Alcentra Asset Management Limited

PILLAR 3 DISCLOSURE
DECEMBER 31, 2016

BNY MELLON | Invested

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1 Scope of Application

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 2016. 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 Limited'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 Internal Capital Adequacy Assessment Process (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

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.

For completeness, other risks that the Alcentra is exposed to, but are not covered above, are also discussed in Appendix 1.

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.

In light of market developments associated with Pillar 3, this policy will be periodically reassessed and updated.

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

1.6 Board Approval

AAM's Board of Directors on 1 September 2017 approved these disclosures for publication. 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 Business and Future Developments

The Board of Directors periodically reviews the strategy of the Group and the associated products and services it provides to clients.

In relation to the assessment and monitoring of economic, political and regulatory risks, Alcentra is continuing to evaluate the impact of the outcome of the recent referendum in relation to the UK's membership of the EU on business strategy and business risks in the short, medium and long term. In the short term there is no significant impact expected on the Company'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 the notification of intention to leave the EU, the Company will continue to closely monitor developments and will make appropriate changes to the business strategy once the impact of the referendum result on the UK and European financial services industry is more certain.

1.8 Key Metrics

The following risk metrics reflect Alcentra's risk profile:

Table 1: Capital ratios

Own Funds	2016	2015
Available capital (£m)		
Common Equity Tier 1 (CET1) capital	205	176
Tier 1 capital	205	176
Total capital	**205**	**176**
Risk-weighted assets (£m)		
Total risk-weighted assets (RWA)	355	290
Risk-based capital ratios as a percentage of RWA		
CET1 ratio	57.7%	58.9%
Tier 1 ratio	57.7%	58.9%
Total capital ratio	**57.7%**	**58.9%**

Thus the common equity tier 1, total tier 1 and total capital ratios remain in excess of the minimum regulatory requirement of 4.5%, 6.0% and 8.0% respectively.

1.9 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 Group (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 31 December 2016, BNY Mellon had $29.9 trillion in assets under custody and/or administration, and $1.6 trillion in assets under management. BNY Mellon can act as a single point of contact for clients looking to create, trade, hold, manage, service, distribute or restructure investments.

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 (B1). 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.

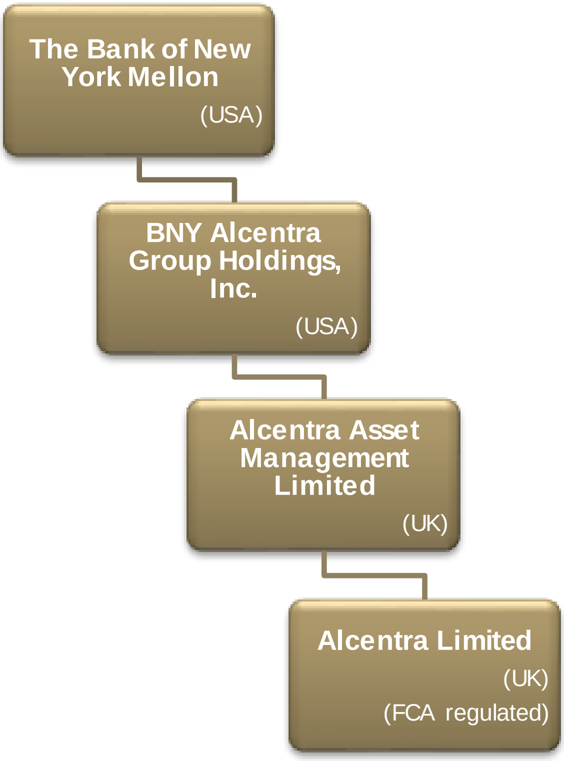
Alcentra works with investors around the world to help them make the most of the market opportunities. Alcentra's clients gain access through a large range of investment funds and where required we can help them build a portfolio tailored to their own specific needs and requirements.

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.

Figure 1 illustrates the corporate structure of Alcentra below.

Figure 1: Alcentra corporate structure at 31 December 2016



1.10 Core Business Lines

Alcentra has transitioned from a predominantly collateralized loan obligation (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 Alcentra has continued to expand its product base through the launch and increase in assets under management (AUM) in its existing funds and managed accounts.

1.10.1 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. As a result of 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 European Central Bank (ECB) rules. As at the end of 2016, Alcentra has launched seven Risk Retention Compliant CLOs with a total of €155m invested in vertical strips.

2 Own Funds

Own funds comprise tier 1 and tier 2 capital less deductions. This section provides an overview of the regulatory balance sheet and composition of Alcentra's regulatory own funds. There are a number of differences between the balance sheet prepared in accordance with Financial Reporting Standard 101: Reduced Disclosure Framework (FRS 101) and Pillar 3 disclosures published in accordance with prudential requirements.

CRD IV defines Alcentra's regulatory capital 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 2: Reconciliation of regulatory own funds

This table shows a reconciliation of Alcentra's Own Funds prepared in accordance with UK Accounting Standards and applicable law (UK Generally Accepted Accounting Practice), including Financial Reporting Standard 101: Reduced Disclosure Framework (FRS 101) and the regulatory balance sheet prepared under prudential rules. The regulatory balance sheet forms the basis for the calculation of regulatory capital requirements.

31 December 2016 (£m)	Financial Statements Balance Sheet	Regulatory adjustments	Regulatory Balance Sheet
Assets			
Cash in hand and on demand balances at central banks	90	0	90
Fixed asset investments	153	0	153
Debtors	28	(1)	27
Amounts due from group undertakings	4	2	6
Other assets	0	0	0
Total assets	**275**	**1**	**276**
Liabilities			
Deposits by banks	5	0	5
Creditors falling due more than one year	7	0	7
Other liabilities	0	0	0
Accruals and deferred income	23	(1)	22
Current and deferred tax liabilities	9	0	9
Amounts due to group undertakings	26	2	28
Total liabilities	**70**	**1**	**71**
Shareholders' equity			
Called up share capital	2	0	2
Retained earnings	203	0	203
Capital and reserves	**205**	**0**	**205**
Total equity and liabilities	**275**	**1**	**276**

Table 3: Composition of regulatory capital

This table shows the composition of Alcentra's regulatory Own Funds, including all regulatory adjustments and a comparison to the prior year at 31 December 2016.

Own Funds (£m)	31 December 2016	31 December 2015
Common Equity Tier 1 (CET1)		
Capital Instruments	2	2
Retained Earnings	203	174
Reserves and others	0	0
CET1 Adjustments	0	0
Total CET1	**205**	**176**
Additional Tier 1 Capital (AT1)		
Total AT1	**0**	**0**
Total Tier 1 Capital	**205**	**176**
Tier 2 Capital (T2)		
Total T2 Capital	**0**	**0**
Total Own Funds	**205**	**176**

Table 4: Transitional own funds

The table below shows the transitional own funds disclosure at 31 December, 2016.

Equity Instruments, Reserves and Regulatory Adjustments (£m)	Amount at disclosure date	Subject to pre-CRR treatment or prescribed residual amount of CRR
CET1 capital: Instruments and Reserves		
Capital instruments and the related share premium accounts	2	
of which: ordinary shares	2	
Retained earnings	203	
Accumulated other comprehensive income (and other reserves, to include unrealised gains and losses under the applicable accounting standards)	0	
CET1 capital before regulatory adjustments	**205**	**0**
CET1 capital: regulatory adjustments		
Direct and indirect holdings by the institution of the CET1 instruments of financial sector entities where the institution does not have a significant investment in those entities	**0**	
Total regulatory adjustments to CET1	**0**	
CET1 capital	**205**	
AT1 capital	**0**	

Equity Instruments, Reserves and Regulatory Adjustments (£m) (continued)	Amount at disclosure date	Subject to pre-CRR treatment or prescribed residual amount of CRR
Tier 1 capital	**205**	
Tier 2 (T2) capital: Instruments and provisions		
Total regulatory adjustments to T2 capital	**0**	
T2 capital	**0**	
Total capital	**205**	
Total risk weighted assets	**355**	
Capital ratios and buffers		
CET1 (as a percentage of risk exposure amount)	57.7%	
T1 (as a percentage of risk exposure amount)	57.7%	
Total capital (as a percentage of risk exposure amount)	57.7%	
Amounts below the thresholds for deduction (before risk weighting)		
Deferred tax assets arising from temporary differences (amount below 10% threshold, net of related tax liability where the conditions in Article 38 (3) are met)	**0**	

Table 5: 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 at 31 December, 2016.

