	0
Subordinated loans	0	0	0		0
Instruments issued by subsidiaries	0	0	0	0	0
SA - credit risk adjustments	0	0	0	0	0
Other asset deducted	0	0	0	0	0
Other adjustments and assets deducted	0	0	0	0	0
Total Tier 2 Capital	0	0	0	0	0
Total Own Funds	176,300	0	0	-43	176,257

Alcentra's regulatory capital is defined by CRD IV and includes:

Common equity tier 1 capital which is the highest quality form of regulatory capital under Basel III comprising common shares issued and related share premium, retained earnings and other reserves excluding the cash flow hedging reserve, less specified regulatory adjustments.

Tier 2 capital which is a component of regulatory capital under Basel III, mainly comprising qualifying subordinated loan capital, and eligible collective impairment allowances.

Table 3: Composition of regulatory capital

This table shows the composition of Alcentra's regulatory capital including all regulatory adjustments.

Own Funds	31-Dec-15	31-Dec-14
Common Equity Tier 1 (CET1)		
Capital instruments	1,700	1,700
Retained earnings	174,557	136,251
Other compressive income	0	0
Reserves and others	0	0
CET1 adjustments	0	-61
Total CET1	176,257	137,890
Additional Tier 1 Capital (AT1)		
Capital instruments	0	0
Others	0	0
AT1 adjustments	0	0
Total AT1	0	0
Total Tier 1 (CET1 + AT1)	176,257	137,890
Tier 2 Capital (T2)		
Capital instruments and subordinated loans	0	0
Others	0	0
T2 adjustments	0	0
Total Tier 2 Capital	0	0

Total Own Funds	176,257	137,890

Note: See Appendix 1 Detailed composition of regulatory capital according EU Reg. 1423/2013

Appendix 1: Transitional own funds disclosure at 31 December 2015

In GBP '000's

Equity Instruments, Reserves and Regulatory Adjustments	Amount at disclosure date	Subject to pre-CRR treatment or prescribed residual amount of CRR
Common Equity Tier 1 capital: Instruments and Reserves		
Capital instruments and the related share premium accounts	1,700	
of which: ordinary shares	1,700	
Retained earnings	174,557	
Common Equity Tier 1 (CET1) capital before regulatory adjustments	**176,257**	**0**
Common Equity Tier 1 (CET1) capital: regulatory adjustments		
Year-end non eligible earning adjustments	0	
Total regulatory adjustments to Common equity Tier 1 (CET1)	**0**	
Common Equity Tier 1 (CET1) capital	**176,257**	
Additional Tier 1 (AT1) capital: Instruments		
Capital instruments and the related share premium accounts	0	
Additional Tier 1 (AT1) capital before regulatory adjustments	**0**	
Additional Tier 1 (ATI) capital: regulatory adjustments		
Total regulatory adjustments to Additional Tier 1 (AT1) capital	**0**	
Additional Tier 1 (AT1) capital	**0**	
Tier 1 capital (T1 = CET1 + AT1)	**176,257**	
Tier 2 (T2) capital: Instruments and provisions		
Capital instruments and the related share premium accounts	0	
Tier 2 (T2) capital before regulatory adjustments	**0**	
Tier 2 (T2) capital: regulatory adjustments		
Total regulatory adjustments to Tier 2 (T2) capital	**0**	
Tier 2 (T2) capital	**0**	
Total capital (TC = T1 + T2)	**176,257**	

Total risk weighted assets	**299,285**
Capital ratios and buffers	
Common Equity Tier 1(as a percentage of risk exposure amount)	58.9%
Tier 1 (as a percentage of risk exposure amount)	58.9%
Total capital (as a percentage of risk exposure amount)	58.9%
Amounts below the thresholds for deduction (before risk weighting)	
Direct and indirect holdings by the institution of the CET1 instruments of financial sector entities where the institution has a significant investment in those entities(amount below 10% threshold and net of eligible short positions)	2,171
Applicable caps on the inclusion of provisions in Tier 2	
Capital Instruments subject to phase-out arrangements (only applicable between 1 Jan 2013 and 1 Jan 2022)	

Table 4: Common tier 1 and additional tier 1 instruments and tier 2 instruments

This table provides a description of the main features of regulatory instruments issued and included as either tier 1 or tier 2 capital in table 2.

Capital instruments main features [(1)] at 31 December 2015	Amount
Issuer	Alcentra Limited
Governing law(s) of the instrument	Law of England & Wales
Regulatory treatment	
Post-transitional CRR rules	Common Equity Tier 1
Eligible at solo/(sub-)consolidated / solo & (sub-)consolidated	Solo
Instrument type (types to be specified by each jurisdiction)	Ordinary shares
Amount recognised in regulatory capital (currency in million, as of most recent reporting date)	1.7
Nominal amount of instrument (millions)	1.7
Issue price	1
Accounting classification	Shareholders' equity
Original date of issuance	12-August-1994
Perpetual or dated	Perpetual
Original maturity date	No maturity
Issuer call subject to prior supervisory approval	No
Coupons / dividends	
Existence of a dividend stopper	No
Fully discretionary, partially discretionary or mandatory (in terms of timing)	Full discretionary
Fully discretionary, partially discretionary or mandatory (in terms of amount)	Full discretionary
Existence of step up or other incentive to redeem	No
Convertible or non-convertible	Non-convertible
Write-down features	No

Note: [(1)] this table is based on Annex II of ITS Regulation (EU) No. 1423/2013, not applicable lines were omitted.

5 Capital Requirements

Alcentra's capital plan aims to ensure that it holds an appropriate amount of capital to support its business model, allowing for growth and orderly contraction over the life cycle of the business, given a range of plausible but severe stress scenarios. Potential capital shortfalls are identified over a 5 year period and capital plans adjusted accordingly. The plan is reflective of Alcentra's risk appetite, which details a commitment to a strong balance sheet characterised by strong liquidity, superior asset quality and a capital structure which supports the risk taking activities and has the ability to absorb losses.

The plan is developed with input from Finance and the business lines.

Incorporating the projected earnings based on its business plan, Alcentra generates a 5 year forecast which forms the base foundation for financial modeling and stress testing used as part of the ICAAP process.

The capital plan effectively incorporates a view of Alcentra's current business model, the risks associated with that model, and an assessment of how those risks contribute to the amount of capital required, as per internal and external regulatory criteria.

5.1 Calculating capital requirements

CRD IV allows for different approaches for calculating capital requirements. Alcentra has chosen to use the standardised approach where risk weights are based on the exposure class to which the exposure is assigned and its credit quality. These risk weights used to assess requirements against credit exposures are consistent across the industry. The standardised approach is used for calculating the risk weights assigned to each risk component including credit risk, counterparty credit risk, market risk and operational risk.

Table 5: Capital requirements overview

This table shows the risk weighted assets using the standardised approach and their respective capital requirements

In GBP '000's

Type of Risk	Risk Exposure Amount		Capital Requirements	
	31-Dec-15	31-Dec-14	31-Dec-15	31-Dec-14
Credit risk SA*	101,625	53,911	8,130	4,313
Counterparty credit risk SA*	263	324	21	26
Securitisation risk in banking book SA*	187,189	125,335	14,975	10,027
Settlement risk	0	0	0	0
Market risk SA*	10,208	6,814	817	545
of which: Foreign exchange position risk	10,208	6,814	817	545
Operational Risk	0	0	0	0
of which: Basic indicator approach	0	0	0	0
of which: Standardised approach	0	0	0	0
of which: Additional amount due to fixed overheads	0	0	0	0
Credit valuation adjustment - standardised method	0	0	0	0
Related to large exposure in trading book	0	0	0	0
Other risk	0	0	0	0
Total	**299,285**	**186,384**	**23,943**	**14,911**
Total Capital			**176,257**	**137,890**
Surplus Capital			**152,314**	**122,979**

* SA = Standardised Approach

Alcentra maintains or exceeds the minimum capital ratios required to maintain a well-capitalised status and to ensure compliance with regulatory requirements at all times. Alcentra sets the internal capital target levels higher than the minimum regulatory requirements to ensure there is a buffer which reflects balance sheet volatility. These ratios have been determined to be appropriate, sustainable and consistent with the capital objectives, business model, risk appetite and capital plan.

6 Risk Management Objectives and Policies

6.1 Risk Objectives

Alcentra maintains a risk profile which is cautious in nature and remains cognisant of the risk/reward trade off. Investors in the funds managed by Alcentra are typically institutional clients such as pension funds and insurance companies, seeking exposure to credit and debt instruments. Alcentra has a comprehensive risk policy and due diligence process, the objective of which is to act as investment manager to those funds with high integrity, operational strength, solid infrastructure, consistent and repeatable investment processes.

Alcentra's principal activity is providing investment management services to its clients. The funds are administered by third party service providers. In some instances the third party service provider is a company within the Bank of New York Mellon Corporation.

The identification, measurement, monitoring and management of risk are essential elements for the success of operations undertaken by Alcentra, specifically:

- The Board recognises that defining a risk appetite must consider the views of a number of different stakeholders while accounting for business strategy and risk profile.
- The Board sees embedding the risk appetite into the business strategy as essential.
- The Board recognises that it cannot mitigate all risks. The risk framework includes standard risk management self-assessment tools that take into account loss history and stress testing to measure and monitor whether or not risk controls in place continue to remain effective.
- The Board will seek input from its own and group wide risk committees on a regular basis in the Board's reassessment of appetite and sources of major risks.