Capital instruments main features [1]	Amount
Issuer	Alcentra Limited
Governing law(s) of the instrument	Law of England and Wales
Regulatory treatment	
Post-transitional CRR rules	Common Equity Tier 1
Eligible at solo/(sub-)consolidated/solo & (sub-) consolidated	Solo
Instrument type	Ordinary shares
Amount recognised in regulatory capital	£1.7 million
Nominal amount of instrument	£1.7 million
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

Capital instruments main features [1] (continued)	Amount
Coupons/dividends	
Existence of a dividend stopper	No
Fully discretionary, partially discretionary or mandatory (in terms of timing)	Fully discretionary
Fully discretionary, partially discretionary or mandatory (in terms of amount)	Fully 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. Some 'not applicable' lines have been omitted.

3 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.

3.1 Calculating Capital Requirements

CRD IV allows for different approaches to the calculation of capital requirements. Alcentra uses 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.

Alcentra is classified for regulatory and capital purposes as a limited licence firm. Therefore in accordance with FCA requirement, the company's Pillar I capital requirement is the greater of the company's fixed overhead requirement (FOR) or the sum of credit risk and market risk capital requirements. Alcentra's fixed overhead requirement is significantly less than the sum of credit and market risk requirements.

As at December 31, 2016, the fixed overheads requirement for Alcentra was £5.5m. The FOR has been calculated as equal to one quarter of the fixed expenditure of the company less allowable deductions.

Table 6: Capital requirements

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

Type of Risk (£m)	Risk Exposure Amount		Capital Requirements	
	31-Dec-16	31-Dec-15	31-Dec-16	31-Dec-15
Credit risk SA*	66	102	5	8
Counterparty Credit risk	0	0	0	0
Securitisation risk in the banking book SA*	276	187	22	15
Market risk SA*	13	10	1	1
of which: Foreign Exchange Position risk	13	10	1	1
Credit Valuation Adjustment – Standardised method	0	0	0	0
Total	**355**	**299**	**28**	**24**
Total capital			**205**	**176**
Surplus capital			177	152

** SA: standardised approach*

Alcentra meets 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 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.

4 Risk Management Objectives and Policies

4.1 Risk Objectives

Given the critical role that BNY Mellon plays supporting clients and its status as a Global Systemically Important Financial Institution (G-SIFI), the financial stability of all of its constituent legal entities, throughout market cycles and especially during periods of market turbulence, is recognised at a corporation level as an imperative. Clients and market participants need to have confidence that the corporations many legal entities will remain strong and continue to deliver operational excellence and maintain an uninterrupted service during periods of volatility. Therefore Alcentra and BNY Mellon Corporation as a whole, is committed to maintaining a strong balance sheet and as a strategic position assumes less risk than many financial services companies.

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 enable Alcentra to act as an investment manager to those funds with solid infrastructure, high integrity and operational strength, using consistent and repeatable investment processes.

Alcentra's principal activity is providing investment management services to its clients. Third party service providers administer the funds that, in some instances, can be 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 its reassessment of appetite and sources of major risks

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

4.2 Risk Governance

The Bank of New York Mellon Corporation structures risk oversight and management 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 (see section 4.2.1). The BoD is responsible for effective and prudent management and periodically assesses governance arrangements with a view to correcting deficiencies. Members of the BoD are selected based on relevant industry knowledge, skills and expertise to achieve this aim. 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 are responsible for the ongoing success and development of the Alcentra business. Objectives are set by the BoD and are denoted 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 and Compliance Committee meets on a quarterly basis and comprises Alcentra Directors, several senior members of staff at Alcentra, the Risk Manager and regional representatives from BNYM IM Risk and Compliance. The committee focus is the assessment and evaluation of all business risk. The Risk and Compliance Committee 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 are satisfied that it has in place adequate risk management systems in relation to the firms or file and strategy.

4.2.1 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	Position
D Forbes-Nixon	Director	British	3	Chairman and Chief Executive Officer
D Fabian	Director	British	5	Chief Financial Officer
G Brisk	Director	British	55*	Head of Governance, BNYM IM
A Golding	Director	British	10	Non-executive Director
A Eilon	Director	British	11	Non-executive Director

** In accordance with Article 91(4a) of Directive 2013/36/EU, executive or non-executive directorships held within the same group shall count as a single directorship.*

Note: R Bennett resigned on 1 March 2016 and J Algar resigned on 3 August 2016.

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 and Chief Compliance Officer also have the following reporting lines into BNY Mellon:

David Forbes-Nixon, CEO, reports into Mitchell Harris, President of BNY Mellon Investment Management

James Algar, Global Head of Risk and Compliance, reports into Chris Rexworthy, EMEA Head of Risk and Compliance, BNY Mellon Investment Management

Daniel Fabian, CFO, has a dotted line into the CFO of BNY Mellon Investment Management

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

4.3 Risk Management Framework

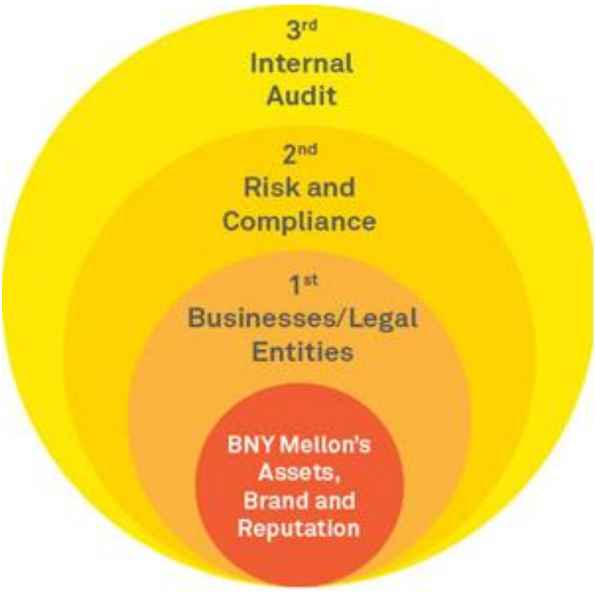
Alcentra's risk management framework provides integrated forward-looking risk assessment, management information reporting, risk appetite and capital adequacy process consistency. The framework helps ensure that all material risks in each business line are defined, understood, and effectively managed 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 global policy, Alcentra has adopted the 'Three Lines of Defence' model in deploying its risk management framework (figure 2 below). The first line of defence (1LOD) is the business or, in some cases, business partner 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 enterprise-wide 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: Managing Three Lines of Defence



3RD INTERNAL AUDIT
- Independent from first two lines of defence
- Conducts risk-based audits
- Reports on the company's effectiveness in identifying and controlling risks

2ND RISK AND COMPLIANCE
- Independent oversight and monitoring
- Consistent corporate level policies and standards
- Reliable and timely enterprise-wide reporting
- Issues escalated in a timely fashion
- Includes Corporate Security, Business Continuity, Financial Management and Analysis within Finance, HR and Legal

1ST BUSINESSES/LEGAL ENTITIES
- Own risks associated activities
- Each employee understands and manages the risks inherent in their jobs
- Controls and sound business level policies are in place
- Operate within their "Risk Appetite"
- Issues escalated in a timely manner
- Includes risks owned primarily by business partners

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.

4.4 Top Risk Register

The top 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.

4.5 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.

4.6 Risk and Control Self-Assessment

Business lines use Risk and Control Self-Assessment (RCSA) 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 IMRC which ensures that, although the RCSA process is owned by the line of business in conjunction with risk management, the IMRC has oversight of risk to the business and of the key exception items relating to Alcentra on an on-going basis.

4.7 Key Risk Indicators

Business lines use Key Risk Indicators (KRIs) to evaluate control effectiveness and residual risk within a business process. Material risks are monitored using 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.