The Board adopts a prudent appetite to all elements of risk to which Alcentra is exposed.

6.2 Risk Governance

Risk oversight and management throughout Bank of New York Mellon Corporation is structured to cover regional level, legal entity and lines of business (LOB). A formal governance hierarchy is in place to ensure that all areas of the business can effectively escalate issues through the regional and global structure.

Governance of Alcentra is carried out through a regular meeting of the Board of Directors (BoD). The BoD consists of both Executive and Non-Executive members as listed below. During 2014 two independent Non-Executive members joined the BoD. The BoD is responsible for effective and prudent management and periodically assesses governance arrangements with a view to correcting deficiencies. To achieve this aim members of the BoD are selected on the basis of relevant industry knowledge, skills and expertise. Alcentra recognises the need for diversity in its recruitment policy. Alcentra is a subsidiary of the Bank of New York Mellon and complies with the group's policies on Diversity and Inclusion. This policy emphasizes a broad set of qualities and competency to be considers when recruiting.

The Alcentra BoD is responsible for the ongoing success and development of the Alcentra business. Objectives are set by the BoD and are set out in the boards Terms of Reference document.

The day to day decision making is the responsibility of the executive directors of Alcentra.

Governance of Alcentra is distinct from the governance of the investment funds for which Alcentra is appointed as investment manager. The fund Boards are responsible for monitoring the performance of Alcentra as an investment manager. The clear segregation of responsibility for the governance of Alcentra as a business entity and the fiduciary responsibility for the funds managed by Alcentra ensures that potential conflicts are managed and that the responsibilities of each Board are clear and distinct.

The Risk Committee meets on a monthly basis and comprises Alcentra Directors, several senior members of staff at Alcentra and the Risk Manager. The committee focus is the assessment and evaluation of all business risk. The Head of Risk and Compliance is responsible for the escalation of issues to the BoD. To ensure the Committee remains independent no portfolio manager sits on the Committee.

The BoD is satisfied that it has in place adequate risk management systems and are considered adequate in relation to the firms or file and strategy.

6.2.1 Board of Directors

The main duty and responsibility of the BoD is to define the strategy of Alcentra and to supervise the management of Alcentra. Whilst acting autonomously and in accordance with its legal and regulatory requirements, the Board aligns Alcentra's strategy to that of its primary shareholder. The Board has overall responsibility for the establishment and maintenance of Alcentra's risk appetite framework and for the approval of the risk appetite statement, which is developed in collaboration with the Chief Executive Officer (CEO), Head of Risk and Compliance and Chief Financial Officer (CFO). The Board must ensure that strategic and business plans are consistent with the approved risk appetite. The Board also has responsibility for

- Holding the CEO accountable for the integrity of the risk appetite framework.
- Seeking independent assessment, if deemed necessary of the integrity and robustness of the risk appetite framework by reference to stakeholder expectations.
- Understanding how strategic decisions alter the risk profile, and whether the strategic change would cause the risk appetite to be exceeded.

The Board meets at least quarterly and the directors who served during the year were:

Name	Position	Nationality	Number of directorships held	Appointed	Resigned
David Forbes-Nixon	Director		3		
Robert Bennett	Director		1		1st March 2016
James Algar	Director		1		4th August 2016
Daniel Fabian	Director		5	1st March 2016	
Greg Brisk	Director		49*		
Andrew Golding	Non-Executive Director		11		
Amir Eilon	Non-Executive Director		12		

*Directorships held within the same group count as a single directorship and directorships in non-commercial organisations are not caught by the rules. All Greg Brisk's directorships relate to BNYM Group Companies.

The Board is responsible for both the management and the oversight of risks together with the quality and effectiveness of internal controls but has delegated risk management oversight to general management, supported by the risk management committees. The Board is responsible for reviewing, challenging and approving all risk management processes including risk identification and assessment, stress testing and capital adequacy. The various control functions provide further support for the management of risk within the business.

Although the Company is a stand-alone business, as a subsidiary of a larger group the Company's board members also have the following reporting lines into BNYM:

- David Forbes-Nixon, CEO, reports into Mitchell Harris, President of BNYM Investment Management
- James Algar, Global Head of Risk and Compliance, reports into Chris Rexworthy, EMEA Head of Risk and Compliance, BNYM Investment Management
- Daniel Fabian, CFO, has a dotted line into the CFO of BNYM Investment Management.

Although continually monitored, there have been no significant changes in the Company's risk forums and risk management operating practices and procedures.

6.3 Risk Management Framework

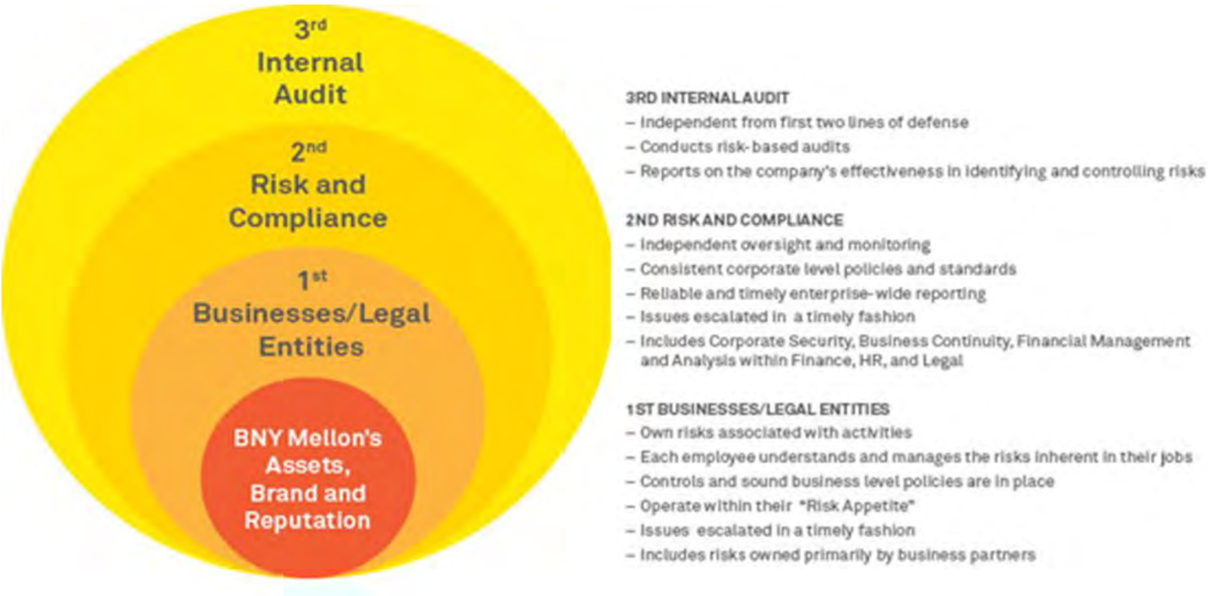
Alcentra's risk management framework helps ensure that all material risks are defined, understood, and effectively managed using well-designed policies and controls. Suitable policies and procedures have been adopted by Alcentra in order to ensure an appropriate level of risk management is directed at the relevant element of the business.

. Alcentra's risk management framework is designed to:

- Ensure that risks are identified, managed, mitigated, monitored and reported.
- Define and communicate the types and amount of risks to take.
- Ensure that risk-taking activities are consistent with the risk appetite.
- Monitor emerging risks and ensure they are weighed against the risk appetite.
- Promote a strong risk management culture that considers risk-adjusted performance.

In line with BNY Mellon's global policy, Alcentra has adopted the 'Three Lines of Defence' (3LOD) model in deploying its risk management framework (figure 2 below). The first line of defence (1LOD) is the business or, in some cases, business level. The business takes and owns the risk associated with activities, and it manages the risks and the related control processes and procedures on an operational basis. The risk management and compliance functions are the second line of defence (2LOD) and own the risk management framework and provide independent oversight of the 1LOD, ensuring that policies are adhered to and challenged. This also includes corporate security, business continuity, financial management and analysis within Finance. The third line of defence (3LOD) is Internal Audit, which independently provides the Alcentra Board and senior management with the assurance that the governance structures, risk management and internal controls in place are effective.

Figure 2: Three Lines of Defence



The risk management function monitors and identifies emerging risks with a forward-looking approach. It provides risk management information reporting to the Alcentra Board and governance committees, and contributes to a "no surprise" risk culture. It aligns closely with Compliance (2LOD) and Internal Audit (3LOD) plus Finance (as 1LOD control functions). It independently educates staff, promotes risk awareness and continually makes improvements, whilst monitoring progress against defined success criteria for improving the effectiveness of the risk function.

Alcentra's Board adopts a prudent appetite to all elements of risk to which it and its subsidiaries are exposed. Business activities will be managed and controlled in a manner consistent with the Board's stated tolerances using defined quantitative and qualitative measurements.

The Board has sought to establish a clear set of tolerances for its business and has articulated its appetite through a series of statements and metrics.

The risk management tools include the reporting and monitoring of top risks, risk and control self-assessment, key risk indicators, reporting of operational risk events, information on credit risk, market risk, and liquidity risk profiles. Stress testing is used to analyse a range of appropriate scenarios of varying nature, severity and duration relevant to the Alcentra risk profile. A range of forward-looking stress test scenarios are considered and undertaken on a quarterly basis.