4.8 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.

4.9 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.

4.10 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.

4.11 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.

4.12 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.

4.13 Stress Testing

Alcentra performs stress testing to monitor and quantify risk and capital and ascertain that it holds sufficient capital resources 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 a risk arise and, where appropriate, a recommendation to hold capital against each risk type.

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

4.14 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 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.

4.15 Recovery and Resolution Planning (RRP)

Alcentra forms part of Asset Management, a core business line of BNY Mellon for the purposes of its global Recovery and Resolution Planning. BNY Mellon submits its Recovery and Resolution Plans annually to its US regulators. Further, as an indirect subsidiary of The Bank of New York Mellon Corporation, Alcentra is included within BNY Mellon's Single Point of Entry Resolution Strategy. For more information, please refer to the public section of BNY Mellon's 2017 Resolution Plan, available on the FDIC website.

5 Credit Risk

5.1 Definition and Identification

Credit risk is defined as the risk that an obligor will fail to repay a loan or otherwise meet a contractual obligation as and when it falls due.

Credit risk within Alcentra arises because of 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.

5.2 Credit Risk Management Framework

The Finance Team in conjunction with the Global Operations team monitors 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. As a result of 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.

5.3 Analysis of Credit Risk

Credit risk (including metrics, breaches, and output) is effectively managed in a number of ways:

The metrics supporting the management of credit risk are monitored on a monthly basis and reported to senior management. Throughout 2016, no breaches were reported for Alcentra.

5.4 Monitoring and Reporting

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 definitions below are used in the following tables:

Exposure at Default (EAD) is defined as the amount expected to be outstanding, after any Credit Risk Mitigation, if and when a 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 Conversion Factor (CCF) converts the amount of a free credit line and other off-balance-sheet transactions (with the exception of derivatives) to an EAD amount. This function is used to calculate the exposure at default

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 7: Standardised credit exposure by exposure class

The following tables show the credit risk post CRM techniques using the standardised approach by exposure class at 31 December 2016.

Exposure Class (£m)	Net value at the end of the period	Average net value over the period
Corporates	29	72
Institutions	91	37
Other items	3	2
Total	**123**	**111**

Table 8: Securitisation exposure as sponsor

This table shows securitisation exposure as sponsor using the standardised approach by risk weight.

Securitisation exposures (£m)	Exposure		Risk weight amount		Capital requirement	
	31-Dec-16	31-Dec-15	31-Dec-16	31-Dec-15	31-Dec-16	31-Dec-15
20%	94	69	19	14	2	1
50%	8	6	4	3	0	0
100%	27	5	27	5	2	0
350%	8	6	28	21	2	2
1250%	16	12	198	144	16	12
Total	**153**	**98**	**276**	**187**	**22**	**15**

Table 9: Standardised credit exposure by country

This table shows post CRM exposure by class and by geographic area of the counterparty.

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31 December 2016 (£m)	UK	US	Luxembourg	Netherlands	Other	Total
Corporates	1	4	14	10	0	29
Institutions	90	1	0	0	0	91
Other items	2	0	0	0	1	3
Total	**93**	**5**	**14**	**10**	**1**	**123**
31 December 2015 (£m)	**UK**	**US**	**Luxembourg**	**Netherlands**	**Other**	**Total**
Corporates	8	3	7	9	0	27
Institutions	97	0	0	0	0	97
Other items	5	0	0	1	1	7
Total	**110**	**3**	**7**	**10**	**1**	**131**

Table 10: Standardised post mitigated credit exposures by counterparty type

This table shows the credit exposure post CRM classified by class and by counterparty type.

31 December 2016 (£m)	General governments	Credit institutions	Other financial corporations	Various balance sheet Items	Total
Corporates	0	0	29	0	29
Institutions	0	91	0	0	91
Other items	0	0	0	3	3
Total	**0**	**91**	**29**	**3**	**123**

Table 11: Standardised credit exposure by residual maturity

This table shows exposure post credit risk mitigation, classified by credit exposure class and residual maturity.

31 December 2016 (£m)	On demand	Less than 1 year	Less then 5 years	No stated maturity	Total
Corporates	4	25	0	0	29
Institutions	91	0	0	0	91
Other	0	1	2	0	3
Total	**95**	**26**	**2**	**0**	**123**

5.5 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 tables provide an analysis of past due and impaired exposures using the following definitions:

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 2016, 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.

Table 12: Credit quality of exposures by counterparty type

This table provides a comprehensive picture of the credit quality of on- and off-balance sheet exposures.

Counterparty type at 31 December 2016 (£m)	Exposures		Credit risk adjustments		Accumulated write-offs	Credit risk adjustment charges of the period	Net values
	Defaulted	Non-defaulted	Specific	General			
Credit institutions	0	91	0	0	0	0	91
Other financial corporations	0	29	0	0	0	0	29
Various Balance Sheet Items	0	3	0	0	0	0	3
Total	**0**	**123**	**0**	**0**	**0**	**0**	**123**

Counterparty type at 31 December 2015 (£m)	Exposures		Credit risk adjustments		Accumulated write-offs	Credit risk adjustment charges of the period	Net values
	Defaulted	Non-defaulted	Specific	General			
Credit institutions	0	97	0	0	0	0	97
Other financial corporations	0	27	0	0	0	0	27
Various Balance Sheet Items	0	7	0	0	0	0	7
Total	**0**	**131**	**0**	**0**	**0**	**0**	**131**

Table 13: Credit quality of exposures by industry

This table shows the credit quality of exposures by industry type.

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Industry type at 31 December 2016 (£m)	Exposures		Credit risk adjustments		Accumulated write-offs	Credit risk adjustment charges of the period	Net values
	Defaulted	Non-defaulted	Specific	General			
Financial and insurance activities	0	120	0	0	0	0	120
Other services	0	3	0	0	0	0	3
Total	**0**	**123**	**0**	**0**	**0**	**0**	**123**

Industry type at 31 December 2015 (£m)	Exposures		Credit risk adjustments		Accumulated write-offs	Credit risk adjustment charges of the period	Net values
	Defaulted	Non-defaulted	Specific	General			
Financial and insurance activities	0	126	0	0	0	0	126
Other services	0	5	0	0	0	0	5
Total	**0**	**131**	**0**	**0**	**0**	**0**	**131**

Table 14: Credit quality of exposures by geographical breakdown

This table shows an analysis of past due, impaired exposures and allowances by country using the IFRS methodology.

Counterparty type at 31 December 2016 (£m)	Exposures		Credit risk adjustments		Accumulated write-offs	Credit risk adjustment charges of the period	Net values
	Defaulted	Non-defaulted	Specific	General			
UK	0	93	0	0	0	0	93
US	0	5	0	0	0	0	5
Luxembourg	0	14	0	0	0	0	14
Netherlands	0	10	0	0	0	0	10
Other	0	1	0	0	0	0	1
Total	**0**	**123**	**0**	**0**	**0**	**0**	**123**

Counterparty type at 31 December 2015 (£m)	Exposures		Credit risk adjustments		Accumulated write-offs	Credit risk adjustment charges of the period	Net values
	Defaulted	Non-defaulted	Specific	General			
UK	0	110	0	0	0	0	110
US	0	3	0	0	0	0	3
Luxembourg	0	7	0	0	0	0	7
Netherlands	0	10	0	0	0	0	10
Other	0	1	0	0	0	0	1

Total	**0**	**131**	**0**	**0**	**0**	**0**	**131**

6 Credit Risk Mitigation

Alcentra manages credit risk through a variety of credit risk mitigation strategies including collateral and master agreements and netting arrangements.

6.1 Netting

International Swaps and Derivatives Association (ISDA) Master Agreements and netting are used to mitigate counterparty credit risk. The ISDA Agreement incorporates schedules that allow the contracting parties to customise the terms and conditions to their mutual satisfaction to cover termination events, netting arrangements, security and other matters.