Alcentra's risk profile is recorded through a number of risk assessment tools, further explained below.

6.4 Risk Appetite

BNY Mellon defines risk appetite as the maximum level of risk it is normally willing to accept while pursuing the interests of major stakeholders, including clients, shareholders, employees and regulators i.e. it considers the balance between risk and reward aligning the strategic goals and the overall risk. At entity level it is linked to the strategic direction set by senior management and is approved by the Alcentra Board.

Alcentra's Risk Appetite Statement is owned and approved by the Board. It describes the level of risk that the Board is willing to accept in its strategy and business activities, given its business objectives and obligations. The statement applies to all subsidiaries and is reviewed at least annually or when the Company's risk profile changes.

Alcentra uses a variety of metrics to measure and monitor its risk taking activities relative to its risk appetite. Capital represents one of the core elements of the risk appetite. Articulating risk appetite through its metrics aids important decision-making by determining actions such as pursuing new products and enterprises, exiting businesses, and aligning resources to maximise potential gains given acceptable levels of risk.

Thresholds are established to measure the performance of the business against its risk appetite. The metrics are actively monitored, managed and mitigated through both the Alcentra risk management committee and the BNYM EMEA Investment Management Risk Committee (IMRC), to ensure that the performance of business activities remains within risk tolerance levels. Where residual risks remain (which are within Alcentra's risk appetite), Alcentra will allocate capital as provision against potential financial loss.

6.5 Risk and Control Self-Assessment

Risk and Control Self-Assessment (RCSA) is used by business lines to identify risks associated with their key business processes and to complete a detailed assessment of the risk and associated controls. RCSA control gaps and action plans form part of the standard risk management report to the Alcentra risk management committee and the IMRMC which ensures that, although the RCSA process is owned by the line of business in conjunction with risk management, the IMRMC has oversight of risk to the business and of the key exception items relating to Alcentra on an on-going basis.

6.6 Key Risk Indicators

Key Risk Indicators (KRIs) are used by business lines to evaluate control effectiveness and residual risk within a business process. Material risks are monitored by appropriate KRIs. Alcentra utilise the corporate-wide KRI process to monitor the extent to which the probability of the high inherent risks materialising is changing and to ensure that appropriate actions are being taken. KRI reporting and monitoring is performed monthly at a minimum using a Red/Amber/Green rating.

6.7 Emerging Risk Impact and Priority

Risks are prioritised by key representatives from Alcentra according to the assessment of the inherent risk, quality of controls in place to mitigate risk and reduce the likelihood of each residual risk. Risks are prioritised as 'High,' 'Moderate to High,' 'Moderate,' 'Moderate to Low' and 'Low' with direction anticipated. The top risks assessed form part of the Risk Management and Board reporting. Emerging and high priority risks are also reported to the IMRC.

6.8 Operational Risk Events

All operational losses and fortuitous gains are recorded locally by Alcentra with those exceeding $10k additionally recorded in the risk management platform, completeness being verified by reconciliation to the general ledger. Risk events are categorised and reported to the IMRC monthly.

6.9 Credit Risk

Credit risk is the risk of default from counterparties or clients for deposits, loans, commitments, securities and other assets where the realisation of the value of the asset is dependent on its ability to perform.

Credit risk within Alcentra arises due to exposure to receivables from funds (institutional clients) to which Alcentra provides discretionary investment management or advisory services and to seed capital investments in CLO tranches.

6.10 Market Risk

Market risk is the risk to a firm's financial condition arising as a result of adverse movements in the markets, such as foreign currency exchange rates. The only source of Market risk facing Alcentra was from foreign exchange exposure resulting from the retranslation of our non-functional currency balances held on our balance sheet. There is no trading book risk.

6.11 Risk Register

The Risk Register is a risk management tool used for the assessment and documentation of risks associated with an entity. The risk register is created using risk data extrapolated from business risk and control self-assessments, and consultation with business heads. Detailed risk mitigation plans for top risks are owned and maintained by risk and action owners and these plans are also made available to the BNY EMEA Investment Management Risk Management for oversight and challenge. The risk register is a living document and is updated regularly, and at least annually.

6.12 Top Risks

Top risks are identified through high level assessment undertaken with the Alcentra Board, and the risk management committee according to the assessment of the inherent risk, quality of controls in place to mitigate risk and likelihood to identify residual risk. Top risks are rated as 'High,' 'Moderate to High,' 'Moderate,' 'Moderate to Low' and 'Low' with direction anticipated. The top risks assessed form part of the Risk Management Committee and Board meetings reporting. Top risks are also reported into the IMRC. Alcentra's risk profile is recorded through a number of risk assessment tools and the risk management team prepares and updates the top risk assessment which is reviewed and approved by Alcentra's Board.

6.13 Stress Testing

Stress testing is undertaken at Alcentra to monitor and quantify risk and capital and ascertain that sufficient capital resources are held against risks on a forward-looking basis. The process reflects stressed scenarios that identify an appropriate range of adverse circumstances of varying nature, severity and duration relevant to Alcentra's risk profile. Alcentra's stress testing process conclusion is a statement of the future risk(s) that the business faces, control improvements to mitigate the impact should the risk arise and where appropriate, a recommendation for capital to be held against each risk type.

Scenarios are derived from current, emerging, and plausible future risks and strategy, and reviewed, discussed and agreed by Alcentra's risk management and Board.

6.14 Escalation of Risks and Issues

A robust framework exists for monitoring and escalation of issues and risks. If a material risk issue occurs, the EMEA Governance Guide for reporting and escalation of material issues and risks is followed. Business management is required to notify senior management, which includes Alcentra Board members, soon after determination. Risk management is responsible for supporting the business lines in achieving the following:

- Identifying and documenting all material risks, assessing the effectiveness of control design, and ensuring that control gaps are closed.
- Developing and implementing standards and policies appropriate for the business that conform to the principles and guidelines established by Risk.
- Elevating, reporting and investigating operating errors, losses and near misses, identifying the root causes and implementing corrective actions.

- Reviewing key indicators for coverage and effectiveness, identifying root causes for red and amber conditions and ensuring implementation of corrective actions.
- Approving the process to accept new business, including 'Request for Proposal' preparation, contract acceptance and compliance, and challenging whether Alcentra is being compensated appropriately for the assumption of risk.
- Reviewing the impact of changes in business processes on inherent risks and controls such as reorganisations, new products or processes, system conversions and acquisitions, etc.
- Ensuring that processes, risks, and controls are continually reassessed for appropriateness and completeness.

Management information is used to monitor the performance of the transaction processing and support services including specific risk exposures (e.g. cash and securities reconciliation breaks) and red/amber/green ratings in respect of the health of the operational functions.

6.15 Recovery & Resolution Planning

In 2014, recovery and resolution plans (RRP) were prepared for submission to the PRA in accordance with Supervisory Statement SS18/13 for BNYMIL. The RRP is designed to ensure that the BNYMIL group has credible and executable options to meet the challenges that may arise from potential future financial crises.

7 Credit Risk

7.1 Definition and Identification

Credit risk is the risk of default from counterparties or clients for deposits, loans, commitments, securities and other assets where the realisation of the value of the asset is dependent on its ability to perform.

Credit risk within Alcentra arises due to exposure to receivables from funds (institutional clients) to which Alcentra provides discretionary investment management or advisory services and to seed capital investments in CLO tranches.

7.2 Credit Risk Management Framework

The Finance Team in conjunction with the Global Operations team monitor Alcentra's exposure to management fee receivables on a day to day basis. Management fees are embedded in Global Operations procedures relating to oversight of the various fund's waterfall payments on an ongoing basis. Fees are tracked and if the risk of non-payment is identified this is immediately escalated to the Finance Team.

In relation to inter-company credit risk, Alcentra's finance team is responsible for and controls all Alcentra Group inter-company lending/borrowing. Although Alcentra Limited has lent a large amount of cash to other Group entities, the net assets of the Alcentra Group are greater than the inter-company borrowings and hence will remain solvent even in the extreme event of all inter-company borrowings being written off.

Since July 2013 due to the ECB rules affecting CLO managers, Alcentra is required to invest 5% of the total CLO fund size as either a vertical or horizontal strip of the underlying notes. Due to the lower risk associated with a vertical strip (c.80% of the investment will be in BBB rated paper and above) Alcentra has opted for this option to satisfy the ECB rules. Investing in CLOs has resulted in an additional credit risk exposure.

7.3 Analysis of Credit Risk

Credit risk exposure is computed under the standardised approach which uses external credit assessment institution ratings and supervisory risk weights supplied by external credit assessment agencies. The following credit risk exposure tables summarise the credit exposure for Alcentra in accordance with the CRD IV requirements.

The following definitions are used in the tables:

Exposure at Default (EAD) is defined as the amount expected to be outstanding, after any Credit Risk Mitigation, if and when counterparty defaults. Exposure reflects drawn balances as well as allowance for undrawn amounts of commitments and contingent exposures over a one-year time horizon. As such, exposure in this context may differ from statutory IFRS accounting balance sheet carrying values.

Credit Risk Mitigation (CRM) is defined as a technique to reduce the credit risk associated with an exposure by application of credit risk mitigants such as collateral, guarantees and credit protection.

Geographic area is based on the continental location for the counterparty.

Residual maturity is defined as the period outstanding from the reporting date to the maturity or end date of an exposure.