Netting may take two different forms, close-out netting and settlement netting. Close-out netting refers to an agreement between Alcentra and a counterparty that, in the event of a default, the non-defaulting party can require that:

All open derivative contracts be marked-to-market and summed

A single net payment will be made as final settlement to whichever party holds the overall profit from the contracts

Collateral be liquidated (if held)

Settlement netting requires that all foreign exchange obligations payable on the same settlement date, be netted to produce a single payment obligation for each currency traded.

6.2 Collateral Valuation and Management

Alcentra can receive collateral from a counterparty which can include guarantees, cash and both equity and debt securities, and has the ability to call on this collateral in the event of a default by the counterparty.

Collateral amounts are adjusted on a daily basis to reflect market activity to ensure they continue to achieve an appropriate mitigation of risk value. Securities are marked-to-market daily and haircuts are applied to protect Alcentra in the event of the value of the collateral suddenly reducing in value due to adverse market conditions. Customer agreements can include requirements for the provision of additional collateral should valuations decline.

6.3 Wrong-way Risk

Alcentra takes particular care to ensure that wrong-way risk between collateral and exposures does not exist. Wrong-way risk results when the exposure to the counterparty increases when the counterparty's credit quality deteriorates.

6.4 Credit Risk Concentration

Credit risk concentration results from exposures to a single counterparty, borrower or group of connected counterparties or borrowers. Credit risk mitigation taken by Alcentra may result in increased exposure to this type of risk which includes on and off-balance sheet (i.e. guarantees) concentration risk.

Credit risk concentration originates mostly through Alcentra's corporate banking activities. Alcentra has an appetite to place only with institutions having an internal rating of 7 or above (equivalent to Moody's/S&P/Fitch external rating of A3/A-/A- respectively). This limits the spread but also ensures that exposures are well controlled, managed and less likely to default. Guarantees are treated as an exposure against the guarantor institution and managed within this controlled environment.

The number of counterparties Alcentra is willing to place funds with is limited and hence, concentration risk can arise from cash balances placed with a relatively small number of counterparties. To mitigate this, exposures are only placed on a very short-term basis, generally overnight (maximum of 180 days), ensuring ability to withdraw funds in a timely manner. In addition, to comply with the Large Exposures Regime, Treasury Services limit placements to a maximum of €150m (equivalent to £128m).

Table 15: Credit risk mitigation techniques – overview

This table shows the extent of credit risk mitigation techniques utilized by Alcentra.

31 December 2016 (£m)	Exposures unsecured: carrying amount	Total exposures secured	Exposures secured by collateral	Exposures secured by financial guarantees	Exposures secured by credit derivatives
Total loans	90	0	0	0	0
Total debt securities	0	0	0	0	0
Total exposures	**90**	**0**	**0**	**0**	**0**
Of which defaulted	0	0	0	0	0

Financial and other eligible collateral can include cash, debt securities, equities or gold, and their values are taken into account for the purposes of calculating the risk weighted exposure amount of the underlying exposure.

There are no exposures covered by guarantees or credit derivatives at 31 December 2016. Using guarantees has the effect of replacing the risk weight of the underling exposure with that of the institution providing the credit protection. Guarantors are primarily rated as investment grade.

7 External Credit Assessment Institutions (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 S&P Global Ratings, Moody's and Fitch Ratings as its chosen ECAIs. There has been no change to these ECAIs during the year.

Table 16: 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 CQS.

Credit quality steps	S&P Global Ratings	Moody's Investor Service	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 17: Credit quality steps and risk weights

ECAI risk assessments are used for each exposure class except eligible retail exposures that 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 CQS by exposure class.

Exposure classes	CQS 1	CQS 2	CQS 3	CQS 4	CQS 5	CQS 6
Central governments and central banks	0%	20%	50%	100%	100%	150%
Covered bonds	10%	20%	20%	50%	50%	100%
Institutions maturity <= 3 months	20%	20%	20%	50%	50%	150%
Institutions maturity > 3 months	20%	50%	50%	100%	100%	150%
Public sector entities	20%	50%	100%	100%	100%	150%
Unrated institutions	20%	50%	100%	100%	100%	150%
Corporates	20%	50%	100%	100%	150%	150%
Collective investment undertakings (CIUs)	20%	50%	100%	100%	150%	150%
Institutions and corporates with short-term credit assessment	20%	50%	100%	150%	150%	150%
Securitisation	20%	50%	100%	350%	1250%	1250%

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.

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Table 18: Credit risk exposure and Credit Risk Mitigation (CRM) effects

This table shows the effect of the standardised approach on the calculation of capital requirements. Risk weighted exposure amount (RWA) density provides a synthetic metric on the riskiness of each portfolio.

Exposure classes (£m)	Exposures before CCF and CRM		Exposures post CCF and CRM		RWA	RWA density
	Balance sheet amount		Balance sheet amount			
	On-	Off-	On-	Off-		
Corporates	29	0	29	0	29	100%
Institutions	91	0	91	0	18	20%
Other items	3	0	3	0	6	204%
Total	**123**	**0**	**123**	**0**	**53**	**43%**

Table 19: Credit risk exposure by asset class and risk weight post CCF and CRM

This table shows the breakdown of exposures after the application of both conversion factors and risk mitigation techniques.

Exposure class at 31 December 2016 (£m)	0%	20%	100%	150%	250%	Other	Total
Corporates	0	0	29	0	0	0	29
Institutions	0	91	0	0	0	0	91
Other items	0	0	1	0	2	0	3
Total	**0**	**91**	**30**	**0**	**2**	**0**	**123**

Exposure class at 31 December 2015 (£m)	0%	20%	100%	150%	250%	Other	Total
Corporates	0	0	27	0	0	0	27
Institutions	0	97	0	0	0	0	97
Other items	0	0	2	0	5	0	7
Total	**0**	**97**	**29**	**0**	**5**	**0**	**131**

8 Counterparty Credit Risk

Counterparty credit risk is the risk of a counterparty to a contract (recorded in either the trading book or non-trading book) defaulting 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 20: Analysis of the counterparty credit risk (CCR) exposure by approach

This table shows a comprehensive view of the methods used to calculate counterparty credit risk regulatory requirements and the main parameters used within each method.

Counterparty credit risk (£000s)		
Derivatives - Mark to Market method	**31 December 2016**	**31 December 2015**
Gross positive fair value of contracts	113	467
Potential future credit exposure	1,336	850
Netting benefits	0	0
Net current credit exposure	**1,449**	**1,317**
Collateral held notional value	0	0
Net derivatives credit exposure	**1,449**	**1,317**
Risk weighted assets	0	0
SFT - under financial collateral comprehensive method	**31 December 2016**	**31 December 2015**
Net current credit exposure	0	0
Net SFT credit exposure	0	0
Risk weighted assets	0	0
Counterparty credit risk exposure	**1,449**	**1,317**

Note: SFT (Securities Financing Transactions)

8.1 Credit Valuation Adjustment

The credit valuation adjustment is the capital charge for potential mark-to-market losses resulting from 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.

Alcentra does not have any assets subject to the credit valuation adjustment (CVA) capital charge.

Table 21: CCR exposures by exposure class and risk weight

This table shows the breakdown of counterparty credit risk exposures by exposure class and risk weight attributed according to the standardised approach.

31 December 2016 (£000s)	0%	20%	50%	100%	250%	Other	Total
Corporates	0	0	0	0	0	0	0
Institutions	0	1,449	0	0	0	0	1,449
Other items	0	0	0	0	0	0	0
Total	**0**	**1,449**	**0**	**0**	**0**	**0**	**1,449**
31 December 2015 (£000s)	**0%**	**20%**	**50%**	**100%**	**250%**	**Other**	**Total**
Corporates	0	0	0	0	0	0	0
Institutions	0	1,317	0	0	0	0	1,317
Other items	0	0	0	0	0	0	0
Total	**0**	**1,317**	**0**	**0**	**0**	**0**	**1,317**

Table 22: Impact of netting and collateral held on exposure values

This table provides an overview of the collateral held on exposures.