Table 6: Credit Risk Pre and Post Credit Risk Mitigation Techniques (CRM) - Standardised Approach by Exposure Class

This table shows the standardised gross credit exposure by exposure class as at 31 December 2015 and the comparative amounts at 31 December 2014.

In GBP '000's

Credit Risk - Exposure at Default (EAD) Pre CRM by Exposure Class	EAD pre CRM		Average EAD pre CRM	
	31-Dec-15	31-Dec-14	31-Dec-15	31-Dec-14
Central governments or central banks	0	0	0	0
Corporates	77,227	18,455	54,033	46,952
Covered bonds	0	0	0	0
Institutions	82,429	81,309	75,239	52,817
Multilateral development banks	0	0	0	0
Other items	3,798	2,523	5,110	1,912
Public sector entities	0	0	0	0
Equity	0	12,149	0	3,037
Total	163,454	114,436	134,383	104,718

In GBP '000's

Credit Risk - EAD post CRM & CCF by Exposure Class	EAD post CRM & CCF		Risk Weight Amount		Capital Requirement	
	31-Dec-15	31-Dec-14	31-Dec-15	31-Dec-14	31-Dec-15	31-Dec-14
Central governments or central banks	0	0	0	0	0	0
Corporates	77,227	18,455	78,084	18,873	6,247	1,510
Covered bonds	0	0	0	0	0	0
Institutions	82,429	81,309	16,486	16,262	1,319	1,301
Multilateral development banks	0	0	0	0	0	0
Other items	3,798	2,523	7,055	5,748	564	460
Public sector entities	0	0	0	0	0	0
Equity	0	12,149	0	13,028	0	1,042
Total	163,454	114,436	101,625	53,911	8,130	4,313

Note**:** EAD (Exposure at Default), CRM (Credit Risk Mitigation), CCF (Credit Conversion Factors).
The difference between EAD pre CRM and EAD post CRM is represented by credit risk mitigants.

In GBP '000's

Securitisation Exposures as Sponsor Standardised Approach by Risk Weight	Exposure		Risk Weight Amount		Capital Requirement	
	31-Dec-15	31-Dec-14	31-Dec-15	31-Dec-14	31-Dec-15	31-Dec-14
20%	69,350	50,677	13,870	10,135	1,110	811
50%	6,040	4,517	3,020	2,258	242	181
100%	4,960	3,715	4,960	3,715	397	297
350%	6,117	4,918	21,408	17,212	1,713	1,377
1250%	11,514	7,361	143,931	92,015	11,514	7,361
Total	97,981	71,187	187,189	125,335	14,975	10,027

Table 7: Credit Risk Pre Credit Risk Mitigation Techniques (CRM) - Standardised Approach by Geographical Area

This table shows the EAD pre CRM by credit exposure class by geographic area of the counterparty.

In GBP '000's

SA Credit Risk by Exposure Class at 31 December 2015	Europe	Americas	MEA	APAC	Total
Central governments or central banks	0	0	0	0	0
Corporates	77,227	0	0	0	77,227
Covered bonds	0	0	0	0	0
Institutions	82,429	0	0	0	82,429
Multilateral development banks	0	0	0	0	0
Other items	3,798	0	0	0	3,798
Public sector entities	0	0	0	0	0
Equity	0	0	0	0	0
Total	163,454	0	0	0	163,454

Note: MEA (Mid East and Africa); APAC (Asia - Pacific)

In GBP '000's

SA Credit Risk by Exposure Class at 31 December 2014	Europe	Americas	MEA	APAC	Total
Central governments or central banks	0	0	0	0	0
Corporates	18,455	0	0	0	18,455
Covered bonds	0	0	0	0	0
Institutions	81,309	0	0	0	81,309
Multilateral development banks	0	0	0	0	0
Other items	2,523	0	0	0	2,523
Public sector entities	0	0	0	0	0
Equity	12,149	0	0	0	12,149
Total	114,436	0	0	0	114,436

Table 8: Credit Risk Pre Credit Risk Mitigation Techniques (CRM) - Standardised Approach by Counterparty Type

This table shows the EAD pre CRM, classified by credit exposure class and by counterparty type.

In GBP '000's

SA Credit Risk by Exposure Class at 31 December 2015	General governments	Credit institutions	Other financial corporations	Various Balance Sheet Items	Total
Central governments or central banks	0	0	0	0	0
Corporates	0	0	77,227	0	77,227
Covered bonds	0	0	0	0	0
Institutions	0	82,429	0	0	82,429
Multilateral development banks	0	0	0	0	0
Other items	0	0	0	3,798	3,798
Public sector entities	0	0	0	0	0
Equity	0	0	0	0	0
Total	0	82,429	77,227	3,798	163,454

Table 9: Credit Risk Pre Credit Risk Mitigation Techniques (CRM) - Standardised Approach by Residual Maturity

This table shows the EAD pre credit risk mitigation, classified by credit exposure class and residual maturity.

In GBP '000's

SA Credit Risk by Exposure Class at 31 December 2015	Less than 3 months	3 months to 1 year	Over 1 year	Total
Central governments or central banks	0	0	0	0
Corporates	77,227	0	0	77,227
Covered bonds	0	0	0	0
Institutions	82,429	0	0	82,429
Multilateral development banks	0	0	0	0
Other items	0	0	3,798	3,798
Public sector entities	0	0	0	0
Equity	0	0	0	0
Total	159,656	0	3,798	163,454

In GBP '000's

SA Credit Risk by Exposure Class at 31 December 2014	Less than 3 months	3 months to 1 year	Over 1 year	Total
Central governments or central banks	0	0	0	0
Corporates	18,455	0	0	18,455
Covered bonds	0	0	0	0
Institutions	81,309	0	0	81,309
Multilateral development banks	0	0	0	0
Other items	0	0	2,523	2,523
Public sector entities	0	0	0	0
Equity	0	0	12,149	12,149
Total	99,764	0	14,672	114,436

7.4 Analysis of past due and impaired exposures

An aspect of credit risk management relates to problem debt management, which entails early problem identification through to litigation and recovery of cash where there is no realistic potential for rehabilitation.

The following definitions are used:

Past due exposure is when a counterparty has failed to make a payment when contractually due.

Impaired exposure is when the entity does not expect to collect all the contractual cash flows when they are due.

Impairment provision is where there is objective evidence that events have detrimentally affected the expected cash flows of an asset or a portfolio of assets. The impairment loss is the difference between the carrying value of the asset and the present value of its estimated future cash flows and recorded as a charge to the profit and loss account and against the carrying amount of the impaired asset. An impairment provision may be either specific or generally assessed.

As at 31 December 2015, Alcentra had no material impaired assets for which a specific or general provision was required. There were no material assets past due greater than 90 days. Alcentra did not incur any material write-offs of bad debts or make any recovery of amounts previously written off during the year to 31 December 2015.

7.5 External Credit Rating Agencies (ECAIs)

The standardised approach requires Alcentra to use risk assessments prepared by External Credit Assessment Institutions (ECAIs) to determine the risk weightings applied to rated counterparties. Alcentra uses Standard and Poor’s, Moody’s and Fitch as its chosen ECAIs. There has been no change to these ECAIs during the year.

Table 10: Mapping of ECAIs credit assessments to credit quality steps

Alcentra uses Credit Quality Steps (CQS) to calculate the RWAs associated with credit risk exposures. Each CQS maps to the ECAIs’ credit assessments.

This table shows the mapping of Alcentra’s nominated ECAIs’ credit assessments to the credit quality steps.

Credit quality steps	S&P Global Ratings	Moody's Investors Services	Fitch Ratings
1	AAA to AA-	Aaa to Aa3	AAA to AA-
2	A+ to A-	A1 to A3	A+ to A-
3	BBB+ to BBB-	Baa1 to Baa3	BBB+ to BBB-
4	BB+ to BB-	Ba1 to Ba3	BB+ to BB-
5	B+ to B-	B1 to B3	B+ to B-
6	CCC+ and below	Caa1 and below	CCC+ and below

Table 11: Credit quality steps and risk weights

ECAI risk assessments are used for each exposure class except eligible retail exposures which are assigned a risk weight of 75%. In accordance with the regulations, institutions with a residual maturity of three months or less denominated and funded in the national currency of the borrower shall be assigned a risk weight different to institutions with a risk weight of more than three months. This distinction is shown in the table below.

Each CQS is associated with a particular risk-weighting.

This table shows the prescribed risk weights associated with the credit quality steps by exposure class.

Exposure Classes	CQS 1	CQS 2	CQS 3	CQS 4	CQS 5	CQS 6
Central governments or central banks	0%	20%	50%	100%	100%	150%
Public sector entities	20%	50%	100%	100%	100%	150%
Institutions	20%	50%	50%	100%	100%	150%
Institutions up to 3 months residual risk	20%	20%	20%	50%	50%	150%
Unrated institutions	20%	50%	100%	100%	100%	150%
Corporates	20%	50%	100%	100%	150%	150%
Securitisation	20%	50%	100%	350%	1250%	1250%
Institutions and corporates with short-term credit assessment	20%	50%	100%	150%	150%	150%
Collective investment undertakings ('CIUs')	20%	50%	100%	100%	150%	150%
Covered bonds	10%	20%	20%	50%	50%	100%

The risk systems maintain the credit quality step mappings to customers in their database. When calculating the risk weighted value of an exposure using the ECAI risk assessments, the system will identify the customer, the maturity of the transaction and the relevant credit quality step to determine the risk weight percentage.

Table 12: Credit quality step pre CRM by credit exposure class

This table shows the EAD pre credit risk mitigation by credit quality step and credit exposure class using the standardised approach. The non CQS is where a rating is not available and a separate risk weight is assigned.

In GBP '000's

SA Credit Risk by Exposure Class at 31 December 2015	Credit Quality Steps							
	1	2	3	4	5	6	Non CQS	Total
Central governments or central	0	0	0	0	0	0	0	0

banks								
Corporates	0	0	75,513	0	1,714	0	0	77,227
Covered bonds	0	0	0	0	0	0	0	0
Institutions	82,429	0	0	0	0	0	0	82,429
Multilateral development banks	0	0	0	0	0	0	0	0
Other items	0	0	0	0	0	0	3,798	3,798
Public sector entities	0	0	0	0	0	0	0	0
Equity	0	0	0	0	0	0	0	0
Total	82,429	0	75,513	0	1,714	0	3,798	163,454

In GBP '000's

SA Credit Risk by Exposure Class at 31 December 2014	**Credit Quality Steps**							
	1	**2**	**3**	**4**	**5**	**6**	**Non CQS**	**Total**
Central governments or central banks	0	0	0	0	0	0	0	0
Corporates	0	0	17,619	0	836	0	0	18,455
Covered bonds	0	0	0	0	0	0	0	0
Institutions	81,309	0	0	0	0	0	0	81,309
Multilateral development banks	0	0	0	0	0	0	0	0
Other items	0	0	0	0	0	0	2,523	2,523
Public sector entities	0	0	0	0	0	0	0	0
Equity	0	0	0	0	0	0	12,149	12,149
Total	81,309	0	17,619	0	836	0	14,672	114,436

Table 13: Credit quality step post CRM by credit exposure class

This table shows the EAD post credit risk mitigation by credit quality step and credit exposure class using the standardised approach. The non CQS is where a rating is not available and a separate risk weight is assigned.

In GBP '000's

SA Credit Risk by Exposure Class at 31 December 2015	Credit Quality Steps							
	1	2	3	4	5	6	Non CQS	Total
Central governments or central banks	0	0	0	0	0	0	0	0
Corporates	0	0	75,513	0	1,714	0	0	77,227
Covered bonds	0	0	0	0	0	0	0	0
Institutions	82,429	0	0	0	0	0	0	82,429
Multilateral development banks	0	0	0	0	0	0	0	0
Other items	0	0	0	0	0	0	3,798	3,798
Public sector entities	0	0	0	0	0	0	0	0
Equity	0	0	0	0	0	0	0	0
Total	82,429	0	75,513	0	1,714	0	3,798	163,454

In GBP '000's

SA Credit Risk by Exposure Class at 31 December 2014	Credit Quality Steps							
	1	2	3	4	5	6	Non CQS	Total
Central governments or central banks	0	0	0	0	0	0	0	0
Corporates	0	0	17,619	0	836	0	0	18,455
Covered bonds	0	0	0	0	0	0	0	0
Institutions	81,309	0	0	0	0	0	0	81,309
Multilateral development banks	0	0	0	0	0	0	0	0
Other items	0	0	0	0	0	0	2,523	2,523
Public sector entities	0	0	0	0	0	0	0	0
Equity	0	0	0	0	0	0	12,149	12,149
Total	81,309	0	17,619	0	836	0	14,672	114,436

7.6 Counterparty Credit Risk

Counterparty credit risk is the risk of loss arising from a counterparty to a contract defaults before fulfilment of cash-flow obligations. The size of the potential loss could be reduced by the application of netting or collateral agreements with the counterparty.

Concentration risk covers the risk that a high proportion of business volume is represented by a disproportionate number of clients.

Alcentra does business with small number of large clients and high-value underlying investors. Concentration in these types of clients carries inherent risk but is in keeping with business strategy. However, this risk is mitigated by the cash flows arising within client funds and the ability of the manager to receive payment at regular interval from these cash flows.

Table 14: Counterparty credit risk – net derivative credit exposure

This table shows the risk mitigating impact of netting and collaterisation on counterparty credit risk relating solely to foreign currency derivative contracts under the mark-to-market method.

In GBP '000's

Counterparty Credit Risk	31-Dec-15	31-Dec-14
Derivatives - Mark to Market Method		
Gross positive fair value of contracts	467	750
Potential future credit exposure	850	872
Netting benefits	0	0
Net current credit exposure	1,317	1,622
Collateral held notional value	0	0
Exposure and collateral adjustments	0	0
Net derivatives credit exposure	1,317	1,622
SFT - under Financial collateral comprehensive method		
Net current credit exposure	0	0
Collateral held notional value	0	0
Exposure and collateral adjustments	0	0
Net SFT credit exposure	0	0
Counterparty Credit Risk Exposure	1,317	1,622

Note: SFT (Securities Financing Transactions)

7.7 Credit Valuation Adjustment

The credit valuation adjustment is the capital charge for potential mark-to-market losses due to the credit quality deterioration of a counterparty. The standardised approach uses the external credit rating of each counterparty and includes the effective maturity and exposure at default.

8 Market Risk

Market risk is defined as the risk of adverse change to the economic condition of Alcentra due to variations in prices, rates, implied volatilities, or correlations of market risk factors. Market risk factors include but are not limited to interest rates, foreign exchange rates, market liquidity, equity prices, credit spreads, prepayment rates and commodity prices. Alcentra's exposure to market risk arises mainly from foreign exchange (FX) risk and non-traded interest rate risk.

Foreign exchange risk arises from operational flows in foreign currencies as non-UK clients are billed in US dollars. A lower amount of market risk also arises as a result of investment in money market or other collective investment undertakings.

Interest rate risk (IRR) is the risk associated with changes in interest rate that affects net interest income from interest earning assets and interest paying liabilities.

Table 15: Market risk – risk weighted assets and capital required

This table shows the components of the capital requirements and risk weighted assets for market risk using the standardised approach.

In GBP '000's

Positions subject to Market Risk	Risk Exposure Amount		Capital Requirements	
	31-Dec-15	31-Dec-14	31-Dec-15	31-Dec-14
Foreign exchange risk	10,208	6,814	817	545
Total	10,208	6,814	817	545

8.1 Interest Rate Risk – Non-Trade Book

Alcentra has no material assets and liabilities subject to IRR, does not run a trading book and seeks to match its interest rate risk on its non-trading book. Its IRR exposure for both on-balance sheet and off-balance sheet assets and liabilities mainly arises from movements in domestic and foreign interest rate.

Table 16: Net interest income sensitivity by currency

This table shows the net interest income sensitivity by Alcentra's major transactional currencies.

In GBP '000's

Currency	31-Dec-15		31-Dec-14	
	+100 basis points	-100 basis points	+100 basis points	-100 basis points
USD	821	-821	562	-562
EUR	-55	55	20	-20
GBP	-1	1	218	-218
Other currencies	0	0	0	0
Total	765	-765	800	-800

9 Operational Risk

Operational Risk is the risk of loss resulting from inadequate or failed internal processes, people, and systems or from external events (including legal risk but excluding strategic and reputation risk).

9.1 Operational Risk Management Framework

As a firm with a limited licence there is no own funds regulatory capital requirement for operational risk due to Alcentra, as per CRR Article 95(2)a.

Alcentra has a robust management oversight infrastructure, which ensure policies and procedures are regularly reviewed and updated to reflect the development of the business and changes in industry best practice. Nonetheless, as a small business, some reliance is placed on manual controls and processes and the skills/capabilities of a small number of employees which can give rise to operational risks. Augmenting this are oversight service functions such as Compliance, Internal Audit, IT Security and Risk Management of parent companies.

The Operational Risk Management Framework (ORMF) provides the processes and tools necessary to fulfil a strategy of managing risk through a culture of risk awareness, a clear governance structure, well defined policies, procedures and reporting and suitable tools for reporting and monitoring to effectively identify, manage, mitigate, monitor and report the risks in an organised way to the appropriate governance bodies.

The ORMF defines roles and responsibilities, using the three lines of defence model as a foundation. Thus, responsibility for the management of Operational Risk sits first and foremost with the business and functions as the first line of defence, where ownership and accountability for the identification, assessment and management of risks that arise through the course of its business and service provision reside.

The second line of defence, the independent Risk Management function, is responsible for reviewing and challenging the risks identified, assessed and managed by the first line of defence. The Risk Management function is also responsible for building and maintaining the ORMF framework and partnering the first line of defence to enable them to embed it.

The third line is Internal Audit (organizationally independent from both the first and second line of defence). A key responsibility of the third line as it pertains to the Operational Risk framework is to opine on the adequacy of the framework and governance process.

The monitoring and reporting of operational risks occurs within Alcentra and BNY EMEA-region risk oversight functions as well as decision-making forums such as new business and risk committees.

The activities defined in the ORMF policy aid the continued identification, evaluation, mitigation, and re-assessment of risks and controls in order to continually reduce the likelihood of and negative results from operational failures are:

- Identify and understand key business processes and risks
- Design and document controls
- Execute the controls
- Monitor key risk indicators
- Report key risk indicator performance, issues and actions to resolve
- Elevate concerns
- Strengthen controls
- Re-assess and update when necessary.