31 December 2016 (£000s)	Gross positive fair value or net carrying amount	Netting benefits	Netted current credit exposure	Collateral held	Net credit exposure
Derivatives by underlying	1,449	0	1,449	0	1,449
Securities Financing Transactions	0	0	0	0	0
Cross-product netting	0	0	0	0	0
Total	**1,449**	**0**	**1,449**	**0**	**1,449**

9 Asset Encumbrance

Alcentra does not have any encumbered assets due to the nature of its business. The majority of assets relate to group balances or investments required to meet regulatory requirements.

Table 23: Encumbered assets

31 December 2016 (£m)	Encumbered assets				Unencumbered assets			
	Carrying amount	of which notionally eligible EHQLA and HQLA	Fair value	of which notionally eligible EHQLA and HQLA	Carrying amount	of which EHQLA and HQLA	Fair value	of which EHQLA and HQLA
Assets of the reporting institution	0	0			276	0		
Loans on demand	0	0			94	0		
Equity instruments	0	0			32	0	32	0
Debt securities	0	0	0	0	120	0	120	0
of which: issued by financial corporations	0	0	0	0	120	0	120	0
Other assets	0	0			30	0		

Note: HQLA (High Quality Liquid Assets) / EHQLA (Extremely High Quality Liquid Assets)

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10 Market Risk

Market risk is the risk of adverse change to the economic condition of Alcentra resulting from 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, equity prices, credit spreads, prepayment rates, and commodity prices. Alcentra's exposure to market risk arises 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 24: Market risk – risk weighted assets and capital required

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

Position risk components at 31 December 2016 (£m)	Risk weighted assets	Capital requirements
Foreign exchange risk	13	1
Total	**13**	**1**

11 Interest Rate Risk – Non-Trading 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 25: Net interest income sensitivity by currency

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

Currency	+ 100 basis points	- 100 basis points	+ 100 basis points	- 100 basis points
(000s)	**2016**	**2016**	**2015**	**2015**
USD	114	(114)	821	(821)
EUR	1,138	(1,138)	(55)	55
GBP	6,651	(6,651)	(1)	1
Other currencies	0	0	0	0
Total	**7,903**	**(7,903)**	**765**	**(765)**
As percentage of net interest income	5,898%	5,898%	437%	437%

12 Operational Risk

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

Operational risk may arise from errors in transaction processing, breaches of internal control, systems and compliance requirements, internal or external fraud, damage to physical assets, and/or business disruption due to systems failures or other events. Operational risk can also arise from potential legal or regulatory actions as a consequence of non-compliance with regulatory requirements, prudent ethical standards or contractual obligations.

12.1 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 through the global policy, 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.

The first line is principally the businesses and business process owners, who are responsible for identifying and managing the risks inherent in the products, activities, processes and systems for which they are accountable throughout the course of their business activities.

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 of defence 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 Management 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.

In order to continually reduce the likelihood of adverse impacts from operational failures and to aid the continued identification, evaluation, mitigation, and re-assessment of risks and controls, the activities defined in the ORMF policy 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 Assessment (RCSA) – 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 top 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.

13 Leverage

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 licence firm and, in line with CRR requirements, is not required to disclose its leverage ratio.

14 Remuneration Disclosure

14.1 Governance

The governance of remuneration matters for BNYM and its group entities, including Alcentra, the FCA regulated subsidiary of AAM, is overseen by four committees, each with separate responsibilities in respect of remuneration as summarised below:

Human Resources and Compensation Committee of BNYM ("HRCC") is responsible for overseeing BNYM's employee compensation and benefits policies and programmes globally. It reviews and is responsible for the compensation plans, policies and programs in which the senior officers participate and has general oversight for the other incentive, retirement, welfare and equity arrangements for all employees globally. The members of the HRCC are non-executive members of the BNYM's Board of Directors, acting on behalf of the BNYM Board of Directors.

Compensation Oversight Committee of BNYM ("COC") is responsible for providing formal input to the remuneration decision-making process (including through the review of remuneration policies for BNYM), which includes reviewing and approving both remuneration arrangements annually and any significant changes proposed to remuneration arrangements (including termination of any arrangement) and advising the HRCC of any remuneration-related issues. The members of the COC are members of management of BNYM, including the Chief Human Resources Officer, the Chief Risk Officer, the Chief Financial Officer and the Chief Enterprise Risk Officer.

Incentive Compensation Review Committee ("ICRC") is the coordinating body of senior executives responsible for the oversight of the process to evaluate and recommend compensation reductions for all employees. These decisions are based on feedback regarding risk, compliance, audit and legal outcomes as well as situations of an employee engaged in fraud or directly or indirectly to have contributed to a financial restatement or other irregularity. The ICRC is a management-level committee that reports its recommendations to the HRCC. Ex ante adjustments are recommended by the employee's management for review and approval by the committee and ex post adjustments are formulated by the committee. The Chief Human Resources Officer chairs the committee supported by the Global Head of Compensation and Benefits. Voting members include the Chief Executive Officer, Chief Risk Officer, Chief Compliance Officer, Chief Auditor, Chief Financial Officer and General Counsel.

Alcentra Remuneration Committee ("Alcentra Remco") has delegated responsibility for remuneration matters from the Board of Alcentra Limited, which in consultation with the COC, is responsible for remuneration policy decisions and the approval of year-end compensation awards for is respective regulated staff members. This process includes formal input from risk and compliance when determining the amount of any variable incentive awards.

In accordance with the PRA and FCA regulatory remuneration requirements, the prescribed responsibility for overseeing the development, and implementation, of the firm's remuneration policies and practices in relation, PRA and FCA Senior Managers, is held by the Chairman of Europe. This accountability is accomplished through oversight of policies and practices and delegation of key control processes to the Head of International Compensation & Benefits.

BNYM undergoes an annual attestation process to ensure that its remuneration practices comply with all local laws and regulations as well as best market practice. The implementation of BNYM's remuneration policies is subject to an annual independent internal review by the internal audit function. External consultants, PwC, were in 2016 engaged in respect of, and provided, initial and high level advice on the remuneration policy developed by the firm.

14.2 Aligning Pay with Performance

Alcentra 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.

14.3 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.

14.4 Ratio between Fixed and Variable Pay

Alcentra is regulated by the FCA and complies with all applicable remuneration requirements. Alcentra is an IFPRU €50k limited licence firm and is also a proportionality level three firm. 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.

14.5 Variable Compensation Funding and Risk Adjustment

Alcentra's staff are eligible to be awarded variable compensation, but have no entitlement to such award which are discretionary in nature.

In general the total compensation pool for Alcentra, including any variable incentive pool, is based on the profitability of the business with the potential for adjustment by the COC on the basis of a number of factors including risk management.

Typically the pool is determined primarily based on pre-tax income, which is a profit based rather than revenue based measure. This pool is subject to discretionary adjustment by the COC and HRCC based on factors in assessing the earnings including (but not limited to) significant non-recurring activity, market conditions, interest and currency rates.

The incentive pools for business partner groups which support the Alcentra business are based on a management approved fixed pool adjusted by a number of factors, including corporate performance and risk management.

Variable compensation may consist 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.

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 either BNY Mellon restricted stock units, deferred cash award invested in an appropriate vehicle which is considered suitable, boutique equity or any combination determined appropriate from time to time.

To ensure effective risk adjustment, BNY Mellon requires employees who receive variable remuneration awards (both upfront and deferred) to agree to forfeiture and clawback of such awards in the event of fraud, misconduct or actions contributing to the detriment of business interests, including competing with the business and soliciting employees or clients. Where required by regulations, awards to MRTs are subject to more stringent risk adjustment, including, but not limited to, forfeiture and clawback in the event of employee misbehaviour, material error, material downturn in business unit performance or a material failure of risk management.

14.6 Deferral Policy and Vesting Criteria

For more senior-level employees, a portion of variable compensation will be deferred, under ordinary circumstances for a period of at least three years (albeit such compensation may be deferred on a pro-rata basis for alternative periods), and will be subject to the performance of either (or both) the company or the respective business. The deferred component of the variable compensation award is usually delivered as either deferred cash award invested in an appropriate vehicle which is considered suitable, or any combination determined appropriate from time to time. The percentage of the variable compensation award to be deferred depends on the level of the position, regulatory requirements and the amount of the award.