These activities are prescribed through the operational risk framework, assessment systems and related processes, including but not limited to:

- Operational Risk Events (OREs) – A standard for the capture, notification and reporting of OREs. The collection of internal loss data provides information for assessing the company's exposure to operational risk. Analysis of loss events provides insight into the root cause and information on whether a control weakness is isolated or potentially more systemic.
- Risk Control-Self Assessments – A comprehensive process for Alcentra to identify risks associated with key business processes, identifying and assessing the quality of controls in place to mitigate risk and assigning accountability for the effectiveness of those controls in place to mitigate that risk.
- Key Risk Indicators (KRIs) – The use of key metrics designed to monitor activities which could cause financial loss or reputation damage to the Company. Periodic and consistent monitoring of KRIs ensures that deviations from predetermined standards can be identified.
- Operational Risk Scenario Analysis - Operational risk scenario analysis is used to forecast the most significant operational risks by combining operational risk data with expert management

judgement. The output from this exercise is one of the key inputs for the Operational Loss Modelling.

These are mandated through Operational Risk Polices. Alcentra also uses the group wide system of record, the Risk Management Platform (RMP), to facilitate many of these processes.

Additionally, Alcentra has, in line with the BNYM Operational risk policy a risk appetite statement which recognises the inherent nature of operational risk and the reliance on the ORMF to mitigate it.

Alcentra also maintains a risk register which captures the most material risks associated with the business undertaken and the risk mitigations currently in place. Operational risk is amongst Alcentra's material risks. The risk register is updated at least annually and following risk control self-assessments.

Current issues, emerging and top risks, adverse KRIs and OREs (>$10,000) are reported to the BNY EMEA Risk Management Committee. Besides the risk management function, other internal functions also ensure that processes are in place to support the sound operational risk management of the business e.g. Information Risk Management and Business Continuity Planning.

10 Leverage Ratio

The leverage ratio by is calculated by dividing tier 1 capital by a total exposure measure which is comprised of a defined sum of asset exposure values and off-balance items. Alcentra is an IFPRU €50k limited license firm and, in line with CRR requirements, is not required to disclose its leverage ratio.

11 Remuneration Disclosure

11.1 Governance

The Human Resources and Compensation Committee (HRCC) of The Bank of New York Mellon Corporation (BNY Mellon) oversees BNY Mellon's enterprise-wide employee compensation, benefit policies and programmes. It reviews and is responsible for other compensation plans, policies and programmes in which the executive officers participate and the incentive, retirement, welfare and equity plans in which all employees participate. Members of the HRCC are non-executive board members, delegated by BNY Mellon's Board of Directors to act on behalf of the Board on remuneration matters.

The company's compensation plans are also monitored by a management-level Compensation Oversight Committee (COC). The COC is made up of members of BNY Mellon's senior management including the Chief Human Resources Officer, the Chief Risk Officer, the Chief Financial Officer and the Risk Management and Compliance Chief Administrative Officer. An important responsibility of the COC is to advise the HRCC on any remuneration risk-related issues.

To ensure alignment with local regulations in BNY Mellon's EMEA (Europe, Middle-East and Africa) region, the EMEA Remuneration Governance Workgroup (ERGC) was set up as a regional governance committee that reviews and ensures compliance with local regulations affecting BNY Mellon's EMEA businesses, including Alcentra Limited ("Alcentra"), the FCA regulated subsidiary of Alcentra Asset Management Limited. The Board of Alcentra Limited has delegated responsibility for remuneration matters to the Alcentra Remuneration Committee ("Alcentra Remco") which in consultation with ERGC, is responsible for remuneration policy decisions and the approval of year-end compensation awards for its respective regulated staff members.

11.2 Aligning Pay with Performance

Alcentra's aligns its compensation philosophy with BNY Mellon and offers a total compensation opportunity that supports its values; client focus, integrity, teamwork and excellence. It pays for performance, both at the individual and corporate level. It values individual and team contributions and rewards based on how both contribute to business results. In support of this philosophy, variable compensation is regularly used as a means of recognising performance.

Through its compensation philosophy and principles, it aligns the interests of its employees and shareholders by encouraging actions that contribute to superior financial performance and long-term shareholder value. By rewarding success and by ensuring that its compensation arrangements do not encourage employees to take unnecessary or excessive risks that threaten the values of Alcentra and BNY Mellon or benefit individual employees at the expense of shareholders or other stakeholders. Its compensation structure is comprised of an appropriate mix of fixed and variable compensation that is paid over time. It aims to ensure that both fixed and variable compensation are consistent with business and market practice, fixed compensation is sufficient to provide for a fully flexible variable compensation program, and variable compensation is in the form of annual and/or long-term incentives, where appropriate.

11.3 Fixed Remuneration

Fixed remuneration is composed of (i) salary, (ii) any additional non-performance related amounts paid as a result of contractual obligations or applicable law, or as a result of market practice, and (iii) any benefits in kind which are awarded as a result of the job rather than the performance within the job.

The fixed remuneration of an employee is determined by the job performed, its level of complexity and responsibility, and the remuneration paid in the market for that type of job. It is set at all times, for all staff, at a rate sufficient to provide for full flexibility in the variable remuneration, including a zero variable remuneration.

Employees who have accepted to be a director of another of BNY Mellon's legal entities are not remunerated in their capacity as a director. Independent directors of BNY Mellon only receive fixed remuneration, as disclosed in the annual Proxy Statement to shareholders.

11.4 Variable Compensation Funding and Risk Adjustment

Alcentra's staff are eligible to be awarded variable compensation. Variable compensation consists of both upfront cash and deferred components and is determined by the functional hierarchy of the business or function to which the individual staff member belongs, and in accordance with the terms and conditions of the incentive compensation plan that is applicable for the business or business partner service. Within Alcentra the incentive pool funding is based upon the risk-adjusted performance of the business.

The deferred component is intended to align a portion of the variable compensation award with the management of longer-term business risk. The deferred compensation component is generally awarded in the form of deferred cash award invested in an appropriate vehicle which is considered suitable.

Furthermore, employees who receive awards are required to agree to clawback and/or forfeiture provisions on such awards in the event of fraud, misconduct or actions contributing to financial restatement or other irregularities. Where required by regulations, awards to Material Risk Takers ("MRT") are subject to more stringent risk adjustment, potentially including forfeiture and / or clawback in the case of misbehaviour, material error, material downturn in business unit performance or a material failure of risk management.

11.5 Ratio between Fixed and Variable Pay

Alcentra is regulated by the Financial Conduct Authority ("FCA") and complies with all applicable remuneration requirements. Alcentra is an IFPRU €50k limited licence firm and is also a proportionality level three. CRD IV extends the remuneration requirements of its predecessor CRD

III and includes additional provisions governing remuneration which are applied by the firm in line with the guidance on proportionality outlined in SYSC 19D.

11.6 Variable Remuneration of Control Function Staff

The variable compensation awarded to control function staff (for example Compliance, Legal and Risk) is dependent on performance that is assessed according to the achievement of objectives specific to their functional role that are independent of the activities they oversee. Remuneration is benchmarked against the market level and adjusted based on BNY Mellon's overall annual financial performance.

11.7 Quantitative Disclosures

The tables below provide details of the aggregate remuneration of senior management and MRTs for Alcentra for the year ended 31 December 2015.

For completeness, this group of staff is limited to those considered to be primarily regulated due to their activities under Alcentra. The remuneration amounts are presented on a gross basis, regardless of the time spent by BNY Mellon staff in respect of Alcentra to reflect the full reporting period. No new sign-on or severance payments were made during 2015.

Table 18: Aggregate Remuneration Expenditure for MRTs in 2015 by Business (£000s)

This table shows the aggregate remuneration expenditure for MRTs by business.

Aggregate remuneration expenditure for MRTs by business (£000's)	Alcentra		
	Investment services	Other	Total
Total remuneration	8,038	0	8,038

Table 19: Aggregate Remuneration Expenditure for MRTs by Remuneration Type

This table shows the aggregate remuneration expenditure for MRTs by remuneration type.

Aggregate remuneration expenditure for MRTs by remuneration type	Alcentra		
	Senior man	Other MRTs	Total
Number of beneficiaries	0	7	7
Fixed remuneration (£000's)	0	1,493	1,493
Total variable remuneration (£000's)	0	6,545	6,545
Variable cash (£000's)	0	6,545	6,545
Variable shares (£000's)	0	0	0

Table 20: Total Deferred Variable Remuneration for MRTs Outstanding from Previous Years

This table shows the total deferred remuneration for MRTs outstanding from previous years.

Total deferred remuneration for MRTs outstanding from previous years	Alcentra		
	Senior man	Other MRTs	Total
Number of beneficiaries	0	7	7
Total deferred variable remuneration outstanding from previous years (£000's)	0	8,119	8,119
Total vested (£000's)	0	0	0

Total unvested (£000's)	0	8,119	8,119

Table 21: Number of Individuals being Remunerated EUR 1 million or more

This table shows the number of individuals being remunerated €1m or more.

Number of individuals being remunerated ≥ €1m	AlcentraTotal Number of Individuals
EUR 1m – EUR 1.5m	1
EUR 1.5m – EUR 2m	1
EUR 2m – EUR 3m	1
EUR 3m – EUR 4m	1

Appendix 2 Other Risks

Liquidity Risk

BNY Mellon defines liquidity as the ability to access funding, convert assets to cash quickly and efficiently, or to roll over or issue new debt, especially during periods of market stress, in order to meet its short-term (up to one year) obligations.

BNY Mellon defines Funding Liquidity Risk as the risk that it cannot meet its cash and collateral obligations at a reasonable cost for both expected and unexpected cash flow and collateral needs without affecting daily operations or financial conditions. Liquidity risks can arise from funding mismatches, market constraints from inability to convert assets to cash, inability to raise cash in the markets, deposit run-off, or contingent liquidity events. Changes in economic conditions or exposure to credit, market, operational, legal, and reputational risks also can affect BNY Mellon's liquidity risk profile and are considered in the liquidity risk management framework.

BNY Mellon defines Intraday Liquidity Risk as the risk that it cannot access funds during the business day to make payments or settle immediate obligations, usually in real time, primarily due to disruptions or failures. The BNY Mellon Intraday Liquidity Policy is specifically dedicated to managing these risks.

Alcentra aims to be self-sufficient for liquidity and seeks to maintain a very liquid balance sheet at all times. Its balance sheet is liability driven in nature primarily due to the nature of client deposit taking activity. BNYHM does not originate significant assets from lending activities, and therefore funding assets are not a significant use of liquidity. While sizable overdrafts can appear periodically, large deposits offset these amounts. Significant deposit balances are transactional in nature and exhibit a degree of "stickiness" and represent the transactional nature of the client relationship.

Alcentra will at all times maintain liquidity resources which are adequate both as to amount and quality, to ensure that there is no significant risk that its liabilities cannot be met in full as they fall due.

BNYM firms are required to have in place robust strategies, policies, processes and systems to identify, measure, manage and monitor the liquidity risks to which they may be exposed, including intra-day risk. Firms must have reliable management information to ensure appropriate and timely forward-looking information on the liquidity risk of the firm and early warning indicators to identify increases in liquidity risk.

Senior management is responsible for establishing appropriate liquidity risk tolerances; for approving, reviewing and updating the firm’s approach to managing liquidity risk; and for reviewing the firm’s liquidity position including compliance with the UK FCA liquidity adequacy rule and regularly reporting this information to the governing body.

Alcentra is self-sufficient in terms of liquidity resources and funding. In outline, Alcentra has a low appetite for liquidity risk in accordance with the firm’s business model. Alcentra receives investment management and performance fees, pays out overheads and expenses (including staff incentive compensation) and holds surplus cash balances with group companies and third party banks at short notice.

On a day to day basis, liquidity and funding requirements are actively managed by the Senior Management. Alcentra as a regulated firm falls under an EMEA Programme designed to ensure that each firm complies with Liquidity Standards. This is an ongoing Programme of work which, with respect to Alcentra (a firm with a Limited Licence) is currently focused at the firm level on ensuring compliance with the FCA BIPRU 12 Systems and Controls standards and reporting requirement under the FCA regime.

FCA Systems and Control requirements oblige the governing body (i.e. Board of Directors (BoD)) to express and check conformity with the firm’s liquidity risk appetite. The outputs of the firm’s stress testing should inform the governing body’s decisions on whether the firm’s liquidity risk appetite should be amended and must form the basis of a Contingency Funding Plan.

A common Liquidity Risk Management Framework (LRM) and Operating Model apply to all BNYM Limited Licence investment firms tailored to fit local circumstances. In overview, this LRM framework comprises:

A regime of senior management oversight and governance of LRM (including defining risk strategy, setting risk appetite and tolerance (limits and triggers)) and, tracking performance.

A firm-specific liquidity policy that conforms with Group requirements (including pricing of liquidity risk, management of intra-day liquidity risk and funding diversification and market access); and,

A regime of periodic reporting to senior management of Mismatch Cash flow data across a 12 month time horizon and firm-specific liquidity performance ratios including assessment of the likely survival period under current conditions.

Stress testing capability at the firm level and preparation of a Contingency Funding Plan is currently under development in accordance with the FCA’s regime transition timetable. This includes creation by senior management of firm-specific and market wide stress scenarios and liquidity risk assumptions which will be modelled across short term (up to two weeks) and protracted (from two weeks to 3 months) time horizons.

Alcentra does not have any collateral positions to manage, nor is it necessary for the firm to actively manage liquidity across legal entities, business lines or currencies. Metrics about each firm’s liquidity position are reported to EMEA ALCO.

In terms of global liquidity management, BNYMC enjoys a strong base of core client deposits for its funding which arises from its role as a leading asset custodian and trustee. BNYMC does not rely on either retail funding or wholesale funding in its business model. Asset/liability management is managed globally through treasury activities in key financial centers, such as New York, London and Brussels, and is driven by client cash needs and transactions.

Business and Financial Risk

Legal Entity and Business Risk

Business Acceptance Workgroups are responsible for aligning new business to appropriate business lines and subsidiaries, assessing and approving the associated risks.

Each legal entity has a risk manager aligned to the business. Risk managers are independent of the business and oversee the adherence to corporate risk policies and governance requirements. The risk management organisation is based on a three tiered structure beginning with corporate risk which creates the corporate policies, Risk management form the second tier, and the third tier is the operational unit which is considered to be the primary owner of all risk relating to the business activities. Each operational unit has a dedicated Embedded Control Management (ECM) resource assigned to it. At the direction of the business or the Global Operational Control management team, the ECM resource will conduct testing of the operational activities to support internal and external audit work.

Regulatory and Compliance Risk

Compliance risk is comprised of sustaining loss arising from non-compliance with laws, directives, regulations, reporting standards and lack of adequately documented and understood processes. Regulatory risk is mitigated using Stress Testing that is carried out on a regular basis, and prior to any regulatory changes enters into force.

Monitoring & Reporting Risk is the risk of loss arising from a failure to comply with financial reporting standards, agreements or regulatory requirements. This includes risks resulting from action taken by existing and new stockholders, regulators and investors who may have sustained losses due to incomplete, inaccurate or untimely reporting of financial performance.

Alcentra aims to comply with the applicable laws, regulations, policies, procedures and BNYHM's Code of Conduct. Existing and new directives and regulations are monitored and reviewed by Compliance and Risk management and findings are reported to senior management and the Board. Strategies and preparations to comply with regulations are put in place when necessary.

Reputation Risk

Reputation risk is the risk to the bank's brand and relationships which does not arise out of any error. It can arise from all aspects of business activities, including but not limited to operational failures in business practices, legal or regulatory sanctions, joint ventures with outside firms, engagements with third party vendors, or off-balance sheet activities.

BNY Mellon relies heavily on its reputation and standing in the market place to retain and attract clients. Through analysis of other risks, potential reputational impacts have been identified as follows:

- Group default or reputational event could lead to loss of confidence in the brand.
- Legal or operational event leading to publicised failure could lead to loss of confidence in the brand.
- Inability to provide products and services that fulfil local and/or international law, compliance directives or regulations. This may also result in regulatory penalties and subsequent loss of business.

Legal Risk

Legal risk is the risk of loss arising from claims, lawsuits (including costs of defence and/or adverse judgments), design of products and provision of services in accordance with law and regulation and inability to enforce contracts.

BNY Mellon's legal risks fall into the following categories:

- Corporate
- Product Design
- Client
- Employee
- Suppliers

These can occur as a result of non-payment / non-performance or poor planning / design. They are mitigated using the legal documents that specify the responsibilities of both parties and the procedures for resolving disputes. The legal risk associated with Corporate, Client and Supplier legal risk are considered low, based on historical and current experience and this is not envisaged to change on a business as usual basis.

Settlement Risk

Settlement risk is the probability of loss arising from the failure of one counterparty to settle its side of a transaction, thus preventing other counterparties from settling their commitments. It tends to occur when payments are not exchanged simultaneously such as in a multi-leg Swap trade.

BNYHM is not subject to settlement risk as it holds no securities, or commodities commitments to settle during the reporting period. Alcentra has no trading book. Since January 2014, the bank transacts FX trades for banking book purposes with intra-group legal entities and trades are settled within one business day. To date, the bank has not experienced any unsettled FX transactions.

Non-Trading Book Exposures in Equities

Alcentra did not have any non-trading book exposures in equities as at 31 December 2015 and during the reporting period.

Securitisation Risk

Securitisation risk is the risk that the capital resources held in respect of assets that Alcentra has securitised is insufficient to cover associated liabilities. As at 31 December 2015 and during the reporting period Alcentra did not have any securitisation risk-weighted exposure.

Outsourcing Risk

Outsourcing risk is the risk that failure in respect of the provision of services by third party provider(s) could potentially damage Alcentra’s operations, or if contracts with any of the third party providers are terminated, that Alcentra may not be able to find alternative providers on a timely basis or on equivalent terms.

Alcentra relies on internal and external outsourcing entities within and outside of the BNY Mellon group to perform its core business activities. To date, Alcentra has only outsourced critical tasks to BNY Mellon group entities that hold the required permissions in their jurisdiction to carry out the respective delegated tasks. Currently there are no critical tasks outsourced to third parties outside BNY Mellon entities.

Alcentra’s outsourcing policy describes minimum standards that should be adopted when considering or dealing with a service and/or activity that is outsourced to another legal entity, either within the BNY Mellon group or to an external provider and establishes a framework for evaluating and analysing outsourcing projects.