14.7 Variable Remuneration of Control Function Staff

The variable compensation awarded to control function staff (for example; audit, compliance 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 funded independently of individual business lines and adjusted based on BNY Mellon's overall annual financial performance.

14.8 Quantitative Disclosures

The tables below provide details of the aggregate remuneration of senior management and MRTs for Alcentra for the year ended 31 December 2016.

For completeness, this group of staff is limited to those considered to be Material Risk Takers. 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 2016.

Table 26: Aggregate remuneration expenditure by business

This table shows the aggregate remuneration expenditure for MRTs in 2016 by business.

(£000s)	Investment services	Other[2]	Total
Total remuneration [1]	13,247	0	13,247

[1] *Senior Management is comprised of MRTs categorized as "Senior Managers" who carry out a senior management function as determined by the relevant regulators.*

[2] *Includes all support functions and general management positions.*

Table 27: Aggregate remuneration expenditure by remuneration type

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

	Senior management[3]	Other MRTs	Total
Number of beneficiaries	0	13	13
Fixed remuneration (£000s) [4]	0	2,337	2,337
Total variable remuneration (£000s)	0	10,910	10,910
Variable cash (£000s)	0	10,910	10,910
Variable shares (£000s)	0	0	0

[3] *Senior management is comprised of MRTs categorised as 'Senior Managers' who carry out a senior management function as determined by the relevant regulators.*

[4] *Fixed Remuneration includes base salary and any cash allowances. Pension contribution is not included.*

Table 28: Deferred variable remuneration

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

	Senior management	Other MRTs	Total
Number of beneficiaries	0	13	13
Total deferred variable remuneration outstanding from previous years (£000s)	0	14,093	14,093
Total vested (£000s)[5]	0	3,886	3,886
Total unvested (£000s)[6]	0	10,207	10,207

[5] *Includes total vested cash and equity. Equity portion is valued as at the date the award vested.*

[6] *Total unvested equity is valued as at 1st February, 2017.*

Table 29: Number of individuals being remunerated EUR 1 million or more

This table shows the number of individuals who were remunerated €1m or more during 2016.

Remuneration	Total number of individuals
EUR 1m – EUR 1.5m	2
EUR 1.5m – EUR 2m	1
EUR 2m – EUR 2.5m	1
EUR 4m – EUR 4.5m	1

BNY MELLON

Appendix 1 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. Alcentra 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, Senior Management actively manages liquidity and funding requirements. 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)

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 forms 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 the risk of sustaining loss arising from non-compliance with laws, regulations, directives, 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 coming 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 Alcentra'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 BNYM'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 inadequate legal advice, inadequate contractual arrangements and failing to take appropriate legal measures to protect rights or changes in laws or regulations. Legal risk could crystallise through:

- Receipt or provision of wrong or inadequate legal advice
- Failure to manage litigation or disputes effectively
- Failure to identify and implement changes in legislation or law
- Failure to appropriately make notifications required as a result of legal requirements
- Failure to ensure adequate contractual arrangements (excluding outsourcing arrangements)
- Failure to manage and/or protect the infringement of rights arising outside of contracts

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.

Alcentra 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 2016 or 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 2016 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 external third parties.

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 stability 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 concentration 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 include 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 reputation of Alcentra or BNY Mellon as a whole. 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 performed by a designated independent model validation function. Tier 1 models are required to be validated or reviewed, as per the validation standards, at least annually.

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 adverse impact on operating profits and/or value of assets due to changes in the business environment resulting from political or macroeconomic factors. It can also arise from 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 2 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 Corporation
- **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
- **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 defined attendees
  - 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 (RWA):** 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 standardised 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

Appendix 3 CRD IV Reference

CRR ref.	Requirement summary	Compliance ref.	Page ref.
Scope of disclosure requirements			
431 (1)	Institutions shall publish Pillar 3 disclosures	BNY Mellon publishes Pillar 3 disclosures	N/A
431 (2)	Firms with permission to use specific operational risk methodologies must disclose operational risk information	N/A	N/A
431 (3)	Institutions shall adopt a formal policy to comply with the disclosure requirements	BNY Mellon has a dedicated Pillar 3 policy	N/A
431 (4)	Explanation of ratings decision upon request	N/A	N/A
Non-material, proprietary or confidential information			
432 (1)	Institutions may omit disclosures if the information is not regarded as material (except Articles 435(2)(c), 437 and 450)	Refer to Pillar 3 policy	N/A
432 (2)	Institutions may omit information that is proprietary or confidential if certain conditions are respected	Refer to Pillar 3 policy	N/A
432 (3)	Where 432 (1) and (2) apply this must be stated in the disclosures, and more general information must be disclosed	N/A	N/A
432 (4)	Paragraphs 1, 2 & 3 are without prejudice to the scope of the liability for failure to disclose material information		
Frequency of disclosure			
433	Institutions shall publish the disclosures required at least on an annual basis, in conjunction with the date of the publication of the financial statements	Refer to Pillar 3 policy	N/A
Means of disclosure			
434 (1)	Institutions may determine the appropriate medium, location and means of verification to comply effectively	Single Pillar 3 disclosure	N/A
434 (2)	Disclosures made under other requirements (e.g. accounting) can be used to satisfy Pillar 3 if appropriate	Any cross-references to accounting or other disclosures are clearly signposted in this document	N/A
Risk management objectives and policies			
435 (1)	Institutions shall disclose their risk management objectives and policies	Section 4 Risk Management Objectives and Policy	16-23
435 (1) (a)	Strategies and processes to manage those risks	Section 4.1 Risk Objectives	16
435 (1) (b)	Structure and organisation of the risk management function	Section 4.2 Risk Governance	16
435 (1) (c)	Scope and nature of risk reporting and measurement systems	Section 4.1 - 4.15	16-23
435 (1) (d)	Policies for hedging and mitigating risk	Section 4.3 - 4.15	18-23
435 (1) (e)	Approved declaration on the adequacy of risk management arrangements	Section 4 Risk Management Objectives and Policy	16-23
435 (1) (f)	Approved risk statement describing the overall risk profile associated with business strategy	Section 4 Risk Management Objectives and Policy	16-23
435 (2) (a)	Number of directorships held by directors	Section 4.2.1 Board of Directors	18
435 (2) (b)	Recruitment policy of Board members, their experience and expertise	Section 4.2.1 Board of Directors	18

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435 (2) (c)	Policy on diversity of Board membership and results against targets	Section 4.2.1 Board of Directors	18
435 (2) (d)	Disclosure of whether a dedicated risk committee is in place, and number of meetings in the year	Section 4.2.1 Board of Directors	18
435 (2) (e)	Description of information flow on risk to Board	Section 4.2.1 Board of Directors	18
Scope of application			
436 (a)	The name of the institution to which the requirements of this Regulation apply	Section 1 Scope of Application	6-10
436 (b) 436 (b) (i) 436 (b) (ii) 436 (b) (iii) 436 (b) (iv)	Outline the differences in the basis of consolidation for accounting and prudential purposes, with a brief description of the entities therein, explaining whether they are: fully consolidated; proportionally consolidated; deducted from own funds; neither consolidated nor deducted	Section 1 Scope of Application	6-10
436 (c)	Current or foreseen material practical or legal impediment to the prompt transfer of own funds or repayment of liabilities among the parent undertaking and its subsidiaries	N/A	N/A
436 (d)	Aggregate amount by which the actual Own Funds are less than required in all subsidiaries not included in the consolidation, and the name or names of such subsidiaries	N/A - Entities outside the scope of consolidation are appropriately capitalised	N/A
436 (e)	If applicable, the circumstance of making use of the provisions laid down in Articles 7 & 9	N/A	N/A
Own funds			
437 (1)	Requirements regarding capital resources table	Section 2 Own Funds	11-14
437 (1) (a)	Full reconciliation of Common Equity Tier 1 (CET1) items	Table 2: Reconciliation of Regulatory Own Funds	11
437 (1) (b)	Description of the main features of the CET1 and Additional Tier 1 and Tier 2 instruments	Table 3: Composition of regulatory capital	12
437 (1) (c)	Full terms and conditions of all CET1, Additional Tier 1 and Tier 2 instruments	Table 3: Composition of regulatory capital	12
437 (1) (d) (i) 437 (1) (d) (ii) 437 (1) (d) (iii)	Each prudent filter applied Each deduction made Items not deducted	Table 2: Reconciliation of Regulatory Own Funds	11
437 (1) (e)	Description of all restrictions applied to the calculation of Own Funds	N/A - no restrictions apply	N/A
437 (1) (f)	Explanation of the basis of calculating capital ratios using elements of Own Funds	N/A - Capital ratios calculated on basis stipulated in the Regulations	N/A
437 (2)	EBA to publish implementation standards for points above	BNYM follows the implementation standards	N/A
Capital requirements			
438 (a)	Summary of institution's approach to assessing adequacy of capital levels	Section 3 Capital Requirements	15
438 (b)	Result of ICAAP on demand from authorities	N/A	N/A
438 (c)	Capital requirement amounts for credit risk for each standardised approach exposure class	Table 7: Standardised credit exposure by exposure class	25
438 (d) 438 (d) (i) 438 (d) (ii) 438 (d) (iii) 438 (d) (iv)	Capital requirements amounts for credit risk for each Internal Ratings Based Approach exposure class	N/A – internal ratings based approach is not used	N/A

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438 (e)	Own funds requirements for market risk or settlement risk, or large exposures where they exceed limits	Table 6: Capital requirements and Section 10: Market Risk	15 & 36
438 (f)	Own funds amounts for operational risk, separately for the basic indicator approach, the standardised approach, and the advanced measurement approaches as applicable	Table 6: Capital requirements and Section 12: Operational Risk	15 & 38-39
438 (endnote)	Requirement to disclose specialised lending exposures and equity exposures in the banking book falling under the simple risk weight approach	Table 6: Capital requirements	15
Exposure to counterparty credit risk (CCR)			
439 (a)	Description of process to assign internal capital and credit limits to CCR exposures	Section 8 Counterparty Credit Risk	33-34
439 (b)	Discussion of process to secure collateral and establishing reserves	Section 8 Counterparty Credit Risk	33-34
439 (c)	Discussion of management of wrong-way exposures	Section 8 Counterparty Credit Risk	33-34
439 (d)	Disclosure of collateral to be provided (outflows) in the event of a ratings downgrade	N/A – a credit ratings downgrade is managed at the BNYM Corp level	N/A
439 (e)	Derivation of net derivative credit exposure	Section 8 Counterparty Credit Risk	33-34
439 (f)	Exposure values for mark-to-market, original exposure, standardised and internal model methods	Section 8 Counterparty Credit Risk	33-34
439 (g)	Notional value of credit derivative hedges and current credit exposure by type of exposure	N/A – BNYM does not have credit derivative transactions	N/A
439 (h)	Notional amounts of credit derivative transactions for own credit, intermediation, bought and sold, by product type	N/A – BNYM does not have credit derivative transactions	N/A
439 (i)	Estimate of alpha, if applicable	N/A	N/A
Capital buffers			
440 (1) (a)	Geographical distribution of relevant credit exposures	N/A	N/A
440 (1) (b)	Amount of the institution specific countercyclical capital buffer	N/A	N/A
440 (2)	EBA will issue technical implementation standards related to 440 (1)	N/A	N/A
Indicators of global systemic importance			
441 (1)	Disclosure of the indicators of global systemic importance	N/A	N/A
441 (2)	EBA will issue technical implementation standards related to 441 (1)	N/A	N/A
Credit risk adjustments			
442 (a)	Disclosure of bank's definitions of past due and impaired	Section 5.5 Analysis of Past Due and Impaired Exposures	26-28
442 (b)	Approaches for calculating credit risk adjustments	Section 5.5 Analysis of Past Due and Impaired Exposures	26-28
442 (c)	Disclosure of pre-CRM EAD by exposure class	Section 5.4 Table 7: Standardised credit exposure by exposure class	25
442 (d)	Disclosures of pre-CRM EAD by geography and exposure class	Section 5.4 Table 9: Standardised credit exposure by country	25
442 (e)	Disclosures of pre-CRM EAD by industry and exposure class	Section 5.4 Table 10: Standardised post mitigated credit exposures by counterparty type	26

442 (f)	Disclosures of pre-CRM EAD by residual maturity and exposure class	Section 5.4 Table 11: Standardised credit exposure by residual maturity	26
442 (g) 442 (g) (i) 442 (g) (ii) 442 (g) (iii)	Breakdown of impaired, past due, specific and general credit adjustments, and impairment charges for the period, by exposure class or counterparty type	Section 5.5 Table 12: Credit quality of exposures by counterparty type	27
442 (h)	Impaired, past due exposures, by geographical area, and amounts of specific and general impairment for each geography	Section 5.5 Table 15: Credit quality of exposures by geographical breakdown	28
442 (i) 442 (i) (i) 442 (i) (ii) 442 (i) (iii) 442 (i) (iv) 442 (i) (v)	Reconciliation of changes in specific and general credit risk adjustments	Section 5.5 Analysis of Past Due and Impaired Exposures	26-28
442 endnote	Specific credit risk adjustments recorded to income statement are disclosed separately	Section 5.5 Analysis of Past Due and Impaired Exposures	26-28
Unencumbered assets			
443	Disclosures on unencumbered assets	Section 9 Asset Encumbrance	35
Use of ECAIs			
444 (a)	Names of the ECAIs used in the calculation of standardised approach RWAs, and reasons for any changes	Section 7 External Credit Assessment Institutions (ECAIs)	31-32
444 (b)	Exposure classes associated with each ECAI	Section 7 Table 17: Credit quality steps and risk weights	31
444 (c)	Explanation of the process for translating external ratings into credit quality steps	Section 7 Table 17: Credit quality steps and risk weights	31
444 (d)	Mapping of external rating to credit quality steps	Section 7 External Credit Assessment Institutions (ECAIs)	31-32
444 (e)	Exposure value pre and post-credit risk mitigation, by credit quality step	Section 7 Table 16-19: External Credit Assessment Institutions (ECAIs)	31-32
Exposure to market risk			
445	Disclosure of position risk, large exposures exceeding limits, FX, settlement and commodities risk	Section 10 Market Risk	36
Operational risk			
446	Disclosure of the scope of approaches used to calculate operational risk, discussion of advanced methodology and external factors considered	Section 12 Operational Risk	38-39
Exposure in equities not included in the trading book			
447 (a)	Differentiation of exposures based on objectives	Appendix 1 Settlement Risk: no non-trading book exposure in equities	45
447 (b)	Recorded and fair value, and actual prices of exchange traded equity where it differs from fair value	Appendix 1 Settlement Risk: no non-trading book exposure in equities	45
447 (c)	Types, nature and amounts of the relevant classes of equity exposures	Appendix 1 Settlement Risk: no non-trading book exposure in equities	45
447 (d)	Realised cumulative gains and losses on sales over the period	Appendix 1 Settlement Risk: no non-trading book exposure in equities	45
447 (e)	Total unrealised gains/losses, latent revaluation gains/losses, and amounts included within Tier 1 capital	Appendix 1 Settlement Risk: no non-trading book exposure in equities	45
Exposure to interest rate risk on positions not included in the trading book			