Business Risk

Business risk is the risk of loss that the business environment poses to Alcentra’s profitability. It normally consists of items such as changes in the external macro environment or client behaviour, inappropriate management actions and performance of competitors. The list is not exhaustive.

Alcentra’s main business risk driver is key man risk, coming from a small number of key employees.

The Alcentra BoD accepts this risk as a necessary feature of its operating model.

Concentration Risk

Concentration risk is the risk of loss arising from significant interrelated asset or liability exposures, which in cases of distress associated with markets, sectors, countries, or areas of activity, may threaten the soundness of the institution.

Traditionally analysed in relation to credit activities, concentration risk arises from exposures that may arise within or across different risk types, including intra-risk concentration where exposure concentration exists within a single risk type, and inter-risk concentrations arising from interactions between different risk exposures across different risk categories connected by a common risk factor (e.g. counterparties, vendor, economic sector, geographic region, and/or financial instrument/product type).

Alcentra does business with small number of large clients and high-value underlying investors.

Concentration in these types of clients carries inherent risk but is in keeping with business strategy.

However, this risk is mitigated by the cash flows arising within client funds and the ability of the manager to receive payment at regular interval from these cash flows.

Alcentra manages concentration risk as part of its credit, market, operational and liquidity management policies.

Group Risk

Group risk is the risk that the financial position of Alcentra may be adversely affected by its relationships (financial and non-financial) with other entities within BNY Mellon or by risks which may affect the financial position of the whole Group, for example reputational contagion or Group default.

As part of a large complex and interconnected company, Alcentra has a number of dependencies on BNY Mellon. These range from business leadership, dependency on certain IT systems and support services provided by central functions.

Alcentra management has considered several possible scenarios where these services may be affected, these include IT services outage and other business continuity issues. Although these will cause operational issues they are not expected to have a significant cost impact and are therefore not modelled, but are included in the scenarios as part of operational risk assessment and in the liquidity stress testing.

Model Risk

Model risk refers to the possibility of unintended business outcomes arising from the design, implementation or use of models. Model risk includes the potential risk that management makes incorrect decisions based either upon incorrect model results, or incorrect understanding and use of model results.

Model risk can result in material financial loss, inaccurate financial or regulatory reporting, misaligned business strategies or damage to the Alcentra or, BNY Mellon as a whole, reputation. Alcentra uses models in its risk management framework. All models have been assessed in line with the relevant corporate policies and model risk management framework wherein the individual model is categorised into one of three tiers based on materiality, complexity, and level of reliance. The tiers determine the controls applicable to the model classes. The Enterprise Model Risk Committee oversees model risk management at the enterprise level and approves the overall framework and standards, which are applicable across the organisation. The Model Risk Management Group, based in the US, retain ultimate responsibility for overall model governance.

Model Risk Management Governance has responsibility for the governance of inventory and provides a mechanism to report on models to key stakeholders.

Models that impact the capital assessment process are categorised as Tier 1 models and the execution of the validation of Tier 1 models is done by a designated Independent model validation function. Tier 1 models are required to be validated or reviewed, as per the validation standards, on at least an annual basis.

BNY Mellon internal audit provides independent reviews of compliance with the corporate model validation policy.

Strategic Risk

Strategic risk is defined as the risk of direct or indirect loss arising from the adverse effects or the improper implementation of business decisions. It is a function of the compatibility of an organisation's strategic goals, the business strategies developed, the resources deployed to achieve those goals and the quality of implementation. It can result from either a misalignment between strategic decisions taken at the asset servicing and alternative investment services business level which impact Alcentra, or failure to deliver business value through new strategic initiatives.

Country Risk

Country Risk is the risk of unfavourable evolution of operating profits and/or value of assets due to changes in the business environment resulting from political or macroeconomic factors. It can also be due to exposure to sovereign and economic debts in EMEA countries such as Italy, Russia, and the Eurozone.

Pension Obligation Risk

Pension obligation risk is caused by contractual liabilities or moral obligation to a company's staff pension schemes. Alcentra only operates a defined contribution pension scheme for its staff, and has no defined benefit pension scheme, as such, it is not exposed to the pension obligation risk.

Appendix 3 Glossary of Terms

The following terms are used in this document:

- **ALCO:** Asset and Liability Committee
- **Basel III:** The capital reforms and introduction of a global liquidity standard proposed by the Basel Committee on Banking Supervision in 2010
- **BNY Mellon:** The Bank of New York Mellon
- **CRD IV:** On 27 June 2013, the European Commission published, through the Official Journal of the European Union, its legislation for a Capital Requirements Directive (CRD) and Capital Requirements Regulation (CRR), which together form the CRD IV package. Amendments published on 30 November 2013 were made to the Regulation. The package implements the Basel III reforms in addition to the inclusion of new proposals on sanctions for non-compliance with prudential rules, corporate governance and remuneration. CRD IV rules apply from 1 January 2014 onwards, with certain requirements set to be phased in
- **Capital Requirements Directive (CRD):** A capital adequacy legislative package issued by the European Commission and adopted by EU member states
- **Capital Requirements Regulation (CRR):** Regulation that is directly applicable to anyone in the European Union and is not transposed into national law.
- **Central Bank of Ireland (CBI):** Responsible for the regulation of all financial services firms in Ireland
- **Common Equity Tier 1 capital:** The highest quality form of regulatory capital under Basel III comprising common shares issued and related share premium, retained earnings and other reserves excluding the cash flow hedging reserve, less specified regulatory adjustments.
- **Core Tier 1 capital:** Called-up share capital and eligible reserves plus equity non-controlling interests, less intangible assets and other regulatory deductions
- **Credit risk mitigation (CRM):** A technique to reduce the credit risk associated with an exposure by application of credit risk mitigants such as collateral, guarantees and credit protection.
- **Derivatives:** A derivative is a financial instrument that derives its value from one or more underlying assets, for example bonds or currencies.
- **EMEA:** Europe, Middle-East and Africa) region
- **Exposure:** A claim, contingent claim or position which carries a risk of financial loss.
- **Exposure at default (EAD):** The amount expected to be outstanding, after any credit risk mitigation, if and when a counterparty defaults. EAD reflects drawn balances as well as allowance for undrawn amounts of commitments and contingent exposures over a one-year time horizon.
- **Financial Conduct Authority (FCA):** The Financial Conduct Authority regulates the conduct of financial firms and, for certain firms, prudential standards in the UK. It has a strategic objective to ensure that the relevant markets function well
- **High Level Assessment** (HLA)**:** An assessment of the quality of controls in place to mitigate risk and residual risk. Residual risk is assessed as high, moderate to high, moderate, moderate to low and low with direction anticipated.
- **Institutions:** Under the Standardised approach, Institutions are classified as credit institutions or investment firms.
- **Internal Capital Adequacy Assessment Process (ICAAP):** The group’s own assessment of the levels of capital that it needs to hold through an examination of its risk profile from regulatory and economic capital viewpoints.

- **ISDA Master Agreement:** A document that outlines the terms applied to a derivatives transaction between two parties. Once the two parties have agreed to the standard terms, they do not have to renegotiate each time a new transaction is entered into.
- **Key Risk Indicator (KRI):** Key Risk Indicators are used by business lines to evaluate control effectiveness and residual risk within a business process.
- **Master Netting Agreement:** An agreement between two counterparties that have multiple contracts with each other that provides for the net settlement of all contracts through a single payment in the event of default or termination of any one contract.
- **Pillar 3:** The part of Basel III that sets out information banks must disclose about their risks, the amount of capital required to absorb them and their approach to risk management. The aim is to encourage market discipline and improve the information made available to the market.
- **Prudential Regulation Authority (PRA):** the statutory body responsible for the prudential supervision of banks, building societies, credit unions insurers and major investment firms in the UK. The PRA is a subsidiary of the Bank of England.
- **Residual maturity:** The period outstanding from the reporting date to the maturity or end date of an exposure.
- **Risk appetite:** A definition of the types and quantum of risks to which the firm wishes to be exposed.
- **Risk and Control Self-Assessment (RCSA):** Risk and Control Self-Assessment is used by business lines to identify risks associated with their key business processes and to complete a detailed assessment of the risk and associated controls.
- **Risk Governance Framework:** Alcentra's risk governance framework has been developed in conjunction with BNY Mellon requirements. Key elements of the framework are:
  - Formal governance committees, with mandates and attendees defined
  - Clearly defined escalation processes, both informally (management lines) and formally (governance committees, board, etc.)
  - A clear business as usual process for identification, management and control of risks
  - Regular reporting of risk issues
- **Risk Management Committee (RMC):** A committee which meets on a monthly basis to provide governance on risk related items arising from the business of the group
- **Risk Weighted Assets (RWAs):** Assets that are adjusted for their associated risks using weightings established in accordance with CRD IV requirements
- **Standardised approach:** Method used to calculate credit risk capital requirements using the Basel III, CRD IV, CRR model supplied by the BCBS. All financial institutions must opt to either use the Standard Approach (SA) specified by the regulator, or develop and use their own Internal Ratings Model (IRM). The SA model uses external credit assessment institution ratings and supervisory risk weights supplied by external credit assessment agencies
- **Tier 2 capital:** A component of regulatory capital under Basel III, mainly comprising qualifying subordinated loan capital, related non-controlling interests and eligible collective impairment allowances
- **Value-at-risk VaR:** A measure of the potential loss at a specified confidence level from adverse market movements in an ordinary market environment

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