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448 (a)	Nature of risk and key assumptions in measurement models	Section 10: The Bank has no significant Balance Sheet Interest Rate Risk because no maturity mismatch exists between client cash deposits and Bank's cash holdings. In addition, interest rates applicable to clients' cash deposits are market driven	36
448 (b)	Variation in earnings or economic value, or other measures used by the bank from upward and downward shocks to interest rates, by currency	Section 11 Table 25: Net interest income sensitivity by currency	37
Exposure to securitisation positions			
449	Exposure to securitisations positions	Appendix 1 Settlement Risk: no non-trading book exposure in equities	45
Remuneration disclosures			
450	Remuneration disclosure regarding remuneration policy and practices	Section 14 Remuneration Disclosure	41-43
450 (1) (a)	Information concerning the decision-making process used for determining the remuneration policy	Section 14.1 Governance	41
450 (1) (b)	Information on link between pay and performance	Section 14.2 Aligning Pay with Performance	42
450 (1) (c)	Important design characteristics of the remuneration system	Section 14 Remuneration Disclosure	41-43
450 (1) (d)	Ratios between fixed and variable remuneration	Section 14.4 Ratio between Fixed and Variable Pay	42
450 (1) (e)	Information on the performance criteria on which the entitlement to shares, options and variable components of remuneration is based	Section 14.6 Deferral Policy and Vesting Criteria	43
450 (1) (f)	Main parameters and rationale for any variable component scheme and any other non-cash benefits	Section 14.7 Variable Remuneration of Control Function Staff	43
450 (1) (g)	Aggregate quantitative information on remuneration by business area	Section 14.8 Table 26: Aggregate Remuneration Expenditure by Business	44
450 (1) (h) 450 (1) (h) (i) 450 (1) (h) (ii) 450 (1) (h) (iii) 450 (1) (h) (iv) 450 (1) (h) (v) 450 (1) (h) (vi)	Aggregate quantitative information on remuneration, broken down by senior staff management and members of staff whose actions have a material impact on the risk profile	Section 14.8 Table 27: Aggregate Remuneration Expenditure by Remuneration Type	44
450 (1) (i)	Number of individuals being remunerated £1 million or more per financial year	Section 14.8	43-44
450 (1) (j)	Total remuneration for each member of the management body upon demand from the Member State or competent authority	N/A	N/A
450 (2)	For institutions that are significant in terms of their size, internal organisation and the nature, scope and the complexity of their activities, the quantitative information above shall be made available to the public at the level of members of the management body of the institution	N/A	N/A
Leverage			
451 (1) (a)	Leverage ratio	Section 13 Leverage Ratio	40
451 (1) (b)	Breakdown of total exposure measure	N/A	N/A

451 (1) (c)	Derecognised fiduciary items	N/A	N/A
451 (1) (d)	Description of the process used to manage the risk of excessive leverage	N/A	N/A
451 (1) (e)	Description of the factors that had an impact on the leverage ratio	N/A	N/A
451 (2)	EBA to publish implementation standards for points above	BNYM follows the implementation standards	N/A
Use of the IRB approach to credit risk			
452	Risk-weighted exposure under the IRB approach	N/A	N/A
Use of credit risk mitigation techniques			
453 (a)	Use of on- and off-balance sheet netting	Section 6.1 Netting	29
453 (b)	How collateral valuation is managed	Section 6.2 Collateral Valuation and Management	29
453 (c)	Description of types of collateral used	N/A	N/A
453 (d)	Types of guarantor and credit derivative counterparty, and their creditworthiness	N/A - BNYM's EMEA entities do not enter into credit derivative transactions	N/A
453 (e)	Disclosure of market or credit risk concentrations within risk mitigation exposures	Section 6.4 Credit Risk Concentration	29-30
453 (f)	For exposures under either the Standardised or Foundation IRB approach, disclose the exposure value covered by eligible collateral	N/A	N/A
453 (g)	Exposures covered by guarantees or credit derivatives	Section 6.4 Table 15: Credit risk mitigation techniques – overview	30
Use of the Advanced Measurement Approaches to operational risk			
454	Description of the use of insurance or other risk transfer mechanisms to mitigate operational risk	N/A - Pillar 1 : standardized approach, Pillar 2 : self-assessment approach	N/A
Use of internal market risk models			
455	Institutions calculating their capital requirements using internal market risk models	N/A	N/A
Commission Implementing Regulation (EU) No 1423/2013			
Article 1	Specifies uniform templates for the purposes of disclosure	N/A	N/A
Article 2	Full reconciliation of own funds items to audited financial statements	Section 2 Own Funds	11-14
Article 3	Description of the main features of CET1, AT1 and Tier 2 instruments issued (Annex II and III)	Table 5: Common tier 1 and additional tier 1 instruments and tier 2 instruments	13
Article 4	Disclosure of nature and amounts of specific items on own funds (Annex IV and V)	Table 4: Transitional own funds	12
Article 5	Disclosure of nature and amounts of specific items on own funds during transitional period (Annex VI and VII)	Table 4: Transitional own funds	12
Article 6	Entry into force from 31 March 2014	N/A	N/A

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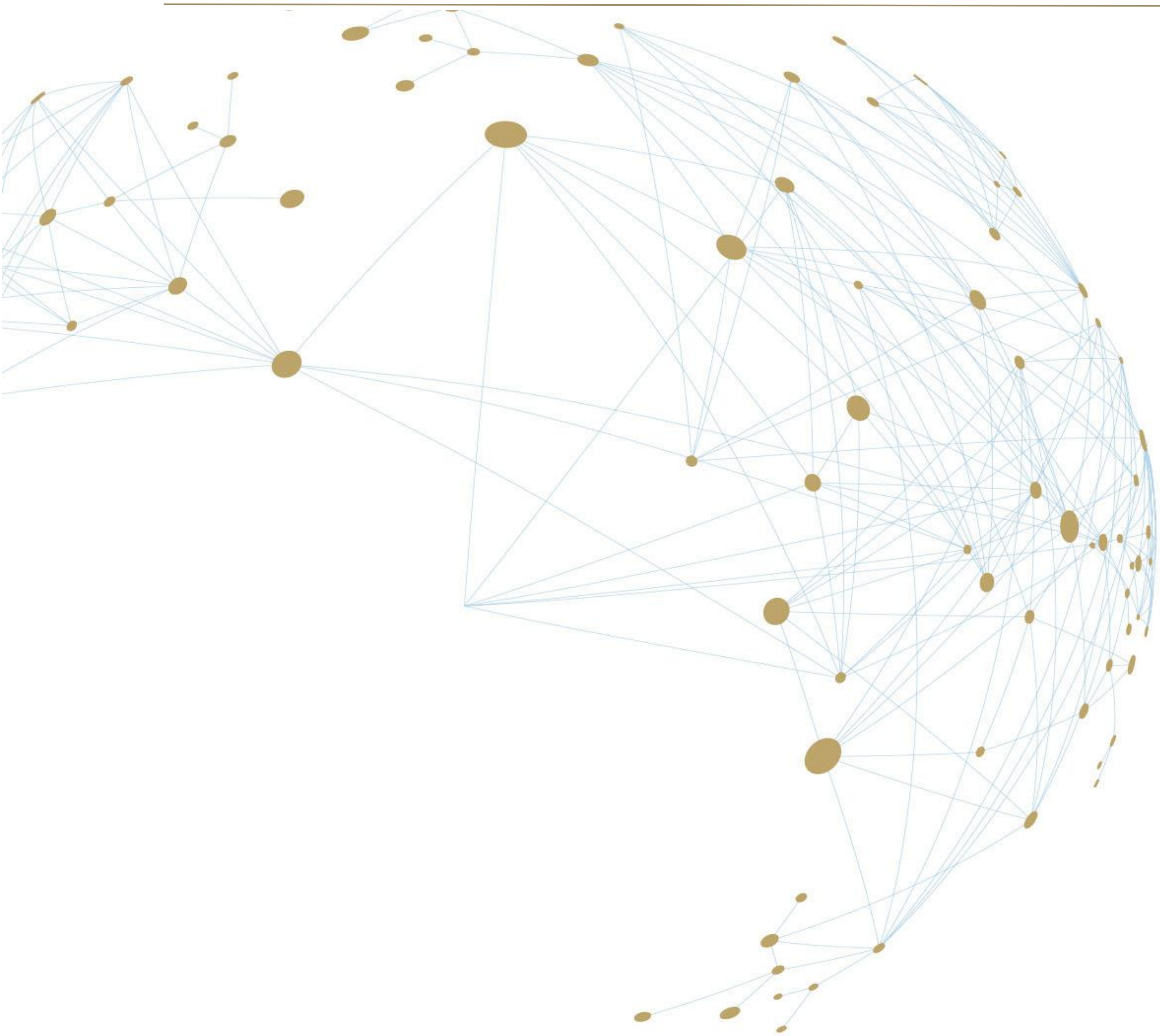

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